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## Section 1. Accounting

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### AUDIT ACTIVITY QUALITY CONTROL PRESENTED ON THE EXAMPLE OF GEORGIA

**Abstract:** The issue relating to improvement of audit firms and control of their quality is discussed in the mentioned article. Georgia's aspiration to EU membership requires development of investing and business environment to be promoted that is necessary condition for improvement of Georgia's economy. Successful functioning of business depends on management organizational level and structure, as well as on the reliability quality of financial information for external customers. This could be achieved without perfect regulation of audit. Therefore, quality control of audit activity has great importance.

**Key words:** Auditing activities, auditing activities legislation, quality control of audit activity.

An independent internal audit is given a special attention not only in the United States of America and Europe but around the whole world including Georgia. The establishment of Audit companies in Georgia has begun in the first half of 90<sup>th</sup> of XX century. In 1995 the Law of Georgia on "Audit Activities" was adopted to regulate the audit activities which can be regarded as the first step taken in development of audit activities in Georgia. Since 2013, the Code of Ethics by International Ethics Standards Board for Accountants has been in force.

Georgia's aspiration to join European Union requires the improvement of normative and legislative framework in compliance with the international practice, facilitation and development of investment and business environment, which is a prerequisite for the economic development of Georgia. Pursuant to "**the Association Agreement between the European Union and the European Atomic Energy Community and Georgia's collaboration with their Mem-**

**ber States**" (hereafter referred to as an Agreement) the state undertook a liability to approximate with the international laws in accounting, auditing and corporate management in prescribed terms as per EU code of laws and normative acts introducing standards step-by-step in order to strengthen the cooperation with Europe regarding political, economic and social issues.

With the aim of improving the legal framework on June 8, 2016 a new "**law of Georgia on Accounting, Reporting and Auditing**" was adopted. The regulation of audit activities had been possible through professional organization previously. Based on the new law, audit activity became a subject to state supervision, which is carried out by the Service for Accounting, Reporting and Auditing Supervision under Ministry of Finance of Georgia. A certain part of the audit company representatives argued that the formation of the regulatory agency as a structural unit of the Ministry of Finance will lead to a conflict of interests. It would be desirable to create

the Service for Accounting, Reporting and Auditing Supervision as an independent state institution. Additionally, in consideration of EU directives the agency which is responsible for auditing must be independent from audit profession and free from conflict of interests [3, Chapter 35.2].

A number of experts assess the new legislation as positive. From their standpoint, the law requirements are in full line with EU directives. They also believe that the state supervision over the audit activities will allow to take efficient steps in terms of audit activity quality control. In the light of the fact that more than 230 audit companies and 420 audits are registered in Georgia currently, the quality control of audit activities represents a significant factor indeed.

The international companies occupy the majority of Georgian audit activity market, however a certain part of Georgian audit companies also managed to become strong subjects. In 2015 the rating of audit companies based on their incomes is as follows (Data released by the Federation of Professional Accountants and Auditors of Georgia) [1].

1. JSC “EY Georgia”;

2. Pricewaterhousecoopers Central Asia and Caucasus a branch office of B. A. in Georgia;
3. KPMG Georgia Ltd;
4. BDO Ltd;
5. Ltd “Deloitte and Touché” Georgia;
6. Financial Management Group;
7. LLC “Grand Thornton”;
8. LLC “Aresem capto”;
9. Audit Concern “Tsodnisa”;
10. Ltd “Baker Tilly Georgia”.

Since 2005 the internationally recognized companies has “conquered” the entire “Market” of audit activities in Georgia. The reason lies in the fact that the clients give much more priority to the reports made by the internationally recognized companies than those specialists whose activities are less recognized. The reforms are intensively made in Georgia which are aimed to develop the audit activities and meet the euro directives at the maximal extent. However, there are number of issues which require a significant improvement, in particular audit activity control that is substantially important for development of national audit activities.

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## Section 2. Marketing

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### **CONJOINT ANALYSIS AND ONLINE FORUMS ON CULTURAL HERITAGE IN ALBANIA – ANALYSING TRIPADVISOR REVIEWS**

**Abstract:** In this paper I shed light on the complex relations between market segmentation of culture heritage and market segmentation in Albania based on: 1) online reviews in TripAdvisor and 2) a survey with 75 foreign visitors. The main research method was based on the full profile conjoint analysis in both survey designs. In the first phase of the research different attributes were identified based on the repetitions and main subject of reviews on TripAdvisor. From these were selected four attributes that were similar to those of marketing mix: culture heritage product, price, place, promotion and period of time. These attributes were measured individually and in interaction with each other. SPSS program was helpful during the conjoint analysis by using the orthogonal design. Four different attributes (product, price, place and period of time) there were given different values, that resulted in 25 different combinations. Since this number was too large, were taken in consideration only those categories that were more logical and were compatible with the official data. The final results derived from a survey with foreign tourist in Albania realized during the March – April 2017 resulted that visitors were more interested in to travel from the period from March – September, like to have cheap or medium prices and have in interests in every part of Albania and especially to its history, culture and archaeology.

**Keywords:** Culture heritage, marketing, Albania, conjoint analysis.

#### **1. Introduction**

Conjoint analysis has been considered as one of the best marketing methods to study the customer's preferences on different topics and market segments. Widely used for the exploration of customer's inclinations in different service industries such as industrial goods, financial services, transportation, auto insurance policies [1, 8], it seemed uneven in the field of cultural heritage. This has happened for many reasons. The first origin of the problem is considered the mere nature of culture heritage as being at the same time a very large and specific field of research. With the emerging of theo-

ries of multiculturalism in the beginning of 1990 s, of the individual choice and social media, the approach on studding visitors of cultural heritage was based mainly on quantitative, qualitative surveys or mixed research methods. The main problem from these approaches was that their analyses were mainly 'descriptive in nature rather than predictive' [2, 1]. 'Descriptive information is useful to characterize demographics, usage patterns, and attitudes of individuals. Beyond descriptive information, managers heed survey research tools that can predict what consumers will buy when faced with the variety of brands available and myriad product characteristics.

It is precisely due to this focus that conjoint or trade-off analysis has become so popular over the last three decades' [2]. On the other hand, the marketing research in Eastern European countries such as Albania is novel and undeveloped. Many data regarding culture heritage and the main preferences of the visitors are confused or just missing. For these reasons I have chosen to focus my research to on one 'of the leading platforms for travel-related reviews' [3] such as TripAdvisor. Nowadays 'tens of millions of travellers share travel experiences through online communities such as TripAdvisor, Yahoo! Travel, Igoogle, and Lonelyplanet' [4]. Tripadvisor has been founded in 2000 and today is the most popular travel community. Currently, this platform includes over 435 million reviews for 1.9 million accommodations, 4.2 million restaurants, and 730,000 attractions, and the platform enjoys 390 million average monthly unique visitors reflecting an 11% growth [6]. However, reviews related to Albania are modest. In total it is mentioned in only 1701 topics.

Generally has been proved that 'potential travellers have difficulties in assessing quality of tourism products prior to experiencing them. One way to gain confidence in a tourism product is to search information about the product prior to purchase. The information process of potential travellers is initiated from searching internal sources such as their experiences. When internal information is insufficient, searching will move to external sources. Today, travellers use various types and amounts of information – online and offline. Among various online information sources, community websites are becoming increasingly important. These global platforms enable travellers to share their experiences – posting reviews – with like-minded others [4]. 'In fact, social media content is perceived very often as more trustworthy compared to official tourism websites or mass media advertising' [6].

## **2. Problem definition**

'The internet has been used as a medium for data collection since about 1995, although its rapid growth can mostly be identified as being from

1999 onwards, and its ascendancy in terms of quantitative data collection has only happened over the last three years' [7]. According to the Albanian official statistics the penetration of internet in the Albanian population is 62, 8% for the year 2016. It consist of 0.1% of the internet users in the world [6, 187]. The other internet platform for travellers lonely planet describes the internet acces as 'free wi-fi is ubiquitous in all but the most basic hotels. In larger towns many restaurants also offer free access' [9]. Thus it makes it easy for tourists to publish their reviews online whenever they are placed in the Albanian territory. It is important to assess that in the most of the hotels internet is free and without payment.

Albania offers many possibilities for the culture heritage visitors. 'Located in the heart of the Mediterranean region, north of Greece and east of Italy, Albania is situated at the crossroads of multiple cultures and many invading armies. Over the past two millenia, this mountainous country was part of the Roman, Byzantine, and Ottoman empires until its independence in 1912' [10, 312]. The communist approach was mainly ideological and restricted the number of visitors [11, 539–555]. Many Albanian museums today have still the materialist interpretation of history in some of their parts. This is today one of the main hampers to reform culture heritage according to market economy rules. As Misiura points out 'in the heritage industry it is fast becoming recognized that heritage attractions and brands, in particular those that want repeat business (most of them do), must address the needs of their visitors/customers and that this focus should be a (on-going) priority from which the rest (targeting, interpretation, resource management, etc.) will follow. Heritage attractions or other heritage consumer brands must appeal to the aspirations, needs and motivations of prospective and regular customers' [12, 81]. There are very few data regarding the preferences of the visitors of cultural heritage in Albania. The official data change from year in year and it is difficult to derive from them market segments or to identify regular foreign consumers.

Conjoint analysis helps us to collect data on culture heritage visitors in Albania and to construct alternatives referred to as concept profiles. 'In marketing contexts, concept profiles typically describe brands, products, or services. [...] Concept profiles may consist of verbal descriptions, although they may include pen-and-ink representations, physical mockups, or videotaped demonstrations. The primary reason for restricting the choice situation in this way is to ensure that respondents evaluate each profile with respect to the same information. Ambiguous and equivocal cues are removed so that all respondents have at their disposal the same information and no more. When the concept describes an economic choice alternative, the description usually includes price [13, 2]. This will help to base my research on the heritage tourist and visitor level and to collect data on their preferences. 'Albania's heritage has always been defined in a topdown manner; experts define the list of potential monuments, which are examined and certified and then added to the national list of protected sites. This process addresses heritage on a national level, but often overlooks or willfully ignores the local implications of state-level action [10, 318]. For all these reasons it will be possible to get more specific data based on the conjoint analysis model and give better segments not only of culture heritage but also tourism in Albania.

### 3. Aims and research questions

The main aim of this paper is to determine the main attributes (characteristics) of the culture heritage in Albania as seen by the foreign visitors in Tripadvisor and their main preferences as surveyed with a help of a questionnaire. Through the conjoint analysis data and their results I want to be able to construct future recommendations for the managers of cultural heritage in Albania. Since 'conjoint results is the most valuable tool for managers. A market simulator uses the utility scores to predict which product alternatives respondents would choose within competitive scenarios. The predictions can be made not only for the few product alternatives

that were actually shown to respondents, but also for the often thousands or more potential combinations that were not shown' [2, 11]. Other aims of the paper include the fact that cultural heritage research field in Albania is still an unexplored field and needs to be adjusted to the new policies of the market economy.

### 4. Theoretical framework

'Several interdependent decisions are involved in the formulation of a marketing strategy for a brand (of a product or service). These include not only decisions about the product's characteristics but also its positioning, communication, distribution, and pricing to chosen sets of targeted customers' [1, 1]. 'Market segmentation is the process of dividing a total market (or sub-market) using the principles identified above in order to create one or more homogeneous groups or segments that can then be targeted effectively, based on the accessibility of these customers and the resources of the organization' [12, 79]. In the field of culture heritage many authors have suggested that 'the business of heritage must address a combination of biology, psychology and instinct in planning and marketing a heritage product, service or brand' [12, 79]. Travel reviews online communities such as TripAdvisor 'makes information easy to find, but difficult to process and judge' [4, 676]. The result is a decrease in search costs and an increase in cognitive costs. For the best selection among overflowing reviews, travellers need to put more cognitive efforts by remembering one review and comparing it with others. Thus, too much information increases cognitive costs such as anxiety about uncertain preferences, lack of expertise, and incorrect decision. As it is cognitively cumbersome for potential travellers to evaluate the quality of each review available in online communities, they may use extrinsic cues to judge quality. Lee et al suggest that 'in addition to price, brand, and country of origin that indicate product quality, reputation is another extrinsic cue indicating the quality of online merchants and online information

creators' [4]. However, other studies have found that 'just over one-third of complaints tended to juxtapose an overall negative evaluation with some type of positive appraisal, and that a similar proportion of the complaints made explicit reference to reviewer's expectations not being met' [14]. The researcher Vasquez found out that usually 'complaints often occurred as a larger speech act set, and (perhaps not surprisingly) in this particular context, complaints tended to co-occur more frequently with advice and recommendations rather than with other types of speech acts such as warnings or threats [14].

#### **4.1. Merging marketing mix with culture heritage in TripAdvisor reviews**

Conjoint Analysis has been considered as a Predictive Model of Choice. This method was based in works of mathematical psychologists and statisticians Luce and Tukey (1964), and discrete choice methods came from econometrics, building upon the work of McFadden (1974), 2000 Nobel Prize winner in economics. According to Orme (2010) 'marketers sometimes have thought (or been taught) that the word 'conjoint' refers to respondents evaluating features of products or services [that were] 'considered jointly'. But as he point out 'in reality, the adjective "conjoint" derives from the verb 'to conjoin' meaning 'joined together'. The key characteristic of conjoint analysis is that respondents evaluate product profiles composed of multiple conjoined elements (attributes or features). Based on how respondents evaluate the combined elements (the product concepts), we deduce the preference scores that they might have assigned to individual components of the product that would have resulted in those overall evaluations' [2, 29]. 'Back in the early 1970s, marketing academics (Green and Rao 1971) applied the notion of conjoint measurement, which had been proposed by mathematical psychologists (Luce and Tukey 1964), to solve these complex problems. The general idea was that humans evaluate the overall desirability of a complex product or service based on a function of the value of its separate (yet conjoined) parts [2]. Regarding marketing mix of culture heritage it can

be said that 'the key to success in the development of heritage products (whether these are in the heritage tourism sector or indeed any other) depends on the ability to match the product or service being offered (which is, of course, based on an understanding of consumer wants or aspirations) with the benefits sought by the customer (these can be both tangible and intangible, i. e. a tangible benefit is the actual consumption of the product or service itself and an intangible benefit might be the status or other 'feelgood' factor that arises either during the research process, during consumption or following consumption, such as being 'environmentally friendly' in supporting organic food-stuffs). If possible, the heritage marketer should be 'one step ahead' of the customer in terms of their needs, in particular to circumvent any potential problems that could arise in the heritage provision' [12, 130]. The conceptual model of conjoint analysis helps in this process because 'is quite straightforward; it postulates that the utility of a multi-attributed item can be decomposed into specific contributions of each attribute and possibly their interactions. The approach is easy to implement if the number of attributes is small. But, problems arise in most practical problems because of the large number of possible hypothetical alternatives for a given problem. In general, only a subset of possible alternatives is chosen for the study [1, 37].

#### **4.2 Ethical issues**

The main ethical issues regarding TripAdvisor derives from 'fake review concerns, growth in competition from Google and other players as well as low-entry barrier could restrict growth in TripAdvisor's user base [15]. However social media networking and online shopping has increased progressively in the last decades and the agreement of TripAdvisor with Facebook has increased by 35% of TripAdvisor's new reviews, deriving from its Facebook connected members' [6, 196]. It has been previously studied that 'mostly men tend to share their views on TripAdvisor or, alternatively, men more than women state their gender when posting their reviews [6]. According to Lee et al. helpful reviewers tend to: 1) travel to many destinations;



2) be indistinguishable from other reviewers in age and gender; 3) actively post reviews; 4) disclose their age and gender information less than other reviewers; and 5) give destination hotels a lower review rating than other reviewers' [4]. Also previous studies on the role of social media in online travel information search has pointed out that 'certain keywords (e. g., nightlife and restaurants) are clearly more likely to generate more social media search results as compared to others (e. g., attractions). Furthermore, Xiang & Gretzel (2010) argue that virtual community websites are more closely tied to the "core" tourism businesses such as attractions, activities, and accommodations, while consumer review sites are related to shopping, hotels and restaurants, and, social networking, blogs, and photo/video sharing sites with events, nightlife, and parks [6]. Filieri et al. proposes five factors for building consumer trust towards consumer – generated media: a. source credibility, b. information quality, c. website quality, d. customer satisfaction, e. user experience with consumer generated media [ ... ]. Trust towards a Consumer Generated Media website influences travel consumers' intentions to follow other users' recommendations and fosters positive word of mouth. Findings also show that information quality predicts source credibility, customer satisfaction, and website quality' [16, 174–185]. Some of the factors or potentials that will influence TripAdvisor reviews in the future are: 1. Increasing investment in the mobile platform to leverage growth in mobile devices; 2. Tapping growth in social media; 3. International expansion to fuel global traffic. Among the potential threats are listed: 1) fake review concerns; 2) increasing competition; 3) low entry – barrier as an industry (TripAdvisor faces competition not only from existing players but also potential new entrants in the travel review market) [3]. With rich user-generated content, TripAdvisor has valuable monetization opportunities. Travel businesses can advertise on TripAdvisor's platform and benefit from its large audience and global reach. TripAdvisor derives most of its revenue from the sale of advertising, primarily through click-based advertising and to a lesser

extent, display-based advertising. The remainder of TripAdvisor's revenue is generated through a combination of subscription based offerings, content licensing, and its recently launched private sale site, SniqueAway. It also offers deals on top hotels at lucrative discounts. TripAdvisor has diversified its geographical mix in the past few years with the contribution of its US operations declining from 82% in 2008 to approximately 50% in 2015. Long-term revenue growth is expected to be driven by expanding traffic and user generated content [3]. 'Furthermore, a study on TripAdvisor and reviews' influence when choosing accommodation has already revealed that potential travellers consider these reviews accurate. Moreover, actively responsive businesses are viewed favourably by users, regardless of whether they are dealing with positive or negative feedback, as they appear to care about their customers' experiences [6, 190].

## 5. Methods

Prior research on consumer preferences stemmed mostly from face to face communication and a certain and given commercial contexts. 'Internet has led to changes in the nature of research, both in terms of challenging the assumptions that used to underpin market research (such as sampling theory) and in terms of opening up new possibilities, for example through the use of blog mining and online research communities' [7]. In the course of implementing conjoint measurement methods to applied business problems, such as those encountered in marketing, the emphasis on theoretical aspects of measurement has given way to the more pragmatic issues of design of studies and analysis of data [1, 3].

In this paper I have analysed 130 TripAdvisor reviews regarding Albania and its main destinations from the period 1 April 2016 to 31 October 2016. The process of conjoint analysis as a method has been divided in two main groups. The first phase includes the discovering of the main preferences of the visitors of the cultural heritage in Albania. I have started my study from the zero and basing it only in the TripAdvisor reviews and by comparing later

those data with the official Albanian statistics. Also the preferences will be grouped in different categories and those categories were subject to a questionnaire for visitors of cultural heritage in the second phase of the research. 'A significant advantage of the conjoint method has been the ability to answer various "what if" questions using market simulators; these simulators are based on the results of an analysis of conjoint data collected on hypothetical and real choice alternatives' [1, 8].

In the selected reviews I have determined four attributes that were repeated more frequently by the visitors and were related also with some features of the marketing mix components – product, price, place and period of time to visit Albania. These were the most salient attributes of the visitors writing reviews on TripAdvisor. The implications of these four attributes are quite clear from the data that were extracted and had an immediate impact on the demand and revenues of heritage tourism in Albania. The analysis will encompass also models of interactions. I based my models of interactions in the assumption that 'models that include interactions between brand and price might make sense in some situations [17, 5]. My first main interest was in marketing and promotion, however, it was difficult to measure 'promotion' in interaction with other attributes such as price, product, place or time. Since TripAdvisor is closely related to marketing and promotion, promotion as a category was everywhere, but most of the reviews:

- were asking practical information, (and/or);
- they were planning their visits and were not informed for what to expect; (and/or);
- it was their first time visit in Albania (and/or);
- they got the information mostly by internet.

For all these reasons it was difficult to study the different values of promotion in their interaction with the values of other attributes. 'Choice alternatives may be described in terms of their components or attributes. For example, price is an attribute that influences choice of an automobile. Interest may be in several price points, or levels, such as \$21,000,

\$26,000, \$31,000, \$36,000, and \$41,000. Other attributes might include brand name (with levels: Ford Taurus, Chevrolet Malibu, Mitsubishi Lancer, Volvo C30, Honda Accord); number of doors (two, four); size of engine (four, six, or eight cylinders); and type of transmission (manual five speed, automatic five speed, manual six speed, automatic six speed). Under certain conditions, it is possible to infer the partworth (or part utility) of the respective attribute levels by regressing information about product attributes on sales or market share. Such data are referred to as revealed preference (RP) data' [17]. Essentially, there are four types of conjoint methods: the traditional method (CA) that uses stated preference ratings; choice-based conjoint analysis (CBCA) that uses stated choices; adaptive conjoint analysis (ACA) developed in part to handle the issue of large numbers of attributes, and self-explicated conjoint analysis, which is a bottom-up method [1, 5]. The main conjoint analysis method used in this paper derives from the traditional full – profile conjoint analysis. 'Academics have suggested that the full profile approach is useful for measuring up to about six attributes [...]. I have chosen this method because the full-profile conjoint analysis may be used for paper-and-pencil studies and it can administered via computer. Also the full profile conjoint analysis may be used for computer assisted personal interviews (CAPI) and Internet surveys [2, 41]. In our days there are different software packages that analyse the data retrieved from the conjoint analyses directly as those published by the Sawtooth Software Company such as CVA, CBC etc. However I have analysed the results of this research based on the orthogonal method of SPSS.

### **5.1. Data collection**

'The traditional conjoint analysis collects preferences for profiles of hypothetical products each described on the entire set of attributes selected for the conjoint study. These profiles are called full profiles' [1, 6]. In this paper I have decided upon different levels for the four attributes of the marketing mix system: product, price, promotion and place and I have added

also another attribute ‘the period of time’ as mentioned and analysed in the TripAdvisor reviews. I have chosen different values for each attribute. For example for price I have chosen nominal values such as: ‘cheap’, ‘medium price’, ‘expensive’ and ‘price is not important’ based on the reviews of the visitors or upcoming visitors of Albania and its cities.

a) (CH) Product – culture heritage product as analysed in the TripAdvisor reviews and their main repetitions resulted as below: Museums and art gal-

leries (2%), UNESCO cities (6%), Nature (1%), Ottoman Period (1%), Communist Past (2%), People, local food (9%), Saranda & Butrint was mentioned in the 4% of the analysed reviews and accommodation and infrastructure constituted 2% of the CH product as mentioned in the TripAdvisor reviews. Most of the reviewers (73%) made no reference to the product of culture heritage and discussed about other topics such as price, promotion, place and period of time to visit Albania.

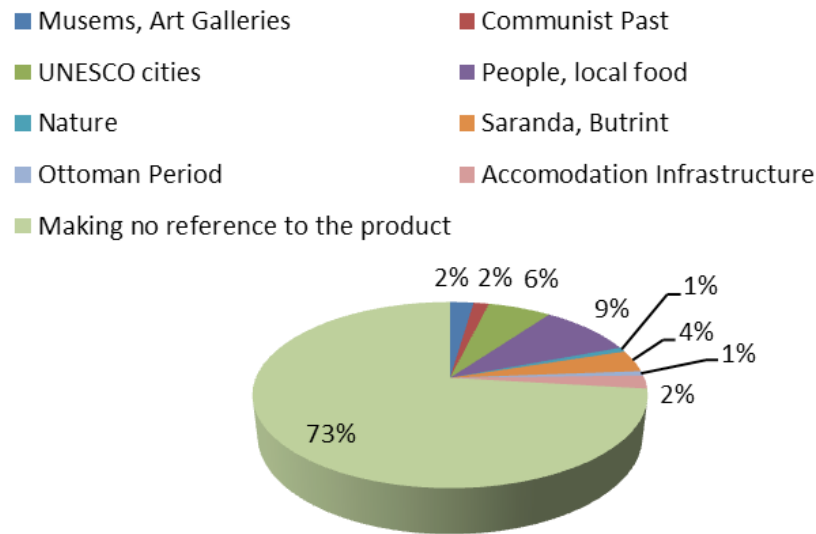


Figure 1. CH Product represented in TripAdvisor reviews

Another category which was mentioned very often in the TripAdvisor reviews regarding visitors or upcoming visitors visiting Albania and its cities was the ‘price’. Price was mentioned in 48% of the reviews, more than product (27%) and promotion

(9%). ‘Place’ was mentioned in every review taken in consideration for the scope of this study. The low rate of promotion maybe was related to the fact that the mere posting in TripAdvisor can be considered as a kind of promotion and is tautological in itself.

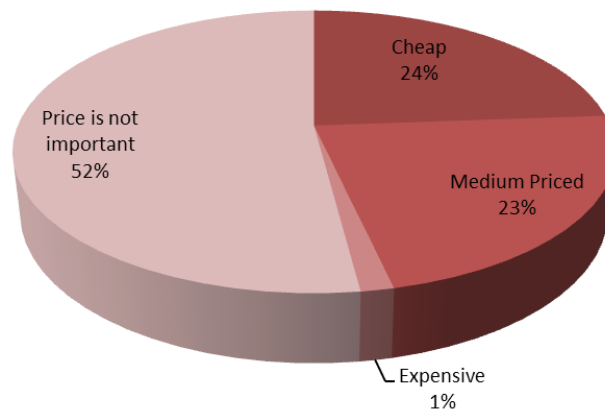


Figure 2. Categorization of ‘price’ according to TripAdvisor reviews

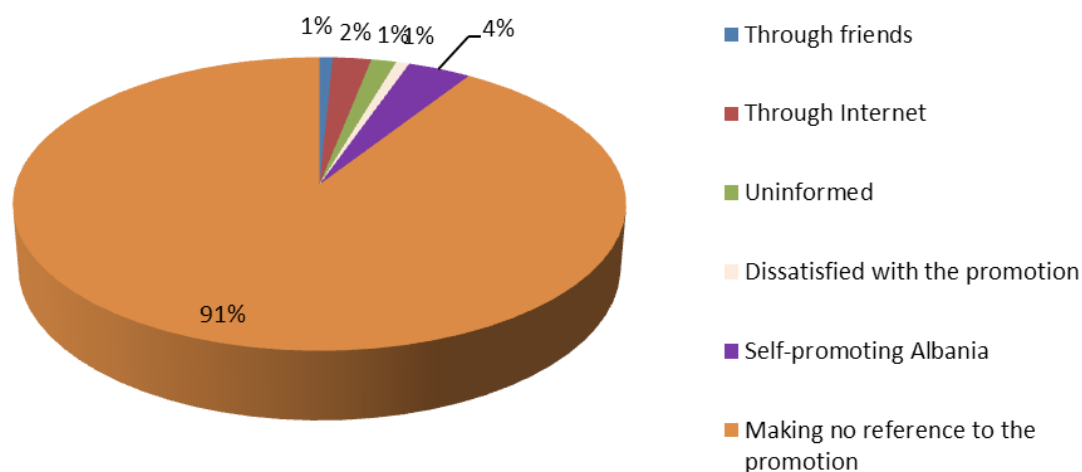


Figure 3. Categorization of 'promotion' according to TripAdvisor reviews

Table 1. – Categorization of place according to TripAdvisor reviews

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	South Riviera	31	23.8	23.8	23.8
	Permet	1	.8	.8	24.6
	Gjirokastra	4	3.1	3.1	27.7
	Butrint	2	1.5	1.5	29.2
	Vlore-Fier	7	5.4	5.4	34.6
	Pogradec	1	.8	.8	35.4
	Tirana	26	20.0	20.0	55.4
	North/Mountains	10	7.7	7.7	63.1
	Durres	6	4.6	4.6	67.7
	Shkoder	6	4.6	4.6	72.3
	Berat	6	4.6	4.6	76.9
	Albania	29	22.3	22.3	99.2
	Korca	1	.8	.8	100.0
	Total	130	100.0	100.0	

Table 2. – Interactions between attributes regarding conjoint analysis

Product	Price	Place	Period of Time
1) Museum, art galleries	1) Cheap	1) Southern Albania	1) January – March
2) Archaeology	2) Medium Price	2) Tirana	2) April – June
3) Ottoman Period	3) Expensive	3) Northern Albania	3) July – September
4) Communist Period	4) Price is not important	4) Every part of Albania	4) October – December
5) Local Culture, Food, People			

It is common that when one concatenates levels of all attributes, the complete set of full profiles (or full factorial design) will in general be very large. A respondent will be unduly burdened when asked to provide preference judgments on all profiles [1]. In

this first phase of the conjoint analysis I tried to get a smaller set of values, however the stated preferences from the above combinations resulted through the orthogonal design of SPSS in 25, as they are represented in the table below:

Table 3.

Card Id	Product	Price	Place	Period Of Time
1	Local culture, people & food	Expensive	Southern Albania	October – December
2	Museums, Art Galleries	Expensive	Southern Albania	July – September
3	Archaeology	Cheap	Northern Albania	October – December
4	Local culture, people & food	Medium priced	Every part of Albania	July – September
5	Ottoman Period	Expensive	Northern Albania	January – March
6	Museums, Art Galleries	Medium priced	Northern Albania	April – June
7	Communist Period	Expensive	Tirana	January – March
8	Communist Period	Price is not important	Every part of Albania	January – March
9	Communist Period	Medium priced	Southern Albania	October – December
10	Local culture, people & food	Cheap	Southern Albania	January – March
11	Ottoman Period	Medium priced	Southern Albania	January – March
12	Ottoman Period	Cheap	Northern Albania	July – September
13	Ottoman Period	Cheap	Every part of Albania	October – December
14	Archaeology	Medium priced	Tirana	January – March
15	Museums, Art Galleries	Cheap	Every part of Albania	January – March
16	Local culture, people & food	Cheap	Tirana	April – June
17	Archaeology	Cheap	Southern Albania	January – March
18	Communist Period	Cheap	Southern Albania	April – June
19	Ottoman Period	Cheap	Tirana	July – September
20	Archaeology	Expensive	Every part of Albania	April – June
21	Archaeology	Price is not important	Southern Albania	July – September
22	Museums, Art Galleries	Cheap	Southern Albania	January – March
23	Museums, Art Galleries	Price is not important	Tirana	October – December
24	Ottoman Period	Price is not important	Southern Albania	April – June
25	Local culture, people & food	Price is not important	Northern Albania	January – March

‘The use of abstract alternatives in the form of concept profiles reduces cost and execution time by providing prospective decision makers with what is thought to be the essential information that will ultimately drive preference or choice. Constructing concept profiles following appropriate experimental designs ensures that relevant data are available for estimating partworths of attribute levels’ [17, 2]. ‘The traditional approach to CA also has an opportunity cost. In competitive markets, the success of a firm is influenced by both its own and its competitors’ efforts. For example, a firm’s market share is influenced not only by its own price but also by its competitors’ prices, and the impact on market shares of a change in its own price depends on whether the change is matched by competitors. Traditional CA

procedures are suited to capturing the effects of the efforts of the firms. They are ill suited for capturing the effects of competitors’ actions because traditional conjoint studies do not require respondents to make trade-offs between profiles, only between levels of attributes for a single profile [17, 7].

## 6. Results and analysis

From the 25 combinations that were retrieved by the orthogonal design of the SPSS I have eliminated the ones that are more improbable to occur:

1) *Visiting Southern Albania by focusing mainly on local culture, people & food, with an expensive price, between October – December;*

2) *Visiting Northern Albania by focusing on archaeology with a cheap price between October – December;*

3) Visiting Northern Albania by focusing on the Ottoman Period with an expensive price between January and March;

4) Visiting Tirana by focusing in the communist period and history, with an expensive price, between January and March.

Still the number was too large to be represented in a survey. And thus were eliminated other combinations that were thought as less interesting for visitors:

5) Visiting Northern Albania by focusing on local culture, people & food, between January and March. Price is not important;

6) Visiting Tirana, by focusing on the archaeology, with a medium price between January and March;

7) Visiting every part of Albania by focusing on museums and art galleries with a cheap price between January and March;

8) Visiting every part of Albania, by focusing in the communist period between January and March. Price is not important;

9) Visiting Southern Albania with a medium price, and focusing in the communist period, between October and December;

10) Visiting Southern Albania by focusing on museums and art galleries, with a cheap price between January and March;

11) Visiting Southern Albania by focusing on local culture, people & food by paying a cheap price between January & March;

12) Visiting Tirana by focusing on museums and art galleries between October and December. Price is not important;

13) Visiting Southern Albania by focusing on the Ottoman Period, with a medium price between January & March;

14) Visiting Southern Albania by focusing on archaeology with a cheap price between January and March;

15) Visiting every part of Albania by focusing on the Ottoman Period, with a cheap price between October and December.

The other remaining conjoint analysis combinations were part of a survey with 75 foreign tourist in the period between March – April 2017. As the most quoted categories were those related to culture heritage and history in the period from March to September.

Table 6. – Results of survey with foreign tourists in Albania

2.5%	Visiting Southern Albania by focussing on the Ottoman Period between April and June. Price is not important.	Visiting Tirana by focussing on local culture, people & food with a cheap price between April & June.	5.6%
2%	Visiting Southern Albania by focusing mainly on museums & art galleries, with an expensive price between July – September.	Visiting every part of Albania by focussing on the archaeology, with an expensive price, between April and June.	5.4%
22,5%	Visiting every part of Albania by focusing on local culture with a medium price, between July – September	Visiting Southern Albania by focusing on archaeology between July and September. Price is not important.	17.4%
7.6%	Visiting Northern Albania by focusing on the communist period, with a cheap price between July & September.	Visiting Southern Albania by focusing on the communist period, with a cheap price between April and June.	11%
9%	Visiting Northern Albania by focusing on museums and art galleries with a medium price in the period between April and June.	Visiting Tirana, by focusing on the Ottoman Period, with a cheap price, between July and September.	17%

As a summary, it can be added that marketing plans need to be changed or modified to accommodate macro and micro changes in the marketplace. 'Con-

stant monitoring and evaluation of segmentation bases are highly important (daily) activities for the heritage marketer and the research methods by which data are

collected must also be kept under review' [12, 81]. From the above data it can be derived that foreign visitors of Albania are more interested to travel from the period from March – September, like to have cheap or medium prices and have in interested in every part of Albania. Visitors interested in the archaeology are more interested in the Southern part of it.

### 7. Conclusions

In this paper I tried to shed light on the complex relations between market segmentation of culture heritage and market segmentation in Albania based on: 1) online reviews in TripAdvisor and; 2) a survey with 75 foreign visitors. The main research method was based on the full profile conjoint analysis in both survey designs. In the first phase of the research different attributes were identified based on the repetitions and main subject of reviews on TripAdvisor. From these were selected four attributes that were

similar to those of marketing mix: culture heritage product, price, place, promotion and period of time. These attributes were measured individually and in interaction with each other. SPSS program was helpful during the conjoint analysis by using the orthogonal design. Four different attributes (product, price, place and period of time) there were given different [1] values, that resulted in 25 different combinations. Since this number was too large, were taken in consideration only those categories that were more logical and were compatible with the official data. The final results derived from a survey with foreign tourist in Albania realized during the March – April 2017 resulted that visitors were more interested in to travel from the period from March – September, like to have cheap or medium prices and have in interests in every part of Albania and especially to its history, culture and archaeology.

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## Section 3. Management

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### TRUST: BUILDING EFFICIENCY OF EMPLOYEES AT LULU HYPER MARKET FUJAIRAH

**Abstract:** This study evaluated the trust and efficiency of employees at Lulu Hypermarket Fujairah Branch, operational year 2015. The sampling technique was used to determine the samples of the study; and the descriptive research design was employed to assess the level of trust and efficiency of employees. The researcher's made questionnaire was utilized, and the Pearson Correlation Coefficient was used to test the significant relationship between trust and efficiency of employees. The study revealed that there is a significant relationship between trust and work efficiency of employees. The overall level of trust is found out to be "good" while efficiency is disclosed to be "very good" by the respondents. The same study can be replicated by considering other dimensions of trust and efficiency.

**Keywords:** Organizational behaviour, trust, honesty, developing relationship, employees' efficiency, quality of service and customer satisfaction

#### 1. Introduction

This study is identifying the relationship between two phenomenon. The first phenomenon is trust and the second phenomenon is the efficiency. Moreover, this study will determine the effect of trust of the efficiency of Lulu Hypermarket at Fujairah, United Arab Emirates.

The study is provided to be studied in Fujairah City, United Arab Emirates where the economy of hypermarkets is highly established. Besides, the economy is small with the number or residents and citizens. With a small community, trust can be easily

established. This establishment of trust is obtained with the community that knows each other. However, the efficiency is playing a big role as well, because it is showing how things are being done correctly with trust.

Every organization seeks to increase their profitability and lower their costs. Therefore, organizations are trying to improve their employees' efficiency to improve the business as well as achieving its objectives. Also, organizations are developing their employees to reach efficiency inside the organization. In other words, not only em-

ployees should be efficient, also the organization should be efficient. In several articles, employees are considered as the soul of the organization, because they are the one who accomplish the necessary tasks for the achievement of the organization's objectives. There are many factors to reach employees' efficiency; the most important factor is trust. Trust must be developed inside the employee to make the work efficient.

Not all organizations can reach high level of trust from their employees; therefore they will face a low degree of employees' efficiency. As Fukuyama argued, trust improves the performance of all institutions in a society [1]. On the other hand, trust promotes cooperation in large organizations, including governments. But, where these problems can occur in the organization that will affect the trust and efficiency? One of the elements that effect trust in the organization is satisfaction [2]. Most commonly, when the employee is not satisfied, the employee may perform an unethical action against the organization which will prove the distrust of the employee. Another thing is the fake of relationship among employees in the organization. When employees are not having a good relationship between each other, they will be sensitivity in the performance of tasks. As a result, trust will be decreased as well as the efficiency of work [3].

### **1.1 Statement of the Problem**

This study evaluates the trust and efficiency of employees at Lulu Hypermarket Fujairah branch, for the operational year 2014. Specifically, this study seek to answer the following questions:

1. How do employees perceive trust in terms of:
  - 1.1 Honesty;
  - 1.2 Developing Relationship.
2. What is the extent of employees' efficiency, based on the following dimension:
  - 2.1 Quality of Service;
  - 2.2 Customer Satisfaction.
3. How does trust effect efficiency of employees?

### **1.2 Hypotheses of the Study**

The following are the hypotheses of the study:

1. Employees trust has a direct effect on employees' work efficiency.
2. Employees trust does not have a direct effect on employees' work efficiency.

### **1.3 Conceptual Research Framework**

This study determined the effect of trust of efficiency of employees at Lulu Hypermarket, Fujairah. Figure 1 illustrates the two variables used in this study, which are trust and efficiency. The researcher explained both variables in related literature reviews.

The first variable is trust, which is the independent variable is defined as an elusive concept that is a conceptual confusion with multiple definitions [4]. It is a personality trait, belief, social structure, and behavioral intention. Trust include two sub-variables that are honesty and developing relationship. These sub-variables are considered to be a creator of trust and a result of trust. Meaning to say, honesty creates trust among people, and the creation of trust among people develops the relationship between them.

The second variable of this study, which is considered as the dependent variable, is the efficiency of employees. Efficiency is the ability of a firm to maximize its production with the minimum input resources. To obtain such increase in the production with the use of minimum input, it is important to consider the quality of service and customer satisfaction. These two considerations are the sub-variables of efficiency dimension in this study [5].

### **1.4 Significance of the Study**

The results of this study provides learning experiences and practices about the effect of trust to the efficiency of individuals, departments, and organization. In particular, the result of this study about trust gives wisdom to employees, because it helps at improving their good relationships. Out of the results of this study, their honesty may be improved. The importance of developing honesty among employees provides fairness in appraising themselves and dealing with their tasks and duties. On the other hand, developing relationship of employees

decreases their workloads. This study is important as it shows that trust makes employees work better

from the biases of fast accomplishment and cost saving, which is considered as efficiency.

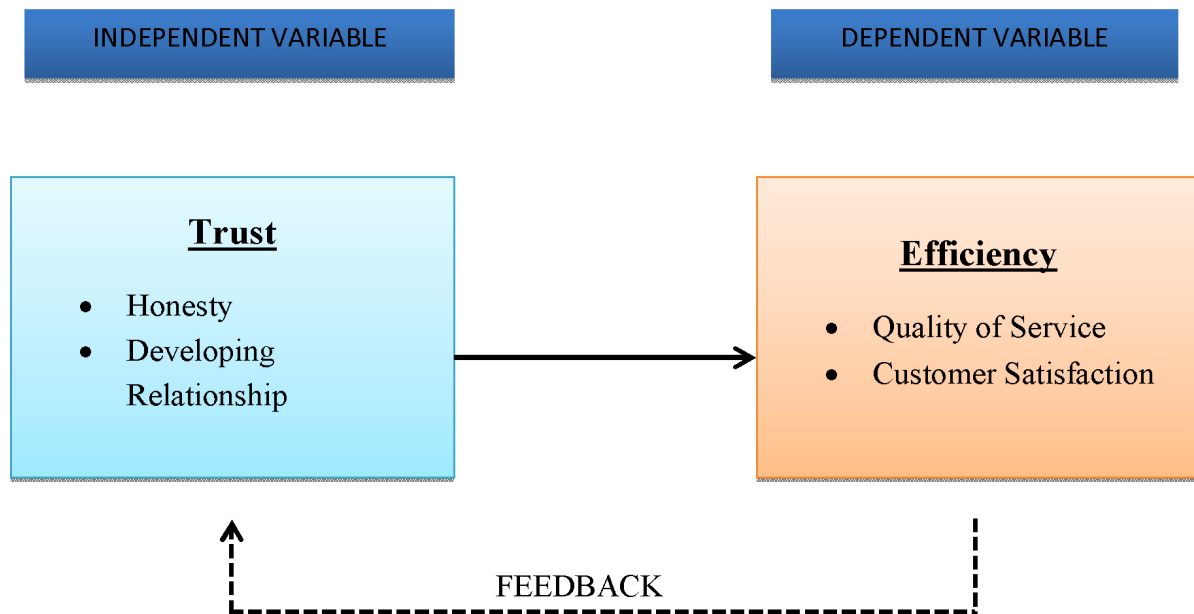


Figure 1. Research Paradigm

This study will help each department of Lulu to develop a better idea of developing trust among employees to make them work as efficient team. When they work as a team, their relationship is developed in a better perspective. When this relationship is developed, their efficiency in accomplishing the department objectives would be higher. And, their quality of service and customer satisfaction would be easily measured. Lastly, it guides Lulu Hypermarket as an organization on how to assess higher productivity. The employees who are possessing trust and efficient in their work are likely to become productive employees. Moreover, each department can achieve its own objectives. Thus Lulu Hypermarket is benefited from this study particularly on the importance of trust toward efficiency of its employees.

## 2. Review of Related Literature

Trust is one factor of providing work efficiency of employees. There had been many definitions for trust, based on psychological, sociological, and economics perspectives. Williamson stated that trust is a term with many meanings [6]. Besides, Harrison

White mentioned that trust is itself a term for a clustering of meanings. In the other hand, Robert Kaplan said “researchers, purposes may be better served if they focus on specific components of trust rather than the generalized case”. Based on the previous definitions, we can identify that trust is a compound meaning that proposes a case. Trust can be accomplished in purpose of achieving support and corporation between employees and organization. Both, employees and organization, are seeking to have a mutual relationship to support each other’s objectives. Therefore, it does not mean there will be full trust between them. Because both must be aware of any potential problem can happen. Some of these potential problems may occur is the loos of the organization because of weak performance. Though, trust is a good factor to accomplish efficiency in a way of achieving each person objectives. When it comes to define trust, it is difficult based on the researchers. The reason of difficulty in defining trust is because trust is a conceptual confusion. Even though, trust can be considered as a personality trait

that human being have, which establish stronger relationship [6].

The market had been gone very wide now-a-days. As a result, many organizations are trying to take their competitive advantages at the front to win the industry they are in. as it is always known, firms has two main objectives. These two main objectives are minimizing their cost and maximizing their profit. When both objectives are being campaigned, a new formula of equation appears. When organizations minimizing their costs, it actually mean to control and wisely use their inputs such as capital, labors, raw materials ... and natural resources. In the other hand, maximizing the profit requires to have more output than it was. In here, it is obvious to have a low input with high outputs gives organizations the main objectives. Therefore, to accomplish the previous goals, efficiency is required. After tracing efficiency definition, it was end with the work of Farrell back in 1957. Farrell stated that efficiency consists of both technical and allocative efficiency. The technical was measured as the ability of an organization to produce maximum output based on a specific set of inputs. In the other hand, allocative efficiency is referred to the ability of an organization to optimize the use of input given their respective prices. Based on the previous discussion, efficiency is actually important factor for organization to reach out their objectives. Moreover, efficiency will give the organization a competitive advantage in the market [5].

A review of trust had been provided earlier in this chapter. Trust can be simply destroyed because of dishonesty. In the consideration of building trust, honesty must be developed. Therefore, it is a positive relationship between trust and honesty. Under defining honesty, it is shown that honesty is also a personality trait. Honesty as the virtue of refusing to fake facts of reality. Also, she stated that there are negative and positive definitions of honesty. Whereas negative definition is refusing to do something, while the positive definition is the commitment to the facts of reality [7].

In some arguments, it is mentioned that saying out true information without the critical information is considered to be a lie. But, in the consideration of how many information must be provided to the customer by the employee is actually causing some confusion to some scientists. Because of the huge amount of information the employee has, some may slips away and not being provided to the customer. In that case, honesty is still considered because what had been happened is simply a mistake of rationality. Therefore, it is still moral to provide as much as information an employee can give to the customer. As a result, it leads humanity for three main considerations that determines contextual relevance. First, based on the nature of the information, depends on the person preferences of privacy such as details of difficulty in labors. The second is the nature of the relationship; specific information must provide the information such as death. Third consideration is the background of the knowledge; it is based on the amount of information needed for reasonable inferences to the truth such as informing a person about someone is a thief without mentioning that the teller is a thief as well. In here, many considerations are putted to determine truth that will lead to honesty [7].

Beside honesty to develop trust, interpersonal relations also plays a role in developing trust as well as maintaining positive feelings in the organization. Moreover, interpersonal relation can be considered as a contributor of producing efficiency [8]. In another discussion, interpersonal relationships are a core of social system. In a definition of interpersonal relationship, it is appeared to be a close association among individuals who share the same interests and goals. There are three dynamics in interpersonal relationships; they are Dyad, Triad, and Group. First dynamic, Dyad, it is an interaction between two people that one relays a message and the other listens. Dyad is simply ended when one constituent refuses to listen. Even though, it is one of the most intimate interpersonal dynamic as focus of communication on one person. Triad, the second dynamic,

consists of three people where as there is an engagement of relay, and receives of ideas and thoughts. It is more stable because the third party can be a mediator in case of conflicts among the other two parties. The third dynamic is group, which consists of more than three members. Group dynamic is the most stable from of interpersonal relationship.

Looking into the relationship can be existed between employees and customers, it is found to be an acquaintances interpersonal relationship. Acquaintance is a relationship where someone is simply known to someone else by introduction or by a few interactions. This is simply a specification of a relationship between employees and customers. Acquaintances may be a beginning of a future close relationship [9]. Moreover, interpersonal relationship model that consists of four phases. First is orientation whereas the employee introduces him or herself to the customer sharing some of his or her responsibilities. Second is identification phase is when the employee provide an understanding to the customer's feelings and the employee must avoid vagueness by using terminology. Third phase is exploitation in which the customer understands the problems by exploring all available avenues to solve it. Besides, the employee provides assistance to the customer to solve the problems. The last phase is resolution is the stage of termination of the professional relationship established among the employee and the customer [10].

One factor that determines efficiency is the quality of the service or product. In looking at quality definition, quality is perceived differently by different people. Based on the relevant dictionary, quality means the degree of excellence. In marketing perspective, quality is determined by production as recognition of the customer for the quality of fit, finished, appearance, functions, and performance of the product. While in services, quality is measured by the degree of customers' satisfaction who received the service [11].

One way of measuring efficiency is by measuring customers' satisfaction. When customers are satis-

fied, it is a prove that the organization is efficient, which will lead to the efficiency of employees. One factor that determines customers' satisfaction is customer service. Any organization is seeking for a high degree of customer service. Organizations put up a program that assists them to reach the high level of customer services. The program is based on the approach of provide customers with what they want and actually seeing they are receiving it. There are many ways to measure customer satisfaction; some of them are quality of service, pricing, trust in employees, and the closeness of the relationship with contacts in the company [12].

Based on quality way of measuring customer satisfaction, when the quality of products or services is high, there will be a high level of customers' satisfaction. For many researchers and scientists, price is considered to be a value in these days. Therefore, customers are looking for a high value when they purchase products or services. That will depend on the pricing decisions. Upon trust in employees, customers will be comfortable when they purchase from a trustful person to them. Therefore, trust is a way of achieving customers' satisfaction. Moreover, the relationship developed between the customer and the employee will assist the organization to maintain that customer. Also, the relationship cannot be developed without any satisfaction. The final result of customers' satisfaction is loyalty. When customers are satisfied, they will become loyal to the organization with will assure the profitability for the organization itself [12].

### **3. Research Methodology**

#### **3.1 Research Design**

The descriptive research designed is used in this study. Descriptive research is the method of providing information related to naturally occurring characteristics in a specific group, which is not truly experimental [13]. Specifically, the researcher used the survey research design, which is one type of descriptive research that uses questions to be asked to a group. In this study, descriptive research design is

used to measure trust and efficiency of Lulu Hypermarket employees in Fujairah.

### **3.2 Population Frame and Sampling Technique**

The population of this study represents all employees working at Lulu Hypermarket, Fujairah. The total employees-population working in Lulu Hypermarket in Fujairah is 170 employees. The researcher used the random sampling technique to determine the sample of this study. By the use of random sampling, the researcher draw the 30 employees-samples.

### **3.3 Description of Respondents**

The respondents of the study are selected by the use of the random sampling technique. The demographical factor are not considered that resembles the age, gender, culture, nationality, and others. The samples are drawn from managers, supervisors, and employees.

### **3.4 Data Gathering Instruments**

The researcher's made questionnaire is used to gather data required. The researcher developed a questionnaire in the format of checklist. The checklist included several questions related to the topics being explained earlier in this study. However, the researcher used one questionnaire that includes two main topics; they are trust and efficiency. The questions in the questionnaire are developed based on the dimensions used. The researcher ensured of the validity and reliability of the questionnaire by using several literature reviews. These literature reviews are Billikopf (2006); Chandrupatla (2009); Harrison & Norman (2001); and Ralph & Fullenkamp (2001).

### **3.5 Procedures in Gathering Data**

The researcher developed the survey-questionnaire on trust and efficiency. The researcher sought a request to the management of Lulu Hypermarket that she be allowed to conduct her study. After receiving the approval, the researcher distributed the questionnaires according to established sample-respondents. The researcher collects, tabulate and statistically compute the data. The results of the statistical computation are further presented in Chapter V.

### **3.6 Statistical Treatment of Data**

The weighted mean and coefficient correlation are used in this study. The weighted mean is used to measure the level of trust and efficiency of employees. The coefficient correlation is used to assess if there is a significant effect of trust to work efficiency of employees.

## **4. Results and Discussions**

### **4.1 Level of Trust of Lulu Hypermarket Employees**

The first part of the questionnaire used in this study describes the first variable of this study, which is trust. The component trust included two (2) parts, which are Honesty and Developing Relationship. The Likert scale used in this part of the questionnaire is rated between Very Poor (1) to Very Good (5). The final result of trust component obtained a weighted mean of 4.44, which is scaled as "good".

#### **4.1.1 Honesty**

Data shows that the level of trust in terms of honesty in Lulu Hypermarket was "very good" according to the computed mean score of 4.56. The respondents had assessed honesty of employees with their customers in which developed trust as "very good" based from the mean score of 4.73. This result is supported by Hsieh [7], which explains that honesty must be developed to build trust. Moreover, employees are honest with their information provided to customers, which obtained a weighted mean of 4.43 that is described as "good". This explains that Lulu Hypermarket employees reject unrealistic facts. As defined by Hsieh, honesty as the virtue of refusing to fake facts of reality. Beside, respondents stated that employees provide as much of "good" information as possible to customers [7]. This result had been drawn from the weighted mean of 4.50 given by respondents.

#### **4.1.2 Developing Relationship**

The Developing Relationship under the Trust component acquired a weighted mean score of 4.32 that is referred to "good". Under developing relationship, there are three questions that had received equal reactions. First, respondents described "employees have a

strong interpersonal relationship that is built between employees and customers” as “good”. This result is given based on the weighted mean of 4.40 given by respondents. As Harrison & Norman [4] stated, trust can be considered as a personality trait that human beings have, which establish stronger relationship. Second, employees have develop relationships contributes in producing efficiency received a weighted mean score of 4.27, which is “good”. This result is supported by Billikopf [8], as he explained that interpersonal relations play a role in developing trust in which contributes in producing efficiency. Third, employees adopt dyad dynamic of interpersonal relations is “good” based on respondents assessment that is 4.30 weighted mean. Dyad is an interaction between two people that one relays a message and the other listens, which is used when one constituent refuses to listen. Dyad is an interpersonal dynamic focused on communication on one person [8].

#### **4.2 Level of Efficiency of Lulu Hypermarket Employees**

The over-all efficiency of Lulu Hypermarket is found out to be very good as shown by the computed weighted mean score of 4.52. There are two variables of efficiency: these are *quality of service and customer satisfaction*. The used Likert scale for this part of the questionnaire is rated between Very Poor (1) to Very Good (5).

##### **4.2.1 Quality of Service**

The assessment of respondents on “Quality of Service” was found out that it is “very good” based on the computed weighted mean score which is 4.53. The study further reveals “very good” description to employees reach Excellency in its products’ quality according to the weighted mean of 4.62. Furthermore, a description of “good” is given to the dimension stating “employees’ present high quality products that meet the customer’s needs”, as it obtained 4.73 weighted mean. Respondents assessed that products quality is determined by customer’s recognition of fit, finished, appearance, functions, and performance of the product with a weighted mean

of 4.60, which is “very good”. According to Chandrupatla [11], quality is defined in different perspective. Quality is defined as the degree of excellence, a production of recognition of the customer fitness, finished, appeared, functioned, and performed product; and the degree of customer satisfaction. Therefore, as quality of service of Lulu Hypermarket employees is described “very good”, it is supported by the definition of Chandrupatla [11].

##### **4.2.2 Customer Satisfaction**

The assessment of respondents on the customer satisfaction component is found out to be “very good”, as it has an average weighted mean of 4.51. Specifically, respondents scaled the “Lulu Hypermarket uses a strong program to reach a high level of customer service” of 4.57, which is “very good”. Ram [12] supports this result, as he stated that when the quality of products or services is high, the customers’ satisfaction would be high. Lulu Hypermarket products’ prices are decided “good” upon prices decisions toward the value of the product as assessed by respondents with a weighted mean of 4.43. According to some scientists, price is considered a value, which customers are looking for a high value when they purchase products or services [12]. On the other side, respondents declared that Lulu Hypermarket is “very good” in receiving a high rate of customers’ loyalty through customers’ satisfaction as shown by the computed weighted mean of 4.51. This component is supported by Ram [12] as he discussed that when customers are satisfied, they will become loyal to the organization with will assure the profitability for the organization itself.

#### **4.3 Significant Relationship between Trust and Efficiency**

The researcher found out that there is a significant relationship between trust and efficiency of Lulu Hypermarket according to the computed  $p$  value = 0.006 associated to the computed correlation coefficient value, which is 0.488 in which is greater than the hypothesized probability level at  $p = 0.05$ .

According to Ram [11], one way of measuring efficiency is by measuring customers' satisfaction. Moreover, customer service is required to be in a high level to obtain customers' satisfaction. Beside, customer service requires an interpersonal relationship based on trust between the employee and the customer. Therefore, one way of measuring customers' satisfaction is through trust in employees. As a result, it is supported that Lulu Hypermarket is strong in its customer service (built by trust) in which strengthen the customers' satisfaction (building efficiency).

### 5. Conclusions

The following are the conclusions of this study according to the results and findings:

1. The level of trust of Lulu Hypermarket is assessed by employees-respondents as "good". Specific variable of trust that is also assessed as good is developing relationships of the employees. While honesty of the employees is found to be "very good".

2. The level of efficiency of Lulu Hypermarket is assessed as "very good" by employees-respondents. Both variables under efficiency are very good; they are quality of service of Lulu Hypermarket employees, and customer satisfaction of Lulu Hypermarket.

3. Trust has a significant impact toward efficiency of Lulu Hypermarket employees.

### 6. Recommendations

The following are the strategic recommendations based on the findings and conclusions of this study:

#### 1. Trust of Lulu Hypermarket Employees

1.1 Employees of Lulu Hypermarket must ensure the accuracy of their information to support customer service from the component of honest.

Buttry [12] stated that ensuring accuracy in information involves several steps; they are asking effective questions, taking accurate notes, gathering source documents, questioning information, verifying information, and fact checking content.

1.2 The relationship between the employee and the customer is very important to be developed and improved in Lulu Hypermarket. As discussed by Beard, building customer relationships is a customer retention strategy that is used to improve customer service and reduce customer grievances. To fulfill this strategy, there are six tactics; they are communicate respectfully, know your customer, use customers feedback, sustain regular contact with customers, build trust with customers, perform inbound marketing [14].

#### 2. Efficiency of Lulu Hypermarket Employees

2.1 Lulu Hypermarket must apply customers' needs analysis. Customers' needs analysis assesses in defining problems, customers, and technology solutions. It benefits the company to absorb information, process the information, and synthesize new product or service that serves customers' needs. Moreover, it helps the company to figure out the problems that must be solved that customers care about [15].

2.2 Lulu Hypermarket can use competition based pricing method to price their products. That is because it gives Lulu Hypermarket a focus on the industry and their competitors. This method will provide a full understanding of the competitors. Moreover, it will determine the uniqueness of the company products that can be turned into an advantage [16].

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## **PERFORMANCE APPRAISAL TOWARDS EFFICIENT CAREER DEVELOPMENT PROGRAMS OF FUJAIRAH INTERNATIONAL AIRPORT**

**Abstract:** This study was undertaken to assess the effects of performance appraisal and career development programs of Fujairah International Airport. The random sampling technique was used to establish the number of samples. The descriptive research designed was utilized to determine the level of performance appraisal and career development programs of FIA. The researcher's made questionnaire was employed to draw the evaluation of FIA employees-respondents for the two major variables. The Pearson Correlation Co-efficient was used to test the significant relationship between performance appraisal and career development programs. It is concluded that performance appraisal system of FIA significantly affect the implementation of its career development programs; it is recommended that FIA must consider the self-efficacy or competence of employees whenever it states objectives and outcomes; and, design training programs and planned in advanced relying on the deficiency or gap of employees. Similar variables of this study can be tested to other organizations to further validate the significance of performance appraisal towards career development programs.

**Keywords:** Human Resource Management, Performance Appraisal and Career Development.

### **1. Introduction**

Organizations always compete within the industry, and each organization must sustain its capability in performing the highest rate of performance to win the competition. However, organization takes several procedures during their competition in the industry. One of the procedures they consider in competing is human resource management. The human resource management is responsible for controlling the human capital within the organization. It became one of the most important factors in successful organization. As a result, organizations started to put their consideration in human capital

management. The organizations must ensure the employees' performance through performance appraisal system and by establishing career development programs.

Performance appraisal is used to have a purpose of rational administrative decisions and effective evaluation [1]. With performance appraisal, organizations would have a potentiality of successful strategies. It is because performance appraisal system measures the actual performance of employees within the organization. Pulakos [2] noted that the main goal of performance appraisal is to promote a successful human resource management. While

Arthur [3] identified that performance appraisal is actually assessing the goal of career development.

Career development is the mean of learning and determination of individuals' quality. As Wicker [4] discussed, career development assesses the satisfactory of the employee. Therefore, the employee tends to be more creative and innovative. To reach career development, supervisors must support their employees toward improvements. From improvements, the goal of enhancing the employee's quality of work is achieved [5]. Therefore, this study intends to determine the performance appraisal and employees development of Fujairah International Airport (FIA). This study evaluated the effect of performance appraisal as a tool of employee's development in Fujairah International Airport.

### **1.1 Statement of the Problem**

This study evaluates the effect of performance appraisal practices, and career development programs of Fujairah International Airport in United Arab Emirates. Specifically, it aims to answer the following questions:

1. How do employees perceive performance appraisal in terms of:
  - 1.1 Performance Planning;
  - 1.2 Performance Execution;
  - 1.3 Performance Assessment.
2. What is the level of perception of employees governing career development programs, based on:
  - 2.1 Training and Development;
  - 2.2 Developmental Plans;
  - 2.3 Career Management.
3. How does performance appraisal affect career development?

### **1.2 Hypothesis of the Study.**

This study tested if there is a significant relationship between performance appraisal and career development programs of FIA.

### **1.3 Conceptual Research Framework.**

This study is conducted to analyze the relationship between performance appraisals and career development. This study is focused on two variables. As illustrated in Figure 1 the indepen-

dent variable is referred to performance appraisal and its sub-variables performance planning, performance execution and performance assessment. While, the dependent variable is focused on career development which include training and development, developmental plans and career management. Career development largely affects organization success.

The performance appraisal is administered to analyze the employees' performance from accomplishing their tasks, duties, and responsibilities. It has aims, focuses, areas, and methods [6]. There are several factors affecting performance appraisal efficiency which include: performance planning, performance execution, and performance assessment. As the researcher targets to study the components of performance appraisal that are performance planning, performance assessment, and performance execution. The researcher determines a factor of improving career development for employees that is because each component of performance appraisal is connected to the career development. Therefore, the components of performance appraisal are assured to affect the career development factor.

The dependent variable of this study is career development. Career development causes an increase in the organization's productivity. As a result, the organization will have an increase in its performance and its growth. There are several factors affecting career development which will serve as the sub-variables: training and development, developmental plans, and career management [7]. These sub-variables are having a connection with performance appraisal based on Dessler (5). This connection is determined as a performance review phase when the evaluator determines the actions to be taken after the appraisal is made [5].

The factors of performance appraisal include performance planning, performance execution, and performance assessment. Performance planning is referred to be the discussion between the employee and the manager of what should be done and how.

Moreover, performance execution is the step of identifying the results, outcome, along with behaviors. Furthermore, performance assessment is the connection between performance planning and execution. The connection is related to the discussion of what had been done and the outcome in performance assessment.

Career development includes sub-variables of training and development, developmental plans, and career management. Training and development is the key success of improving the employee’s knowledge, skills, and abilities. In the other hand, developmental plans define each area in the employee along with their goals. Career management is related to the managerial actions that encourage employees to develop their career, and can be done by interests, supervising, advising, and so on [7].

Performance appraisal is a process of analyzing employees’ performance from the accomplishment of their tasks, duties, and responsibilities. Also, career development is the process of managing pro-

gression in learning and work that determines the quality of individuals [8]. Based on these definitions, it is shown that both concepts are reliable from the basis of process, analysis, work, and quality. In general, as a perspective of improvement, it is necessary to measure the performance of the employee to determine the weaknesses and strengths points in order to develop the employee. As a result, performance appraisal could have a huge influence on career development as it measures the capability of employees from their performance.

Based on these two variables along with their sub-variables, the researcher would be able to determine the relationship between performance appraisal and career development. This research framework assisted the researcher to prove or disprove the hypothesis stated in this study. Moreover, there is a determination of the feedback of career development on the performance appraisal. The paradigm summarizes how the dependent and independent variables are likely to be associated.

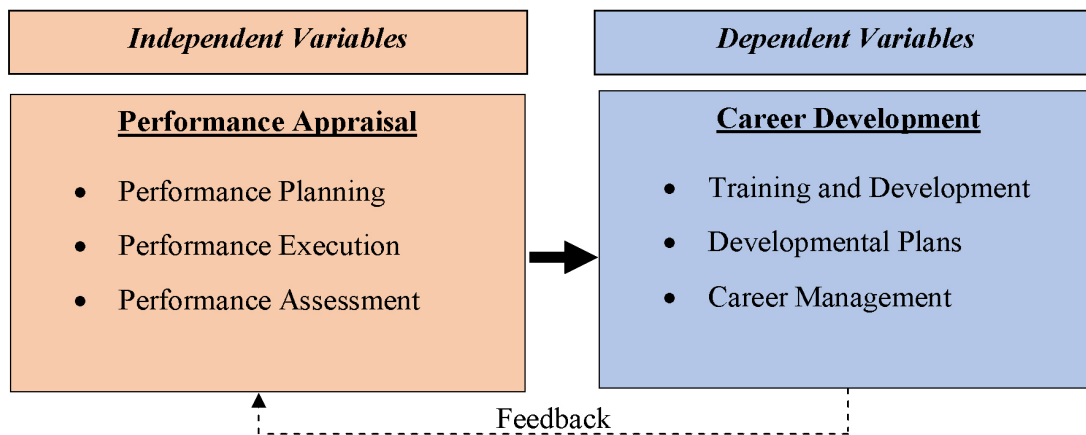


Figure 1. Research Paradigm

## 2. Literature Reviews

The literature reviews further discusses the major variables in this study on performance appraisal and career development.

The Oxford English dictionary [9] defines performance as the “accomplishment, execution, carrying out, and working out of anything ordered or undertaken”. Armstrong and Baron [10] argue that perfor-

mance is a matter of not only what people achieve, but also how they achieve it, and Bates and Holton [11] suggest that performance is a multidimensional construct, the measurement of which depends on a variety of factors. Brumbach [12] offers the most precise definition. “Performance means both behaviors and results. In the other hand, behaviors are also outcomes in their own right and can be judged apart

from results". Aguinis [13] defined performance as the behavior, what employees do, without the consideration of the results, the outcome of employees. His measurement of an employee's performance allows for rational administrative decisions at the individual employee level. It also provides for the raw data for the evaluation of the effectiveness of such personnel- system components and processes as recruiting policies, training programs, selection rules, promotional strategies, and reward allocations [1].

Arthur [3] had reviewed performance appraisal process. The review had shown that performance appraisal is a successful strategy for any organization. The advantages of performance appraisal process has an influence on deriving future strategies, employee's own career development, and helps employees to do their own SWOT analysis [3]. The performance appraisal process, according to Dessler [5], includes four basic steps: The first step is job analysis. Job analysis explains the consists of the job with both job description and job specifications. Job analysis is very important for performance appraisal as it helps the manager or the supervisor to evaluate the employee's performance. There is a relation between job analysis and organizational mission and objectives. That is because formulating job analysis requires the understanding and the identification of the organizational mission and objectives. The second step in performance appraisal process is developing standards and measurement methods. The development of standards and measurement methods assists performance appraisal to measure employee's performance. The third step in performance appraisal process is the informal performance appraisal. In other words, the third step is related to the coaching and disciplining. Performance appraisal is an ongoing process of evaluation, but formal evaluation is occurred once or twice in a year. However, informal performance appraisal requires managers and supervisor to lead and coach employees during the whole year through advising them and giving them correction actions. The fourth step is preparing for

and conduct formal performance appraisal. In this step, a performance review will be assessed between the supervisor or the manager and the employee. Usually, performance review is made once or twice a year to evaluate the employee's performance [5].

Performance appraisals are one of the most important requirements for successful business and human resource policy [14]. Rewarding and promoting effective performance in organizations, as well as identifying ineffective performers for developmental programs or other personnel actions are essential to effective to human resource management [2]. The ability to conduct performance appraisals relies on the ability to assess an employee's performance in a fair and accurate manner. Evaluating employee performance is a difficult task. Boice and Kleiner [15] suggest that the overall purpose of performance appraisal is to let an employee know how his or her performance compares with the manager's expectations. Again, this is a one-dimensional view. Fletcher [16] takes a more balanced view, suggesting that for performance appraisal to be constructive and useful there needs to be something in it for appraiser and appraisee.

Performance planning is the second step in performance management process. It is a discussion between the manager and the employee of what should be done and how to be done. In performance planning, there must be a consideration for results and behaviors. Result is referred to be the need of what outcome to be produced. The behavior is referred to how the job is being done. Results include the key accountabilities in which are job description. Besides, results include the objectives of the outcome. Moreover, it includes a performance standard, which is the measurement of how the employee will achieve each stated objective. For behavior, it is only concerning about the competencies of the employee, which are the measurable clusters of knowledge, skills, and abilities that determine how results will be achieved [13]. Aguinis [13] explained performance execution is the stage of producing results and display-

ing behaviors toward developmental needs. That is being conducted by activating the input needed to produce the outcome. Even though, the employee will not perform yet in performance execution. Besides, performance assessment had been explained by Aguinis [13] as the phase of which both employee and manager evaluate the extent of the behaviors conducted and results that had been achieved. It is very important for both the employee and the manager to participate in performance assessment to guarantee a positive outcome.

There are several views of managers related to the fact that performance appraisal has a connection with the career development. This connection had been raised through a comparison done by Shubhangi and her group in 2012. The comparison is presented by the use of different models, BARS method and other statistical tools. At the end of the comparison, they have found a convenient and validity between both concepts. However, the comparison stated that both concepts are asking questions that are similar to each other. For instance, the first question of performance appraisal is "What is the employee contribution?" Besides, the first question of career development is "What are my career goals?" In here it is obvious that both concepts are seeking for the achievements of the job goals. The second question of performance appraisal is "How is the employee measuring up to expectations?" And the second question of career development is "what are my options for career movement?" Here, the answer will be the same as it will contribute to the future goals of possible objectives. The third question of performance appraisal is "What do I need to tell the employee about current performance?" And the second question of career development is "What skills and abilities do I need to acquire?" These questions are explaining the necessary skills, knowledge, and abilities needed for accomplishing tasks assigned. The fourth question of performance appraisal is "How does current performance reflect on compensation?" The fourth question of career development is "What plans do I need to

make to move toward my goals?" it is obvious that for performance appraisal, the employee is seeking to achieve the compensation he or she wants; while in career development, the employee is seeking to identify his or her goals in which is referred as compensation. The last question of performance appraisal is "How does the employee rank against other employees?" The last question of career development is "What will be my implementation steps and timetable?" for both concepts, the employee is required to work effectively, efficiently, commitment, and in a teamwork [7].

When it is explained that performance appraisal and career development are related to each other, there are some considerations for the final results of both concepts. The final results of both concepts are either rewards and compensation, or training and development. Therefore, to obtain these final results, the management must focus on measuring the employees' performance as well as his or her willingness to develop themselves. To obtain these factors, managers must obtain employees' satisfaction. Otherwise, there will be less efficiency with performance appraisal and employees' development. With the satisfaction of employees to the performance appraisal system, there will be fair treatments, and fair ranks. In the other hand, if the employee is satisfied with career development, the employee will tend to be creative, flexible, innovative, and loyal [4].

Job satisfaction has been defined as "feelings or affective responses to facets of the (workplace) situation" [17]. More recently, researchers have acknowledged that job satisfaction is a phenomenon best described as having both cognitive (thoughts) and affective (feelings) character. In other words, employee job satisfaction is the affective state of employees regarding multiple facets of their jobs [18]; so job satisfaction comprises employee feelings regarding multiple aspects of the job.

It is important for employers to develop the employee's career. That is being done through the employer's role, employer career initiatives, commitment career development efforts, manager's role,

building mentoring skills, and improving productivity. The employer's role has several practices that can extract the career development such as formal education, performance appraisal, leadership, counseling, and career workshops. The innovative employer career initiatives include lifelong learning budgets, role reversal, organize career success teams, provide career coaches, and offer online programs. The commitment career development efforts that are related to the performance review linked with discussing the employee's performance, career interests, and developmental needs. For the manager's role, it is an important thing for managers to support their employees' career development either with just an advice. Supporting employees makes them encouraged to go farther in their innovation and creativity in which creates a major opportunities for both employees and organization. Moreover, linking all of performance appraisal, career planning, succession planning, and training together improves the productivity of both employees and organization [5].

Aguinis [13] stated that developmental plans are important step before performance review. That is because developmental plans include identification of areas that must be improved, and goals to be achieved in each area. Besides, it includes the outcome and how the job to be done. Therefore, a new concept of training had been constructed to assist developmental plans. That is because it is an issue of training employees to improve the weaken areas. Besides, there are several ways to conduct a developmental plan. These ways are on-the-job training, courses, self-guided reading, mentoring, attending conferences, getting a degree, job rotation, temporary assignments, and membership role in professional organizations.

Dessler [5] revealed some analyzing of training needs and designing the program of training. First of all, task analysis is important as it details the study of the job that determines the skills required for the job. Second, the performance analysis in which assesses the current employees' training

needs. Performance analysis is the process of verifying the deficiency of the employee and whether the employee will correct it or not. Third is designing the training program. Designing the training requires the determination of the training objectives. Besides, deciding the training budget along with choosing a training method.

Robbins, Judge, and Sanghi [19] provided detailed information of training methods. Briefly, training methods are classified under two main forms of training. The first form is formal training which is referred to on-the-job training. The second form is informal training that is off-the-job training. The formal training is structured and planned in advance. In the other hand, informal training is unstructured, unplanned, and easily adopted by individuals. The different types of formal training are apprenticeships, job rotation, understudy assignments, and mentoring programs. Moreover, training is mostly used by the diversity companies' initiatives. Diversity trainings are usually intended to provide wheel of increasing the awareness with examining stereotypes.

Emirates international is found to be doing performance appraisal methods for development of their employees. Training needs and its assessment is the integral part of performance appraisal and career development linkage at the organization [20]. Etisalat has a through system of auditing employee's performance. Continuous learning is the key to employee's career development at Etisalat by launching of Etisalat own academy for employees [21]. Job performance, on the other hand, consists of the observable behaviors that people do in their jobs that are relevant to the goals of the organization [22]. Job performance is of interest to organizations because of the importance of high productivity in the workplace [23]. Performance definitions should focus on behaviors rather than outcomes [24], because a focus on outcomes could lead employees to find the easiest way to achieve the desired results, which is likely to be detrimental to the organization because other important behaviors will not be performed.

Gratton and Ghoshal [25] argue that at all levels, the emphasis should be on the core of the appraisal and development process, that is ‘improving the quality of conversations’, rather than going through ‘dehydrated rituals’, with open and honest leaders setting the example for a culture of curious, creative learning organizations. An important element of developing an effective performance system is training for those individuals involved as raters [15]. Further suggested that training should incorporate coaching and counselling, conflict resolution, setting performance standards, linking the system to pay (if applicable) and providing employee feedback. Besides, Youngcourt, Leiva and Jones [26] suggest that the common purpose of performance appraisal tends to be aimed at the measurement of individuals, and consider that this focus is insufficient.

Performance appraisals can mean different things to different people. In general, a performance appraisal is defined as an evaluation of an employee’s job performance to measure how effectively this employee is performing at their job. Besides, the main purpose of performance appraisal is to improve the employee from the biases of skills, knowledge, and abilities [27]. A research paper studied by Klaus Mohn, Ola Kvaloy, and Arngrim Hunned, titled “Performance Appraisal and Career Opportunities: A Case Study” explained the relationship between performance appraisal and career development. The study discussed about the perceptions of performance appraisal and career opportunities made in an international oil company. Besides, the purpose of the study was to provide an insight to individuals and organizations who are perceiving performance appraisal. The methodology used to accomplish this study is survey research design. The variables used in the research methodology are individual background and characteristics of work environment. Their study was limited to the cross-section for a single employer, meaning that self-selection bias is avoided. The first part of the study is Introduction, which focused on providing the importance of human capital, performance appraisal, case study, or-

ganizational changes, career opportunities, and main results.

Mohn, Kvaloy, and Hunned [28], study included an overview of performance appraisal subjected to a case study. Besides, it included data set explanation. Also, an econometric model was explained along with a discussion of results. Lastly, the research provided a remarked conclusion for the results appeared. The sample determined in the research was 16,000 leaders and employees in 14 European countries with 83% of response were retrieved. The questionnaire used included scale rates from 1 to 6 with areas of performance culture, change capability, competence and expertise, trust and identity, and HSE issues. The results of their study [28], had shown as several points. First, the human capital increased in the past 10 years, which reflected on the shortages and value-creating for human resource. Second, there is a gender effect on performance appraisal. As explained in the study, male reports larger gaps than women in performance appraisal. Third, environmental and organizational changes have their influences on performance appraisal results. Fourth, there is a negative influence from restructuring and change of the organization on career opportunities. Fifth, career opportunities for individuals are affected by the gaps between efforts and rewards [28].

### **3. Research Methodology**

#### **3.1 Research Design**

The descriptive research design is used in this study. It is used to describe, explain, and interpret present conditions; it is aimed at analyzing and assessing a phenomenon or practice that is taking place at a specific place and time; and it is used to explain the practices, structures, opinions of people, and processes that are prevailing at any place [29]. In this study, the descriptive design is used to determine the relationship between performance appraisal and career development of employees at Fujairah International Airport.

#### **3.2 Population Frame and Sampling Technique**

The population of this study is focused on the employees of Fujairah International Airport. The



random sampling technique is applied to draw the required sample-respondents from each department such as air traffic control, flight operations, rescue and firefighting service and safety and quality.

### **3.3 Description of Respondents**

The respondents of this study are the department heads and employees of FIA. They were randomly selected from each department such as air traffic control, flight operations, rescue and firefighting service, and safety and quality.

### **3.4 Data Gathering Instrument**

The researcher's made questionnaire was used in this study. As stated by Fowler [30], the researcher's made questionnaire is a method of gathering information required for a specific issue through asking respondents questions in form of points. The researcher developed two questionnaires; the first questionnaire is on performance appraisal, and the second questionnaire is on career development. With the assistance of Dessler [5] conceptual literatures, the researcher was able to write all the required questions for the performance appraisal questionnaire. Besides, the literature reviews of Robbins, Judge, & Sanghi [19] is used to develop the career development questionnaire. After developing the questionnaires, they had been submitted to the supervisor for improvements. Afterward, the questionnaires validity had been finalized by the assessment of the management of FIA. Lastly, the questionnaires had been developed based on the improvements of the capstone supervisor and the valid suggestions of FIA managers.

The researcher used the Likert Scale to establish the answers for the questionnaires. The Likert Scale used for this study are 1 – strongly disagree; 2 – disagree; 3 – neither agree nor disagree; 4 – agree; and 5 – strongly agree.

### **3.5 Procedures in Gathering Data**

First, the researcher had analyzed the variables along with the sub-variables of this study. Second, the researcher designed the questionnaires that are related to the variables of this study. Third, the researcher sends a request letter to the manager of

Fujairah Internal Airport requesting to distribute the questionnaires on respondents. Along with the request letter, the researcher had attached a copy of the questionnaires. Fourth, after approve from the manager, the researcher distributed the questionnaires on respondents. Fifth, the researcher gathered answered questionnaires and analyzed them. Sixth, the researcher had concluded the analysis of the questionnaires results and provided recommendations concerned to the issues appeared.

### **3.6 Statistical Tools Used in the Study**

This study used the weighted mean, and correlation coefficient as the main statistical tool for data collected. The weighted mean is used to determine the extent of Performance Appraisal and Career Development, while, the correlation coefficient was used to measure the effect of Performance Appraisal towards Career Development. The 0.05 level of probability is considered as the level of significance. The Statistical Packages for Social Sciences (SPSS) is used to aid the researcher in the statistical computation and analysis of data.

## **4. Results and Discussions**

### **4.1 Level of Employees Perception on Performance Appraisal**

The data discloses that employees' "agreed", as indicated by the overall mean score 3.87, that FIA has implemented performance appraisal system that includes sub-variables: performance planning, performance execution, and performance assessment. These sub-variables of performance appraisal were also implemented by FIA as "agreed" based from the employees' evaluation.

#### **4.1.1 Performance Planning**

The data specifies the results of the first sub-variable of performance appraisal which is performance planning. Performance planning was implemented and practiced at FIA as indicated by the employees-respondents' evaluation based on the computed weighted mean score which is 3.94 or "agree". The FIA employees-respondents stated that both managers and employees discuss and "agree" upon what

should be done and how to be done in performance appraisal as shown by their computed means score 4.17. Similarly, the identification of key accountabilities of each employee area of job responsibilities to produce an output; and determination of the competencies of knowledge, skills and abilities that results would be achieved are practiced by FIA as revealed by the computed 3.86 weighted mean which is “agreed” by the respondent to have implemented by FIA. The employees assessed the objectives and outcomes stated in the discussion are attainable and equal to the KSAs of the employees as “agree” or 3.77 mean score. Aguinis [13] are supporting the above results. He stated that performance planning is a discussion between the manager and the employee of what should be done and how to be done. Aguinis [13] also affirmed that performance planning must consider results and behaviors. Therefore, based on the results appeared from the respondents, FIA is having an effective performance planning.

#### *4.1.2 Performance Execution*

The study reveals that based on the weighted mean score of 3.87, the employees-respondents “agreed” that performance appraisal was executed by the management of FIA. It was found out that during the execution of performance appraisal at FIA, the researcher has confirmed and “agreed” by employees-respondents that all of them had strived to produce results, and display the behaviors and work on developmental needs; they have an active inputs, performance standards, and creation of rating from in the execution stage; employees and managers have both identification of areas of responsibilities, as displayed in Table 4.3. The FIA was executing performance appraisal based on principles. As reinforced by Aguinis [13], performance execution is conducted by activating the input needed to produce the outcome. As a result, FIA has an excellent use of input to produce a high rate of outcome.

#### *4.1.3 Performance Assessment*

The third sub-variable of performance appraisal is performance assessment, which received

weighted mean score 3.79, or it had “agreed” by employees-respondents that all items under this sub-variable were achieved. Furthermore, it reveals that the employees-respondents had “agreed” in all dimensions of performance assessments that: FIA is capable to identify the desired behaviors displayed and the achievement of desired results; there is collaboration between employees and managers to evaluate the extent of the performance; the information generated from the evaluation is used for future purposes of increasing FIA productivity; and FIA employees perform self-appraisal and takes correction actions immediately in cases of mistakes. Performance assessment is related to the evaluation of the behaviors conducted and results achieved [13].

### ***4.2. Level of Employees’ Perception on Career Development Programs***

The career development programs at FIA was found out to be implemented based on the computed mean score results 3.78; and the employees-respondents had “agreed” that all components of career development programs variables were implemented. Obviously, the training and development obtained 3.71 mean score; development plans received 3.70 mean score; and career management received 3.94 mean score.

#### *4.2.1 Training and Development*

The data discloses that the training and development dimensions was found to be implemented by FIA as indicated by the weighted means score 3.71 or “agree”. The employees-respondents revealed that FIA has been analyzing the skills required to perform a specific job for each employee (mean score 4.03 or agree); it has been identifying the deficiency of each employee and develop a training program to correct the deficiency (mean score of 3.66 or agree); training programs of FIA was found to be useful for participants to value differences, increase cultural understanding, and confront stereotypes of individuals (mean score of 3.46 or agree); while the training design of FIA that has been structured and planned in advance based on the deficiency of

employees was evaluated as neither the employees-respondents agree nor disagree based on the computed mean score of 3.46. Dessler [5] showed the importance of training and development as it is one final result of performance appraisal. He further explained that the most important part in training and development is designing the training program based on employees' deficiency. This means that FIA is facing a problem with evaluating their employees deficiencies in which resulted in them not designing training very well.

#### 4.2.2 Development Plans

For development plans and based on the computed mean score 3.70, the employees-respondents had "agreed" that FIA had established and implemented a developmental plan. All dimensions of development plans were implemented based on the evaluation made by the employees-respondents in which they "agreed". Table 4.7 further exhibits that FIA has established a development plan that includes identification of weak areas and goals to be achieved; developmental plans that include the results and behavior; it includes specified actions in the development plan to improve employees' performance; and the development plan was chosen based on the employees' preferences, developmental objectives and available resources. Developmental plan is the new concept of training, because it improves employees' weaknesses [13]. FIA has good developmental plans as they are capable in identifying their employees' weaknesses and strengthen them.

#### 4.2.3 Career Management

Based on the computed weighted mean score 3.94, employees-respondents have "agreed", that career management programs are executed at FIA. Employees-respondents further "agreed" on that FIA management gives opportunities to employees to develop their skills for current position and future positions; FIA employees are given opportunities to complete career planning workshops and exercises; The management uses the performance appraisal to link employee's performance, career interests, and de-

velopmental needs into a coherent career plan; lastly, employees of FIA agreed that managers are supporting them through advising them and directing them to developmental career path. The above results show that FIA has established employees' interest and developmental needs to enhance their careers. Dessler [5] stated "The commitment career development efforts that is related to the performance review linked with discussing the employee's performance, career interests, and developmental needs".

#### 4.3 Significant Relationship between Performance Appraisal and Career Development Program

The researcher found out that there is a significant relationship between performance appraisal and career development programs of FIA based on the computed  $p$  value = .000 associated to the computed correlation coefficient value which is 0.571 which is less than the hypothesized probability level at  $p = .05$ . Performance appraisal plays a major role to career development as it provides a full description of the employee's performance during a specified period of time [27]. Therefore, measuring performance appraisal assists managers to determine the career development from all of its aspects.

#### 5. Conclusions

The following are the conclusions based on the finding, results, and discussions of the data gathered:

1. Performance Appraisal, as the independent variable of the study, was practiced by Fujairah International Airport as "agreed" by employees-respondents, together with three components: performance planning, performance execution, and performance assessment.
2. Career development programs, as dependent variables of this study, were implemented by FIA as "agreed" by employees-respondents. The sub-variables that included in the implementation are: training and development, development plans, and career management are found to be operationalized.
3. Performance appraisal significantly affect career development program of FIA employees.

## 6. Recommendations

The following are the recommendations based on the findings and conclusions of the study:

### 6.1 Performance Appraisal

FIA must consider their employees knowledge, skills, and abilities when they are stating objectives and outcomes. This would increase FIA capability in achieving all objectives and outcomes. Also, within performance execution, FIA must monitor their employees' performance. However, FIA could increase its capability in achieving objectives through identifying the desired behaviors displayed and desired results.

### 6.2 Career Development Program

FIA have to design training programs in a structured and planned in advance relying on the deficiency of employees. This would support FIA to ensure the quality of learning for their employees

during the training program. It is also required from FIA to include the specified actions in the developmental plan to improve employees' performance. This causes FIA to be always in a high rank within the industry. A good way to increase the career management of employees is through advising and directing them. Therefore, FIA can consider the support of their employees to direct them to developmental career path.

### 6.3 Relationship between Performance Appraisal and Career Development Program of FIA Employees

Using performance appraisal to draw a career development program is beneficial for Fujairah International Airport. Performance appraisal explains all the details related to the employee's performance, which is in order assist employees to have a wider range of imagination to fulfill their work.

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## **THE EFFECTIVENESS OF RECRUITMENT MANAGEMENT SYSTEM AT DU CONTACT CENTER, UNITED ARAB EMIRATES**

**Abstract:** This research paper intended to assess the efficiency of the recruitment and selection process and the effectiveness of recruitment management system at DU Contact Center in the United Arab Emirates. The descriptive research design, stratified sampling technique, a researcher's made questionnaire are the research methodology used, also coefficient correlation is used to measure the significant relationship between recruitment process and recruitment management system. The results of this study revealed that there is no significant relationship between the variable – recruitment and selection process and the variable-effectiveness of recruitment management system. Furthermore, the recruitment and selection processes are assessed to be generally efficient. There are several recommendations that are concluded as a result of the conclusion of this study which is divided among the level of efficiency of recruitment and selection process, the level of effectiveness of recruitment management system, and the relationship between recruitment and selection process and recruitment management system. A replication of this study is recommended to further disclose if the recruitment processes have bearing with effective recruitment management system.

**Keywords:** HRM; Recruitment Process; and Recruitment Management System.

### **1. Introduction**

Recruitment is one of the main roles of any human resource management system. It is a costly process but essential for any business or organization to have the required number of employees running the business. It is easy to spend a significant amount of money on recruitment with little return, as recruiting poorly will both provide a low return and lead to a high cost [1]. When companies choose the right people for the job offered, they usually train them well before assigning the work to them. Training will assist employees to be more efficient and productive while handling their positions and treat them appropriately; those employees not only produce better results, but also tend to stay with the com-

pany for a long period. In these situations, the organization's efforts and the ongoing investment in them is highly rewarded. An organization with all the latest technology and the top physical resources, without the right people to run it, will surely struggle to achieve its goals and results.

Du is one of the leading telecommunication organizations in the United Arab Emirates and the recruitment and selection process in Du should be very effective. It is essential for the organization to hire the right people in the right position. Being service provider, each employee reflects the image of his or her organization inside and even outside work. One of the important and critical operations in any telecommunication company is the customer ser-

vice center because it is front line of the organization and in direct communication with the valued customers of the company. Du started a Contact Center in Fujairah in 2011 with 100% Emirati workforce, and the organization followed a mass recruitment process to select the big number of employees required through several batches to run the contact center. They were all chosen by HR recruiters based on minimum criteria and went through an assessment, training, and shadowing before handling their actual roles as customer service representatives.

In the beginning, the number of employees started to rise frequently and the total number of employees targeted has almost been achieved. At the beginning of 2013, the contact center started to suffer from a high number of resignations and talents leaving the organization as well as few terminations. These circumstances happened due to many factors and with no doubts; the recruitment played a major part in it as well. Having a more effective recruitment and selection process would have definitely reduced the number of employees leaving the organization. Having different people with different experiences and academic qualifications all at the same level and position is without a doubt a de-motivating factor and keep those talents specially when there are no advantages or increments in benefits for those who hold higher degrees and certificates.

### **1.1 Statement of the Problem**

This study assessed the effectiveness of Recruitment Management System at Du Contact Center Fujairah, Fiscal year 2013–2014. Specifically, this study attempted to answer the following questions:

1. What are the extents of the efficiency of the recruitment and selection process the candidates go through before signing their contracts, in terms of the following variables?

- 1.1 Conduct job analysis
- 1.2 Determine selection criteria
- 1.3 Advertise and collect CVs
- 1.4 Screening tests
- 1.5 Interviews

1.6 Reference check

1.7 Signing the contract

1.8 Training and assessment

2. What is the extent of effectiveness of recruitment management system?

3. Is there a significant relationship between the recruitment process and the effectiveness of Recruitment Management System?

### **1.2 Hypothesis of the Study**

There is no significant relationship between the recruitment and selection process and the effectiveness of the recruitment management system.

### **1.3 Conceptual Research Framework**

The recruitment and selection at Du Contact Center in Fujairah follows a certain process (Figure 1). It starts with conducting job analysis and determining the needs of employees in the requested areas and departments. Usually the managers of each department are the ones who raise their requests for a specific number of new hires required. These requests go into analysis to identify the actual needs and if the recruitment is required or the number requested is more than required or not. After approving the number of new employees required, the selection criteria are set based on the positions and the nature of work the candidates are applying for. Then the organization starts to advertise for the open vacancies through newspapers, internet, and career fares so people will submit their CVs and apply for the job. After collecting enough CVs and sorting all of them based on the criteria, candidates are called for screening tests while those who pass become qualified to enter the interviews afterward. In interviews, the final selection is actually done and determined, and whoever passes this stage will be given the offer. A reference background check should be done before accepting the applicant to make sure that the candidate has no legal issues or previous crime records. The candidates who passed the interview are contacted to sign the contract with Du after giving the candidate the right to go through the contract before signing it. Training and assessment

comes next where all the new employees should go through an extensive training covering everything Du provides as a telecommunication service provid-

er to customers like offers and services. It is essential for an employee to pass this training to be able to handle his or her role in the contact center.

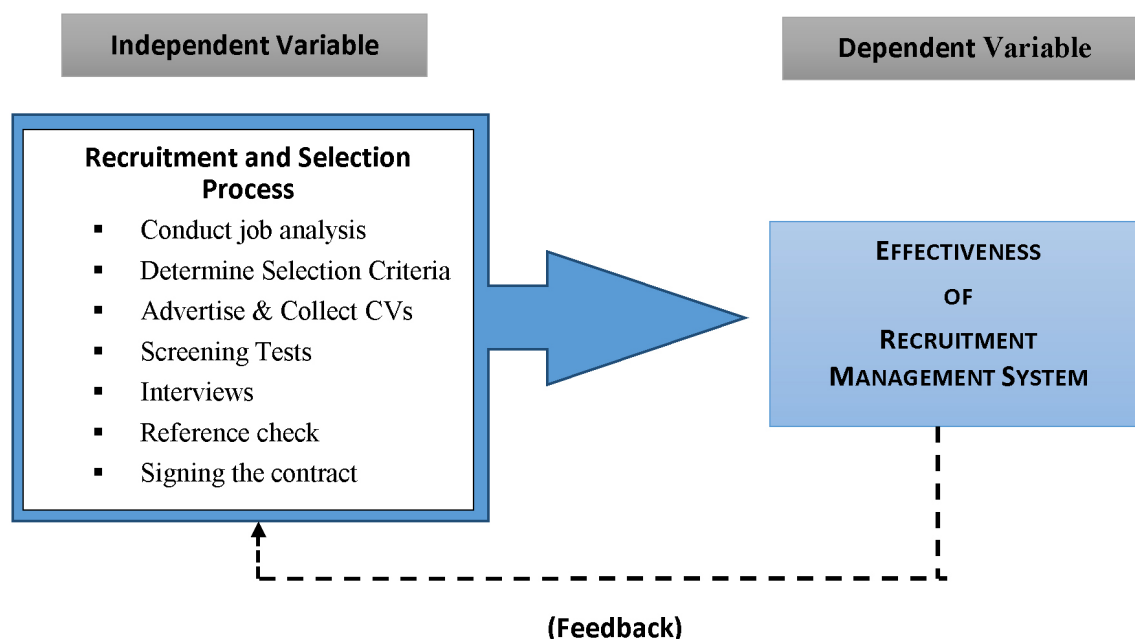


Figure 1. Conceptual Research Paradigm of the Study

After going through all the recruitment process, employees should be ready and able to handle their responsibilities. They are getting two days off every week, and required to cover a nine hours shift either morning or evening based on the schedule generated every week. After signing the contract, employees have to pass the training given by HR to be accepted by the operation and give them their actual work. Those who do not pass the training assessment are being reassigned to enter the same training course with the next batch until they pass and assign them their responsibilities. Most of the employees usually start their first few months with high motives to prove themselves and to learn more in the field by showing their skills and abilities while handling their daily responsibilities, but eventually some employee's productivity drops and their attendance records get impacted. Even with the operation management setting many encouraging and motivating programs and actions; the problem still arises and end up either by firing those employees who does not meet

their daily goals or the employee himself decides to resign and leave the company. These actions are definitely taken after giving all that is needed to improve those employees.

The effectiveness of employees reduces by time and a high number from them leaves the company either for a better opportunity or just because they think that the contact center is not the right place for them to work in. Having these scenarios in mind, the recruitment management can take actions and processes in the selection stage to eliminate this problem or minimize it. Therefore, the recruitment process has a relationship with the effectiveness of the recruitment management system. Because recruiting the right people who will be committed to the company, the recruitment management system must be effective.

## 2. Literature Review

The human resources function plays a crucial role in the attainment of quality goals by ensuring maximum efficiency of the organization's selection



procedures to procure the best recruits available who confirms to customer requirement [1]. Recruitment is often seen in organizations as a 'stand-alone' activity, handled either by a line manager, Human Resource partners or an internal recruitment team. This means that the opportunity to grow and develop a business through the use of recruitment can often be messed. A joined-up approach to recruitment, encompassing the retention, assessment and engagement of an organization's people as well as one that places recruitment at the heart of a business, will offer significantly increased returns on investment. And in fact, paying significant attention to assessment, retention and engagement will actually reduce the amount of time you need to spend on recruitment [2].

If you are not responsible for recruiting and hiring CSRs, you will be responsible for managing those who get hired. Your knowledge of the recruitments makes you indispensable to the recruitment and hiring process. You should help to define the skills and behaviors that drive top performance. Providing clear opportunities for career advancement is a competitive recruiting strategy that small businesses can take advantage of. When weighing a choice between two or more job offers, applicants can be more attracted to the prospect of getting on board with a growing company likely to open up new management positions in the near future. Recruiters can use stories of their own rapid advancement within a small business to add credibility to their claims and pique applicants' curiosity. Larger companies can leverage this appeal by laying out clearly defined advancement paths within their organizations, showing potential employees how length of service or meeting performance goals can advance their careers quickly [3].

Normally cultural issues, which cause people to leave an organization. For this reason, we suggest the following as strategic Human Resources initiatives, which can have a positive impact on organizational culture, and concomitantly increase retention rates [4]. While, assuming heterogeneity among firms

with respect to their human capital, competitive advantage is possible if a firm insures that its people add value to its production process and that its pool of human capital is a unique resource, both difficult to replicate and difficult to substitute for [5].

Employees appreciate frequent positive feedback and respond well to it, but corrective feedback is equally important. Businesses that wait for monthly, quarterly, or even yearly one-on-one meetings to correct issues are often too late to be effective. They end up asking for changes to work that has already been completed. Frequent communication reduces wasted resources and frustration, and is vital for long-term employee success [6].

Nelson suggested in his article by stating "While the quest for effectiveness is critical, it is equally important that many organizations simultaneously need to focus on increased efficiency. This is based on the premise that an HR function will create business value" [7]. "When traditional recruitment sources don't yield the results you need in terms of quality candidates or timelines, consider more creative recruitment solutions" [8].

In *Effective Recruitment and Selection Practices* book, written by Compton, there had been some causes to decrease efficiency and productivity mentioned. One of the major causes is stress that has a major impact in the workplace along with outcomes including increases in absenteeism, turnover of employees, accidents and reduced efficiency and productivity [9].

### **3. Research Methodology**

#### **3.1 Research Design**

This study used the descriptive research design, specifically the survey research design. Survey research design involves assigning information related to one or more groups of people perhaps about their characteristics, opinions, attitudes, or previous experiences [10]. In this study, the descriptive research design was used to measure the effectiveness of recruitment management system and measure the efficiency of recruitment and selection process.

### 3.2 Population Frame and Sampling Scheme

The population of this study was 123 employees of Du Contact Center, composed of managers, supervisors, and employees. The sample was determined by the stratified sampling technique. The stratified sampling technique was used to divide the population into layers and proportionally taking a sample from each layer.

### 3.3 Description of Respondents

The respondents of this study were the current employees of the Fujairah Contact Centre and employees enrolled in the next batches, Fiscal year 2014–2015. The respondents were 50 workers drawn from 123 population-employees of Du in Fujairah composed of managers, supervisors and employees.

### 3.4 Data Gathering Instruments

The instruments used in this study were researcher's made questionnaires. There were two questionnaires used:

The first questionnaire was focused on the recruitment and selection process. The second questionnaire was designed to cater the recruitment management system. The development of the questionnaire was based on the readings of related literature conducted by the researcher. The draft was presented to the adviser to validate the reliability of test items drawn in each questionnaire. After validation, the mass production of the questionnaires were done.

The 5– point Likert's scales are used for the efficiency of recruitment and selection process and the effectiveness of recruitment management system.

### 3.5 Statistical Treatment of Data

The weighted mean and correlation coefficient correlation were used in this study. The weighted mean was used to determine the level of efficiency of the recruitment and selection process and the level of effectiveness of recruitment management system. The correlation coefficient was used to determine the relationship between the recruitment process and the recruitment management system in Du

Contact Center in Fujairah, United Arab Emirates; and the .05 level of significance was used. The Statistical Packages for Social Sciences (SPSS) Version 20.0 was the statistical software used in this analyze the data of the study.

## 4. Results and Discussions

### 4.1 Level of Efficiency of Recruitment and Selection Process

#### 4.1.1 Conduct Job Analysis

Results shows that the conduct job analysis is **efficient** based from the computed weighted mean 4.2. Moreover, it shows that both job specification and job description were rated as **efficient**. The two dimensions of job analysis particularly job specification and job description were found to be efficient as demonstrated by the weighted mean 4.2 and 4.2, respectively. This result is attributed to the qualification of the recruitment manager who is holding a Master certificate in HRM with four (4) years of experience as recruitment professional which reflected positively on the efficiency of his work.

#### 4.1.2 Determining Selection Criteria

Determining selection criteria is found to be **efficient** based from the computed weighted mean is 4.5. The factors of selection criteria were found to be **very efficient (4.7 weighted mean)** and **efficient (4.2 weighted mean)**. This result is attributed to the awareness and experience of the line managers who are directly participating in setting the selection criteria with the human resource management, and a good communication between them which reflected positively on the efficiency of their outcome.

#### 4.1.3 Advertise and Collect CVs

Based from the **3.5 computed mean**, the dimension's 'advertise and collect CVs' is found out to be **fairly efficient**. Specifically, the advertisement methods were assessed to be fairly efficient for being easily found and clear. In the other hand, the procedure of collecting CVs is efficiently simple. According the advertisement methods were found to be **fairly efficient** as manifested by **3.1 computed mean**, while the procedure for collection of CVs

were **efficient** based from the **computed mean 3.8**. These results are attributed to the experience of the recruitment manager and his recruitment team to execute their roles to pursue the process of advertising CVs. Most of them have had years of experience in their current position as recruitment professionals. With this experience, it is expected that they are aware of what works best to advertise and collect CV's and improve their approaches accordingly.

#### 4.1.4 Screening Tests

The data shows the result of screening tests which is found to be **fairly efficient** based from the **computed weighted mean is 3.4**. The factors of the screening tests were found to be **efficient (3.9 weighted mean)** and **fairly efficient (2.9 weighted mean)**. This result is attributed to the qualification level of the candidates the company are looking forward to hire, this is best to be revised by the human resource management and updated to fit the level of the candidates who were already accepted so as to be efficient.

#### 4.1.5 Interviews

The results for the dimension-interviews is found to be **efficient** based from the **4.5 computed mean**. More specifically, the Interviews' questions were assessed to be very **efficient** for being clear and determine as manifested by **4.8 weighted mean**, while in the interviews for being done properly and with a good environment were efficient based from the computed mean 4.2. This result is attributed to the experience and qualification of the recruitment manager and the line managers who are directly involved in organizing and running the interviews which is usually gets evaluated by the end of each batch.

#### 4.1.6 Reference Check

Data shows the final result of for reference check which is found to be **efficient** based from the **computed weighted mean is 4.0**. This result is attributed to the high level of coordination between the recruitment department and the concerned government agencies. As well as the reliable information those agencies are providing.

#### 4.1.7 Signing the Contract

The dimension-signing contract is found out to be **efficient** based from the computed **weighted mean 4.5**. The contact analysis particularly the clearance and understandability of the contract were found to be **very efficient** as demonstrated by the **weighted mean 4.6**, while the form of the contract were found to be efficient as determined by the **weighted mean 4.4**. This result is attributed to the qualification of the recruitment employees who are responsible of conducting the contracts for the candidates, and the recruitment manager who approves them according to his long experience.

#### 4.1.8 Training and Assessment

The Training and Assessment analysis is rated as **efficient** based from the computed **weighted mean 4.3**. Specifically, the Training's programs were assessed to be **very efficient** for being useful and helpful as manifested by **4.6 weighted mean**, while in the Assessment were found to be efficient for being fair and impartial based from the **weighted mean 3.9**. This result is attributed to the qualification of the qualification of Training and development manager who has a 6 years of experience in his field on how to deliver successful Training programs.

### 4.2 Level of Effectiveness of Recruitment Management System

The recruitment management system is found to be **effective** based on the **computed mean 4.5**. Specifically, the signing up procedure was assessed to be very effective for being easily found and clear with a **weighted mean of 4.8**. While the job applying system online were found to be effective based on the **weighted mean 4.0**. The application provided online analysis was assessed to be **effective** based on the **weighted mean 4.3**. Furthermore, adding a job in the system analysis shows that it is **effective** with a **weighted mean of 3.9**. According to organizing jobs in the system, the table shows that it is **very effective** based on the **weighted mean of 5.0**, while the recruitment system analysis found to be very effective for properly organizing and managing the applicants

with a weighted mean of 5.0. This result is attributed to the quality of work of the IT application management and their experience in delivering such high quality work. The positive coordination between them and HRM is also a major factor which led this system to be effective as it is.

#### **4.3. Relationship between the efficiency of Recruitment and Selection Process and Effectiveness of Recruitment Management System.**

There is no significant relationship between the efficiency of recruitment and selection process and the effectiveness of the recruitment management system, since the computed p value .765 is greater than .05 level of significance. Therefore, the null hypothesis is accepted.

The relationship is relying on the arranging of jobs offered, applicants, and online system. Recruitment and selection process is following specific steps to be accomplished. Some of these steps can be performed in online database with efficient way of organizing the applicants. The most important stage that is directly connecting to the recruitment management system is advertising and collecting CVs. Moreover, the recruitment management system has a point of organizing applicants and jobs. Therefore, the recruitment process must be efficient to fulfill the requirements of recruitment management system.

### **5. Conclusion**

#### **5.1 Level of Efficiency of Recruitment and Selection Process**

Recruitment and selection process at DU Control Center is efficient. This will give the organization a competitive advantage of obtaining the right applicants with high rate of qualification and experience. Every step in recruitment and selection process had a result. The first stage, conducting job analysis, is efficient. The second stage, determining selection criteria, is efficient. The third stage, advertise and collect CVs, is fairly efficient. The fourth stage, screening tests, is also fairly efficient. The fifth stage, interviews, is appeared to be efficient. The sixth stage, reference check, is efficient as well. The seventh stage, sign-

ing the contract is efficient. Lastly, the eighth stage, which is training and assessment, is efficient.

#### **5.2 Level of Effectiveness of Recruitment Management System**

Based on the results appeared after analyzing the data gathered by questionnaires; the recruitment management system of Du Contact Centre is effective. That means Du Contact Center is effective in obtaining a system for organizing, managing, and establishing both applicants and offered job. That will give Du strength of having an organized systematic process for recruitment.

#### **5.3 The Relationship Between Recruitment and Selection Process and Recruitment Management System**

There is no significant relationship between both recruitment and selection process and recruitment management system. Recruitment and selection process is following specific steps to be accomplished. Few of these steps can be performed in online database but the impact of this connection is not significant, while the most important stage that is directly connected to the recruitment management system is advertising and collecting CVs.

Therefore, the independency of both, recruitment and selection process and recruitment management system, approves the hypothesis stated in this study, which is "there is no significant relationship between the recruitment and selection process and the effectiveness of recruitment management system".

### **6. Recommendations**

The following are the recommendations based from the results, discussions and conclusion of the study:

#### **6.1 Level of Efficiency of Recruitment and Selection Process**

##### *6.1.1 Conduct Job Analysis*

Du has to keep its process in conducting job analysis improving and always thrive to reach a better efficiency level through their process.

##### *6.1.2 Determine Selection Criteria*

According to the outcome of the study, the factors are well-determined, and Du should main-

tain its level in this criteria and try to improve it as much as possible making the screening tests easier for applicants and enhancing the selection criteria to be suitable with the nature of work.

#### *6.1.3 Advertise And Collect CV's*

Using better advertising methods and announcing them in well known sites and search engines to make it easier for candidates to find and navigate through them. Also, Prepare a connection between job analysis and recruitment management system to have the right organizing for applicants and jobs.

#### *6.1.4 Screen Testing*

Reduce the difficulty of the screening tests for applicants and enhancing the selection criteria to be suitable with the nature of the work.

#### *6.1.5 Interviews*

Try enhancing the process of conducting the interviews and focus more on the environment prepared for these interviews from all aspects.

#### *6.1.6 Reference Check*

The coordination is efficient but improving the process of it would greatly enhance the time and accuracy of the feedback received.

#### *6.1.7 Signing the Contract*

A yearly check would be advisable on the consistency of developing new contracts, which goes according to the frequent changes in laws and regulations.

#### *6.1.8 Training and Assessment*

The Training programs should be more associated with the qualifications and requirements of the job applied for and the level of the skills and knowledge required.

### **6.2 Level of Effectiveness of Recruitment Management System**

Making the online system more users friendly and simple to do all related tasks easily and fast without facing regular issues in some areas of the system. Moreover, compute an online survey to study the experience of the applicants and indicate the weak points and work on the accordingly to have a more effective system.

### **6.3 The Relationship between Recruitment and Selection Process and Recruitment Management System**

Du shall strive at elevating the efficiency of recruitment and selection process through enhance processes and continuous improvement so to sustain effective management system.

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## **FUNCTIONAL AREAS AND ORGANIZATIONAL PERFORMANCE OF ADCO**

**Abstract:** This study measures the significant relationship between ADCO functional areas and organizational performance. The researcher used the survey researcher design as the main research methodology for this study. The sample determined for this study is Fujairah ADCO Field. The researcher's made questionnaire was the main tool to gather the data from the sample. However, the weighted mean and correlation coefficient were the statistical tools used for the data gathered.

The analyzed and statistically treated data showed that the functional areas of ADCO is "Agree", with all of its components, which are Management Audit, Marketing Audit, Finance/Accounting Audit, Human Resource Audit, and Management Information System Audit. Besides, the Organizational Performance of ADCO was rated as "Agree" along with its dimensions, which are Structure, Quality, Procedures, and Achieving Goals. It is concluded that ADCO Functional Areas have a significant association towards its organizational performance". This study further included lists of recommendations that are related to ADCO functional areas and organizational performance in which would assist ADCO to improve its performance.

**Keywords:** Strategic management, functional areas and organizational performance.

### **I. Introduction**

Petroleum industry went so high for the past decade. Moreover, the industry itself assist many other industries to exist. Some of these industries existed from petroleum industry are chemical cleaning materials, gases, diesel, and so on. All these industries are using the petroleum as their main input material. However, that lead the industry of petroleum to go wider ass it is ever known.

Historically, it is well known that the first development made by human is the steam wheel. But afterwards, human nature went wide with their inventions to start the industrial revolution with machines and technical equipment. With the discovery of petro-

leum and how to extract other materialistic components, industries start depending on technological and machines uses petroleum as their energy. Besides, this made the petroleum materials become one of the main resources used in almost all industries.

Therefore, this study is provided to specifically examine this petroleum industry from the biases of the functional areas and organizational performance. As the industry is going so wide in every country, the researcher allocated the Abu Dhabi Company for Onshore Petroleum Operations Ltd. (ADCO) as the determined company to accomplish this study. The existence of ADCO was back in 1939 with its agreement with Trucial Coast Company. ADCO

firstly operated in 1950 in Abu Dhabi emirate in United Arab Emirates. Even with their first drilling, first operation, they did not discover oil until 1960s. After ADCO discovering oil and operate very well, they have started exporting oil at the mid of 1960s. Afterwards, they expanded their business until they had developed eleven (11) oil fields [1].

Every business is operating based on a systematic approach. This is called, in other words, the business process. However, the business process is a system that include the operating of functional areas to achieve the organization's objectives and goals. Therefore, the study of functional areas causes the understanding of the business process. Anyhow, the functional areas of any business include five areas. These five areas are Management, Management Information System, Human Resource, Marketing, and Finance/Accounting [2]. Moreover, this study is studying organizational performance as it is one of the indicators of the organizational success.

### **1.1 Statement of the Problem**

The researcher studied the functional areas of ADCO and their effect toward organizational performance for the fiscal year 2014–2015. Specifically, this study aimed to answer the following questions:

1. What is the extent of executing the following functional areas of ADCO:

- a) Management Audit;
- b) Management Information System Audit;
- c) Human Resource Audit;
- d) Marketing Audit;
- e) Finance/Accounting Audit.

2. What is the extent of the organizational performance of ADCO, according to the following:

- a) Achieving Goals;
- b) Quality;
- c) Procedures;
- d) Structures.

3. Do the following functional areas significantly affect the organizational performance of ADCO:

- a) Management Audit;
- b) Management Information System Audit;

- c) Human Resources Audit;
- d) Marketing Audit;
- e) Finance/Accounting Audit.

### **1.2 Hypothesis of the Study**

The way the functional areas are implemented at ADCO significantly contributes toward towards its Organizational Performance.

### **1.3 Conceptual Research Framework**

This study is analyzing the functional areas and organizational performance of Abu Dhabi Company for Onshore Petroleum Operation (ADCO) in Fujairah, United Arab Emirates. In this study, two major variables are considered. Based on the cause and effect framework, the functional areas would be considered as the independent variable, as they are the one in which has a cause of organizational performance. Besides, the organizational performance would be considered the dependent variable, as it is the effect of functional areas. Therefore, the following diagram explains this research path.

The independent variable includes a set of sub-variables. The sub-variables are Management Audit, Management Information System Audit, Marketing Audit, Human Resources Audit, and Finance/Accounting Audit. Through studying the independent variable, this paper is able to identify the causes of any gaps or deficiencies in ADCO. As defined, functional areas are a grouping of activities on the basis of their need to accomplish one or more specific tasks within the organization [3].

The dependent variable is referred to organizational performance. Based on several literatures, the researchers were able to identify several points related to organizational performance. It includes achieving goals, quality, procedures, and structures. Through the dependent variable, the researchers were able to analyze possible solutions for the gaps and deficiencies determined. James [4] defined organizational performance as an organized group of people performing a specified action or task to achieve a specified purpose. Also, Mouzas [5] explained that efficiency is concerned with minimizing cost and improve operational margin.



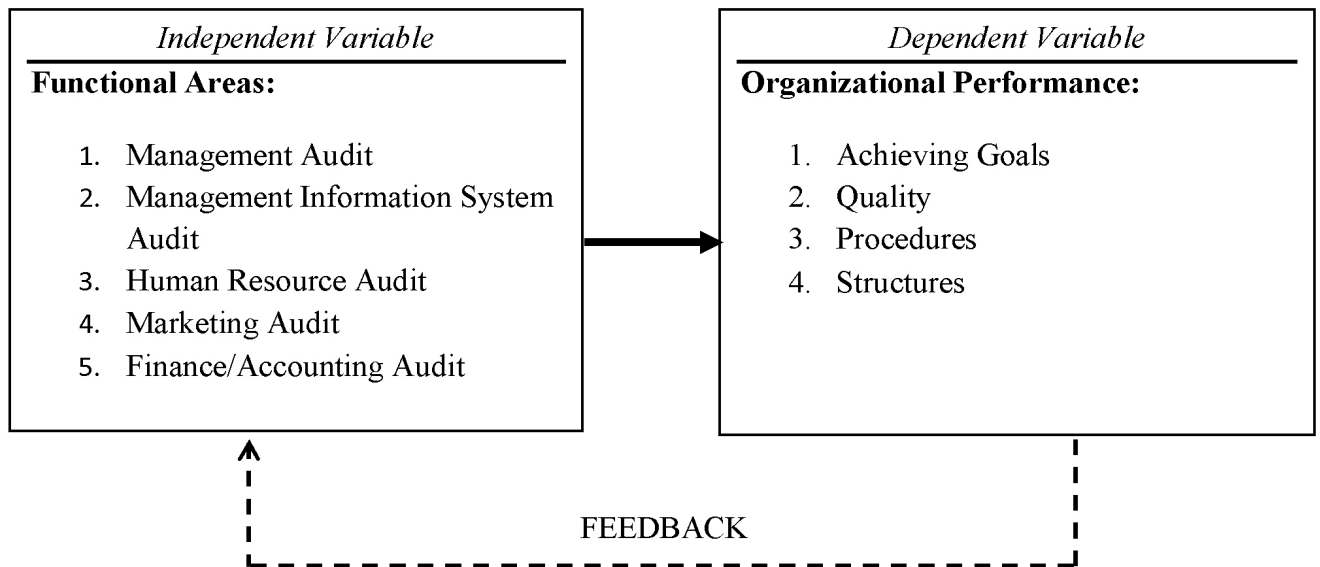


Figure 1. Conceptual Research Paradigm

Lastly, the researchers used these two variables to establish the significant relationship between functional areas and organizational performance of ADCO in United Arab Emirates.

## 2. Literature Review

The researchers had went through several resources such as books, journals, reports, websites, and company profile for gathering the literature reviews needed.

As Ashwin and Watson [6] stated, businesses requires different areas to function in the right way. Each area has its own procedures, rules, processes, and purposes. However, the name over these areas is called Functional Areas. These functional areas are Management Audit, Management Information System Audit, Marketing Audit, Research and Development Audit, and Finance/Accounting Audit. With the uniqueness of each area, together they formulate the business itself. Also, each area completes the other. To accomplish the business procedures, these procedures must go from an audit to another until they are reached to the final audit that will give its complete procedure.

Management has three main processes and mechanisms, they are controls, auditing, and evaluation. These processes and mechanisms insuring that the budget of the business is matching with the expenses

of the operations. The insurance of the budget is related to the decision making, risk management, and resources control. Management must rely on reliable data of the expenses being spent for the operations of the business. In that way, they will be always aware of the costs, whether variable or fixed, and control it to match with the budget. Another thing that the management must understand the budget determined as a beneficial consideration for the business. If the real expenses went higher than the budget determined, the business will face a drop down with its profits and sales. In this point, there is a risk putted on the organization. However, the management must control this risk to keep it to its minimum and avoid it if possible. Decisions always dependable on the facts on the hand. These facts are coming from both premium and secondary resources. However, these facts are considered to be a references to even previous decisions and future decisions. The part of management comes here as taking these data and analyze it to make the right decision. The budget is considered the most premium resource of data. Because the budget is the controller of the business, management must put it in the consideration for the business decision making [7].

The management information system is the main area that assess the organization's critical system, technology, and information processes. The management information system audit has its purpose of protecting the information of the organization and maintain it reliable, available, and compliant. Besides, management information system has its main role of sustaining information compliant with the policies and procedures of the organization and the laws and regulations of the region. One part of the management information audit in the organization is to keep it away from risks during the organization's coverage. The coverage of the organization is related to its applications, operation, network, and information servers. Management takes the assistance from the management information system audit through its evaluation of the technological impact on the company's procedures. Moreover, the evaluations made by the management information system provides a measurement for the management of the achievement of goals and objectives [8].

Each product has a life cycle, which has four main phases. These four phases are introduction, growth, maturity, and decline. The introduction phase is the beginning of the product itself, and it is mainly related to building the product. However, the company needs to research for the materials, ideas, similar products, completing products, alternatives, and substitute products for their product. That is because they must know what the best product to produce is and how they will do that. Also, the organization must develop the product correctly from the points of materials usage, production process, and workforce. All these things are the main role of the research and development audit [9].

The organization can also make decision upon research and development audit reports. In some cases, the research and development audit will notice that the product is near to the maturity phase. In this case, the research and development audit will report to the management about this situation.

Therefore, the management will obtain these reports and take an action upon it. However, research and development assists the management in making decisions as it has a direct activity with the product itself. Moreover, it is the audit that makes the researcher related to the product being produced. Therefore, they may suggest an alternative product, a substitute product, innovated product, or improve the product itself. Afterwards, it will be the decision of the management to take [9].

Although, Klincekova and Salgovicova [10] argued that Marketing Audit can be defined as the systematic, comprehensive, independent, and periodic measurement of the organization's objectives, strategies, environment, and activities. The aim of marketing audit is to analyze and identify issues and problems, and opportunities and recommendations. The main purpose of marketing audit is to move the organization's market further. Based on the definition, there are four characteristics of marketing audit, they are integrated, systematic, independent, and periodic. Marketing audit is integrated because it fulfills the marketing from all the sides and activities.

Also, Klincekova and Salgovicova [10] said that marketing is systematic because marketing comes in an ordered steps. The steps of marketing are enterprise marketing environment, internal marketing system, and marketing activities. Besides, marketing is considered to be independent as it should be carried with experts in marketing. Most likely, these experts are named marketing auditors. The independency of marketing is related to the people who controls it and directs it from the biases of knowledge. Lastly, marketing is periodic because it serves the organization in both ways, short-terms and long-terms.

Marketing also has six components, which determines the marketing situation of a specific organization. However, these six components are audit of marketing environment, audit of marketing strategy, audit of marketing organizations, audit of marketing systems, audit of marketing productivity, and audit of

marketing functions. One of the factors affecting the marketing audit is information. As a result, information is valuable in marketing audit as it has a great effect on it. The marketing audit will be influenced by the information through an effect on behavior, decision, and outcome. The behavior of the organization in the market will be influenced by using wrong or unreliable information. Besides, the management will make wrong decisions by using an information that is not accurate. Moreover, the outcome of the company will be dropped upon bad marketing information [10].

Besides, to determine the organization's level from its profits, loss, value, and capital; the organization include finance/accounting audit in its functional areas. The reason behind accounting being very important audit in the organization is because it has three main purposes. The first purpose is to identify, record, and communicate the economic events of the organization and interested users. The second is the studying of the economic events of the organization. Third, accounting assess developing an identified information for interested users. Based on these purposes, accounting has three activities; identification, recording, and communication. Accounting is widely used in the organization, it can be used from human resources, investors, management, finance, marketing, and creditors. Therefore, accounting audit is an important audit for the organization. Without mentioning, accounting is generally used based on the Generally Accepted Accounting Principles (GAAP). GAAP is a set of rules and practices used as a general guide by accounting professions for financial reports. However, this directs all the organizations to have an absolute results for their financial reports in which will help the management in making more accurate decisions. In that way, the organization will grow and reach its objectives faster than the determined [11].

Kinicki and Krietner [12] mentioned that the Functional Areas are working together to direct the organization toward success. As a result, these functional areas are necessary to be effective in all its

operations and processes. Therefore, it is a necessary to assess organizational effectiveness for each functional area. Anyhow, the organization can measure its effectiveness through four criteria. The first criterion to measure organizational effectiveness is goal accomplishment. Goal accomplishment is one of the measure of effectiveness in the organization. Effectiveness is related to how do the organization achieved its goals and objectives. Because achieving goals is the most important thing in the organization as it is the aim of the organization. Second criterion is resource acquisition in which related to the use of input to produce output. It is important for the organization to effectively use its resources to produce output. Because resources is costly and facing scarcity, the organization must be effective in using them. Third criterion is internal process; the internal process provides a clear view about the information flow. Internal process main role is to insure the information flow is smooth. Moreover, it assess the organization to build commitment, job satisfaction, loyalty, and trust. Last criterion is strategic constituency satisfaction that is built on the biases of creating satisfaction to reach effectiveness. Strategic constituency drives the organization towered effectiveness through developing satisfaction between stakeholders and shareholders [12].

Freshswdm [13] explained that any organization must work in a hierarchical way to be effective. Specifically, the organization structure must be emerged with the functional areas and the matrix of the organization. Moreover, Freshswdm [13] mentioned advantages and disadvantages of the functional areas. The advantages are; managers know their functional areas, the same functional background is shared by teams, clear responsibilities, and straight forward task management and work assignments. The disadvantages are; tendency decreases cross-team communication, increased risk, project ownership is no single, and hard to be navigated. Therefore, based on these advantages and disadvantages; there are some hints that assists the functional areas to be effective. First, schedule regular meetings with managers to

figures limitations between departments. Second is to sustain good communication between functional areas through invites. Third is to plan for joined teams among functional areas. Fourth, managers should use feedbacks to correct ineffective actions and communication. In that way, the organization will be effective in its functional areas [13].

Both efficiency and effectiveness must be existed in the business to increase its productivity. In some cases, only efficiency drives the company towards success. Many organizations seeking to find business opportunities to raise their market value. To achieve these business opportunities, businesses must generate a return on assets higher than financing cost. This is generally referred to efficiency. Therefore, efficiency is not only a measurement of success, it is a measurement of operational excellence of productivity. When it comes to create a unique plan to sustain growth, the business will be effective. Though, effectiveness is related to the special recipe of a business to grow in the market place and creates business opportunities [5].

Aguinis [14] explained that performance has a relationship with the productivity of the organization. Besides, the productivity comes from the points of efficiency and effectiveness. Therefore, Aguinis [14] stated that performance can be measured through four dimensions. These dimensions are effectiveness, efficiency, learning and growth, and team member satisfaction. For the concern of this study, the efficiency is referred to the degree of internal team processes support the achievement of the results, team member satisfaction, and team growth. Besides, efficiency includes measurements of communication, collaboration, coordination, and decision making.

Organization is the organized group of people that have a particular purpose to be accomplished. In the other hand, performance is the action of a process that is to perform a task of function in terms of how successful it is being performed. Together, it is how successful a group of people performing together toward a particular purpose of performing

a function. If the organization is working together to achieve great results, and it is measured by the value delivered to customers, it is known as high organizational performance. Within the organization, there are several functional areas that collaborate together to obtain such high organizational performance. These functions have several functions. Such these functions are the strategic objectives, organizational structure, business performance measures, allocation of resources and processes, reward structures, and values, culture, and guiding principles [4].

Business performance measures as a representative of the organization's areas assessed being measured. Moreover, there is no specific measure to be used in the organization, but the measure being used should determine the goals and strategies of the organization. Besides, it measures these goals and strategies in biases of being set well for the sake of achieving them. The aim of business performance measures is to direct behavior toward the strategies of the organization. Furthermore, the information out of the business performance measures must be accurate and on time in order to reach success in the performance [4].

In some situations in the year, there would be financial crisis that influence the whole country, specifically organizations within the country. In order to escape such crisis, organizations measure their performance and determine the factors that may affect them. Afterwards, they would assess these factors in their advantage and defeat the crises. The performance indicators are good way to define such factors. They are designed to provide information of performed processes within the organization to offer the right support of achieving the objectives [15]. Organizational performance as the analysis of the company's performance as compared to its goals and objectives. Successful organizations play a major role in developing nations. Therefore, to reach such success, the performance of the organization should be high. Thus, organizational performance is very important, specifically in management research. One of the indicators of organizational per-

formance is the profit. Because the profit is a determinant factor of proving the organizational success, it had been considered one of the biggest indicators of organizational performance [15]. Lebens & Euske [17] had provided several definitions of organizational performance. First, performance is dynamic that require judgment and interpretation. Second, the performance may be illustrated through the use of causal model in which describes the accuracy of actions that may affect the future results. Third, performance is formed by a set of financial and non-financial indicators that offer information on the level of objectives and goals achievements. Fourth, defining performance requires the knowledge of its elements' characteristics to each area of responsibility.

### **3. Methodology**

#### **3.1 Research Design**

The descriptive research design, specifically, survey research design is used in this study. Survey research design is an efficient way to collect information related to a group of people to measure attitudes, knowledge, and preferences to the phenomena being studied [16]. In this study, the survey research design is used to assess the functional areas and organizational performance of ADCO.

#### **3.2 Population and Sampling Technique**

Abu Dhabi Company for Onshore Petroleum Operations has 11 fields working among the seven (7) emirates of the United Arab Emirates. Therefore, the population of this study is determined as the total number of employees working in the eleven fields of ADCO. Based on ADCO Sustainability Report, the total number of employees they have is reaching 7,400. The 11 fields of ADCO are Bu Hasa, Asab, Sahil, Shah, Bab, Al-Dabb'iva, Rumaitha, Shanavel, Huwaila, Quasahwire, and Bida Al-Qemzan.

However, the sample had been drawn from the population using the random sampling technique. Because of the huge number of the population, the researcher had determined the sample to be one field of these eleven fields. The random selection of the sample went on the Fujairah Field named as "Hab-

shan". The total number of managers and supervisors in the ADCO, Fujairah is considered to be the sample of this study, which is 45 employees.

#### **3.3 Description of Respondents**

This study is determining the measurement of the effectiveness of the functional areas of Abu Dhabi Company for the Onshore of Petroleum Operations. As a result, the researchers had determined the respondents to be from the top level of the organization, which are managers and supervisors, of Fujairah Field. Employees are not considered in the sample, because they are not in the top level of the organizational chart. Besides, the description of respondents did not require any considerations for the gender, age, experience, qualifications, and acknowledgement. On other hand, the considerations were based on positions, tasks, responsibilities, and duties. Therefore, out of 160 employees, the respondents considered are 45 managers and supervisors. In the Fujairah Field, there are six main managers who are responsible for the whole field. Furthermore, for each three employees, there is one supervisor. That makes six managers and 39 supervisors; which established the samples used in this study.

#### **3.4 Data Gathering Instrument**

The researcher's made questionnaire is used as the main data gathering instrument. Based on Burgess [17], questionnaires had been developed based on the standards of the checklist survey. According to the standards of the checklist questionnaire, researchers used 5-Likert rating scale.

There are six questionnaires used by the research to gather the data for this study. The questionnaires included several items related to the variables of this study. The variables used are functional areas and organizational performance. The questionnaires are designed according to the sub-variables existed in each variable. Therefore, the questionnaires include all the data required to be gathered from respondents to be analyzed and draw conclusion.

The validity and reliability of the questionnaires are determined based on the gathered information from previous literature reviews.

### 3.5 Statistical Treatment of Data

The weighted mean and coefficient correlation are used in this study. The weighted mean is used to measure the extent of the functional areas of Abu Dhabi Company for Onshore Petroleum Operations (ADCO) and the extent of the organizational performance. The coefficient correlation is used to determine the relationship between the functional areas of ADCO and the organizational performance; and, the .05 level of significance was used. The Statistical Packages for Social Sciences (SPSS) Version 20.0 was the statistical software used in this analyze the data of the study.

## 4. Results and Discussions

### 4.1 Extent of Functional Areas of ADCO

The functional areas of ADCO was found out to be generally implemented based from the overall computed mean score 3.68, in which majority of the respondents had agreed that the extent has implemented across five areas: management, marketing, finance and accounting, research and development, and human resources, as illustrated in Table 1.

Table 1. – Distribution of Mean Scores of ADCO Functional Areas

ADCOM Functional Areas	Mean	Description
Management	3.66	Agree
Marketing	3.83	Agree
Finance/Accounting	3.58	Agree
Research and development	3.58	Agree
Human Resource	3.75	Agree
<b>Weighted Mean</b>	<b>3.68</b>	<b>Agree</b>

#### 4.1.1 Management Function

The first functional area in ADCO is the management in which respondents had 'agreed' that factors of management had been implemented based on the computed weighted mean 3.66. Among management functions that were assessed are: ADCO has a

clear vision and mission; use vertical structure; has much flexibility in decision making..., and, managers delegate authority well.

#### 4.1.2 Marketing Function

The marketing audit checklist included 12 components with an average weighted mean of 3.83 which is "Agree". The weighted means range from 4.53 to 4.64 were addressed to the components concerning the annual budgeting plans, and effective promotions and advertisings of ADCO which is interpreted as "strongly agree". Seven factors of marketing were fall under the rating scale of "agree". These dimensions are: ADCO is a well-positioned company (3.62 mean), effectively segmented (4.16 mean); increased market share (3.96 mean); the existence of an effective market research strategy (4.11 mean); effective planning for marketing and budgeting (3.60 mean); appropriate pricing (4.29 mean); and cost effective and reliable distribution channels (3.93 mean). Some respondents did not agree nor disagree on three components in marketing functions. These are described as "Neither Agree nor Disagree" and these factors are: good product quality and customer service, effective sales organization, and excellent internet (3.18, 2.56, and 3.40 mean, respectively).

#### 4.1.3 Finance/Accounting Function

The finance and accounting functions were 'agreed' (4.27 overall weighted mean score) to have been implemented by ADCO. Among the factors that fall within the description 'agree' are: ADCO made much revenue; has sufficient working capital; delays liabilities payment over time; Finance department give more flexibility with their customer's credit payments; and, financial managers are experienced and well trained.

#### 4.1.4 Research and development Function

The research and development functional area had obtained over-all weighted mean of 3.58 that is interpreted as "agree". The factors that were assessed as "agree" are: Suppliers of raw materials and parts are provided in time; facilities, equipment, machinery,

and offices are in good condition; quality-control policies and procedures are standard; facilities, resources, and markets are strategically located; observes scheduling policy to control daily operation; and, ADCO has technological competencies. While factors that are assessed as neither agree nor disagree are: inventory-control policies and procedures are effective; uses latest technologies; workers qualification fit with machinery and technology; and, suppliers of raw materials, parts, and subassemblies reliable and reasonable.

#### 4.1.5 Human Resource Function

Most of the respondents “agreed” that ADCO has generally implemented its HR functional areas as disclosed by overall weighted mean score of 3.75. Among those factors that were agreed are: ADCO recruits qualified employees; the job description is clear for each position; uses motivation policy for employees; provides training programs for employee; using reward and punishment policy; has retirement policy for their employees; and, employee turnover and absenteeism are low. Two factors were disclosed that respondents are ‘strongly agree’ in terms of ADCO paying fair compensations to their employees; and fairly giving its employees benefits. While, three factors of human resource area were rated as neither agree nor disagree. These are ADCO has fair performance evaluation for each employee; ensures the work environment is safe; and, is using the internal resource for recruitment.

#### 4.2 Extent of Organizational Performance of ADCO

Generally, the extent of organizational performance of ADCO was found out to be generally executed based from the overall weighted mean score 3.86 which is interpreted as “agree” (Table 2).

ADCO was disclosed to have been achieving its goals in terms of being effective in its achievement of the overall stated goals and objectives (3.94). Its organizational performance in terms of quality has been implemented in particular in its identification and measuring the factors affecting its organization-

al performance and measuring its efficiency of its operations based on the computed weighted mean score 3.91 (agree). Its procedures has been implemented particularly on executing its information flow that is smooth and was assessed as agree or 3.70 mean score. While, implementing its structure was assessed as 3.88 mean score where all respondents ‘agreed’ that ADCO has built satisfaction between stakeholders and shareholders.

Table 2. – Distribution of Mean Scores of Organizational Performance of ADCO

<b>Organizational Performance of ADCO</b>		
<b>Components/ Dimensions</b>	<b>Mean</b>	<b>Descri ption</b>
Achieving Goals	3.94	Agree
Quality	3.91	Agree
Procedures	3.70	Agree
Structure	3.88	Agree
<b>Weighted Mean</b>	<b>3.86</b>	<b>Agree</b>

#### 5. Significant relationship Between ADCO Functional Areas and ADCO Organizational Performance

There is a no significant relationship between ADCO functional areas and its organizational performance, since the computed p value is 0.38 and is greater than .05 level of significance. Therefore, the null hypothesis is accepted.

Gale [19] explained that operations management is the disciplinary field that focuses on managing all functions of the organizational operations. To have a control over the company’s operations, the facility layout should be efficiently organized. Besides, the human capital should have a comfortable working environment within the organization. However, planning is a major role of managing the operations of the organization. Therefore, the planning should be efficient and effective. Furthermore, technology is an important factor for the success of operations. Meaning to say, the organization should have an efficient and competence technology with the organization in order to have a successful production system.

All of these pin-points are included in all functional areas of the organization. This would lead to a better

and higher organizational performance, which would ensure the success of the organization.

Table 3. – Coefficient Correlation between ADCO Functional Area and Organizational Performance

		ADCO Functional Areas	Organizational Performance of ADCO
<b>ADCO Functional Areas</b>	<i>Pearson Correlation</i>	1	0.134
	Sig. (2-tailed)		0.38
	N	45	45
<b>Organizational Performance of ADCO</b>	<i>Pearson Correlation</i>	0.134	1
	Sig. (2-tailed)	0.38	
	N	45	45

## 6. Conclusions

- The extent of functional areas of ADCO was generally assessed as “agree”. These dimensions are: Management Audit, Marketing Audit, Finance/Accounting Audit, Research and Development Audit, and Human Resource Audit.

- The respondents disclosed that they ‘agree’ on the extent of implementing ADCO’s organizational performance.

- The ADCO functional areas has no significant bearing toward implementing and attaining ADCO’s organizational performance.

## 7. Recommendations

- **Functional Areas:** ADCO should improve some components of its functional areas to be able to obtain higher organizational performance. As an illustration, ADCO should match its structure with the culture of its employees in order to measure and obtain its goals and objectives. Moreover, ADCO must enhance its budgeting procedures to match the short-term and Long-term objectives along with their revenue and shareholders dividends. ADCO has to increase its training and development pro-

grams to ensure the compatibility and competence of their workers. Furthermore, the performance appraisal followed by ADCO must be reviewed and rearranged to match the requirements of measuring its employees’ performance.

- **Organizational Performance:** it is very important for ADCO to make their mission statement attainable, and after they can change it to a further mission or target. Also, the procedures of ADCO must consider measuring their resources according to its cost in order to maintain a stable budgeting. Lastly, ADCO would increase its organizational performance with the assistance of increasing its satisfaction, loyalty, trust, and commitment within its structure.

- **Significant Relationship between ADCO Functional Areas and Organizational Performance of ADCO:** in order for ADCO to have high organizational performance, it must improve the efficiency and effectiveness of its functional areas. This is because all functional areas are dependent and interdependent to each other; this practice will ensure quality, enhance production and procedures, achieve goals, and sustain a healthy operations’ system.



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## **THE PERFORMANCE APPRAISAL AND EMPLOYEES' PRODUCTIVITY OF SHARJAH ISLAMIC BANK, UAE**

**Abstract:** This study attempted to evaluate the performance appraisal practices and employees' productivity of Sharjah Islamic Bank (SIB). The survey research design was used and a 27 samples was drawn from group of employees particularly directors, managers, supervisors and rank and file employees. The researcher's made questionnaire was utilized, and the Pearson Correlation Coefficient was used to determine the performance appraisal and its effect toward employees' productivity. The performance appraisal system was assessed and agreed by the respondents to have had implemented by SIB, and the employees' productivity was found out to have increase. It is concluded that performance appraisal positively correlated with the employees' productivity. Similar studies can be conducted to consider other dimensions of performance appraisal that may affect the productivity of employees.

**Keywords:** HRM, Performance Appraisal and Employees' Productivity.

### **1. Introduction**

Performance appraisal evaluation is essential to meet the different organizational and individual needs of stakeholders. With these evaluation plans, systematic judgments are made regarding salary and compensation increase, promotion and demotion, transfers and termination of employee [1]. This is a way to assess the performance behavior of employees within the organization with regards to their attitude, job capability and knowledge, and skills. It serves as basis for the decision of the organization to create performance plans. The need of performance appraisal evaluation stems out from the principle that employees are the main providers of the business performance or the organizational performance level. With the aid of organizational and individual appraisals, management will understand what strategies should be adapted.

This study is conducted to measure the efficiency of performance appraisal made by supervisors of Sharjah Islamic Bank. Performance appraisal has many goals as it is used to evaluate the performance of employees. The first goal is to enhance professional and career development, skill levels, and overall performance of employees. Secondly, it keeps a smooth working relationship between members of the organization. Thirdly, it clarifies roles, positions, responsibilities and duties of employees. Fourthly, it creates a mutual understanding of the standards adapted in measuring business and individual performance. Lastly, it supervises employee's promotion, salary decisions, and retention.

In this study the researcher is focused on the performance of the organization, the appraisal program to assess employee's performance, and the strategic framework used to ensure operational culture among

employees. As much as business performance is dependent on the performance of individual employees, the management acknowledges the need to define the interrelated functions of employees to keep a smooth-functioning and successful organization. According to Lieber [1] it is important for the management to document employee's behavior and not try to pinpoint the reason of such.

**1.1 Statement of the Problem**

This study assesses the implementation of performance appraisal and productivity of employees of Sharjah Islamic Bank, United Arab Emirates. Specifically, this research answered the following questions:

1. What is the extent of performance appraisal, according to the following points:

- 1.1 Employees Development
- 1.2 Organization's Success
- 1.3 Appraisal Aim
- 1.4 Appraisal Focus
- 1.5 Rewards and Compensation
- 1.6 Role Clarity
- 1.7 Appraisal Areas

2. What is the extent of employees' productivity?

3. Is there a significant impact of performance appraisal on the productivity of Sharjah Islamic Bank employees?

**1.2 Hypothesis of the Study**

This study tests if there is significant relationship between performance appraisals and employees' productivity of Sharjah Islamic Bank.

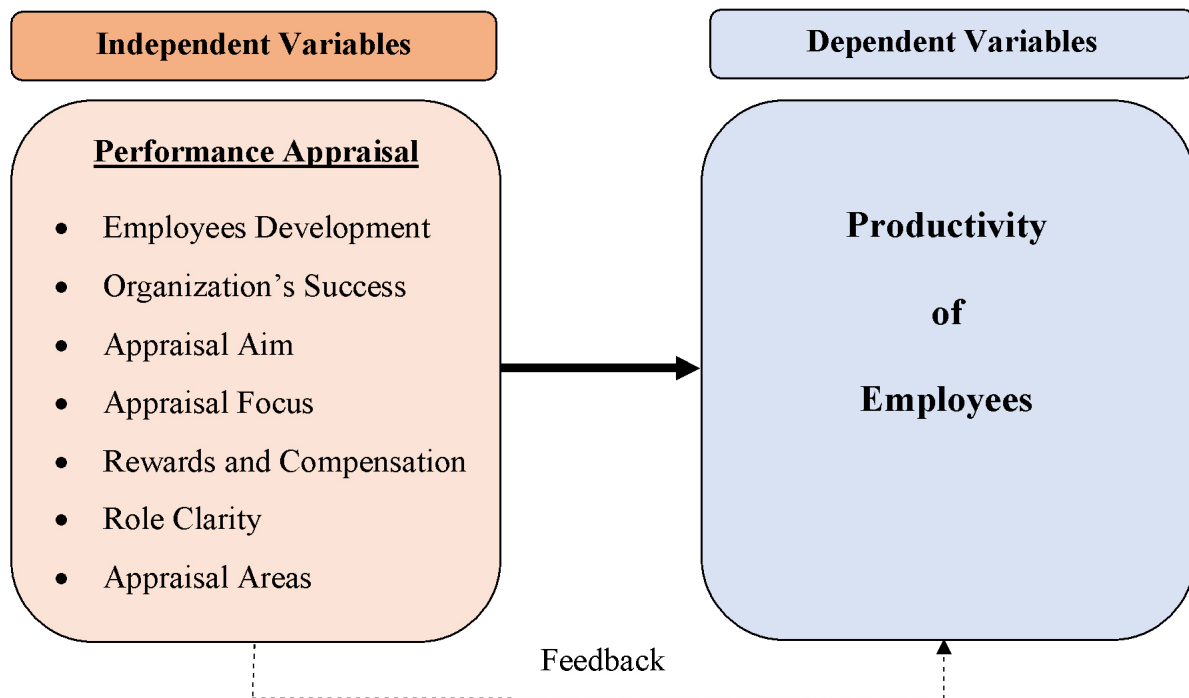


Figure 1. Conceptual Research Paradigm

**1.3 Conceptual Research Framework**

The research framework establishes the variables of the performance appraisal components to understand the different factors affecting the productivity of employees. In the same manner, it is also necessary to note the response of the management on the productivity of employees. Through assessing

the implementation of performance appraisal, the management is able to know what areas employee lack to ensure proper treatment and contingencies are setup to reduce the negative impact of these factors on the overall productivity of employees.

Two main variables are considered in this study. The independent variable is referred to performance

appraisal. While, the productivity of employees is considered as the dependent variable which includes several factors affecting productivity.

With the determination of the requirements, factors, and issues of this study, the researchers had drawn a path, which is the plan, for this study. The study started with the Performance Appraisal as it is the independent variable and considers its dimensions such as employee's development, organization's success, appraisal aim, appraisal focus, rewards and compensation, role clarity, and appraisal areas. These points are considered as the sub-variables of the first component of this study; that is performance appraisal.

Productivity of Employees is the dependent variable of this study as it is assumed to be affected by the performance appraisal. Productivity is being affected by the performance appraisal because performance appraisal assists the organization to identify both strengths and weaknesses of their employees. Michie, Oughton, & Benn [2] stated that several factors affecting productivity, as an example, quality is one of the factors affecting productivity.

## **2. Literature Review**

Now a days, a global phenomenon had been going so wide across nations. This phenomenon had attracted many economists, politicians, and social workers. The phenomenon is entrepreneurship, which is on the focus of theoretical, political, and practical interest. However, as United Arab Emirates is a developed country, entrepreneurship obtained attention for the last century. Moreover, entrepreneurship is the way of promoting self-employment and to sustain economic development. Besides, entrepreneurship assist the competitiveness of industries in the eve of globalization [3].

The success of any entrepreneurship is reliable on two main factors. First factor is well establishment, which is related to the business strategy, objectives, goals, mission and vision statements, organizational functions, and managerial functions. The second factor is examining the role and performance

of the institution. In examining the performance of the institution, a performance appraisal for employees must be acquired. The reason of acquiring performance appraisal for employees is to assure the organizations is going through its approach [3]. According to Lawrence [4], the performance appraisal program (PA program) is important to employees' professional development, to meet the company's goals and objectives. Moreover, to ultimately contribute to the company's or firm's bottom line. There are other benefits of the performance appraisal such as improve the morality of the organization's employees, improve the communication system within the workplace environment, and the opportunity for the management to address or revisit performance problems that are stalling the forward direction of the organization.

Human resource is the foundation of the progressive and successful organization or company. This is the central point of performance appraisal evaluation as stated by Marikova [5]. The workforce is an asset of the organization that ensures higher productivity levels to address formation, operation, and growth of the organization. The primary reason in the establishment of the performance evaluation is to monitor performance of employees, motivate them to exert more effort in their jobs through increased morale [4]. With employees of the organization know that their performance is evaluated for further merit and promotion, they are motivated to work harder and better. Lieber [1] noted that employee collaboration helps to provide goal setting success. Employees should know the goal of the organization to achieve them. If employees are evaluated from time to time, it is easy for the management to track their behavior if they meet the standards. In the same manner, it will be easy for the organization to see if necessary changes of human resources strategic management plans are necessary to achieve the goals of the organization. Through proper treatment and consideration, it will be easy for the organization to look for ways to address demands and needs that are

essential to the flow of operation of the company. Shoenfelt [14] asserted that "job requirements must be translated into levels of acceptable and unacceptable performance ... identified in behavioral terms."

The rise of the need to manage performance has been crafted in recent years to provide "an integrated and continuous approach to the management of performance than what provided by previous more isolated, and often inadequate, merit rating of performance appraisal schemes" [5] This management is focused on the principle of agreement and contract between the organization and the employee, rather than on the management by command. The management by command is already an obsolete form of management the organization's assets including the human resources because it is anchored on the idea that people are automatons. The new principle of management by agreement and contract is focused on the development of individuals, providing them satisfaction, and the integration of meeting individual and corporate goals and needs.

Annual performance appraisal evaluations form basis for the rewards and compensation platforms of organization. In this sense, the performance appraisal directly affects the future performance of employees. With the aid of the appraisal, managers and employees will be able to meet at a certain point. The primary concern and motivation of managers is to increase the performance of the organization. On the other hand, the goal of the employee is to increase individual performance to reach the mark for rewards and incentives being followed by the organization [6]. They stressed the idea of motivating employees through performance evaluation or appraisal and the consequence of rewards and incentives is anchored on Maslow's hierarchy of needs and the idea of self-actualization. Monetary and financial benefits that employees receive are basic demands of the human resource management {6}. It is important for employees to know that their effort within the organization is rewarded with the equal compensation. If basic needs and demands of employees are

met, it is easy for them to find value on what they are doing. In the same manner, it is important for employees to achieve self-actualization. This is the sense of giving employees a sense of recognition. Through performance appraisal evaluation, managers can recognize the efforts of employees within the organization. This will allow managers to motivate and encourage employees to work further for the benefit of the organization [6].

Keaveny & McGann [7] also mentioned "role clarity has been defined as the extent to which required information concerning one's role is communicated to and understood by employees." In performance appraisal evaluation, definition of roles and responsibilities must be very clear. Strategic management demands that responsibilities and duties of the organization are clearly defined and provided to ensure that employees will be able to meet the job description. Ambiguous role definition results to low level of productivity, insubordination, conflicts within the workplace, and lack of coordination between employees. In fact, performance appraisal evaluation can only be successful through clear definitions of the roles and functions of individuals within the workplace. A systematic performance appraisal evaluation focuses on clear definition on what areas should be included in the appraisal. The United States Office of Personnel Management [8] demanded that evaluation questions should comply with the following:

- Communicate and clarify organizational goals to employees;
- Identify individual, and, where applicable, team accountability for accomplishing organizational goals;
- Identify and address developmental needs for individuals and, where applicable, teams;
- Assess and improve individual, team, and organizational performance;
- Use appropriate measures of performance as the basis for recognizing and rewarding accomplishments;

- Use the results of performance appraisal as a basis for appropriate personnel actions.

Performance management, as new tool in strategic management approach, is considered a controversial tool in searching for answers to problems in system design and administration of organization [9]. Critics noted that performance appraisal assumes the error of the measurement due to inaccuracy. If the performance of employees is evaluated as dismal and full of laxity, this may result to a conflict between employees; in the same way, performance evaluation programs may lead to steep competition culture in the workplace. But in terms of impact to the creation of strategic plans for the management of the workplace, performance appraisal evaluation provides a succinct analysis of the environment, as a way to test individual and business performance. Performance appraisal has an effect on employee's performance; that is because it will determine whether to motivate them more and more or to develop them through trainings. However, Michie, Oughton, & Benn [2] stated several factors affecting employees' performance. First, the performance is being affected positively or negatively on employees. The most important hint here is to understand the value of each factor and how to use it properly. Anyhow, the first factor is the quality of work. Sometimes, employees have an output of a low quality. In this case, the manager or supervisor should not reprimand the employee for the result. The manager or supervisor should advice the employee and examine and evaluate his or her low performance and try to solve them.

The second factor is the job knowledge; if the employee does not have a full knowledge related to his or her job, the management must provide a theoretical training course for the employee. The training course should include all the policies of the organization, the procedures of the job, a brief explanation of the job duties, tasks, and responsibilities, and an explanation of how much the employee role is important in the organization [2]. While, Dobson, Sommerville, & Dewsbury

[11] commented in the point of responsibility and dependability. They stated that dependability in the work field is important as it gives the employee some freedom to be creative. This creativity will come from the biases of authority when the employee is being trusted to handle his assignments as he or she wants. Besides, responsibility is a very important causes of employees' success in obtaining the organization's objectives. The employee's responsibilities are given based on his qualifications and abilities. Therefore, the employee who had given these responsibilities must be treated as trustful employee. As a result, the employee will be committed to the organization, which will lead the employee to be more innovated and creative. So, the employee's performance will increase in a very high level.

Furthermore, Michie, Oughton, & Benn [2] detailed that the third factor is the quantity of work. Supervisors should divide the work equally and fairly on the department's employees. In that way, the quantity of work will not in a heavy load on one of the employees. Besides, Mathis, Jackson, & Valentine [10] the fourth factor is employee relations. Whereas, employee relations concerns about maintaining employees relationships in which will contribute on the satisfactory, productivity, motivation, and morale. However, the aim of employee relations is to resolve and prevent any problems involving individuals which affects work situation. Time management, the fifth factor affecting employees' productivity, is very important as it is the factor that determines the deadlines of tasks. The organization must prepare their employees to time management and train them to how to manage their time. The last factor is initiative and interval control. Initiative has the meaning of assessing the employee to initiate things independently and give the employee the power or opportunity to have authority to perform duties and tasks. Interval control explains the view of employee of controlling his or her break in activity; whereas employees should understand when to take their break [2].

### 3. Methodology

#### 3.1 Research Design

The descriptive research method was used in this study, particularly survey research design. As stated by White & McBurney [12], the survey research design is defined as acquiring information related to a group or more of people through questioning them and tabulating their answers. In this study, survey research design is used to determine the impact of performance appraisal evaluation of Sharjah Islamic Bank towards the productivity of its employees.

#### 3.2 Population Frame and Sampling Procedures

There are 352 population of the study which consists of employees of Sharjah Islamic Bank among 27 branches in UAE.

The Non-random/probability sampling particularly quota sampling is used as the sampling method. Quota sampling as stated by Kumar [13] "is the researcher's ease of access to the sample population. He added that "the researcher is guided by the profile of the respondents in terms of characteristics, gender, and location convenient to the researcher."

In this study, the 27 employees-respondents are drawn among the 27 branches of the Sharjah Islamic Bank in the UAE. The 27 employee-respondents are composed of directors, managers, supervisors and employees.

#### 3.3 Data Gathering Instrument

The researcher's made questionnaire is used to gather the data needed in this study. The details of the item-questions on performance appraisal and productivity are based from the concepts and principles of Aggarwal [3] on his paper "performance appraisal of rural entrepreneurship development programs; Lawrence [4] "the importance of having a performance appraisal"; Michie et.al [2] "employees ownership, motivation and productivity"; and Roberts [9] in his article "employee performance appraisal system participation: a technique that works.

The first draft of the gathering tool is prepared and submitted to the capstone supervisor for review,

suggestions and recommendation for further improvement. Then the second draft is read by the supervisor for validation. The content validation of the questionnaires on performance appraisal and productivity is done by the employees of other banks such as Dubai Islamic Bank and Abu Dhabi Islamic Bank. To observe reliability, the recommendations and comments of the employees toward the details of item-questions are integrated for further development and finalization of the instruments.

The survey questionnaire used the five (5) Likert scales: strongly agree; agree, neutral; disagree; and strongly disagree.

#### 3.4 Statistical Treatment of Data

The weighted mean and correlation coefficient are the statistical tools used in this study. The Statistical Packages for Social Sciences (SPSS) is used to aid the researcher in statistical computation of data. The weighted mean is utilized to determine the extent of performance appraisal and productivity of employees. The correlation coefficient is applied to measure if there is a significant relationship between performance appraisal and productivity of SIB employees. The .05 level of probability is employed as the level of significance.

### 4. Results and Discussions

#### 4.1 Extent of Performance Appraisal

The general performance appraisal practices of SIB was found to be "neutral" as supported by the general computed mean score which is 3.18 as shown in Table 1.

##### 4.1.1 Employees Development

It was found out that the employees' development, which is the main purpose of performance appraisal, was found out to be "neutral" based from the computed mean score which is 3.46. The employee-respondents have evaluated and "agreed" that SIB developed employees to achieve the organizational objectives; while they revealed that SIB performance appraisal assists employees to improve their morality, communication system, and addresses problems as "neutral" based from the computed mean score of 3.59 and 3.33, re-

spectively. The concept of employees' development entered performance appraisal as a new principle of man-

agement of focusing on the development of individuals to meet individual and corporate goals and needs.

Table 1. General Weighted Mean Score of Performance Appraisal

Dimensions	Weighted Mean Score	Description
Employees Development	3.46	Agree
Organization's Success	3.56	Agree
Appraisal Aim	2.78	Neutral
Appraisal Focus	2.91	Neutral
Rewards and Compensation	3.26	Agree
Role Clarity	3.04	Agree
Appraisal Areas	3.26	Agree
<b>Total Weighted Mean</b>	<b>3.18</b>	<b>Neutral</b>

#### 4.1.2 Organization's Success

The employee-respondents have evaluated the SIB performance appraisal system particularly organization's success as 3.56 which is categorized as "agree". The capability of SIB in achieving its objectives through appraising their employees' performance was found to be "neutral" based from the computed mean score 3.0. While, the behavior of employees meets organization's standards was evaluated as "agree" as revealed by mean score 3.81.

This finding proves the job knowledge of employees and by acknowledging their tasks, duties, and responsibilities made them committed and contribute to SIB's organization success. As Michie, Oughton, & Benn [2] stated that the employee will be committed to the organization which will lead the employee to be more innovative and creative.

#### 4.1.3 Appraisal Aim

The SIB appraisal aim was assessed by employees-respondents as "neutral" based on the computed mean score 2.78. The responses were "neutral or 2.8 mean score" and "neutral or 2.74 mean score" in terms of determining the required training and development programs for their employees; and performance appraisal program which determines the rewards and compensations of employees, respectively.

This is an issue for the organization which will effect on the overall performance of SIB, and it may

lead to a delay in achieving the organizational objectives and goals. Aggarwal [3] explained the importance of training and development as it increases the capability of employees to perform in a higher rate of quantity and quality. Therefore, they tend to be more innovative and creative in doing their job. Besides, Kamphorst & Swank [6] argued the importance of rewards and compensation as a method of motivating employees in doing their job perfectly, which would result in achieving the objectives faster than usual.

#### 4.1.4 Appraisal Focus

It is appeared that employees-respondents categorized the appraisal focus as "neutral" which is weighted with 2.91.

Employees-respondents scored "neutral" or 2.74 mean score, and "neutral" or 3.07 mean score for both focus on developing, satisfying, and meeting employees and organization goals; and assessing motivation.

These findings prove that Sharjah Islamic Bank is hardly capable in satisfying their employees. This may be an effect from the cause of the incapability of motivating their employees. Furthermore, SIB performance appraisal is not assured in assessing employees' motivation to work hard. As it is noticed, the cause and effect is both related together in a contribution with



#### 4.1.5 Rewards and Compensation

Data shows that rewards and compensation is weighted with 3.26 mean score, which is categorized as "neutral". This could be another cause for demotivated employees.

Employees-respondents assessed the benefits of rewards and compensation with a weighted mean score 3.04 or "neutral". This is a factor that proves SIB is unable to clearly identify the needs of their employees. Moreover, employees-respondents have provided a result of "neutral", with the weight of 3.48, on the points of rewards and compensations of SIB are motivating. This can cause a disadvantage for SIB as they are hardly capable in identifying the needs of employees from the perspective of rewards and compensation. Even though, rewards and compensation section in the checklist had a neutral scale.

#### 4.1.6 Role Clarity

The SIB Role clarity was assessed by employees-respondents as Neutral based on the computed mean score 3.04.

The extent of SIB information is communicated and understood by employees was found to be "Agreed" based from the computed mean score 3.81. While, the role and responsibilities of SIB employees are defined and clear was evaluated as "disagree" as revealed by mean score 2.26.

As stated by Keaveny & McGann [7] in performance appraisal evaluation, definition of roles and responsibilities must be very clear. Strategic management demands that responsibilities and duties of the organization are clearly defined and provided to ensure that employees will be able to meet the job description. Moreover, ambiguous role definition results to low level of productivity, insubordination, conflicts within the workplace, and lack of coordination between employees.

#### 4.1.7 Appraisal Areas

The performance appraisal specifically appraisal areas was scored as 3.26, which is categorized as neutral as evaluated by employees-respondents.

The mean score of 2.63 that is neutral and referred to areas of performance appraisal to be suitable with employees' roles. While the issues and problems are determined by the specified areas of SIB performance appraisal is described with agree or mean score of 3.89.

#### 4.2 Productivity of Employees Results

Employees-respondents showed a response on productivity of employees as "Agree", which is weighted by 3.67.

In details, responds on SIB employees acknowledge their duties and responsibilities of position is scored with 3.74, which is categorized as agree. A mean score of 2.89 or agree was left on employees of SIB take correction actions, complete their work, and accurate in their work duty performed. These two points proves that SIB is defining job description properly and provides good training and development to their employees.

SIB employees arrange themselves in completing the determined amount of work daily, as employees-respondents scored it by 3.56 that is referred as "Agree". Employees-respondents left neutral or 3.33 mean score on SIB employees are willing and able to accomplish assignments held to them dependently and accurately. This shows SIB as unable to motivate their employees as they should. As Mathis, Jackson, & Valentine [10] stated, motivation is a factor of increasing satisfactory, productivity, and morale.

A score of 3.96, described as agree, is given by employees-respondents to the working hours are comfortable for SIB employees, and they are timely attending meetings. The communication and cooperation between employees are correctly and respectfully as stated by responds as 3.70 mean score or "Agree". These points prove the capability of SIB employees to have a good employee relations as tasks and duties are clarified, which resulted in a good communication between employees.

The data further shows respondents scoring the employees are organized, prioritized, and

scheduled in their timing with 3.74 that is referred to “Agree”. In the other hand, employees-respondents categorized the employees are having an origination and development of vital job procedures from SIB as “Agree”, which has a mean score of 3.59. Also, 3.56 mean score or “Agree” is given to employees are able to control their performance, tasks, duties, and responsibilities by employees-respondents.

Keaveny & McGann [7] have argued that productivity of employees is affected by several factors. The pin point of management is to determine these factors and measure their effect on productivity of employees. Afterwards, managers would be able to subtract these factors and remove

them from the organization. This would result in an increase of employees productivity in which will increase the organization’s performance. As a final result, the organization will achieve its goals and objectives in which will results in its success and growth.

#### **4.3 Significant Relationship between Performance Appraisal and Productivity of Employees**

The study disclosed that there is a positive correlation between performance appraisal and productivity level of SIB employees based on the computed  $p$  value = 0.000 associated to the computed *Pearson Correlation R value* of 0.668 which is less than the hypothesized probability level at  $p = .05$

Table 2. – Computed Pearson Correlation Value of Performance Appraisal and Productivity of Employees

<b>Correlations</b>			
<b>Variables</b>		<b>Performance Appraisal</b>	<b>Productivity of Employees</b>
Performance Appraisal	Pearson Correlation	1	0.668
	Sig. (2-Tailed)		0.000
	N	27	27
Productivity of Employees	Pearson Correlation	0.668	1
	Sig. (2-Tailed)	0.000	
	N	27	27

Note: \*the computed Pearson’s  $r$  value is significant at .05 levels (two-tailed)

## **5. Conclusion**

### **5.1 Performance Appraisal**

Sharjah Islamic Bank has a strong capability to develop their employees’ skills, knowledge, and abilities. It is also capable to reach its success through their achievements of goals and objectives, and by making their employees meets the organization’s standards. The issue appeared with Sharjah Islamic Bank was that they are not reaching the aim of performance appraisal. Sharjah Islamic Bank is weak in identifying the requirements of performance appraisal, as well as they cannot understand the final result of performance appraisal. The bank failed to focus on performance appraisal as it is weak on motivating, developing,

satisfying, and meeting their employees’ goals. As performance appraisal has two results, whether training and development or rewards and compensations, Sharjah Islamic Bank is nearly incapable in identifying the proper reward system. Another unclear issue appeared in Sharjah Islamic Bank is their identification of the job of each employee. That is because SIB has a strong communication system in their organization, but they fail to define roles and responsibilities of their employees. Lastly, Sharjah Islamic Bank are able to determine issues and problems through performance appraisal areas. But the problem with SIB is that they do not choose the suitable performance appraisal areas.

### 5.2 Productivity of Employees

The productivity of employees in Sharjah Islamic Bank is impressive. The employees raised their performance level. That is because Sharjah Islamic Bank provides knowledge for their employees related to the duties and tasks. Moreover, it trained its employees to take corrective actions in case of problems, as well as completing their work accurately and properly. Sharjah Islamic Bank does not put a huge workload on their employees. That results of higher rate of finishing the job on the right time. Another thing is related to employees' willingness to accomplish their tasks. Sharjah Islamic Bank employees are so encouraged to accomplish their work to its fullest. Sharjah Islamic Bank has the understanding of setting up a clear and suitable working times to achieve their daily objectives and comfort and satisfy its employees. Moreover, Sharjah Islamic Bank productivity increases through teamwork, and communication process among their employees. Its employees are so organized, prioritized, and scheduled in their timing. Also, Sharjah Islamic Bank management are contacting their employees to inform them about changes about their strategy. That is a good advantage as their employees are originated and developed in their job. Lastly, the performance, tasks, duties, and responsibilities are controlled by the employees of Sharjah Islamic Bank.

### 5.3 Significant Impact of Performance Appraisal to Productivity of Employees

Based on the conclusion provided previously, it is disclosed that there is a significance relationship between performance appraisal and productivity of SIB employees.

### 6. Recommendations

The following are the recommendations based on the findings and conclusions made by the researcher:

#### 6.1 Performance Appraisal

• **Policy on Recognition, Reward and Incentives:** To avoid conflict in the workplace due to the

unequal or unfair reward and incentive program, the management should create a strategic plan on creating rules regarding the matter. It should be that the recognition of employees anchored on equal judgment of managers. Biases should be eliminated from the judgment of rewards and incentives.

• **Adaption on How to Use Performance Evaluation:** The management should look for ways on how to use the results of the performance evaluation. This is the purpose of the program – to improve the performance of employees and of the business as a whole. Rather than just ignoring results, Sharjah Islamic Bank can improve its management through the performance evaluation program.

• **Developing a Strategy Map:** Sharjah Islamic Bank should develop a map explaining how their strategy is implemented. This will help the organization to evaluate its own performance and trace back their achievements. Moreover, it will help Sharjah Islamic Bank management to determine new objectives.

• **Defining the Performance Needs:** Sharjah Islamic Bank takes the action of determining performance needs. Therefore, they must start with identifying the needs their employees require to accomplish their work. Moreover, these needs can be easily determined by listening to their employees, evaluating the materials in the work field, and providing training courses for employees. Training courses will assist in defining the needs, as it will open the way for employees to as about any unclear points.

#### 6.2 Productivity of Employees

• **Creativity of Employees Freedom:** Sharjah Islamic Bank could give their employees some freedom to do their work in their own way. Sometimes, creativity comes from the freedom given to the employee. Besides, some authority may cause a great deal for the organization as a creation of a new invention that makes the work finish fast.

• **Time Management of Employees:** Employees are facing a deficiency with time management. Employees are facing a problem in accomplishing

their daily work. Therefore, employees must be trained with time management to accomplish their daily work completely.

• **Acknowledgment of Duties and Responsibilities:** Sharjah Islamic Bank should provide more information related to each employee's job, especially, job description. In that way, employees will be more efficient in their work as they acknowledge their duties and responsibilities.

• **Development of Employee Relation:** Sharjah Islamic Bank must improve their employee relation as it will assist employees to be more satisfied. Moreover, this will improve the communication system between employees and employers. Besides,

this will increase the cooperation between employees within the organization.

### **6.3 Significant Impact**

• **The Use of Performance Appraisal Results:** Sharjah Islamic Bank must use the results of Performance Appraisal to connect it with the Productivity of Employees. In that way, the performance appraisal will have more accuracy with identifying the factors affecting productivity of employees.

• **Productivity of Employees Measurement:** Sharjah Islamic Bank can use the measurement of their employees' productivity to determine the training courses and development programs. In that way, they can increase their productivity to a higher rate.

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## **REWARD MECHANISMS AND EMPLOYEES' PERFORMANCE OF FUJAIRAH INTERNATIONAL AIRPORT, UNITED ARAB EMIRATES**

**Abstract:** This study was conducted to assess the reward mechanisms and employees' performance of FIA. The descriptive research design was utilized. The random sampling method was employed to determine the number of respondents. The researcher's made questionnaires were used as the data gathering instruments. The weighted mean and Pearson correlation coefficient were used as the statistical tools in this study. The researcher found that the FIA's material and non-material reward mechanisms are "average". The material reward mechanisms that are found out to be average are compensation and benefits; while non-material mechanisms are recognition and appreciation. The level of employees' performance is also found as "average". It is disclosed that there is a significant relationship between reward mechanisms and FIA employees' performance. It is concluded that reward mechanisms serves as potential motivating variables to improve employees' performance. The variables of reward mechanisms tested in this study can be used by other organizations to motivate their employees toward improving their productivity. Similar studies can be done to validate the importance of reward mechanisms variables and their roles toward improving employees' performance.

**Keywords:** HRM, Reward Mechanisms and Employee's Performance.

### **I. Introduction**

Workplace reward systems are incentive programs that encourage employee engagement and productivity by offering bonuses, paid time off or other awards for a job well done [1]. Scott further asserted that "reward systems recognize staff members who excel in areas such as customer service, loyalty, and sales ability; the organizations implement workplace reward systems to retain employees, increase morale and improve overall service and productivity within the company; and, make sure that all employees are providing their best the organization must provide better incentives for its employees who are the valuable players and contributors of organization's achievements".

Byham and Moyer [2] considered "the valuable players will help the organization to maintain their sustain success in terms of achieving organization's goals and objectives. The most appreciated approach in an industry other than training and development is through the use of motivational approaches that almost all of the organizations, in whatever size or type, used to apply considering the fact that the motivational approaches can drive the job performance of an employee".

They also emphasized that motivation is a continuous procedure that starts from the employers, and it is a mechanism to inspire employees [2]. When employees are inspired, there enthusiasm is high. Enthusiasm is contagious. Employers have to start preparing

motivational plan in order to understand what motivates them and their employees. The employers have to strive to align the company's strategic goals with the objectives assigned to the employees. Employees strive to work high, because of reward mechanism. They further stated that motivation "creates an environment encourages employees on a personal level and ask what they would like to see in the company that would motivate them even more. Employers have to keep in their mind that the motivational process is an ongoing process, not a task. Supporting employee's motivation is performed by considering an organizational system like policies and procedures instead of counting on good intentions. The nature of interpersonal relationship in the workplace constantly changes, and includes it in the systems to motivate the employees while supporting the organization's infrastructure. Thus, this study considers the factors of reward mechanism to assess the performance of FIA employees.

### **1.1 Statement of the Problem**

This study assesses Reward Mechanism and Performance of employees of Fujairah International Airport, Fujairah, United Arab Emirates financial year 2015.

Specifically, this study attempts to answer the following questions:

1. What is the extent of Material Rewards Mechanisms that are implemented by the FIA to employees, considering the following:

1.1. Compensation

1.2. Benefits

2. What is the extent of Non-Material Rewards Mechanisms that are implemented by the FIA to employees, considering the following:

2.1. Recognition

2.2. Appreciation

3. What is the level of Employees' Performance?

4. Is there a significant relationship between Reward Mechanisms and Employees' Performance?

### **1.2 Hypotheses of the Study**

$H_A$  – There is significant relationship between Reward Mechanisms and Employee's Performance.

### **1.3 Conceptual Research Framework**

Rewards mechanisms is the independent variable of the study and it comprises sub-variables compensations, benefits, recognition, and appreciation. The research framework categorizes reward mechanisms as material and non-material rewards. As illustrated in Figure I, material rewards are focused on compensations and benefits while non-material considers recognition and appreciation which have assumed to have significantly associated to the dependent variable which is performance of employees at the Fujairah International Airport (FIA).

Mondy [3] discussed that "compensation is the total of all rewards provided to employees in return for their services, and that the overall purposes of providing compensation are to attract, retain, and motivate employees, and it includes salary, hourly (wages), commission, and bonus". According to Mondy [3] "salary is agreed-upon and regular compensation for employment that may be paid in any frequency but, in common practice, it is paid on monthly basis". It is said that employees are performing well if they are satisfied with their salaries. Wage, as argued by Mondy, "is a monetary remuneration computed on hourly, daily, weekly, or piece work basis. If the agreed price does not satisfy the employees, the performance is low" [3].

Dave [4] justified that "compensation that is based on volume or some form of performance is known as commission based remuneration. Industries used this type of remuneration to get a minimum standard of production in exchange for compensation. According to Dave "there are two methods to calculate commission; one is based on volume of services and the other is based on sales; and bonus is used to increase performance from the employee; and, other reasons used for bonuses are to increase or maintain retention of certain skills or the pool of skillsets needed in the company" [4].

Benefit is optional provided to employees in addition to their normal wages or salaries. These types of benefits may include protection programs, paid

time off, and services [5]. Protection programs give a motive for employees to perform their work in a good way. Paid time off, also, has a positive influence on the performance of employees. In addition, services as transportation services and flexible schedul-

ing and leave give the employees the comfortability to do their work. Martocchio [5] disclosed that "benefits can contribute to a company's competitive advantage and can undermine the imperatives of strategic compensation".

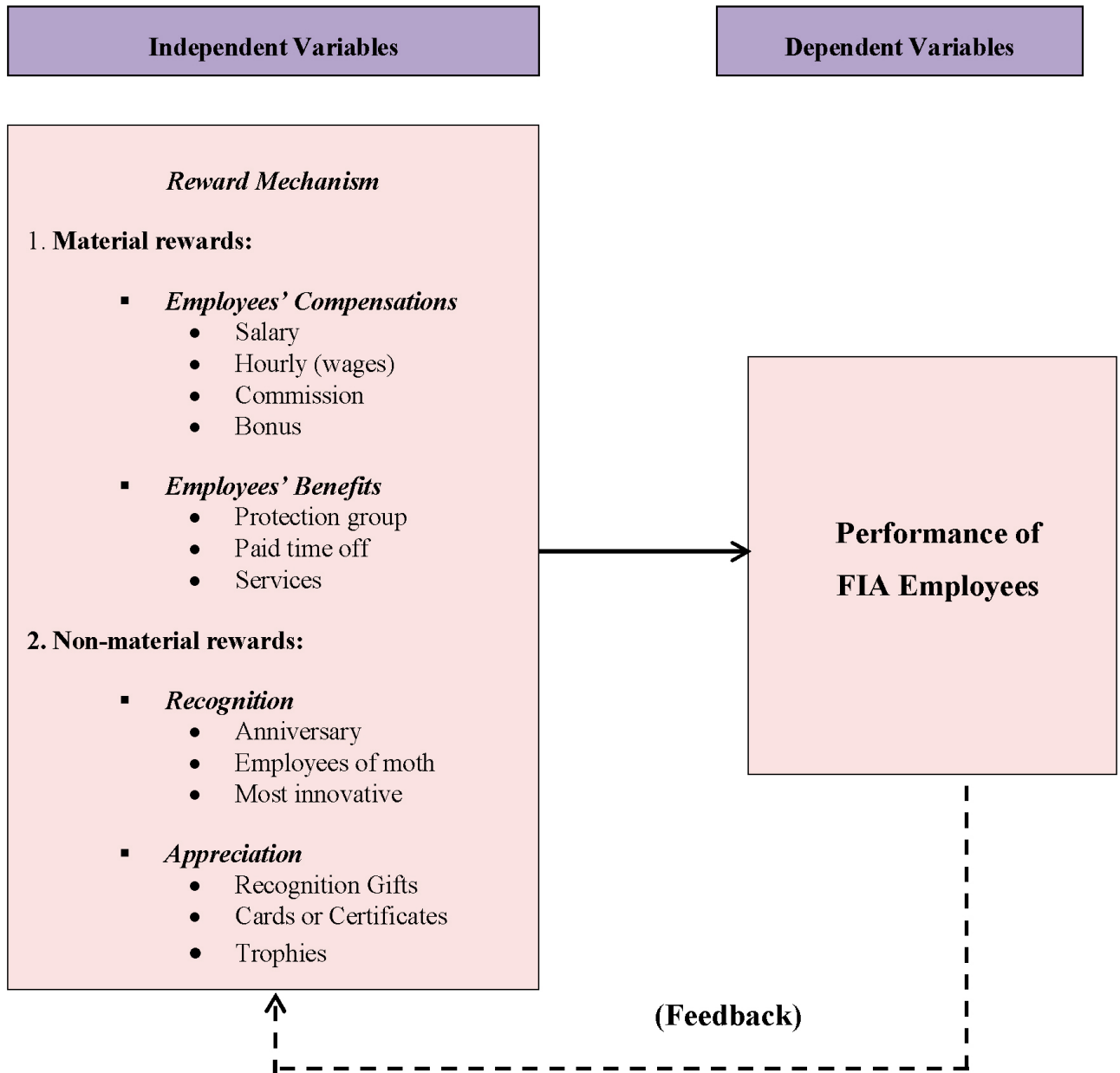


Figure 1. Conceptual Research Paradigm on Reward Mechanism and Performance of Employees

The variables of non-material reward are recognition and appreciation. Recognition consists of anniversary, employees of moth, and most innovative. Brookins [6] stated, "that whether employees have

been with the company for a year or 25 years, employer can present them with employee recognitions awards for their anniversaries. She further discussed that employee of the month awards are one of the

most typical types of recognition awards companies give their employees. For most innovative employees, contribute ideas and feedbacks to companies that can help them thrive in an ever-changing world”.

Brookins [6] also asserted, “appreciation awards are delivered at the time of achievement”. MayankJ [7] stressed that “these acknowledgments should be relatively small and can be given to individuals, teams, or work groups. It consists of recognition gifts, cards or certificates, and trophies. Recognition gifts awards given in a gift form, often given with a certificate stating the reason for the recognition and are most commonly given for outstanding work in a career”. MayankJ [7] further explained “that cards or certificates are given as minor achievement awards for specific tasks. These are expected awards that employees or other groups will get for achieving specific goals, and, trophy is recognition awards of achieving a specific placement. The relationship between dependent and independent variables is determined based on two major variables. It is assumed that reward mechanisms affect performance of employees.

The Oak Ridge Associated Universities [8] disclosed that “performance measurement is composed of a number and a unit of measure; the number gives us a magnitude (how much) and the unit gives the number a meaning (what); single-dimensional units of measure usually represent very basic and fundamental measures of some process or product; and, it revealed that most performance measures can be grouped into one of the six general categories: “First, a process characteristic indicates the degree to which the process output (work product) conforms to requirements”.

In another aspect, a process characteristic indicates the degree to which the process produces the required output at minimum resource cost. Next category is the degree to which a product or service meets customer requirements and expectations. Another category measures whether a unit of work was done correctly and on time. The value added by the process divided by the value of the labor and capital

consumed. Last one is measuring the overall health of the organization and the working environment of its employees”.

## 2. Literature Review

Every company requires tangible reward system for employees which include: compensation, benefits, recognition and appreciation. Martocchio [5] stresses that “compensation represents both the intrinsic and extrinsic rewards employees receive for performing their jobs, and both intrinsic and extrinsic compensation describe a company’s total compensation system”. Martocchio [5] justifies that “incentive pay is defined as compensation, which fluctuates according to employees’ attainment of some standard; and organizational development professionals promote intrinsic compensation through effective job design. Compensation professionals are responsible for extrinsic compensation. The compensation professionals promote effective compensation system by meeting three important goals: internal consistency, market competitiveness, and recognition of individual contributions”.

Moreover, Martocchio [5] states that:

“traditional bases for pay, incentive pay, and person-focused pay; and for decades, companies have awarded raises to base pay according to employees’ seniority or job performance; companies tended to pay employees according to performance, but the system became one of entitlement; incentive pay or variable pay rewards employees for partially or completely attaining a predetermined work objective; incentive pay or variable pay is define as compensation, other than base wages or salaries, which fluctuates according to employees’ attainment of some standard, such as a pre-established formula, individual or group goals, or company earnings. Effective incentive pay systems are based on three assumptions. First assumption is that Individual employees and work teams differ in how much they contribute to the company, both in what they do as well as in how well they do it. Second assump-



tion, the company's overall performance depends to a large degree on the performance of individuals and groups within the company. Last assumption is that to attract, retain, and motivate high performers and to be fair to all employees, a company needs to reward employees on the basis of their relative performance" [5].

Martocchio [5] also reveals that "compensation administration is one of management's most difficult and challenging human resource functions because it contains many elements and has a far-reaching impact on the organization's strategic goals; the overall purposes of providing compensation are to attract, retain, and motivate employees; however, compensation programs for salespeople rely on incentive' and sales compensation programs can help business meet their objectives by aligning the financial self-interest of sale-professionals with company's marketing objectives".

In the same context, [5] added that there are several practices under the discretionary employee benefits. He revealed the practices by which the organization can recognize as "protection, paid time off, and services to enhance work and life experience, and discretionary benefits, like compensation, can contribute to a company's competitive advantage for recruiting the best qualified candidates; it can, also, undermine the imperatives of strategic compensation. Mondy [3] also mentions that "organizations recognize that they have a responsibility to their employees to provide insurance and other programs for their health, safety, security, and general welfare; and that benefits generally cost the firm money, but employees usually receive them indirectly.

Designing incentive plans is pertinent to motivational theories such as the theories of Abraham Maslow, Fredrick Herzberg, Edward Deci, and B. F. Sinner. Dessler [9] cites Maslow's works which the most popular observation on what motivates people. Dessler mentions that "people have a hierarchy of five types of needs: psychological (food, water, warmth), security (a secure income, know-

ing one has a job), social (Friends and camaraderie), self-esteem (respect), and self-actualization (becoming the person you believe you can become); while, Herzberg theory "is the best way to motivate someone to organize the job so that doing it provides the feedback and challenge that helps satisfy the person's "higher-level" needs for things like accomplishment and recognition. These needs are relatively insatiable, so recognition and challenging work provide a sort of built-in motivation generator. Satisfying "lower level" needs for things like better pay and working conditions just keep the person from becoming dissatisfied".

Dessler [9] further reveals the work of Psychologist Deci's which highlights another potential downside to relying too heavily on extrinsic rewards: they may backfire. The work of Deci concluded "that extrinsic reward could at times actually detract from the person's intrinsic motivation". The Behavior Modification/Reinforcement and B. F. Skinner which uses incentives also assumes that consequences affect behavior; it provides the foundation for much of what we know about this; and managers apply Skinner's principles by using behavior modification— changing behavior through rewards or punishments that are contingent on performance".

Moreover, Dessler [9] cites that "nonfinancial and recognition-based awards such as recognition programs are one of several types of nonfinancial incentives; the term recognition program usually refers to formal programs, such as employee-of-the month program; employees are primary driving forces behind building a successful business". Brookins [6]) adds that recognition helps create, market, sell and distribute products, and provide customer service; it is important to show to employees appreciation to their contributions; and employee recognition programs, such as developing employee recognition awards, can keep employees motivated and invested in the business".

The Best [10] supports that "the firm cannot diminish the importance of recognition and appre-

ciation as integral components of a winning strategic reward system; the two elements rarely receive the attention they deserve from business owners, which is amazing because they are the low-cost/high-return ingredients; employees like to know whether they're doing good, bad or average, so it's important that you tell them". In addition, a winning system should recognize and reward two types of employee's activity-performance and behavior. The performance is the easiest to address and it directly links between the initial goals the organization set for the employees and the outcomes that result. Reynolds [11] discusses that "reward program can promote optimal fulfillment in the business if it is designed so the employees' successful job performance is in line with the business objectives. Starting by stating a chief goal; then list the specific steps required to achieve it".

MayankJ [7] mentions that appreciation Awards (also known as "on-the-spot" or "spot" awards) are given at the time of achievement; these acknowledgments should be relatively small and can be given to individuals, teams, or work groups; they may come in the form of thank-you notes, candy, flowers, lunches, group events or outings, movie tickets, etc.". MayankJ [7] stresses that "with all awards, they should be tied to a specific message of recognition for a concrete or measurable goal, achievement, or contribution; and these awards should not exceed a value of \$100 per individual per year|.

The company's reward system as all must follow a fair and reasonable way to compensate or to reward the employees. Equity theory is motivation theory that people assess their performance and attitudes by comparing both their contribution to work and the benefits they derive from it to the contributions and benefits of comparison others whom they select the theory that individuals must assess and know their degree of performance and the correctness of their attitude in a situation. Lacking objective measures of performance or correct attitudes, they compare their performance and attitudes to those of others. Equity theory further states that a person is motivated in

proportion to the perceived fairness of the rewards received amount of effort as compared with what others receive [7].

Campbell, McHenry, and Wise [12] argue that "job performance consists of the observable behaviors that people do in their jobs that are relevant to the goals of the organization. While Hunter and Hunter [13] state that "job performance is of interest to organizations because of the importance of high productivity in the workplace". And, Murphy [14] defines performance is focused on behaviors rather than outcomes because a focus on outcomes could lead employees to find the easiest way to achieve the desired results, which is likely to be detrimental to the organization because other important behaviors will not be performed.

Martocchio [5] argues that accurate performance appraisals are integral to effective pay program; pay program to succeed, employees must know that their efforts toward meeting production quotas or quality standards will lead to pay raises. Martocchio, also, states that "job requirements must be realistic, and employees must be prepared to meet job goals with respect to their skills and abilities; moreover, employees must perceive a strong relationship attaining performance and standards and receiving pay increases" [5].

The Oak Ridge Associated Universities [8] claims that "performance measure is composed of a number and a unit of measure; the number gives us a magnitude (how much) and the unit gives the number a meaning (what); performance measures are always tied to a goal or an objective (the target); performance measures can be represented by single dimensional units like hours, meters, nanoseconds, dollars, number of reports, number of errors, number of CPR-certified employees, length of time to design hardware, etc.; they can show the variation in a process or deviation from design specifications; and single-dimensional units of measure usually represent very basic and fundamental measures of some process or product" [8].

Similarly, Oak Ridge Associated Universities [8] supports that “performance measures can be grouped into one of the following six general categories. Organizations may develop their own categories as appropriate depending on the organization’s mission:

“First measure is effectiveness. It is a process characteristic indicating the degree to which the process output (work product) conforms to requirements, (Are we doing the right things?). Efficiency is second measure. It is a process characteristic indicating the degree to which the process produces the required output at minimum resource cost, (Are we doing things right?). Next measure is quality. It is the degree to which a product or service meets customer requirements and expectations. Fourth measure is timeliness which measures whether a unit of work was done correctly and on time. Criteria must be established to define what constitutes timeliness for a given unit of work. The criterion is usually based on customer requirements. Productivity is an important measure which considered the value added by the process divided by the value of the labor and capital consumed. Last measure is measuring the overall health of the organization and the working environment of its employees. This measure is safety” [8].

As stated by Stajkovic and Luthans [15] “rewards can be classified as tangible or intangible. In the first case, they are defined as being awards granted to employees on the basis of tasks performed, which meet or exceed the expectations initially established. In the second case, they are defined as praise granted in public by virtue of achievements widely approved in the context of organizational culture’. Austin (1996) argues that “it is worth stressing that reward systems are designed with the objective of increasing organizational productivity, and rewarding those who achieve an expected level of performance” [15].

Furthermore, Zanelli [16] concludes “reward system of an organization has repercussions on motivating work when workers are rewarded in a

tangible way (cash bonuses, salary increases) or intangible (praise or public recognition) because they have demonstrated behaviors considered desirable for the organization: the main challenge of an effective reward system is related to defining criteria on how the reward should be distributed among people; and the use of standards of differentiation that people consider are fair and the consistency of these standards with the context of the organization are essential for there to be commitment to the company and the work to be performed” [16].

### **3. Methodology**

#### **3.1 Research Design**

The quantitative research design was used in this study particularly descriptive research design. The Association for Educational Communications and Technology [17] defines descriptive research refers to the type of research question, design, and data analysis that is applied to a given topic. In this study, the descriptive research design is used to determine the reward mechanism and employees’ performance of Fujairah International Airport.

#### **3.2 Population Frame and Sampling Procedures**

The population of this study considers the FIA’s employees. To determine the sample size of the respondents, the random sampling technique was used. There were 30 sample-respondents drawn from eight (8) departments, namely: Human Resource Department, Finance, Ground Services, Strategy and Business Development, Flight Operation, Technical Services, Safety and Quality, and Chief Fire department. These sample-respondents are composed of managers, department engineers and employees.

#### **3.3 Data Gathering Instrument**

The researcher’s made questionnaire was used in this study. The questionnaire has two parts: Part I extent of reward mechanisms, and Part II level of performance of FIA employees. The questionnaires on reward mechanisms and performance of employees were based on readings from conceptual literatures of Mondy [3] and Martocchio [5], respectively.

The preliminary copy of the questionnaires were organized and submitted to the capstone supervisor for review and correction. The questionnaires were further commented by the supervisor for improvement. Then, content validation of the questionnaires was conducted to some managers and employees of FIA, and the valid suggestions were adopted before the finalization of the questionnaires. Participants in the validation phase were not included in the actual distribution of questionnaires.

The 5-Likert scale was used, and it has considered the descriptors as: 5– excellent; 4– good; 3– average; 2– poor; and 1– very poor.

### **3.4 Statistical Treatment of Data**

The weighted mean and Pearson correlation coefficient were used in this study. The Statistical Packages for Social Sciences (SPSS). version 21 was used in the analysis and statistical treatment of data. In this study, the weighted mean is used to determine the extent of reward mechanisms and level of employees' performance. While, Pearson coefficient correlation was used to measure the relationship between reward mechanisms and performance of FIA's employees. The 0.05 level of probability was considered as the level.

## **4. Results and Discussions**

### **4.1 Extent of Material Rewards Mechanisms**

#### *4.1.1 Employees' Compensation*

The respondents' assessment on the extent of compensation as material reward mechanisms provided by FIA as "average" based from the general weighted mean score 3.04.

The compensation in terms of hourly wage rate was found to be "good" as revealed by the weighted mean score of 3.78. This means that FIA provides over-time pay and that over-time is exclusive for all employees.

Other components such as salary and commission were disclosed as "average" based on the mean scores 2.98 and 2.92, respectively. In term of salary, FIA was able to provide a clear salary plan, and give fair salary distribution according to labor market.

In addition, the organization was able to establish commission as one component of material reward mechanisms that include provision of equal commission plan to employees, and equal opportunity in employment through administrative enforcement and education and technical assistance. Bonus was evaluated as "poor" component of compensation based on the computed weighted mean score 2.47. This means that bonus was not considered as reward mechanism for achieving significant goals of employees and grants it to permanent, temporary, and contractual employees. As asserted by Martocchio [5] "incentive pay is defined as compensation, which fluctuates according to employees' attainment of some standard". With this result, components of compensation are varying along with achieving some objectives.

#### *4.1.2 Employees' Benefits*

The respondents' assessment on the extent of benefit as material reward mechanisms provided by FIA as "average" based from the general weighted mean score 3.48.

The benefits in term of paid time-off rate was found to be "good" as revealed by the weighted mean score of 3.87. This means that FIA allows sick leave with pay and provides lunch periods to employees.

Other components such as protection program and services were disclosed as "average" based on the mean scores 3.33 and 3.25, respectively. In term of protection program, FIA was able to ensure adequate insurance provision benefit for employees who are unable to work because of sickness accident, and allow employees to change/enroll in more than one pension program. In addition, the organization was able to establish services as one component of material reward mechanisms that include provision of family assistance programs such as flexible schedule, school leave, tuition reimbursement, and outplacement assistance, and free transportation services to employees. Martocchio [5] argued that exploring the practices by which the organization can recognize the three board goals employers hope

to achieve when offering benefits to enhance work and life experience, and the reason behind providing benefits is to improve the employees' work and life experience.

#### **4.2 Extent of Non-Material Rewards Mechanisms**

##### *4.2.1 Recognition*

The respondents' assessment on the extent of recognition as non-material reward mechanisms provided by FIA as "average" based from the general weighted mean score 2.84.

The recognition in terms of most innovative rate was found to be "average" as revealed by the weighted mean score of 2.90. This means that FIA distinguishes employees' creativity and honors to employees for their innovation.

Other components such as anniversary and employees of the month were disclosed as "average" based on the mean scores 2.85 and 2.78, respectively. In terms of anniversary, FIA was able to give awards in terms of recognition for best employees during anniversary, and requires all employees to join the anniversary celebration. In addition, the organization was able to establish employees of the month as one component of non-material reward mechanisms that include awards monthly recognitions to performing employees during the month, and ensures quality and fairness in choosing employees.

Employee recognition programs, such as developing employee recognition awards, can keep employees motivated and invested in the business [6]. Recognition programs helps maintaining the talented employees and investing their effort in improving the organization.

##### *4.2.2 Appreciation*

The respondents' assessment on the extent of appreciation as non-material reward mechanisms provided by FIA as "average" based from the general weighted mean score 3.00.

The appreciation in terms of certificates rate was found to be "average" as revealed by the weighted mean score of 3.15. This means that FIA rewards

certificate of recognition honoring performing employees and rewards certificate of recognition for tangible contribution in attaining its goals and objectives.

Other components such as trophies and recognition gifts were disclosed as "average" based on the mean scores 2.97 and 2.88, respectively. In terms of trophies, FIA was able to give awards trophy for the meritorious service of the team in the organization, and awards trophy for meritorious service of the individual staff in the organization. The organization was able to establish recognition gift as one components of non-material reward mechanisms that include provision gifts for individual employee and team members for their achievements, and provision recognition gift in various ways such as thank-you notes, candy, flowers, lunches, group events or outings, movie tickets, etc.

Showing appreciation to employees by acknowledging excellent performance and the kind of behavior the organization want to encourage is best done through simple expressions and statements [7].

#### **4.3 Level of Employees' Performance**

The respondents' assessment on the level of employees' performance at FIA as "average" based from the general weighted mean score 3.24.

The employees' performance in terms of safety environment rate was found to be "average" as revealed by the weighted mean score of 3.33. This means that FIA has a safety working environment to run into customers' expectations.

Other components such as adding value, rightness and adequacy, meeting customers' requirements and expectations, producing low cost outputs, conforming to requirements outputs were disclosed as "average" based on the mean scores 3.27, 3.27, 3.23, 3.20, 3.17, respectively. In terms of adding value to the services, FIA was able to add value to the civil aviation services toward the value of the labor and capital consumption. The organization was able to establish rightness and adequacy as one component of employees' perfor-

mance that display achieving a unit of work related to civil aviation services correctly and on time. The FIA was capable to deliver civil aviation services that meet customer requirements and expectations. Producing low cost outputs is one of the FIA' goals by producing outputs related to civil aviation services at minimum resource cost. FIA concerned to reach to the level where conforming requirements by producing work outputs related to civil aviation services that conform to requirements.

Oak Ridge Associated Universities [8] mentioned that performance measures are always tied to a goal or an objective. Along with the results, it could be notes that the FIA employees' performance is related to achieving duties in an average way.

#### 4.4 Significant relationship between Reward Mechanisms and Employees' Performance

As shown in Table 1, the Pearson coefficient correlation shows that there is a significant relationship between reward mechanisms and employees' performance since the probability  $p = .000$  associated to the computed Pearson's  $r$  value which is 0.780 is less than the hypothesized probability level at  $p = .05$ . Furthermore, this means that reward mechanism significantly affect the employees' performance.

Employee's rewards provide compelling motivation to continue fruitful behavior on organization behalf [11]. Employees' reward and recognition programs are one method for motivating employees to enhance work habits and important behaviors to benefit a small business.

Table 1. – Computed Pearson Coefficient Correlation Value of Reward Mechanisms and Employees' Performance

Pearson r			
Variables		Reward Mechanism	Employees' Performance
Reward Mechanism	Pearson Correlation	1	0.780
	Sig. (2-tailed)		0.000*
	N	30	30
Employees' Performance	Pearson Correlation	0.780	1
	Sig. (2-tailed)	0.000	
	N	30	30

Note: \*the computed Pearson's  $r$ -value is significant at .05 levels (two-tailed)

#### 5. Conclusion

The following conclusions are based from the findings, results and discussions of data gathered:

1. The material rewards mechanisms which include employees' compensation and benefits were found to be "average".

1.1 Salary and commission as components of employees' compensation were rated as "average". While hourly rate was found to be good, and bonus was rated as "poor".

1.2 Paid time off as component of employees' benefit was rated as "good". Other components such

as protection program and services were found to be "average".

2. The non-material rewards mechanisms such as recognition and appreciation were found to be "average".

2.1 Anniversary, employee of the month, and most innovative as components of recognition were disclosed as "average".

2.2 Gift, certificate, and trophies as dimensions of appreciation were also found as "average".

3. The over-all employees' performance of FIA was rated as "average". And,

4. Both materials and non-materials reward mechanisms significantly affect the overall performance of FIA employees.

## **6. Recommendation**

The following are the recommendations based from the findings and conclusions of this study:

### **6.1. Extent of material rewards mechanisms**

#### *6.1.1 Employees' Compensation*

The Fujairah International Airport (FIA) must adopt a compensation system that is aligned to its strategic objectives and considered as long-term goals to maintain its productivity. As asserted by Martocchio [5], compensation programs for sales people relied on incentives. Compensation programs can help businesses meet their objectives by aligning the financial self-interest of sales professionals with the company's marketing objectives. This aspect of compensation programs does not only apply to sales people but it can also be applied to FIA employees. Mondy [3] further stated that compensation administration demonstrates many elements and has a far-reaching impact on organization's strategic goals.

#### *6.1.2 Employees' Benefits*

FIA must sustain to implement employees' benefit material rewards mechanism to further increase the level of employees' motivation towards attainment of departmental goals. Most organizations recognize that they have a responsibility to their employees to provide insurance and other programs for their health, safety, security, and general welfare. He revealed that benefits generally cost the firm money, but employees usually receive them indirectly [3]. The role of benefits in the organization was drawn from its contribution in a company's competitive advantages for recruiting the best qualified candidates [5].

### **6.2 Extent of Non-Material Rewards Mechanisms**

#### *6.2.1 Recognition*

FIA must improve its recognition reward programs with the same elements to keep its employees

motivated by investing in organizing the job to encourage employees to do their best in their work assignments. FIA must integrate the use of equity theory to reduce any kind of inequity among employees. These recommendations are supported by Brookins [6], and he stated that employee recognition programs such as developing employee recognition awards can keep employees motivated and invested in the business. Dessler [9] discussed Herzberg's thought that the best way to motivate employee is to organize the job so that doing it provides the feedback and challenge that help satisfy the employee's higher level needs for things like accomplishment and recognition. Also, Mondy [3] emphasized that equity theory is motivated in proportion to the perceived fairness of the rewards received for a certain amount of effort as compared with what other receive.

#### *6.2.2 Appreciation*

FIA must provide appreciation non-material reward mechanism programs to employees upon accomplishing the job to boost employees level of positive working attitude, so they will encourage to work and accomplish more to be rewarded with appreciation in the next accomplishments. Thus, FIA will reflect this kind of performance on its overall outputs. MayanKJ [7] emphasized that appreciation awards are delivered at the time of achievement. He added that they may come in the form of "thank you notes, candies, flowers, lunches, group events or outings, movie tickets, etc". With these awards, they should be tied to a specific message of recognition for a concrete or measurable goals, achievements, or contributions. These acknowledgements should be relatively small and can be given to individuals, teams, or work groups.

### **6.3 Level of Employees' Performance**

FIA must design a reward system align with the objectives of increasing organizational productivity and to those who achieve an expected level of performance. The reward system should be clarified to its employees to which behavior or performance the employee will be rewarded. Similarly, Martocchio [5] stated that for pay programs to succeed,

employees must know that their efforts toward meeting production quotas or quality standards will lead to pay raises. He explained that job requirements must be realistic, and employees must be prepared to meet job goals with respect to their skills and abilities. In the same context, the Best [10] mentioned that the first step to identify the behaviors that are important to the company are those activities that might include enhancing customer relationships, fine-tuning critical processes or helping employees expand their managerial skills.

#### **6.4. Relationship of Reward Mechanisms and overall performance of FIA employees**

FIA must use the standards of differentiation that considered fair within the organization. With this mechanism, it promotes employees' commitment and it raises the overall productivity of its employees. FIA must ensure that employees understand the definite link between pay and performance. As Zanelli [16] disclosed the first step is to identify the behaviors when workers are rewarded in a tangible way or intangible, because they have demonstrated behaviors considered desirable for the organization.

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## **EMPLOYEE SATISFACTION AND PERFORMANCE AT TWOFOUR54: HOW TO ACHIEVE OUR MISSION?**

**Abstract:** Efficiency and effectiveness of work remains to be the main target of any organization in an operational way. To achieve the mission and vision thru performance are one of the many questions that needs answers. The study aims to highlight the relationship that exists between job performance and job satisfaction at Twofour54 Company as perceived by employees.

**Keywords:** performance, satisfaction, organizational structure, employees, results-based.

### **1. Introduction**

Twofour54 is a media free zone authority. It was found in 2008 by Noura alkaabi and she was the CEO of Twofour 54 for nine years and now she is the chair lady in Abudhabi. She was also chosen to become a minister of State for Federal National Council Affairs in the United Arab Emirates. She is the first emirate woman to appear on the list of top 100 global thinkers in Foreign Policy magazine in 2013. The company was established and located in Abu Dhabi, the capital of the United Arab Emirates in one of the largest and famous media cities in the world.

Twofour54 got its name from the geographic coordinates of Abu Dhabi which is 24 degrees North by 54 degrees East. It has a main campus that hosts partner business companies as well as the company's corporate offices and posts production

facilities which are situated at Khalifa Park in Abu Dhabi. Moreover, Twofour54 has Film and TV Services that are located in Mustaffah. You can notice the different working environment in the company, with more than 50% of Citizens. The Company consists of 11 different administrations. The most important departments in the company are Business Development & Property Management, Marketing and strategy department.

### **The organization's Vision**

The vision of Twofour54 is important and it functions as the framework for its mission. It also provides guidance in every department of the business through the description of what is needed for achievement in the company so that the company meets its objective and goals in the future. The vision of the company is to be known all over the world

and get recognized as a hub for the media industry as well as a sustainable enabler and platform for authenticity, diversity, and creativity of media from Abu Dhabi.

### **The Mission of the Organization**

The future of the company starts with its mission which states their purpose as a company and plays the role of being the standard against which it uses to weigh their mission and decisions. The mission of Twofour54 is mainly aimed at nurturing the media industry and professionals through an entirely integrated and supportive ecosystem that is free from taxation and delivers quality and world-class production services, provides talent development, ensures the development and sustainability of the region's media industry.

### **Method of Achieving the Mission:**

I. Business Facilitation: Helping the partners in the market to grow fast and big by Creating opportunities;

II. Marketing & Sales: The company will facilitate marketing and sales by bringing partners that will enable significant growth of opportunities that are in the media industry;

III. Talent Development: Through encouraging and inspiration of young people who have the opportunities that are in the emerging and dynamic sector.

Twofour54 is dealing with more than 400 hundred companies with different nationalities globally. That why it is very important to maintain the company's reputation in every aspect. Since July 2016, cleanliness of the buildings began to decline. After nearly one year of signing the contract with "The new concept of cleanliness company". After receiving many complaints from different tenants and employees. Rawdha the head of business support decided to look into the problem and find out the reasons that led to the occurrence. First, she decided to conduct a field visit to all tenants and employees who have suffered from the problem. Second, Rawdha decided to meet the workers and understand the reasons that led to the weak performance compared with the last

year performance. After meeting with 20 workers she insisted on scheduling an emergency meeting with employees who were involved in decision making at the new concept of Cleanliness Company.

Below are the responses given by the interviewees, summarized and helped in getting an insight on the common factors that lead to poor performance among employees:

Dan Williamson – In the course of my employment, I have observed that poor leadership and management contribute to poor performance. Ineffective leadership lacks the prerequisite traits that motivate employees towards improving their performance. Such leaders engage in punitive and aggressive tendencies that undermine the contribution of employees. I also realized that inadequacy in resources at the workplace affects employee performance adversely. In such situations an employee cannot offer their best towards enhancing the overall performance of the organization. It is paramount to have enough resources that would create an impetus for workforce to perform optimally. Coupled with poor leadership, inadequate resources lead to a working environment that is less effective.

- Fred McGregor – For sometime now, I have worked in the finance department with. I have observed that clash of values among employees affects performance in a negative manner. At times, personal values may clash with the interests and culture within an organization. Under such circumstances, an employee fails to attain their optimal performance for fear of backlash or punishment. Any form of clash on the basis of values or culture creates animosity and intolerance. In other situations, it is common to experience personality clashes; thereby, creating mistrust which downplays performance at the workplace.
- Winston Stitt – Having worked for two years in the company, I have come to realize that heavy workloads and strict time-lines have adverse effects on an employee's performance. Some com-

panies give employees myriad of responsibilities that are difficult to accomplish within the stipulated time. The disgruntled employees reflect poor quality in their productivity. In addition, poor selection or pairing of employees is detrimental to the performance level. Compatibility between skills and responsibilities is essential if one is to attain optimal performance.

Job satisfaction relates to the sense of contentment that employees derive from their jobs. It entails satisfaction with the position, the superiors, co-workers, and stakeholders at large. Managers are faced with the task of motivating workers and ensuring high job satisfaction among their employees.

Create policies and programs that increase job satisfaction and serve to prompt workers to take money and time to make. When the workers recognize the profit of motivation and job satisfaction in the workplace, the investment in workers connected policy can be justified and ultimately lead to improvements, job satisfaction and motivation in the work environment.

There are many advantages of job satisfaction. It makes the employees be very committed to their work, encourage creativity and it is likely to make them loyal to the company. Dissatisfied workers may lead to turnover issues and absenteeism in the company. Job satisfaction and performance share common similarities. Job dissatisfaction and satisfaction are crucial for the organization.

Job satisfaction might guide and lead to decreased turnover, improved productivity, reduced accidents and improved attendance, less unionization and less job stress. Job dissatisfaction creates low morale at work which is negative. In realization of the outcome of job satisfaction, it is important to analyze a chain of definite topics [1].

## **2. Work on the Culture: Twofour54 Way**

The culture of a company is to influence the behavior of the managers. Workers identify with each other and require respectful handling of all workers. Superior leaders should put the model for these be-

haviors by showing respect to others while holding employees responsible for doing same.

Admiration for others can be confirmed through specialized internal policies and communication that are a reference to workers. For example, if the company is required to create a few difficult changes that force a worker to work; this change must be communicated in a responsive mode to respect the workers who might be affected by the change.

### **1. Establish Trust with Senior Management.**

The organization should begin to believe in workers at all levels. Workers must be able to believe those who have been given authority to manage. Managers can create this belief by showing integrity and credibility in the various things they do. This means doing what they say and saying what they do.

Contact is frequently a key factor in faith. Workers can hold bad reports when it is made public. What they do not like is the perception that there are secrets. Communicating clearly and often with determination to make clear the reason behind the decision. This can help to reduce the issue of disbelief.

### **2. Expand job benefits.**

Discover profit that workers value and appreciate. Standardize the total profit package to make sure the package is competitive. Focus on medical and health issues, define contribution plans, define benefit pension plans, paid time off, family-friendly benefits and work-life balance .

### **3. Foster job security.**

The current recession has caused employees to work with insecurity. Managers can help to solve this problem by communicating with workers about the financial state of the company, objectives, strategic goals, and overall performance. It is important to involve workers in international affairs so as to solve and make sure they have same thoughts and are part of the solution and process to company success and growth.

### **4. Strengthen employee relationships.**

Job satisfaction is also affected by the contact that the workers have with co-workers. Use workers to build team structure movements and problem-

solving avenues to help strengthen coworker relationships and development.

#### 5. Focus on employee engagement.

Spend the resources and time in creating an environment where workers love and thrive as they work. Keep an eye on workers' strength and engagement area that promotes it.

#### 6. Facilitate Structures for Development of Careers.

Workers want to recognize that there is an opportunity in the company to advance and grow their careers. Develop workers during mentoring and coaching programs, management skills succession, planning, and development to help in ensuring that workers are prepared when high point work opening becomes available.

#### 7. Train on job skills.

Workers cost the investment company and create continuity of work skills and training. This makes worker become more engaged in their role, improve and increases worker productivity and internal processes.

#### 8. Productivity and Job Satisfaction.

Job productivity and satisfaction can be very beneficial and positively impacts on an organization. Whereas many people think that there is a positive relationship between job productivity and satisfaction, however, they say that "A happy employee is a productive employee" are not incorrect. If employees get rewards which have both extrinsic and intrinsic values they feel that the rewards are fair, they will be happy and this will lead to better job performance.

#### 9. Employee Turnover and Job Satisfaction.

In height workers' turnover is a matter of worry for the organization as it disturbs the usual operation and continual replacement of workers who leave the company. It is technically undesirable and costly. Managers' concern is turnovers which arise due to job dissatisfaction. The workers, thus, try to keep the workers satisfied on their job to reduce the turnover. Although in height job, satisfaction in itself cannot reduce the turnover, large job dissatisfaction will absolutely raise the workers' turnover. The workers' turnover is affected by other factors too, in adding to

job satisfaction. Commitment to the company is such factor a number of employees, though unhappy they are with their job; they cannot think that they can work somewhere else. [2] Another important factor is a better opportunity for workers. In general, we can say that there is an important task to be done to ensure job satisfaction among workers and reduce turnover.

#### 10. Issues of Worker Absenteeism and Job Satisfaction

There is a huge difference that exists between absenteeism and satisfaction in the workplace. The two factors show a negative correlation in that when job satisfaction is high, then absenteeism is low and vice versa. Fewer satisfied workers are more likely to be missing from a job due to unnecessary reasons. This is known as absenteeism contrary to unavoidable absenteeism which is due to sickness or other urgent situation reason.

Workers who are satisfied with their work are more committed, creative and more likely to continue working in a company. And, when workers are dissatisfied, there is a higher possibility of turnover and absenteeism among workers. In height job satisfaction might guide to decreased turnover, improved productivity, reduced accidents and improved attendance, less unionization and less job stress [3].

Lastly, most workers come to the job with the objective of doing a good quality work. Though, it is the company liability to communicate efficiently, allow workers identify what is probable for them, provide them with the tools they need to do their work and reward them for a work well done. These management plans can get a company a long way toward development, satisfied workers, achieving business objectives and improving workers engagement.

### 3. Conclusion

Job satisfaction and employee performance are an essential element in the work environment. They lead to high productivity in the organization which eventually makes the company achieve its objectives and aims. Twofour54 can achieve a lot and meets its objective if the management considers some factors

such as training employees, focusing on cultural differences among employees and ensuring that the working environment is safe from any threats to employees. It can also prosper by making the employees feel appreciated by giving them rewards when they perform well which will act as an encouragement. Generally, job satisfaction is not only achieved through remuneration because there are a lot of issues that affect employee performance in an organization.

#### **4. Recommendation and suggestion**

For a good and productive performance in any organization, the employer and the management should ensure that the employees are satisfied in all areas. In areas of customer service and sales, there is need to have happy employees because they represent the company to the public. Compensation is not the only mode of reaching employee satisfaction in a company. Improvement of benefits will automatically encourage employee contentment on a temporary basis. [4] However, inexpensive changes can lead to a long-term morale and impact on employees' satisfaction.

Organizational employers should facilitate employee satisfaction. This can be achieved by following the science of employees which has been identified as the main method of achieving employee satisfaction in various companies. The employer should give employees greater control. When employees are given more control, they become happy

and develop a sense of control over their lives. The employer has to come up with ways of giving them more control over their schedules, environment and also work habits. [5] This is because employees at this era have very demanding schedules outside working environment.

Moreover, the employer can also make the employees have less commuting stress which may affect their functioning on the workplace. The manager or employer should come up with ways of reducing commuting stress by either reviewing the time for employees to start working and the time to end and thereafter determine whether the specific time scheduled for arriving can be changed to suit the employees. It is also important to encourage social relations in the workplace. If possible, the employer can consider an open office layout where communication can be fostered. Employers can also facilitate office celebrations in special moments such as holidays and birthdays. It is also important for the employer through the management to make sure that every employee is healthy. If the company provides food for its employees, then it is probable for it to ensure that healthy meals are prepared. [6] Moreover, it should assist sick employees and make them feel supported and appreciated in difficult times. Lastly, it is essential for the organization to ensure that employees get time off their daily routines as a way of resting.

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## **ON GENDER LEADERSHIP: THE CASE OF BISO COMPANY**

**Abstract:** Gender leadership remains to be a very interesting topic as far leadership role for both genders. This topic is always debatable if not leads to a different level of arguments or discussions. Whether it is male or female who dominates in an organization, it is very important for us to ask the questions” Who lead us to a more efficient way?” This research case study uncovers the realities of life on how leaders make a difference in their organization.

**Keywords:** leadership, diversity, gender, organizational effectiveness, leaders.

### **1. Introduction**

The leader’s role is very important in any organization because its success and failure lies on its leaders and how she/he manages people around. There are many effective leaders that are really very effective and talented leader who can drive and lead the organization into achieving its goals as well as setting new goals and work on achieving it. But there are many factors to be considered like internal or external, controllable or non-controllable. One of the most challenging things that leaders may face as a problem is the issue on “gender”. This remains to be a challenge at Biso Company to date. There are many successful women’s who proved that leadership is not a masculine concept and not forbidden for ladies to lead at all. Many ladies has prove that they can be more successful

than male in various positions if given the chance and opportunities. We can say female are more emotional than male but they are decisive in any decision making as well as creative and innovative to some extent.

### **2. Objectives of the study**

The following are the objectives of this research case study:

- to find the relationship between the leader’s gender and the organizational efficiency and it focuses to answer following questions;
- to identify relationship between the gender of the leader and the organizational;
- to what extent can females occupy a leader position?
- To determine the main effects of the genders on the overall organizational performance.

### **Profile of Biso Company**

**BISO** Company established in 1980, and has come a long way in achieving the urban development of UAE by carrying out federal **infrastructure projects** including government houses, buildings for the interest of various sectors such as health, education, security, culture, agriculture and judiciary in addition to well-developed road network linking the emirates to one another in order to ensure welfare for UAE citizens and residents. Also, working on executing a number of vital federal all over the state to contribute to the international status UAE possesses nowadays.”

**BISO** company **strategically goals** are to: ensure integration and comprehensiveness in the planning and implementation of infrastructure projects to enhance the state competitiveness and keep pace with global developments in the field of infrastructure. And managing federal infrastructure projects in order to achieve balanced and sustainable development in accordance with the best international standards.”

### **BISO Company Mission:**

Achieving sustainable development in planning, establishing and maintaining infrastructure projects and organizing the national housing sector through outstanding organizational performance according the world’s highest standards.”

### **BISO Company Vision:**

International pioneering in constructing infrastructure projects for a country that is second to None.

One of the most important and qualified leaders, who built a wide reputation to BISO Company, is Eng. Muna Al Dhaheri. She is a Chief Engineer who has the ability to lead and control the company and to adapt with the situations where men think they only can deal with.

### **Management style**

Diversity in the workplace has being introduced globally in most organization. A gender differentiation is one type of the diversification in BISO Company, where women are facing significant challenges.

With the present of the glass ceiling, women were inhibited from advancing enough leadership roles either contributed in the decision-making roles. Glass ceiling is inevitable limitations that prevent any ambitious women from moving up to a higher position in the organizational hierarchy. Moreover, stereotypes view has built up an image that women are less effective in work compared to men. This bias view of women as manager has contributed to the lower representation of female in the higher leadership positions and effected their evaluation. In addition to that, leadership was linked with strength, which assigned for male only.

Women have the qualities the promote them to be effective leaders in their workplace, such as: many researchers have found that women style of management can be defined as people oriented clear vision and expectation and transformational leadership style [1]. People oriented style is the participative style, where follower and members can participate and join decision-making process. Transformational leadership style is when the leader the position of role modeling, inspiring for the future (optimism) and guide them to the achievement organizational goals. It is emphasis on empowerment and collaboration. Moreover, adopting a clear expectation and vision setting help women to be effective leader. These management styles that were adopted by women help them to add value for the organization they are in as leaders.

### **On Leadership Role at BISO Company**

Eng. Muna Al Dhaheri has a bachelor degree in civil Engineering from UAE University, Master degree in engineering management from Hamdan bin Mohammed smart university. She is qualified to be an effective leader. She trained well to solve technical issues as an Engineer and manage people as a leader. An important key for the effectiveness of leadership is qualification and education. Education is the basis component for the good leader, which would help the contributed in the organization with their knowledge. Women has represent a growing percent-



age of graduated from high education school specialized in management fields globally.

In fact in 2007 [2] 70 percent of the all UAE universities' graduates were Emirates women. It only means that the society are changing and women are now geared towards into education as top priority. Aside from that existence of women in UAE's workplace occupied top position including leadership role. Emirates women experienced an increase in the employment of Emirates women from 5.3% to 13% between (1980-and 1995). In terms of employment, women dispute all the stereotypes that linked leadership efficiency with masculinity. This gives view of lower level of efficiency of female could achieve when they are in high leadership position within the organization. Today women have shown how they could be successful when they have the chance to be in leadership position such as Eng. Muna Al Dhaheri at BISO company. She was promoted to be a leader after interviewing 5 males. This proves that there is no direct relation between the leader's gender and the organizational efficiency (Alshaer.S, 2010). Emirates women represent 59% of UAE labor force market, which show the positive contribution of females in the workplace. UAE has witness some of the bright examples that support the women effective leadership in high positions are:

1. Sheikha Lubna Al Qasimi, the UAE Minister of Foreign Trade.
2. Mariam Mohammed Khalfan Al Roumi, the UAE Minister of Social Affairs.
3. Dr. Maitha Salem Al Shamsi, the UAE Minister of State.
4. Reem Ibrahim Al Hashimi, the UAE Minister of State.

#### **Leadership styles between male and female**

The leadership is the ability to inspire confidence and support among people who are needed to achieve a goal or a task. The definition of the leadership shows us that the leading process required the ability and the skills to inspire others and motivate them to reach the success and accomplish the or-

ganization mission, and these requirements doesn't have anything to do with the gender of the person who is supposed to provide the employees with such guidance and support. It is right that the leadership styles and approaches may vary between genders, but this doesn't means that any of the genders or styles is effective more than the other.

Some of the studies that was conducted in the 1980s and at the early 1990s, founded that the female leaders were much more transformational than men's, where men's was much more transactional leaders than transformational leaders, which means that the female leaders cared about achieving the goals as well as the employees and relations with people, while the male leaders focused only on achieving the goals. The studies also showed that the women's who are in managerial positions proved the importance of cooperation, nurturing, communication, and affiliation more than men's who are holding managerial positions. In short, the men's in the managerial and leaders positions are more task-oriented, and focus less on relationships than women leaders do. This was a was very challenging task for Eng. Muna Al Dhaheri at BISO Company

However, studies that represented that there is a difference in the leadership styles between both genders does not have the certain answer and do not confirm this point. Many other researches founded that the evidence on confirming or saying that the males and females behavior does really differs are really limited and cannot be considered as a final point. In the year 2011, Hanson and Anderson founded that there is a difference in the decision making style between males and females leaders, but this is not connected and linked to the effectiveness of the leader, they also founded that there is no difference in the degree of motivation and the leadership style in general.

Additionally, a survey has conducted by Pew Research Center in US regarding leaders and gender. The survey results showed that 69% out of 2,250 adults who responded agree on the fact that both men and women are equal in terms of making good leaders.

The respondents attributed the potential reason for why there is a lack of women at the top positions to gender discrimination, and only few respondents said that women's lack of experience or family responsibilities prevent them from holding a leading position. According to the same survey, the respondents rated women better on 7 out of 8 of leadership traits than men. Honesty came at the top pyramid of leadership traits according to the public, and the results showed that about 50% of the respondents said that women are more honest than men. Then comes the Intelligence in the second place, with 38% responded that women outsmart men while only 14% of the audi-

ence said that men are smarter than women, and the rest (about 48%) said that both men and women are equal. The survey also, demonstrated that men and women were equal according to the respondents' view when it comes to ambition and hard work while It wasn't surprising that 80% of respondents said that women are more compassionate due to their emotional characteristics, and on the other hand, it was interesting to know that about 62% to only 11% of respondents acknowledged that women are more creative than men. The only leadership trait that men outperformed women in this survey was decisiveness and having firm decisions [3].

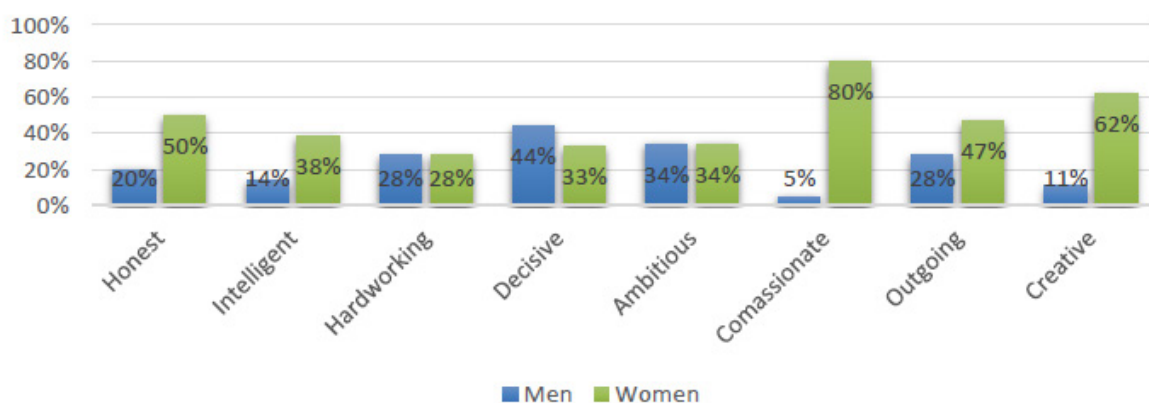


Figure 1. Leadership Trait Comparison

We need to highlight here that the survey was shared among adults, men and women with more females supporting their fellow gender than men did [3]. The key element of this research paper is to identify the relationship between the genders of leaders and the organizational efficiency in a UAE based company. BISO company serve as an example to explore the effects of having a combination of males and females leaders and how this contribute to the overall organizational efficiency.

The research carried out using a qualitative analysis thru conducting an in-depth interview with a female leader in BISO company, Muna Al Dhaheri – Chief Engineer who has been working as a leader for about ten years and she is one of the most active leaders in the company. Moreover and based on the previous reviews covered in this research paper,

the main elements covered are the leadership style used by leaders, the relation between a leader and his/her team members and the leaders' behavior. Interviews were conducted with some of the managers and staff working under the Chief engineer, and then the results were analyzed using qualitative methods to illustrate how leadership is practiced in BISO Company.

### 3. Evaluation and discussion:

The analysis was done on the information collected from both the interview with a female leader in BISO Company as well as analyzing the interviews with her team members and people working under her in order to support the subject of this research paper. The interview with the leader and followers included questions related to the main leader characteristics from the leader's and the followers'

perspectives, the leadership styles of her, how she motivates her followers and team members as well as the relationship between leader's gender and the organizational efficiency. After the analysis, the collected data was compared to the findings of the previous work done by previous research papers on the same subject. Results of the interview with Eng. Muna Al Dhaheri revealed that it is not easy for a woman to be a leader in her life or in her workplace, not because she is not capable to reach this stage but due to the patience and persistent required by her to reach her goals and achieve her dreams.

Moreover, from Eng. Muna's point of view, communicating with male leaders and managers could be a challenge at the beginning, but a female leader can overcome this by time and the way of the higher management specifically males in dealing with her whether it is supportive or directive depends on the individual himself and the situation as well. In addition, the data collected showed that dealing with followers from both genders could be a challenge sometimes but it is not difficult to do so in general, because this depends on the employee who works under you and usually most of them are well educated and understand all the rules and procedures followed in the organization. The results also demonstrated that a leader in general might fail if he or she stopped believing on their visions and they doubt in their selves. Furthermore, Eng. Muna believes that it is very important for a leader to specify a regular time as often as possible and he/she must communicate and listen to them on a regular basis. A leader must also motivate his/her team by encouraging them to work for their future and achieve their dreams. Additionally, feeling responsible about everyone and giving attention to everything might be the most difficult part of being a leader, this indicates that most female leaders are more emotional than men and therefore they might be considered as less capable of controlling their emotions. However, this doesn't mean that females are not good enough to be effective leaders but it is better to have gender

diversity in the workplace to create a larger talent pool and improved performance.

In addition, the Chief Engineer was asked about her personal view on the relation between the leader's gender and the organizational efficiency and how the genders affect the overall performance of a company. She stated that it is very important for any organization to have gender diversity in the workplace whether it is in the top managerial level or the in lower levels, because this diversity will result in having a pool of different talents, expertise, ideas and performance. So both males and females are contributing to the overall organizational efficiency and development and each one of them complement the other.

Moreover and in order to support the title of this research paper regarding the leader's gender and the organizational efficiency, interviews were conducted with some of the followers working under Eng. Muna, who revealed that she is one of the female leaders who reached the chief and top management level in a short period of time. Followers were asked whether they think and consider her as a manager or a leader, almost all of them agreed that she is more to the leader's side since she works continuously to develop skills and leads talents of the people with some kind of innovation, she has a broad horizon associated with large range of perspectives, she has excellent interpersonal skills, she trust her team and respects others' opinions, she is considered as a very good planner, good listener and good communicator.

Additionally, the team members were asked about who is making a better leader, a man or a woman, their answers stated that genders have no direct influence if the leader has the right leadership skills and in most cases this depends on the nature of the work, e. g. military job are more suitable for men. However, women have dominated in the field of education and have proved that they are also as capable to lead such organizations.

Respondents were asked about their personal opinion about being led by a female leader, they

revealed that they look at the individual himself or herself and their characteristics and put the genders aside, the essential concern is related to the manager's traits, behaviors and skills.

Some of them stated that they don't mind working with female leaders or managers because female leaders tend to be more communicative, cautious and polite in their communications. The last question that the followers were asked was in regards to the relationship between the

leaders' genders and the organizational efficiency, the results showed that it's mostly believed that women use relationship oriented leadership styles and men tend to use task oriented leadership styles. Moreover, respondents said that there is no direct relation between the two variables and genders should not have any direct influence on the overall organizational performance and efficiency and there will be no difference between male or female leaders in the presence of the right skills and traits.

Organization efficiency depends on the Leaders and the skills they have so it is recommended to have gender diversity in the workplace. Increase the number of women in leadership positions if she has the ability and quality for this position as what men have. There should be gender diversity in every organization, which will improve and develop the quality of work [4].

#### **4. Findings and Conclusion**

Results gathered from both interviews with the Chief Engineer and from her followers, stated that there is no direct relation between the leader's gender on the organizational efficiency. The main finding of this research paper reveal that the leader's success depends on the individual him or herself and the traits and skills they have but not on the gender. Thus, there is a negative relationship between the leader's genders and the organizational efficiency. Moreover, findings of this research paper recommend having gender diversity in the workplace will create a better work environment where more talents, performance and expertise might occur. The

leadership is not about the gender issue but what you can do to manage both genders without any favoritism. This remains to be a challenging tasks to leader and most importantly how to resolve issue and conflict. Due to fact that we rely mostly on the interview, we would like to conduct survey questionnaire for the next study in or to assess further the gender leadership.

Leaders are the fundamental part for the organization success; they lead to achieve the organization's vision and goals by their effective skills and style. There are many factors that affect the organizational efficiency such as internal, external, controllable and non-controllable factors. We thought that leader's gender is the main factor that affects the organization performance. We conclude as far as this study and previous researches, survey and conducting an interview with Eng. Muna Al Dhaheri, Chief Engineer at BISO Company that it depends on the will of the leader. We found that female leaders are more successful at their managerial position than men because women focus on achieving organizations tasks as well as building strong relations with others; on the other hand, men focus most on achieving organization's tasks. However, the previous survey that we studied shows that there are no differences between men and women style in leadership and there are another main factor that affects the success of the organization. We conclude that gender is the not main factor that affects the organization's success. But there is more prime factor plays an important role, which are leader's skills and qualities. Leader's talent plays a serious role in leading organization for success by his\her ability to build good relations within and outside the organization and by the ability to achieve the organizations objectives.

#### **5. Recommendation and Future studies**

The research case study presented seems to have raised more questions that it has answered. There are several lines of research arising from this work which should be pursued." First, the relationship should be focus on male not only female by having an interview with a male leader. A second line is to

have a questionnaire for the leaders from both genders and their followers to have a clear idea about the reality of this relationship. Both male and female possess leadership traits and characteristics and it is up to the person of how she/he can apply that in the workplace. Knowledge, skills and attitudes of the leader plays important role in the process because the leaders must open-minded as well thinking for the success of the majority. Gender equality is very important in any organization is because employees wants fair and square treatment from the management. As stated in our findings we must be

objective in determining the role of leadership. Either male or female is the leader in the organization, it is still very important to everyone to understand they each one has its role to do. Moreover the employees must do their part as far as work duties and responsibilities. The leader provides direction while employees are the one supporting and following their footsteps.

Future studies on the success and failure of leaders in the organization could be a good future studies. Also in the aspect of challenges and changes that they are facing in the organization.

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## **MULTI CULTURAL DIVERSITY AT NATIONAL HOSPITAL: IS TEAMWORK POSSIBLE?**

**Abstract:** Cultural diversity at workplace is an emerging trend and this has significant impact on the performance of any business organization. With the change in the organizational behaviors there is a need for different knowledge, skills and attitudes in managing business challenges. Due to the changing demands of professionals across organization, multicultural diversity remains to be a challenging task for administrators. As diversity brings many advantages for an organization such as efficiency, better employee productively and organizational performance, at the same time managing cultural diversity has become the major issue for many organizations. We have to weight and balance its efficiency and effectiveness in the workplace.

**Keywords:** diversity, multicultural, teamwork, organizational behavior, workforce.

### **1. Introduction**

Diversity refers to the presence of people belongs to different cultures in an organization. These people belongs to different backgrounds, religions, age, race and gender. As the trend of globalization is increasing and technology is getting advance, organizations are hiring employee from diverse regions around the world. These employee have different traits and abilities according to the culture, values and life styles. Due to increased diversity the organizations are getting many benefits. Diversity of workforce is now a new trend in organization culture. Those organizations who are operation globally are promoting diversity of workforce in the organization. In the past the organizations believed in hiring the employees from the similar culture and people in an organization worked individually. Every person was liable for his personal specific task. But as the trend are changed so, now the organizations are making their process fast and operations efficient. That is why now most of the organizations are heavily relaying on the effective team building. Team work is help-

ing the organization to get competitive advantage in this highly competitive business environment. Now day's organizations are working in different countries and without team work no organization can work effectively. But hiring diverse workforce and working in teams is not an easy task. Although diversity and team work bring many benefits in the organizations but there are many challenges faced by organizations to manage teams with diversity. Here in this paper the concept of diversity and team management are discussed in details in context of NATIONAL hospital.

### **2. The National Hospital: In Focus**

The NATIONAL hospital is a UAE based hospital founded on 17 December 1979. The hospital is one of the oldest and best hospital in UAE and awarded with 2 success awards by ministry of health. The ministry of health took over the charge of management at NATIONAL hospital. The hospital provides state of art diagnostic and therapeutic facilities [1]. The hospital has well trained doctors and nurses. The University of the UAE choose

this hospital as its training center for the students of health and management. This hospital is also the center for all the referred patients of the country and the people from other countries as well. Hospital is providing the best services to its patients. The world class medical services and facilities are provided in this hospital under the supervision of experienced doctors. These doctors trains the student of different universities in different departments in the best way. The hospital is owned and operated by Abu Dhabi health Services Company. In the year 2006, John Hopkins international hospital took charge of the management at NATIONAL hospital. This new management selects half of the committee members and other are selected locally. Currently there are more than 3300 employees. This huge work force is blend of diverse employees who belongs to different cultures and backgrounds [1].

#### **Mission**

To provide a band of high quality health and care services which meets the needs and expectations of people in the UAE and surrounding gulf countries.

#### **Vision**

The NATIONAL hospital believes in treating all the employees, patients and visitors all stakeholder with respect, equality and dignity guided by the law of UAE.

#### **Values**

To provide high quality affordable health care and medical services in a friendly environment with assurance of full safety and care that meets the standards of excellent health service.

#### **Guiding principles:**

- Hospital treat our patients like our family members;
- Hospital embraces cultural diversity;
- Hospital is trusted honest and ethical in all its dealing;
- The hospital promotes the team work;
- The hospital believes in continuous improvement of all its activities;
- The NATIONAL hospital strive for happy working environment with respect and mutual trust;

- The hospital encourages professional development and innovation through continuous learning process;
- The NATIONAL hospital is a good corporate citizen;
- The hospital provides efficient health care to bring value for its internal and external customers [1].

#### **Organization structure**

The NATIONAL hospital is one of the oldest and biggest hospital of the country. The hospital follows the departmental structure and each department has its heads. All the staff and other employees are reporting to their department heads. This structure is very simple and it defines how the task are designed, allocated, coordinated and supervised to achieve the organizational goals. This structure is also considered as glass perspective in which employees view their organization and its environment. Under this structure each department is designed according to its functions such as finance, marketing and operations department. So, in the NATIONAL hospital there are different departments because there is diversity of functions in this hospital. Each task for each employee of the department designed according to the function of that specific department. But each goal of task is linked to the mission of the organization that is to provide the quality health care services to all its patients.

#### **NATIONAL Hospital management style**

At the NATIONAL Hospital there is flexible management style. But mostly the management has democratic style. This style is sometimes very time consuming and affects the productivity of the organization. But the hospital empowers its employees to take part in decisions making and improvement of the quality in all operations. There is very active and fast communication among the management and the staff of hospital which makes every operation perfect. There is free flow of communication so the employees and the managers can talk without any fear at any issue. This also bring the creativity in

organization which helps to achieve and sustain the competitive advantage.

### **3. Issues and Discussion:** NATIONAL Hospital

The NATIONAL hospital is one of the best hospital in the UAE. But after the interviews with some employees and patients of hospital author has found that there are many problems related to culture diversity existing in the hospital [2]. Such as the doctors said that they found it difficult to communicate with local employees and member of management. The trainees from the university who are the future doctors and other professionals such as accountants answered that foreign employee does not cooperate with local employees. They does not want to train them just because they feel insecure that if they train them their value will be decreased. The local employee complaint that foreign culture is promoted in the organization as compare to the Arab culture. Some foreign employees' complaint that policies for the local employees are more flexible as compare to them. While some local employees who belongs to middle level positions said that management is giving privilege to the foreign nationals. Many of the employees and trainees reported that when it comes to work in the teams then it is very difficult to understand the perspective of diverse members.

#### **Benefits of diversity**

When it comes to the benefits gained from the diversity of work force in an organization then there are many benefits that are discussed in this report. Due to so many advantages of diversity most of the organizations are now hiring the diverse talent. The NATIONAL hospital has also the diverse and most efficient work force hired to ensure the high level of service delivery according to the quality standards of the health care systems.

#### **Increased productivity**

When there is divers talent found in a n organization there the productivity of that organization increases because that specific organization have the best blend of highly talented employees with different talents [3] All the employee who belongs to diverse

academic and institutional background will definitely have the diverse skill set which can be used to better execute the operation of the organization. The increased employee performance and organizational productivity will help to get the competitive advantage.

#### **Creativity**

When an organization hires the diverse employees with different mid set, abilities and skills they increase the level of creativity in the organization. in the service sector the element of creativity is essential, when people of different culture interacts ad share their views then new ideas and thinking is exchanged among them. Creativity is considered as the mother of new inventions or to bring the innovation in the existing procedures of the organization. So, the diverse workforce of the NATIONAL hospital bring many new changes in the organization in a creative way to execute the service. The diversity of the work force also improves problem solving skills of the employees. The solution of the problems is found in more quick way because each employee has his different perspective toward an issue.

#### **Broad service/product range**

Due to diversity there is diverse skill is hired in an organization, this diversity of skills helps an organization to offer a broader range of products. Such as the NATIONAL hospital offering all the health care related services to its customers just because of diverse work force. This diversity of the services and products helps an organization to increase the market share and to compete in the better way. Due to globalization and increasing customer demands it is very difficult for an organization to maintain the position in the market. That is why now most of the organizations are hiring diverse employees so they will bring new ideas and innovation their firm.

#### **Attract and retain the talent**

Sometimes diversity helps the organizations to attract the new talent and to retaining the old talent as well. But this happens only when the organization adopts diversity properly with due care. When the diversity is taken as positive and useful power then



the organization find it very easy to get the competitive advantage. The NATIONAL Hospital is one of the very famous organization in the UAE, many foreign qualified employees and national graduates are attracted to get job in this organization. And organization try to provide excellent environment to it employees so they are loyal to the organization no matter they belongs to which nationality or culture. In the diversity to retain the work force the rule of equality and respect is necessary and these rules are well implemented at the chosen organization.

### **Challenges of diversity faced by NATIONAL Hospital**

As stated above that the NATIONAL hospital is one of the best and oldest hospital of the UAE so, there are huge number of employees. The hospital is famous for its high quality services and excellent operations, all this is possible due to its highly trained and qualified staff. Most of the staff member in hospital belongs to the foreign companies which creates huge difference in the employees for their skills, cultures, and abilities [4]. So this is very difficult for any organization to manage the diversity. There are many organizations found in the literature who embraced diversity in the organization but fail to achieve their goals. Many organizations faced loss and low level of productivity due to employee diversity. Here are some of the challenges caused due to employee diversity are explained in context of NATIONAL hospital.

#### **Communication challenges**

Communication is the life blood of any organization either it's a small or a multinational organization. But in the diversity of work force there are different employees who not only belongs to different countries, cultures and backgrounds but they speak and understand different languages as well. In the UAE there are people who came for employment and belongs to different nationalities. National language of the UAE is Arabic and all the nationals of the country widely speak and understands this language. Whereas, there are many people who speaks and understands different other languages such as hind,

Bengali, Urdu, English and many others. Most of the UAE residents are foreigners [5]. In the organizations and universities the documentation language is English. So in the NATIONAL hospital there are most of the doctors and nursing staff are foreigners and most of them speaks and understand only English but the patients are mostly Arabic speakers and they create a communication gap between hospital staff and patients. Not only there is the issue of communication gap among doctors and patients but this gap can affect the relationship of managers and employees. As stated above that half of the committee are international and half are locals of the UAE. So this blend of the members in the hospital can create the issue of communication. Most of the trainee students of the UAE university are UAE nationals and their mother tongue is Arabic, when they have communicate with British or other qualified doctors then there are communication barriers arises.

#### **Resistance to change**

When an organization employs diversity then there are many changes that come with this. When people of different background and cultures interacts with each other then there are many new things enters in an organizational culture which affects the working style and other procedures of the business. Sometimes employees create trouble to accept the change and they become less productive. There are many cases in which it can be easily seen that changes occurred due to diversity creates employee resistance. So at the NATIONAL hospital diversity will bring the change in values, norms and trends of the management. the people of UAE are very much attached to their culture and traditions but when the people of other cultures will come in the organization then definitely work practices and other procedures will be changed and the technology will also be changed this will create trouble by all the employees to cope with this new change.

#### **Benefits of team work**

Team work has many benefits for the organizations. As the operations of the organizations are

carried on large scale so, it is not an easy task for a single person to manage all the responsibilities. When organizations work in the teams all the team members involved in the task and they bring better results in operational efficiency of the business [7]. At NATIONAL hospital people works in groups to deliver the high quality medical service with better execution. As stated above that hospital has all the well trained and highly qualified staff, when all the highly skilled people works together on a task their performance is outstanding. Team work bring better problem solutions, it create a good relationship among the employees and manager, it also help to train the employees and it is the better way to focus at different tasks at same time.

#### **Challenges of team work**

Team work has many benefits but at the same time it is very difficult to manage the teams in an effective manner. At NATIONAL hospital manager has observed that team work is not bringing desired results. As the hospital has already well trained staff and has also the diverse workforce with latest skills and knowledge its teams should bring outstanding results. After the detailed research hospital found that in the team building there is need of trust and free flow of information. The task should be design in such a way that no one can hide the information and no one can take credit of others work [8]. In the team work it is found that people have their conflict of interest and sometimes team work negatively impact the performance of an organization. When the members of a team belongs to diverse cultures and background then these people does not understand perspective of each other. Sometimes the team leader is unable to engage all the member efficiently due to diversity of cultures and backgrounds. So there are many issues found by the author at this hospital regarding the team work.

So this analysis of the NATIONAL hospital is giving the clear picture of existing state and the also providing the insights for the future. This analysis evaluates that organization is in good condition but

as the trends are changing and if the issues are not resolved at right time this will lead to more problems at organization. The level of diversity and the standards of the employee recruitment is good at this hospital but the management is not capitalizing all the talent in better way. There is need of some changes in the policies and the strategies. In this report the author has discussed about the benefits of team work and the diversity for the organizations but at the NATIONAL hospital all the benefits are not gained from this concept of diversity.

#### **4. Research Findings at NATIONAL Hospital**

The research study found that there is no doubt about the high level of safety and quality of the services provided by the NATIONAL hospital but the element of cultural diversity is affecting the performance of organization. In the literature it is stated that cultural diversity if not managed carefully and ignored by the management then it can decrease the efficiency of the business. The author is absolutely agreed with this statement because at the NATIONAL hospital the teams are not managed carefully and employees are facing problems in understanding the other employees. For the effective team work it is necessary that all the employee understand each other and there are no stereotypes for any employee who belongs to a specific culture of ethnicity. Furthermore the author has also find that at the NATIONAL hospital there respect for all the people and policies of the hospital are made accurately but there is lack of supervision at the middle management layer which is responsible for the effective execution of the operations. The middle managers are not supporting the culture of diversity and they are creating resistance for the change. These manager are not cooperating with low level of management, and they are not giving opportunities to their trainee employees to actively participate. Lack of participation from all the employees' results in reduced organizational performance and later solution of problems. When the problems at any organization are resolved late this cause to loss of competitive

advantage and profitability of the business. The author has also found that there is lack of training and development opportunities given to the employees and the management is only focusing on the medical staff. The management of the NATIONAL hospital is not giving attention at the level of expertise for administration, promotion, logistic and finance department. The research also find out that to there to promote the culture of diversity at any organization the hiring process should be change. If the employees are not hired according to requirement of diversity then this will not work properly.

### **5. Conclusion**

Cultural diversity is the most emerging issue for many organization in the world. After the rapid globalization due to increased technology people from different cultures, backgrounds and regions are working in organizations. When people from these diversities interacts with each other, then many benefits and hazards arises for an organizations. The NATIONAL hospital case is reflecting the issues and benefits created due to cultural diversity. This is one of the oldest and best hospital of the UAE, the management of the hospital is following department based structure in which each department for specialties is different from other. In the UAE there are people from different counties come for employment and tourism. The NATIONAL hospital has world class doctors and other nursing staff all the staff members are highly qualified. But in the workforce of the hospital people from different counties are found. Fifty person of the management committee members are foreigners and fifty percent are locals of the UAE. At NATIONAL hospital there is communication gap due to language difference between the local and foreign employees. The teams at the hospital are not working effectively due to cultural diversity. If the cultural diversity is use as a power tool by the management of the hospital then this will bring fruitful result for the hospital. The cultural diversity is the most common tool by the organizations to achieve their goals and objectives in shortest

time span. The management of the hospital should give heavy training to all its employees about the cultural diversity. The management should change its hiring procedures and should also upgrade the management information systems. This system will help to better communicate at all level of organization and to better manage the organizational sources.

### **6. Recommendation and suggestions for Improvement**

As it obvious that nothing is perfect in this world and there is always a room for improvement. So here are some suggestions made for the NATIONAL hospital to improve its services and to overcome the issues discussed above. The management of the hospital should incorporate the diversity management program in the organizations. Under this program the employees will be aware from the concept of the diversity and the benefits of the diversity. This program will help to bring a positive change in the hospital. The management of the hospital should provide extensive training to its managers and other staff members about the different cultures and about the better dealing of people from diverse culture. The manager must have the skills to communicate effectively with the employees no matter to what culture they belong. Furthermore the managers should also know that teams should be make in such way that each ember have good relationship and trust. For the better team work the organization should change its task design and trainings should be given to manage the teams. For the better team management the manager should empower all the employees to make decisions, to share their thought without any fear and ideas of every team member should be respected.

The management of hospital should improve its financial system and should hire such new talent who know about the other accounting systems. The management should also give the job assurance to all its employees so they will be better able to train the junior employees without any fear of job loss. The management of hospital should bring consistency in

the employees of logistics department so there will be no more confusion in between finance and logistic department. The hiring process should be changed. This will save the cost of administration as well.

### **7. Future study and work**

This case study opened the new lines for cultural diversity and tempLOYEE satisfaction for their job security. This study will be beneficial for the policy

makers in health care industry across UAE, this will also be good for the other people who are managing the hospital business in the world. The readers can get useful insights to improve their business performance after reading this case. This case will motivate the readers to brainstorm about the workplace issues and to find the root cause of these issues. There is always benefits of multicultural diversity in the workplace and it's a matter of how to put things down.

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## **THE RESEARCH ON VIETNAM NATIONAL CULTURES, TRANSFORMATIONAL LEADERSHIP AND THE EFFECTIVENESS OF QUALITY MANAGEMENT IN THE STATE ADMINISTRATIVE AGENCY AT THE GRASSROOTS LEVEL**

**Abstracts:** The study explores the impact of Vietnam regional culture, transformational leadership style (TLS) on the operational effectiveness of quality management (QM) in the State administrative agency at the grassroots level (SAAGL) in Vietnam. The research examines the managerial efficiency of SAAGL based on analyzing the Vietnam cultural features and Hofstede's cultural research results. The research results state that the efficiency of QM in SAAGL is closely associated with the Vietnam regional culture and TLS. The study results have contributed to raising awareness of QM in SAAGL since accessing the cultural context and TLS. This study finds that approaching through TLS and specific cultural environment will improve significantly QM in Vietnam SAAGL.

**Keywords:** quality management, regional culture, culture, transformational leadership, the state administrative agency, grassroots level.

### **Introduction**

SAAGL plays an important role in creating order and social stability. SAAGL is the unit which closest to the people; directly organizes and guide people implement State's policies and laws. SAAGL is State's miniature; the diversity and richness of the indigenous cultural environment. The practice indicates that to perform well and achieve high efficiency at work, leaders need to harmonize their leadership styles to the regional culture. The study sample was selected based on the difference of indigenous cul-

tures with a diversity of regions and localities in rural areas, towns, and cities. The TLS in SAAGL at different cultural regions is also examined, compared, analyzed, synthesized and draw conclusions about the impact of indigenous culture on the effectiveness of management activities. The impact of culture is considered through its values on specific variables such as benefits, existence, and cohesion. In this sense, the institutional theory is used to build research model. This allows explaining how the values such as commitment, agreement, and harmony

are born and significantly influenced by indigenous culture.

Some researchers are interested in culture and its role in various types of organizations in both practical and theoretical terms, but there are not studies mention or concerns the impact of indigenous culture on TLS in Vietnam SAAGL. This study aims to investigate the impact of indigenous culture, TLS on QM in SAAGL.

### Materials and methods

The data were collected in the winter season 2016 at three largest areas of Vietnamese culture (Northern Vietnam, Central Vietnam, Southern Vietnam).

The sample design and the selection of sample units are conducted along the following lines. (i) The national cultures are investigated by region; (ii) TLS is considered in relationship to local culture, and (iii) The relationship between TLS and followers in SAAGL.

The QM was selected by the following constraints (i) the public service quality must be selected; (ii) the relationship between the public service quality and TLS, and (iii) the relationship between public services and local culture.

The questionnaire included questions that covered (a) Transformational leadership style; (b) Local culture; (c) Public service quality; (d) Quality management; (e) The satisfaction levels of citizens about the public service quality. All questions and measures for establishing scales were informed by the extant literature. The questionnaires were distributed to the three Vietnam regional cultures, including (\*) The SAAGL leaders: one-hundred and fifty questionnaires were distributed, only 135 of the questionnaires were returned (90%); (\*\*) The SAAGL followers: Three-hundred questionnaires were distributed, only 206 of the questionnaires were returned (68.7%); (\*\*\*) The beneficiaries of public services: Three-hundred questionnaires were distributed, only 186 of the questionnaires were returned (62%)

### Literature review

#### The Characteristics of QM in SAAGL

The Fourth Industrial Revolution; the process of international integration in the economy, society, and culture has been changed the original, comprehensive and social aspects in all aspects, activities, fields, especially in the management activities. In all factors which cause a change in management activity, cultural factors play a significant role in the effectiveness of QM in the state administrative agency, especially in SAAGL. Culture serves as motivation in creating tendencies to apply the management method and according to the system to improve the efficiency of management activities. The requirement to improve QM meeting the requirement of development, integration process in SAAGL strongly increased. This reflects the growing awareness that sustainable growth will not be achieved if the quality of the management methods which used daily is ignored (Manatos et al. 2015).

Harvey (2004) states that QM takes a comprehensive approach about concepts, policies, processes, and systems to maintain and improve quality of activities in the organization. QM can be a mechanism which helps the organization achieve transparency, accountability, performance, and efficiency; a systematic combination of activities in order to improve the quality of SAAGL activities or political system; a way or an approach that improves management efficiency, stability and develop the economy, politics and society. The aim of QM is not only on quality and efficiency, but also in the processes to maintain and improve it. Therefore, implementing QM will help SAAGL continuously enhance and improve the managerial efficiency.

Trow (1994) states that QM has many purposes. It is a tool to achieve goals such as improving the quality of public services; enhancing transparency, accountability, and obligations of SAAGL to reach the consensus and the satisfaction of the community toward the goals to developing fast, stable and sustainable. QM covers many aspects, areas such as

continuous improvement, organizational management, personnel management, information management, resource management, socioeconomic management. On the standard calibration scale, QM will create a consensus among stakeholders in the long-term partnership.

Research of Brennan and Shah (2000) has pointed out another important feature of QM, that is “to describe the total process of judgment, decision and action”. Due to the transparency, accountability, and obligations in operation, SAAGL needs to establish a standard system for QM to maximize efficiency. The efficiency requires SAAGL should stimulate the process of decision-making to attract the attention and consensus of the people and the political and social organizations in the state administration activities. QM can be viewed as a strategy which helps SAAGL improving the performance of cadres and civil servants. To achieve management goals, SAAGL must encourage cadres and civil servants participate in the progress and process improvement because QM denotes the efficiency of the process efficiency and human resource management (Trow, 1994; Zhang et al., 2012). Therefore, QM is expected to include organized activities which help QM in SAAGL operating follow systematic way and structured rather than let it develop based on the individual (Massy, 2003).

In summary, QM can be viewed as a comprehensive management philosophy, synthesis, and practices for managing organizational activities by focusing on maintaining and strengthening all functions of the organization to meet or surpass the expectations in the present and future of the parties involved (Flynn et al., 1994).

The Vietnam administrative management apparatus has witnessed the dramatic progress of science and technology and the process of economic and cultural – social integration around the world. To participate in these activities, it is imperative for Vietnam to develop and implement an effective QM system at SAAGL. However, how to build and implement

QM in order to achieve the highest benefit is a big challenge for Vietnam, especially when QM practices are derived from the perspective of the West. According to Hofstede et al. (2010), culture influences the effectiveness of political, economic and social organizations. In this view, SAAGL also is considered a component affected by culture. Therefore, the operation and development of SAAGL are not separated from the cultural environment, cultural context. Under different contexts, the impact factors are also different and these make their effects also vary according to the change of cultural contexts. This becomes clearer and more particularly true in Vietnam’s unique and diverse culture. In a research, Borton (2000) proposed ten principles to work with Vietnamese partners. These recommendations emphasize the important role of customs and practices in VN management. Rely on the perception of QM and country cultural aspects of Hofstede (2011), This study examines the impact of indigenous culture to the operational practice of SAAGL helping achieve MQ effectiveness in Vietnam.

#### **Transformational Leadership and Culture**

Transformational leadership theory provides the theoretical support for current research to explain how the transmission or diffusion of these cultural elements occurs. Some researchers state that leaders play an important role in defining organizational culture (Pettigrew 1979; Dyer 1985). Also, Podsakoff *et al.* (1990) suggest that transformational leaders motivate people to do more than others would originally expect to do by articulating a vision, providing an appropriate role model, fostering the acceptance of group goals, providing individualized support and intellectual stimulation, and expressing high-performance expectations. Besides, transformational leaders have the vision and the ability to get their employees to accept ownership of that vision as their own (Oakley & Kruey, 1991). Therefore, transformational leadership needs to possess the willingness and ability to draw the vision from their followers; inspire and give followers the authority to do what it takes to bring the vision into reality.

Concern about the relationship between transformational leadership and culture, Golden (1992) suggests that the organizational culture must support activities linked to the mission of the organization. Weese (1995) concludes that high transformational leaders own strong organizational cultures and carry out culture-building activities; Leaders have offered tempered positions relative to the impact that a leader can have on shaping and preserving the culture of an organization (Weese, 1995). Schein (1990) suggests that leaders should give their strength on building a strong organizational culture which supports activities as following: managing change; achieving goals and coordinating teamwork in the organization. These activities will contribute to improving the effectiveness of the organization. Also, successful organizations, over time, are likely to own a strong, well-defined culture (Denison, 1990). Regard to the role of leadership in maintaining the organizational culture or in changing it to implement a change of direction dictated by a new vision, Bryman (1992) suggests that the leader can alter or impact the organizational culture. Avolio et al. (1991) stated that organizational culture holds the key to increased commitment, productivity, and profitability. The culture is the organization, not something that the organization owns, and therefore, the cultural change is a difficult task.

#### **Cultural Definitions and Vietnam National Culture from Hofstede's lens of Cultural Dimensions**

There are many definitions about culture (Olie, 1995). Some researchers suggest to this subject in their conception (Hofstede, 2011, p. 3; Jaeger, 1986, p. 179; Flynn & Saladin, 2006). According to the research of Hofstede (2011), "Culture is a collective programming of the mind that distinguishes the members of one group or category of people from others". Besides, Jaeger (1986) states that culture is "a set of ideas shared by members of a group". Flynn and Saladin (2006) agree that the collective programming, the so-called national culture, is established from the ways of life shared by one person of one nation.

National culture is formed by geographical, climatic, social, historical, economic and political challenges. According to the natural, social, historical, economic and political perspectives, Vietnam culture can separate into three regional cultures, including Northern Vietnam, Central Vietnam, and Southern Vietnam. Vietnamese culture is formed and developed through three major cultural periods, including (1) the Stone Age in 208 BC, when Zhao Tuo invaded Vietnam; (2) from BC 208 up till now (the cultural exchange with neighboring countries from Southeast Asia, East Asia and South Asia, especially China); from the 16th century up till now (the period of interaction with Western culture). From the aspects and conditions above, Vietnam culture enjoyed an early process of its cultural connections, exchanges, integration, and acculturation. These factors play a crucial portion of creating a Vietnam national culture which combines five distinctive characteristics, including, the collectivism; the interaction with harmony; the yin-oriented essence; the synthetic culture and the flexible culture (Tran, 2006).

The culture of a nation, a people or a community is something very abstract. However, that is the soul which determines the thoughts and actions of individuals, organizations or communities. Therefore, learning about culture in order to find a common rule for analyzing and evaluating a culture, comparing it with other cultures is very important, because, it will help "quantify" to the possible extent a kind of "abstract", so that we can know more about "yourself" to make appropriate decisions; improve "yourself"; better understanding of different cultures; thereby helping cultures to integrate better; reduce feelings in evaluation and comment. This research applies the theory of culture of Hofstede (1980; 1991; 2010; 2011) about the cultural dimensions and research in Vietnam (Them, 2004, *Discovering the identity of Vietnamese culture*) to analyze Vietnam culture and consider how its relationship with transformational leadership influences the effectiveness of QM in the GAAGL.



### **Power Distance**

This cultural dimension refers to the level of equality/inequality between people in society. The countries with high power distance in culture will accept and perpetuate the inequality between people. In a society where power distance is large, people will obey the leader; employees follow the management and leadership; students listen uncritically to teachers; children do not dare to argue with their parents – because they regard it as a natural thing, a duty. The caste system is very clear. It is difficult for a low-level person moves to a higher level. Countries with a low-power distance in culture will follow democracy, do not emphasize the difference between people and people about social position, power, or wealth. Equality is considered a common goal of all social (Australia, Northern Europe, the United States, the United Kingdom, etc.) Conversely, countries with a high-power distance in culture often accept dictatorship or imperative institutions. (Malaysia, Slovakia, Vietnam, etc.)

Considering this cultural dimension, Vietnam scored high (70) (Hofstede, 2011). This is consistent with the popularity of the concentrated regime in the administrative apparatus of the state, traditional values follow the trend of Confucianism, Buddhism, the elderly value, seniority, flexibility in feedback. SAA-GL in Vietnam implements the regime of reporting, monitoring closely, restricting communication, limiting the autonomy of subordinates, enhancing the role and supremacy of the head. This leads to the need for Jobing assignment; guide implementation; need to have the leadership and management. However, it is a very important factor that powerful additions to implement mechanisms of democratic centralism, orders, rules, and regulations smoothly.

### **Individualism v.s Collectivism**

This cultural dimension refers to the extent to which a society accepts individualism or asks people to live for the collective (England, America, and Australia). Countries with a high individualism culture mean that individuals and individual rights

are respected. However, in this society, the relationship between individuals is often loose. In contrast, in countries with low levels of Individualism, people integrate into the broader community (family, clan, neighbor, group, community, organization, unit, etc.) When difficulties happen, the communities which they join will protect them, but in return; they must be loyal, responsible to the community without question.

According to the Hofstede classification (2011), VN has a low score (20). Indeed, VN is a collective society, operating under the management of the group, strong relationships between individuals and individuals, respect loyalty, unity, harmony, and saving. Ethics and social norms, rules, customary laws, etc. of the group and society will create the pressure, which influences on the individual. Individuals must be loyal, accountable to the group. Besides, the group priorities are placed above the individuals' priorities. At SAAGL, this relationship can be clearly demonstrated through solving practical problems, loyalty, responsibility and high respect of the group members for the organization. The cultural institutions of the group are diverse by difference and even contradiction in values, philosophy, expectations, principles, and standards in the group. Receiving, recruiting, supplementing, transferring or dismissing team members is carefully considered. The connections in the group being considered are more important than the tasks. The term "we" is used instead of "I" when expressing personal ideas and feeling safer at the beginning of the responsibility as a member of the group. This characteristic may lead to dependence, depends on the support of others; not acknowledge the efforts of an individual; subjective criticism of team members; proud and strive for the group, for the official title and achievement of the team; obsessive with the trend and form. However, these characteristics create beneficial elements for the organizational management and implementation of QM as the unity of perspective, respect, trust, and cooperation.

### **Uncertainty Avoidance**

This cultural dimension indicates the willingness to accept change, the new things of a community. Countries with a high-risk aversion in culture will not readily accept new things, the changes that they have not experienced. These societies tend to live by traditional values, follow the rules and thoughts left behind by the previous generation. New ideas and perspectives are often difficult to penetrate into countries with high Avoid Risk culture. Conversely, countries with low-risk aversion culture will not care much about the risks and the unforeseen. They are willing to accept change and experiment. In this type of society, traditional values are likely to change frequently, and less constrained by predetermined laws.

With a score of 30 (Hofstede, 2011), Vietnamese people respect the real practice and experience, more easily accept the rules and standards. They tend to be flexible in scheduling and urgently seek for innovation. Thus, they tend to keep to minimum rules and on time. Although working in an ambiguous environment, although they feel happy when achieving high achievement and be a member of the group. Flexibility and harmony are a high priority; have the ability to adapt and highly creative, but tend to be careless, random, arbitrary, vague, indecisive and less knowledgeable about the law. This feature is particularly beneficial for the application of continuous improvement and introduces the new rules with the attitude of reconciliation.

### **Masculinity v.s Femininity**

This cultural dimension expresses the degree to which society accepts or does not accept the traditional power of men in society. Masculine and feminine focus on the motivation of members in a culture; strive to be successful (masculine) or embrace happiness (feminine). With a score of 40 (Hofstede, 2011), Vietnam is considered a feminine society: appreciate equality, unity, stability, affection, caring for others and quality of life. The basic issue “work to live” requires the support of the manager, confidence, working conditions, flexibility,

motivation, compromise and negotiation to settle conflicts in practice participate in the decision-making process. In a highly feminine society, people and relationships are more important than money and profit. Due to this feature, one can easily obedience, lack of innovation. The characteristic of high feminine society is hospitable, humble and nurture relationship better than success. In this environment, women and men are said to be equal in life and work, family responsibilities, as well as society, although not easy for women to reach the top. Leadership in this cultural type is more intuitive than reasoning and consciously try to reach a consensus when dealing with work. Therefore, this is a good environment to develop effective interaction between leaders and employees.

### **Long-term v.s Short-term Orientation**

The Future Direction describes the way in which a society was oriented toward the future instead of living in the past and present. In a long-term orientation, people will value persistence (or patience, perseverance), prefer the savings, arrange relationships, according to status or social class, have the concept of “shame”. In other words, individuals in future-oriented societies are always worried about where their future is going. They save money for difficult or old times and expecting that perseverance, patience will bring success in the future. People in Future Society value “final result” rather than “truth” and often get results in the advocate for the process (China, Japan, Asian countries). In contrast, people who live in the present and past society often prefer to enjoy comfortable living, spend money rather than save it. People in the current society emphasis on immediate results instead of expecting patients. Social relations are fair, equal, not dependent on the status or class. They value “truth” more than “the end result”, so often do things [their thinking is] right at the present time instead of wondering about the results in the future.

With the score 80 (Hofstede, 2011), Vietnam is described as a pragmatic culture, believe the

truth varies according to context, time and situation. Vietnamese people tend to adapt to new conditions when necessary, savings and efforts to prepare for the future, job stability, sustainable relationships, lifelong. This is an important factor which creates loyalty, cooperation, participation, mutual understanding, trust, sharing of employees with the organization, favorable conditions in management, consensus and decision-making. However, Vietnamese culture is very complex because of the influence of the wars of independence and specific geographic factors. Its characteristics are easy changing to adapt to natural conditions and social development. Internal rebellion always exists and if there is “flexibility or compliance” is merely protected, camouflage to resist invasion or assimilated by the larger states (Phan, 2001; Tran, 2008). This is important, direct and cannot be ignored when using cultural characteristics to successfully implement QM in SAAGL. The impact of Vietnamese culture for the application QM model has been proven in some areas (Tran et al., 2009). Therefore, the implementation of QM must consider national cultural characteristics, or anticipate conflicts among stakeholders, characteristics of the

organization, power distance, the complexity of the work, profitability, negative orientation, ethical relationships, local standards compared with economic principles, etc. because of these features certainly have great influence to efficiency of QM in SAAGL.

#### **Vietnamese Culture Characteristics**

Characteristics of Vietnamese culture associated with agriculture – agricultural culture. Vietnamese people are generally friendly and diligent. Due to its historical and geographical, economic and political (attaching to Chinese culture), Vietnamese people in the North are considered politically sensitive, hard-working and always looking for ways to avoid risks. However, when comparing all dimensions of the culture of the North to the South of Vietnam, the South people tend to be more open, while the Central people are neutral of the North and South. However, comprehensively, in all three of Vietnam’s cultural regions, according to research by Hofstede (1980), Vietnamese culture belongs to high power distance, tend collectively, and the uncertainty avoidance’s index is just average (See Table 1: Point for 5 cultural dimensions of some typical countries, including Vietnam (Source: <http://www.geert-hofstede.com/>))

Table 1.

Country	Power Distance	Individualism	Femininity	Uncertainty Avoidance	Long-term Orientation
<b>Vietnam</b>	70	20	40	30	80
<b>China</b>	80	20	66	30	118
<b>Japan</b>	54	46	95	92	80
<b>Thailand</b>	64	20	34	64	56
<b>US</b>	40	91	62	46	29
<b>Denmark</b>	18	74	16	23	No

#### **Results**

The research results state that if the organizational follower numbers are not too many, they are tended in emotion and relationship rather than in the rule. The relationship between TLS and followers, and among followers are based on the close emotional relationship of the organization. The study findings suggested the TLS factors

significantly influence Vietnamese SAAGL’s harmony, commitment, and cohesion across cultures and SAAGL. The results also pointed out that TLS had a positive influence on the effectiveness of QM in Vietnamese SAAGL. Besides, it expressed that the effective implementation of QM in SAAGL had linked to the relationship between transformational leadership and regional culture. Therefore,

national culture has an important role on the impact of transformational leadership to implement QM in SAAGL. These results may allow us to conclude that higher QM in Vietnamese SAAGL the higher relationship between TLS and regional culture.

### **Implications for Quality Management in Vietnam SAAGL**

Adopt a cultural approach and TLS for SAAGL in the context of Vietnam requires a great, complex change in institutions. Understand the aspects of indigenous culture, TLS to apply for QM into appropriate practice will bring the most beneficial effect on the organization. Thus, developing and implementing a long-term effective strategy following TLS are essential to facilitate the full active participation of all members of the organization.

In this culture, the role of TLS is emphasized. Therefore, the QM implementation should begin with leaders at all levels. Leaders should be aware of the national culture to avoid the confrontation of values; make use of the national cultural characteristics to build the appropriate organizational culture. TLS must deep understanding national culture for determining positive aspects to promote the effectiveness of QM implementation; find out the negative issues that may appear and interfere with implementation process; establish a flexible and effective strategy for the proper application of cultural elements. This process can be complex depending on the vision, knowledge, and competence of each TLS.

The implementing QM strategy should focus on facilitating the concern of all members of the organization through teamwork, consensus, participation, long-term staff development, trust, and evaluation process. TLS should work as mentors, coordinator. Moreover, TLS should encourage, motivate, cooperate, create harmony in the organization. Besides, when faced with different views, TLS need to inform and share information to followers before making the decision. The participation of employees and TLS can help to create a friendly and closely environment. As a result, this contributes to enhancing the

employees' commitment and loyalty. Increasing the participation and quality of staff in the organization, TLS need to use their own capabilities combined with indigenous cultural characteristics to create a friendly, shared, creative and flexible environment, thereby contributing to improving the efficiency of the QM implementation in SAAGL.

One of the most important tasks of TLS in SAAGL is to ensure the stability, solidarity, harmony, benefit, and efficiency of both staffs and the whole organization. In other words, the TLS in SAAGL must be a person who provides vision, inspiration, commitment, cohesion, harmony, agreement, mobilization and encouragement to organization staffs; encourages them to strive to improve quality, capacity, and qualifications to complete the organization tasks; mobilizes followers work hard to overcome all conditions circumstances and challenges to complete the organization mission. The rise of commitment, harmony, cohesion and active participation in the organization's programs can contribute to the satisfaction of organization staffs and helps employees feeling as a part of the organization. This can help the organization succeed in successfully implementing QM in SAAGL.

### **Conclusion**

Vietnam's SAAGL needs to make significant adjustments rapidly access and adapt to the exploitation of modern scientific and technological applications to lift the country out of poverty. Building and putting MQ into operation as well as continuously seeking new ways to gain a competitive advantage is necessary and urgent. Indigenous culture and TLS are deeply related to the improvement of management efficiency, maximizing benefits from the implementation of QM in SAAGL. Therefore, using harmoniously TLS and the features of Vietnam indigenous culture to implement QM in SAAGL should be more concerned than ever.

This research has approached previous studies that the effective implementation of management is closely related to the cultural regions of Vietnam. The

diversity of regional culture in Vietnam has made the implementation of management activities in the administrative organization difficult and very complex. Understand the nature of the relationship and characteristics of each cultural area and exploit it wisely will help managers favorable in operation, reduce the pressure of administrative work, promotes commitment and participation of both leaders and staff, bring high efficiency in the implementation of management in Vietnam administrative organiza-

tions. The research results provide a new approach for management leaders in the administrative organization in Vietnam. Besides, this research provides a comprehensive view of Vietnamese culture, as well as the specific cultural differences between regions in Vietnam. This helps researchers, policy-makers, sociocultural researchers, and especially foreign economists and investors having a comprehensive and distinct view in terms of Vietnam cultural regions.

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## **ORGANIZATIONAL STRUCTURE AT PEACE ORGANIZATION: A CASE OF REORGANIZING FOR A CHANGE?**

**Abstract:** the Peace Organization is government sector and was founded in 1987, to provide public services to the society. In the last few year, the organization expanded sharply and established new branches in different areas, the number of employees from different cultures have been increased dramatically (approximately 1500), and the operations, functions and services as well. Due to expanding and developing new challenges, difficulties and problems appeared on the Peace organization. To restructure or reorganize is a very challenging task for Peace Organization.

**Keywords:** organizational structure, reorganizing, change.

### **1. Interesting Facts at Peace Organization**

Mohammed working in the Peace Organization in human resource section. He took responsibilities for changing organization structure to fit with developing organization. When he gave his proposal about the new structure for the organization first time to the general Manager, the manager put the proposal on the shelf, and because he was busy with business trip he forgot to look to the proposal. After that, the head of accounting section Sami retire, and there is no one in charge. So, Mohammed used this situation to again display the old proposal for changing the structure organization from wide span to narrow span. Because he thought that this is the good solution, so, will not be repeated in future with other department same the case of the head accounting section.

According to that Mr. Rashid General Manager, give Mohammed the green light to apply the new proposal without deep discussion. Mr. Rashid informs Mohammed to discuss the new proposal with

upper level of organization and take their viewpoints then implement the new structure to organization. In addition, the applying in reality was faced many challenges, difficulties and obstacles.

### **2. Peace Organization: The Incident**

On August 2012 a head of accounting section of PEACE Organization. Sami came to his General manager Rashid with his retire paper. Rashid was in shocked because of Sami's decision. Sami was spent about 25 years as a head accounting section in the organization.

He was founded this section with established of organization, so he know every small details in his section. Therefore, an accounting section supply accounting Utilities and financial support to the enterprise it related to. The section is doing the different financial operations like: registers accounts payable and receivable, supply inside stores, salary records for work force, fixed properties and all other financial elements. The section's accountants follow the records of every sections in the organization to identify the

organization financial level and any modifications need to operate the organization budget efficiently [1].

With all job tasks for the head of accounting section, Rashid started worried about what would happened for the organization. The main basic of his worry is that no one of the Sami team has the qualification and nominated to be head of accounting section. Due to that he refused the Sami retire. But Sami insist for leaving from the job, because of a long served without any rewards (25 years), the salary is not satisfy for the efforts that he is give, also his family situation because they are far away from him.

The General Manager called the person who responsible for hiring people Mr. Mohammed and asked him if he has the CVs for new nomination for the position of head of accounting section as soon as he can. Mr. Mohammed doesn't has any CVs and he asked for time to search and bring the nomination, but Mr. Rashid wonder how long he would be waiting? Because this is very dangerous situation that they would be without a head of core section. So, Mr. Rashid decide to put one of his heads sections in charge as a head of accounting Section while find the alternative for Mr. Sami.

From this, Mohammed found opportunity to explain about his old idea for change the organization structure. The old idea was to change the organization structure according to expand in the business of enterprise, have more branches, large number of workforce, the services and operation for each sections, and the kind of organization that is public services. Some problem occurred when the head of any sections not available, the most operation inside that section was stop. Beside the social loafing occurred. For that issue he started plan to change organization structure.

As we know all organization is official declared structure of characters or positions. For an organizational character to occurs and be significant to individuals it should, combine:

1. Confirmable goals.
2. An obvious idea of the main responsibilities or activities involved.

3. An understand zone of freedom to decide so that the person filling the character knows what person can do to achieve aims. So, we can consider the organizing as:

- The definition and arrangement of needed actions.
- The combination of actions important for achieving goals.
- The task of each team to a leader with power important to control it.

In organization, structure must be plan to explain the person to do duties and his responsibilities for what outcome to eliminate conflict to performance.

### 3. Organizational Level and Span of Control

The goal of organizing is to let individual work together effective. Because the levels of organization is the constraint of the span of administration. Due to that, level is more important in case if you have huge number of employee, and several operations and function that need to control and coordinate together effectively.

Furthermore, the Peace Organization had the wide span that has elements affect as follow:

1. Training the individual in deep way;
2. Duties and delegation are known;
3. The steps of frequently operation are define clearly;
4. The modification for the outside and inside environment is slowly;
5. The use of suitable tools and methods with communication to subordinates;
6. The interaction be effective between individuals.

What is more, this kind of span has some disadvantages such as: the weight of decision often will be on hand for superior, Risk will be held if there is no control on subordinates and need managers with special characteristic and quality.

As a result, Mohammed wants to change to narrow span, which is suitable with development of his organization. This kind of span also has elements affect as follow: no training or few to the individual, Duties and delegation are unknown, The steps of



frequently operation are undefined and unclearly, The modification for the outside and inside environment is fast, The use of unsuitable tools and methods with communication to subordinates and The interaction be ineffective between individuals.

In addition, the advantage of this span are close supervision for manager, close control and fast communication between head of section and individuals [2].

Mohammed opinion was, the narrow span better than the wide span for his organization, He added also in structure for every head section a vice president that he coordinates among the divisions in same section and with delegation and authorities when the head of section is in leave. After that, he took his suggestion to Mr. Rashid to show him and take the notices on the suggestions. After two weeks, Mohammed asked the manager about his evaluation and notice for the proposal, but unfortunately he was too busy and after that Mr. Rashid went in business trip and the proposal for Mohammed forgot.

When the problem of Mr. Sami happened, and they put one of head section in charge in placed for Mr. Sami, Mr. Mohammed found the chance to resubmit his old proposal with some modification on it. Then he give it to his manager and he said to him "if we applied this proposal in that time we would avoid this risk situation", because the vice deputy for the section will be in charge and have delegated in place of Mr. Sami until they find new and qualified person (a head) for accounting section.

Therefore, Mr. Rashid gave green light to Mr. Mohammed to meet with related persons in the organization to take their opinions and evaluations, and then implement the proposal.

After the meeting held, Mohammed surprised from the upper level people in organization that they have different views and directions for the new structures, but the clearest point was they want to define the units according to people not the task and the role of the work for individuals and section founded too.

He tried to change and persuade the heads of sections for his opinion, but they did not listen from

him. Mohammed was confused shall he do what they want or what he believe on it. He though to share his confused with Mr. Rashid, but he knows that his manager does not like headache and complains. Mr. Mohammed was in internal struggles.

It is a fact that any new subject will face some difficult in beginning of implementation, so Mohammed decided not to stop in this point and go ahead for apply the new organization structure. Personally, he think that the critical point is the first step in applying and after that the change and modify will come with time.

During implementation, Mohammed faced new challenges likes: 1. The chosen people to be vice president they will not get financial promotion, because there is no article in human resource provide this in government sector; 2. The qualification, skills and certifications for most employee not fit with new job title; 3. The insist for some head sections to have two vice presidents because they did not want to hurt feeling of their subordinates (social network) especially women; 4. He found that some individuals does not have roles in their section (social loafing); 5. Every time the heads of the sections change their opinion about the individuals and their new position.

#### **4. New Structure For Peace Organization**

In fact in the business world when you start to implement new procedures, or policies, or even something with high importance like new organization structure you will interfere with employee the most vital element for successful, also you will put in your mind the suspicion, dangerous and difficulties for that.

Therefore, Mohammed start to meet with employee and explain for them the reasons for transfer from old structure of Peace Organization to new one, and how will help both employee and organization to accomplish the tasks and goals that organization foundation, what should individuals do and what responsibilities have. Moreover, the new structure will clear define all roles and position, also the clear the delegation and authority for individual in each level.

After that, he followed some procedures such as:

1. Start to held workshops to identify the new changes in structures and use the logic, reason and some questionnaire about the job description and their satisfying to why they need change;

2. Allow the employee to be a part of changing and take their observation, notices, and advices. Therefore, while implementation occur the involvement to change will be commitment and positive;

3. Workforce obtain new training and different learning skills with supervising and caring from manager to individuals and take care of their feeling (emotional intelligence);

4. Manipulating to influence person with high influence and decision level to be in side with changing when occurs by giving him some role in participate;

5. Force people to accept the changes by firing them, dismiss, suspend, or demote, change their position level, giving rewards and promotion, so they will accept the change in organization structure as soon as possible [3];

6. Involve senior employee is most important when change the organization structure because of vital role for him and his respective from all stuff, also people trust him;

7. The esteem for internal element of environment (individuals) and the interrelationship between them (interact with each other informal group);

8. For employee is more important to adopt and deal with new team and be comfort if changes happen in position among levels organization [4].

To sum up with that Mohammed applying to implement 35% of the new structure for the Peace Organization and the reasons for that there are challenges and difficulties from external environment and internal environment.

In addition, the internal environment like the workforce and their fright from new changes and they wonder what would happen to them and their values in organization. Beside that the job security, performance evaluation and other concerns for them.

The Human Resource Administration and Financial Resource Administration are external environment because they are not apart from organization itself, but they are separate Administration.

To apply the organization structure for the Peace Organization in the right way, they must approved it from the Human Resource and Financial Resource. The approved of structure from the higher position in government not from the general manager only.

The rejection for the new structure for peace organization was from Human Resource and Financial Resource according to new financial implication.

Due to that the new organization structure without any meaning and useless.

Until these days, Mohammed is trying to modify and persuading employee for this issues by keeping evaluate the performance for individual and the appraising system and give some rewards for effective and good effort for team work in annual meeting. In addition, he involve some new expertise and creative teamwork beside the strategy section to help him.

### **Recommendation: Five Main Stages to Effective Enterprise Administration**

When your manager want from you to accomplish a new plan for the organization. The duty might feel difficulty at begging, and all of infinite surprising questions will appears. How will you control all of the particulars? How will you tell each person about the plan? How much and what kinds of assets and supplies do you requisite? Who is going to aid? How will you recognize if the enterprise is needed or if it pass?

By next these five stages, you will be on path to having pleased clienteles and outcome that is on time and on financial enterprise.

#### **Stage 1: Identify the problem**

What is the problem you want to resolve? You should be capable to obviously state the problem and identify that it is really requires project before project administration actions start. If you cannot obviously answer this question, your project is likely to have an unfortunate and inescapable outcome from the beginning.

Regularly we are asked to administer a project when the action is actually a program or duty. A program is bigger in range than a project and does not have a certain end. A duty, regularly accomplished by an individual, is used to provide a project, does not require to be included with other jobs, and repeatedly occurs as a fraction of ongoing processes. A project has a beginning, final, defined assets, supplies and produces a product, service, or outcome.

When you can recognize the problem and approve that what is being demanded is really for a project, shape the enterprise substructure by setting the next in text:

- expecting changes and result – the conclusion aim;
- standards for how the project hit a target will be realized;
- expected limitations – money, assets, supplies, and time.

When these three things are itemized, go back to your problem report and justify that this project is a value pledge.

### **Stage 2: make the plan**

The project plan is the major and requests to include all of the stakeholders. The project plan is a living record that affords way and should be studied and improved over the project's lifetime.

It is time to look at the small things that are regularly ignored and can be a reason of significant problems in the future. The project plan covers the detailed planning documents and must contain:

- Performance methods – where are you beginning, where do you want to arrive, what marks want to be accomplished beside the path, and what are your quality criteria?
- Procedure changes that require to take position – who and what will these changes influence?
- Dangers – how they will be addressed if they rise?
- Resources – how are resources got and kept up; in the situation of workforce resources, how will they be satisfied?

- Learning and communication requests – everybody engaged in the enterprise requirements to recognize what is expected of them and how communication will be;
- Supporter from inside the organization – who can give guidance and provide when required.

Improving a strong project plan needs time. Do not be desirous to accelerate through the preparation and transfer on to the project implementation. Moreover, do not improve the plan and place it on the shelf; use it to path your development, success. An obviously thought-out project plan will verify to be useful as you develop through Stages three through five.

### **Stage 3: Start the project**

Your work as project director is to start the project plan and determine changes as required. As the project is started, make sure that next actions do it:

- Approve the persons or teams who will do the work in the project plan; make sure everybody knows each other and understood their character and know the communication practice;
- Implement project -tracking methods. Several projects tracking structures are available; select one that meets your projects requirements and is easy for you and others to apply;
- Guarantee the quality of the job that is being done; apply the quality criterion defined in the project plan;
- Tell organizations and persons about launch and finish dates and how they will be affected, and let them be updated during the process;
- Management the project group; supply training, give resources, and solve problems.

### **Stage 4: supervise process**

- A big part of your time is expended watching, speaking, and listening so you can evaluate, record, and describe the project's process and boundaries. Use the predefined performance measure (defined in Stage two) to evaluate performance. As you make the papers and reports, see the next;

- Use adequate time planning, implementing, and communicating your papers and reports. You do not desire to see yourself answering to requirements for data; this becomes a main time lose and can be reason of bad effect on the project. Determine problems as they happen, and tell the key stakeholders about problems. If a problem rises, identify options and their probable effects and present the problem and the give choices to your stakeholders;
- Add any new data you have knowledgeable to your project plan and every time check if required.

**Stage 5: Transport outcomes and finish the project**

You did it; you arrived your aim. The problem determines in Stage 1 is resolved and you are can finish the project. Through this stage, your tasks are to:

- evaluate the project achievements and fails – this is main for sustainability;
- transport the outcomes to the stakeholders – make project conclusion article with input from the entire group;
- document how to develop on coming efforts – study the lessons learned, together positive and negative;
- have a good time successes with team members [5].

**Case Questions:**

1. Do you think that the new structure for Peace Organization is suitable?
2. Is the task of Mr. Mohammed change the Peace Organization structure? Or it is for another section?
3. Is Mr. Mohammed the right person for the task to explain the new proposal for heads of sections?

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## Section 4. World economy

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### THE MULTILATERALISATION OF PREFERENTIALISM: FROM COEXISTENCE TO COOPERATION

**Abstract:** This paper highlights the reasons behind the proliferation of preferential trade agreements (PTAs) and its consequent impact on the multilateral trading system. The paper addresses the current debates revolving around PTAs as building blocks or barriers towards the multilateral trading system and argues that the inefficiencies in the existing multilateral framework have greatly expanded the scope and importance of the World Trade Organization (WTO) as a key player in the movement towards Multilateralisation of Preferentialism.

**Keywords:** Preferentialism, Multilateralisation, Regulatory coherence, International Trade, World Trade Organisation, World economy.

#### Introduction

The history of international trade regulations highlights that bilateral/preferential and multilateral trade arrangements have always been a part of the trade policy environment, and have coexisted. [1, 27] However, historical developments have seen a cyclical change in the importance and preference that has been accorded to each of these two systems. One important trend in recent years in the field of trade policy has been the proliferation of Preferential Trade Agreements (PTAs) as countries seek to achieve levels of liberalization greater than those possible under multilateral framework.

The economic drawbacks of the inter world war period marked by extreme protectionism and unilateralism paved the way for multilateral liberalism emerging as the appropriate approach for the world trading system. [2, 19–23] In the aftermath of the Second World War, the General Agreement on Tariffs and Trade (GATT) provided a consensual legal framework of rules, regulations and procedures for

the proficient management of international trade based on the touchstones of non-discrimination and reciprocity. This period also saw the rise of regional trading blocs and preferential trade agreements, led by the European Union (EU) and the North American Free Trade Agreement (NAFTA), which raised a new threat to the existing world trading system. The presumption was that such arrangements might be welfare enhancing provided certain criteria were met [3].

The last two decades have seen a four-fold rise in the number of PTAs transcending regional boundaries and the levels of economic development. From 1948 to 1994, 124 Regional Trade Agreements (RTAs) covering trade in goods were notified with the GATT, whereas since the creation of the WTO in 1995, over 400 additional agreements covering trade in goods or services have been notified [4]. Since June 2016, after the notification of the RTA between Japan and Mongolia, all WTO members now have a Regional Trade Agreement in force. The reasons for such proliferation of RTAs are manifold

and are not limited to the advantages sought in terms of tariff concessions and tariff binding.

The new generation PTAs tend to contain disciplines, which go beyond relevant WTO disciplines, or regulate issues in respect of which there are no WTO disciplines. The regulatory nature of recent PTA's has resulted in an increase in an inclusion of WTO-Plus disciplines, which stipulate deeper levels of liberalization in the areas covered by WTO Agreements, such as industrial and agricultural tariffs, Technical Barriers to Trade (TBT), trade in services, Intellectual Property IP and Trade-Related Investment Measures (TRIMs). Moreover, WTO-Extra provisions, disciplines not covered under the WTO Agreements, such as competition policy, investment, movement of capital, environmental laws, labor market regulations and measures on visa and asylum, have also been included in a majority of PTAs.

The recent PTAs concluded by the largest trading blocs, the US and the EU contain a significant number of WTO-Plus and WTO- Extra obligations and provisions, which are primarily regulatory in character. Empirical studies conducted by Horn et al (2009) show that provisions that can be regarded as really breaking new ground compared to existing WTO agreements are few and far between: environment and labor standards for US agreements and competition policy for EC agreements [5, 41]. Moreover, the recently concluded CECA (Canada-EU) and the Trans-Pacific Partnership (12 countries), along with Transatlantic Trade and Investment Partnership (EU-USA) agreement that are being presently negotiated have chapters that are WTO-Extra.

### **Stumbling blocks v. Building Blocks: The debate**

Preferential grant of tariffs, inclusion of WTO-Plus and WTO-Extra disciplines have brought the PTA framework under severe criticisms. Ex-WTO Director General Pascal Lamy has stated that "it would be fair to say that proliferation of PTAs is breeding concern – concern about incoherence, confusion, exponential increase of cost of business,

unpredictability and even unfairness in trade relations" [6, 4]. According to Jagdish Bahgwati, "numerous and crisscrossing PTAs and innumerable arbitrarily determined applicable tariff rates" have resulted in a "spaghetti bowl" phenomenon [7, 1139], one which may undermine transparency in the international trading system. PTAs are also being viewed as agreements, which could divert trade, erode the fundamental principle of non-discrimination of the WTO and reduce the potential for future multilateral liberalization [8, 121]. In the light of this threat that the PTA system poses to the multilateral trading system, it is argued by a few that PTAs are stumbling blocks, and these must be eliminated as a whole and countries must be forced to agree to negotiate in a multilateral framework.

However, preferentialism must not be seen as a complete threat. In fact, PTAs have been credited with being responsible for maintaining the multilateral club [9, 273–291], and for giving governments a way to maintain progress towards liberalization [10, 295–302]. PTAs can reinforce multilateralism and need not necessarily challenge its integrity and stability. The European experience is a stark example of how regional integration has been able to complement the multilateral trading system by promoting peace within the region and becoming one of the largest trading partners in the global multilateral trading system [11, 30]. Similarly, Switzerland is highly involved in European regional trade and continues to have extensive trade relations with the rest of the world at the same time.

RTAs, especially mega-regional agreements, such as the TPP, Regional Comprehensive Economic Partnership (RCEP), TTIP and The Trade in Services Agreement (TISA) can serve as a template for further negotiations on the multilateral level. If these agreements were to materialize into coherent results, they would be the stepping stones for dealing with these issues multilaterally. For example, regulatory cooperation between the EU and the US, one of the key major areas covered by TTIP, has played

an important role in establishment of international regulatory norms and disciplines [12, 9]. Setting aside current political inclinations, the negotiating parties to the TTIP believe that as a result of the agreement, intensified trade and investment will spur global economic growth and job creation and strengthen global trading system [13, 1]. That is to say, achieved regulatory convergence between the two key players in the international trade could foster achievement of regulatory convergence in the context of the multilateral trading system.

Furthermore, there is strong evidence that preferences induce a more rapid decline in external tariffs in free trade areas [14, 135]. Empirical studies find evidence that PTAs have a complementary effect on the multilateral trading system and are responsible for unilateral tariff reduction [15, 1531–1575]. Moreover, this proliferation of PTA's has not been accompanied by an actual boost of preferential trade flows [16], that may undermine the multilateral trading system. Despite this significant proliferation, 85% of world trade in merchandise continues to take place on a non-discriminatory, MFN basis [17].

The building-block stumbling-block debate has been raging for over a decade without any successful solution. The debate erroneously considers the two systems as mutually exclusive and distinct. It is in this light that it is argued that preferentialism must be accepted as a norm and the focus must be diverted towards the multilateralisation of preferentialism in order to eliminate the negative aspects that are associated with preferentialism [18]. There is an immediate need to ensure and maintain greater coherence and cooperation between PTA provisions and the multilateral trading system. The discriminatory aspects of PTA's that threaten the multilateral framework must be amended and the provisions of PTA's must refer to the existing WTO texts and provisions while negotiating PTAs. Members of PTAs must be prevented from engaging in forum shopping, using alternative dispute settlement mechanisms under the PTA as opposed to the WTO Dispute Settle-

ment Body. Furthermore, the flaws in the current WTO framework relating to PTA's are required to be re-modified and amended. Therefore, the inefficiencies in the current multilateral trading system and the threat posed by the PTA framework can be substantially addressed by a pro-active and constructive role played by the WTO.

#### **Multilateralising PTAs: The role of the WTO**

With its primary purpose to open trade for the benefit of all, the WTO is eminently suited to multilateralise PTAs. At the outset, the issues surrounding the inconsistency of obligations under PTAs with those under the WTO agreements are brought into the limelight. This inconsistency may stem from the process of scheduling commitments under the PTAs, which is considerably aggravated in the case of developing and least developed countries, with less or no of technical expertise and experience. In this regard, Jim Rollo's proposal of establishing an Advisory Centre on PTA that would provide developing country Members with advisory services regarding the negotiation of the regional trade agreement, finds favor [19]. This Centre could work within the contours of the Development division of the WTO and complement its Aid for trade initiative.

PTAs can also be multilateralised by ensuring a high degree of coherence between the provisions of the RTAs and the WTO law. As proposed by Rudolf Adlung, incorporating an MFN clause into PTAs could be considered. An MFN clause in a PTA could set forth the rules in the event of any incompatibility between a PTA and a WTO Agreement, stipulating the prevalence of the WTO Agreement to the extent of the inconsistency, thereby ensuring regulatory coherence between the two [20; 24].

An alternate approach to ensure such coherence, proposed by Joost Pauwelyn, involves the adoption of a 'dynamic approach', wherein PTAs automatically include the amended rules under the WTO framework. This would primarily avoid the necessity to constantly update the provision of PTAs after every amendment in the WTO law, and at the same

time ensure the compliance of PTA provisions with WTO law [21].

### Conclusion

In conclusion, it is stated that historical developments have shown that inefficiencies in the multilateral trading system, followed by an economic downturn have led to a trend towards a temporary phase of preferentialism. However, it must be remembered that the WTO has been able to play an important constructive role in addressing the inefficiencies in the past (the Uruguay Rounds) and will continue to do so even in the aftermath of the collapse of the Doha Develop-

ment Agenda [22, 39]. The WTO is equipped with powerful, adequate tools, particularly the Dispute Settlement Undertaking that is superior to bilateral settlements [23, 239], which will ensure that the role of the WTO is not compromised and the WTO remains an important international organization promoting multilateral liberalization. However, to improve the coherence between the systems and promote their cooperation, it is suggested that the WTO plays a significant pro-active role and the deficiencies in the WTO framework be plugged to ensure that the global trading system moves towards multilateralising regionalism.

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## **ECONOMY OF JOINT CONSUMPTION IN THE INTERNATIONAL SECTOR OF MEANS OF PLACEMENT: THE CURRENT STATE**

**Abstract:** The current state of the economy of joint consumption in the international sector of accommodation facilities is reviewed. The leading airborne platforms Airbnb, Homeaway, Couchsurfing are considered; an analysis of their development at the international level; The advantages and disadvantages of developing similar ones for the national hotel sector, their influence on its international competitiveness are defined.

**Keywords:** economy of joint consumption, accommodation sector, share platforms, Airbnb, Homeaway, international competitiveness, hotel sector.

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## **ЭКОНОМИКА СОВМЕСТНОГО ПОТРЕБЛЕНИЯ В МЕЖДУНАРОДНОМ СЕКТОРЕ СРЕДСТВ РАЗМЕЩЕНИЯ: СОВРЕМЕННОЕ СОСТОЯНИЕ**

**Аннотация:** Проведен обзор современного состояния экономики совместного потребления в международном секторе средств размещения. Рассмотрены ведущие шеринговые платформы Airbnb, Homeaway, Couchsurfing; проведен анализ их развития на международном уровне; определены преимущества и недостатки развития подобных для национального гостиничного сектора, их влияние на его международную конкурентоспособность.

**Ключевые слова:** экономика совместного потребления, сектор средств размещения, шеринговые платформы, Airbnb, Homeaway, международная конкурентоспособность, гостиничный сектор.

В современной практике феномен совместного потребления, являясь социально-экономическим открытием XXI века и входящий в число десяти идей, которые изменят мир, по версии журнала Times [1], имеет множество синонимов: «долевая экономика», «шеринг-экономика» (от англ. sharing economy), «экономика доверия» и т. п. В научных кругах совместное потребление

все чаще обоснованно называют новой экономической моделью, основу которой составляет коллективное использование товаров и услуг, аренда и бартер вместо владения.

Впервые концепция совместного потребления была описана в книге Р. Боцман и Р. Роджерс «Что мое, то и ваше: как совместное потребление меняет нашу жизнь» («What's Mine Is Yours: The

Rise of Collaborative Consumption», 2011). Не получив должного внимания со стороны экспертов в области экономики и менеджмента, ситуация координально изменилась после выступления Р. Боцман на TED Talks, видеозапись которого насчитывает более двух миллионов просмотров. В 2015 г. глобальный рейтинг бизнес-мыслителей Thinkers50, который собирает, ранжирует и представляет лучшие идеи в области управления, обозначил совместное потребление инновационной идей года, а Рейчел Боцман стала победителем в номинации «Прорывная идея» [2].

В 2013 г. аналитики PwC оценили объем мирового рынка совместного потребления в 15 млрд. долл. США (в анализ были включены пять основных секторов (финансовые услуги, найм персонала, услуги по временному размещению, транспортные услуги, видео/аудио обмен), а к 2025 г. спрогнозировали рост до 335 млрд. долл. При этом эксперты отмечали, что в данный временной период среднегодовой темп роста сектора средств размещения в экономике совместного потребления составит 31%, в то время как в традиционной бизнес-модели сектора средств размещения данный показатель составит лишь 4% [3]. Эти данные подтверждают огромный потенциал развития экономики совместного потребления, ее давление на существующий рынок. Высокие темпы развития шеринговых платформ несомненно способствует росту конкуренции в международном секторе средств размещения, заставляя управленцев гостиниц и аналогичных средств размещения более тщательно заботиться об обеспечении устойчивой конкурентоспособности своих предприятий как на национальном, так и международном уровне.

Целью данной статьи является проведение краткого обзора современного состояния экономики совместного потребления в международном секторе средств размещения в условиях стремительного развития информационных технологий и глобализации мировой экономики.

Шеринг-экономика в международном секторе средств размещения представлена такими ведущими платформами, как Airbnb, Inc., Couchsurfing International, Inc., HomeAway, Inc. (таблица 1). Они содержат предложения по краткосрочной аренде жилья (частично или полностью) и позволяют сделать бронирование в режиме онлайн.

Компания Airbnb, являясь лидером среди участников рынка, предлагающих услуги по краткосрочной аренде помещений по всему миру, может предложить более 2 млн. вариантов размещения в 34 000 городах мира (более 190 стран). В 2013 г. выручка Airbnb составила 250 млн. дол. США; к 2020 г. доходы компании составят 10 млрд. дол. США, считают аналитики [4].

Согласно новому исследованию *CBRE Hotels' Americas Research*, с октября 2014 по сентябрь 2015 г. американские путешественники потратили на *Airbnb* 2,4 млрд. дол. США. Это всего лишь 1,7% от 141 млрд. дол. США, заработанных отелями, но, тем не менее, значительный скачок по сравнению с показателями за тот же период предыдущего года. Больше половины из этих 2,4 млрд. дол. были потрачены в пяти американских городах – Нью-Йорке, Лос-Анджелесе, Сан-Франциско, Майами и Бостоне [5].

В 2009 г. сервисом Airbnb воспользовались всего 21 тыс. чел., а в 2014 г. количество пользователей возросло до 10 млн. чел. В 2014 г. на сайте Airbnb было представлено более 800 тыс. предложений по размещению в 34 тыс. городах мира (190 стран) [7], в то время, как одна из ведущих мировых гостиничных сетей «Hilton Worldwide» имела 715 тыс. комнат в 94 странах мира [8]. Эти данные позволяют не сомневаться в роли, значении и степени влияния шеринговых платформ на международный сектор средств размещения, в том числе на гостиничный сектор разных стран мира.

Результаты исследований автоконцерна Ford дают основание полагать, что потребителям нравится *sharing economy* в секторе средств

размещения. Около половины граждан из Франции, Германии, Италии, Испании и Великобри-

тании (44%) готовы предоставить в пользование другим людям свой дом [9].

Таблица 1. – Экономика совместного потребления в секторе средств размещения

Платформа	Описание	Количество пользователей	Годовой оборот	Стоимость	Охват территории
<b>Airbnb</b>	Онлайн-площадка для размещения, поиска и краткосрочной аренды помещений по всему миру; источник получения дохода – удержание комиссионного вознаграждения посредством уплаты сервисного сбора владельцами жилья и путешественниками. Год основания: 2008	Около 2 млн. зарегистрированных средств размещения; более 60 млн. пользователей по всему миру	250 млн. дол. США в 2013 г.; 900 млн. дол. США в 2015 г.; 10 млрд. дол. США в 2020 г.	25,5 млрд. дол. США в 2013 г.; более 30,0 млрд. дол. США в 2016 г.	34 000 городов, 191 страна
<b>Home Away</b>	Платформа по аренде жилья на время отпуска; источник получения дохода – платежи за регистрацию, взимаемые с владельцев жилья. Во владении данной компании находятся платформа <i>Bookabach</i> и <i>VRBO</i> . Год основания: 2005	Более 1,2 млн. зарегистрированных средств размещения	346,5 млн. дол. в 2013 г.; 446,8 млн. дол. в 2014 г. (рост 28,9%)	3 млрд. дол. США (по данным на февраль 2015 г.)	190 стран
<b>Couchsurfing</b>	Платформа, организованная по принципу социальной сети для предоставления услуг по обмену жильем или услуг по проживанию на безвозмездной основе. Источник дохода – некоммерческая организация. Год основания: 2004	Около 10 млн. зарегистрированных пользователей	–	–	более 200 000 городов

Источник: составлено автором по данным [6, С. 384]

В настоящее время только в Европе создано 275 ресурсов, работающих в разных секторах экономики совместного потребления, о чем свидетельствуют данные компании PwC. Также следует отметить, что платформы по предоставлению услуг размещения относятся к числу ключевых секторов sharing economy в Европе наряду с транспортными услугами; услугами по хозяйству и ремонту по требованию; подработке в свободное от основной работы время и услугами по кооперативному финансированию. Доходы европейских предприятий, относящихся

к вышеобозначенным ключевым секторам sharing economy, в 2015 г. составили 3,6 млрд. евро (+97% по сравнению с 2014 г.), а общий объем прошедших через них транзакций – 28,1 млрд. евро (+77%) [10; 11]. На долю шеринговых платформ сектора размещения в объеме выручки приходится 32% (2 место после транспортных услуг); в объеме транзакций – 54% (1 место). Приведенные данные свидетельствуют о крайне высоких темпах развития экономики совместного потребления, в том числе и в международном секторе средств размещения, что, свою очередь, влечет

за собой рост конкуренции в международной гостиничной индустрии [10].

В целом, конкуренция привела в тому, что многие товары и услуги, с одной стороны, стали слабо отличимыми по характеристикам друг от друга. С другой – развитие интернета и онлайн-рекламы привело к появлению поколения миллениалов, которое не держится за обладание вещами [12]. Миллениалы путешествуют на 23% чаще, чем люди старших поколений. Они готовы тратить на путешествия больший процент от своего дохода [13]. Еще одной особенностью данного поколения является жажда приключений, получение уникального опыта. Согласно данным компании Curalate, 30% миллениалов хотят, чтобы их путешествия отличались от опыта их сверстников [14]. Это объясняет и популярность сервиса Airbnb, 60% клиентов которого являются миллениалами [15]. По мнению миллениалов, лучший способ получить новый опыт от путешествий и узнать страну – общаться и проводить время с местными жителями, есть в местных ресторанах, находить места, неизвестные широкому кругу людей.

На данный момент не ведется централизованный статистический учет результатов функционирования шеринговых платформ (Airbnb, Inc., Couchsurfing International, Inc., HomeAway, Inc.) в открытом доступе. Но данные исследований, приведенных ниже, свидетельствуют о том, что их динамичный рост изменяет мировой рынок гостиничных услуг и предоставляет путешественникам новые варианты размещения. Также это свидетельствует о постепенной трансформации привычной бизнес-модели мировой гостиничной индустрии, необходимости постоянного исследования феномена совместного потребления с целью прогнозирования его развития и влияния в будущем.

Так, исследование, посвященное количественной оценке средств размещения, построенных на принципах экономики совместного потребления, во Франции, проводимое Министерством экономики, промышленного и цифрового обе-

спечения в 2015 г. показало, что из общего количества койко-мест в стране (8,8 млн.) 43% приходится на средства размещения, построенные на принципах экономики совместного потребления (3,8 млн.). При этом они же демонстрируют следующие показатели по количеству проданных ночей: сезонное жилье – 183 млн. ночей, обмен домами (Этот способ распространен в Америке и Европе. Суть заключается в том, что посредством специальных платформ хозяин выставляет свою квартиру/дом (с подробным описанием), указывая перечень предпочитаемых для поездки стран и ожидает, когда кто-нибудь захочет приехать в его город. Более эффективный способ заключается в самостоятельном поиске интересных домов и направлении хозяевам предложений обменяться жильем) – 2,5 млн. ночей, коучсерфинг – 2 млн. ночей [16].

По данным Греческой палаты отелей, в октябре 2014 г. более 6500 объектов недвижимости были зарегистрированы на платформе HomeAway. Их расположение приходится в основном на туристические регионы страны (53% расположены на острове Крит, Кикладских и Додеканесских островах). При этом национальный гостиничный сектор включает 9677 отелей, 401 332 номеров, 773 445 мест, 46% из которых расположены в этих же туристических регионах [17].

Исследование, проведенное представительством туристических компаний Испании Exceltur, зафиксировало рост числа международных туристов, проживающих в арендованных частных жилищах, на 59,7% в период с 2010 г. по 2014 г. Сезонное арендное жилье включает 2,7 млн. мест, в то время, как в традиционных средствах размещения (регулируемых) число мест составляет 2,4 млн. Концентрация расположения – Барселона, Малага и иные популярные туристические регионы. 65% этого предложения представлены на трех ключевых платформах – Airbnb, HomeAway, Niumba. Было подсчитано, что общий экономический вклад и уровень занятости

населения при такой модели организации средств размещения ниже, чем при организации традиционных гостиничных предприятий (оценочная экономическая выгода на 84,8% ниже; количество занятых составляет 9,8 чел. на 100 койко-мест по сравнению с 53,3 чел. в регулируемом гостиничном секторе) [18].

Исследование Университета Боккони, проводимое в г. Милане в преддверии Всемирной выставки “ЭКСПО-2015”, зафиксировало около 8500 предложений по аренде частного жилья, представленных на основных платформах. При этом в городе расположено 455 отелей и 398 официально зарегистрированных иных средств размещения [19].

Следует отметить, что данная концепция предоставления услуг по временному размещению имеет место в разных регионах мира и ориентирована на разные сегменты рынка. Так, в Новой Зеландии платформа Bookabach ([www.bookabach.co.nz](http://www.bookabach.co.nz)) начала свое функционирование в 2000 г., включала предложения по аренде более 50 000 вариантов сезонного жилья (дач) и недавно была приобретена HomeAway.

Развитию экономики совместного потребления способствует повышение спроса на нетрадиционные формы размещения: от глэмпинга и коучсерфинга до пребывания в уникальных и необычных местах. Сервис Campinmygarden (<http://campinmygarden.com>), например, позволяет найти людей, на чьем садовом участке вы за определенную плату сможете поставить свою палатку [20].

Данные опроса, проведенного в Испании, показали, что к числу основных мотивирующих факторов в пользу выбора средств размещения, представленных на платформах по аренде частного жилья, относятся невысокая стоимость и разнообразный выбор вариантов размещения, которые могут удовлетворить разные запросы групп туристов [18]. Во Франции путешественников привлекает возможность получения аутентичного местного опыта [16]. В Японии данный вид

средств размещения представляет альтернативу международным путешественникам, заинтересованным в повседневной жизни Японии, дополняя гостиничный сектор и иные традиционные средства размещения [6, С. 96].

Таким образом, к основным факторам, определяющим популярность платформ по предоставлению услуг с недвижимостью, следует отнести: как правило, более низкая стоимость услуг за проживание по сравнению с отелями (Airbnb, HomeAway), либо отсутствие оплаты, так как акцент сделан на обмен опытом (Couchsurfing); предоставление свободы выбора и перемещения вне зависимости от месторасположения средств размещения; доверие, построенное на основании комментариев, отзывов, оценок, оставленных предыдущими гостями, что обеспечивает высокий уровень уверенности при выборе.

Принимая во внимание выше сказанное, можно сделать вывод, что сервисы по обмену или краткосрочной аренде жилья составляют значительную долю в секторе средств размещения многих стран, составляя при этом конкуренцию национальному гостиничному сектору. Это, в свою очередь, влечет за собой изменение традиционной бизнес-модель гостиничной индустрии, необходимость пересмотра существующих подходов в управлении, ценообразовании и стратегическом планировании гостиничного хозяйства как на микро-, так и на макроуровне.

К числу преимуществ преимуществ, получаемых от развития sharing economy в секторе средств размещения, относятся:

- обеспечение средствами размещения регионов с невысоким уровнем развития туристской инфраструктуры, что способствует развитию туризма в наименее популярных туристических дестинациях;
- снижение ценового давления в сегменте средств размещения за счет предоставления альтернативы в вариантах проживания по более низкой стоимости (например, в Париже, Дублине,

Цюрихе, Женеве стоимость проживания в гостиницах, как правило, очень высокая);

- наличие более дешевого жилья открывает возможности для охвата новых сегментов рынка. В Швейцарии туризм развивается в горнолыжных центрах, альпийских и сельских регионах. Развитие городского туризма во многом сдерживалось стоимостью проживания в отелях. С появлением более дешевых вариантов для проживания одно-двухдневные туры в Цюрих, Женеву приобретают популярность;

- вклад в экономическое развитие региона за счет эффекта мультипликатора. В 2012 году Airbnb впервые опубликовала отчет о влиянии её деятельности на Сан-Франциско и его жителей. Исследование показало, что компания не только помогла туристам сэкономить деньги, но и способствовала развитию местного бизнеса: всего за год пользователи сервиса потратили \$56 млн., при этом \$12,7 млн. получили владельцы квартир, а \$43,1 млн. заработали рестораны, магазины, развлекательные заведения и транспортные компании [21];

- внедрение инноваций, пересмотр подходов к оказанию услуг по временному проживанию в контексте развития новых бизнес-моделей, роста конкуренции.

На первоначальном этапе появления сервисов по обмену, краткосрочной аренде жилья или предоставления жилья на безвозмездной основе на рынках других стран вопросов по их функционированию не возникало. По мере развития Airbnb, Inc. и роста числа его пользователей, все больше заговорили о недобросовестной конкуренции, неуплате налогов, недостаточном уровне безопасности и некоторых других моментов. Это послужило причиной пересмотра подходов к развитию экономики совместного потребления, и, в частности, к Airbnb и аналогичных сервисов, во многих странах. В международной практике множество примеров, когда когда государства определяют условия, обязательные к исполнению, при которых международные платформы

по аренде жилья (Airbnb и др.) могут функционировать на их территории. Меры регулирования связаны, как правило, с вопросами национального налогового законодательства, безопасностью потребителей, защитой национальных производителей услуг; имеют силу на территории всего государства либо определенного города.

Так, в **Португалии** с 2014 г. владельцы жилья в обязательном порядке обязаны информировать свой муниципалитет о своей деятельности, что возможно посредством заполнения онлайн-декларации на веб-сайте Turismo de Portugal или местного муниципалитета. В противном случае это приведет к штрафам до 35 000 евро и двухлетнему запрету на предоставление услуг по размещению жилья. Аналогичным образом, краткосрочная сезонная аренда жилья регулируется и облагается налогом на муниципальном уровне в **Венгрии**. Кроме этого, объекты недвижимости должны соответствовать минимальным стандартам, а владельцы должны ежегодно предоставлять данные о гостях в местные органы власти. В **Испании** подобные модели сдачи в аренду жилья подлежат регулированию на уровне автономных регионов. На территории **Германии** существуют различные подходы в решении данного вопроса. В то время как Гамбург, при определенных условиях, предоставил юридическое разрешение на аренду основного места жительства на краткосрочной основе без необходимости запрашивать разрешение, Берлин запретил краткосрочную аренду без прямого разрешения местных органов власти в попытке регулирования предложения краткосрочного арендного жилья. К числу стран, регулирующих деятельность шеринговых сервисов по услугам с недвижимостью, также относятся Греция, Нидерланды, США, Франция, Южная Корея, Эстония и многие другие. Вместе с тем, некоторые государства, например, Япония, не препятствуют развитию подобных платформ на территории своих стран, ориентируясь на их преимущества, перечисленные выше.

Принимая во внимание проведенный автором обзор современного состояния экономики совместного потребления в международном секторе средств размещения, а также результаты международных исследований [22], согласно которым 7% опрошенных во время путешествий пользовались сайтами по аренде частных средств размещения и еще 8% готовы рассматривать такую возможность в будущем, можно сделать вывод, что тенденция стремительного развития шеринговых сервисов по обмену и краткосрочной аренде жилья лишь сохранится, чему будет способствовать появление новых технологий, а также рост доли миллениалов в общем количестве потребителей услуг по временному размещению [23]. Вместе с тем важно понимать, что экономика совместно-

го потребления – это относительно новое явление, и большая часть информации о его развитии принадлежит самим шеринговым платформам, что затрудняет выявление значимых тенденций из независимых источников данных и составление точных прогнозов на перспективу. В странах, где сервисы, подобные Airbnb, Homeaway и т. д., пока не достигли высокого уровня развития и их влияние на национальный гостиничный сектор не носит негативный характер, крайне важно исследовать международный опыт в данной сфере с целью определения возможных преимуществ и недостатков для национального сектора средств размещения; с целью разработки мер по повышению его международной конкурентоспособности.

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## Section 5. Regional economy

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### MODERN ECONOMIC PROBLEMS OF DEVELOPMENT AND EFFICIENCY OF TRANSPORT SERVICES IN THE NORTHERN REGIONS OF SIBERIA

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**Abstract:** describes the specifics of the economic development of the Northern Siberian regions; highlights the main problems impeding the effective functioning of transport; examines theoretical problems reasonable estimate of the efficiency of transport services; discusses the necessity of taking into account the strategic aspects of transport development in these regions.

**Keywords:** transportation problem, North Siberia, ways to improve, and the importation of Siberian region, SMP.

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### СОВРЕМЕННЫЕ ПРОБЛЕМЫ РАЗВИТИЯ И ПУТИ ПОВЫШЕНИЯ ЭФФЕКТИВНОСТИ ВОДНОТРАНСПОРТНОГО ОБСЛУЖИВАНИЯ СЕВЕРНЫХ РЕГИОНОВ СИБИРИ

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**Аннотация:** Освещается специфика экономического развития северных сибирских регионов; выделяются основные проблемы, препятствующие эффективному функционированию транспорта; исследуются общетеоретические проблемы обоснованной оценки эффективности транспортного обслуживания; рассматривается необходимость учета стратегических аспектов развития транспортного комплекса указанных регионов.

**Ключевые слова:** транспортное обслуживание, проблемы, север Сибири, пути повышения, северный завоз, Сибирский регион, СМП.

Исторически сложились определенные особенности развития северных регионов нашей страны и, в частности, Сибири. Обусловлены они климатическими условиями, степенью освоения данных регионов, а также наличием большого числа месторождений углеводородов. Являясь крупнейшим мировым источником минерального сырья Западно-Сибирский нефтегазоносный бассейн, а особенно северная его часть играет важную роль в структуре топливно-энергетического баланса страны.

Это обстоятельство повлияло в значительной мере на формирование транспортного комплекса региона – здесь создана плотная сеть трубопроводов, транспортирующих нефть на нефтеперерабатывающие заводы и за рубеж, сеть магистральных газопроводов, газопроводов высокого и низкого давления, объединенных в Единую систему газоснабжения России.

Важное значение имеет водный транспорт, являясь единственной доступной альтернативой воздушному в организации северного завоза, а также обеспечивая доставку грузов в районы добычи нефти и газа по рекам Обь-Иртышской воднотранспортной системы. Крупные речные порты находятся в Барнауле, Омске, Новосибирске, Тобольске, Томске, Сургуте, Сергино, Салехарде, Лабытнанги.

В 2013 году на западном берегу Обской губы Карского моря первые грузовые суда принял морской порт Сабетта, строительство которого предусматривалось в рамках проекта «Ямал-СПГ», однако в процессе был переориентирован на многопрофильный с целью создания опорно-

го пункта для СМП. Возможность интеграции транспортной системы Сибири в международное пространство осуществимо благодаря возможности выхода через район Обской губы в акваторию Карского моря, которая расположена по пути следования Северного морского пути, его среднее расстояние составляет 11 237 км. Изменение протяженности маршрута может быть вызвано ледовыми условиями, типом судов как проводимых, так и осуществляющих проводку.

Главной целью развития СМП является возможность транспортного обслуживания изолированных территорий российского Севера, с целью успешного хозяйственного освоения арктических земель, при этом, предоставляя для транзита более короткий маршрут в качестве альтернативы Южному морскому пути (протяженность этого маршрута составляет 23700 км).

Для функционирования СМП в качестве транзитной магистрали международного формата необходим ряд преобразований, в том числе и законодательного характера. Для освоения грузооборота, эквивалентного тому, что перевозится по Южному маршруту через Суэцкий канал, у России физически не хватит подвижного состава. Речь идет в первую очередь о ледоколах, обеспечивающих проводку судов, помимо этого, остро встанут проблемы с оформлением пропуска судов, дефицитом кадрового состава. Интенсификация хозяйственной деятельности в Арктике приведет к и без того острым экологическим проблемам. Эксперты Программ ООН по окружающей среде (ЮНЕП) выделяют три основные из них:

- изменение климата и таяние арктических льдов;

- загрязнение вод северных морей стоками нефти и химических соединений, а также морским транспортом;

- сокращение популяции арктических животных и изменение среды их обитания [5, С. 358].

Однако, несмотря на негативные экологические последствия интенсивного развития СМП, именно этот вектор создаст условия северным регионам Сибири для более широкого хозяйственного освоения, что напрямую скажется на общем качестве жизни.

В целом, воднотранспортная система региона обладает большой грузонапряженностью, но при этом северная часть Сибири имеет ряд проблем:

- местности заболочены и непригодны для строительства постоянных магистралей, по этой же причине повсеместно используется гусеничная самоходная техника, которая нарушает плодородный слой почвы, препятствуя произрастанию и без того скудной флоры;

- основные воднотранспортные магистрали имеют меридиональное направление;

- пиковость перевозок, что обусловлено периодом разработки новых месторождений. После падения уровня добычи, сооруженные объекты инфраструктуры чаще всего остаются невостребованными. За все годы освоения нефтегазовых месторождений, начиная с 1949 (г. Урай) в Тюменском регионе образовалось 14 городов, наиболее крупными из них являются Нефтеюганск (1961 г.), Сургут (1965 г.) и Нижневартовск (1972 г.);

- отсутствие ресурсоперерабатывающих предприятий, что усложняет подвоз топлива к эксплуатируемым объектам и транспортным средствам;

- необходимость ожидания полной загрузки эффективного средне- и крупнотоннажного флота, что приводит к значительным потерям времени у грузоотправителя и простоя у перевозчика;

- сильная зависимость водного транспорта от непредсказуемых климатических условий – водность, ледовые условия;

- короткие сроки навигации (до 90 суток на Обской и Тазовской губе) не позволяют использовать в полной мере потенциал речного транспорта. Некоторые реки региона в отдельные годы промерзают до дна, например участки р. Щучья у д. Лаборова и у д. Щучье промерзают на срок до 5 месяцев. Средние сроки очищения Тазовской губы от ледовых явлений в районе пос. Находка – 18 июня;

- тяжелые условия эксплуатации подвижного состава и строительной техники способствуют более частым ремонтам, которые не всегда возможны в оборудованных помещениях ввиду габаритов (например, подъемные краны на пневмоходу показали высокую производительность, но частые поломки пневматической системы вызывают колоссальные трудности при эксплуатации), в связи с чем приходится сооружать дополнительные временные сооружения в виде купола из каркасных материалов;

- введенные в 2014 году экономические санкции в отношении Российской Федерации затрудняют поставки как техники, так и запасных частей, поскольку основная часть используемых узлов и агрегатов импортного производства;

- большая часть подвижного состава имеет значительную степень износа;

- обледенение линий электропередачи нарушают их нормальную эксплуатацию на обслуживающих предприятиях, а также приводит к различным аварийным ситуациям.

Поскольку результатом транспортного обслуживания являются не только экономические последствия, то можно говорить о социально-экономических аспектах обозначенных выше проблем. Для их решения необходим комплекс мероприятий, направленных на создание информационно-правового пространства, одинаково комфортного как для перевозчиков, так и грузовладельцев

(пассажиров). Вообще транспорт по своим физическим возможностям является экстерриториальным, но по экономической эффективности может быть оценен только с народнохозяйственной точки зрения, а не с позиций отдельных регионов или хозяйствующих субъектов.

Ярким примером этому служит строящийся завод по производству сжиженного газа «Ямал СПГ». Завод подобного формата единственный в мире за полярным кругом, имеет стратегическое значение и перспективен как с точки зрения увеличения ВРП Тюменской области, в составе которой находится ЯНАО – ресурсная и сырьевая база для функционирования вышеупомянутого предприятия, так и ВВП в целом по России. Интересен этот проект еще и с точки зрения хозяйственного освоения Севера, в частности, создания морского порта Сабетта в качестве опорного пункта СМП, в перспективе обещающим стать главным транзитным маршрутом, о котором говорилось ранее. Главная конкурентная составляющая – расстояние – СМП короче Суэцкого канала на 31% (6,65 тыс. морских миль против 12,84 тыс. морских миль), что во временном интервале составит 20 и 40 дней соответственно.

Немаловажным фактором является структура капитала ОАО «Ямал СПГ», где форма собственности совместная частная и иностранная (60% – РФ; 20% – Франция; 20% – КНР). Проектный уровень добычи составляет около 27 млрд. куб. м газа в год на протяжении как минимум 20 лет [3], при этом большая часть планируемого объема газа (более 80%) законтрактована:

– 2,5 млн. тонн ежегодно будет поставляться в испанскую компанию Gas Natural Fenosa. Контракт заключен сроком на 25 лет [3];

– 2,9 млн. тонн ежегодно намерен покупать трейдер Газпрома Marketing & Trading Singapore с целью дальнейшей поставки в индийскую компанию Gail [3];

– 3 млн. тонн в течение 15 лет будет выкупать китайская фирма CNPC, являющаяся держателем

20% акций наряду с ОАО «Новатэк» и французской Total [3];

– 4 млн. тонн планирует выкупать вышеупомянутая Total, владеющая долей в капитале проекта «Ямал СПГ» в таком же размере, как и китайский партнер [3];

– 1 млн. тонн будет поставлен также во Францию – с компанией Engie заключен контракт на 23 года [3].

Для обеспечения стабильного транспортного сообщения завода с покупателями сжиженного газа необходимо строительство судов ледокольного типа, имеющие возможность доставлять грузы без сопровождения ледокольным флотом. Танкеры в количестве 15 штук будут построены по контрактам с верфями DSME и DY Shipping Limited. Суда будут сданы в аренду до 2045 года заводу «Ямал СПГ» [2]. Первый танкер уже спущен на воду и прошел пробный рейс по участку СМП. Южно-корейские суда ледового класса будут переданы по договору о предоставлении долгосрочной аренды, который подписан в 2015 году представителями Ямал СПГ и судоверфи. Судно ледового класса Arc7 (самый высокий ледовый класс среди существующих транспортных судов) Christophe de Margerie – это первый из 15 танкеров-газовозов для проекта «Ямал СПГ», который способен работать при температурах до –52 градусов по Цельсию и проходить через льды толщиной до 2,1 м. Вместимость танкера – 172 600 куб. м сжиженного природного газа [6].

Воспользовавшись элементарным математическим аппаратом, можно судить о минимально необходимой потребности в транспортном флоте. Необходимое количество судов ледового класса «ARC 7» составляет 98 судов в год, однако с учетом расстояния и средней скорости, заявленной корейскими судостроителями – 14 км/ч, количество судов, которое физически может совершить круговой рейс – 51 единица подвижного состава. Это означает, что 15 танкеров-газовозов будет недостаточно для освоения заданного грузопотока.

Работы по строительству завода ведутся с 2012 года, на момент написания статьи, «Ямал СПГ» еще ни разу не вышел на положительные значения прибыли, то есть налог на прибыль не уплачивался еще ни разу ни в федеральный, ни в региональный бюджет. Тем не менее, налоговые поступления ОАО «Ямал СПГ» в структуре доходов Ямало-Ненецкого автономного округа составляют значительные суммы. Помимо уже ныне действующих 15000 рабочих, занятых на стройке, завод предоставит 1400 рабочих мест после ввода в эксплуатацию сданного объекта. Если учесть, что средняя заработная плата составила в 2015 году – 80323 рубля (как уже отмечалось ранее), то собираемость только одного налога на доходы физических лиц по грубым подсчетам при норме уплаты 85% в бюджеты субъекта РФ (коим является Тюменская область) и 15% в местные бюджеты – (Ямало-Ненецкий автономный округ) в соответствии с п. 2 ст. 56 Бюджетного кодекса РФ составит 133 млн. рублей и 23,5 млн. рублей соответственно. Если к этим поступлениям добавить налог на прибыль в размере 2% в федеральный бюджет и налог на прибыль в бюджет субъекта РФ с тех сумм, которые будут уплачиваться за аренду танкеров-газовозов, то получится колоссальная выгода в виде увеличения налоговых поступлений в бюджеты различных уровней.

Уместно в этой ситуации говорить о мультипликативном эффекте, основу которого составляют три кита: валовый внутренний продукт, инвестиции и политическая составляющая. Все эти компоненты сопряжены с проектом «Ямал СПГ» и все они положительно влияют друг на друга.

Увеличение валового внутреннего продукта Ямало-Ненецкого автономного округа неизбежно повлечет за собой повышение общего уровня качества жизни, как следствие – увеличение численности постоянного состава населения Ямало-Ненецкого автономного округа, что спровоцирует формирование мощного комплекса социально-бытовых объектов инфраструктуры, повышение покупательской способности, результатом которой явится увеличение собираемости налогов в местный бюджет.

Текущее состояние международного газового рынка – жесткая конкуренция транспортировки компримированного газа по трубопроводу и сжиженного газа в судах, показало, что транспортная составляющая влияет отнюдь не меньше, чем себестоимость добычи, а развитость транспортной инфраструктуры будет в значительной мере определять результативность проекта.

Подводя вышесказанное, стоит отметить необходимость тесного взаимодействия федеральных властей и компаний, осуществляющих разработку и разведку месторождений, которое может быть выгодно лишь в условиях кооперации и партнерских отношений. Приложенные усилия обеих сторон будут иметь эффект тогда, когда четко будут установлены диапазоны ответственности каждого из участников. В российских условиях слабость законодательной базы, удаленность административного центра, а также несовершенство патерналистской политики порождает дополнительные трудности при ведении и без того нелегкой хозяйственной деятельности в условиях вечной сибирской мерзлоты.

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## **MECHANISMS AND INSTRUMENTS OF DEVELOPMENT OF NON-OIL SEKTOR OF INDUSTRIES IN AZERBAIJAN**

**Abstract:** In the article it is indicated that for the sustainable development of non-oil industries it is necessary to accelerate structural reforms, diversify the national economy, improve the effectiveness of economic regulation mechanisms. For the accelerated development and diversification of the non-oil industry, it is proposed first of all to modernize the most important production capacities of the industry and use clusters in various industries.

**Keywords:** non-oil sector, mechanism, regulation, entrepreneurship, innovations, investments, modernization.

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## **МЕХАНИЗМЫ И ИНСТРУМЕНТЫ РАЗВИТИЯ НЕНЕФТЯНЫХ ОТРАСЛЕЙ ПРОМЫШЛЕННОСТИ В АЗЕРБАЙДЖАНЕ**

**Аннотация:** В статье отмечается, что для устойчивого развития ненефтяных отраслей промышленности необходимо ускорение структурных реформ, диверсификация национальной экономики, повышение эффективности механизмов регулирования экономики. Для форсированного развития и диверсификации ненефтяной промышленности предлагается в первую очередь осуществление модернизации важнейших производственных мощностей индустрии и использование кластеров в разных отраслях промышленности.

**Ключевые слова:** ненефтяной сектор, механизм, регулирование, предпринимательство, инновации, инвестиции, модернизация.

Отказ от «сырьевой» модели развития активно обуславливает модернизацию экономики Азербайджана и переход к инновационному развитию. Активная реализация «Концепции развития Азербайджан-2020: взгляд в будущее», форсированного индустриально-инновационного развития страны, в рамках которого планируется внедрение крупных инвестиционных проектов в сфере высокого передела сырьевых ресурсов и инфраструктуры, а также ненефтяных отраслей, положительно скажется на темпах роста промышленности, приведет к индустриальному и инвестиционному прорыву

Экономическая политика достижения устойчивого развития отраслей ненефтяного сектора промышленности осуществляется азербайджанским государством посредством использования находящегося в его распоряжении пакета инструментов и комплекса механизмов и рычагов, воздействующих на экономические процессы и поведение агентов хозяйственной деятельности. Она проводится в жизнь посредством законов, указов главы государства, нормативных актов правительства, государственных целевых программ, текущих оперативных распоряжений и решений государственных органов.

Механизм совершенствования финансово-кредитной систем оказывает влияние на многие экономические и социальные показатели предприятий и организаций отраслей промышленности республики. Кредитная политика банковской системы в значительной мере определяет уровень инвестиционной деятельности.

Механизм управления затратами на производство и реализацию продукции, работ и услуг направлен на улучшение финансовых показателей предприятий, что в конечном итоге определяет величину поступлений в бюджет в виде налогов.

Другой важнейший рычаг, особо актуальный в современных условиях республики – механизм инновационной деятельности – направлен на создание и внедрение новых высокопроизводитель-

ных машин и оборудования, прогрессивных технологий, позволяющих организовать производство наукоемкой продукции, что способствует также улучшению финансового положения предприятий, отраслей и республики в целом.

Одним из важных механизмов, обеспечивающих реализацию политики диверсификации экономики, является механизм государственно – частного партнерства [6].

В республике активизируется работа по улучшению бизнес – климата путем оптимизации системы контрольно-разрешительной практики. С целью стимулирования инвестиций в социально значимые секторы экономики совершенствуется механизм государственно-частного партнерства на основе внесения изменений в законодательство.

Развитию бизнеса в Азербайджане способствовало создание Национального фонда поддержки предпринимательства при Министерстве экономического развития (НФПП).

С целью ускорения диверсификации отраслевой структуры со стороны НФПП принимаются следующие меры: оказывается содействие в привлечении зарубежных инвестиций путем предоставления налоговых льгот; разрабатываются рекомендации по совершенствованию налоговой системы; внедряются программы по регулированию деятельности малого и среднего предпринимательства; создаются индустриальные зоны (бизнес-городки и бизнес-инкубаторы), технопарки.

Развитию ненефтяного сектора способствуют и такие инструменты, как нормативные рычаги и правовая поддержка. В стране формируется правовая база для реализации промышленной политики и соответствующие программы о приватизации государственной собственности, нормативно-правовые документы, регулирующие антимонопольную деятельность и защиту прав потребителей. Важные законодательные акты разработаны для финансово-инвестиционной сферы. В их числе – законы о Национальном

Банке, банках, рынке ценных бумаг, защите иностранных инвестиций и бюджетной системе. Для развития предпринимательской деятельности решающее значение имел также целый ряд законов об ее регулировании и утверждении, соответствующие государственные программы. Все это в совокупности дало синергетический эффект для развития малого и среднего бизнеса, способствовало созданию благоприятной деловой среды в стране [1; 2; 3; 4].

Уместно, на наш взгляд, привести еще один убедительный факт: число принятых законов, непосредственно регулирующих предпринимательскую деятельность, превышает 150, не считая 10 основополагающих кодексов напр. [2; 5].

Принят ряд законов, создающих условия для развития предпринимательства: «О предпринимательской деятельности», «Об акционерных обществах», «О земельной реформе», «Об антимонопольной деятельности. «О товарной бирже», «О ценных бумагах», «Закон о борьбе с коррупцией», и т. д.

– Развитие не нефтяного сектора экономики обусловлено также умелым использованием такого действенного рычага как налоговая политика. Новый этап развития налоговой системы начался с приказа Президента Азербайджана от 12 сентября 2005 г. об утверждении «Государственной программы улучшения налогового администрирования в Азербайджанской Республике на 2005–2007 гг.». За прошедшее время в рамках осуществления Госпрограммы удачно введена Автоматизированная Налоговая Информационная система (AVIS), единый депозитный счет по НДС, система электронных деклараций, установка компьютерных терминалов в регионах, расширена зона охвата телефонной информационной службы.

В соответствии с распоряжением Президента Азербайджанской Республики «О мерах по обеспечению организации деятельности субъектов предпринимательской деятельности по принципу

«Одного окна» функция регистрации юридических и физических лиц, желающих заниматься предпринимательской деятельностью, была передана от Министерства юстиции Министерству по налогам Азербайджана. Это нововведение послужило упрощению механизма регистрации компаний и усилило государственную поддержку предпринимательства в Азербайджане.

Проведению в налоговой системе новых качественных изменений с 2009 г. служит «Стратегический план совершенствования налогового законодательства и администрирования на 2009–2012 гг. ».

Государственный бюджет также активно участвует в процессе льготного кредитования предпринимательской деятельности, особенно в сфере не нефтяной промышленности и сельского хозяйства. Из средств Национального фонда поддержки предпринимательства, созданного за счет бюджетных ресурсов, за период его функционирования вплоть до 01.07.2014 г. было профинансировано чуть менее 22 тыс. инвестиционных проектов на сумму свыше 1,3 млрд. манат. Одним из основных условий выдачи этих кредитов является наличие в проектах самых современных технологий производства, переработки и услуг, а также посреднических объектов, обеспечивающих эффективное продвижение товаров на потребительские рынки.

Созданию благоприятных условий для предпринимательства во многом способствует правильно выбранный налоговый режим. Необходимость сокращения зависимости государственных доходов от нефтяного сектора предопределили соответствующие изменения в политике налогообложения и налогового администрирования. Этому во многом способствовало принятие в 2000 г. Налогового Кодекса и последующие меры в данной области, что позволило осуществлять переток нефтяных доходов в не нефтяной сектор экономики.

Концептуальной основой законодательство изменения налогообложения являлось

расширение прав налогоплательщиков, минимизация налоговых льгот, предотвращение случаев уклонения от налогов и эффективный контроль.

С целью развития нефтегазового сектора в 2006 г. ставка налога на прибыль была снижена с 24% до 22%, а в 2010 г. – до 20%. Одновременно в 2010 г. максимальная шкала подоходного налога была снижена на 5% и определена на уровне 30%. Существенно возрос и максимальный уровень дохода, облагаемый 14%-ной ставкой: в 2006 г. он увеличился с 600 манат до 1000 манат, в 2008 г. – до 2000 манат и в 2013 г. – до 2500 манат. С целью выравнивания налоговой нагрузки и стимулирования экономической деятельности для занимающихся предпринимательством физических лиц, подоходный налог был снижен с 35% до 20% и доведен до ставки налога на прибыль для юридических лиц.

В 2009 году сроком на 3 года банки и страховые компании были освобождены от уплаты налога на прибыль в части средств, направленных на формирование уставного капитала. Это способствовало укреплению за последние годы платежеспособности этих организаций и росту уровня их капитализации. Наряду с этим, начиная с 2010 г. от Подоходного налога освобождены доходы по процентам депозитов физических лиц.

Наряду с этим, с начала 2013 г. в Налоговом кодексе вступили в силу внесенные изменения по улучшению предпринимательской среды, стимулирующие инвестиционную деятельность в не нефтегазовом секторе экономики. К ним относятся положения по применению электронного аудита; статьи договора между предпринимателями и налоговыми органами; освобождение юридических и физических лиц на 7 лет, а их управляющих компаний и операторов – бессрочно от налога на прибыль, подоходного налога, налога на добавленную стоимость и землю. Продолжилась 15-летняя практика освобождения производителей сельскохозяйственной продукции от всех налоговых выплат, за исключением земельного и дорожного налогов.

На всем протяжении рассматриваемого периода и вплоть до 2014 г. производители сельхозпродукции были освобождены от уплаты налогов, кроме налогов на землю и транспортные средства.

В налоговой системе Азербайджана сделан кардинальный шаг в направлении применения современных ИКТ. На их базе усовершенствована система налогового администрирования и облегчена система регистрации субъектов предпринимательской деятельности, открыто множество налоговых терминалов для оказания услуг налогоплательщикам. Это также явилось существенным подспорьем для разворачивания предпринимательской деятельности в нефтегазовом секторе.

Серьезным положительным изменениям в отраслях нефтегазового сектора способствуют эффективно используемые финансовые механизмы государственного регулирования, а также рычаги бюджетно-денежной политики.

Основными событиями на финансовых рынках Азербайджана стали развитие ипотечного кредитования, рекордный уровень объемов золотовалютных резервов страны, начавшийся приток «нефтедолларов», активизировались интеграционные проекты банковского сообщества республики с международными финансовыми институтами, вводятся прогрессивные бизнес-модели. Новые банковские технологии, различные виды кредитования являются главными факторами роста.

Поддержанию позитивных технологий к росту промышленного производства в 2000–2013 гг. способствовало также действие таких основных факторов, как продолжение процессов импортозамещения в обрабатывающих отраслях. Расширение инвестиционного спроса и потребительского спроса населения, а также улучшение бюджетного финансирования государственных заказов, что в значительной степени предопределило прирост продукции машиностроения и металлообработки.

На 01.01.2014 г. в республике было зарегистрировано более 2,5 тыс. предприятий и производств по выпуску промышленной продукции, выполнению работ и услуг промышленного характера, что на 6,7% больше, чем на ту же дату 2003 г. крупные и средние предприятия составляют 9% от общего числа.

Достижение стратегических целей и задач устойчивого развития регионов Азербайджана, особенно отсталых в экономическом отношении, во многом зависит от системы механизмов государственного регулирования и поддержки, и, в частности, механизма государственного программирования [7,70].

Вследствие выполнения Государственной программы социально-экономического развития регионов, охватывавшей 2004–2008 гг. общий объем государственных инвестиций, сосредоточенных на развитие регионов, составил 8,5 млрд. долл. США, Объем инвестиций в нефтегазовый сектор за этот период вырос в 6,2 раза и его удельный вес в структуре совместных инвестиций увеличился от 26,8% в 2003 г. до 69% в 2008 г. рост объема государственных инвестиций способствовал повышению в несколько раз объемов регионального строительства. Была построена инфраструктура транспортных коммуникаций, объектов связи. В 2006 г. были проведены новые газовые линии длиной в 250 км. Проводится работа и в социальной сфере, что способствует сокращению миграции населения из районов в крупные города (главным образом в Баку).

В 2009 г. Указом Президента была утверждена «Государственная программа социально-экономического развития регионов Азербайджанской Республики в 2009–2013 годах». Эта программа была разработана как продолжение мероприятий по социально-экономическому развитию регионов в 2003–2008 гг. Вместе с тем, в новой Госпрограмме вместе с прогрессом регионов страны предусмотрены также мероприятия по социально-экономическому развитию г. Баку

и окружающих его районов. В 2009 г. в целях социально-экономического развития было направлено 9,25 млрд. долл. США, в т.ч. На развитие регионов – 3,63 млрд. долл. США.

Для улучшения социально-экономической ситуации в регионах создаются предприятия машиностроительной, пищевой, легкой промышленности, которые по своим технологическим параметрам отвечают мировым стандартам.

В настоящее время наряду с Баку и Сумгаитом функционируют технопарки в Гяндже и Мингячевире. Продолжается строительство промышленных центров в Ширване и Нахчыване.

Начал функционировать судостроительный завод в Баку, производят продукцию новые цементные заводы в Гарадаге, Газахе, Нахчыване, алюминиевый производственный комплекс в Гяндже, Дашкесане, завод по переработке золотой руды в Гедабеке.

Создание Азербайджанского комплекса по производству стали, модернизация нефтехимической промышленности в Сумгаите и начало работ по строительству карбамидного завода, создает дополнительные возможности в плане диверсификации нефтегазовой промышленности.

В 2011 г. введены в эксплуатацию: завод тяжелого машиностроения в Сумгаитском технопарке, швейное предприятие, новый участок легковых автомобилей, участок по производству черепичной кровли в промышленном комплексе «Джахан» в Нахичевани, тракторный завод в Гяндже, завод металлоконструкций в Гарадаге, завод электронного оборудования в Мингячевире, солнечных панелей в Сумгаите, предприятие по сборке холодильников в Нахчыване, мебельная фабрика и завод в Абшероне, керамических плит в Гаджикабуле.

На развитие экономики за 2000–2013 гг. и за счет всех финансовых источников направлено инвестиций на сумму 12,8 млрд. ман., из которых на долю регионов приходится более 6 млрд. ман.

Строительство водоочистных установок в 156 населенных пунктах 18 районов вдоль

берегов рек Кура и Араз в рамках усовершенствования обеспечения населения качественной водой улучшило водоснабжение более 300 тысяч человек. Был сдан в эксплуатацию водопровод Огуз-Габала-Баку.

Сейчас регионы дают до 30% продукции промышленности. Некоторые регионы превратились в центры производства электроэнергии, продовольственной безопасности.

Абшеронский экономический район, составляющий 4,1% территории пока еще дает 90% промышленной продукции.

Промышленное производство в стране размещено неравномерно. Так, в 2003-м году 74,5%, в 2005-м – 83,2%, в 2008-м году 93,9%, а в 2013 г. 91,9% промышленного производства страны пришлось на долю г. Баку. Это обусловлено тем обстоятельством, что производство нефти и газа сосредоточено в основном в г. Баку. Анализ региональной структуры осуществляемых инвестиционных вложений и прогнозы нефтедобычи показывают, что в перспективе доля г. Баку в производстве промышленной продукции возрастет еще больше.

На Баку падает 64% инвестиций в основной капитал в республике. По числу вновь создаваемых предприятий не нефтяной промышленности Баку сохраняет свое преимущество.

В 2013 г. 67% новых предприятий начало свою деятельность в Баку и Абшероне, 12,7% Аране, 5,7% Гяндже – Газахе. Из 50,1 млрд. долл. товаров, произведенных в Азербайджане и 2011 г., 39,5 млрд. долл., или почти 79%, было произведено в Баку. Остальные регионы Азербайджана произвели товары общей стоимостью всего в 10,6 млрд. долл. (21%).

Поэтому должны быть приняты меры по расщеплению и пропорциональному размещению не нефтяной промышленности по территории республики.

Помимо проблемы нерационального размещения по территории республики, существует ряд других проблем, которые осложняют устой-

чивое развитие не нефтяных отраслей промышленности.

Серьезной проблемой отечественной промышленности является высокая степень износа технического и технологического оборудования. Степень износа основных фондов на конец 2013 г. в обрабатывающих производствах составила – 53,7%.

Серьезные ограничения на осуществление реконструкции и рост промышленного производства в ближайшие годы будет накладывать неудовлетворительное состояние основного производственного капитала, в силу морального устаревания которого отечественная промышленность лишилась значительной части своей материально-производственной базы, необходимой для дальнейшего экономического роста.

Рост выпуска конкурентоспособной высокотехнологичной и наукоемкой продукции, как одной из главных задач развития не нефтяных отраслей промышленности, требует наличия кадров высокой квалификации. В настоящее время в промышленности ощущается дефицит квалифицированной рабочей силы и специалистов различного профиля.

В целом все проблемы, существующие сегодня в развитии промышленности можно представить как:

- высокий уровень физического и морального износа оборудования и недостаточность собственных средств на обновление и модернизацию, высокие процентные ставки;
- низкий уровень конкурентоспособности промышленной продукции;
- низкий уровень выпуска инновационной продукции;
- низкий уровень инвестиционной привлекательности предприятий;
- невысокая эффективность системы по подготовке, переподготовке и закреплению кадров в соответствии с требуемой профессионально-квалификационной структурой;

- недостаточные темпы реформирования промышленности, включая институциональные преобразования;
- диспропорции в уровне оплаты труда между производственными и непроизводственными секторами экономики;
- высокий уровень ресурсоемкости выпускаемой продукции;
- неэффективный маркетинг и менеджмент;
- неразвитость инфраструктуры товарных рынков;
- высокая налоговая нагрузка.

На наш взгляд, важнейшей проблемой, тормозящей динамичный рост не только не нефтяного сектора но и всей экономики республики, является невысокий уровень инновационной активности.

В настоящее время производство и применение новых знаний, технологий и пр. становится основным источником роста экономики и главным конкурентом преимуществом страны на мировом рынке. Экономический рост развитых стран на 70% определяется развитием человеческого потенциала и на 30% – производственным капиталом и природным ресурсами. Вместе с тем, несмотря на необходимость реализации активной инновационной деятельности, обновление продукции промышленными предприятиями Азербайджана осуществляется неравномерно. Продукция отечественной промышленности не в состоянии конкурировать с лучшими зарубежными образцами. Подтверждением этого являются низкие показатели, характеризующие обновление производимой в стране промышленной продукции.

Причинами, замедляющими переход на путь инновационного развития не нефтяных отраслей промышленности Азербайджана, являются следующие:

- Многие механизмы стимулирования развития инноваций еще не работают в полную силу;
- Не окончен процесс приватизации;
- Слабо развита кредитно-финансовая система;
- Не развиты фондовые рынки;

- Не созданы механизмы перераспределения финансовых потоков из сырьевых в высокотехнологические отрасли.

Наиболее высокая инновационная активность сохраняется на предприятиях химической и нефтехимической промышленности (81% предприятий). Меньшие масштабы инновационной деятельности по-прежнему характерны для отраслей, ориентированных на удовлетворение потребностей внутреннего рынка.

Среди факторов, препятствующих инновациями в промышленности, главное место, по нашему мнению, принадлежит экономическим. Основные трудности связаны с недостатком собственных денежных средств и слабой финансовой поддержкой со стороны государства. Финансовые проблемы в сочетании с высокой стоимостью нововведений; длительными сроками их окупаемости, низким платежеспособным спросом на новую продукцию существенно сдерживают инновационную активность. Несформированность многих элементов национальной инновационной системы, а именно рынка технологий, инфраструктуры, правового; и информационного обеспечения, создают серьезные затруднения для развития инновационного потенциала.

С 1997 г. начали создаваться элементы азербайджанской национальной инновационной системы, задачей которой является переход к экономике знаний. За последние годы были разработаны проекты: «Концепция Национальной Инновационной Системы Азербайджанской Республики»; «Программа развития и формирования Национальной Инновационной Системы Азербайджанской Республики», «Концепция Инновационной политики Азербайджанской Республики», закон «О Государственной Поддержке и Регулированию Инновационной Деятельности в Азербайджанской Республике», «Государственная Программа по реализации Национальной Стратегии развития науки в Азербайджанской Республике в 2009–2015 гг. ».

Эти программные документы регулируют правовые и экономические отношения между субъектами инновационной деятельности, обеспечивают условия формирования и реализации государственной инновационной политики.

Для поддержки инноваций действуют финансовые структуры: «Фонд развития науки», «Фонд ИКТ» при Министерстве связи и высоких технологий, Научный фонд ГНКАР, Турецкое Агентство по Развитию и Координации «ТИКА» и др.

Экономические реформы способствовали расширению участия Азербайджана в региональном сотрудничестве и активизации совместных проектах в сфере ненефтяных отраслей промышленности: пищевой промышленности, машиностроении, энергетике, строительства, легкой промышленности, нефтехимии, в реализации кластерных инициатив. Кластеры, по нашему мнению, являются инструментом, оказывающим наиболее значительное влияние на эффективность текущих производственных процессов и во многом определяющим уровень развития ненефтяной экономики в средне- и долгосрочном периоде. При этом наличие в составе кластера конкурирующих предприятий основных и вспомогательных отраслей, посреднических и научно – исследовательских организаций, институтов развитой инфраструктуры, а также потребителей конечных товаров и услуг обеспечивает конкурентоспособность экономики республики.

С использованием инновационных кластеров и форсированием процессов модернизации и реконструкции производственных мощностей крупных индустриальных предприятий страны можно производить значительное число конкурентоспособной промышленной продукции для экспорта и увеличить привлечение инвестиционных ресурсов для дальнейшего развития не нефтяного сектора [8, 536].

Вместе с тем, необходимо подчеркнуть, что пока еще кластерная политика в Азербайджане находится на стадии формирования.

В промышленной политике Азербайджана в контексте модернизации и применения кластеров на наш взгляд, необходимо учитывать в первую очередь, конкурентные преимущества азербайджанской экономики [9].

На современном этапе важнейшими конкурентными преимуществами азербайджанской экономики являются следующие:

- Огромные запасы природных ресурсов, особенно углеводородного сырья;
- Достаточно высокий уровень образования населения (почти половина трудового активного населения имеет техническое или высшее образование, остальное население в основном имеет среднее образование, высок уровень квалификации ученых, инженеров, врачей, учителей и т. д.);
- Наличие современной инфраструктуры, включающей развитую дорожную сеть, основные ирригационные системы, значительные мощности по выработке электроэнергии, кабельные телекоммуникации и пр.

В настоящее время стратегическими приоритетами для вложения инвестиций в Азербайджан является расширение и обновление не нефтяных отраслей промышленности, инвестиции в пищевую промышленность; создание высокоэффективной инфраструктуры, в частности в энергетике, телекоммуникационных услугах, в системах водо- и газоснабжения.

Правительство придает особое значение развитию не нефтяного сектора с привлечением иностранного капитала. Иностранные инвестиции рассматриваются как средство ввоза современных технологий, повышения конкурентоспособности экономики Азербайджана.

Согласно оценкам ЦБА, общий объем иностранных инвестиций, привлеченных в азербайджанскую экономику в 2013 г. составил 8,3 млрд. манат. Отметим, что инвестиции в последнее время вкладываются не только в нефтегазовый сектор. Крупные инвестиции вкладываются зарубежными компаниями в строительство гостиничных



комплексов, инфраструктуру, где возврат вложенных средств рассчитан на 10–15 лет, что, безусловно, свидетельствует о доверии предпринимательских кругов к инвестиционному климату в Азербайджане.

Отметим, что из вложенных в основной капитал средств 73,0% сосредоточены на развитии ненефтяного сектора страны. Доля ненефтяного сектора в ВВП Азербайджана увеличилась к концу 2013 г. на 9,5%, что соответствует основной задаче – развивать ненефтяной сектор, обеспечить диверсификацию экономики страны.

В целях содействия по привлечению иностранных инвестиций в Азербайджан был принят закон «Об особых экономических зонах» и указ Президента Азербайджанской Республики «О применении закона «О специальных экономических зонах», призванные содействовать привлечению инвестиций в реализацию проектов в ненефтяной сектор экономики, широкому внедрению инновационных технологий. На основе указанных нормативных актов предполагается путем создания специальных экономических зон (СЭЗ) и технопарков повысить уровень активности предпринимательства, научно-технических разработок, инновационных элементов хозяйствования и других составляющих, призванных способствовать повышению эффективности экономики Азербайджана. Законом предполагается смягчение режима налогообложения для резидентов, занимающихся предпринимательской деятельностью в юрисдикции СЭЗ. Налог на прибыль предположительно должен составить 2% от оборота (средств, полученных от реализации товаров и услуг). Также предусматривается взимание налога на добавленную стоимость по нулевой ставке и освобождение от таможенных пошлин. По акцизным товарам, поставляемым участниками СЭЗ, будут производиться таможенные выплаты в соответствии с национальным законодательством.

Необходимо отметить, что в конце 2015 года падение цен на нефть оказало сильное влияние

на страны-экспортеры нефти, в число которых входит и наша страна. Азербайджан предпринял определенные шаги в решении, в результате возникших проблем, так как резкая девальвация сказалась на макроэкономических показателях страны.

Государственный бюджет на 2016 год был пересмотрен, потому что этого он был согласован из расчета 50\$ за баррель нефти. При пересмотре параметров госбюджета, цена на нефть была взята в 25\$ за баррель. В результате, доходы госбюджета были утверждены на уровне 14 млрд. 566 млн. манат, расходы – 16 млрд. 264 млн. манат, дефицит – 1 млрд. 698 млн. манат. Бюджетные доходы от ненефтяного сектора составили 7 млрд. 597 млн. манат. Таким образом, поступления от ненефтяного сектора обеспечили в 2016 году 45,2% доходов скорректированного госбюджета Азербайджана.

1 марта 2016 года вступил в силу Указ Президента Азербайджанской Республики о дополнительных мерах по поощрению экспорта ненефтяной продукции, произведенной в Азербайджане. Предприниматели будут заинтересованы в экспорте на иностранные рынки отечественную ненефтяную продукцию. В настоящее время в Парламенте Азербайджана обсуждается законопроект «Об антидемпинговых, компенсационных и защитных мерах». Данный закон поможет защитить отечественных производителей от недобросовестной конкуренции демпинга и субсидированного импорта в Азербайджан.

Президентом Азербайджана И. Алиевым неоднократно отмечалось, что в период до 2020–2030 гг. экономический рост страны будет формироваться за счет ненефтяного сектора.

Таким образом, на основании вышеизложенного можно констатировать, что для устойчивого развития ненефтяных отраслей промышленности необходимо ускорение структурных реформ, диверсификация национальной экономики, повышение эффективности механизмов регулирования экономики. В результате модернизации важнейших

производственных мощностей индустрии и использования кластеров в разных отраслях промышленности, республика уже в ближайшем будущем

получит дополнительные инновационные стимулы по форсированному развитию и диверсификации нефтегазовой промышленности.

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## **ANALYSIS OF ECONOMIC INTERESTS AND LOSSES IN PRACTICE OF AVALANCHE PROTECTION OF MOUNTAIN ROADS**

**Abstract:** the article describes economic losses from the unfortunate choice of avalanche-protection constructions on mountain roads. On the example of the highest Transcaucasian highway on the Eurasian continent, the article illustrates hands-on examples of protection from avalanches and gives recommendations for the use of innovative, scientifically proven avalanche-protection constructions.

**Keywords:** construction economics, avalanche-protection constructions, new constructions, damage, accident rate.

The economic damage from avalanches on the roads, cultural-economic and resort-tourist buildings amounts in Russia alone to \$ 20 million a year. The specified damage could be much more than the announced amount, however, avalanche-prone mountain slopes are known to be poorly inhabited [1]. A similar situation is typical not only for Russia but also for other countries with mountain avalanche relief.

The average number of casualties in Russia alone is about 2 dozen people, and across the globe this figure amounts to about 300 people, which, as we think, is immense social damage. Meanwhile, it is possible to diminish economic and social damage with a competent approach of solving the problem of avalanche danger and protection of people's lives.

The social-economic damage from avalanches in Russia falls mainly on the mountain strip of North Caucasian republics, where high-mountain traffic

arteries are situated – both intra-republican and transnational. Among transnational ones are well-known Georgian Military road and Ossetian Military road (Transkam), the first of them was built in the early XIX century and the other one – in the late XX century. The avalanche danger on these traffic arteries, which are laid at the absolute height of over 2,000 m, reaches its peak. On the example of Transkam, on average one month per year the road is out-of-action due to avalanching, which, according to a conservative estimate, results in economic damage in the sum of about 100 million rubles for heavy goods vehicles alone [2].

Specifying this object as a global example of science and practice, as the most unique construction related to the problem of avalanche safety, you can derive from it many benefits in matters of economy and other aspects of society's vital activity (ecology, safety and protection of people's lives, etc.) [3].

In the global practice of construction of traffic arteries, Transkam has no analogues in the complexity of operating conditions and organizational insufficiency [4]. Such traffic arteries, on the example of Alpine mountains, are laid almost 1 km below the absolute height as the Alps are located below by the same height. Naturally, both avalanche collapses and other slope phenomena (rock slides, mud flows and talus-landslides) have a weaker impact on the conditions of provision of traffic safety on highways and railway main lines. Thereafter, economic expenses for provision of safe operation of Transkam should be more than envisaged on the Alpine roads.

The issue of organizational insufficiency also affects the economic expenses per a kilometer of road. According to the project, this complex mountain highway had to be maintained by one operating organization, which was not done in USSR and has not been done in the current social life of the Russian Federation.

With one and single object, despite its political, economic and military-strategic importance, there is no single approach to the solving of problems related to provision of traffic safety. Northern and southern

sections are considered from the viewpoint of economic expenses not as a whole, but separately, and, accordingly, certain problems, including avalanche safety, are solved disproportionately.

The expenses for avalanche-protection constructions on the northern section sharply increased in the last decade, as the result of which two short tunnels with the gallery avalanche-protection approach structures were constructed; a civilized "European" look was imparted to the main Roki tunnel. In the case of the southern sector, where there is an avalanche danger, this problem stands no longer, which is undesirable and unacceptable under the single-object conditions.

As for the theory and practice of the avalanche-protection construction designs, from the economic point of view, they are analyzed unsuccessfully because there is no common approach and methodology of estimating the strength and reliability of nodes, parts and the whole construction-protection facilities. Arched galleries of metal and reinforced concrete design (Figure 1) [5] with above-gallery embankment have been used in recent years instead of rectangular constructions.

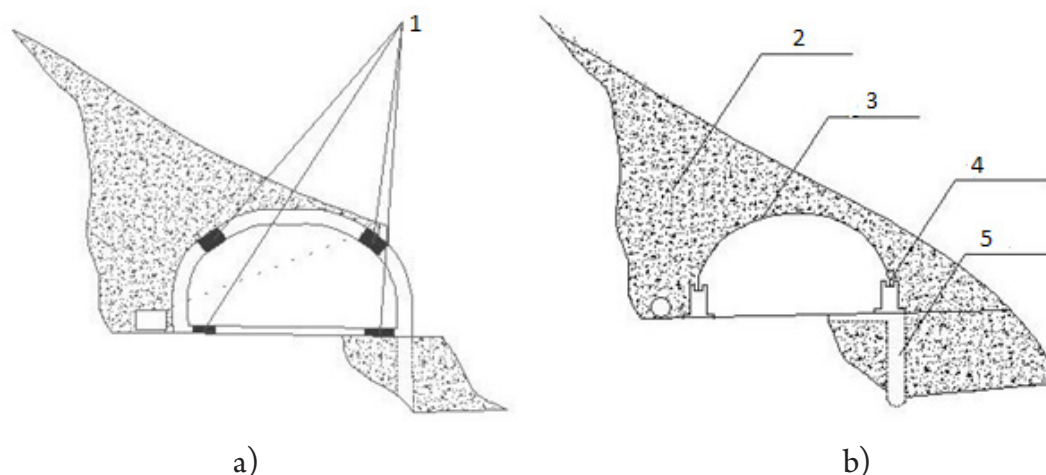


Figure 1. Arched avalanche-protection galleries made of: a) reinforced concrete; b) metal corrugated sheets; 1 – grouting joints; 2 – embankment of shingle; 3 – arch of metal corrugated sheet; 4 – reinforced concrete foundation; 5 – reinforced concrete piles

Installation procedure in the metal design is prompt, but in the reinforced concrete design it is time-consuming and requires more expenses. In

both cases it is necessary to build the above-gallery embankment with complex technology. The observance of contour sizes and the quality of embankment

compaction in constrained terrain conditions represent a complex process. Practical implementation of the designed contour of the embankment in constricted spatial conditions is confronted with technological difficulties.

The cost of one running meter of an arched gallery in reinforced concrete design is 0.95 million

rubles, and in metal design – 0.9 million rubles.

Massive material-intensive galleries have been recently introduced into the practice of designing and construction (figure 2) with impressive value-economic indicators, where the cost of a running meter to the state budget is estimated at 1.9 million rubles.

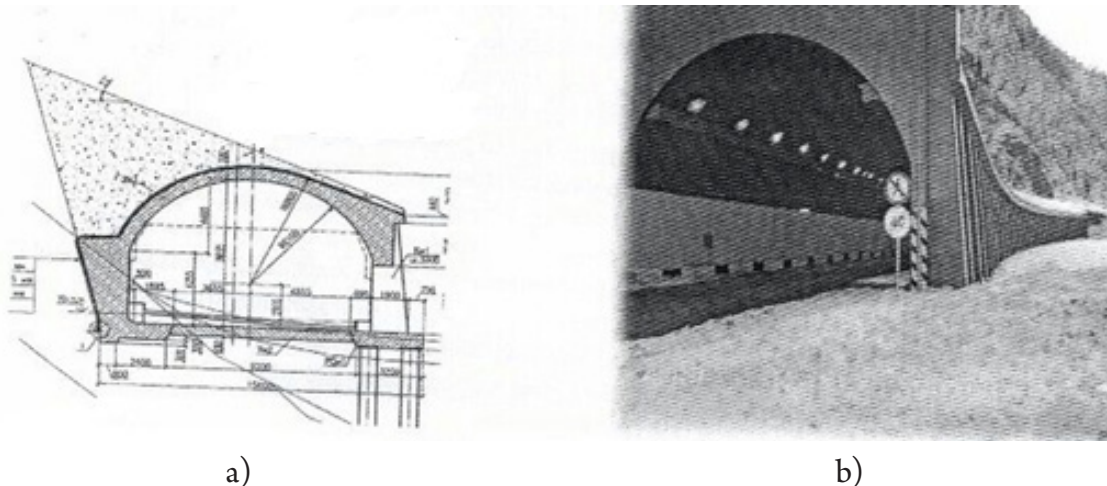


Figure 2. a) draft and; b) actual execution of a massive avalanche-protection construction of reinforced concrete

On the background of massive arched gallery of reinforced concrete with its strength indicators, the impact force of “fragile” avalanche mass is not proportionate. Massive reinforced concrete resembles an underground bunker from heavy atomic bomb explosion, and “fragile” avalanche resembles a soft breeze.

As a result of searches for the proportionality of avalanche mass and avalanche-protection construction with adequate resistance, the former builders of avalanche-protection constructions on Transkam came up with the idea to build such a construction in which it is possible to “cheat” or take aside the avalanche mass from frontal collision with avalanche-protection construction.

Searches and comparison of ideas resulted in several original diagrams, which were confirmed by Russian patents. Besides, the criteria for choice of ideas were strength, simplicity in performance, ease of operation and above all – economic indicators of constructions.

To “cheat” and take the avalanche mass aside from protective constructions, the ideas concern-

ing the research of the direction vector of descent or fall of the avalanche mass were searched. The task was to prevent the fall of avalanche mass onto transport or resort-sport facilities, or – the passing of avalanche mass above the gallery, without frontal collision.

The first variant is shown in (figure 3 a) [6], the second one – in (figure 3 b) [7].

- a) 1. Embankment;
2. Asphalt concrete pavement;
3. Avalanche-prone slope;
4. Direction of avalanche movement;
5. Snow mass diverting device;
6. Weight sensor;
7. Asbestos-cement pipes with heating elements.
- b) 1. Arched gallery;
2. Metal frame;
3. Iron cores;
4. Rock mass;
5. Metal plate;
6. Developed mountain road excavation;

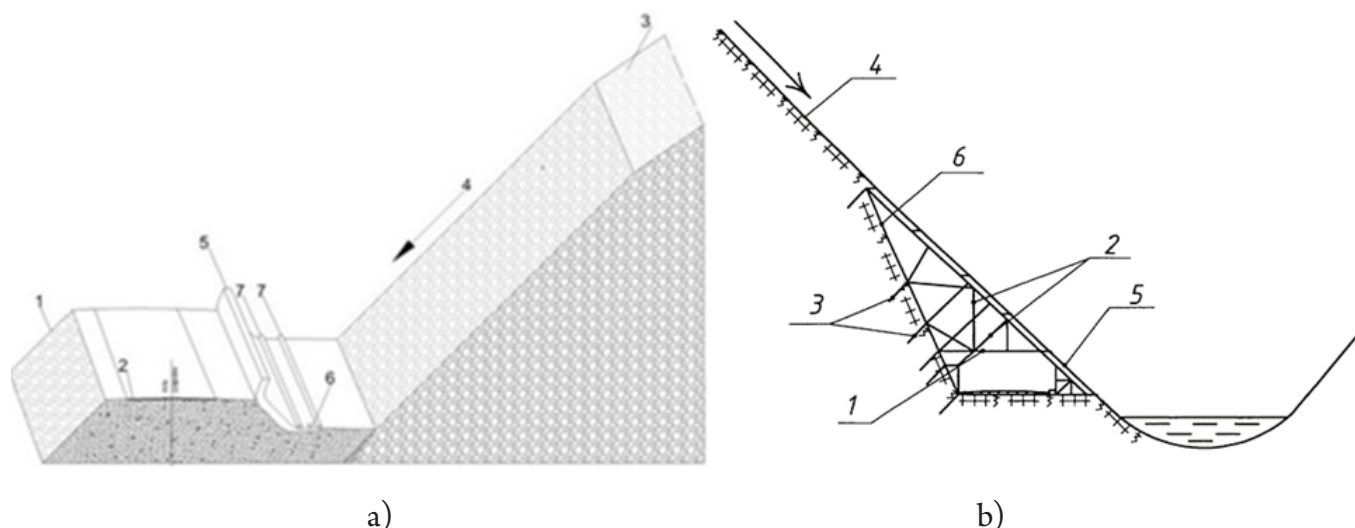


Figure 3. Patented avalanche-protection constructions: a) layout of the avalanche-accumulation excavation; b) scheme of the avalanche-protection triangle metal frame, with road clearance

In the first variant, the avalanche mass falls into the accumulation excavation and it is mounted with a heating device for melting of avalanche mass before the next snowfalls and fall of avalanche mass. The excavation design is characterized by simplicity in implementation, manufacturability, strength and ease of operation and above all – by cost effectiveness. The cost of one running meter is about 0.18 million rubles, and without heating device – 0.1 million rubles. The work of the accumulation excavation is readable on the layout shown in the (figure 3 a).

The second variant – the “avalanche mass cheating” scheme – is shown in the (figure 3 b), where the excavation for road shelf is filled up with metal frame with the hollow (clearance) in lower part so as to let motor or rail vehicles pass. The Russian Federation patent was obtained in order to simplify manufacture, transportation and installation of this avalanche-protection construction [8].

The cost parameters of concerned (practically applied and offered) avalanche-protection constructions are presented in the (table 1).

Table 1.

Figure №	Name of construction	Cost of running meter, million rubbles	Notes
<b>Constructions applied in practice</b>			
Figure 1 a	Arched reinforced-concrete construction	0.9	
Figure 1 6	Arched metal construction	0.95	
Figure 2	Mass reinforced-concrete construction	1.9	in case of wasteful spending of funds
<b>Scientifically proven, but not applied in practice</b>			
Figure 3 a	Accumulation excavation with heating	0.18	
Figure 3 6	Metal, of triangular form	0.9	
	Accumulation excavation without heating	0.1	in case of economic spending of funds

The economic benefit of new innovative and scientifically proven designs is obvious and unquestionable. However, all that is old or going out of fashion never agrees with new and innovative phenomena. This is the nature of the bureaucratic mechanism.

Meanwhile, let's see how many people die because of the lack of avalanche-protection on roads, unequipped tourist and hotel complexes. Losses of life of last winter on the Salang Tunnel in Afghanistan, in the hotel-inn in Italy and many other cases are still fresh in memory. Scientifically proven ideas concerning the protection of people's lives can be exported from our Caucasian (Russian) reality to other Russian mountainous regions and foreign countries with mountainous relief. So the concern of inventors of new ideas and thoughts quoted instead of conclusions is justified [9]:

– “to expand pre-project researches related to the localization of avalanche-prone areas of mountain slopes and the creation of systems for protection of territory and socio-economic communications;

– to establish in the Caucasus the Alpine-Caucasian research center for Transkam protection together with the Swiss Institute of Avalanche Protection;

– to create in the Caucasus a high-mountain field laboratory so as to obtain reliable information and to summarize it scientifically with the aim of increasing the efficiency of protection of population, industrial facilities and transport communications in Russia's mountainous regions and other countries of the world from emergencies caused by snow and ice avalanches, rock falls, landslides, mud-flow cones, etc.

The purpose of the suggested measures consists in a stepwise radical reduction of human casualties and social-economic damages caused by the abovementioned mountain-slope phenomena”.

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## Section 6. Finance, money circulation and credit

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### **ELECTRONIC MONEY, AS ECONOMIC GROWTH FACTOR**

**Abstract:** The increase of electronic payments contributes to the country's economic activity and also provides the reducing of shadow economy. It is generally recognized that switching from cash to electronic payment methods facilitates economic growth.

**Keywords:** Electronic money, dematerialization, legal means of payment, shadow economy, economic growth, public safety.

The main basis of economic life, as mains of exchange, value measurement and accumulation is money, without it the economy and society's existence is impossible.

Today there are two basic forms of money: fiat money, which consists of coins and bank-notes and scriptural money placed on bank accounts. The fiat money does not have a real value, its value is expressed in the consumer's trust towards the issuer.

The goal of the presented research is dematerialization of fiat money, computerization issue of currency issue and transfer. It does not mean creating or transferring bank accounts, but using digital money, issued by the Central Bank, as a legal means of payment.

In order to make digital money a suitable alternative for the physical money, it must meet consumer confidence, as it happens in case of paper money. Besides, it must have the similar properties. Therefore, it must be properly protected. In order to promote widespread consumption, digital money should be flexible and universally accepted, it should be easy to use, effective and reliable as well. This goal should be achieved step by step, in the long-term period. First of all, it must be developed and increased the current electronic payment systems (card payments, inter-

net banking, mobile banking) and the share of cash should be gradually reduced in circulation, to the total money gross, only then we can think of digital money, as create a monetary unit.

There are studies that indicate the importance of electronic payments in the economy. In particular, the studies confirm that the increase of electronic payments contributes to the country's economic activity and also provides reducing the shadow economy. It is generally recognized that switching from cash to electronic payment methods facilitates economic growth.

It is interesting to know what attitudes are toward this issue in foreign countries.

Nowadays, cash – banknotes and coins are only 3% of Swedish total money gross. The Swedish Bankers Association noted that the pressure on the cash-based economy has also reduced the crime.

In Sweden, significant shifts are seen in the direction of nullification. Many bars do not get cash; Tickets are sold by means of a text message or non-contact technical software; The growing number of business receives only the card payments; 530 branches out of 780 branches of the three big banks do not run operations with cash. In the 4<sup>th</sup>



largest city of the country – Uppsala, the trade objects are taught how to avoid using cash, this is a part of the general program – how to nullify of cash in the city. Reducing the use of cash is noticeable in those places like public transport, where it is almost impossible to buy a ticket with cash, even some churches get donations electronically. This country was the first in Europe, that introduced the concept of banknote in the market in 1661.

Unlike Sweden's 3% showing, the share of cash in Georgia's economy is more than 40%, however it is characterized by a downward trend.

In 2010, in Poland, it was planned the doubling of Poland card receiving devices by the initiative of the Visa-Poland Executive Committee. This project was financed by Visa-Poland members and was focused on the expansion of Visa and card receiving network of the other systems in medium-sized retail service/trade objects in small towns and villages. After the implementation of this program (since 2010 to 2013), the shadow economy in Poland has decreased from 26% to 23.8%.

In Colombia and Argentina, tax exemption was established on retail purchases made by the cards. In particular, VAT decreased for the goods sold by card to 5 percentage points (by 21%) in Argentina (since 2002), and to 2 percentage points in Colombia (by 16%, since 2004).

In Italy, Bulgaria, Denmark, France, Greece, Romania, Slovakia and Spain is set up limit on allowable operation with cash. It is significantly distinguished by countries and ranges between 1000 Euros to 15,000 Euros per operation.

According to the Brazilian Central Bank research, the total annual expenditure paid by all types of payment instruments, is about 3% of the country's GDP. The total migration from paper payment instruments to electronic payment instruments will lead to savings 1% of GDP.

According to South East Asian countries estimation, cash management costs approximately amount from 0.29% to 2.23% of GDP.

The Netherlands Central Bank (DNB) research has shown that electronic payments are less costly way than use cash for payments and replacement of cash for the period: 1990–2004 with paying cards reduced the total expenditure of retail payments to 6%.

Moody's Analytics has studied the four-year data (from 2011 to 2015) of the 70 countries (their total GDP is 95% of the world GDP). It was found that extensive use of electronic payments resulted in additional \$ 296 billion in GDP, that is \$ 74 billion in GDP per year; Use of cards grew consumption at an average of 2.3% in these periods, that means that in the years 2011–2015 the average employment increased by 2.6 million. It also noted, that the use of cards makes a great contribution to GDP of the developing countries; In particular, an additional 0.8%, while in the developed countries this index is 0.3%.

The research by Professor Friedrich Schneider (Friedrich Schneider, PhD, University of Linz, Austria) has found that electronic payments annual growth by 10% during at least four years in a row, can cause reduction of the shadow economy index by 5%. As a result of reviewing the measures taken by countries for reducing the shadow transactions, significant results have been found both in developing and developed countries, following the steps taken to encourage electronic payments. These «steps» are known as "Cash Replacement" measures that include:

1) Demotivation of cash use – free access to cash, in particular, cash withdrawal through ATMs (without bank commission), slows down the switchover process to electronic payments. No ATM commission causes the uninterrupted cash withdrawal through ATM, and therefore, cash payments in trade/service centers.

2) Extending the card receiving devices network (POS terminals' network) – free access to payment infrastructure is of great importance in the implementation of electronic payments. The World Bank, on the basis of a survey, names the lack of POS-terminals as one of the reasons for the lack of electronic payments. Projects are created in the

countries, their aim is to extend the network of card receiving devices and it is mainly aimed at equipping small and medium-sized retail facilities with these devices (on Poland's example).

3) Encouraging POS payments – stimulating the use of cards by the user is a simple way to change their habits. According to the practice in the world, different types of drawing/organizing lottery are the ways of stimulating user, it is also known South Korea's example, where the tax authority returned the customer a certain amount of money from the payments made by the card.

Encouraging the trade objects and providers (banks) which provide the extension of POS terminals' network, are mainly implemented by tax privileges. It is assumed, that setting up a commission for consumers on payments through POS terminals, by the trading objects will affect the user's choice in favor of cash, therefore it is a risk for those countries, where card payment transactions are less implemented. In most European countries, when introducing the payment service directive, it has been prohibited to set up commission for the consumers paid by cards.

4) Increase of electronic payments – the state plays an important role in the process of implementing electronic payments, as the largest initiator and payments' receiver. Its switchover to electronic payments will significantly increase the share of electronic payments in the country.

In Georgia, important steps have been taken by the state in this regard. In particular, the basic payments (salaries of public employees, pensions, and other) and also incomes (taxes, etc.) are carried out as electronic payments, and, it is undisputed, that it significantly affected on the e-payments statistic in the country. In Romania, a national system was created, that provides tax payments through POS-terminals and by means of online payments by cards, that led to 34% annual growth in tax payments by cards.

In Europe it is widely used to set limits on cash transactions. The limits vary by countries; However,

there is a tendency of reducing of the established upper threshold.

5) Encouraging cash deposit – in some countries (Brazil, Israel), the commission set on deposit to an account, free deposit, deposit through ATMs and attractive interest rate facilitate cash flow into banks. In this regard it should be noted, that the Georgian market is not characterized by the practice of commissioning on cash deposits by consumers.

In order to identify the growth promoting causes of electronic (non-cash) payments in Georgia, it is necessary to conduct fundamental research. However, there is no doubt that the consumer awareness raising in this direction and the events planned to encourage them to the use of electronic instruments, accelerate the growth rate of non-cash payments in the country, as it happened in other countries.

Following the introduction of the above mentioned trends and sharing the experience of different countries, when our society gives preference to the electronic payment means and minimizes the use of cash, it would be appropriate to remove the defunct coins and banknotes from use and switchover only to the digital money, issued by the National Bank, as the only way of legal payment inside the country. This event will lead to a number of positive changes in the country's economy and public safety.

Electronic money with its full opportunity, will enable us to fight effectively against legalization of illegal income, financing terrorism and other non-governmental actions, different types of fiscal and social fraud, that finally will be reflected in the considerable growth of the state budget, as well as in the reduction of criminal actions.

Also, since there will be no printing costs and cash issue costs will be significantly reduced, dematerialized, the overhead expenditures on fiat money will have less impact on the income received from seigniorage, than in case of issue paper banknotes. Consequently, the government can get more benefits.

Dematerialized money will be a guarantee of comfort and security for the population, because

the payment will be simple, especially for those who are not able to use banking services in territorial or other terms. The owner will not be afraid of losing, and no one will have desire to seize somebody's money through various criminal ways. The main advantage of dematerialized digital money is payment traceability. Technically to achieve this level, first of all the digital money system should be equipped with modern functions and strictly protected from cyber attacks.

Over the last ten years the number of mobile payment systems have been developed. None of them have the legal means of payment in the form of digital money, issued by the Central Bank. None of these systems can turn printed banknotes into digital money, or vice versa. The main thing is to ensure a reliable, secure operation standards for an unified system of payment, based on supervisory and regulatory framework. It is particularly interesting and relevant for the countries, including Georgia where the number of population without bank accounts is large.

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## **MECHANISMS FOR IMPLEMENTING FISCAL DECENTRALIZATION**

**Abstract:** The article proposes the main mechanisms for the transition to a decentralized system of public finance management. The essence of the concepts of “fiscal decentralization”, “mechanisms for implementing fiscal decentralization” is revealed. The basis and conditions for effective implementation of fiscal decentralization are determined.

**Keywords:** fiscal decentralization, mechanisms of fiscal decentralization, decentralization of expenditures, growth of economic, tax decentralization, local government, fiscal autonomy, macro-economic stability.

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## **МЕХАНИЗМЫ РЕАЛИЗАЦИИ ФИСКАЛЬНОЙ ДЕЦЕНТРАЛИЗАЦИИ**

**Аннотация:** В статье предложены основные механизмы перехода к децентрализованной системе управления государственными финансами. Раскрыта сущность понятий «фискальная децентрализация», «механизмы реализации фискальной децентрализации». Определены основания и условия эффективного внедрения фискальной децентрализации.

**Ключевые слова:** фискальная децентрализация, механизмы фискальной децентрализации, децентрализация расходов, экономический рост, налоговая децентрализация, местное самоуправление, финансовая автономия, макроэкономическая стабильность.

Эффективное функционирование системы управления государственными финансами определяется степенью согласованности работы взаимосвязанных звеньев этой системы, а именно оптимальным распределением доходных и расходных полномочий между государственным и местными бюджетами. В ситуации, когда уровень доходов местных бюджетов находится в прямой зависимости от положений законодательства центрального правительства, деятельно-

сти органов местного самоуправления не хватает эффективности, несовершенным есть механизм трансфертов финансовых ресурсов государства, налоговая база недостаточная и искусственно ограничена территориальной основой, особую актуальность приобретает вопрос внедрения фискальной децентрализации.

Значительный вклад в развитие политики формирования финансового обеспечения местного самоуправления сделали такие ведущие ученые,

как В. Базилевич (V. Bazilevich), С. Буковинский (S. Bukovinsky), А. Вагнер (A. Wagner), А. Василик (A. Vasilik), Р. Гнейст (R. Gneist), В. Кравченко (V. Kravchenko), А. Кириленко (A. Kirilenko), В. Опарин (V. Oparin), А. Соколовская (A. Sokolovskaya), В. Толубьяк (V. Tolubjak), А. Шишко (A. Shishko), Л. Штейн (L. Stein), В. Федосов (V. Fedosov), С. Юрий (S. Yuriy); научные и научно-методические разработки посвященные исследованию финансового аспекта государственного управления в условиях внедрения фискальной децентрализации внесли такие ученые и специалисты как Р. Айхенберг (R. Eichenberg), Н. Акай (N. Akai), В. Андрущенко (V. Andrushchenko), Д. Аронсон (D. Aronson), С. Аткинсон (S. Atkinson), Р. Берд (R. Bird), Т. Бондарук (T. Bondaruk), А. Гавриленко (A. Gavrilenko), С. Гасанов (S. Gasanov), А. Даниленко (A. Danilenko), Т. Ефименко (T. Iefimenko), Л. де Мелло (L. De Mello), В. Оутс (W. Oates), М. Саката (M. Sakata), Ч. Тибу (Ch. Tiebout), Ф. Юсти (F. Justi).

Отдавая должное наработкам ученых в этой сфере, проблема укрепления финансовой основы местного самоуправления и самодостаточности местных бюджетов за счет повышения уровня децентрализации системы управления государственными финансами, актуальным является необходимость разработки механизмов реализации фискальной децентрализации.

**Целью статьи:** является обоснование основных механизмов реализации фискальной децентрализации для достижения эффективного использования бюджетных ресурсов.

Фискальная децентрализация это процесс перераспределения между различными уровнями бюджетной системы:

– во-первых, расходных полномочий, что имеет целью обеспечения стабильного и объективного порядка осуществления расходов для предоставления общественных услуг, повышение ответственности за своевременность и качество их предоставления;

– во-вторых, доходов, а именно закрепление за местным самоуправлением перечня собственных доходов, достаточных для надлежащего и качественного выполнения установленных для соответствующего уровня местного самоуправления задач и функций, а также права самостоятельно устанавливать размеры этих доходов;

– в-третьих, расширение самостоятельности органов местного самоуправления по использованию средств, получаемых в результате осуществления местных заимствований [1].

Задачами фискальной децентрализации является переход от централизованной к децентрализованной модели управления государственными финансами, обеспечение бюджетной способности местного самоуправления и построение эффективной системы территориальной организации власти, реализация положений Европейской хартии местного самоуправления.

Механизмы реализации (углубление, повышение уровня) фискальной децентрализации — набор методов, рычагов, инструментов финансовой, налоговой и бюджетной систем, использование которых направлено на достижение более децентрализованной системы формирования и использования субнациональных финансовых фондов [2, С. 130]. Основными механизмами фискальной децентрализации являются [3; 4; 5]:

1. Децентрализация расходных полномочий (функций и задач) — достижение оптимального распределения полномочий между органами местного самоуправления и органами исполнительной власти в соответствии с их кадровым, финансовым, инфраструктурным потенциалом и ресурсов административно-территориальных единиц.

Показателями уровня децентрализации расходных функций являются: доля расходов местных бюджетов в ВВП; доля расходов государственного бюджета в расходах сводного бюджета; доля расходов государственного бюджета в ВВП; доля расходов местных бюджетов в расходах сводного бюджета.

2. Децентрализация доходов и фискальных полномочий — усиление стимулирования органов местного самоуправления к наращиванию доходной базы путем обеспечения субнациональных властей достаточным объемом финансовых ресурсов и фискальных функций.

Показателями, используемыми для определения уровня децентрализации доходов и фискальных полномочий являются: доля доходов местных бюджетов в ВВП; доля доходов государственного бюджета в ВВП; соотношение доли доходов местных бюджетов в ВВП и доли доходов государственного бюджета в ВВП; доля доходов государственного бюджета в доходах сводного бюджета; удельный вес собственных доходов местных бюджетов в структуре доходов местного самоуправления; доля налоговых поступлений местных бюджетов в налоговых поступлениях сводного бюджета; удельный вес местных налогов в доходах местных бюджетов; доля доходов местных бюджетов в доходах сводного бюджета.

3. Совершенствование системы регулирования межбюджетных отношений — повышение эффективности методики расчета расходов местных бюджетов, учитываемых при определении объемов межбюджетных трансфертов и предоставление в общегосударственном бюджете средств для бюджетов субнациональных органов власти на уменьшение дифференциации в обеспечении местного самоуправления средствами для выполнения делегированных полномочий.

4. Децентрализация кредитных ресурсов — доступ местных органов власти на рынок внутренних и внешних заимствований, повышение эффективности деятельности финансово-кредитных учреждений, находящихся в собственности органов местного самоуправления разных уровней.

Механизмы углубления фискальной децентрализации взаимосвязаны с инструментами и мерами других реформ — административно-территориальной реформы, политической децентрализации, децентрализации управления, экономической децентрализации и основываются на институциональных, организационных и экономических составляющих, в свою очередь содержат определенные меры и средства повышения уровня децентрализации системы управления государственным финансами и совершенствование других сфер экономики страны.

Подводя итоги исследования, можем сделать следующие выводы.

Для повышения эффективности процесса перераспределения доходной и расходной частей местных бюджетов, децентрализации управления бюджетными средствами необходимо:

1. Оптимально распределить полномочия между органами местного самоуправления и органами исполнительной власти на разных уровнях административно-территориальной системы.

2. Конкретизировать расходные полномочия местных бюджетов в отраслях бюджетной сферы (расходы на обеспечение функционирования учреждений образования, здравоохранения, культуры и искусства, социальной защиты и т. п.).

3. Определить достаточную налоговую базу, что позволит обеспечить выполнение органами местного самоуправления собственных полномочий с учетом объективных критериев финансирования государством делегированных полномочий.

4. Усовершенствовать систему привлечения общественности к разработке управленческих решений и контроля над их реализацией.

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### THE IMPORTANT PROBLEM – INCREASE OF INCOMES HOUSEHOLD

**Abstract:** This article explores the increase of incomes household. Analyzing an inequality of incomes household share on five levels (groups).

**Keywords:** the household, a circle of the family, household income, kvintels.

With a view of formation and development of the socially-directed market economy realised economic reforms in Uzbekistan provide creation of corresponding conditions of increase of real incomes of the population and thus maintenance of increase of well-being and a population standard of living. For this purpose, on the one hand, with a view of increase in incomes household the state should organise maintenance of constant effective economic policy and proceeding from requirements of the market from household it is required to reach effective target results.

At present the economy of republic based on market relations provides the accelerated development of manufacture by deepening of reforms and national economy upgrade, increase of a standard of living of the population, in particular increase of incomes everyone household.

It is known, that at present the accelerated process of globalisation very strongly influences not only home market, but also leads to a sharp competition and profit distribution in the world markets.

Therefore well-being of the population and increase in incomes occurs under the influence of internal and external factors. In this situation of one of

the main tasks, on which state should pay attention being based on pure economic rules and a healthy competition is an expansion of kinds and profit forms household, a population solvency. Because the profit increase household and well-being of a life of the population depends on the fiscal policy of the state and a material basis of economy.

The factors of manufacture corresponding to market rules, underline an effective way of economic progress, lead to economic transformations and serious changes. But attraction of profit and incomes economic subjects, in particular the population and household is considered infinite process of interest to well-being increase.

Each person by the nature tries to live in a material prosperity and to build the light future. But to reach it without material means and spiritual development it is very difficult. Each of us performs certain job and someone receives more money than another.

Proceeding from mentality of our people each person considers itself happy in a circle of the family. Structures of families differ the friend from друга. From the economic point of view it is considered natural, that the family consists of those who finds money, income, old



men or other representatives. If in a family it is more than those who finds money and less income it is natural, the income on soul of a member of a family is necessary more. And on the contrary, though in large families the income is more, on soul of a member of a family it is necessary less. We Will give an example comparisons of the first family which structure includes five children and consisting of its seven members, and the second family consisting of two children and its four members. In the first family two work, the income of each of them makes 140 thousands sum and on each member of a family it is necessary on 40 thousand cym. The second family consists of four persons, two from which receive in total 280 thousand cym in a month, on each member of a family it is necessary on 70 thousand cym. It is connected with a quantity difference income in above-stated household and consequently incomes household differ from each other.

Distinction of incomes is called difference and consists of an inequality (in our example of 70 thousand sum > 40 thousand sum).

Analyzing an inequality of incomes household share on five levels (groups), which situated from below upwards.

- 1 – level – very poor,
- 2 – level – poor,
- 3 – level – averages,
- 4 – level – rich,
- 5 – level – very rich.

In the lowest kvintels the quantity household is more, the share of incomes is less, in the higher levels the quantity household is less, the share of incomes is more.

Stratification of incomes of the population depends on social policy and an economic level of the separate state. Depending on a country economic level, a parity of levels of population variously.

By definition in the countries with the developed economy of representatives of the middle class of the population it is more, and they are among rich and poor.

With a view of maintenance in our republic of social stability and not spend sharp fall of a standard of well-being of the population strong social policy is spent. Together with repeated increase of wages, pensions and steps in free market relations the unlimited measure of increase of incomes household is not supposed.

In particular, the system of the state help little supply to levels of population and large families operates. With a view of population social protection measures on prevention of sharp distinction of level of incomes of the population are spent. Real incomes counting on soul of the population have increased by 10,2 percent in comparison with last year.

Thus it is necessary to notice, that in Uzbekistan, unlike other countries on the post-Soviet territory, there is no sharp stratification of the population on level of incomes. Differentiation level in population incomes if to compare most and the least provided, since 2000 on present time has decreased about 53,3 times to 7,8 times at the threshold value of 10 times which are criterion of social stability in a society.

In the conclusion I wish to notice, that a primary factor defining a material well-being and a population standard of living for today is the increase in factors, conditions and the reliable guarantees provided from the state for increase of incomes household. The Most important thing, varies economic thinking and outlook, the political and social consciousness of people raises fast rates. While the numerous states care of economic situation stabilisation, we think of economic and spiritual development of our society. It in turn means increase of incomes of each family.

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## **BESCHRÄNKUNG DES KAPITALSTRÖME VON ZENTRALBANKEN ALS EINER VORAUSSETZUNG FÜR DIE FINANZIELLE UND WIRTSCHAFTLICHE STABILITÄT**

**Zusammenfassung:** beschreibt die wechselnde Haltung gegenüber der Politik der Regulierung der Kapitalströme in die Nachkriegszeit. Erstens ist es die Politik der Einschränkung der Kapitalströme (Bretton-Woods-System internationale Finanzordnung). Zweitens, die Politik der Liberalisierung des Kapitals im Rahmen des „Washington Consensus“ (die Ära des Thatcherismus und der Reagan-Erholung). Drittens, die Einführung restriktiver Maßnahmen zusätzlich zu den Maßnahmen, das Wirtschafts- und Finanzkrise System inmitten der globalen Finanzkrise zu stabilisieren. Viertens: das Verhalten der makroprudenziellen Maßnahmen zur Regulierung Kapitalströme durch indirekte Methoden abzielt, selektive Einschränkung der finanziellen Transaktionen, die eine potenzielle Bedrohung für die Stabilität des Finanzsektors (institutioneller Ansatz zur Verbesserung der Stabilität des Finanzsektors).

**Stichwörter:** makroökonomische Politik, das Bretton-Woods-System der Weltordnung, „Washington Consensus“, die globale Finanzkrise, die institutionellen Ansatz bei der Fiskalpolitik.

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## **ОГРАНИЧЕНИЕ ПОТОКОВ КАПИТАЛА ЦЕНТРАЛЬНЫМИ БАНКАМИ КАК УСЛОВИЕ ОБЕСПЕЧЕНИЯ ФИНАНСОВО-ЭКОНОМИЧЕСКОЙ СТАБИЛЬНОСТИ**

**Аннотация:** Рассматривается изменение отношения к политике регулирования потоков капитала в послевоенный период. Во-первых, это политика ограничения потоков капитала (Бреттон-Вудская система международного финансового порядка). Во-вторых, политика либерализация капитала в рамках «Вашингтонского консенсуса» (эпоха тэтчеризма и рейганомики). В-третьих, введение ограничительных мер в дополнение к мерам по стабилизации экономической и финансовой системы в условиях мирового финансового кризиса. В-четвертых, проведение макроprudенциальной политики регулирования потоков капитала косвенными методами, направленными на селективное ограничение финансовых транзакций, несущих потенциальную угрозу стабильности финансового сектора (институциональный подход, направленный на повышение стабильности финансового сектора).

**Ключевые слова:** макроэкономическая политика, Бреттон-Вудская система мирового порядка, «Вашингтонский консенсус», мировой финансовый кризис, институциональный подход к финансовой политике.

Рассмотрим, как на протяжении послевоенного периода менялось отношение к политике регулирования потоков капитала. Так, в ходе Конференции ООН по валютным и финансовым вопросам была принята Бреттон-Вудская система международного финансового порядка, которая просуществовала около 30 лет (1944–1971 гг.). На протяжении этого срока использование ограничений по счету капитала считалось необходимым условием для реализации макроэкономической политики. Бреттон-Вудская система была хорошо задумана и эффективно работала. Однако в условиях неустойчивости основной резервной валюты к концу 1960-х гг. она практически распалась. После ее упразднения представление о роли ограничительных мер к середине 1990-х гг. постепенно сменилось на противоположное.

Переход к макроэкономической политике, рекомендованной МВФ и Всемирным банком в 1989 г. в так называемом «Вашингтонском консенсусе», способствовал снятию ограничений по счету капитала. А с 1997 г. началось движение к полной либерализации, когда сфера государственного вмешательства в экономику стала сокращаться и наступила эра тэтчеризма и рейганизма.

Мировой кризис 2007–2009 гг., вызвал пересмотр представлений о необходимости либерализации потоков капитала. Так, некоторые страны стали вводить ограничения на движение спекулятивного краткосрочного капитала. Изменилось отношение международных финансовых организаций к введению ограничений на движение капитала. При этом ограничительные меры рассматриваются как дополнение к мерам по стабилизации экономической и финансовой системы с помощью инструментов макроэкономической политики.

В 2012 г. МВФ предложил «институциональный подход» к политике регулирования опера-

ций с капиталом, направленной на повышение стабильности финансового сектора. В результате проведения макропруденциальной фиксации обменного курса дает четкий сигнал о том, что политика центрального банка не будет слишком мягкой и проинфляционной, вследствие чего центральные банки предпочитают поддерживать де-факто фиксированные обменные курсы, даже если официально это не признается.

Теоретически ограничения операций по счету капитала позволяют проводить суверенную политику при фиксированном обменном курсе, однако эмпирические наблюдения свидетельствуют, что обеспечить эффективный контроль над движением капитала, как правило, не удается. Зачастую введение мер, препятствующих притоку капитала, неэффективно, поскольку иностранным инвесторам удается обойти барьеры. Опыт Чили, Малайзия, Таиланд, Бразилия, проводивших политику высоких ставок и установивших ограничения с целью предотвратить приток капитала, показывает, что после введения ограничений, объем внешних финансовых инвестиций не сократился, и странам не удалось избежать существенного укрепления национальной валюты и ослабления торгового баланса [5].

Второй мотив введения ограничительных мер объясняется стремлением поддержать устойчивость финансового сектора. Финансирование долгосрочных инвестиционных проектов за счет коротких внешних кредитов, номинированных в иностранной валюте, делает банковский сектор очень уязвимым. Волна оттока капитала, сопровождающаяся девальвацией, может поставить весь банковский сектор на грань банкротства. Чтобы предотвратить подобный кризис, нужно поддерживать устойчивость финансового сектора и противодействовать накоплению дисбалансов

за счет соответствующего макропруденциального регулирования. Контроль над операциями с капиталом является одним из инструментов такого регулирования, и его функция состоит в том, чтобы селективно ограничивать финансовые транзакции, несущие потенциальную угрозу стабильности финансового сектора.

Другими словами, задача такой политики состоит в изменении структуры притока капитала за счет увеличения доли менее опасных долгосрочных кредитов и кредитов в национальной валюте. Примерами успешной реализации политики ограничений на потоки капитала, в том числе с целью поддержания макроэкономической и финансовой стабильности, является практика перманентных ограничений Индии и Китая.

Успешность политики Китая обычно связывают, во-первых, с высокими барьерами административного характера, которые делают внутренний рынок обособленным от мирового, а во-вторых, с тем, что ограничения действовали всегда, т. е. финансовый рынок изначально развивался как изолированный.

Кроме того, денежным властям Китая удавалось удерживать реальный курс национальной валюты от укрепления за счет эффективной стерилизации эмиссии в национальной валюте вследствие бурного развития внутреннего финансового рынка, большого номера сбережений населения и административных мер контроля. Фактором успешности политики Индии является наличие плавающего обменного курса, который абсорбирует изменения внешних условий, а также гибкость и адресность политики введения ограничений.

Одним из типичных случаев использования ограничений на операции с капиталом для обеспечения финансовой стабильности является ситуация, когда ограничения вводились с целью предотвращения полного коллапса финансового сектора в разгар кризиса, когда иностранные инвесторы уже начали активно выводить средства. Чтобы минимизировать потери, власти применяли жесткое ограничение на вывод средств (Малайзия (1997–1999 гг.), Исландия (2008–2011 гг.), Кипр (2013–2015 гг.)). Исходя из международного опыта, можно говорить об относительной эффективности такой политики, поскольку в конечном итоге, несмотря на тяжелые последствия кризиса, экономика быстро восстанавливалась, а финансовый сектор возвращался к нормальному состоянию. политики регулирование потоков капитала косвенными методами возможно в том случае, если страна по тем или иным причинам не хочет вводить прямое регулирование потоков капитала.

Выделяют два основных мотива введения ограничений по счету капитала: обеспечение возможности реализации монетарной политики при сохранении фиксированного курса и поддержание финансовой стабильности в условиях волатильных потоков капитала.

Первый мотив непосредственно связан с так называемой «трилеммой денежной политики», согласно которой центральный банк может сочетать независимую денежную политику и режим фиксированного курса только в том случае, когда мобильность капитала ограничена. Именно эта логика лежала в основе использования контроля над движением капитала в рамках Бреттон-Вудского режима.

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## Section 8. Population Economics

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### ETHNO-LINGUISTIC AND RELIGIOUS FRACTIONALIZATION OF WESTERN ASIA: POLITICAL ECONOMY APPROACH

**Abstract:** The purpose of the research is to configure Western Asian countries in three dimensions: ethnicity, language and religion. While some studies provide measures of ethnic, linguistic and religious fractionalization and revisit a question of the effects of this fractionalization on the quality of institutions and growth, there are no studies which evaluate ethno-linguistic and religious homogeneity of Western Asian region. In the research we discuss why these three issues remain such sensitive and how it relates to the level of trust in a society, explain the possible causes and consequences of societal fragmentation, point shortcomings in the data collection and measurement.

**Keywords:** homogeneity, ethnicity, language, religion, trust, indices.

#### 1. Introduction

The world diversity and its political implications continue to attract attention of economists and social scientists. If we want to configure the world and its regions we first have to disassemble it into its component parts. Many social scientists, as well as the author of this article, use the state as the unit of analysis. We use data on ethnicity, language and religion for international comparisons and, basically, to configure the target region – Western Asia – in three political economy categories. ‘Political Economy is not so much a social science discipline as a series of overlapping questions that lie at the intersection between economics, sociology and politics’ [22]. Current economic and political reality deeply rooted in history and culture of nations. Thus, one of the objects of the study is to reopen the field and to configure the target region in categories of a cultural economics and an economic sociology as subfields of a political economy.

*Which countries are we ‘configuring’?* We investigate 17 countries of Western Asia: Armenia, Azerbaijan, Bahrain, Georgia, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestinian Territories, Qatar, Saudi Arabia, Syrian Arab Republic, Turkey, United Arab Emirates and Yemen. The majority of countries of the region are the Middle East Arabic countries.

*What are the variables for analysis?* The first set of data we will examine is ethnicity, the second is language and the third is religion. We are interested in these categories because we hypothesize that they may directly influence the level of trust in a society. Social trust (e.g. [10; 12; 13]) refers to trust in general and is related to many economic and political issues, such as, for example, better governance [27], economic growth [9; 28; 46], higher rates of subjective wellbeing [24] and higher education [11; 36].

*How do we configure the region?* We use a comparative analysis technique as a methodology of the research. We begin with ranking the data of all the

world economies in ascending order. This way we see how countries are located in the world on a chosen criterion – ethnicity, language or religion. Then we place our target region – Western Asia – along the world spectrum. Then we describe whether the countries of a target region are at the top, middle, bottom or scattered randomly; whether they are similar or clustered, or diverge radically. After that we analyze the nature of the data and offer possible explanations for the observed results.

The paper contains the results of the serial team research an objective of which is to configure the region of Western Asia in several dimensions such as population, capital income, human development [5], economic globalization, trade, foreign direct investment [3], trust [6], rule of law and control of corruption [4] and other political economy categories. At this stage we analyze the diversity of Western Asian countries in the categories of ethnicity, language and religion.

In short, we contribute to the literature by conducting the first study on ethno-linguistic and religious fractionalization of Western Asian region. We report first results and encourage further investigation about the diversity of Western Asia from the standpoint of other political economy categories.

## **2. Configuring Western Asia in terms of ethnicity**

*Why does ethnic fragmentation matter?* First, it does not matter how many ethnicities in the country, what matters is the way they might interact. Second, ethnicity matters because different groups may have different aspirations that, in turn, might have an impact on society, including political issues.

In the XIX century the concept of ethnicity suddenly became very popular. Darwin's theories of evolution, combined with the drive towards imperial domination and exploitation, gave momentum to the idea that there was a definite racial hierarchy in the world. The pseudoscience of eugenics and Nazi ideology in 1920<sup>th</sup> and 1930<sup>th</sup> culminated in the slaughter of millions of innocent victims [7; 22; 29;

31; 33; 35; 44]. It cast a dark cloud over almost any neutral discussion of ethnicity, which has become not an abstract concept but a matter of life and death.

Therefore, it was rather surprising when in 1997 the World Bank economists Easterly and Levine constructed the ethno-linguistic fragmentation (ELF) index. In their paper Easterly and Levine [14] show that ethnic diversity helps to explain cross-countries differences in public policies and different economic indicators. In the case study of Sub-Saharan Africa they argued that Africa's high ethnic fragmentation explains a significant part of low schooling, political instability, under developed financial systems, distorted foreign exchange markets, high government deficits and insufficient infrastructure.

The methodology of computation of the ELF index is based on the technique of Herfindahl-Hirschmann index: the variables are lined up in a line and each of them is counted in percentages of the whole, then sum up them and divide by 100 or 10000 (to get the results in decimals). The lower the number the more homogeneous the country is. Even though the study of Easterly and Levine was pioneering, the ELF index could be criticized on the following ground: the most used data was rather old taken from the Soviet Atlas. It had been collected by Soviet ethnographers in the 1960s, provided data on 112 countries.

Therefore, in 2003 another World Bank group of economists, led by Alesina, produced an improved ELF index, based on an analysis of 650 ethnic groups, 1055 major linguistic groups and about 294 separate religious groups [1; 2]. They also revisited the question of effects of ethnic, linguistic and religious heterogeneity on the quality of institutions and growth.

It should be mentioned that ethnicity is a very difficult concept to operationalize. It certainly involves race (biological and physiological features), but it is also related to socio-cultural aspirations. There are several *complications about data on ethnicity*: the problem of legal definition of nationality and ethnicity, difficulties with self-identification,

especially in a case of shared identities, the problem of determination the degree of cultural differences, whether to rely on self-identifiers or external identifiers, whether to look at the context in which the question was asked (political pressures, discrimination, illegality in status, etc.) [22; 37].

Even though the concept and the definition of ethnicity are highly contested, Alesina and his co-authors tried to quantify it. The methodology of *ethnic fractionalization index* provided by Alesina is also based on Herfindahl-Hirschman technique, and it measures the degree of fragmentation in each part: ethnicity, language and religion. The sources of data are more up-to-date and include the Encyclopedia of Britannica and the CIA Fact Book. The index is expressed in a range of 1 to 0, with the lowest number expressing the greatest degree of homogeneity and the highest showing the greatest diversity.

In accordance with the world map of ethnic fractionalization provided by Griffiths [22], the most ethnically homogeneous 15 countries in the world (in descending order) are North Korea, Japan, South Korea, Tunisia, Bangladesh, Portugal, Norway, Sweden, Hong Kong, Denmark, Australia, Haiti, France, Netherlands, Austria. The most ethnically fragmented are

the following 15 countries in the world (in descending order): Uganda, Liberia, Madagascar, Democratic Republic of the Congo (Formerly known as Zaire (capital Kinshasa), Republic of the Congo (Sometimes referred to as Congo-Brazzaville (capital Brazzaville)), Cameroon, Chad, Kenya, Nigeria, Central African Republic, Ivory Coast, Sierra Leone, Somalia, Guinea Bissau, Gabon. The analyzed countries of Western Asia neither in the list of the most ethnically homogeneous countries nor in the list of the most ethnically fragmented countries of the world.

Now we will examine countries of Western Asia in terms of ethnic fragmentation. For this purpose we use data on ethnic fractionalization provided by Alesina [1]. The *outcomes of ethnic fractionalization of Western Asia* are as follows.

In the *regional context* countries of Western Asia diverge radically. The box-plot in Figure 1, constructed by the author in R-Studio (R-script for the box-plot and descriptive statistics on the ethnicity criterion is in 'Appendix'), shows that the distribution of countries is close to symmetric (a bit left skewed, so observations mostly deviate towards heterogeneity) with the median value 0.4373, the mean value 0.41808 and the standard deviation of 0.199.

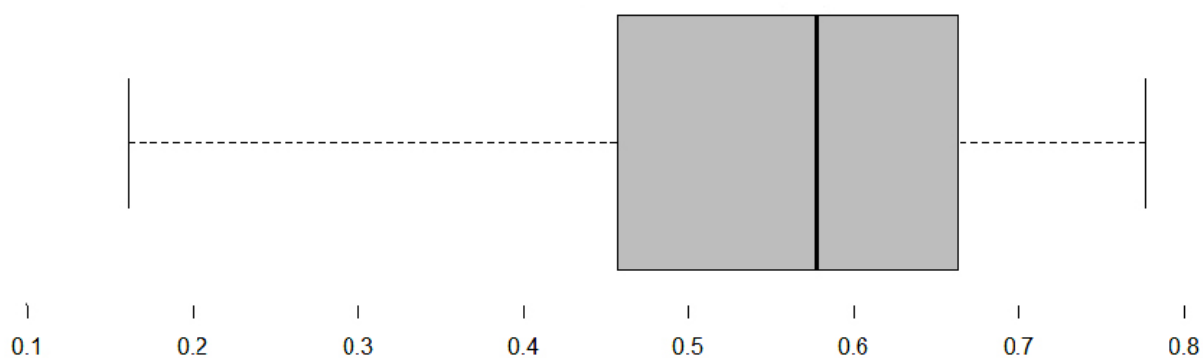


Figure 1. Box-and-whiskers plot: distribution of Western Asian countries by the criterion of ethnicity

The (Figure 2), constructed by the author in MS Excel based on data provided by Alesina [1], represents the distribution of countries of Western Asia by the criterion of ethnicity. There are no data on Palestine and Yemen. The bar plot shows that

the most ethnically homogeneous country in the region is Armenia followed by Lebanon and Saudi Arabia (2<sup>nd</sup> decile). The most ethnically fragmented country in the region is Qatar (9<sup>th</sup> decile) preceded by Kuwait (8<sup>th</sup> decile), UAE and Jordan (7<sup>th</sup> decile).



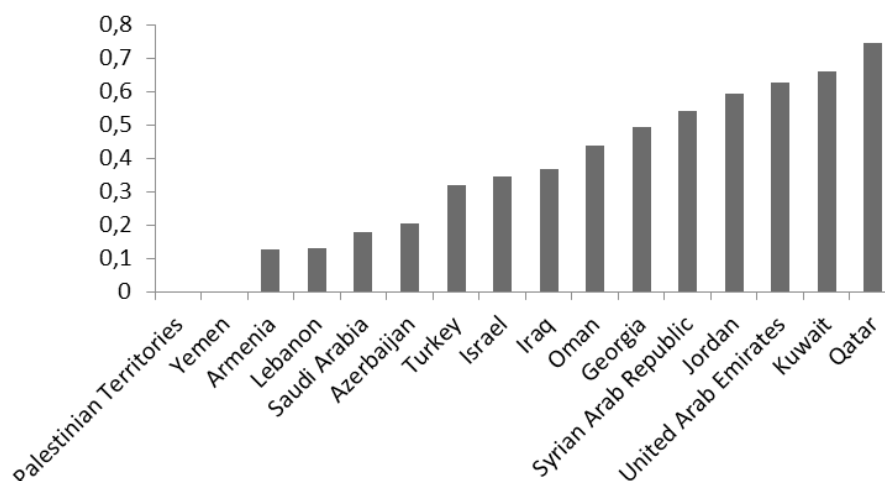


Figure 2. Distribution of countries of Western Asia by the criterion of ethnicity

In the *world context* Western Asian countries scatter randomly along the world spectrum of ethnic fractionalization. In the lower (heterogeneous) deciles we observe oil-rich countries (Qatar, Kuwait and UAE) where there are many labor-immigrants from different cultures making the society diversified. Jordan is in the lower deciles too; the reason of high degree of ethnic fragmentation is a great refugee problem (from Syria, Palestine, Lebanon and Iraq). Former-USSR countries (Armenia, Azerbaijan and Georgia) occupy upper deciles and they are rather homogeneous in terms of ethnicity. The research by Alhanaqta [5] showed that the level of immigration in these countries either satisfactory or too low. The results on the other countries of the region are explained by historical reasons.

### 3. Configuring Western Asia in terms of language

*Why does linguistic fragmentation matter?* First, since the core of the problem with fragmentation is communication, we analyze language diversity. Second, different language groups access different news media and get exposed to different political messages and this enhances cultural differences that inhibit the construction of trust. These factors also affect economic performance not only through the trust mechanism, but also directly by fragmenting markets, raising transaction costs and inhibiting labor productivity. Third, in a polarized society

the dominant group tends to use its power to shape policies in its own interests. If sufficiently powerful it may even do so at the expense of property rights and civil rights. Moreover such dominate groups may promote a ‘culture of intolerance’ [22]. None of this, of course, is consistent with enhancing trust.

The concept of linguistic diversity is also ambiguous concept to operationalize. There are *difficulties with data* collection [22]. The first difficulty here is the one’s mother’s tongue. Language a one speaks at home and the language that is most generally used in a society is not necessarily the same, especially in migrant families. There are also multilingual societies, in which people are bilingual. For example, in Belgium citizens could converse in both French and Flemish. Since recently the country is becoming politically more polarized. Is that because of languages or because of the political issues? [45]. Similar examples we may observe in African countries.

The second difficulty is when does a language become a dialect and when does a dialect become a language? To answer this question linguists usually apply the idea of ‘mutual intelligibility’. It means that speech is not counted as a separate language if it can be understood from another language. Looking easy in theory this idea becomes difficult to operationalize in practice. For example, Scandinavians can understand each other, even though they speak different

languages, listed as separate languages [20]. Additionally, Posner [37] argues that the ability to understand another language to some extent also depends on the willingness to do so. Otherwise, the language will be defined as an ethnically different.

Even though the linguistic concept is contested, the attempts to measure the degree of fragmentation of a society by the language criterion have been made. There are two major sources of data: (1) the data by Alesina [1] and his associates, used exclusively the Encyclopedia Britannica and the CIA Factbook, which identified 1055 language groups; and (2) the data by the Ethnologue project collected by the group of linguists interested in preserving languages, which identified 7097 living languages [16]. There is an obvious discrepancy between the two sources, which may be solved by the introduction of the concept of language distance (linguistic trees) in order to capture the degree of similarity between languages.

For our analysis we use the data from the Ethnologue project, which seems more reliable and which takes into account the language distance. The *language fractionalization index*, constructed by the Ethnologue project in 2009, is expressed in a range of 1 to 0. The lowest number shows the greatest degree of homogeneity, while the highest

number shows the greatest diversity. The map of language fractionalization (divided into deciles), provided by Griffiths [22], shows that the most linguistically homogeneous countries are China, Indonesia, Mexico, Argentina, Belgium, France, Netherlands (1<sup>st</sup> decile). In the 2<sup>nd</sup> decile there are Russia and Vietnam. The 3<sup>rd</sup> decile covers Thailand, Miramar, Sri Lanka and Afghanistan. On the contrary, the 9<sup>th</sup> decile is represented by seven African countries, India and Israel. There are not any countries of Western Asia in the list of the most linguistically homogeneous countries of the world, while two countries of Western Asia – UAE and Qatar – belong to the list of the most linguistically fragmented countries of the world.

The *outcomes of linguistic fractionalization of Western Asia* are as follows.

In the *regional context* countries of Western Asia are clustered on the world map of linguistic fragmentation. The box-plot in (Figure 3), constructed by the author in R-Studio R-script for the box-plot and descriptive statistics on the language criterion is in 'Appendix'), shows that the distribution of countries is close to symmetric (a bit left skewed, so observations mostly deviate towards heterogeneity) with the median value 0.578, the mean value 0.5208, the standard deviation value 0.196 and one left outlier.

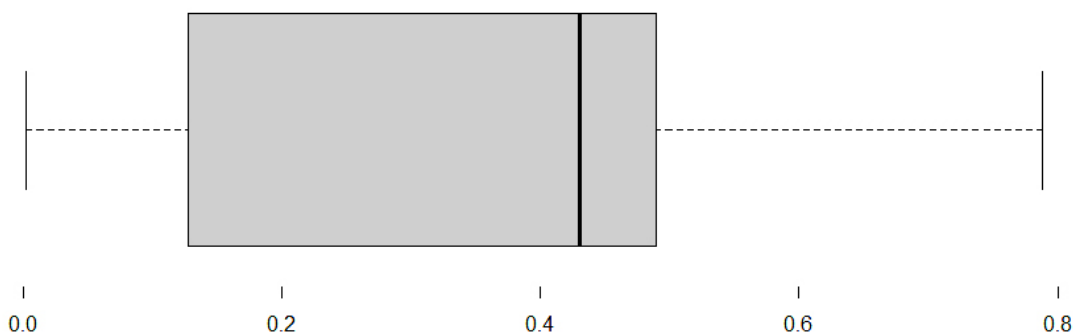


Figure 3. Box-and-whiskers plot: distribution of Western Asian countries by the criterion of language

As we may see from Figure 4, constructed by the author in MS Excel, among the least linguistically homogeneous are oil-rich Arabic countries and hi-tech Israel. It might be explained by immigrant labor

flows as well as refugee problem from neighboring states, convulsed with wars and social conflicts. At the same time we should also admit that there is no direct correlation between welfare and linguistic diversity.

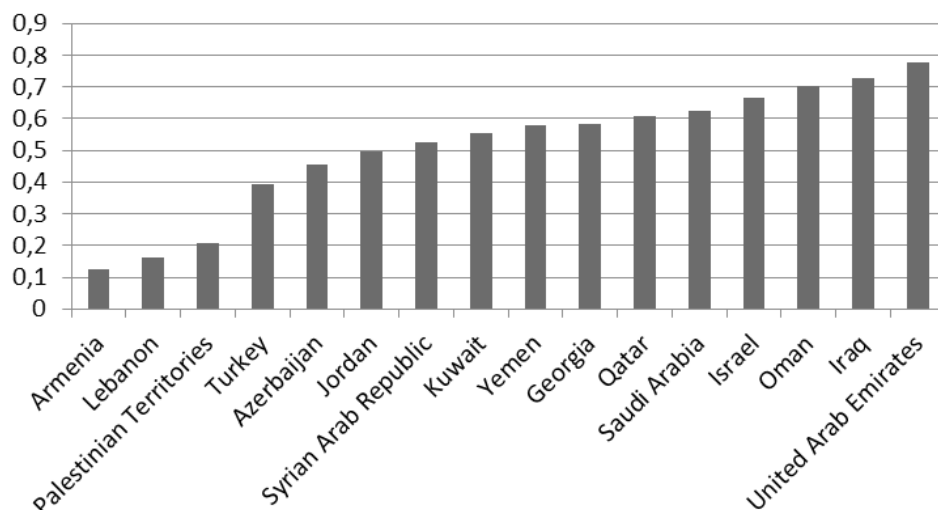


Figure 4. Distribution of countries of Western Asia by the criterion of language

In the *world context* Western Asian countries mostly represent the middle of the world spectrum of ethnic fractionalization. The 3<sup>rd</sup> decile is represented by the most linguistically homogeneous countries of the region such as Armenia (left outlier in Figure 3), Lebanon and Palestine. In the 5<sup>th</sup> decile we observe (in descending order) Turkey, Azerbaijan and Jordan. Syria, Kuwait, Yemen and Georgia are in the 6<sup>th</sup> decile. Qatar, Saudi Arabia and Israel are in the 7<sup>th</sup> decile. Oman, Iraq, UAE are the most linguistically diversified countries of Western Asia and occupy the 8<sup>th</sup> decile. However, we guess, we can't entirely rely on statistical data. Perhaps, Ethnologue project tends to overestimate the number of living languages.

#### 4. Configuring Western Asia in terms of religion

*Why does religious fragmentation matter?* Religion is a shared belief system which is exercised through a set of shared rituals. It touches the core of one's existence, therefore, might trigger strong and even violent emotions. On the positive side, religious teachings emphasize the benefits of generosity towards others and disapprove of anti-social behavior. Orbel et al. [34], in particular, reports that religious persons are thought to be more cooperative in a prisoner's dilemma experiment. And indeed, there

are arguments for a positive effect on trust, mainly based on the idea that religions generally encourage adherents to do well towards others. In Islam, Mohammed's farewell sermon includes the assertion 'Hurt no one so that no one may hurt you'. Likewise, in Christianity, through Luke 6:31 ('Do unto others as you would have them unto you'), this is embedded in the Golden Rule (Similar rules can be found in all major world religions) see [43]. On the other hand, religious teachings might create a clear divide between the religious and the non-religious (see [15, 19, 21, 23, 39]; on religion and domestic conflict – see, e.g., [18]). Of course, it militates against trust creation.

Religion has until recently remained relatively unexplored in the trust literature and, indeed, in economics and political science overall (with some exceptions, such as [25, 30, 41, 42]). We support the point of view of Berggren and Bjørnskov [8] who state that 'this relative neglect is unfortunate, since there are reasons to believe that people's perceptions and behavior, both in economic and political realms, are influenced by religiosity'.

Religion can be seen as another form of social construction. It is expected that its impact on trust in a society may be greater than the impact of such variables as ethnicity and language. Note,

that in our analysis we are looking at societal fragmentation by the criterion of religion, and not for the impact of a specific religion.

Along with ethnicity and language there is a *problem of measurement* of religious diversity. It is very difficult to obtain qualitative data. There are two sources of data collection: (1) asking people and (2) evaluating visible participation in religious services. In the first case people might not answer truthfully because the issue is so personal, as well as it can be insecure to reveal religious affiliation for fear of discrimination. In the second case religious institutions tend to consider a member as a member for life, even if a person does not attend a religious institution any longer [8]. Thus, the reliable data is very scarce, and we keep it in mind when we conduct an analysis on religion fragmentation.

In this research we use data by Alesina and his colleagues [1], who exclusively relied on the data set from the World Christian Encyclopedia. Here we expect that the authors of the Encyclopedia could not undercount Christian churches: they tend to include everyone within the range of a church as its member. One more drawback of data is that the Encyclopedia tends to underestimate syncretic and animistic cults. For example, the Encyclopedia records that 93% of the population of Bolivia is Christians, while other sources record that 43% hold syncretic beliefs [32]. Despite these drawbacks social scientists do not have a better alternative to using the World Christian Encyclopedia as a source of religious fragmentation [22]. Note, the question of religious fragmentation is relevant only if religion is experienced as an important factor in a daily life.

The *religious fractionalization index* (by Alesina [1]) is expressed in a range from 1 to 0, with the lowest number expressing the greatest degree of homogeneity and the highest showing the greatest diversity. In accordance with the world map of religious fractionalization provided by Griffiths [22], the most homogeneous 15 countries in the world (in descending order) are Yemen, Somalia, Mo-

rocco, Turkey, Algeria, Tunisia, Mauritania, Libya, Jordan, Mongolia, Qatar, Cambodia, Gambia, Thailand and Iran. Alternatively, the most diversified 15 countries are South Africa, USA, Australia, Malawi, New Zealand, Ghana, Central African Republic, Lebanon, Kenya, Ivory Coast, Zambia, Cameroon, Netherlands, Lesotho, Democratic Republic Congo. As we may see, the list of homogeneous countries is dominated by Muslim countries and two Buddhist countries – Mongolia and Cambodia. Thus, among the most homogeneous countries are four Western Asian countries and among the most diversified countries is one Western Asian country.

The *outcomes of religious fractionalization of Western Asia* are as follows.

The box-plot in (Figure 5), constructed by the author in R-Studio (R-script for the box-plot and descriptive statistics on the religion criterion is in 'Appendix'), shows that the distribution of Western Asian countries is left skewed (the vast majority of observations deviate towards heterogeneity) with the median value 0.431, the mean value 0.368 and the standard deviation value 0.240.

The (Figure 6), constructed by the author in MS Excel, represents the distribution of countries of Western Asia by the criterion of religion. The most homogeneous country in the region is Yemen, followed by Turkey, Jordan, Qatar and others. The most diversified in the region is Lebanon, which is quite expectable, since there are several creeds of Muslim religion and several creeds of Christianity. By the way, this religious diversity has recently used as an instrument to enkindle civil war in the country and destabilize it.

In the *world context* Western Asian countries mostly represent the top and the middle of the world spectrum of religion fractionalization. The majority of Muslim states (Yemen, Turkey, Jordan, Qatar, Saudi Arabia) cluster the most homogeneous end of the scale (1<sup>st</sup> decile). The majority of states from the rest of the group is in the middle. We may see Palestine, UAE, Israel, Syria, Oman, Armenia, Iraq,

Azerbaijan from 4<sup>th</sup> to 6<sup>th</sup> deciles. The most diversified country Lebanon is in the 10<sup>th</sup> decile.

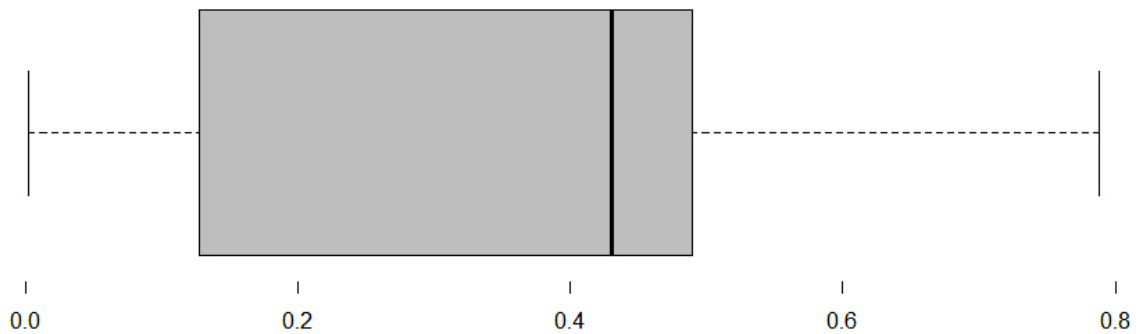


Figure 5. Box-and-whiskers plot: distribution of Western Asian countries by the criterion of religion

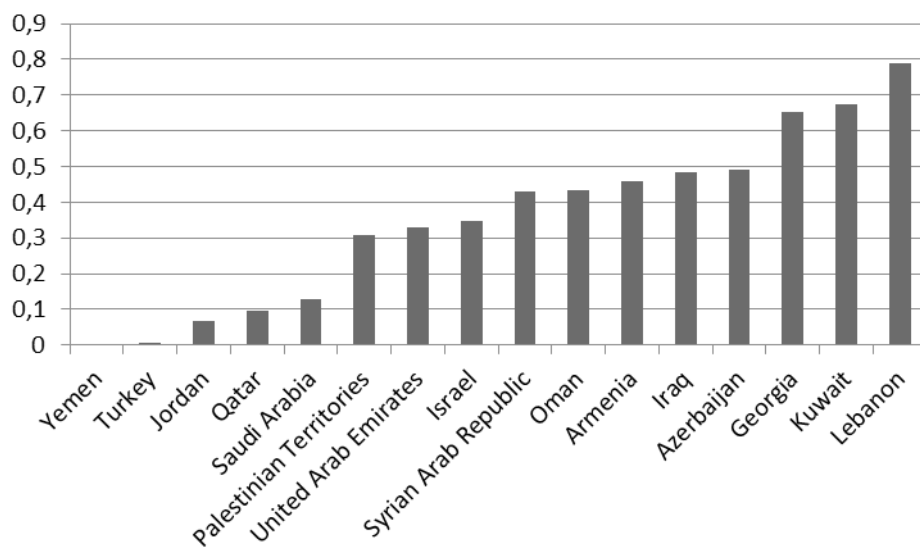


Figure 6. Distribution of countries of Western Asia by the criterion of religion

We should mention that in Muslim states, which represent the majority of Western Asian countries, religiosity is highly supported on the state level and embedded into the daily life. Thus, it influences formal and informal norms of people's interactions, as well as the level of trust. To support this observation we refer to Tan and Vogel [40] who report that 'trustees are trusted more, especially by religious trusters'. Also, interestingly, Johansson-Stenman et al. [26] found that Muslims and Hindus trust people of their own religion more than they trust others, thus suggesting a role for religious diversity.

### 5. Conclusion

In theory it is hypothesized that ethnicity, language and religion influence the level of trust, re-

vealing the homogeneity of a society from different standpoints. In the research we discussed why these three issues remain such sensitive, pointed shortcomings in the data collection and measurement, explained the mechanisms by which these phenomena (ethnicity, language and religion) affect a level of trust in a society as well as configured Western Asian countries in these three categories. Through a comparative analysis technique we analyzed the diversity within a target region and showed where it fits in the world spectrum.

Ethnicity, language and religion are very difficult concepts to operationalize. As regards the ethnicity there are the following problems: legal definition of nationality and ethnicity; difficulties

with self-identification; the problem of determination the degree of cultural differences; the context in which the question about ethnicity was asked (political pressures, discrimination, illegality in status, etc.). Concerning the language there are the following problems: what is one's mother's tongue in bilingual or multilingual societies; when does a language become a dialect and when does a dialect become a language. As far as the religion there is also a problem of measurement of religious diversity: the issue is so personal, as well as it can be insecure to reveal religious affiliation for fear of discrimination; religious institutions tend to consider a member as a member for life, even if a person does not attend a religious institution any longer. Thus, the reliable data is very scarce. Even though the mentioned concepts are contested, the attempts to measure the degree of fragmentation of a society by the ethnic, language and religion criterions have been made.

In terms of ethnicity and religion distribution of countries of Western Asia is close to symmetric, with a small value of skewness, i. e. the county-observations deviate mostly towards heterogeneity. In terms of religion the distribution of Western Asian countries is left skewed which means that the vast majority of country-observations deviate towards heterogeneity, i. e. rather fragmented.

We suppose that ethnic, linguistic and religious diversity adversely affect the level of trust in a society. The more homogeneous a society the higher the level of trust is. It is also expected that the impact of the religion on trust may be greater than the impact of such variables as ethnicity and language. In Muslim states, which represent the majority of Western Asian countries, religiosity is highly supported on the state level and embedded into the daily life. It influences formal and informal norms of people's interactions, as well as the level of personal and generalized trust. Personal trust is directly linked to trust in institutions, i. e. civic organizations, while interpersonal trust is linked to generalized trust, i. e. trust in most people. Fairholm [17] points out that trust suffers

when core moral principles, expressed in religious beliefs or other moral standards, are ignored. This moral vacuum weakens our willingness to trust others, with its negative consequences.

Religion can be seen as another form of social construction. Participation in civic institutions serves as a socialization mechanism which, through repeated reciprocal actions, leads to the construction of trust and, from there, the creation of good and effective institutions of government. If civic engagement declines it leads to fragmentation of a society, decline of social capital as well as decline in trust. In its turn, this fragmentation of a society poses a threat to democracy and a threat just about everything. It supports Putnam's point of view that trust is central to the formation of a society [38, 39]. Thus, it is very important to *strengthen the morale of the nation* because any positive change begins with spiritual change deep inside and then leads to the enhancement of the social world around.

There are directions for further research. We are going to use the results of this study to conduct the correlation and regression analysis in order to estimate a relationship between ethno-linguistic and religious fragmentation and the level of trust in a country. Currently we work upon creation of a complex estimator based on these three mentioned criterions. The complex estimator will allow us to rank countries of Western Asia by three categories simultaneously. For this purpose we will apply two mathematical methods: a method of places and a taksonometric (distance) method. In the next stage we will statistically verify the relationship between trust and three variables – ethnicity, language and religion. Then we will use the obtained information to construct different regression models and will opt for the most qualitative so as to explain the change in the trust indicator from three variables. For the best model we will further conduct econometrical tests and will give explanation for the observed results.

It should be mentioned separately that conclusions are largely influenced by statistical facts (data)

which sometimes are slightly better than random choice. That is why we must be critical of the data and interpret it with accuracy. Nevertheless, the current research is in the line with the studies that assume the influence of ethnicity, language and religion on the level of trust, as a social capital category which, in turn, influences social, economic and political sustainability.

#### **Appendix: R-scripts in R-Studio for descriptive statistics and box-plots for ethnicity, language and religion**

```
# Box-plot and descriptive statistics for ethnicity
ethnicity<-c (0.1272,0.2047,0.5021,0.4923,0.3689,0.3436,0.5926,0.6604,0.1314,0.4373, NA,0.7456,0.18,0.5399,0.32,0.6252, NA)
boxplot (ethnicity, horizontal=TRUE, col="grey")
median (ethnicity, na.rm=TRUE)
mean (ethnicity, na.rm=TRUE)
sd (ethnicity, na.rm=TRUE)
```

```
# Box-plot and descriptive statistics for language
language_Ethnologue<-c (0.125,0.457,0.663,0.582,0.728,0.665,0.496,0.556,0.161,0.702,0.208,0.608,0.626,0.527,0.394,0.777,0.578)
boxplot (language_Ethnologue, horizontal=TRUE, col="grey")
median (language_Ethnologue, na.rm=TRUE)
mean (language_Ethnologue, na.rm=TRUE)
sd (language_Ethnologue, na.rm=TRUE)
# Box-plot and descriptive statistics for religion
religion<-c (0.4576,0.4899,0.5528,0.6543,0.4844,0.3469,0.0659,0.6745,0.7886,0.4322,0.3095,0.095,0.127,0.431,0.0049,0.331,0.0023)
boxplot (religion, horizontal=TRUE, col="grey")
median (religion, na.rm=TRUE)
mean (religion, na.rm=TRUE)
sd (religion, na.rm=TRUE)
Compliance with Ethical Standards:
Conflict of interest: The author declares that he does not have any conflict of interest.
```

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## Section 9. Economics of enterprises

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### FINTECH AS THE DRIVING FORCE OF FINANCIAL INNOVATION

**Abstract:** The following article defines the fintech industry and describes its latest trends. Investment amounts into fintech and structure of these investments are analyzed. Particular attention is paid to large fintech subsectors, such as insurtech and regtech.

**Keywords:** fintech, insurtech, regtech, blockchain, financial technology, financial innovation, venture capital.

In the past several years, the financial services industry experienced a significant impact of technological advancements. Mainly they were brought by startups that focused on financial technology, but the established financial companies have also contributed. Each firm from this array, as well as the entire financial sector they operate in, is called “fintech”. There is no clear consensus in academic and business fields on whether to constrain fintech’s definition to any size or period of existence of the business. For instance, Capgemini defines fintechs as financial services firms not older than five years with a relatively small customer base [8, 5]. Different definitions of fintech bring discrepancies to the fintech market analysis. This article mainly uses data from KPMG, that does not limit fintechs to any size or lifetime and publishes a profound analysis of the industry on a quarterly basis.

If you take an entire spectrum of a universal investment bank’s value chain and divide it into separate elements, fintechs usually take one or two of those niches and try to create there an alternative that is more efficient, more customer-friendly and automat-

ed to a higher degree than the bank’s products. Established financial institutions have already realized that fintechs bring real threats to their old haunts, especially in payments, fund transfer and personal finance sectors, so many of them actively contribute to the fintech advancement. The recent Global Fintech Report 2017 by PwC questioned 1308 financial services and fintech executives from all around the world and found out that 88% of them were worried that part of their business was at risk in the face of standalone fintechs [4, 5]. The most active adopters from traditional banks’ side include Citi, Goldman Sachs, Santander, UBS, BBVA, Barclays and some others. They participate through launching business incubators and accelerators, launching their own fintech solutions, and creating investment vehicles to maintain and scale up innovation [7, 5]. While fintechs have some advantages in this innovation process, banks obviously possess more capital, experience and customer trust. Therefore, banks and fintechs can be seen as potential partners as well as competitors.

According to KPMG, the global investment in fintech peaked in 2015, when the total deal value

reached \$46.7 billion across 1255 deals [1, 9]. Even though in 2016 it dropped almost by half to \$24.7 billion, the deal count did not decrease that dramatically and amounted to 1076 [1, 9]. The first two quarters of the current year saw \$11.6 billion invested, similar to the last year's amount, while the number of deals stayed high [5, 7]. Such deceleration in the last two years is caused mainly by the fact that the fintech hype has been cooling down. Two or three years ago, many investors were trying to catch the fintech wave being afraid to be left behind the fintech disruption. The last two years saw more consistency in the fintech industry: earlier investors have been working on the efficiency of the projects they had invested in. It is worth mentioning that these investors represented mainly the private equity side, which dominated the market until 2014. In 2015, when the fintech market was already quite established, corporate venture capital (VC), that had been pretty passive before, almost tripled its investments to \$4.9 billion [1, 15]. It was further increased to \$8.5 billion in 2016, comprising over one third of total annual investments in fintech and 17% of the deal count [1, 15]. With \$2.6 billion invested during the first six months of 2017, corporates are moving beyond traditional direct VC fintech investment and are working more on building partnerships and alliances with fintechs [5, 12].

At the same time, well-established fintechs are expanding. Many of them focus on growth, either geographically or through product or service development. For example, SoFi, a San Francisco-based online personal finance company, acquired Zenbanx in order to deliver more traditional bank functions, including customer deposits. As it also plans to expand its business to Australia and Asia, it acquired companies for a total of \$450 million in the regions. As another example, following its massive record-breaking Series B funding round of \$4.5 billion in 2016, Ant Financial, an affiliate of Alibaba Group, announced a \$200 million investment in Kakao Pay in order to expand to Korea [2, 6].

Moving focus to regions, investment in fintech is traditionally dominated by Americas with a total of \$12.8 billion in 2016. The region saw a decrease of over 50% from 2015, as investors started to become hesitant whether the fintech market was already overcrowded. Payments and lending platforms especially experienced the drop in investments, as the two sectors attracted a major share of capital in 2014 and 2015. Consequently, many fintech investors in the US focused on scaling and improving business models of fintech companies that already were in their portfolios. Despite a drop in the region, Canada marked a record year of VC investment in fintech. At the same time, high volatility in investments volume year over year in Europe and Asia usually occurred due to the impact of outlier deals. European M&A and VC deal value fell by 80% from \$10.9 billion two years ago to \$2.2 billion in 2016. Thanks to the Ant Financial funding deal, investments amount in Asia was stable and increased from \$8.4 billion in 2015 to \$8.5 billion last year [1, 28–32].

The first two quarters of 2017 saw the rising activity in fintech investment in the US and especially in Europe. At the same time, investment in Asian fintech slowed down, particularly due to the newly introduced financial technology regulations in China, that fintechs and investors have had to spend some time on in order to integrate. While the lack of mega-deals in Asia stays unchanged, the pace with which the continent's fintech ecosystem develops and the growing interest in fintech in the region brings confidence that the delay is temporary. In the remainder of 2017, fintech investment is expected to grow, however, not reaching the benchmark of 2015. Maturing fintech companies will continue their expansion to new products and solutions, as well as new markets. Some even will try to obtain banking licenses, what brings more distribution opportunities together with tougher regulation requirements. From a technological point of view, blockchain and artificial intelligence will probably hold the main focus of investors, followed by smart data solutions and predictive analytics.

In 2015, a separate branch of fintech covering innovation in insurance evolved and was named “insurtech”. The insurance industry, which is one of the most conservative in finance, has not seen much innovation over the last decades, so a new wave of insurtechs is trying to disrupt it. Traditional insurers did not hurry to invest substantially into insurtech, particularly, due to their ongoing costly regulatory and IT transformations. However, they have begun to feel the pressure of insurtech disruptors. While overall fintech investment peaked in 2015, capital interest in insurtech reached its maximum in 2016 – \$12.1 billion [4, 16]. After the record 274 deals last year, the first half of 2017 marked a rising number of deals at 155, but their total value dropped to just \$2 billion [4, 16]. The majority of funds invested focused on seed and early-stage businesses. In the remaining of 2017, both insurers and insurtechs will be testing and piloting solutions across the entire insurance value chain, from peer-to-peer insurance, community-based insurance, life and health insurance – to employee safety programs, employee benefits, software-as-a-service models and comparison sites.

The pace with which fintech is changing the financial services industry created numerous additional legal challenges in a respective, already very complex regulatory field. As a result, a separate industry at the intersection of fintech and law emerged and got a name “regtech”. It is easy to confuse regtech with legaltech, which infuses cutting-edge technology into the legal industry. Regtech companies, or regtechs, work on solutions that make use of technology to solve compliance and regulatory issues that fintechs face. There are four key areas in which fintechs can benefit from cooperation with

regtechs: cost efficiency, regulatory information accuracy, IT security and big data analytics [4, 72]. As jurisdictions realize the importance of fintech disruption in facilitating financial inclusion and increasing the banking system’s efficiency, in 2016, the UK, Australia, Singapore, Malaysia and Thailand all launched their regtech sandbox programs. The UK was the most active in the face of Brexit and created fintech bridges to Australia, Singapore and China, with Belgium and Canada to follow. Deloitte identifies 80 regtechs around the globe. It is no surprise that the UK hosts 30 of those, while 28 regtechs are headquartered in the rest of Europe and 16 are located in the US [4, 73]. Almost two thirds of those 80 regtechs deal mainly with compliance or identity management and control [4, 74]. While 2017 promises to be a record year of VC invested in regtech with \$591 million in the first 2 quarters, total value of deals in 2016 reached \$994 million worldwide, a steep increase from the previous year’s \$582 million.

One of the core changes fintech will bring to society is financial inclusion. Today, according to the recent research by McKinsey, two billion people, mainly women, and 200 million businesses in emerging economies do not have access to the basic banking [6, 17]. By 2025, fintech is able to provide 1.6 billion individuals with access to financial services and to increase the volume of loans given to individuals and businesses by \$2.1 trillion, at the same time helping emerging economies to save a total of \$110 billion per annum while enlarging their annual GDPs by \$3.7 trillion [6, 43–45]. At the same time, financial institutions could save \$400 billion per year in direct costs and increase their balance sheets by \$4.2 trillion [6, 47].

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## Section 10. Economics of recreation and tourism

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### THE ROLE OF THE OWNER MANAGER IN THE HRM – ORGANIZATIONAL PERFORMANCE RELATIONSHIP

**Abstract:** It is now a known fact that tourism is a labor intensive, service industry characterized by the staff behavior and performance, which are directly influenced by the definition, the level of application and the formalization of HRM practices, directly affect the organizational performance of the business.

Another feature of tourism is the existence of a large number of small and medium enterprises (SMEs) and as is known, the SME decision-making power is mainly focused on the owner manager, so his expertise can affect the level of application and formalization of the core HR practices.

This article suggests a conceptual model for measuring the impact that the expertise of a person who deals with HRM issues has in the application of these practices and the impact of the application of HRM activities in organizational business performance.

**Keywords:** HRM, expertise, owner-manager, organizational performance, tourism.

#### **Introduction**

Imagine leading companies with impressive buildings and high offices without any talented employees; without doubt, these companies would crumble [1]. Thus, human resources are the only living factor of production which also influences other factors.

By nature, the hotel industry is a labor-intensive service industry and its success largely depends on the social and technical skills of its personnel, their intelligence, commitment and their attitude [2]. Since the tourism industry is labor-intensive and requires interaction with customers, the quality of service largely depends on the quality of staff. Although it is a cliché, it is true that people are its most important source. Therefore human resources management is thought to play a vital role in the economic performance of

these businesses. However, the management of human resources in the tourism sector is still underdeveloped and lacking sophistication [3].

The determination of HRM practices and their level of formalization and application depend on the type of human resources (HR) within the company [4]. It has been argued in a number of studies that systems and practices of human resource management have a direct impact on employees, on their attitudes, behavior and performance which directly affects organizational performance [5]. Human resource practices have indirect effects on employee attitudes and behaviors through group behavior, which then affect organizational culture [6].

In fact, as early as before, a lack of a theoretical basis for HRM practices, the results that they have and the impacts that have practice in each other,

have been found in the HRM process and in PO [7,8]. Many authors have tried to find an answer on how this link works, which the factors that affect it are and what, this effect is. Trying to build different theoretical models and understand how these models really work, they call it the “black box” in a business [9]. The efforts to build a complete theoretical basis for HRM continue even later. Paauwe, argues that we need a better theory of HRM practices, results and connections between them [10]. There have been many studies conducted on companies within the same industry or companies belonging to different industries, in which a number of variables were included in the form of HRM results and different conceptual models were offered [11; 12; 13; 14; 15; 16]. According to Vlachos, literature is replete with studies that examine the relationship between the practices of human resource management and firms’ performances and there is also a long list of the best human resources practices that could separately or all together influence organizational performance [17]. However, Guest explains that we are currently at the stage of “growing sophistication” and now the question is: “under what conditions does HRM influence performance” and “through what process does HRM influence the performance” [18].

In this article, I suggest a conceptual model which is the result of literature review and previous models offered by different researchers.

### **Literature and models review**

Studies of HRM practices in small and medium enterprises have always attracted the attention of management researchers. Underlying assumptions for small firms say they are organized in an informal way and HRM practices are informal. Nevertheless, increasing investigation has shown that there are many exceptions to this pattern.

This article is mainly based on 3 different models from management researchers. Jan M. P. de Kok and Lorraine M. Uhlaner, [14] in their study attempted to clarify the relationship between organization contextual variables and human resource management

(HRM) practices in small firms [14]. They proposed a model that explained the level of formalization in HRM combining theoretical perspectives, including the resource-based approach, institutional theory, transaction cost economics (TCE), and concepts from strategic management. The “formalization” of HRM practices, was the dependent variable in their model. The resource-based view is used to highlight the importance of the environment in building up human resource capabilities. The authors argue that RBV is included in this model to emphasize the importance of the environment that HR gain the skills. The model includes several independent contextual variables: firm size, the presence of an individual or collective contract, collaboration with a larger supplier or client, and growth orientation as a strategy (called “growth strategy”). It is thought that these four contextual variables together, affect the degree of formalization of HRM practices. This model also includes a set of intermediary variables that are not directly measured, but are believed to affect the link between independent and dependent variables. The underlying assumption is that if the CEO of the firm has the resources, knowledge (know-how) and recognizes the importance of formal HRM practices then he or she will apply and develop them.

Another model is that built by Urbano, D., Yordanova, D. (2007) [15], which was built to study the relationship that existed between the characteristics of touristic SMEs, the person responsible for HR and the application of HRM practices. This model is also based on RBV theory and considers 5 independent variables: firm size, the presence of an HRM department, cooperation with larger firms, the ownership by the larger company and the characteristics of the person responsible for HRM. These independent variables are considered resources, whereas the dependent variable is the application of HRM practices. In this study, it is argued that the characteristics of a person responsible for HR such as experience, education and training can affect the application of HRM practices to SMEs. From the results of the

study it was noted that SMEs are more inclined to apply HRM practices when the HRM person has previous experience in such positions. But it was also noted that the education or training of this person did not affect the application of HRM practices.

The third model to which this article refers, is that written by Marinela Dropulić Ruzić (2014) [19]. In this study, the direct and indirect impact of HRM on the performance of hotel businesses is measured. The theoretical basis of this model are: RBV theory, AMO (Ability – Motivation – Opportunity) framework and universalistic, contingency and configurational approach. This model considers HRM practices as its independent variables, the firm's OP as the dependent one and explains how HRM practices impact on firm's HR and performance. The results of the study confirm that HRM directly affects the performance of HR (at individual and organizational level) as well as the firm's performance.

This study's conclusion is that HRM, directly contributes to the HR performance, both at individual and organizational levels, as well as to the firm's OP.

### **The proposed conceptual model**

Firms can adopt different HRM practices to improve their long-term competition. According to the RBV, resources that are valuable, rare, inimitable, and irreplaceable by other resources can be a source of sustainable competitive advantage [20]. Firms can adopt different HRM practices to improve their long-term competition. Some authors argue that the adoption of HRM practices can lead to the creation of sustainable competitive advantage [21; 22; 23; 24]. The situation of basic human resources in a firm [25; 20], may help to better understand why some firms tend to apply HRM practices and some others do not. Studies of the business field support the general conclusion that small organizations are more likely to act in an informal and flexible way than larger firms [26; 27; 28; 29; 30; 31; 32; 33; 34]. It is often thought that given their limited activity they would not employ an HRM specialist so as to apply and develop sophisticated treatments. Furthermore, it is

possible for them to ask for HR policies that require some consideration, based on their circumstances or business situations. Therefore, in small firms, where the organizational structure is limited, there are usually few managers and ownership and control are often concentrated in the hands of a single person. Consequently, the Owner/Manager's attitudes and values will have a profound impact on the organization's organizational framework, policies and social relationships [35]. According to Lerner and Haber (2000) [36], the performance level of a small enterprise is mainly attributed to the education, entrepreneurial experience, the skills of entrepreneurs, as well as their personal entrepreneurial characteristics. Boer et al. (1997) claim that entrepreneurs generally appreciate their independence and exhibit dominant psychological features, which result in a managerial style that is usually autocratic, impulsive, egocentric, and unpredictable. For these reasons, HR practices vary widely between small firms, are often set by the ideology and pluralist goals of the small business owner and as a result of its informality are more sophisticated than usually expected [37]. In spite of everything said in theory, it is a fact that organizations need to manage their employees every day and become involved in the process of finding human resources, their distribution to the working positions and their development, so the expertise of the HR manager/owner -manager is the main factor in the application of HRM practices. Taking incentive from this reasoning, in the first box of this model the owner-manager's expertise is included, and two elements have been considered as measure for this expertise: his experience in this position, education and HR training.

There are some authors who claim that sustainable competitive advantage is the HR itself rather than the practices used for recruiting, using or retaining them [38; 22]. Just as there are other scholars who argue that HR practices can be considered as important elements of organizational behavior, taking into account the ability to motivate employees,



applying internal HR policies etc. [20; 39; 40] and HRM can be seen as an integral part of the company's overall strategy. In this regard, practices such as recruitment, training, performance appraisal and rewarding can contribute to the creation of an organizational knowledge base and HR can be seen as an important contributor to the firm's success. Generally though, there isn't a list of prescribed practices or systems for applicable human resources practices that make up HRM. Although the studies conducted have aimed at identifying the best HRM practices, many of these studies have dealt with the issue of human resource practices focusing only on certain variables. A review of the literature conducted by Khan (2010) [41], identified five major HRM practices which are: training and development, recruitment and selection, compensation and rewarding, performance appraisal, and employee participation. These five practices are part of ten practices that were used in another study from ALDamoe, F. M. A., et.al (2011) [42] to assess the impact of these HRM policies on organizational performance and it was concluded that there is a significant positive relationship between HRM practices and organizational performance (therefore there is a significant positive relationship between HRM practices and OP).

Hence, researchers can list a number of different practices, four of which, standing at the top of the list are: recruitment and careful selection, training and development, performance management (including assessment) and reward/compensation schemes. These four practices are reflected in the main objectives of most "strategic" HRM programs [43]. So, in order to identify and to recruit strong performers, they offer them the chance and confidence to work effectively, they monitor their progress towards the objectives of performance required, and the staff is duly rewarded for their realization or excess. Experience has shown that some HRM policies and practices provide better results than others, thus all organizations or companies should be interested in adopting the best practices. So, the definitions of the best practices are al-

ways led by research into four favorite sub functions of university students and personnel psychology: selection, training, performance evaluation and reward [44; 45]. However, it should be recognized that the best practices are widely accepted by researchers and practitioners [47; 44; 46; 45].

Based on the previously mentioned facts, in the model suggested in this article the practices selected are namely: recruitment/selection, training/development, performance evaluation and rewarding as the most important practices and those with the greatest impact on employees. Each of these practices has its importance and effect on the individual performance of the employee and furthermore on the firm's organizational performance.

Business performance is considered to be multidimensional. Dyer and Reeves's [48], researchers in strategic HRM, in their work have measured business performance with three main result groups which are related to HRM: HR results, operational results, and financial results. HR results are directly related to HRM in an organization, such as the skills and competencies of employees, attitudes and behaviors, as well as their turnover. Operational results are those connected to the objectives of an organizational operation, including productivity, product or service quality, developing new products or innovation, and customers' satisfaction. The financial results reflect the meeting of economic goals of the organization. Typical financial results include sales growth, profit growth, return on invested capital, and return on assets [49]. In this model, as a benchmark for organizational performance, several HR and operational results have been suggested, which are thought to have a direct impact on business' OP, as a result of the application of HRM core practices that are: Product/service quality and development [50; 47] Organization relationships (the relationship between management and other employees/relationship among employees in general) [50] and the ability to keep necessary employees (low turnover) [47]. The choice is based on the fact that financial

accountants in a tourism business can be affected by factors that are not directly related to HRM (e.g. tourist movements etc.) Schematically this pattern will be as reflected in (Figure 1).

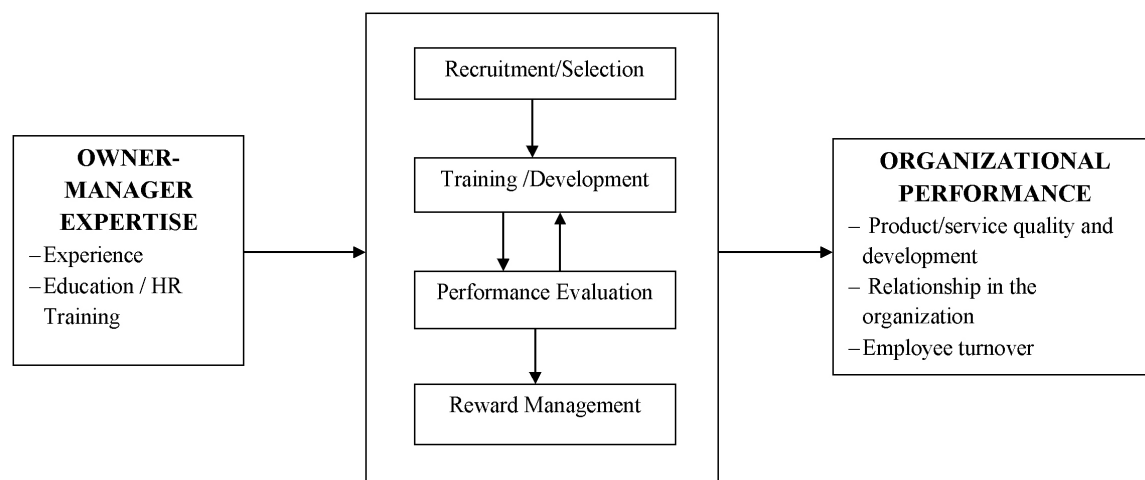


Figure 1.

Despite being mostly considered for tourist businesses, this scheme may be valid for other businesses that offer services as well as for small manufacturing firms.

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## Section 11. Economics, organization and management of enterprises, branches, complexes

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### **PUBLIC ADMINISTRATION OF THE QUALITY OF HIGHER EDUCATION IN THE CONTEXT OF NORMS OF INTERNATIONAL QUALITY STANDARDS: THE PRINCIPLE OF DECISION MAKING BASED ON FACTS**

**Abstract:** the publication has proved the possibility of using one of the principles of the international standard of quality, namely, the principle of decision-making based on facts in the system of state's quality management of higher education. Some aspects of quality management of higher education at the university level are considered through the prism of the main stages of the management decision making, namely: goal-setting and evaluation of the effectiveness of the decisions taken. The potentials of the main stages of making a managerial decision for ensuring the quality of higher education and proposals on improving the mechanisms of public administration by its system are defined.

**Keywords:** international quality standard; principle of decision making based on facts; public-administrative decision; the whole deposit; assessment of the decision and verification of their effectiveness; organization and monitoring of the quality of higher education; use of information technologies; algorithm for the collecting, systematization and use of facts; public administration.

**Problem setting.** The issue of the quality of higher education, due to its remarkable socio-economic, cultural and humanitarian significance, is determined at the level of one of the main priorities of the government and its specialized institutions. Issues of quality assurance in higher education were discussed at one of the last communicative activities of the Ministry of Education and Science of Ukraine, which was conducted within the framework of the Med-Term Plan of the Government's Priority Actions by 2020 with the participation of experts and

the public. Among the priorities of the development of the higher education system, the participants of the event drew attention to the place and role of the Ukrainian Ministry of Education and Science and the National Agency for Higher Education Quality Assurance in the formation and further development of the system of quality control of education at the university level. Among the key issues of positioning the domestic higher education system at the level of international ratings, the director of the Department of Higher Education and The Ukrainian

Ministry of Education and Science O. I. Sharov highlighted the insufficient quality of Ukrainian management education, as well as an ineffective training system. According to O. Sharov, improving the quality of management education in Ukraine by at least 10 positions (according to the methodology for calculating the level of education within the Global Competitiveness Index of the World Economic Forum), “will contribute to improving the efficiency of governance and economic development of the country” [8]. According to V. Moroz, the level of educatedness of the population of the country significantly influences the level of development of its labor opportunities and creates direct preconditions for increasing the efficiency of human resources [5, 254–255]. According to O. Hrishnova, education itself, with its potential for ensuring employment of the population and social development of the state, is the basis not only for the desired socio-economic transformations, but also for the preservation of humane, intellectual and social capital of Ukraine [2, P. 40]. Consequently, the problematics of developing the educational system is a relevant and significant direction in the organization of scientific researches.

#### **Recent research and publications analysis.**

Within the framework of public-administrative science, the issues of higher education quality gained their development in the works of: L. Haievs'ka, O. Zhabenko, S. Majboroda (the theoretical and historical aspects of state's management of education are researched); S. Andrejchuk, S. Dombrovs'ka, V. Oharenko (the content and practice of using the mechanisms of public administration by the system of higher education are investigated and their content is disclosed); D. Bondar, O. Postupna, T. Tarasenko (institutional-legal and socio-economic conditions for the effective development of higher education are determined); T. Hladka, T. Lukina, A. Romin (the peculiarities of state quality management of educational services in the system of higher education are determined); O. Dubrovka, R. Nau-

menko, L. Paraschenko (the organizational-methodical and practical aspects of the manifestation of state-management influence on the educational sphere are investigated) and many other researchers. Some issues of manifestation of the issues of higher education quality were reviewed by us in the previous directions of scientific research [6], and therefore this publication is their logical continuation.

**Highlighting of previously unsettled parts of the general problem**, to which this article is devoted. Understanding the content and trends of the phenomenon of quality of education, regardless of the level of organization of scientific research and the direct focus of the researcher's attention, is difficult to imagine without clarifying the requirements of the norms of international documents, since it is in the context of their standards (positions) that they are not only a practical consolidation of existing theoretical knowledge, but also a peculiar programming of further development, both directly in the system of higher education and in the educational sector as a whole. Above, we drew attention to the fact that the problem of quality management of higher education is in the focus of scientific attention of researchers, and therefore is not a fundamentally new direction in the organization of scientific research. At the same time, the dynamics of updating knowledge on subjects of scientific attention, combined with changes in its emphasis on those or other components of their content, requires continuous improvement, both in the whole system of relevant knowledge, and directly to the content of its basic (main) categories. Within the scope of this publication we will pay attention to those aspects of the manifestation of the above-mentioned issues, which, in accordance with the practice of their operation, are related to the content of international norms and standards defined by DSTU ISO 9000:2007.

**Paper objective.** To find out directions of the state's management of the quality of higher education in the context of the content of the principle of decision-making on the basis of the facts

of the international standard of quality of the series DSTU ISO 9000:2007 and to work out proposals for improving the content and practice of using the mechanisms of public-administrative influence on the quality assurance of the system of higher education.

**Paper main body.** The principle of decision-making based on the facts was determined by the standards of DSTU ISO 9000:2007 at the level of one of the principles of quality management [7]. Despite the fact that the authors of the international standard of quality identified the relevant principle at the second last position, its significance for exploration of the subject of scientific research of our choice, is beyond doubt. In the context of the subject field of public administrative science, the principle of decision-making on the basis of facts deserves special attention.

Paraphrasing the interpretation of the content of the category of public-management decision that was given by V. Bakumenko [1, P. 20], we can determine that a managerial decision should be understood as a decision taken by the subject of management in order to identify and implement organizational goals, strategies for their achievement, the main functions, organization of the system of subject-object relations, as well as the solutions to other problems at the appropriate hierarchical level. More simply, its structure and content of the management decision interpretation was provided by A. Diehtiar. According to the scientist, the managerial decision “is the mental activity of the subject of management (managerial staff – the decision maker), aimed at solving a certain problem” [3, P. 8]. At the same time, the managerial decision should not be taken solely through the prism of the process, as it can also be considered at the level of the result of the activity. Leaving the discussion around this issue aloof, we draw attention to the components of the management cycle model, since it is the understanding of the stages of the management decision making that will enable us to find out the place of the facts in the corresponding process, and, accordingly,

identify the phenomenon of managerial decision in relation to the issue of higher education quality.

According to research results of S. Yanh, the process of making managerial decisions can be divided into the following main stages: the definition of the goal; detecting a problem; analysis of the problem (finding out its content); search of solution (working out alternative solutions for the problem); evaluation of proposed solutions and selection of the most successful among them; agreement of the decision with all of the stakeholders and its approval; preparation of a decision for its realization; management of decision-making processes; verification of the effectiveness of the decision, both in terms of its practice and its implementation [9]. The list above, in spite of the diligence of its research by the scientist, may be supplemented, above all, by the norm of adjusting the contents of the management decision and the mechanisms for its implementation. Despite the fact that at each of the above stages of the process of making a management decision, the facts have their own value, we consider it necessary to distinguish between them, within which this value becomes of decisive significance. In our opinion, the facts play the most important role within the processes: goal-setting, finding out and analysis of the problem; assessment of decisions; verification of decision efficiency and its correction. Consequently, the facts are the basis for the process of making a management decision, but in considering the management decision at the level of the result, the facts as a kind of argument or obvious reality lose their share of their significance.

According to E. Korotkov, the facts are the basis for assessments, the recognition of situations and problems, arguments for evidence or refutation [4, P. 221]. The scientist, exploring the control systems, determines the role of facts at the determinant level which characterizes (outlines) the phenomenon and, if any, identifies the problem. Consequently, under certain conditions, facts or information that can not have several different or

related interpretations, but can be considered at the level of objective indicators indicating the need for change. In accordance with the theory and practice of management, the grounds for acceptance by the subject of management of any decision are facts.

Let's consider some of the aspects of managing the quality of higher education at the university level through the prism of those stages of the management decision, within which, in our opinion, the facts play a major role:

1) goal-setting, clarification and analysis of the problem is one of the main (key) and most important processes of the professional activity of the head of the university, because it is on the well-defined goals and adequate to the situation and level of development of the object of management, ultimately depends the effectiveness of functioning and development of the university (facts concerning: demand and supply in the labor market, expectations of customers and consumers regarding the level and quality of providing educational services, characteristics of the external and internal organizational environment, level of development of elements of the system of higher education and its structure, etc., affect, on the one hand, the formulation of the goal of quality management of higher education, and on the other hand, contribute to the analysis of the level of development of quality management institutions with higher education. It should be noted that the quantity, quality and the correct interpretation of the facts by the head (administration) of the higher educational institutions, depends on the level of quality of the strategy, as well as the directions of the analysis of the existing problem. In other words, at this stage of formulating the management decision, the subject of management should intensify the work on concentration of facts within the center of the management decision making and ensure their qualitative analysis in accordance with the formulated tasks);

2) assessment of decisions and verification of their effectiveness (this direction, from our point of view, is the most dependent on information provided to the subject of management in the form of

facts. Facts as a phenomenon based on experience or a statement which does not involve contradictions in the interpretation of it is the basis for the development and adoption of a management decision. In our opinion, it is the quantity and quality of facts as for the state and dynamics of the development of objects of management, as well as the environment in which their interaction with each other occurs, eventually define the quality of the decision making process, as well as its content. Thus, in the context of the subject of our direct attention, we can assert that the head of the university should evaluate the management decisions made by means of the prism of comparing the facts to the characteristics of the management object "before" and "after" their implementation. In other words, the head of the university or its owner, for example, the state, should monitor the management decisions on the quality of higher education, through the prism of the system of facts).

**Conclusions of the research.** Within the stages of the management decision making process mentioned above, one should pay attention to the potentials of the following areas:

- organization and implementation of monitoring the quality of higher education in the context of comparing facts regarding: expected and obtained learning outcomes; satisfaction of needs of the subjects and objects of educational process; correspondance of received knowledge, skills and systems of value orientations to the established norms, etc.;

- the full use of information technology in the process of preparing a management decision, as well as at the stage of its implementation and an objective assessment of the results obtained (level of professionalism of scientific and scientific and pedagogical workers, level of preparation of university entrants, students and graduates of higher educational institutions in a comparative aspect);

- ensuring the free access of subjects and objects of the educational process, as well as customers and consumers of educational services, to any information on the level and trends of the development of



quality of higher education, not only within the limits of a particular higher education institution, but also in the system of higher education in general (formation of an information resource on which the facts on the quality of higher education are systematized in the open access);

– processing of the algorithm for collecting, systematizing and using facts, the content of which in one way or another is connected with the management of the quality of higher education (the formation of a systematic basis of facts, in our opinion, will

contribute to improving the quality of processing and making managerial decisions), etc.

It is quite obvious that the above generalization about the directions of using the principle of decision-making based on the facts does not exhaust the content of the relevant question, and therefore can be developed and supplemented, especially within the limits of those areas of scientific research, which are directly related to the improvement of information and analytical support mechanisms for the adoption and implementation of managerial decisions.

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## Section 12. Economic security

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### PROSPECTS FOR THE REGULATION OF THE DIGITAL ECONOMY

**Abstract:** in the present study, the characteristic of state regulation of digital technologies in the Russian economy. The possible options for the development of the Russian legislation, proposals for its optimization.

**Keywords:** controller, cryptocurrency, cash equivalents, bills, means of payment responsibility.

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### ПЕРСПЕКТИВЫ РЕГУЛИРОВАНИЯ ЦИФРОВОЙ ЭКОНОМИКИ

**Аннотация:** в представленном исследовании даётся характеристика состояния регулирования цифровых технологий в Российской экономике. Приводятся возможные варианты развития Российского законодательства, формулируются предложения его оптимизации.

**Ключевые слова:** регулятор, криптовалюта, денежные суррогаты, законопроекты, платежное средство, ответственность.

Современные цифровые технологии открывают новые возможности, Криптовалюты в ряде стран стали полноценным платежным средством. Вместе с тем их использование несет и серьезные

риски, заявил Президент России В. Путин, поэтому нужно выстроить их регулирование. Президент России поручил правительству совместно с ЦБ РФ до 1 июля 2018 года подготовить поправки

о процедуре размещения криптовалют [1]. Сегодня уже почти не остаётся сомнений, что в какой-то момент вопрос с криптовалютами будет решен во все большем количестве государств: где-то путем запрета, где-то через частичную или полную легализацию [2]. Между тем, майнинг и торговля криптовалютой нашли определенное распространение среди населения нашей страны. На территории России возможен прием как средства платежа только рублей и денежные суррогаты запрещены. Тем не менее, в стране функционируют крупные биржи, занимающиеся обменом криптовалюты. С помощью таких бирж можно приобрести биткоины, например. В последние годы особенно актуальным в международных расчетах и их регулировании стал вопрос о правовом статусе криптовалют. Центробанк России не раз заявлял о своем отношении к криптовалюте. Регулятор предостерегал граждан и юридических лиц от обмена криптовалюты на товары или иную валюту в связи с ее спекулятивным характером и необеспеченностью. Также ЦБ напомнили о запрете выпуска денежных суррогатов на территории РФ. Глава ЦБ Эльвира Набиуллина против введения криптовалюты в регулирование в качестве денежного средства и приравнивания криптовалют к иностранным валютам. По мнению главы ЦБ, криптовалюта близка к финансовым пирамидам, в то время как операции с ней рискованны в связи со значительными колебаниями обменного курса [3]. В то же время цифровые деньги потенциально способны оказать позитивное влияние на экономику. В 1944 году Доллар США был выбран в качестве международной резервной валюты. С тех пор прошло немногим более семидесяти лет, и появились страны, ставящие под сомнение необходимость зависимости от доллара. Получение мировой валюты для всех государств возможно путем производства, экспорта материальных благ и услуг. Что касается США, то они получают мировые деньги их эмиссией. Однако раздача ФРС не обеспеченных долларов негативным образом сказывается, прежде всего,

на странах-держателях номинированных в долларах активов, которые получают от США инфляцию. Более того, эмиссионный доход (сеньораж) – прибыль ФРС как разница между номиналом денег (наличных и безналичных) и стоимостью выпуска их в обращение – идет на выплату дивидендов акционерам, а также зачисляется в доходную часть бюджета США. Иными словами США присваивает мировой сеньораж. Появление криптовалют можно рассматривать как одну из возможностей выхода из-под гегемонии США. Например, Финансовый комитет стран БРИКС ведет обсуждения относительно использования криптовалюты в качестве расчетного механизма внутри блока БРИКС [4]. Однако подобное станет потенциально возможным только в случае признания цифровых денег валютой, и предпосылки для этого появляются. Так, Россия столкнется с необходимостью борьбы с нелегальными операциями, например, с биткоином. На данный момент это, может быть, не представляет значительной угрозы относительно отрасли в целом, что подтверждается статистикой ЕЦБ: 69000 транзакций в день с биткоином при общем количестве 274000000 безналичных платежных операций в сутки только в странах ЕС [5]. Цифры говорят лишь о растущем интересе к криптовалюте. Но с экспоненциальным ростом криптовалют вырастет количество финансовых махинаций. Например, в сентябре текущего года заведено первое уголовное дело в РФ за незаконное обналичивание 500 млн. руб. Лица нелегально получали доход от вывода и продажи биткоинов [6].

Разумеется, если бы существовал регулирующий оборот криптовалют нормативно-правовой акт, то есть стало бы возможным легально совершать переводы криптовалюты в обычную валюту, то покупатели биткоина с меньшей вероятностью обратились бы к лицам, ныне задержанным по статье «Незаконная банковская деятельность». В 2016 году Министерство финансов подготовило законопроект, основной лейтмотив которого – привлечение к уголовной ответственности

за обмен биткоинов на рубли и наоборот. Однако внесенный в Госдуму РФ проект закона не был принят в связи с его недоработкой. Общие ожидания от законопроекта о криптовалютах — это введение определения криптовалюты, установление правового статуса виртуальных денег, обозначение механизмов регуляции за их оборотом, то есть правил совершения транзакций и правил контроля. Трудно представить в качестве результатов такой законотворческой деятельности признание виртуальных денег в нашей стране легальным платёжным средством, как в случае с электронными деньгами в России.

Поставив задачу зарегулировать криптовалюту, можно обратиться к передовому опыту Японии. В данной стране на законодательном уровне признали цифровые деньги платёжным средством, при этом в тексте закона подчеркивается, что криптовалюта обладает функцией валюты, однако роль официальной денежной единицей выполняет лишь иена. Введена регистрация компаний, занимающихся обменом виртуальных денег на реальные. Те, кто осуществляет обмен криптовалют, должны мониторить операции, предоставлять информацию о подозрительных сделках. Регулятор защитил права продавцов и покупателей виртуальных денег, разделив управление денежными средствами и криптовалютой и обязав проводить аудит для этого. Что касается других стран, то законодатели остальных стран явно не спешат признавать в качестве платёжного средства криптовалюту, однако определенные меры по контролю за ее оборотом приняты. Так, в США с 2013 года продажа и покупка цифровых денег осуществляется на основе закона о банковской тайне. Так, поставщики услуг по обмену криптовалют на реальные деньги должны проверять операции и информировать о тех, что вызывают подозрение [7].

В целом перспективы криптовалют в России носят неопределенный характер, как и во множестве других государств. В нынешних условиях имеются основания для появления закона, накла-

дывающего определенные ограничения на оборот подобных денег, особенно для физических лиц, для которых транзакции с криптовалютой могут сделать аналогичными операциям с облигациями федерального займа. Или вполне вероятен сценарий появления лишь точечных поправок к действующему законодательству. В целом, перед регуляторами стоит выбор по какому пути пойдет законодательство в этой сфере: разрешительному или запретительному. Последний вариант Министерство финансов уже пыталось реализовать, подготовив законопроект об уголовной ответственности за обмен биткоинов. Запретительный путь был реализован на практике в Китае. С недавних пор в данной стране под запретом проведение первичного размещения криптовалют – ICO (Initial Coin Offering). Также китайским биржам, занимающимся операциями на рынке цифровых денег, запрещается регистрировать новых пользователей. В Китае криптовалюта рассматривалась как товар [8]. Подобным образом, возможно, квалифицируют цифровые деньги в России, что потребует, например, включения соответствующих изменений или дополнений в налоговое законодательство, но также осложнит использование криптовалюты как платёжного средства.

С другой стороны Банк России может стать разработчиком национальной системы криптовалют, взяв на себя функции эмиссионного центра данных денег. Тогда контроль за финансовыми операциями можно будет выстроить по аналогии с банковскими транзакциями. Однако уместно ли создание подобной системы при текущей жесткой денежно-кредитной политике, проводимой ЦБ?

Наиболее логичным выглядит отсрочка формирования пакета законодательных инициатив по интеграции в российский рынок криптовалют, учитывая их риски [9]. Такой поворот событий позволил бы аккумулировать соответствующую экспертизу в области перспективных финансовых технологий. С появлением общих правил

использования цифровых денег можно будет говорить об организованном рынке, который станет возможно и необходимо регулировать.

Так или иначе, Межведомственная рабочая группа по оценкам рисков оборота криптовалют

ты при Государственной думе начала обсуждение о внесении поправок в гражданское законодательство, так что до конца текущего года может быть принят закон о регулировании рынка криптовалют.

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# Contents

<b>Section 1. Accounting</b> .....	<b>3</b>
<i>Buchukuri Lali</i> AUDIT ACTIVITY QUALITY CONTROL PRESENTED ON THE EXAMPLE OF GEORGIA.....	3
<b>Section 2. Marketing</b> .....	<b>5</b>
<i>Roshi Elenita</i> CONJOINT ANALYSIS AND ONLINE FORUMS ON CULTURAL HERITAGE IN ALBANIA – ANALYSING TRIPADVISOR REVIEWS .....	5
<b>Section 3. Management</b> .....	<b>17</b>
<i>Dr. Burton A. Aggabao, Amnah Khameis</i> TRUST: BUILDING EFFICIENCY OF EMPLOYEES AT LULU HYPER MARKET FUJAIRAH .....	17
<i>Dr. Burton A. Aggabao, Boudour Al-Moteiry</i> PERFORMANCE APPRAISAL TOWARDS EFFICIENT CAREER DEVELOPMENT PROGRAMS OF FUJAIRAH INTERNATIONAL AIRPORT .....	26
<i>Dr. Burton A. Aggabao, Khalid Alkendi</i> THE EFFECTIVENESS OF RECRUITMENT MANAGEMENT SYTEM AT DU CONTACT CENTER, UNITED ARAB EMIRATES .....	38
<i>Dr. Burton A. Aggabao, Hassan Saeed Alyammahi</i> FUNCTIONAL AREAS AND ORGANIZATIONAL PERFORMANCE OF ADCO.....	47
<i>Dr. Burton A. Aggabao, Meera Shareif Al Awadhi</i> THE PERFORMANCE APPRAISAL AND EMPLOYEES’ PRODUCTIVITY OF SHARJAH ISLAMIC BANK, UAE .....	58
<i>Dr. Burton A. Aggabao, Shad I.M. Abutaha</i> REWARD MECHANISMS AND EMPLOYEES’ PERFORMANCE OF FUJAIRAH INTERNATIONAL AIRPORT, UNITED ARAB EMIRATES.....	69
<i>Amal Khamies Alsuwaidi, Aisha Musabbah Alzahmy, Nadyah Abdullah Khalid</i> <i>Fermin Castillo G., Saif Eldin Mohamed Fadlalla</i> EMPLOYEE SATISFACTION AND PERFORMANCE AT TWOFOUR54: HOW TO ACHIEVE OUR MISSION?.....	82
<i>Wafaa Younes Alblooshi, Mariam Karam Alkaabi,</i> <i>Ebtesam Mohamed Al Seraidy, Fermin G. Castillo, Burton A. Aggabao</i> ON GENDER LEADERSHIP: THE CASE OF BISO COMPANY .....	87
<i>Mariam Mohamed Askar Alnaqbi, Fermin G. Castillo</i> MULTI CULTURAL DIVERSITY AT NATIONAL HOSPITAL: IS TEAMWORK POSSIBLE?.....	94

<i>Nguyen Huu Dan, M. S. Do Ngoc Ha, Luong Trong Thanh, Ping-Fu Shu</i> THE RESEARCH ON VIETNAM NATIONAL CULTURES, TRANSFORMATIONAL LEADERSHIP AND THE EFFECTIVENESS OF QUALITY MANAGEMENT IN THE STATE ADMINISTRATIVE AGENCY AT THE GRASSROOTS LEVEL .....	101
<i>Fatmah Hassan Al Ali, Amnah Ali Alsamahi, Fermin G. Castillo</i> ORGANIZATIONAL STRUCTURE AT PEACE ORGANIZATION: A CASE OF REORGANIZING FOR A CHANGE?.....	111
<b>Section 4. World economy .....</b>	<b>117</b>
<i>Varun Eknath, Ereshchenko Viktoriya</i> THE MULTILATERALISATION OF PREFERENTIALISM: FROM COEXISTENCE TO COOPERATION.....	117
<i>Dedok Victoria Mikhailovna</i> ECONOMY OF JOINT CONSUMPTION IN THE INTERNATIONAL SECTOR OF MEANS OF PLACEMENT: THE CURRENT STATE.....	122
<b>Section 5. Regional economy .....</b>	<b>131</b>
<i>Vinichenko Victoria Alexandrovna, Maslennikov Sergey Nikolaevich</i> MODERN ECONOMIC PROBLEMS OF DEVELOPMENT AND EFFICIENCY OF TRANSPORT SERVICES IN THE NORTHERN REGIONS OF SIBERIA.....	131
<i>Hajiyeva Nushaba Aslanovna, Ismayilov V.A.</i> MECHANISMS AND INSTRUMENTS OF DEVELOPMENT OF NON-OIL SEKTOR OF INDUSTRIES IN AZERBAIJAN.....	137
<i>Galachiyeva Svetlana Vladimirovna, Kortiyev Levan Ismailovich, Kortiyev Alan Levanovich</i> ANALYSIS OF ECONOMIC INTERESTS AND LOSSES IN PRACTICE OF AVALANCHE PROTECTION OF MOUNTAIN ROADS.....	147
<b>Section 6. Finance, money circulation and credit .....</b>	<b>152</b>
<i>Nikoleishvili Davit</i> ELECTRONIC MONEY, AS ECONOMIC GROWTH FACTOR.....	152
<i>Paliichuk Tatiana Vladimirovna</i> MECHANISMS FOR IMPLEMENTING FISCAL DECENTRALIZATION .....	156
<b>Section 7. Economic theory.....</b>	<b>160</b>
<i>Saidova Muhabbat Zarifanovna</i> THE IMPORTANT PROBLEM – INCREASE OF INCOMES HOUSEHOLD.....	160

<i>Cydygov Roman Zhargalovich</i> BESCHRÄNKUNG DES KAPITALSTRÖME VON ZENTRALBANKEN ALS EINER VORAUSSETZUNG FÜR DIE FINANZIELLE UND WIRTSCHAFTLICHE STABILITÄT.....	162
<b>Section 8. Population Economics.....</b>	<b>166</b>
<i>Omar Jraid Mustafa Alhanaqtah</i> ETHNO-LINGUISTIC AND RELIGIOUS FRACTIONALIZATION OF WESTERN ASIA: POLITICAL ECONOMY APPROACH.....	166
<b>Section 9. Economics of enterprises.....</b>	<b>178</b>
<i>Diordiiev Viktor</i> FINTECH AS THE DRIVING FORCE OF FINANCIAL INNOVATION.....	178
<b>Section 10. Economics of recreation and tourism.....</b>	<b>182</b>
<i>Qiqi Daniela</i> THE ROLE OF THE OWNER MANAGER IN THE HRM – ORGANIZATIONAL PERFORMANCE RELATIONSHIP.....	182
<b>Section 11. Economics, organization and management of enterprises, branches, complexes ...</b>	<b>189</b>
<i>Moroz Svitlana</i> PUBLIC ADMINISTRATION OF THE QUALITY OF HIGHER EDUCATION IN THE CONTEXT OF NORMS OF INTERNATIONAL QUALITY STANDARDS: THE PRINCIPLE OF DECISION MAKING BASED ON FACTS.....	189
<b>Section 12. Economic security.....</b>	<b>194</b>
<i>Bikkinin Irek Anasovich, Shaikhutdinov Timur Valiyanovich</i> PROSPECTS FOR THE REGULATION OF THE DIGITAL ECONOMY.....	194