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Motsclés: mécanismes de gouvernance, performance financière, stratégies de manipulation, stratégies de dissuasion, stratégies de neutralisation.

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EFFETDESSTRATGIESDELANEUTRALISATIONDESMCANISMESDEGOUVERNANCESURLAPERFORMANCEFINANCIREDESENTREPRISESUNEREVUEDELALITTRATURE

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Motsclés: mécanismes de gouvernance, performance financière, stratégies de manipulation, stratégies de dissuasion, stratégies de neutralisation.

I. Introduction

Dans le domaine des Sciences de Gestion, divers travaux se sont intéressés à la problématique de la performance des entreprises et ont mis en exergue différents facteurs susceptibles de l'expliquer. Il s'agit par exemple des facteurs liés à l'environnement culturel et institutionnel, à la disponibilité des moyens financiers et de la main d'œuvre qualifiée, à la puissance commerciale, à la Recherche et Développement (R&D), à la capacité d'innovation, à l'utilisation de technologies de pointe et à la gouvernance d'entreprise. Kombou et Feudjo (2007) en contexte camerounais font prévaloir une forte importance aux actions sociales à caractère culturel et au respect de la tradition locale. Parmi ces différents facteurs, on s'intéressera plus particulièrement à la gouvernance d'entreprise. La gouvernance d'entreprise est définit selon Shleifer et Vishny (1997) comme l'ensemble des mécanismes par lesquels les apporteurs de capitaux d'une firme garantissent eux-mêmes la rentabilité de leur investissement.

Dans la littérature, si bon nombre de rapports et d'études empiriques clament que les pratiques de bonne gouvernance influent positivement sur la performance financière de l'entreprise, il serait tout de même important de savoir si les conclusions seront les mêmes dans le cas où les mécanismes de gouvernance ne joueront pas pleinement leur rôle suite à leur neutralisation par le dirigeant.

La plupart des travaux réalisés jusqu'ici ont essayé de mettre en évidence les stratégies de neutralisation des mécanismes de gouvernance par le dirigeant. Mbaduet et al. (2018) dans leur revue de la littérature ont recensé entre autres le choix du dirigeant d'investir dans des actifs ayant un lien avec son savoir-faire (Shleifer et Vishny, 1989), la détention des actions de l'entreprise par le dirigeant (Jensen et Meckling, 1976; Peng, Zhang et Li, 2007; Lin, 2011), le cumul de fonctions de direction et de présidence du conseil d'administration (Jensen et Meckling, 1976; Peng, Zhang et Li, 2007; Brockmann et al., 2004), le réseau de relations entretenu avec d'autres partenaires (Brockmann et al., 2004; Pigé, 1998), de la rétention des informations (Cheikh, 2014; Mselmi et Regaieg, 2017, Depoers, 2009), la détention par le dirigeant des compétences spécifiques à la firme ou à son secteur d'activité (Castanias et Helfat, 1991; Cheikh, 2014; Laguna et al., 2012) et l'octroi des dons par le dirigeant aux administrateurs (Bell, 1991; Frémeaux et Noel, 2014). Si bon nombre d'auteurs ont mis en évidence ces stratégies qu'usent les dirigeants afin de neutraliser les mécanismes de gouvernance sensés les discipliner, très peut ont essayé d'établir le lien entre ces stratégies et la performance de l'entreprise. Ainsi, cet article s'interroge si *les stratégies déployées par le dirigeant pour neutraliser les mécanismes de gouvernance exercent une influence sur la performance de l'entreprise ?*

Cet article a donc pour objectif d'apporter une réponse à cette interrogation en exploitant la littérature sur la gouvernance des entreprises. La littérature classe généralement ces stratégies en deux catégories: les

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stratégies de persuasion et les stratégies de manipulation.

Pour atteindre cet objectif, nous allons après une introduction générale (I), présenter les avancées théoriques sur la question (II), ensuite une synthèse de la littérature sur les relations« stratégies de dissuasion et la performance » (III) et « stratégies de manipulation et performance de l'entreprise »(IV) et pour enfin conclure (V).

II. Les Avancées Théoriques

Plusieurs approches théoriques proposent des cadres d'analyse différents concernant l'effet du pouvoir discrétionnaire du dirigeant sur la performance. Cependant, nous avons classé ces approches en deux différents groupes dont les conséquences sur le plan pratique restent distinctes : les approches pessimistes et les approches optimistes.

Dans les approches pessimistes, on retrouve les apports de la théorie de l'agence et de la théorie de l'enracinement. Pour les tenants de ces théories (Jensen et Meckling, 1976 ; Shleifer et Vishny, 1997 ; Paquerot, 1997 ; Pigé, 1998), le dirigeant se sert du pouvoir discrétionnaire pour atteindre leurs objectifs personnels. A cet effet, la nécessité de mettre en place les mécanismes de contrôle de façon à contrôler le plus possible les actions des dirigeants, de manière à éviter les effets de leur opportunisme, est une condition sine-qua-none pour avoir une meilleure performance. Ce qui suppose dans ce cadre que le rôle du dirigeant est très réduit, puisque son comportement est censé être contrôlé par différents systèmes disciplinaires. Il subit ce système disciplinaire en étant simple objet de ces mécanismes qui, selon elles, sont les seuls à pouvoir véritablement assurer la performance de l'entreprise. Ces théories clament un effet négatif du pouvoir discrétionnaire du dirigeant sur la performance.

Cependant, les approches optimistes sont défendues par la théorie de l'intendance (Donaldson et Davis, 1991), la théorie des ressources et des compétences (Wernerfelt, 1984), et la théorie de la dépendance envers les ressources (Pfeffer et Salancik, 1978). Pour les tenants de ces théories, il s'agit au contraire, de mettre en place les conditions qui permettent de laisser libre champ à l'exercice des compétences individuelles du dirigeant, pour le bien commun. Ces théories postulent pour un effet positif du pouvoir discrétionnaire du dirigeant sur la performance de l'entreprise.

III. Stratégies de Dissuasion des Dirigeants et Performance de l'entreprise

Les stratégies de dissuasion font appel aux mécanismes internes de contrôle exploités par les dirigeants pour assoir leur pouvoir au sein de l'entreprise. Mbaduet et al. (2018) font prévaloir deux principaux mécanismes internes de contrôle dont se servent les dirigeants pour neutraliser les mécanismes de gouvernance. Il s'agit d'une part de sa participation au capital social de l'entreprise et d'autre part de son cumul de fonctions de direction et de présidence du conseil d'administration. Il sera donc question dans cette section d'analyser en premier lieu l'effet de la participation du dirigeant au capital social de l'entreprise sur la performance et dans un deuxième, l'effet de son cumul de fonctions sur la performance.

a) Participation du dirigeant au capital social et performance de l'entreprise

L'hypothèse de la convergence ou d'incitation telle qu'énoncée par Jensen et Meckling (1976) a été critiquée par Fama et Jensen (1983) qui affirment qu'au lieu de réduire les problèmes d'opportunisme managérial, la participation du dirigeant au capital social de l'entreprise pourrait favoriser son enracinement et augmenter les coûts d'Agence. En ayant un pourcentage élevé du capital de l'entreprise, le dirigeant serait capable selon Fama et Jensen (1983), de neutraliser les mécanismes de contrôle. Contrairement aux prédictions de la théorie de l'agence, la participation du dirigeant au capital de l'entreprise jusqu'à un certain seuil est stratégique pour lui. Pour agrémenter cela, Shleifer et Vishny (1989) soulignent que plus le dirigeant détient une part importante du capital, moins est le pouvoir que les autres actionnaires détiennent dans l'entreprise. Il est donc question ici de faire une recension de la littérature sur le lien entre cette stratégie utilisée par le dirigeant et la performance de l'entreprise.

Selon ces auteurs, une propriété managériale importante assure l'alignement des intérêts des dirigeants sur ceux des actionnaires. Si les dirigeants détiennent des pourcentages de propriété importants dans leurs entreprises, ils seront plus soucieux des conséquences de leurs actions sur leur richesse et multiplieront les actions positives. De plus, le dirigeant doit pouvoir prendre des décisions qui pourront lui être bénéfique en cas de succès et dont il peut également assumer les pertes en cas d'échec.

La relation entre la participation du dirigeant au capital social de l'entreprise et la performance a fait l'objet de plusieurs recherches dans des contextes variés qui ont abouties à des résultats contradictoires. Bon nombre d'auteurs trouvent un impact positif alors que certains trouvent un impact négatif.

– Impact positif de la participation du dirigeant au capital

Parmi les travaux qui clament un effet positif de la participation du dirigeant au capital social de l'entreprise, on retrouve ceux des auteurs tels que Kamardin (2014),Bouras et Gallali (2018) ;Li et al. (2017); Morck et al. (1988) ; McConnell et Servaes (1990); Hermalin et Weisbach (1991); Holderness et al.

(1999); Short et Keasy (1999); Khanchel (2009); Amran et Ahmad (2013); Zakaria et al. (2014).

Kamardin (2014) en contexte malaisien a examiné sur un échantillon de 112 entreprises cotées, l'influence de la part du capital détenu par le dirigeant sur la performance financière. Il ressort de ses résultats que la participation du dirigeant au capital social de l'entreprise à un seuil de 31,38% influence positivement la performance financière de l'entreprise, mesurée par le rendement des actifs (ROA) et le Q de Tobin. Bouras et Gallali (2018) font une étude comparative de l'impact de la participation du dirigeant au capital sur la performance financière entre les entreprises françaises et américaines. Il ressort de leur étude une relation non linéaire entre la participation du dirigeant au capital de l'entreprise et la performance financière quel que soit le pays. Leurs résultats amènent à croire que le PDG américain a une préférence pour la détention d'un grand pourcentage d'actions de l'entreprises afin de neutraliser la surveillance du marché des capitaux ; Ce qui génèrent une bonne performance pour l'entreprise.

Li et al. (2017) ont analysé l'effet de la participation du dirigeant au capital sur la performance de 3 656 entreprises. Il ressort de leur étude que la participation du dirigeant exerce une influence positive sur la performance. Cette performance se présente sous la forme d'un « U » renversé. Ce qui signifie que l'augmentation du rendement est plus prononcée pour les entreprises qui ont des problèmes d'agence plus graves ou sous une gouvernance plus faible, ce qui démontre davantage la propriété. Morck et al. (1988) trouvent une relation positive entre la participation du dirigeant au capital et le Q de Tobin pour des niveaux de propriété compris entre 0 et 5% et au-dessus de 25%. Pour des niveaux intermédiaires, la relation devient négative. McConnell et Servaes (1990) trouvent une relation similaire dans leur étude, mais pour des niveaux de propriété compris entre 40 et 50% de participation. De même, Hermalin et Weisbach (1991) trouvent une relation positive entre la participation du dirigeant au capital et la performance pour les niveaux de propriété compris entre 0 et 1% et entre 5 et 20% et des relations négatives pour d'autres niveaux. Holderness et al. (1999), examinent cette relation dans les entreprises américaines et trouvent les résultats similaires.

Short et Keasy (1999) étudient la relation entre la participation du dirigeant au capital et la performance de 225 entreprises britanniques cotées sur la «London Stock Exchange» durant la période 1988-1992. Leurs résultats montrent que la relation entre les deux variables est curviligne et que les dirigeants au Royaume Uni deviennent enracinés à des niveaux de propriété compris entre 16 % et 42 %. Ces auteurs pensent que la participation du dirigeant au capital peut réduire la tendance des dirigeants à profiter de leur position, à exproprier la richesse des actionnaires, à consommer des bénéfices privés et à s'engager dans des décisions ne maximisant pas la valeur de l'entreprise. Khanchel (2009), à travers l'étude du rôle du pouvoir discrétionnaire du dirigeant dans l'amélioration de la performance des entreprises sur un échantillon 78 entreprises tunisiennes ayant la forme juridique de société anonyme, conclue que la performance de ces entreprises augmente si le dirigeant a un pourcentage de participation au capital élevé.

Similairement à ces auteurs, Amran et Ahmad (2013), montrent sur un échantillon de 420 entreprises malaysiennes cotées que, la performance de l'entreprise est positive pour des niveaux de propriété compris entre 27% et 67%. Au-delà de 67% et en deçà de 27%, la performance commence à décroitre en raison des motivations opportunistes des dirigeants. Dans le même contexte, Zakaria et al. (2014), sur un échantillon de 73 entreprises, et à l'aide d'une régression multiple, montrent que la performance de l'entreprise augmente avec le niveau de participation du dirigeant au capital.

– Effet négatif de la participation du dirigeant au capital

Parmi les études ayant mis en évidence un impact négatif, on retrouve celles de Mandaci et Gumus (2011), Belghitar et al. (2011) et Andow et David (2016). Mandaci et Gumus (2011) ont examiné les effets de la participation du dirigeant au capital sur la rentabilité et la valeur des entreprises non financières cotées à la bourse d'Istanbul (ISE) dans le contexte d'un marché émergent. Il ressort de leur étude que la participation du dirigeant au capital de l'entreprise exerce une influence négative sur la performance financière de l'entreprise quel que soit l'indicateur de mesure (ROA et le ratio Q de Tobin). Belghitar et al. (2011), sur un échantillon de firmes cotées sur trois marchés boursiers américains (NYSE, AMEX et Nasdaq) sur la période 2002-2009, montrent contrairement à d'autres études empiriques que, la performance peut être entravée lorsque la participation du dirigeant au capital est très élevée ou très petite et peut croitre à des niveaux intermédiaires. Andow et David (2016), sur un échantillon de conglomérat coté à la bourse du Nigéria montrent que la participation du dirigeant au capital a un impact très négatif sur la performance de ces conglomérats. Ils concluent que pour une augmentation de 1% de la propriété du dirigeant, la performance décroit de 0,40%.

En se basant d'une part sur les conclusions des études ci-dessus présentées qui soutiennent pour la plupart la coexistence d'une relation positive entre la participation du dirigeant au capital social et la performance financière de l'entreprise et d'autre part, sur les conclusions de la théorie des droits de propriété, de l'agence et de l'intendance, nous concluons que le fait pour le dirigeant de se servir de sa participation au capital de l'entreprise pour neutraliser les mécanismes de gouvernance est une stratégie qui bénéficie aussi bien aux dirigeants qu'aux actionnaires de l'entreprise. Ainsi, nous proposons de tester l'hypothèse 1 ci-après:

Hypothèse 1 : La participation du dirigeant au capital social influence positivement la performance financière de l'entreprise

b) Cumul de fonctions par le dirigeant et performance

D'après la théorie de l'agence, il est nécessaire de séparer les rôles du directeur général de celui du président du conseil d'administration pour rendre efficace le conseil d'administration (Mallette et Fowler, 1992). Mais dans la pratique, on remarque que le cumul de fonctions par certains dirigeants d'entreprises leur permet de neutraliser ou de contourner les mécanismes de gouvernance mis en place pour les surveiller. Certains auteurs (Jensen, 1993; Kang et Zardkoohi., 2005; Lam et Lee., 2008; Rachdi et Gaied, 2009; Booth et al. 2002) soulignent que cette stratégie réduit l'efficacité des mécanismes de gouvernance à exercer un contrôle objectif de la gestion des dirigeants.

Dans la littérature sur la stratégie d'entreprise et la gouvernance d'entreprise, le cumul de fonctions a suscité un grand intérêt. Cet intérêt émane de l'idée que l'impact du cumul de fonctions sur la performance de l'entreprise serait différent. La preuve empirique apportée par quelques études recensées sur le lien entre le cumul de fonctions et la performance de l'entreprise met en évidence cette disparité du niveau de performance. Certains auteurs trouvent un impact négatif, d'autres un impact positif et pour quelques-uns un impact nul.

- Effet négatif du cumul de fonctions sur la performance

Dogan et al. (2013) ont examiné l'impact du cumul de fonctions par le dirigeant sur la performance de 204 entreprises cotées à la bourse d'Istanbul (ISE) entre les années 2009-2010 en Turquie. Il ressort de leurs travaux que le cumul de fonctions a un impact négatif sur la performance financière de l'entreprise mesurée par ROA, ROE et le Q de Tobin. Les résultats des travaux de Tang (2017) sur un ensemble de données longitudinales de l'industrie informatique américaine montrent que le cumul de fonctions par le dirigeant influence négativement la performance du fait que le dirigeant ait un pouvoir dominant par rapport à d'autres membres du conseil d'administration. En employant le système MGM pour estimer un modèle dynamique sur les données d'un échantillon d'entreprises américaines, Duru et al. (2016) trouve que le cumul de fonctions a des répercussions négatives et significatives sur la performance de l'entreprise. Le résultat des travaux d'Ujunwa et al. (2013) sur un échantillon d'entreprises nigérianes va dans le même sens, car ils mettent en évidence un effet négatif et significatif du cumul de fonctions sur la performance financière de l'entreprise. Rutledge et al. (2016) sur un échantillon de 100 entreprises cotées à la NASDAQ sur la période 2010-2014 trouvent également un effet négatif du cumul de fonctions sur la performance.

- Effet positif du cumul de fonctions sur la performance

Les résultats de l'étude de Mohammadi et al. (2015) sur un échantillon de 11 000 entreprises suédoises sur la période 2005-2009, montrent que le cumul de fonctions de direction et de présidence du conseil d'administration par le dirigeant est positivement corrélé à la performance de l'entreprise. Sur un échantillon de 62 entreprises Roumaines cotées, Moscu (2013) conclue que le cumul peut conduire à une performance supérieure pour l'entreprise. A partir de 403 entreprises chinoises, Peng, et al. (2007) examinent l'impact de la dualité sur la performance financière. Il ressort de leurs résultats que la dualité accroit la performance de l'entreprise. De même, Sridharan et Marsinko (1997) en examinant cette relation sur les entreprises de production de 1988 à 1992, montrent que les entreprises à structure duale présentent une performance supérieure en termes d'utilisation efficiente des ressources qui, par ailleurs reflète une valeur de marché élevé. Kiel et Nicholson (2003), trouvent également que la dualité est corrélée positivement avec le Q de Tobin tandis que, Rachdi et Ben Ameur (2011) notent que la performance est beaucoup plus négative lorsque l'entreprise n'adopte pas la structure duale.

- Effet nul du cumul de fonctions sur la performance de l'entreprise

Chen et al. (2008), sur un échantillon d'entreprises cotées à la S&P1500 ne trouvent pas une relation significative entre le cumul de fonctions et la performance financière de l'entreprise. Brickley et al. (1997) suggère que la dualité n'est pas associée à une performance inférieure. Des résultats d'Adnan et al. (2011), il ressort que la dualité n'as pas d'effet significatif sur l'efficience technique dans une entreprise. Kiel et Nicholson (2003) trouvent que la performance mesurée par la ROA est insignifiante lorsque le dirigeant ne cumule pas les fonctions de DG et de PCA.

Une divergence des points de vue théoriques de la théorie de l'agence (qui prévoit un effet négatif du cumul de fonctions sur la performance) et de la théorie de l'intendance (qui prévoit un effet positif du cumul de fonctions sur la performance) d'une part et les résultats empiriques contradictoires (effet positif, négatif ou nul) défendus par les auteurs avec une même richesse d'arguments d'autre part, ne nous permet pas de prévoir avec conviction le sens de cette relation. Nous laissons à cet effet le soin aux données empiriques de le dégager. D'où la déduction de l'hypothèse 2 ci-après:

Hypothèse 2 : Le cumul par le dirigeant des fonctions de direction et de présidence du conseil d'administration a une influence significative sur la performance financière de l'entreprise

IV. Stratégies de Manipulation des Dirigeants sur la Performance de L'entreprise

Dans leur revue de la littérature, Mbaduet et al. (2018) ont mis en évidence un ensemble d'actions déployées par le dirigeant pour manipuler les évaluateurs (conseil d'administration) dans le but de rendre inefficace leur contrôle. Il s'agit entre autres de l'utilisation de ses compétences spécifiques, de son choix d'investir dans les actifs ayant un lien avec son savoir-faire, de la rétention de l'information, du soutien du dirigeant par son réseau relationnel, et de l'octroi des dons à certains membres du conseil d'administration. Nous allons tour-à-tour, à partir de la littérature empirique analyser les effets de chacune de ces manœuvres sur la performance de l'entreprise afin de déduire les hypothèses testables empiriquement.

a) *Détention par le dirigeant des compétences managériales spécifiques à l'entreprise et performance*

Les récents défis telle la globalisation économique basée sur la connaissance et l'évolution technologique incitent les pays à trouver de nouvelles voies pour maintenir un avantage compétitif durable. En ce sens, les auteurs estiment que le succès d'une organisation dépend en grande partie des individus avec un niveau élevé de compétences individuelles distinctives.

La littérature sur la gouvernance d'entreprise suggère plusieurs critères pour comprendre la contribution de la pratique managériale du dirigeant à la performance de l'entreprise. Parmi ces critères, apparaissent ceux liés directement au dirigeant, à ses compétences et à ses caractéristiques personnelles. Ainsi, un dirigeant qui détient des compétences spécifiques à la firme doit montrer une capacité à se différencier des autres dirigeants, en adoptant un comportement original et spécifique dans ses projets et prises de décisions stratégiques. Wirtz (2006) affirme que la capacité d'une entreprise à créer durablement de la valeur n'est pas réductible à une question de discipline des dirigeants, mais aux capacités organisationnelles, et connaissances spécifiques du dirigeant qui apparaissent comme des valeurs potentielles d'un avantage compétitif durable.

Laguna et al. (2012) avancent ainsi que, la compétence est considérée comme un facteur clé expliquant pourquoi certaines entreprises sont plus performantes que d'autres. Ce qui amène Markman (2007) à affirmer que les compétences entrepreneuriales sont considérées comme un facteur important du succès des entreprises. Allemand et Schatt (2010) à leur tour avancent que, la formation suivie par certains dirigeants devrait en principe être synonyme de performance supérieure pour les entreprises qu'ils dirigent, parce qu'ils disposent des capacités d'analyse et de synthèse (compétences rares et imparfaitement imitables) élevées. Pour Charreaux (1997), la maîtrise des compétences spécifiques de l'entreprise par le dirigeant est créatrice de richesse pour l'entreprise

A côté des travaux qui prônent l'effet positif de la détention et de la maitrise par le dirigeant les compétences spécifique à la firme, Remi et Deepak (1996), soulignent que les dirigeants ayant une expérience spécifique dans la même entreprise peuvent avoir tendance à interpréter les problèmes de la même façon et à rechercher des solutions basées sur leur expérience fonctionnelle limitée ; ce qui pourrait avoir un impact négatif sur la performance de l'entreprise. Pour ces co-auteurs, les dirigeants qui sont promus à l'interne et ont de nombreuses années d'expérience à la même entreprise, ont tendance à agir de manière à maintenir le statuquo de l'organisation, ce qui implique leur faible degré de diversité et leur plus grande résistance au changement (Hambrick et Mason, 1984).

Très peu de travaux ont essayé de mettre en évidence le lien empirique entre la détention par le dirigeant des compétences managériales spécifiques à la firme et le niveau de performance de l'entreprise. Des rares travaux à notre disposition, il ressort des résultats une convergence vers l'effet positif de la détention par le dirigeant des compétences managériales spécifiques à l'entreprise sur la performance.

Sur un échantillon de 264 managers de cinq pays du continent européen, Laguna et al. (2012), montrent que les compétences générales et spécifiques détenues par le dirigeant influencent positivement le succès d'une entreprise. Les résultats obtenus par D'Aveni (1990) et Bertrand et Schoar (2003) tendent à confirmer le rôle positif joué par la formation et l'expérience des dirigeants sur la performance des entreprises. Sur un échantillon de 114 firmes américaines entre 1972 et 1982, D'Aveni (1990), montre que les entreprises en difficulté ayant des dirigeants issus des formations élitistes faisaient moins l'objet d'un dépôt de bilan, leur prestige leur permettant de garder plus longtemps la confiance des prêteurs. Bertrand et Schoar (2003) quant à eux, ont analysé l'impact des caractéristiques managériales sur la performance des entreprises. A partir d'un échantillon de dirigeants de Forbes 800 entre 1969 et 1999, ils constatent que la rentabilité économique (ROA) était plus élevée dans les firmes où le dirigeant était titulaire d'un MBA.

Il ressort de l'étude d'Allemand et Schatt (2010) d'une part que les dirigeants issus des grandes écoles ne sont pas globalement plus performants que les autres dirigeants, qu'il s'agisse de rentabilité ou de risque économique. D'autre part qu'une différence significative existe entre les élites selon qu'elles aient été formées dans une grande école d'ingénieur ou une grande école de commerce. La rentabilité économique

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des entreprises dirigées par les premiers est plus faible et le risque économique est moindre pour les entreprises ayant à leur tête les dirigeants issus des grandes écoles. Sur un échantillon des PME de la région du Nord-Cameroun, Ngongang (2014), montre que, la compétence managériale des propriétaires-dirigeants a une influence positive sur la performance des entreprises de cette région.

Suivant les postulats de la théorie de l'intendance et de la théorie des ressources et des compétences selon lesquels, le dirigeant est considéré comme un facteur clé expliquant pourquoi certaines entreprises sont plus performantes que d'autres, et les résultats positifs de l'effet de la détention par le dirigeant des compétences managériales spécifiques à l'entreprise sur la performance mis en évidence dans les travaux antérieurs (Laguna et al., 2012; D'Aveni, 1990; Bertrand et Schoar, 2003; Allemand et Schatt, 2010; Ngongang, 2014), nous proposons l'hypothèse H3 ci-après:

Hypothèse 3: La détention par le dirigeant des compétences managériales spécifiques à l'entreprise influence positivement la performance de l'entreprise.

b) Le choix du dirigeant d'investir dans les actifs ayant un lien avec son savoir-faire et performance

L'investissement dans les actifs spécifiques est un moyen parmi de nombreux qui existent que le dirigeant met sur pied pour préserver sa place à la tête de l'entreprise. L'investissement spécifique montre que le dirigeant maîtrise les ressources clés de l'entreprise. Si par ailleurs, il quitte cette entreprise, une grande partie de son capital humain ne sera pas utilisée; ce qui entrainera une perte de valeur pour l'entreprise.

Shleifer et Vishny (1989) avancent que la valeur des investissements dont le caractère est spécifique dépend de la présence de son initiateur à la tête de l'entreprise. Il est communément partagé que les investissements spécifiques permettent d'améliorer les résultats futurs de l'entreprise et d'assurer sa pérennité. Les résultats obtenus par les recherches antérieures semblent être pour la plupart unanimes. Les investissements spécifiques sont positivement et significativement corrélés à la performance des entreprises

Contrairement à Shleifer et Vishny (1989), qui jugent ces investissements négatifs pour la performance de l'entreprise, Charreaux (1997, 2015), Castanias et Helfat (1992), Agrawal et Knoeber (1996), Paquerot (1997), Affes et Chouabi (2007), pensent plutôt que ces investissements comportent des effets positifs pour la performance de l'entreprise. D'après ces auteurs les dirigeants réalisent des investissements ayant un lien avec leur savoir-faire, qui leurs permettent de générer des rentes dont les propriétaires de la firme sont indirectement bénéficiaires. Ces rentes managériales sont créées grâce aux capacités (spécifiques) des dirigeants. Ces auteurs font remarquer que les dirigeants ne sont incités à développer des activités génératrices de valeur que s'ils se sentent protégés contre l'expropriation des rentes managériales dont ils sont à la source.

En s'appuyant sur les postulats de la théorie de l'intendance, de la théorie des ressources et des compétences et les résultats de quelques études empiriques recensés, nous pouvons déduire l'hypothèse H4 ci-dessous:

Hypothèse 4: Le choix du dirigeant d'investir uniquement dans les actifs ayant un lien avec son savoir-faire a une influence positive sur la performance de l'entreprise.

c) La rétention de l'information spécifique et performance de l'entreprise

Les études mesurant de manière précise et complète la performance de l'entreprise par la rétention de l'information spécifique sont assez rares. On trouve en revanche quelques données concernant les performances des entreprises où l'information est manipulée par le dirigeant. Cependant, on constate une absence des statistiques exhaustives et sur une longue période qui mettraient en évidence une influence réelle de la manipulation de l'information sur les performances des entreprises.

Si l'on ne peut contester l'existence d'une corrélation entre la présence d'une information et une bonne performance de l'entreprise, on peut se demander dans quelle mesure la première est cause ou conséquence de la deuxième. Rappelons que, les dirigeants qui sont au centre du nœud de contrats disposent d'un meilleur accès à l'information par rapport aux autres partenaires de la firme. Leur position stratégique dans l'entreprise leur permet de contrôler en partie l'information et en particulier, de restreindre sa disponibilité pour les autres agents (Pochet, 1998).

L'individu étant opportuniste et à la recherche d'un accroissement de ses intérêts, peut augmenter l'asymétrie d'information étant donnée sa position à la tête de l'entreprise. Cette accroissement de l'asymétrie d'information envers les partenaires et les agents chargés de leur contrôle (actionnaires, administrateurs, banques, etc.) peut avoir une incidence sur la performance de l'entreprise. D'ailleurs, bon nombre d'études empiriques ont essayé d'établir le lien entre l'asymétrie d'information et la performance de l'entreprise.

Des travaux de Shiri et Ebrahimi (2012), sur un échantillon de 182 entreprises cotées à la bourse de Téhéran en Iran sur la période 2002-2006, montrent que le niveau d'asymétrie informationnelle n'a aucun impact sur la performance financière de l'entreprise. Azari et Facrizal, (2017) sur un échantillon de 35 sociétés cotées à la bourse indonésienne sur la période 2012-2016, il ressort également que l'asymétrie informationnelle n'exerce aucune influence sur la performance financière de l'entreprise.

Hu et Yu (2010) sur un échantillon de 300 entreprises trouvent un impact négatif et significatif de l'asymétrie de l'information sur la performance de l'entreprise. Cai et al. (2015) ont mis en évidence dans leur étude que les entreprises de haut niveau d'asymétrie de l'information qui ont parallèlement augmenté substantiellement l'intensité du conseil de surveillance après la loi Sarbanes-Oxley aux Etats-Unis, souffrent de piètre rendement sur le capital investi. Pourtant, Milgrom (1981) et Grosman(1981) trouvent plutôt que la rétention de l'information est assimilable à une mauvaise nouvelle ; par conséquent, fait baisser le cours de l'action.

Etant donné que le niveau de la performance de l'entreprise est l'un des principaux critères de la prise de décisions des investisseurs, l'évaluation de cette performance devient difficile si les informations ne sont pas distribuées équitablement entre les parties prenantes. En référence aux prédictions de la théorie de l'agence et aux résultats de quelques études empiriques à notre disposition (Hu et Yu, 2010; Cai et al., 2015; Milgrom, 1981; Grosman, 1981), nous déduisons que la rétention par le dirigeant des informations importantes de sa gestion n'est pas un atout pour la performance. De ce fait nous proposons l'hypothèse 5 ci-après:

Hypothèse 5 : la rétention d'informations spécifiques par le dirigeant a une influence négative sur la performance de l'entreprise.

d) Le réseau relationnel du dirigeant et performance de l'entreprise

La plupart des travaux sur les réseaux relationnels du dirigeant se sont limités à établir la relation entre les réseaux et l'acquisition des ressources (Ge et al., 2009). Très peu d'études ont établi le lien entre ce dernier et la performance de l'entreprise. Toutefois, il peut être considéré comme un mécanisme disciplinaire efficace ou comme un moyen de contournement de cette discipline.

La première approche suppose que l'appartenance à un réseau de relation (interconseils) par exemple a un effet positif sur la performance de l'entreprise puisque ce réseau favorise le contrôle du manager, notamment par le biais de la surveillance mutuelle entre dirigeants. La deuxième approche suppose que l'appartenance du dirigeant à ces réseaux a un effet négatif sur la performance.

Pour Pigé (1998), le réseau relationnel du dirigeant est bénéfique pour l'entreprise dans la mesure où il peut aider à obtenir facilement les commandes et accroitre ainsi le volume des ventes. Pichard-Stamford (2000) pour sa part, les réseaux de relations contribueraient à combler un éventuel déficit de légitimité du dirigeant en véhiculant des connaissances relatives au secteur qui iront enrichir son capital spécifique et favoriseront la performance des entreprises.

Dans une étude empirique menée dans le contexte des TPE camerounaises par Ndangwa et al. (2007), les auteurs trouvent que la corrélation entre le réseau social du dirigeant et la performance de l'entreprise est non significative. Ils concluent par conséquent que les dirigeants n'utilisent pas de façon stratégique leur réseau social dans l'optique de développement de leurs entreprises.

L'avantage de l'entreprise quant à la mobilisation des ressources tels qu'ont soulevé les chercheurs (Pigé, 1998 ; Pichard-Stamford, 2000) au cas où le dirigeant est soutenu par son réseau relationnel et les postulats de la théorie de la dépendance envers les ressources tels que développés par Pfeffer et Salansick(1978), font penser que le réseau relationnel du dirigeant peut conduire à une meilleure performance de l'entreprise. Ainsi, nous proposons l'hypothèse 6 ci-après:

Hypothèse 6: Les entreprises sont d'autant plus performantes que leurs dirigeants sont soutenus par un plus large réseau relationnel.

e) Dons du dirigeant aux administrateurs et performance de l'entreprise

Les recherches empiriques en management n'ont pas implicitement établi la relation entre les dons fait par les dirigeants aux administrateurs et la performance de l'entreprise. Cependant, l'impact des dons peut dépendre des attentes du donneur au sein des entreprises.

En décrivant l'impact des dons sur la performance, deux thèses s'opposent; la thèse optimiste et la thèse pessimiste. La thèse optimiste considère que le don aligne les intérêts des bénéficiaires aux objectifs de l'entreprise et par ailleurs les rend plus efficientes (Bell, 1991; Choi et Hilton, 2005; Dur, 2009). A l'opposé d'un tel argument, la thèse pessimiste incrimine le don et voit en elle un facteur de ralentissement de l'activité de l'entreprise et de sous performance de cette dernière.

Dans le domaine de la sociologie du travail et la Gestion des Ressources Humaines (GRH), le don, grâce à la triple obligation donner-recevoir-rendre a donné un cadre théorique aux phénomènes d'engagement et de reconnaissance au travail. Les travaux d'Alter (2002, 2011) et de Pihel (2008) ont montré l'importance du don dans un contexte de restructuration. Plus spécifiquement, Dur (2009) a mis en évidence que l'attention portée par le manager aux employés et inversement génère des rentabilités supérieures et qu'à l'inverse, le manager désocialisé (ou égoïste) doit compenser son comportement avec du « monétaire » pour motiver ou retenir ses collaborateurs. De façon générale, le don du dirigeant aux employés semble avoir une influence bénéfique pour l'entreprise à travers la qualité relationnelle et le bien-être au sein des organisations (Bell, 1991).

La dynamique de don/contre-don est aussi pertinente pour expliquer la pérennité des organisations en général (Masclef, 2004 ; Gomez et Masclef, 2003). Cette perspective permet notamment de comprendre la création d'entreprise et d'ouvrir de riches perspectives en entrepreneuriat. En effet, l'entrepreneur est tout autant *homo donator*qu'*homo economicus.* Pour rendre son projet économique possible, il doit créer les liens sociaux et le réseau nécessaires à son projet. Cela ne peut pas se faire sans « paris sur les dons »: temps, présentation d'idées, énergie, informations confidentielles, documents, etc. (Masclef, 2001, 2002).

Sur la question du capital social, Dolfsma et al. (2009) ont expliqué de façon convaincante la création, le maintien et le développement du capital social d'un individu au sein d'une organisation et à l'extérieur en mobilisant le paradigme du don-échange. Ils ont mis en évidence un lien entre le déclin du capital social d'une organisation et le ralentissement des échanges de don.

Sur la question des stocks de compétences et de savoir-faire détenus par une entreprise, Choi et Hilton (2005) ont montré que les compétences et savoir-faire se maintiennent grâce aux « échanges de dons » entre collaborateurs et entre les collaborateurs et les parties prenantes extérieures. Le jeu des dons/contre-dons se fait sur des informations, des compétences, des savoir-faire, conseils, etc. et contribue au maintien et à l'actualisation de ce stock. Choi et hilton(2005) observent la place déterminante du contre-don qui conditionne la viabilité de ce système d'échange.

Dans une démarche proche de la question du capital social, le paradigme du don semble aussi très pertinent pour lire et comprendre les comportements des individus au sein des réseaux: la valeur des objets donnés et rendus, aussi bien que l'intensité des échanges de dons, déterminent directement la densité du réseau d'un individu. Elle éclaire les stratégies dans les réseaux, notamment dans les environnements académiques et universitaires: on ne donne pas n'importe quoi à n'importe qui et surtout on donne davantage à certains qu'à d'autres (Antal et Richebé (2009).

En marketing, de façon générale, le modèle maussien du don/contre-don a permis de modéliser la relation vendeur-acheteur et de montrer comment les dimensions personnelles, psychologiques, cognitives et symboliques peuvent jouer un rôle dans la relation et l'acte d'achat et par conséquence sur la performance de l'entreprise (Sherry, 1983; Falk, 2007). En marketing industriel, Cova et Salle (1992) et Cova et al. (1995) ont souligné l'importance de l'élément relationnel dans les négociations d'achat industriel et comment la logique du don-échange permettait de maintenir un lien social durable avec l'acheteur propice aux transactions.

En stratégie d'entreprise, le don a montré des perspectives intéressantes pour expliquer l'émergence et la construction des alliances stratégiques: le don-échange crée la confiance notamment quand les partenaires ne se connaissent pas et souffrent d'une grande distance culturelle (Gomez et al, 2001; 2003).

Finalement, il n'est donc pas surprenant qu'une théorie anthropologique globale puisse aider à comprendre la vie concrète des sociétés humaines que forment, notamment, les entreprises. Car, la théorie du don-échange a été validée par les observations empiriques dans les organisations et dans des dimensions très diverses. Il ressort globalement que l'octroi du don permet au dirigeant de développer leur capital relationnel que l'entreprise pourra en bénéficier à travers un accès plus facile aux ressources (achats, financements, capital humain). Dans le cadre de cette théorie, le don du dirigeant à certaines parties prenantes de l'entreprise est considéré comme un déterminant de la performance de l'entreprise.

Si la théorie du don-échange prône un effet positif du don fait par les dirigeants d'entreprise à certaines parties prenantes, la théorie de l'agence ne partage pas cet avis. Dans le cadre de la théorie de l'agence, le don fait par le dirigeant aux administrateurs s'inscrit dans le cadre d'une réflexion sur l'inhibition des mécanismes de gouvernance par le dirigeant. Pour cette théorie, le dirigeant est un individu opportuniste qui préfère maximiser son utilité au détriment de celui des actionnaires qui l'on mandaté. A cet effet, l'octroi des dons par le dirigeant à certains administrateurs lui permet non seulement d'alimenter son réseau relationnel afin de bénéfice de leur soutien lors du conseil d'administration; mais aussi à élargir son espace discrétionnaire. Par cette assertion, il semble que le don soit stratégique pour le dirigeant, car il permet d'influencer les décisions des administrateurs et affecte leur capacité à représenter adéquatement les intérêts des actionnaires. Le don met ainsi en péril l'indépendance des administrateurs qui pourraient ainsi privilégier davantage l'atteinte des objectifs de performance à court terme au détriment du long terme.

Le don-échange présente ainsi un risque considérable au sein de l'entreprise. De par le pouvoir qui lui est conféré et au travers des dons, le dirigeant peut axer ses efforts, de façon opportuniste, obtenir des faveurs à des fins d'enrichissement personnel et aux dépens des propriétaires, des investisseurs, des salariés et de l'entreprise dans son ensemble, plutôt que d'œuvrer pour la rentabilité et le développement durable à long terme de l'entreprise.

C'est pour cette raison que Titmuss (1970), a affirmé que, le don-échange, renvoie à l'opportunisme du dirigeant et a une caractéristique corruptrice et égocentrique. Les dirigeants peuvent tenter de profiter de leur influence sur la stratégie de l'entreprise pour exproprier les actionnaires au moyen « des dons ».

Les travaux empiriques sur l'effet des dons sur la performance dans le domaine de la gouvernance d'entreprises sont très rares d'autant plus que la littérature théorique semble ne pas le prouver. A partir des conclusions de la théorie de l'agence et de la thèse pessimiste de la théorie du don-échange, nous proposons l'hypothèse 7 ci-dessous:

Hypothèse 7: l'octroi des dons par le dirigeant aux administrateurs influence négativement la performance de l'entreprise.

De l'examen de la littérature il ressort que le dirigeant, doté d'un pouvoir discrétionnaire, peut influer favorablement ou défavorablement le niveau de performance de son entreprise. Cette influence dépend des actions menées par ce dernier pour accroitre son pouvoir. Ainsi, hypothèses qui méritent d'être testées ont été formulées.

V. Conclusion

La présente étude avait pour objectif de faire le point sur la relation entre les stratégies de neutralisation des mécanismes de gouvernance et la performance financière des entreprises. Nous avons à cet effet identifié deux groupes de stratégies. Les stratégies de dissuasion (la participation du dirigeant au capital social de l'entreprise et le cumule de fonction de direction et de présidence du conseil d'administration) et les stratégies de manipulation (l'utilisation de ses compétences spécifiques, de son choix d'investir dans les actifs ayant un lien avec son savoir-faire, de la rétention de l'information, du soutien du dirigeant par son réseau relationnel, et de l'octroi des dons à certains membres du conseil d'administration).

Suite à l'exploitation des contributions théoriques et empiriques des articles des revues scientifiques dans le domaine de la gouvernance d'entreprise, il ressort que les stratégies sus évoquées jouent un rôle important sur la performance de l'entreprise. Ce qui nous a conduit à formuler sept hypothèses testables empiriquement.

Si cette étude a le mérite de faire une revue de la littérature exhaustive sur la relation entre les stratégies de neutralisation des mécanismes de gouvernance et la performance, elle a sans doute les limites. L'une des limites réside dans l'opérationnalisation de ces différentes stratégies. Elle s'est contentée de mettre en évidence les hypothèses sans toutefois procéder à leur test. Il sera important dans les travaux futurs de mesurer dans un contexte précis à partir d'un échantillon préalablement déterminé, l'impact de ces stratégies de neutralisation des mécanismes de gouvernance déployées par le dirigeant sur la performance financière de l'entreprise.

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Impact of Non-Performing Loan on Profitability of Banks in Bangladesh: A Study from 1997 to 2017

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Abstract- Bangladesh being a developing country heavily depends on the banking sector for smooth financial intermediation. Banking industry of Bangladesh has been facing the acute problem of NPL since long. This paper aims to discover the impact of non-performing loan ratio, capital adequacy ratio and provision maintenance ratio on the return on asset (ROA) of all banks based on the last twenty-one years data. This study also investigates the root causes and adverse effects of the non-performing loan. Secondary sources of data are collected from the annual reports of Bangladesh Bank and analyzed by Ordinary Least Square (OLS) method and Vector Auto Regression (VAR) model using STATA 14.2. The results of the study reveal that there are different directional short-run causality exist between variables and the OLS regression analysis confirms that two independent variables; non-performing loan ratio and provision maintenance ratio are statistically significant to the dependent variable; return on asset (ROA).

Keywords: non-performing loan, profitability, banks, bangladesh.

GJMBR-C Classification: JEL Code: G21

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Strictly as per the compliance and regulations of:

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Md. Sazzad Hossain Patwary [α] & Nishat Tasneem [σ]

Abstract- Bangladesh being a developing country heavily depends on the banking sector for smooth financial intermediation. Banking industry of Bangladesh has been facing the acute problem of NPL since long. This paper aims to discover the impact of non-performing loan ratio, capital adequacy ratio and provision maintenance ratio on the return on asset (ROA) of all banks based on the last twenty-one years data. This study also investigates the root causes and adverse effects of the non-performing loan. Secondary sources of data are collected from the annual reports of Bangladesh Bank and analyzed by Ordinary Least Square (OLS) method and Vector Auto Regression (VAR) model using STATA 14.2. The results of the study reveal that there are different directional short-run causality exist between variables and the OLS regression analysis confirms that two independent variables; non-performing loan ratio and provision maintenance ratio are statistically significant to the dependent variable; return on asset (ROA).

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I. Preamble

1.1) *Background of the Study*

Bangladesh being a developing country depends heavily on the banking industry for smooth financial intermediation. Banks thus contribute to the development of the economy through effective and efficient lending. However, our banking sector currently facing the acute problem of NPL as a sign of ineffective lending practices and day by day the problem increases although many reform measures have been carried out. As the name suggests, non-performing loans are irregular loans from which interest and principal amount becomes due for a specific period. The increasing amount of NPL threatens the financial performance of the banks especially the SCBs. In state-owned commercial banks the impact of NPL is in an alarming situation. NPL not only reduce the bank's profit but also the capacity of lending by reducing bankable assets. Depositors and investors started losing faith over the bank as they feel insecure of getting back their invested money with an expected return. Increasing trends of NPL also diminishes the international image of our banking industry as well.

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1.2) *Objectives of the Study*

a. Examining the significance of NPL on the profitability of banks in Bangladesh.
b. Explore the relationship among variables of the study.
c. Find out the root causes of NPL along with their possible adverse impact on the banking industry.
d. Recommend some possible initiatives to control the adverse effects of NPL.

1.3) *Limitations of the Study*

This study considers only 21 years data to draw inference due to unavailability of data before the year 1997 and after the year 2017.

II. Review of Related Literature

Non-performing loan arises from various sources. Banks should identify them and take the necessary steps to eliminate the NPL from the industry. However empirical studies show that there is an adverse effect of NPL on the profitability of banks in all over the world. Following are some quotes from the article related to NPL.

Shinkey (1991) stated that the bank's lending policy has a significant influence on NPL. Before the lending decision banks need to evaluate the probability of default along with cost and benefit analysis.

Reddy (2004) argues about the negative consequences of NPL that leads the banks to incur additional costs on non-operative assets that affect bank's profitability along with capital adequacy which ultimately restrain the bank from increasing their capital base.

Mohanty (2006) explores the negative impact of NPL resulting from the financial risk which affects the standard of living and also reduces the profitability of banks thus hinder economic development due to this crisis.

Adhikary (2007) on his research paper found that the banking sector of our country greatly affected by the large amount of NPL which continuously influences the economic development. According to him, the main factors responsible for the massive growth of NPL are-lack of effective monitoring & supervision, political pressure, weak legal infrastructure, and ineffective NPL recovery strategies.

Khemraj & Pasha (2009) conducted an econometric model based study about NPL in Guyana that reflects an inverse relationship of GDP with the volume of NPL. The study results recommended that a progress in country's GDP contribute to decreasing the NPL.

Karim *et al.* (2010) in their study shows the relationship between NPL and bank efficiency in Malaysia and Singapore by using the Tobit regression model. The outcome stated that higher NPL reduces cost efficiency and also the lower cost efficiency increases NPL and profitability.

Podder (2012) found NPL, Advance/Deposit ratio, Total Asset, Equity/Total Asset ratio as some prominent determinants of profitability of banks during the period 2001-2010 observed on 30 PCBs in Bangladesh.

Lata (2015) has analyzed time series data and concluded that NPL is one of the foremost factors that influence banks profitability and it has a considerable negative impact on Net Interest Income of State-owned Commercial Banks in Bangladesh.

Nsobilla (2015) has investigated the effect of NPL on financial performance. Secondary data was collected from six selected rural Banks of Ghana for the period of 2004-2013. Applying OLS model, it discovers that the NPL, cost-income ratio, loan recovered and total revenue variables are found statistically significant on ROA.

Adebisi & Matthew (2015) confirm that the first model of their study revealed there is no significant association between the NPL and ROA of the Banks in Nigeria. The shareholder's return is affected as the second model showed that there is a connection between the NPL and Return on Equity (ROE) of Banks in Nigeria.

Hussain & Ahamed (2015) in their study based on data for the period of 2012-2016 on top 15 conventional PCBs in Bangladesh and applying fixed effect panel data regression analysis explores that NPL, TIN, NII, OPEX, CAP, SIZE, DPST variables are significant to explain ROA.

Bhattarai (2016) has examined the effect of NPL on the profitability of Nepalese commercial banks and found that the NPL ratio has a negative effect on ROA whereas NPL ratio has a positive effect on ROE.

Kiran and Jones (2016) have discovered the effect of NPL on the profitability of banks. The study confirms that except for SBI all other banks show a negative connection between their gross NPL and net income.

Mondal (2016) in a study using descriptive statistics, correlation analysis, granger- causality and regression analysis found that NPL and interest rate spread of banks are negatively related to each other.

Chimkono et al. (2016) investigated the effect of NPLR and other determinants on the financial performance of commercial banks in the Malawian. The study concludes that NPLR, cost efficiency ratios, and average lending interest rate had a significant effect on the performance of banks.

Akter and Roy (2017) found the negative impact of NPL on profitability (Net Interest Margin). Moreover, Net Profit Margin found also negatively influenced by the NPL as well while considering 30 banks data of Bangladesh for the year 2008 to 2013.

Balango & Rao K. (2017) investigated that there is a significant association between profitability and the amount of NPL. The results of the analysis stated that NPL has a negative and significant effect on ROA while CAR has a positive and relatively insignificant effect on ROA of commercial banks in Ethiopia.

Matin (2017)in his study applying The Feasible Generalized Least Squares(FGLS) model for panel data on 47 commercial banks of Bangladesh during the period 2010-15 found that NPL, loan loss provisions, bank size, cost efficiency, and liquidity had a significant negative effect on ROA.

Islam & Rana (2017) in their study considering data period 2005-10 and using panel data regression model found NPL and operating expenses have a significant effect on ROA. Results also have shown that elevated NPL may lead to less profit due to the provision of classified loans.

Kingu et al. (2018) in their study examined the impact of NPL on bank's profitability using information asymmetry theory and bad management hypothesis. The study establishes that occurrence of NPL is negatively related to the level of profitability in commercial banks of Tanzania.

III. Methodology of the Study

a) *Nature of the study:* This study is analytical since this study is trying to explore the cause and effects relationship among variables. The quantitative approach is used in this study to estimate and measure the variables. In other sense, this study is an empirical research because of its dependence on secondary data and some other empirical works.

b) *Types and Sources of Data:* Secondary data are analyzed in the study and all the data are collected from the annual reports of Bangladesh Bank from the period of 2002 to 2017. Annual reports are extracted from the website of Bangladesh Bank.

c) *Study Period:* In this study total 21 years data of all banks in Bangladesh have been applied. Due to unavailability of most recent and some previous year's data, we have used data from the year 1997 to 2017.

d) *Variables of the Study:* Identification of the variables in the study is summarized below:

Target Variable	Definition
ROA	A very common and widely used indicator of profitability. Return on Assets (ROA) stated as a percentage of net income to total assets of a bank. Hence indicate the earning efficiency of a bank.
Explanatory Variables	
NPLR	Non-Performing Loan Ratio (NPLR) is a relative measure of non-performing loan to its total loan outstanding as stated as percentage as well. Measuring the assets quality of a bank.
CAR	CAR is stands for Capital Adequacy Ratio. It also stated as percentage of capital to total risk weighted assets of a bank therefore measures the adequacy of capital.
PMR	Provision Maintenance Ratio (PMR) is denoted as a relative measure of Loan Provision Maintained to Loan Provision Required by the banks. Thus this ratio can be used as a proxy of management efficiency as it is a measure of compliance issue directed by central bank.

e) *Model Specification:* In this study, Ordinary Least Square Regression Analysis has been applied to find out the impact of non-performing loan ratio on the profitability of banks in Bangladesh. The following model has been framed in the light of OLS, which assumed that the association among the variables is linear.

$$Y = \beta0 + \beta1X1_t + \beta2X2_t + \beta3X3_t + u_t$$

Y= Return on Assets (ROA)

β0= Constant term

X1= Non-Performing Loan Ratio (NPLR)

X2= Capital Adequacy Ratio (CAR).

X3= Provision Maintenance Ratio (PMR)

$u_{t=}$ Disturbance term

f) *Techniques of Data Analysis*

i. *Tests of Stationarity*

To avoid foul or spurious regression, Test of Stationarity is an obvious issue while working with time series data. Stationarity or Unit root test simply a statistical procedure to confirm whether the time series variables are non-stationary or possess unit root or not. Non-stationary variables are very much unpredictable since their mean, variance and covariance changes over time. So, to conduct a good forecast, affirmation of the stationarity of variables must be addressed at the outset of the estimation procedure. In our study, we will conduct widely used Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) Test of unit root.

ii. *Tests of Cointegration*

Tests of cointegration discover the nature of associations between sets of variables. Economic theory repeatedly suggests long-term relationship among various economic variables. Although those variables can be derived from each other on a short term basis. Tests of cointegration guided us how to determine the said nature of associations. In this study, we will perform commonly used Johansen Cointegration test.

iii. *Vector Auto Regression (VAR) Model*

Empirically we have seen that the Vector auto regression (VAR) model has treated as one of the most flourishing, flexible, and easy to use models used for examination of multivariate time series. The VAR model has to be especially helpful for telling the dynamic behavior of economic and financial time series.

iv. *Ordinary Least Square (OLS) Method*

Ordinary least square (OLS) is a method for estimating the unknown parameters in a *linear regression* model. OLS identifies the parameters of a *linear function* by using the principle of *least squares.* In this study, we have applied OLS to identify the impact of explanatory variables on our target variable.

g) *Operational Method*

Throughout the study, we have used STATA 14.2 software for data analysis and result interpretation. However, MS-Excel of Microsoft Office 2007 software is also used in limited scale for data preparation only.

IV. Data Analysis, Results & Findings

4.1) Augmented Dickey-Fuller (ADF) Unit Root Test

While examining Augmented Dickey-Fuller (ADF) unit root test, we have to formulate the following hypothesis:

H_0: Variable is not stationary/ Variable has unit root

H_1: Variable is stationary/ Variable has no unit root.

Here is the result using STATA 14.2:

Table 1: (Output of ADF Unit Root Test)

Variables	At Level		First Difference		Remarks
	t-statistics	Critical Values	t-statistics	Critical Values	
roa	-1.415	-4.380* -3.600**	-4.931	-4.380* -3.600**	I(1)
nplr	-0.216	-4.380* -3.600**	-4.253	-4.380* -3.600**	I(1)
car	-3.177	-4.380* -3.600**	-5.349	-4.380* -3.600**	I(1)
pmr	-1.881	-4.380* -3.600**	-4.275	-4.380* -3.600**	I(1)

*Note: * and ** denotes Significance at 1% & 5% level, respectively.*

Decision Rules: When the t-statistics > Critical Values: Reject H_0

t-statistics < Critical Values: Fail to reject H_0

From the table-1, we have found that all the variable's t-statistics is less than the critical values at level. So, here we cannot reject $H_{0,}$ rather we accept the H_0 that is the variables are not stationary at their levels. But at their first difference values, all the variables become stationary since t-statics of the variables is greater than the critical values. So, here we can reject the H_0 and accept the H_1 that is the variables are stationary at their first differences.

Findings: Variables are integrated at order one: I(1)

4.2) Phillips-Perron (PP) Unit Root Test

In the case of Phillips-Perron (PP) unit root test, we also have to design the following hypothesis:

H_0: Variable is not stationary/ Variable has unit root

$H_{1:}$ Variable is stationary/ Variable has no unit root.

Here is the result using STATA 14.2:

Table 2: (Output of PP Unit Root Test)

Variables	At Level		First Difference		Remarks
	t-statistics	Critical Values	t-statistics	Critical Values	
roa	-1.363	-4.380* -3.600**	-5.009	-4.380* -3.600**	I(1)
nplr	-0.413	-4.380* -3.600**	-4.667	-4.380* -3.600**	I(1)
car	-3.157	-4.380* -3.600**	-5.536	-4.380* -3.600**	I(1)
pmr	-2.051	-4.380* -3.600**	-4.278	-4.380* -3.600**	I(1)

*Note: * and ** denotes Significance at 1% & 5% level, respectively.*

Decision Rules: When the t-statistics > Critical Values: Reject H_0

t-statistics < Critical Values: Fail to reject H_0

From the table-2, we have seen that at the level all the variable's t-statistics is less than the critical values. So, here we cannot reject H_0, rather we accept the H_0 that is at their levels the variables are not stationary. But we see that after first differencing, all the variables become stationary since the t-statistics of variables is greater than the critical values. So, here we can reject the H_0 and accept the H_1 that is the variables are stationary at their first differences.

So, both the stationarity test robust our decision that all the variables after first difference become integrated at order one: I (1) and ready for further analysis.

4.3) Johansen Cointegration Test

After the stationarity test, we are likely to have three outcomes:

1. Variables are integrated at their level that is I (0),
2. Variables are integrated at their first difference: I (1) and
3. Variables are integrated at different orders: I (0) and I (1).

For the first scenario no need to perform any sort of cointegration tests. In case of third scenario bound test is appropriate for checking cointegration. For scenario two, Johansen Cointegration test and some other tests are appropriate and widely applied. In our study, variables are found stationary at their first difference, so Johansen Cointegration test has been adopted for checking whether there is long-run equilibrium relationship or short-run dynamic relationship exist among variables or not.

The following hypothesis needs to be formulated:

H_0: There is no cointegration equation among variables

H_1: H_0 is not true

We have obtained the results of Johansen Cointegration Test:

Trend: constant Number of obs = 20

Sample: 1998 – 2017 Lags = 1

Johansen tests for Cointegration

Table 3: (Results of Trace statistics)

Maximum Rank	Parms	LL	Eigenvalue	Trace Statistics	5% Critical Value
0	4	208.73043	.	29.2755*	47.21
1	11	216.44679	0.53774	13.8428	29.68
2	16	219.60958	0.27114	7.5172	15.41
3	19	221.79243	0.19610	3.1515	3.76
4	20	223.3682	0.14579		

Table 4: (Results of Max statistics)

Maximum Rank	Parms	LL	Eigenvalue	Max Statistics	5% Critical Value
0	4	208.73043	.	15.4327	27.07
1	11	216.44679	0.53774	6.3256	20.97
2	16	219.60958	0.27114	4.3657	14.07
3	19	221.79243	0.19610	3.1515	3.76
4	20	223.3682	0.14579		

Here, the decision rule is if the Trace Statistics/ Max Statistics > 5% critical value then we can reject the null hypothesis and accept the alternative hypothesis. But if the Trace Statistics/ Max Statistics < 5% critical value then we fail to reject the null hypothesis. The cointegration test results are furnished in Table-3 and 4. The results tell us both the trace and max statistics is less than 5% critical value. So, we cannot reject the null hypothesis. So there is no cointegration equation exists among the variables meaning that there is no long-run equilibrium relationship exists among the variables.

4.4) Vector Auto Regression (VAR) Analysis

The previous section confirms that there is no long-run equilibrium relationship exists among the variables. So, here we are unable to conduct the Vector Error Correction Model (VECM) rather the Vector Auto Regression (VAR) model would be appropriate to investigate the short-run causal relationship. The VAR model can be constructed if the variables are integrated at their first difference and not co integrated. Our previous analysis and results confirms that there is no cointegration and variables are integrated at I (1), so we can now run the VAR model in our study.

Here is the results of the VAR model using STATA 14.2. Optimum lag lengths selection criteria the suggests us to take lag length as 1.

Vector Auto Regression

Sample: 1998 - 2017		Number of obs	= 20
Log likelihood	= 223.3682	AIC	= -20.33682
FPE	= 1.81e-14	HQIC	= -20.14244
Det (Sigma_ml)	= 2.34e-15	SBIC	= -19.34109

Table 5: (Outcome of VAR model)

Equation	Parms	RMSE	R-sq	chi2	P>chi2
roa	5	.003371	0.5487	24.3212	0.0001
nplr	5	.026438	0.9582	458.8866	0.0000
car	5	.011392	0.7342	55.24962	0.0000
pmr	5	.11875	0.7692	66.67153	0.0000

roa equation

Table 6: (Outcome of ROA Equation)

	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
roa						
L1.	.4766956	.2536774	1.88	0.060	-.0205031	.9738942
nplr						
L1.	-.0133143	.0096229	-1.38	0.166	-.0321748	.0055461
car						
L1.	-.0753189	.0735225	-1.02	0.306	-.2194203	.0687825
pmr						
L1.	.0042303	.0067425	0.63	0.530	-.0089847	.0174453
_cons	.0101505	.0060914	1.67	0.096	-.0017883	.0220894

nplr equation

Table 7: (Outcome of NPLR Equation)

	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
roa						
L1.	-1.073191	1.989384	-0.54	0.590	-4.972312	2.82593
nplr						
L1.	.9414219	.0754642	12.48	0.000	.7935148	1.089329
car						
L1.	-.4489267	.5765763	-0.78	0.436	-1.578996	.6811421
pmr						
L1.	.0850605	.0528757	1.61	0.108	-.018574	.188695
_cons	-.0154319	.0477695	-0.32	0.747	-.1090584	.0781946

car equation

Table 8: (Outcome of CAR Equation)

	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
roa						
L1.	-.5409454	.8572421	-0.63	0.528	-2.221109	1.139218
nplr						
L1.	-.0705466	.0325181	-2.17	0.030	-.134281	-.0068122
car						
L1.	.0518666	.2484515	0.21	0.835	-.4350895	.5388226
pmr						
L1.	.0492718	.0227846	2.16	0.031	.0046148	.0939288
_cons	.0686555	.0205843	3.34	0.001	.028311	.1089999

pmr equation

Table 9: (Outcome of PMR Equation)

	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
roa						
L1.	-3.066761	8.935532	-0.34	0.731	-20.58008	14.44656
nplr						
L1.	-.5884714	.3389555	-1.74	0.083	-1.252812	.0758692
car						
L1.	-1.342672	2.589755	-0.52	0.604	-6.418498	3.733153
pmr						
L1.	.7796231	.237497	3.28	0.001	.3141377	1.245109
_cons	.4247128	.2145619	1.98	0.048	.0041792	.8452464

From Table-8, it has been observed that the lagged value of NPLR and PMR cause CAR on short-run basis at 5% significant level. Table-9 confirms that the lagged value of NPLR cause PMR at 10% level of significance.

4.5) Granger Causality Wald Test

Table 10: (Results of Granger Causality Wald Test)

Equation	Excluded	chi2	df	Prob > chi2
roa	nplr	1.9144	1	0.166
roa	car	1.0495	1	0.306
roa	pmr	.39365	1	0.530
roa	ALL	2.1333	3	0.545
nplr	roa	.29102	1	0.590
nplr	car	.60623	1	0.436
nplr	pmr	2.5879	1	0.108
nplr	ALL	3.1262	3	0.373
car	roa	.3982	1	0.528
car	nplr	4.7065	1	0.030
car	pmr	4.6764	1	0.031
car	ALL	11.877	3	0.008
pmr	roa	.11779	1	0.731
pmr	nplr	3.0142	1	0.083
pmr	car	.2688	1	0.604
pmr	ALL	3.7435	3	0.291

Table-10, tells us about the direction of causality of individual variable and the combined effect of variables on each equation. In ROA equation NPLR, CAR and PMR individually and together do not cause ROA since probability value is greater than 5%. In NPLR equation ROA, CAR and PMR individually and together do not cause NPLR since probability value is greater than 5%. In the case of CAR equation the scenario is a little bit different. In CAR equation NPLR and PMR individually cause CAR at 5% level of significance and ROA, NPLR & PMR together cause CAR at 1% level of significance. Lastly at PMR equation NPLR individually causes PMR at 10% significant level, whereas ROA, NPLR and CAR together do not cause PMR.

From the above results and discussion, we can conclude that from NPLR to ROA there exists independent causality. From CAR to ROA there is also independent causality exist. From PMR to ROA independent causality also exists. In case of NPLR to CAR unidirectional causality found and from PMR to CAR we have seen unidirectional causality as well. While NPLR to PMR shows bidirectional causality at 10% significant level.

4.6) Diagnostic Checking of VAR Model

Lagrange-multiplier test: This test confirms that whether there is autocorrelation at lag order exists or not. Here is the hypothesis:

H_0: No autocorrelation at lag order

H_1: Autocorrelation at lag order

Table 11: (Results of Lagrange-multiplier test)

lag	chi2	df	Prob> chi2
1	13.7322	16	0.61866

Here, the probability value is higher than 5%. So, we cannot reject the null hypothesis rather we accept the null hypothesis that is there is no autocorrelation at lag order.

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Jarque-Bera test: This test measures whether the residuals are normally distributed or not.

Table 12: (Results of Jarque-Bera test)

Equation	chi2	df	Prob > chi2
roa	0.176	2	0.91574
nplr	1.761	2	0.41454
car	1.352	2	0.50871
pmr	0.972	2	0.61506
ALL	4.261	8	0.83283

From the outcome shown in Table-12, we obtained all the individual equation has the probability value more than 5% stated that residuals are normally distributed and as a whole, the p-value is also more than 5% that also confirms the entire model's residuals are normally distributed.

Eigenvalue Stability condition:

Table 13: (Results of Eigenvalue Stability condition)

Eigenvalue	Modulus
.8280433 + .04696056i	.829374
.8280433 - .04696056i	.829374
.5158688	.515869
.07765175	.077652

Table-13 shows that all the eigenvalues lie inside the unit circle meaning that VAR model satisfies the stability condition.

So, the VAR model satisfies normality of residuals, the stability of eigenvalue and has no autocorrelation which affirms the model as a whole is a good one.

4.7) OLS Regression Analysis

Source	SS	df	MS
Model	.000231947	3	.000077316
Residual	.000165223	17	9.7190e-06
Total	.00039717	20	.000019858

Number of obs	=	21
F(3, 17)	=	7.96
Prob > F	=	0.0016
R-squared	=	0.5840
Adj R-squared	=	0.5106
Root MSE	=	.00312

Table 14: (Outcome of OLS Analysis)

roa	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
nplr	-.0218155	.0083497	-2.61	0.018	-.0394317	-.0041992
car	-.1134578	.0735258	-1.54	0.141	-.2685837	.0416681
pmr	.013699	.0063004	2.17	0.044	.0004064	.0269916
_cons	.0116502	.0058046	2.01	0.061	-.0005964	.0238969

The goodness of fit, R square stated that the explanatory variables together explain about 58.40% variations of the dependent variable. The value of adjusted R square confirms 51.06% variation in ROA is explained by variations in independent variables. The p-value which is 0.16% only affirms the overall significance of the model at 1% confidence level. The coefficient of the NPLR is -0.0218, indicating that a one percent increases in NPLR will decrease the ROA by 0.0218 percent. Likewise, one percent increase in PMR will increase the ROA by 0.0136 percent. Both the variables are significant at 5% level of confidence. On the other hand, the p-value of CAR is more than 5%, so this variable has no significant impact on ROA.

4.8) Diagnostic Tests of OLS Method

The diagnostic tests of OLS, verify the validity of the inference by checking the existence of multicollinearity, serial or auto-correlation, heteroscedasticity and normality of population distribution.

Multicollinearity Test

Multicollinearity refers to a condition where two or more independent variables in a *multiple regression* model are highly related to each other. Here, we test VIF (Variance Inflation Factor) for multicollinearity checking.

Table 15: (Outcome of VIF Test)

Variable	VIF	1/VIF
car	4.22	0.237147
pmr	3.82	0.261829
nplr	2.08	0.480961
Mean VIF	3.37	

Here from the Table-15, we have the scores of VIF of all the independent variables. The scores all are below 5, implying that there is no presence of multicollinearity among the explanatory variables.

Auto Correlation Test

Autocorrelation indicates the degree of connection between a given *time series* and a lagged version of itself over consecutive time intervals. We will go with the following autocorrelation tests:

Durbin's alternative test for autocorrelation

Table 16: (Outcome of Durbin's alternative test for autocorrelation)

lags(p)	chi2	df	Prob> chi2
1	2.380	1	0.1229

Breusch-Godfrey LM test for autocorrelation

Table 17: (Outcome of Breusch-Godfrey LM test for autocorrelation)

lags(p)	chi2	df	Prob> chi2
1	2.719	1	0.0992

H_0: There is no autocorrelation

H_1: There is autocorrelation

Both Durbin's alternative and Breusch-Godfrey LM test for autocorrelation reveals the p-value is higher than 5%. So, here we fail to reject the null hypothesis that is there is no autocorrelation exists which is desirable.

Heteroscedasticity Test: For testing heteroscedasticity, here we have applied the Breusch-Pagan/Cook - Weisberg test for heteroskedasticity.

H_0: The residuals are homoscedastic

H_1: The residuals are heteroscedastic

Breusch-Pagan/Cook-Weisberg test for heteroske-dasticity

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chi2(1) = 1.98

Prob > chi2 = 0.1593

The chi-square value is 1.98 and the corresponding p-value is 0.1593 which is more than 5%. So, here we cannot reject the null hypothesis rather we accept the null hypothesis that is the error terms are homoscedastic which is also a good sign for the model.

Normality Test

Normality tests are used to decide whether a data set is well-modeled by a normal distribution. We have applied here Shapiro-Wilk test for checking the normality.

H_0: Residuals (U) are normally distributed

H_1: Residuals (U) are not normally distributed

Shapiro-Wilk W test for normal data

Table 18: (Outcome of Shapiro-Wilk W test for normal data)

Variable	Obs	W	V	z	Prob>z
U	21	0.92263	1.896	1.293	0.09794

Table-18 tells us residuals denoted as variable U has the p-value more than 5% implying the failure of rejection of the null hypothesis. So, here we accept the H_0 that is the error terms are normally distributed which is also an indicator of a good model.

V. Causes & Effects of NPL

5.1) Root Causes of Non-Performing Loan in Bangladesh

The non-performing loan has become the main concern for the banking industry in recent time. Many economist and analyst found that the main reason behind recent bank failure, continuous loss of SCBs and banking scams all are arises from the adverse impact of NPL. In order to find the solution to the problem the study discover some of the root causes of NPL in the banking industry which are discussed below:

Corruption: One of the major reasons behind increasing the NPL in the banking industry is the involvement of the corrupted person in sanctioning and disbursing loans. If we recall the case of the BASIC bank, it turns into a bad bank through the corruption of top management.

Lack of Monitoring: Sometimes performing loan becomes defaulted due to lack of monitoring. If the monitoring system was good, and proper action was taken from the beginning period when the bank comes to know about the loan to be defaulted, the NPL amount wouldn't be as large as it is now.

Borrower Selection: A loan is considered as a bad loan from the beginning if it is provided to the wrong borrower without correctly evaluating their information. There are many borrowers who take the loan from banks by using false documents.

Political Influences: It works in two ways- Firstly, while bank is sanctioning the loans and secondly interfering when the bank takes steps against the bad loan.

Lengthy Recovery Procedure: If the recovery procedure through releasing collateral becomes difficult and legal process consume more time then banks have no choice but to keep the NPL forcefully in the loan portfolio.

Repetition of Rescheduling: Rescheduling of loans is not the ultimate solution of NPL problem. It rather increases NPL when the bank applies it repeatedly for the non-deserving loan which ultimately encourages the default culture.

Lending above the Exposure Limit: Crossing lending exposure above the prescribed limit by BB to a single borrower create huge NPL as the client become defaulter thus ruin the loan portfolio as well.

Recapitalization Facility: When any state-owned bank faces financial difficulties and capital shortage, government help them through injecting capital from taxpayer's money. These practices de-motivated the govt. banks to earn money on their own as they think govt. will always be there for them supporting at the time of distress all the time.

Unskilled Personnel: In our banking industry many bankers have a little knowledge about the risk assessment factors that they should apply while measuring the risk associated with loans and advances.

Failure of Business of the Borrower: Due to lack of business knowledge, experience in the field of business or other reason borrower's business become fail which makes them unable to repay the loan to the banks.

Willful Default by the Borrower: Most of the people of our country tend repaying the money as late as possible. When this type of borrower borrows money from the bank they have the intension not to repay the loan at all or to pay as late as possible.

Poor Management Quality of Borrowers: If the management quality of the borrower's company found to be weak, the risk of loan default increases.

Lack of Proper Action Taken against Defaulters: In our country loans are hardly monitored in due time as a result banks remain unaware of the defaulted loan, even if they come to know it. Delay in taking action or proper legal action against borrower keep the defaulted loan in the bank's portfolio for a long time results from an increase in the aggregate NPL.

Adverse Economic Conditions: Some borrowers are not willful defaulters rather they fail to repay loans for some adverse economic factors that affect their business such as recession, political instability, increasing inflation, etc.

Fund Diversion: Sometimes borrower takes the loan for one purpose but uses them for another purpose causing extra risk for banks. Regular monitoring of the loan is thus essential to ensure their proper utilization.

Delay in Assessing and Distributing Loans: Due to delay in assessing or disbursing loan banks failed to provide money to business enterprises at the time when they need it most. As a result, the business fails as they suffer from the shortage of funds.

Improper Documentation: When the loan becomes defaulted, the bank fails to track the borrower as they didn't maintain proper documentation at the beginning of loan contact thus make it difficult to take proper action against the defaulters.

Lack of Applicability of Regulation: There are several regulation and guidelines for managing non-performing loan such as The Bankruptcy Act, Money Loan Court Act, etc. but in practice, they are not followed entirely and efficiently.

5.2) Adverse effects of Non-Performing Loan in Bangladesh

This study finds some of the major adverse effects of NPL which are given below:

Reduce Capacity to Provide New Loans: Honest borrowers are deprived of getting the new and adequate amount of loans as NPL reduces the investable funds of the bank.

Shrinking Profits: NPL reduces interest income with the principal amount of loan. Again banks need to maintain the provision for NPL which ultimately reduces net income.

Rise in Lending Rates: Due to NPL banks lose interest income, but they need to maintain operating costs to run their business smoothly. As an incidence of that bank further increases lending rates for new loans.

Deteriorate Economic Growth: Non-performing loan requires provision and to meet this requirement banks have to cut off their profit with a vast amount of provisioning requirement. Due to huge profit cuts and the rising cost of capital resulting from NPL the investment opportunity of banks decreases, therefore, upsets the economic development.

Decreases Reinvestment of Fund: NPL blocks the money of banks by the defaulters and restrains the bank from reinvesting that fund that they could have invested in the more profitable sector.

Credit Crunch: This situation arises when due to the increase of NPL bank failed to provide sufficient fund at the previous interest rate to new loans.

Hampers Performing Loans: It also negatively affect the performing loans. From the bad experience of NPL, banks forced to follow the restrictive lending policy which ultimately adversely affects the performing loans also.

Disruption in Money Cycle: Due to NPL banks failed to provide the adequate amount of return to its depositors resulting in the withdrawal of funds by the depositor that ultimately cause the shortage of funds. Thus disruption in money cycle emerged due to NPL.

Decreases Employment Opportunity: Due to huge NPL, banks face difficulties to expand their business hence decreases the employment opportunity. Due to this problem prospective businesses also shrink their expansion as they don't get sufficient funds.

Increase the Cost of Banks: As banks need to perform several NPL management strategies, more supervision and strong monitoring required which in turns increases the overall costs of the bank.

Reduce the Capital Adequacy Ratio: NPL decreases the capital by reducing profit and also the increasing NPL leads in increasing risk-weighted assets thus eventually ruin the capital adequacy ratio.

VI. Recommendations & Conclusion

Non-performing loan as a major problem of the banking industry should be treated more seriously by all the banks in the industry. This study found some initiatives to control the adverse impact of NPL on the bank's performance. The key initiatives are recommended below to reduce NPL:

Lessen the Interference of Political Parties: BB should apply the quasi-judicial power to prevent corrupted parties from becoming the BoDs of a bank even if the government appoints any.

Ensuring Accountability of Employees: Employees associated with loan sanctioning and disbursement procedure should be accountable for his/her work. Banks should monitor the employees within the office so that any employee cannot fraudulently provide any loan to any false customer.

Reducing Recapitalization: The Govt. should stop recapitalization facilities from the taxpayer's money as it establishes poor professionalism and accountability among the bank's personnel.

Adopting Improved Loan Recovery Procedure: Collateral collected against loans should regularly be checked whether it has sufficient value or legal ownership so that no delay occurs while selling them for recovery.

Strictly Follow Rules and Regulation Provided by BB for NPL Management: To prevent the risk of default, banks should strictly follow guidelines and regulations provided by BB time to time.

Intensify the Internal Risk Management of Banks: Banks should maintain the database for large credit to identify vulnerabilities associated with a large amount of credit disbursement, default and recovery.

Proper Lending Practices: Significant amount of loans should be disbursed to the productive sector so that the borrowers can have the ability to repay the loan on time. To avoid the risk associated with lending large amount, banks should provide loan by syndication.

Judicial Use of Rescheduling and Write-off: Bank should provide rescheduling facility only to those who has proper justification and follows the guidelines for rescheduling appropriately.

Punishing Willful Defaulters through Legal Proceedings: The prevailing corruption practices in our banking industry should be controlled through applying legal action against convicted defaulters and corrupted persons as quickly as possible.

Structured and Regular Monitoring: Bank should periodically monitor its outstanding loans and arrange visits and making reports by the officials regularly to ensure proper utilization of funds.

Client Profile & Documentation: For safeguarding bank's interest bank officials should properly maintain loan documentation and collect sufficient data of borrower time to time and update them in a regular fashion.

Incentive and Training Programs for Employees: Employees should get incentive based on their performance for achieving recovery target and should get training facilities.

We know the saying "prevention is better than cure". Similarly, for NPL banks need to take some preventive measures to clean up the ever growing amount of NPL in the industry. The borrower should be motivated to repay the loan by providing them some benefits such as exemption, monetary incentives, etc. The above mention initiatives if practiced accordingly and if govt. and central bank assists the banks of our country, soon the adverse effect of NPL can be eliminated from the industry. The study shows different causes, effects, analysis and initiatives regarding NPL. Banks should consider all the causes and the consequences of NPL and develop effective NPL management tools to reduce it so that the banks can ensure maximum dedication on the development of the banking industry and hence can contribute to the economic development of the country.

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Pricing Strategies and Financial Performance: The Mediating Effect of Competitive Advantage. Empirical Evidence from Uganda, a Study of Private Primary Schools

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Keywords: pricing strategies, competitive advantage, financial performance, primary schools.

GJMBR-C Classification: JEL Code: G10

Pricing Strategies and Financial Performance: The Mediating Effect of Competitive Advantage. Empirical Evidence from Uganda, a Study of Private Primary Schools

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Abstract- The purpose of this study was to examine the mediating effect of Competitive advantage on the relationship between Pricing strategies and Financial performance in private primary schools of Uganda. - The research adopted the Med Graph program and Sobel tests for the mediation effects so as to develop a closed loop model of financial performance of private primary schools. The study is based on a quantitative approach and cross sectional Research design. Descriptive statistics and inferential statistics were used in the analysis. The results reveal that that competitive advantage partially mediates the relationship between pricing strategies and financial performance (partial mediation). This study makes a contribution by providing information that is relevant for filling the practical gap that exists in financial performance of private primary schools in the settings of developing countries as well as contributing to the theoretical development of pricing strategies. Practical implications of this paper puts it that in order to have a meaningful interpretation of the results of the relationships between study variables, it is always vital to assess the role of the mediator in the relationship. This enables practitioners and scholars to comprehend and make legitimate decisions and conclusions that can foster enhanced financial performance of private primary schools.

Keywords: pricing strategies, competitive advantage, financial performance, primary schools.

I. Introduction

Kasirye (2009) and UNEB (2011) elucidates that like any other country across the globe, primary education is regarded as a core level in Uganda's academic achievement. As such, improving access to primary education is a priority in Uganda (MoES Report, 2015). Ministry of Education Report (2013) eulogizes that through the liberation strategy, the numbers of private primary schools have increased tremendously since the 1990s, which has increased the number of school-going children. Although this is the case, Hamza, Mutala and Antwi (2015) contends that many private primary schools are recording dismal performance manifested in the declining profitability and increasing liquidity challenges. This attracts a lot of interest for the researcher to seek inquiry into the factors responsible for the declining financial performance.

Nevertheless, the financial performance of private primary schools within Rubaga Division, Kampala District in Uganda continues to decline. Schools such as Muslim Girls Primary School, Trinity Love School and Destiny Junior School registered net losses by close of First Term for 2015. Trinity Love registered a net loss of UGX12.5 million and the school was also unable to pay teachers their salary for March 2015 due to liquidity challenges (Trinity Love School Performance Report, 2015). On the other hand, Muslim Girls Primary School faced liquidity challenges which left teacher's salary unpaid for two months of March and April 2015. This salary was never paid until the beginning of Second term (Muslim Girls Primary School Payroll, 2015). Recurring liquidity and profitability challenges were also eminent in 2016. Notable, New Rock Foundation School in the entire year registered losses of UGX 5.9 million, UGX 7.7 million and UGX 7.9 million in first term, second term and third term respectively (New Rock Foundation Quarterly Assessment Report, 2016). Consequently, most of the private schools within the area are experiencing high level of teacher turnover while the general performance of schools within the Division has also declined. Therefore, this paper aims to examine the relationship between pricing strategies and financial performance and the mediating effect of competitive advantage on the relationship between pricing strategies and financial performance of private primary schools in Uganda.

II. Literature Review

a) *Pricing Strategies and Financial Performance*

Pricing has attracted a lot of attention and has been associated with various variables, one being financial performance. According to Hinterhuber and Liozu (2014) pricing of goods and services determines the level of profitability and the general liquidity experienced by firms. Similarly, Wuollet (2013) who acknowledged that the different pricing strategies of

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cost-based pricing, competition-based pricing and customer value-based pricing predict the amount of revenue that the firm can be able to generate over the long-term. They further acknowledge that customers are price sensitive and therefore, the demand for the goods and services largely depends on the perceived fairness of the price.

In addition, Sije and Oloko (2013) argue that companies which do not manage their prices lose control over them, impairing their profitability due to fading willingness to pay a higher price. Avlonitis and Indounas (2006) also revealed that pricing is a powerful force in attracting attention and increasing sales, and that it can also have a major influence on customer loyalty which determines the ability of the firm to consistently generate revenues to boost profitability and liquidity in the long run. Within the same context, Gupta and Zeithaml (2006) noted that price serves as a proxy determining profitability since it is the only element within the marketing mix that is directly linked to generating revenues for a firm. Consistence is also evident in a recent study by Ritz (2013) who found out that pricing and financial performance are positively associated. More so, when the price is attractive, so are customers willing to purchase goods and services from the firm.

Furthermore, empirical studies indicate that pricing enable firms to generate the cost and additional income for the value devoted to the goods and services to comfortably meet the cost of production and guarantee some level of sustainability of the business (Abito, Besanko & Diermeier, 2012; De Toni *et al*, 2013). Furthermore, Hinterhuber and Liozu (2014) revealed that pricing enables firms to determine the amount to charge the customer in order to remain profitable in its dealings, which boosts financial performance of firms in the long term. On the other hand, Avlonitis and Indounas (2006) stressed that a mistaken or inexistent pricing policies negatively affects the volume of purchase by customers which affects their profitability while a fair price boosts sales and subsequently boosts the financial performance of firms. Hence, they concluded that firms can only boost their financial performance when they establish and implement an effective pricing strategy that encourages customers continued demand for the goods and services offered by the firm.

Nevertheless, some studies (Achrol & Kotler, 1999; Abito *et al* 2012) observe that the association between pricing and financial performance is not a clear since different markets react to price differently. It is indicated that what is perceived as a high price in one market may be perceived as a low price in another market, hence affecting the demand in anticipation that the quality of the product is low. On the other hand, a market that perceives the goods and services prices as high is likely to purchase a low quantity which would also affect the profitability potential of the firm. In general, it can be concluded that pricing impact on financial performance is subjective.

While this is the case, this study observes that pricing is a core component no matter what the business deals in. Therefore, depending on how it is perceived, it would have influence on many organizational objectives achievement of which financial performance is among. It is worth noting that every business aims at formulating a price which it considers worthy enough to achieve a given profit and maintain the businesses liquid. It is on this note that the study hypothesizes that:

H1: Pricing Strategies is positively related with financial performances

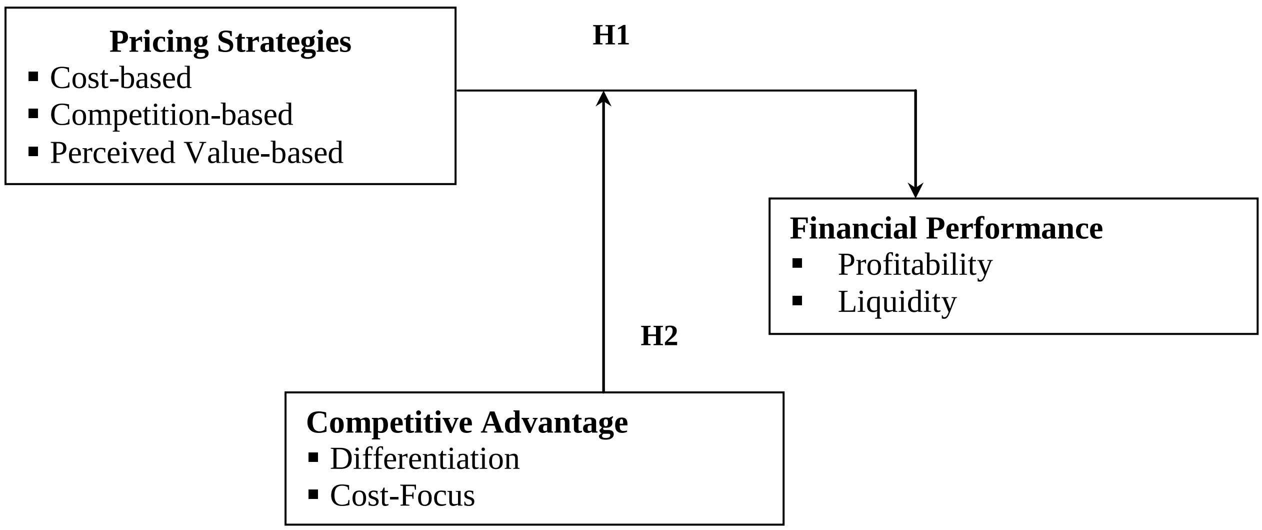
b) 2.2 The Mediating effect of Competitive Advantage on Pricing Strategies and Financial Performance

Generally, the mediation of competitive advantage on pricing strategies and financial performance has received less attention among researchers and academia. Much as this is the case, studies focused on single variables of pricing and competitive advantage and mostly indicate that both variables significantly influence financial performance of organizations. For instance, Hinterhuber and Liozu (2013) indicated that pricing is fundamental in boosting financial performance and can also influence competitive advantage when the organization engages in innovation. Earlier findings by Zbaracki and Bergen (2003) indicated that the price adopted by the firm determines whether it has an advantage or not. Yet highly competitive businesses would easily generate profits and simplify liquidity challenges. (Direct mediation).

On the other hand, Wuollet (2013) focused on the competitive advantage indicating that it enables the firm to become flexible in the market and undertake innovative decisions to boost revenue in the process. Dutta *et al* (2003) complemented and revealed that a business with competitive advantage enjoys a cost advantage which enables it to set either lower prices and gain more sales or set a higher price and record value for sales because customers are ready to continue using the product or services due to the perceived superiority perceived by the customer. Nevertheless, Suri and Monroe (2003) revealed that the major focus should be on how best an organization gains a better advantage other than price because pricing alone is not enough for the company to gain competitive advantage and generate revenue. In conclusion, scanty information available is an eye opener for researchers to put much focus to it since the component of pricing is something that no organization can run away from just like there is no single organization that does not want to have an advantage. Hence, this study hypothesizes that:

H2: Competitive advantage positively mediates the relationship between pricing strategies and financial performances

The Conceptual Framework



Source: (adapted from Zou & Li, 2014; with modification)

Figure 1: The Conceptual Framework

The conceptual framework above depicts the relationship that exists between price strategy (Cost-based, Competition-based, and Perceived Value-based) and financial performance. The dependent variable is defined by financial performance, measured by profitability and liquidity. The independent variable is price strategy keeping which is seen as the key predictor in determining the effect on the dependent variable(financial performance) in order to arrive at a conclusion as to whether there is a significant effect on financial performance or not. Competitive advantage is a mediating variable. Competitive advantage intervenes in to mediate the relationship between pricing strategies and financial performance.

III. Methodology

a) Research methodology

This study adopted a cross-sectional descriptive and analytical research design. The cross sectional research design used was useful in providing snapshot of what was actually happening about the study area at point in time. Analytical research design was used for descriptive and inferential statistics reasons to test the formulated hypotheses. To address the research hypotheses generated in literature, the researchers undertook a large scale comprehensive survey covering a random sample of private primary schools in Kampala district. A self administered questionnaire was developed to tap the constructs of pricing strategies, competitive advantage and financial performance.

b) Study population, research setting, sampling design and procedure

The study population comprised of a total of 184 private primary schools projects in Kampala district (Rubaga Division Urban Council, 2017). Data were collected from headteacher, bursar, and resident director involved in direct management of private primary schools in Kampala district. The unit of analysis was the primary schools in Kampala district. Unit of inquiry consisted of headteacher, bursar, and resident director. Using the formula provided by Krejice & Morgan (1970), a sample size of 123 private primary schools was determined. The power of Sample size was explained by 95% confidence interval and with acceptable error of 5%. Krejice &Morgan's' (1970) sample size determination approach was preferred because it yielded a representative sample which one would expect even if other popular approaches such as Yamane (1973) were used. Simple random sampling technique was used to select the projects. The researcher generated a table of random numbers using EPITABLE- random number listings. All private primary schools in Rubaga division in Kampala district were listed in alphabetical order and assigned numbers from 00001 to 184. Consistent with the rules of sampling, researchers only selected cases from the list for the sample which corresponded with the identified number from the table.

c) *Data sources, data collection instrument and measurement of variables*

Primary data was collected by gathering views from the headteacher, bursar, and resident director using a questionnaire. Item scales for all the study constructs were anchored on a 5-point likert scale with 1= strongly disagree to 5= strongly agree. Pricing strategies was measured in terms of cost based, competitive based, perceived value (Avlonitis *et al*, 2005). Competitive advantage was measured by adapting item scales developed by Porter (1998). Financial performance was measured by adapting the item scales developed by Omasete (2014), Boermans & Willebrands (2012), Zou & Li (2014). Data were tested for the assumptions of parametric data prior to analysis.

d) *Data Analysis*

e) *Validity and reliability of the instrument, data cleaning, parametric tests, analysis and reporting*

All items were derived from previous studies and modified to suite Ugandan context. These item scales were given to experts to assess their relevance to the study. The researcher, then pilot tested the questionnaire using a sample size of 30 respondents to test for validity and reliability of the measurement items as indicated in table1.

Table 1: Validity and reliability of the instrument

Variable	No.of Items	Cronbach Alpha	Content Validity Index
Pricing Strategies	11	.717	.730
Competitive Advantages	11	.753	.820
Project Performance	12	.811	.752

Cronbach's alpha coefficient was used to check the reliability of the instrument in table 1. As justified by Neumann (2006) and Nunnally (1978), all variables of study conformed to the minimum cut-off point of 0.7 and above.The researcher examined the data for outliers and missing values before analysis. The results showed an acceptable range of missing values which was less than 5 % (Sekaran, 2003). The researcher then tested for the assumptions of parametric data. The data analyzed proved no serious problems. Pricing strategies was assessed using dimensions that include; cost based, competitive based, perceived value. Some of the questions included; *The school dues reflect the cost incurred in operation, the school dues take into consideration the targeted mark-up, the school frequently adjusts dues to fit the cost incurred, the school dues are within the same range as for competitors, this school frequently surveys the market to identify competitors school dues adjustments, this school's dues are parallel with other schools within the division, this school sets a low price compared to other schools within the division, this school adjusts dues based on the academic performance, the school fees reflect good will, the school dues charged by this school are reflective of the class of customers she serves*.

Stakeholder engagement was analyzed in terms of dimensions of cost focus and differentiation with questions which include; *The school dues are friendly for our customers. The school charges are among the lowest within the division, the parents can afford the school fees charged, this school frequently engages in advertising and publicity, the school has well trained and qualified staff, this school considered among the best performing schools within the division, our services are popular in the market, the school staff has customer care, this school is known for serving a specific class of customers.*

Financial performance was assessed using dimensions of profitability and liquidity. Questions asked included; *This school frequently acquires external funding to meet its obligations, the Return on Assets for this school has increased compared to the previous year, the gross income of this school has increased lately, this school registered a higher profit after all deductions last year of 2016 compared to other years, this school finds it challenging to execute its day to day operations, the school has several sources through which it generates cash, the assets possessed by this school exceed the liabilities owed, all school obligations are paid on time, the customers pay their school dues on time, this school has expenses that have been outstanding for a long time.*

IV. Results

a) *Descriptive statistics*

Table 2: Characteristics for Private Schools

Demographic Characteristic	Parameter	Frequency	Percent
Number of staff in your school	1-10 staff	51	42.6
	11-20 staff	17	14.4
	21-30 staff	18	15.3
	31-40 staff	12	10.2
	41 and above	21	17.6

Source: Primary Data

b) Correlation Analysis

The Pearson correlation method was used to examine the relationship between price strategy advantage and financial performance.

Table 3: Correlation Analysis

Study Variables	Price strategy	Financial Performance
Price strategy	1	
Financial Performance	.554**	1
***. Correlation is significant at the 0.01 level (2-tailed).*		

Source: Primary data

The findings from the correlation table above, indicate a significant perfect positive relationship between Price strategy and Financial Performance as revealed by the correlation coefficient ($r = .554^{**} p<0.01$). This implies that Price strategy with its dimensions such as cost based, competitive based and perceived value positively influence the financial performance private primary schools in the context of Uganda entities. These results also signify that appropriate price strategies are associated with high levels of financial performance. Similarly, poor pricing strategies are associated with low levels of financial performance. These therefore implies that private primary schools should ensure that school dues reflect the cost incurred in operation, the school dues take into consideration the targeted mark-up, the school dues charged cater for all the school costs plus a proportion of profit, the school frequently adjusts dues to fit the cost incurred, the school dues are within the same range as for competitors, this school frequently surveys the market to identify competitors school dues adjustments, this school's dues are parallel with other schools within the division, this school sets a low price compared to other schools within the division, this school adjusts dues based on the performance, the school fees reflect good will, the school dues charged by this school are reflective of the class of customers it serves.

This conforms to H1 which states that price strategy is positively related to the financial performance

c) Regression analysis

Table 3: Regression analysis for competitive advantage on the financial performance

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
(Constant)	1.235	.248		4.980	.000
Pricing Strategy	.640	.066	.554	9.722	.000

R = .554[a]
R Square = .306
Adjusted R Square = .303
F statistics = 94.525
Sig. (F statistics) = .000
a. Dependent Variable: Financial Performance

Source: Primary data

The findings in table 3 showed that the financial performance was significantly influenced by pricing strategy (beta = .554, $p<0.01$, Sig =.000). This implies that pricing strategy with its dimensions of cost based, competitive based and perceived value greatly predict financial performance of private primary schools. Pricing Strategy should therefore be highly considered by the school management and board members for better enhancement of financial performance private primary schools.

The regression analysis model of financial performance of private primary schools as seen in table 3 was found to be significant and hence well specified, which means that; Pricing Strategy with dimensions of cost based, competitive based and perceived value were found to be appropriate determinants of financial performance of private primary schools in Uganda. The predictive power of the model was found to be 30.3% (Adjusted R Square =.303). The result in table 3 indicates pricing strategy account for 30.3% variation in enhancing financial performance of private primary schools in Uganda hence predicting the financial performance while the remaining 69.7% of predictors of financial performance is accounted for by other factors that are not part of this study. The Model specification was found to be fit and valid for this study (Sig<0.00).

d) Mediation

Using the Baron and Kenny (1986) mediation steps, Med Graph program version 2013 was used as a modified version of the Sobel test to compute the Sobel z-value and the significance of the mediation effect of competitive advantage on the relationship between pricing strategies and financial performance. The significance of the mediation effect and type of mediation was also tested basing on Sobel's z-value and ratio index calculated using the Med Graph program.

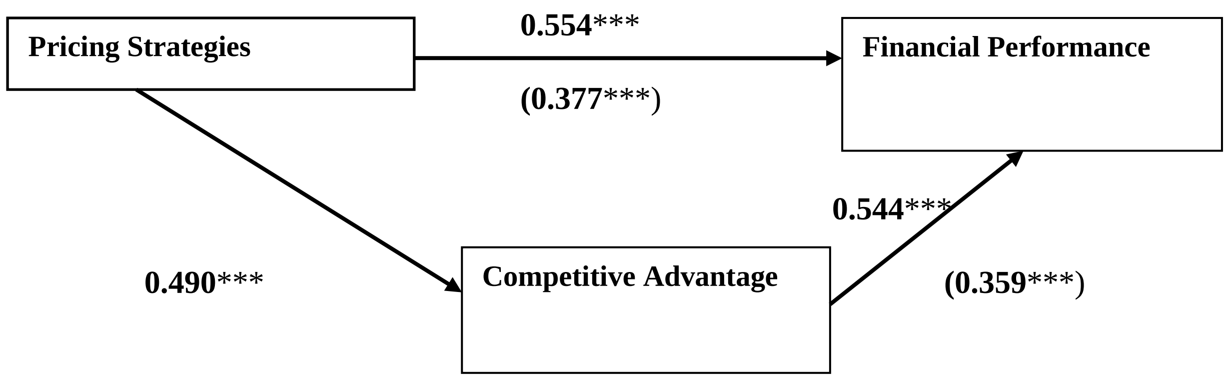


Figure 2: Mediation of Competitive Advantage on Pricing Strategies and Financial Performance.

Figure 1: Mediation results

These results indicate that, since the Sobel Z-value is large with a p-value less than 0.01(Sobel Z-value: 0.4798498, sig: P<0.01), it means that a significant mediation of Competitive advantages on the relationship between pricing strategies and financial performance exists. In a real sense, it indicates that the association between pricing strategies (predictor variable) and financial performance (criterion variable) has been significantly reduced (i.e. from 0.554 to 0.377) by the inclusion of competitive advantage (the mediating Variable). A partial type of mediation was also registered because the correlation between independent variable and dependent variable was reduced to a significant level (i.e. from 0.554** to 0.377**). The ratio index of 10% (0.0103/0.103*100=10) implies that 10% of the effect of competitive advantage on financial performance goes through pricing strategies.

Therefore the results have revealed the contribution of independent variables to the dependent variables. Accordingly, the findings indicate that competitive advantage partially mediates the relationship between pricing strategies and financial performance (partial mediation). This means that the entire effect on financial performance does not only go through the main predictor variable (pricing strategies) but also competitive advantage. This further signifies that the connection between pricing strategies and financial performance is weakened by the presence of competitive advantage. Competitive advantage induces financial performance and partly acts as an agent in the association between pricing strategies and financial performance of private primary schools.

This is in line with *H2: Competitive advantage is a significant mediator of pricing Strategies and financial performance among private primary schools.*

V. Discussions and Conclusion

a) Pricing Strategy and Financial Performance

This study revealed a positive relationship between pricing strategies and financial performance. These results are consistent with De Toni, *et al* (2013) that highlighted that strategic pricing is necessary to enhance financial performance. Hence, the price should continuously change with the changes in market conditions such as, economic conditions and degree of competition for the firm to remain profitable. Similarly, Hinterhuber and Liozu (2014) who noted that pricing of goods and services determines the level of profitability and the general liquidity experienced by firms. Moreover, Abito *et al*, (2012) noted that pricing enables firms to determine the amount to charge the customer in order to remain profitable in its dealings, which boosts financial performance of firms in the long term. This study therefore postulates that an improvement in pricing strategies would lead to improvement in financial performance. On the other hand, the findings also signalized that adopting wrong pricing strategies would result in the decline in financial performance. Consistent with the findings, Avlonitis and Indounas (2006) stressed that a mistaken or inexistent pricing policies negatively affects the volume of purchase by customers which affects their profitability while a fair price boosts sales and subsequently boosts the financial performance of firms.

The findings further observed that unlike competitive based pricing strategy, cost-based pricing and perceived value-based pricing were positively related with financial performance. In other words, the findings noted that the adoption of competitive based pricing would not in any way improve financial performance among private schools. However, the findings contradict with Wuollet (2013) who emphasized the need for institutions to adopt different pricing strategies of cost-based pricing, customer value-based pricing as well as competition-based pricing if they are to boost revenue that the firm can be able to generate over the long-term. On the other hand, it was observed by Ritz (2013) that competitive based pricing is fundamental in boosting financial performance since it enables firms to set prices that would make their services more attractive than for other competitors. Subsequently, this increases the firms' ability to boost sales and generate higher profits in the long run.

The study emphasized the positive relationship between cost-based pricing and perceived value-based pricing towards determining financial performance. The exploration indicated that when institutions adopt cost-based pricing strategy and the perceived value-based pricing strategy, then they would be able to generate more profits and boost their liquidity. These results affirm earlier findings by Gupta and Zeithaml (2006) which revealed that price serves as a proxy determining profitability since it is the only element within the marketing mix that is directly linked to generating revenues for a firm. In particular, the findings signalized that when cost-based pricing strategy is adopted, then institutions would be able to set a price which is able to reflect the cost incurred and frequently adjust prices based on the cost incurred which would boost liquidity and profitability of firms. Previous work by De Toni *et al*, (2013) posit that price is one of the most flexible elements of the marketing mix, which interferes directly and in a short term over the profitability and cost effectiveness of a company. In other words, adopting a cost-based pricing would give room to institutions to identify the best price that would keep them profitable such that they continuously boost their financial performance.

b) Mediation of Competitive Advantage on Pricing Strategies and Financial Performance

Generally, studies explaining the mediation Competitive Advantage on Pricing Strategy and Financial Performance are in nonfigurative. While this is the case, Hinterhuber and Liozu (2013) indicated that pricing is fundamental in boosting financial performance and can also influence competitive advantage when the organizations engage in innovation. On the other hand, Wuollet (2013) focused on the competitive advantage indicating that it enables the firm to become flexible in the market and undertake innovative decisions to boost revenue in the process. Hence, these findings portray a new pool of knowledge by affirming the relevance of both pricing strategies and competitive advantage.

Consistent with these findings, Ivlonitis and Indounas (2006) indicated that pricing is essential in marketing because it determines the general profitability and liquidity of firms. In the same view, Payne and Frow (2014) indicated that it is critical issue formulating the price for products and services since the price has the potential to determine the profitability and liquidity position of the firm. Besides, De Toni *et al*, (2013) emphasized that price is one of the most flexible elements of the marketing mix, which interferes directly and in a short term over the profitability and cost effectiveness of a company. Therefore, is necessary that institutions closely monitor price for their products and services to determine financial performance.

The findings also observed that when the firms gain a higher competitive advantage, they would record changes in their financial performance where they would record more profits and liquidity. On the other side, where firms lose the competitive advantage, they would record declines in profitability and liquidity. This is supported by Sheehan and Foss (2007) who postulated that competitive advantage makes a significant contribution to the success of the business in terms of boosting financial performance widely examined in the context of profitability and liquidity. Dutta *et al* (2003) also commended competitive advantage indicating that firms that enjoy cost advantage or firms that differentiate themselves from competitors gain more sales necessary for boosting financial performance. Therefore, it is necessary for firms to consider pricing strategies and competitive advantage as important considering the benefits that accrue to them.

VI. Recommendations

The study recommends that private primary schools put in place measures that evaluate the most effective pricing strategy to reduce product costs and thus increase profitability whenever such a strategy is used. They should also adopt ways to implement their pricing strategies better compared to competitor firms. Further, they should ensure that the pricing strategies they adopt help them discourage competition and focus more on enhancing the financial performance.

Private primary schools carry out market survey when formulating prices for their services. They should identify the prices charged by their competitors in order to come up with prices which are nether too low or very high. This will ensure a steady advancement in the financial performance of the school

Private primary schools should conduct customer survey to obtain knowledge about customers' perception of the market offers. This will allow establishing pricing based on customer value, price sensitivity and varieties of willingness to pay. Further on that, price review should be conducted annually by private primary schools to ensure that the price for their services is frequently matched against the prevailing market conditions and the competitors.

Schools should use pricing to distinguish themselves from its competitors to expand market share which results into increased revenue, which has a bearing on the profitability of the business. Improving pricing strategies allows firms to gain a better competitive advantage on the market.

VII. Limitations and Areas for Further Research

This study has some inherent limitations which include; a cross sectional research design that restricts us from studying causal relationships among the variables. The behaviors of the variables over a long time could not be completely analyzed which restricted the applicability of the findings as a longitudinal study may give different results from the ones that were obtained. However; this was overcome by expanding the scope of the study in two division of Kampala district.

Further research may focus on; customer information, credit terms, access to finance and financial performance of private primary schools using a longitudinal research design. Research should also be undertaken to explore the concept of financial performance of private primary schools in other contexts such as higher institutions of learning, SMEs, financial institutions among others. This follows from the relatively scarce studies that have been made on the concept of financial performance in these areas. A meticulous research to focus on qualitative research will get the in-depth contextualization of financial performance since this study focused more on quantitative approach based on positivistic paradigm.

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Capital Structure in Mena Region: A Panel Data Analysis

By Amira Nouira & Meryem Bellouma

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CAPITALSTRUCTUREINMENAREGIONAPANELDATAANALYSIS

Capital Structure in Mena Region: A Panel Data Analysis

Amira Nouira [α] & Meryem Bellouma [σ]

Abstract- In this paper we make an attempt to provide some insight into the capital structure choice of the MENA region for the period 2006-2015. We develop a dynamic panel data model that explicitly takes into account the determinants of capital structure choice. It has been concluded that factors such as size, profitability, asset tangibility and rating have significant impact on the leverage structure by firms in the MENA region context.

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I. Introduction

The study of the structure of the capital has constituted one of the main debates about the finance of a firm. Modigliani and Miller (1958) were the first to lead a true reflexion on these themes. These authors have shown that in the presence of perfect financial markets and under some hypotheses, the value of the firm is independent of the structure of its capital.

Questioning the assumptions of the neutrality of the structure of the capital showed that the capital structure is influenced by several factors, including taxation which pushed Modigliani and Miller (1963) to conclude that the value of the firm is an increasing function of its level of debt. They also maintain that resorting to debt results in a tax credit procreated by the tax deductibility of interest charges. However, the excessive appeal to debt can procreate costs of bankruptcy. In that case, optimum financial structure results from arbitration between the tax advantage of the debt and the costs of a potential bankruptcy.

However, this arbitration does not exist anymore by including the taxation of the individuals. In this context Miller (1977)comes back to the initial conclusions of Modigliani and Miller(1958) and supports again the idea of the neutrality of the capital structure.

The discussion about capital structure has continued and given rise to the emergence of new theories which deal with the topic of capital structure. Leaving the model of agency, the optimum of the capital structure results from a level of target debt which allows to arbitrate between the tax benefits of debts and the minimization of the costs of agency of equity capital, and the costs of financial distress such as the costs of bankruptcies as well as the increase of the costs of agency of debts. That is The Trade-Off Theory.

In addition, the introduction of the signaling of financial decisions effects feeds more research on the effect of the asymmetry of information in the analysis of financing modalities. Based on the argument of signaling, Myers (1984) suggests that firms prefer the internal financing and take precedence in the choice of the financing sources.

They first favour self-financing, then debt and finally the increase of capital (Mayer and Majluf on 1984). This hierarchy depends on the objective of the firm leader. It is the pecking order theory (P.O.T).This theory of hierarchy of the sources of financing therefore rejects the hypothesis of the existence of an optimum capital structure.

A third theoretical frame, which refers to the climate of the market to determine the capital structure of a firm, is the Market Timing theory. According to this new frame of analysis, business companies issue titles when the conditions of the market are favourable, otherwise buy them back or get into debt. So, Baker and Wurgler (2002) conclude that the capital structure is the result of the accumulation of decisions taken previously according to current stock exchange context.

The validity or rejection of these explicative theories of the decisions of financing constitutes today, a debate of empirical order. Indeed, empirical studies concerning the determiners of the capital structure are characterised by the fact that there is not a total structural theoretical model.

However, they introduce a succession of corresponding hypotheses with different theories in the field as those we have mentioned before. This leads to a big number of possible determiners, which effects on the debt can vary from one theory to another.

The present article has as objective to give theoretical and empirical valuation of the determiners of behaviors of the firms of the MENA region in the choice of their financial structure. In order to do that, we are going to undertake in a first stage literature review relating to the determiners of financial structure. In a second stage, we are going to introduce followed methodology, hypotheses and choice of variables. Then, we are going to introduce the empirical results. Finally, we will end this article with a general conclusion.

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II. Theoretical Literature Review

Following basic jobs of Modigliani and Miller (1958, 1963) on the structure of the capital of firms, different theories have emerged to release notably the hypothesis of perfect market. Two big theories distinguish themselves: the (trade-off theory) and the (pecking order theory). The former is based on the notion of arbitration between the potential earnings of the debt and the costs which are linked. The latter however, is based on the hypothesis that the firm follows a hierarchy of financing according to their need in external funds. Referring to the climate of the financial market, another theory has emerged appeared to explain the financial structure of a firm.

a) *Modigliani and Miller (1958) theory*

The article of Modigliani and Miller (1958) was the first to found establish the frame of an analysis of the structure of the capital of the firm. They maintain that, in a world without tax, without cost of transaction, without cost of agency and under the hypothesis of the efficiency of markets, the value of the firm is not affected by the choice of a structure of financing.

Their model assumes hypothesis that, in the presence of a perfect market where the information between the economic agents is symmetrical, all forms of financing of the firm are identical. Thus the neutrality of the capital structure. Fama and Miller (1972) and Miller (1977) also confirmed the independence of the decisions of financing and those of investments.

The hypothesis of Modigliani and Miller (1958), was proved by other empirical studies. Indeed, Song (2009) proved, over the period between 1983-1997, that the American firms value does not improve long and short –term debts because of the efficiency of the bond market.

However, the existence of imperfections on the market such as the problems of opposing selection and of moral vagary, the conflicts of agency…., have created obstacles to the access of a firm to the external financing (Vermoesen and al., 2013).

So, with the appearance of the theories of the determiners of financial structures of the firm, the hypothesis of independence was rejected.

b) *The Trade-Off Theory*

With reference to the notion of arbitration, The theory of optimum ratio of debt registered following jobs of Modigliani and Miller (1958), and taking into account the different decisive factors such as taxation (Modigliani and Miller, on 1963) as well as the costs of bankruptcy (Myers, 1984) and the costs of agency (Jensen and Meckling, 1976; Jensen, 1986). In this context the optimum ratio of debt results from thearbitration between the tax savings and the cost of failure.

i. *Tax and the maximum leverage ratio*

A consideration of the firm tax, pushed Modigliani and Miller (1963) to admit that the value of a firm with debt is equal to the value of a debt free augmented by the current value of economy of tax linked to the deductibility of the expenses of interest: firms tend to resort financing exclusively by debts.

According to Faccio and Xu (2013) taxation is an important of determiner the politics of financing. Its influence is significant. Fama and French (1998) find that the effect of the deduction of the expenses of interest on the value of the firm is negative, contradicting therefore, the predictions of Modigliani and Miller (1963). However, Wu and Yue (2009) tested a sample of 2182 Chinese firms to study the effect of an endogenous variation of the rate of taxation on the decision of financing. They found a positive relation between the debt and the rate of tax. Similarly, Buettner and al. (2009) studied a panel of multinational German firms over a period of seven years (1996-2003) and proved a positive relation between the effects of taxation and local and external debt.

Nevertheless, when studying the determiners of the ratio of debt in France, in Germany and the United Kingdom, Antoniou and al. (2002), did not assert a significant effect of the tax on debts. Ang and Megginson (1990) came to the same conclusions and showed that taxation does not have a decisive influence on the debt

ii. *Bankrupcy and optimal capital structure*

Modigliani and Miller (1963) maintain that with consideration of the taxation, and notably of the deductibility of the interest charges of the result liable to tax, the value of the indebted firm is always superior to that of the not debt business company, which encourages firms to resort exclusively to debt as a means of financing. Undoubtedly, this exclusive appeal to the debt augments the probability of defect.

Ross (1977) showed that the value of the society augments with its lever and the importance of the costs of bankruptcy. He put forward that the debt of a firm is going to draw away costs linked to the risk of fault. It is direct costs (social costs) and indirect costs (loss of client and confidence).

Harris and Raviv (1990) prove that the financing by debt assures that the leaders are encouraged to make profitable decisions and not their own function of utility, and it is to minimize their probability of fault. Tarazi (2013) also noticed that the cost of financial distress is not significant on the leverage.

iii. *Conflict of interest and capital structure*

Jobs resulting of Alchian and Demsetz (1972), Jensen and Meckling (1976) and Fama (1980) were at the origin of the agency theory. They highlight the conflicts by contrasting the shareholders to the leaders concerning the separation between the property and the control of firms. This theory is interested in the study of a contractual relation which links the shareholders called the principal to the leaders called agents. Indeed, the latter have different functions of utility and each of them acts in order to maximize their utility.

Seeing that the relation of agency is most often of a controversial nature, it can generate specific costs called the costs of agency (Jensen and Meckling (1976) and Jensen (1986)). These costs are hired on one hand by the shareholders regarding the leaders (costs of agency of equity capital) these costs are procreated by the control which the shareholders have to perform on the leaders to line up their interests. On the other hand, the costs procreated by the creditors regarding the shareholders (agency costs of debt), which are generated by the exercised control of the creditors to limit the expropriation behaviour of the shareholders and leaders.

The debt appears to be tool to reduce the costs of agency of the equity capital. However, this appeal to debt causes agency costs of debts.

Setayesh and al. (2012) studied the determiners of the capital structure according to the theory of agency. They proved that the strategically mechanisms of the firm, including the concentration of property and the independence of members of the administrative council, do not have a significant effect on the leverage of the studied firm. However, they showed a positive and a significant relation between the costs of agency and the leverage. The Results also reveal that the ratio of assets returns, remuneration and Tobin's Q have a significant effect on the level of debt.

c) The Pecking Order Theory

Basedon the consideration of the asymmetry information, the theory of the financing organized into a hierarchy finds its origins in jobs of Donaldson (1961) and developed by Myers (1984) and Myers and Majluf (1984). According to this theory, firms take precedence in the choice of the sources of financing. This choice depends on the objective of the leader of the firm. If the leader acts in the interest of the shareholders, he is, therefore, going to adopt a decreasing financial hierarchy begun by self-financing, then debt and finally capital increase (Mayer and Majluf, 1984). In case the leader acts in his own interest, the leader favors self-financing first, then the debt and the increase of capital as a last resort.

Several recent theoretical and empirical developments, tried to prove the hypothesis of hierarchy of financing. Fattouh and al. (2008) show, through an empirical study on a sample of American firms, that the least cost effective firms, turn to the debt, given that they are unable to self-finance.

d) The Market Timing Theory

The Market Timing Theory assumes that the modality of the choices of financing depends on the market climate. In addition, firms issue titles only when the stock prices are high and / or in favorable market conditions and buy them back by issuing debts in the opposite case. The context of this theory is initially introduced by Baker and Wurgler (2002). They conclude, in their research work, that the structure of the capital results from the successive will of "Timer" on the market and not from a conscious choice of a target ratio and a sustainable financial structure due to the emission of actions.

III. Methodology and Database

a) The sample

Our study will be undertaken on a sample of firms of the MENA countries. The sample is composed of 216 unquoted and quoted firms. Banks, insurance companies, leasing companies, closed-end or variable capital or venture capital Investment companies, firms of factoring and newly quoted firms, all were excluded from our study taking account of the peculiarities of their debt politics. Indeed, the determination of cost financing of debt should be adapted in these particular cases. We eliminated also some companies for which we recorded a lack of data because of the absence of reference documents. For each of the firms kept in our sample, there is data concerning a period of 10 years (2006-2015). Database includes financial statements.

The collection of data, the financial statements are available on DATASTREAM

b) The variables and hypothesis choices

i. *Dependent variable: The debt ratio*

According to literature, the ratio of debt can be measured by several methods. The total ratio debt (Hovakimian and al., 2001), the short, medium and long-term ratio (Titman and Wessels, 1988). As part of our analysis, we defined the debt ratio by dividing the total debt assets (Degryse and al., 2012).

ii. *Explanatory variables*

Size of the firm (SIZE): The Size is one of the essential attributes that can affect the capital structure of a firm. According to the financial theory, there are two contradictory effects of the size of the firm on the debt.

Starting by the arbitration theory, the size is considered to be proxy variable of the cost of bankruptcy (Rajan Et Zingales, 1995; Booth and al., 2001; Huang and Song, 2006; Jong and Nguyen, 2008; Alves and Ferreira, 2011; Latridis and Zaghmour, 2013) Empirical studies have shown that by taking account of the existence of economies of scale in terms of bankruptcy costs, the large firms have tendency to have a level of debt more important than the small enterprises. Indeed, the larger, the firm is the more it is able to diversify and reduce the volatility of cash flows and, therefore, a low risk of failure.

Lim (2012) showed that the size of the firm is positively linked to the debt ratio of the Chinese financial institutions. He also noted that the effect of this variable on the capital structure is similar for the other industries and that the State doesn't have an influence on the choices of the financing model. In that case, there is a positive relation between the size and the level of debt.

According to the signal theory, a reverse relation is determined between the size and debt. The size is used as an inverse measure of the information got by external investors. In fact, it reflects for the large firms, the access to the markets of capitals and their preference to issuing more financial assets. On the contrary, the small enterprises prefer the internal financing because they are more sensitive to the asymmetry of information. In this context, the debt level is a decreasing function of size (Titman and Wessel, 1988; Rajan and Zingales, 1995; Ozkan, 2001; Kouki, 2012).

Fethi and al. (2014) showed that the effect of the variable size of firms in developing countries and firms quoted in the Stock Exchange of Teheran, on the structure of the capital is different.

In this study, we have measured the variable size by the turnover logarithm. We assume that there is a positive relationship between the size of the business and the level of debt (hypothesis 1).

Profitability (PROF): Profitability has an important influence on the capital structure. However, this influence is sometimes contradictory. In view of the theory of the optimal debt ratio (Trade-OFF), the more profitable the firm is, the more is resorts to debt financing so as to benefit from debt-related tax savings. Therefore, a positive correlation between profitability and the level of debt is provided (Fama and French, 2002).

On the other hand, according to the pecking order theory, the effect of the variable profitability on debt is reversed. This negative correlation highlights the fact that leaders prefer to finance themselves first by their own funds in order to control the agency costs resulting from external financing. Several empirical studies have built up this relationship (Dubois, 1985; Titman and Wessels, 1988; Kremp and Stoss, 2001 and Fama and French, 2002).

Booth and al. (2001) have verified this significant relationship for all of their data set from 10 developing countries. As for the developed countries, Titman and Wessels (1988) have also confirmed this relationship.

Fattouh and al.(2008) concluded that there is a negative effect of profitability on indebtedness that is due to the fact that profitable enterprises are able to self-finance themselves and, therefore, are not forced into debt. In fact, the level of profitability of a company is considered as a signal given to the lenders on the reliability of the company in debt. The negative impact of profitability on the debt ratio was recently confirmed by Lim (2012).

According to Rajan and Zingales (1995) and Booth and al. (2001), we can measure this variable by the operating surplus ratio on total assets. For this purpose, we assume the following hypothesis: Profitability negatively affects the debt level (hypothesis 2).

Tangibility of Assets (TANG): The major financing theories anticipate a positive correlation between the tangibility of assets and the level of debt. In the context of agency theory, this relationship is due to the fact that companies with sufficient tangible assets are less susceptible to the risk of moral hazard and therefore to agency costs (Jensen and Meckling, 1976).In this perspective, tangible assets constitute guarantees that reduce the risk of the lender and decrease the risk of bankrupcy. Several empirical work on the relationship between the asset structure and debt have led to similar results (Bradlyand al, 1984; Titman and Wessel, 1988; Rajan, 1995; Baker and Wurgler, 2002; Dawood et al, 2012 and Mateev et al, 2013), confirming the predictions of agency and compromise theories.

Achy (2009), Chang and al. (2008) showed that the companies that hold more tangible assets are less sensitive to information asymmetries, and prefer the use of debt to finance themselves. On the other hand, Latridis and Zaghmour (2013) concluded that there is an inverse relationship between tangible assets and the debt ratio. They argue that companies, with a high proportion of tangible assets in their balance sheet, have adequate sources of capital that minimize in their turn the use of external financing.

We measure this variable by the ratio of fixed assets to total assets and we assume that the tangibility of assets has a favorable effect on the debt ratio (hypothesis 3).

Growth opportunities (GROW): According to financing theories, growth opportunities have two contradictory effects on the level of debt. In the context of agency theory and compromise, interest conflicts between shareholders and creditors generate agency costs related to a relatively high debt. High-growth companies will fund their projects by issuing shares in order to reduce their costs. Based on this hypothesis, a negative relationship between growth opportunity and debt has been confirmed in a number of studies such as Jensen and Meckling (1976), Myers (1977), Titman and Wessels (1988), Barclay and al (1995), Rajan and Zingales (1995), Barclay and Smith (1999), Graham (2000), Heshmati (2001), Booth and al. (2001), Hovakimian and al. (2004).

Baker and Wurgler (2002) showed that companies are less indebted during periods marked by good market valuation, especially when the opportunity for growth (measured by Market to Book) is high. However, in accordance with hierarchical preferences theory, companies with strong growth experience an increase in their need for external financing, and they are able to cope with financing problems, generating a favorable effect on the leverage (Drobetz and Wanzenried, 2006; Chen, 2004 and Palacin Sanchez and al., 2013).

Growth opportunities are measured by the market value ratio of shares + carrying value of debts)/ accounting value of the total assets. This measure was used by Lee and O'Neill (2003) and Ghosh and al. (2007).We assume that: growth opportunities have a negative effect on the debt ratio (hypothesis 4).

The risk of Bankruptcy (FAIL): The theories of hierarchical financing and compromise anticipate a negative relationship between the risk and the level of debt. Ross, Leland and Pyle (1977); Leary and Roberts (2005) and Huang and Song (2006) say that the greater more the risk of a business is, the higher probability of failure is, the use of debt as a means of financing is low.

We measure this variable by the interest ratio of loans and debts/ gross operating profit and we assume that, the risk of bankruptcy negatively affects the debt ratio (hypothesis 5).

Credit Rating (RATE): Credit rating is the opinion of the rating agency on the willingness and ability of an issuer to ensure the one-time payment of liabilities for a debt obligation. It is, therefore, a crucial element, affecting the cost and the measure of access to credit and also contributing to form the financial structure of the companies.

Kisgen (2006) was a pioneer in introducing the assumption that credit rating is taken into consideration by the leaders when making decisions about the capital structure. He says that credit rating is one of the major factors of the funding choice. This is the assumption of the capital structure linked to the credit ratings noted CR-CS. The choice of this hypothesis results from the fact that Kisgen observe that generally firms facing a probable change in their ratings will decrease their borrowing net compared to their own net funds by comparing them to a number of reference firms that do not have extreme credit ratings (low degree or high degree).In 2009, Kisgen developed his research by examining the effect of real credit rating change on the business financing decision. He confirmed that the costs of the company's capital are different for different levels of credit rating.

Kemper and Rao (2013), reached in contradictory results to the CR-CS hypothesis. They found a non-significant relationship between the rating variable and the debt level. However, they pointed out that this does not necessarily mean that leaders should ignore the informational role of ratings in determining the capital structure of their firms.

With the hypothesis of Kisgen (CR-CS), Drobetz and Heller (2014), say that the changes in debt rates of the quoted U.S. companies correlate with the scores awarded by the rating agencies. However, this hypothesis is rejected by a sample of German companies because of its financial regime which is dominated by banks.

Credit rating is therefore a signal of quality and investment decision. This variable is a mute variable that takes the value 1 if the enterprise is noted and 0 if not, and we assume that the financial rating has a positive effect on the debt ratio (hypothesis 6).

Table 1 below summarizes the measures taken from the various independent variables as well as their expected signs.

Table 1: Selected Variables

Explanatory Variables	Size	Log (marketcapitalization)	+
	Profitability	Operating surplus/Total assets	-
	Tangibility of Assets	Tangible capital asset/Total assets	+
	Opportunities for Growth	Turnover(n) – Turnover (n-1) / Turnover(n-1)	-
	Risk of Failure	Interest of loans/operating surplus	-
	Rating	1 : if the enterprise is noted 0 : if not	+

Table 2: Descriptive statistics

Continuous variables					
	Average	Standard deviation	Minimum	Maximum	Observations
DEBT	.159507	.1860276	0	2.15529	
SIZE	2.732269	1.294209	.2227165	9.19034	
TANG	.2880485	.2727431	-.0040929	3.404869	
PROF	.0589422	.1320061	-1.741608	3.857143	
GROW	.1733524	1.329412	-.9987168	56.15306	
FAIL	.0155841	.0827724	-.5261261	2.053459	
Dichotomous variables					
	Modality			Frequency	Percentage
EXICO	1:enterprise is noted			1.01	16.64
	0:entreprise notnoted			5.06	83.36

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The debt ratio varies between a minimum value of 0 and a maximum value of about 2.15 with an average of 0.15. These results show that the level of debt is widely dispersed. Regarding the risk of bankruptcy, we observe that the ratio of interest loans and debts/Operating surplus is in the order of 1%. As for the profitability of the assets of our sample, it admits an average of 5%.

c) Model

The model to be estimated for analyzing the determinants of the capital structure is available in the following format.

Our regression model is based on panel data, which has the specificity of treating both a dimension for individuals (firm) and another for time. It is often interesting to identify the effect associated to each individual if it is common or specific and therefore see if it is fixed or random.

d) Model estimation

Before starting the fixed-effect or random-effect model estimation, it is necessary to verify the existence of the individual effects. To do this, we apply a Fischer test that tells us about the existence of a specific or a common effect in our data.

Based on the results of the Fisher test, we can see that the P-value of the equation tested is less than 5% (Prob> F = 0.0000). Thus, we reject the null hypothesis. And we, therefore, affirm the existence of the specific effects.

Next, we apply another specification test (Hausman test) that is used to discriminate between the fixed and the random effects.From the results of the Hausman test, the probability of accepting of the null hypothesis is less than 5% Pro > Chi2 = 0.0000.

This implies that the fixed-effect model is better than the random-effect model. So, we retain the fixed-effect model for estimating our regression model.

Before testing our equations, a more extensive and bivariate analysis is necessary to ensure the reasonable degree of association between the different explanatory variables.

So, it's suitable to set the matrix correlations aimed to test the possibility of the presence of multicollinearity problem between the independent variables. Indeed, the absence of this problem in our sample is perceived as a fundamental condition to carry out a linear regression.

To verify the absence of this problem in our base sample, we calculate the Pearson correlation coefficients as well as the "Variance Inflation factor" VIF[1](table 4).

The Pearson correlation matrix examination (table 3) shows that no critical correlation can be found between the independent variables (we exclude the qualitative variables).

In fact, according to Kevin (1992), to decide on a serious problem of colinearity between the independent variables, r must be ≥ 0.7 In addition, according to table (3), we note that the values of VIF are less than 10, the limit suggested by Neter and al. (1989). Based on these results, we can conclude that there is no problem with multicollinearity.

[1] VIF** Variance inflation factor allows to control the multicollinearity of the explanatory variables, linear independence means that a VIF equal to 1. Colinearity means a VIF superior to 10.

Table 3: Pearson and VIF correlation matrix.

	DEBT	SIZE	TANG	PROF	GROW	FAIL	RATE	VIF
DEBT	1							1.04
SIZE	-0.0603	1						1.04
TANG	0.2091	-0.0240	1					1.01
PROF	0.2069	0.0779	0.0772	1				1.01
GROW	0.0241	0.0028	-0.0256	-0.0132	1			1.00
FAIL	0.0056	0.1887	-0.0341	-0.0066	0.0130	1		1.00
RATE	0.0279	0.0115	-0.0389	-0.0001	0.0185	0.0429	1	1.04

IV. The Results

After the assertion, provided above, concerning the existence of fixed individual effects it is necessary to ensure the errors terms properties. It is, in fact, to verify the hypotheses of homoscedasticity and correlation.

So, we start by testing the heteroscedasticity through the Breusch-Pagan test. As part of a heteroscedasticity test, the null hypothesis is the homoscedasticity, which will be the case when the variance of the errors of each observation is constant. This test gave us a statistic of Fischer that is significant (Pob> F = 0.000). This leads us to the rejection of the null hypothesis and consequently of the confirmation of the presence of an intra individual heteroscedasticity problem.

In this case, it is appropriate to use the generalized least squares method (FGLS) that allows correction.

However, in order to implement this method, first it is necessary to identify the form of the heteroscedasticity, for this, a modified Wald test was run on Stata. This test checks if there is a problem of inter individual heteroscedasticity. Assuming the null hypothesis, the test supposes that the variance of errors is the same for all individuals and the statistic follows a chi-square law of degree of freedom N. From the value of the P-value associated with the chi-square test, we cannot accept the null hypothesis. The rejection of this hypothesis does not allow to further specify the structure of the heteroscedasticity. And we remain with the previous conclusion of heteroscedasticity without any additional specification. Then, to detect a possible dependence of errors, we carried out the intra individual autocorrelation test of Wooldrigde (2002).

The results of this test (table) confirm the presence of an autocorrelation of the errors of order 1. (Prob> F is less than 0.05).

In summary, we conclude the presence of heteroscedasticity and autocorrelation problems. In panel data, it is reasonable to resort to the Feasible Generalized Least Square (FGLS) method to overcome these problems. Therefore, we will interpret the results of the FGLS estimation of our regression model.

Contrary to the hypothesis of Modigliani and Miller (1958) and Miller (1977), most of the variables significantly explain the level of indebtedness. The hypothesis of neutrality is, therefore, rejected.

It appears from the table that the FGLS estimate shows two non-significant variables. It' is the growth of assets (GROW) and the risk of bankruptcy (FAIL). In contrast, the variables size (SIZE), the tangibility of the Asset (TANG), the profitability (PROF) and the financial notation (RATE) are significant. The results of this estimate show that some variables keep their positive (RATE, TANG) or negative (PROF) effect, while other variables have changed their sign (SIZE).

The estimation of our regression model, including the size of the company as a debt level, show that this variable, has a significant (5%) and a negative effect (see table 4). Hypothesis1 is, therefore, rejected. This result is contradictory to the results of other authors who suggest that large firms, with more ease in accessing capital markets, become more indebted (Ang and al., 1982; Booth and al., 2001).

The negative sign can be explained by the fact that, and according to the predictions of the signal theory, large companies are less indebted. This result is verified by the fact that the investment climate in the MENA region is characterized by a strong information asymmetry. So, investors are uncertain about decisions.

Kouki (2012) has verified this relationship as part of the market timing theory and says that large companies prefer to finance themselves by issuing shares when market conditions are favourable.

With regard to profitability, the table shows that the effect of this variable on the level of indebtedness is significantly negative at the threshold of 1%. This result, which is similar to that obtained by Yang and al. (2009) in the context of Taiwan, attests to the idea that the most profitable companies finance their activities by their internal own funds to avoid problems related to external financing, which is consistent with the theory of the hierarchy of funding. This result clearly confirms hypothesis 2 that leaders prefer to finance themselves first by private equity, in order to control agency costs resulting from external financing, which takes us to confirm the existence of agency problems between the various partners of the company in the MENA region and their limited access to foreign capital.

In accordance with what has been set (hypothesis 3), the tangibility variable of assets has a positive and significant effect (1%) on the debt ratio (see table 4). Indeed, the finance decision of a company depends on its ability to provide guarantees. The More guarantees it has, more it gets into debt, which is fully aligned with the theoretical predictions of compromise theories and hierarchical funding preferences.

Concerning credit scoring, the regression model estimation shows that the coefficient relative to this variable is positive and significant. Like the Kisgen (2009) study, and in accordance with hypothesis 6, this result highlights the considerable importance of this variable and its favourable effect on the structure of the capital. Indeed, the credit rating is an indicator of the leverage effect. The companies noted tend to become more indebted compared to the non-noted companies.

In an environment that is characterised by non-transparency, credit ratings are an essential factor of the capital structure. Creditors give more importance to the rating for the financing of the company.

Table 4: Estimate result

Variables	Coefficients	Student's paired t test probability
Constant	.1168813	0.000 ***
SIZE	-.0042437	0.050**
PROF	-.3195352	0.000***
TANG	.1679082	0.000***
GROW	.0079086	0.195
FAIL	.0095458	0.738
RATE	.0140877	0.076 *
Breusch-Pagan Test for Heteroskedasticity	Prob>F : 0.000	
Modified Wald test for group wise heteroskedasticity	Prob>chi2 : 0.000	
Wooldridge Test for Autocorrelation	Prob>F : 0.000	

** significantat 10% level ** significantat 5% level *** significantat 1% level*

V. Conclusion

In this article, we were interested in studying the capital structure of the MENA region countries. In other words, the main purpose of this article is to detect factors influencing investment decisions and extending the scope of knowledge about the financial structure of a new institutional framework, that of enterprises in developing countries

So, the scope and predictions of the theories of modern finance are tested on a panel of companies in the MENA area established beforehand for this purpose. The results of the variable representing the tangible assets show that the guarantees are required for funds allocation. That is in line with the agency theory predictions. So, the value of the assets plays a key role in determining the financial leverage of the companies of our sample, contrary to this paper that predicts that the tangibility of the assets must take less importance in the countries with banking guidance.

The predictions of the funding hierarchy theory are empirically validated. Indeed, the negative correlation of the variable "profit" highlights the fact that highly profitable firms prefer to finance themselves through their own internal funds. From our empirical results, credit ratings directly affect the debt. This implies that credit ratings are taken into account in a formal way by the leaders when making funding decisions.

Other results confirm the theoretical predictions as well as our hypothesis.

However, the effect of some variables is not approved of. The differences are due to the institutional differences and to the nature of the financial markets.

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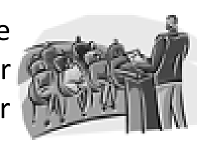

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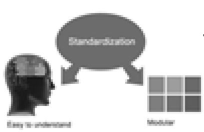

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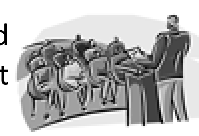

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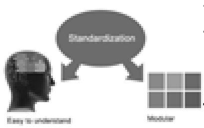

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Authors can submit papers and articles in an acceptable file format: MS Word (doc, docx), LaTeX (.tex, .zip or .rar including all of your files), Adobe PDF (.pdf), rich text format (.rtf), simple text document (.txt), Open Document Text (.odt), and Apple Pages (.pages). Our professional layout editors will format the entire paper according to our official guidelines. This is one of the highlights of publishing with Global Journals—authors should not be concerned about the formatting of their paper. Global Journals accepts articles and manuscripts in every major language, be it Spanish, Chinese, Japanese, Portuguese, Russian, French, German, Dutch, Italian, Greek, or any other national language, but the title, subtitle, and abstract should be in English. This will facilitate indexing and the pre-peer review process.

The following is the official style and template developed for publication of a research paper. Authors are not required to follow this style during the submission of the paper. It is just for reference purposes.

Manuscript Style Instruction (Optional)

- Microsoft Word Document Setting Instructions.
- Font type of all text should be Swis721 Lt BT.
- Page size: 8.27" x 11'", left margin: 0.65, right margin: 0.65, bottom margin: 0.75.
- Paper title should be in one column of font size 24.
- Author name in font size of 11 in one column.
- Abstract: font size 9 with the word "Abstract" in bold italics.
- Main text: font size 10 with two justified columns.
- Two columns with equal column width of 3.38 and spacing of 0.2.
- First character must be three lines drop-capped.
- The paragraph before spacing of 1 pt and after of 0 pt.
- Line spacing of 1 pt.
- Large images must be in one column.
- The names of first main headings (Heading 1) must be in Roman font, capital letters, and font size of 10.
- The names of second main headings (Heading 2) must not include numbers and must be in italics with a font size of 10.

Structure and Format of Manuscript

The recommended size of an original research paper is under 15,000 words and review papers under 7,000 words. Research articles should be less than 10,000 words. Research papers are usually longer than review papers. Review papers are reports of significant research (typically less than 7,000 words, including tables, figures, and references)

A research paper must include:

a) A title which should be relevant to the theme of the paper.
b) A summary, known as an abstract (less than 150 words), containing the major results and conclusions.
c) Up to 10 keywords that precisely identify the paper's subject, purpose, and focus.
d) An introduction, giving fundamental background objectives.
e) Resources and techniques with sufficient complete experimental details (wherever possible by reference) to permit repetition, sources of information must be given, and numerical methods must be specified by reference.
f) Results which should be presented concisely by well-designed tables and figures.
g) Suitable statistical data should also be given.
h) All data must have been gathered with attention to numerical detail in the planning stage.

Design has been recognized to be essential to experiments for a considerable time, and the editor has decided that any paper that appears not to have adequate numerical treatments of the data will be returned unrefereed.

i) Discussion should cover implications and consequences and not just recapitulate the results; conclusions should also be summarized.
j) There should be brief acknowledgments.
k) There ought to be references in the conventional format. Global Journals recommends APA format.

Authors should carefully consider the preparation of papers to ensure that they communicate effectively. Papers are much more likely to be accepted if they are carefully designed and laid out, contain few or no errors, are summarizing, and follow instructions. They will also be published with much fewer delays than those that require much technical and editorial correction.

The Editorial Board reserves the right to make literary corrections and suggestions to improve brevity.

Format Structure

It is necessary that authors take care in submitting a manuscript that is written in simple language and adheres to published guidelines.

All manuscripts submitted to Global Journals should include:

Title

The title page must carry an informative title that reflects the content, a running title (less than 45 characters together with spaces), names of the authors and co-authors, and the place(s) where the work was carried out.

Author details

The full postal address of any related author(s) must be specified.

Abstract

The abstract is the foundation of the research paper. It should be clear and concise and must contain the objective of the paper and inferences drawn. It is advised to not include big mathematical equations or complicated jargon.

Many researchers searching for information online will use search engines such as Google, Yahoo or others. By optimizing your paper for search engines, you will amplify the chance of someone finding it. In turn, this will make it more likely to be viewed and cited in further works. Global Journals has compiled these guidelines to facilitate you to maximize the web-friendliness of the most public part of your paper.

Keywords

A major lynchpin of research work for the writing of research papers is the keyword search, which one will employ to find both library and internet resources. Up to eleven keywords or very brief phrases have to be given to help data retrieval, mining, and indexing.

One must be persistent and creative in using keywords. An effective keyword search requires a strategy: planning of a list of possible keywords and phrases to try.

Choice of the main keywords is the first tool of writing a research paper. Research paper writing is an art. Keyword search should be as strategic as possible.

One should start brainstorming lists of potential keywords before even beginning searching. Think about the most important concepts related to research work. Ask, "What words would a source have to include to be truly valuable in a research paper?" Then consider synonyms for the important words.

It may take the discovery of only one important paper to steer in the right keyword direction because, in most databases, the keywords under which a research paper is abstracted are listed with the paper.

Numerical Methods

Numerical methods used should be transparent and, where appropriate, supported by references.

Abbreviations

Authors must list all the abbreviations used in the paper at the end of the paper or in a separate table before using them.

Formulas and equations

Authors are advised to submit any mathematical equation using either MathJax, KaTeX, or LaTeX, or in a very high-quality image.

Tables, Figures, and Figure Legends

Tables: Tables should be cautiously designed, uncrowned, and include only essential data. Each must have an Arabic number, e.g., Table 4, a self-explanatory caption, and be on a separate sheet. Authors must submit tables in an editable format and not as images. References to these tables (if any) must be mentioned accurately.

Figures

Figures are supposed to be submitted as separate files. Always include a citation in the text for each figure using Arabic numbers, e.g., Fig. 4. Artwork must be submitted online in vector electronic form or by emailing it.

Preparation of Eletronic Figures for Publication

Although low-quality images are sufficient for review purposes, print publication requires high-quality images to prevent the final product being blurred or fuzzy. Submit (possibly by e-mail) EPS (line art) or TIFF (halftone/ photographs) files only. MS PowerPoint and Word Graphics are unsuitable for printed pictures. Avoid using pixel-oriented software. Scans (TIFF only) should have a resolution of at least 350 dpi (halftone) or 700 to 1100 dpi (line drawings). Please give the data for figures in black and white or submit a Color Work Agreement form. EPS files must be saved with fonts embedded (and with a TIFF preview, if possible).

For scanned images, the scanning resolution at final image size ought to be as follows to ensure good reproduction: line art: >650 dpi; halftones (including gel photographs): >350 dpi; figures containing both halftone and line images: >650 dpi.

Color charges: Authors are advised to pay the full cost for the reproduction of their color artwork. Hence, please note that if there is color artwork in your manuscript when it is accepted for publication, we would require you to complete and return a Color Work Agreement form before your paper can be published. Also, you can email your editor to remove the color fee after acceptance of the paper.

Tips for writing a good quality Management Research Paper

Techniques for writing a good quality management and business research paper:

1. Choosing the topic: In most cases, the topic is selected by the interests of the author, but it can also be suggested by the guides. You can have several topics, and then judge which you are most comfortable with. This may be done by asking several questions of yourself, like "Will I be able to carry out a search in this area? Will I find all necessary resources to accomplish the search? Will I be able to find all information in this field area?" If the answer to this type of question is "yes," then you ought to choose that topic. In most cases, you may have to conduct surveys and visit several places. Also, you might have to do a lot of work to find all the rises and falls of the various data on that subject. Sometimes, detailed information plays a vital role, instead of short information. Evaluators are human: The first thing to remember is that evaluators are also human beings. They are not only meant for rejecting a paper. They are here to evaluate your paper. So present your best aspect.

2. Think like evaluators: If you are in confusion or getting demotivated because your paper may not be accepted by the evaluators, then think, and try to evaluate your paper like an evaluator. Try to understand what an evaluator wants in your research paper, and you will automatically have your answer. Make blueprints of paper: The outline is the plan or framework that will help you to arrange your thoughts. It will make your paper logical. But remember that all points of your outline must be related to the topic you have chosen.

3. Ask your guides: If you are having any difficulty with your research, then do not hesitate to share your difficulty with your guide (if you have one). They will surely help you out and resolve your doubts. If you can't clarify what exactly you require for your work, then ask your supervisor to help you with an alternative. He or she might also provide you with a list of essential readings.

4. Use of computer is recommended: As you are doing research in the field of management and business then this point is quite obvious. Use right software: Always use good quality software packages. If you are not capable of judging good software, then you can lose the quality of your paper unknowingly. There are various programs available to help you which you can get through the internet.

5. Use the internet for help: An excellent start for your paper is using Google. It is a wondrous search engine, where you can have your doubts resolved. You may also read some answers for the frequent question of how to write your research paper or find a model research paper. You can download books from the internet. If you have all the required books, place importance on reading, selecting, and analyzing the specified information. Then sketch out your research paper. Use big pictures: You may use encyclopedias like Wikipedia to get pictures with the best resolution. At Global Journals, you should strictly follow here.

6. Bookmarks are useful: When you read any book or magazine, you generally use bookmarks, right? It is a good habit which helps to not lose your continuity. You should always use bookmarks while searching on the internet also, which will make your search easier.

7. Revise what you wrote: When you write anything, always read it, summarize it, and then finalize it.

8. Make every effort: Make every effort to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in the introduction—what is the need for a particular research paper. Polish your work with good writing skills and always give an evaluator what he wants. Make backups: When you are going to do any important thing like making a research paper, you should always have backup copies of it either on your computer or on paper. This protects you from losing any portion of your important data.

9. Produce good diagrams of your own: Always try to include good charts or diagrams in your paper to improve quality. Using several unnecessary diagrams will degrade the quality of your paper by creating a hodgepodge. So always try to include diagrams which were made by you to improve the readability of your paper. Use of direct quotes: When you do research relevant to literature, history, or current affairs, then use of quotes becomes essential, but if the study is relevant to science, use of quotes is not preferable.

10. Use proper verb tense: Use proper verb tenses in your paper. Use past tense to present those events that have happened. Use present tense to indicate events that are going on. Use future tense to indicate events that will happen in the future. Use of wrong tenses will confuse the evaluator. Avoid sentences that are incomplete.

11. Pick a good study spot: Always try to pick a spot for your research which is quiet. Not every spot is good for studying.

12. Know what you know: Always try to know what you know by making objectives, otherwise you will be confused and unable to achieve your target.

13. Use good grammar: Always use good grammar and words that will have a positive impact on the evaluator; use of good vocabulary does not mean using tough words which the evaluator has to find in a dictionary. Do not fragment sentences. Eliminate one-word sentences. Do not ever use a big word when a smaller one would suffice.
Verbs have to be in agreement with their subjects. In a research paper, do not start sentences with conjunctions or finish them with prepositions. When writing formally, it is advisable to never split an infinitive because someone will (wrongly) complain. Avoid clichés like a disease. Always shun irritating alliteration. Use language which is simple and straightforward. Put together a neat summary.

14. Arrangement of information: Each section of the main body should start with an opening sentence, and there should be a changeover at the end of the section. Give only valid and powerful arguments for your topic. You may also maintain your arguments with records.

15. Never start at the last minute: Always allow enough time for research work. Leaving everything to the last minute will degrade your paper and spoil your work.

16. Multitasking in research is not good: Doing several things at the same time is a bad habit in the case of research activity. Research is an area where everything has a particular time slot. Divide your research work into parts, and do a particular part in a particular time slot.

17. Never copy others' work: Never copy others' work and give it your name because if the evaluator has seen it anywhere, you will be in trouble. Take proper rest and food: No matter how many hours you spend on your research activity, if you are not taking care of your health, then all your efforts will have been in vain. For quality research, take proper rest and food.

18. Go to seminars: Attend seminars if the topic is relevant to your research area. Utilize all your resources.

19. Refresh your mind after intervals: Try to give your mind a rest by listening to soft music or sleeping in intervals. This will also improve your memory. Acquire colleagues: Always try to acquire colleagues. No matter how sharp you are, if you acquire colleagues, they can give you ideas which will be helpful to your research.

20. Think technically: Always think technically. If anything happens, search for its reasons, benefits, and demerits. Think and then print: When you go to print your paper, check that tables are not split, headings are not detached from their descriptions, and page sequence is maintained.

21. Adding unnecessary information: Do not add unnecessary information like "I have used MS Excel to draw graphs." Irrelevant and inappropriate material is superfluous. Foreign terminology and phrases are not apropos. One should never take a broad view. Analogy is like feathers on a snake. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Never oversimplify: When adding material to your research paper, never go for oversimplification; this will definitely irritate the evaluator. Be specific. Never use rhythmic redundancies. Contractions shouldn't be used in a research paper. Comparisons are as terrible as clichés. Give up ampersands, abbreviations, and so on. Remove commas that are not necessary. Parenthetical words should be between brackets or commas. Understatement is always the best way to put forward earth-shaking thoughts. Give a detailed literary review.

22. Report concluded results: Use concluded results. From raw data, filter the results, and then conclude your studies based on measurements and observations taken. An appropriate number of decimal places should be used. Parenthetical remarks are prohibited here. Proofread carefully at the final stage. At the end, give an outline to your arguments. Spot perspectives of further study of the subject. Justify your conclusion at the bottom sufficiently, which will probably include examples.

23. Upon conclusion: Once you have concluded your research, the next most important step is to present your findings. Presentation is extremely important as it is the definite medium though which your research is going to be in print for the rest of the crowd. Care should be taken to categorize your thoughts well and present them in a logical and neat manner. A good quality research paper format is essential because it serves to highlight your research paper and bring to light all necessary aspects of your research.

Informal Guidelines of Research Paper Writing

Key points to remember:

- Submit all work in its final form.
- Write your paper in the form which is presented in the guidelines using the template.
- Please note the criteria peer reviewers will use for grading the final paper.

Final points:

One purpose of organizing a research paper is to let people interpret your efforts selectively. The journal requires the following sections, submitted in the order listed, with each section starting on a new page:

The introduction: This will be compiled from reference matter and reflect the design processes or outline of basis that directed you to make a study. As you carry out the process of study, the method and process section will be constructed like that. The results segment will show related statistics in nearly sequential order and direct reviewers to similar intellectual paths throughout the data that you gathered to carry out your study.

The discussion section:

This will provide understanding of the data and projections as to the implications of the results. The use of good quality references throughout the paper will give the effort trustworthiness by representing an alertness to prior workings.

Writing a research paper is not an easy job, no matter how trouble-free the actual research or concept. Practice, excellent preparation, and controlled record-keeping are the only means to make straightforward progression.

General style:

Specific editorial column necessities for compliance of a manuscript will always take over from directions in these general guidelines.

To make a paper clear: Adhere to recommended page limits.

Mistakes to avoid:

- Insertion of a title at the foot of a page with subsequent text on the next page.
- Separating a table, chart, or figure—confine each to a single page.
- Submitting a manuscript with pages out of sequence.
- In every section of your document, use standard writing style, including articles ("a" and "the").
- Keep paying attention to the topic of the paper.

- Use paragraphs to split each significant point (excluding the abstract).
- Align the primary line of each section.
- Present your points in sound order.
- Use present tense to report well-accepted matters.
- Use past tense to describe specific results.
- Do not use familiar wording; don't address the reviewer directly. Don't use slang or superlatives.
- Avoid use of extra pictures—include only those figures essential to presenting results.

Title page:

Choose a revealing title. It should be short and include the name(s) and address(es) of all authors. It should not have acronyms or abbreviations or exceed two printed lines.

Abstract: This summary should be two hundred words or less. It should clearly and briefly explain the key findings reported in the manuscript and must have precise statistics. It should not have acronyms or abbreviations. It should be logical in itself. Do not cite references at this point.

An abstract is a brief, distinct paragraph summary of finished work or work in development. In a minute or less, a reviewer can be taught the foundation behind the study, common approaches to the problem, relevant results, and significant conclusions or new questions.

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Use comprehensive sentences, and do not sacrifice readability for brevity; you can maintain it succinctly by phrasing sentences so that they provide more than a lone rationale. The author can at this moment go straight to shortening the outcome. Sum up the study with the subsequent elements in any summary. Try to limit the initial two items to no more than one line each.

Reason for writing the article—theory, overall issue, purpose.

- Fundamental goal.
- To-the-point depiction of the research.
- Consequences, including definite statistics—if the consequences are quantitative in nature, account for this; results of any numerical analysis should be reported. Significant conclusions or questions that emerge from the research.

Approach:

- o Single section and succinct.
- o An outline of the job done is always written in past tense.
- o Concentrate on shortening results—limit background information to a verdict or two.
- o Exact spelling, clarity of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else.

Introduction:

The introduction should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable of comprehending and calculating the purpose of your study without having to refer to other works. The basis for the study should be offered. Give the most important references, but avoid making a comprehensive appraisal of the topic. Describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will give no attention to your results. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here.

The following approach can create a valuable beginning:

- o Explain the value (significance) of the study.
- o Defend the model—why did you employ this particular system or method? What is its compensation? Remark upon its appropriateness from an abstract point of view as well as pointing out sensible reasons for using it.
- o Present a justification. State your particular theory(-ies) or aim(s), and describe the logic that led you to choose them.
- o Briefly explain the study's tentative purpose and how it meets the declared objectives.

Approach:

Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done. Sort out your thoughts; manufacture one key point for every section. If you make the four points listed above, you will need at least four paragraphs. Present surrounding information only when it is necessary to support a situation. The reviewer does not desire to read everything you know about a topic. Shape the theory specifically—do not take a broad view.

As always, give awareness to spelling, simplicity, and correctness of sentences and phrases.

Procedures (methods and materials):

This part is supposed to be the easiest to carve if you have good skills. A soundly written procedures segment allows a capable scientist to replicate your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order, but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt to give the least amount of information that would permit another capable scientist to replicate your outcome, but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section.

When a technique is used that has been well-described in another section, mention the specific item describing the way, but draw the basic principle while stating the situation. The purpose is to show all particular resources and broad procedures so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step-by-step report of the whole thing you did, nor is a methods section a set of orders.

Materials:

Materials may be reported in part of a section or else they may be recognized along with your measures.

Methods:

- Report the method and not the particulars of each process that engaged the same methodology.
- Describe the method entirely.
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures.
- Simplify—detail how procedures were completed, not how they were performed on a particular day.
- If well-known procedures were used, account for the procedure by name, possibly with a reference, and that's all.

Approach:

It is embarrassing to use vigorous voice when documenting methods without using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result, when writing up the methods, most authors use third person passive voice.

Use standard style in this and every other part of the paper—avoid familiar lists, and use full sentences.

What to keep away from:

- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings—save it for the argument.
- Leave out information that is immaterial to a third party.

Results:

The principle of a results segment is to present and demonstrate your conclusion. Create this part as entirely objective details of the outcome, and save all understanding for the discussion.

The page length of this segment is set by the sum and types of data to be reported. Use statistics and tables, if suitable, to present consequences most efficiently.

You must clearly differentiate material which would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matters should not be submitted at all except if requested by the instructor.

Content:

- Sum up your conclusions in text and demonstrate them, if suitable, with figures and tables.
- In the manuscript, explain each of your consequences, and point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation of an exacting study.
- Explain results of control experiments and give remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or manuscript.

What to stay away from:

- Do not discuss or infer your outcome, report surrounding information, or try to explain anything.
- Do not include raw data or intermediate calculations in a research manuscript.
- Do not present similar data more than once.
- A manuscript should complement any figures or tables, not duplicate information.
- Never confuse figures with tables—there is a difference.

Approach:

As always, use past tense when you submit your results, and put the whole thing in a reasonable order.

Put figures and tables, appropriately numbered, in order at the end of the report.

If you desire, you may place your figures and tables properly within the text of your results section.

Figures and tables:

If you put figures and tables at the end of some details, make certain that they are visibly distinguished from any attached appendix materials, such as raw facts. Whatever the position, each table must be titled, numbered one after the other, and include a heading. All figures and tables must be divided from the text.

Discussion:

The discussion is expected to be the trickiest segment to write. A lot of papers submitted to the journal are discarded based on problems with the discussion. There is no rule for how long an argument should be.

Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implications of the study. The purpose here is to offer an understanding of your results and support all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of results should be fully described.

Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact, you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved the prospect, and let it drop at that. Make a decision as to whether each premise is supported or discarded or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."

Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work.

- You may propose future guidelines, such as how an experiment might be personalized to accomplish a new idea.
- Give details of all of your remarks as much as possible, focusing on mechanisms.
- Make a decision as to whether the tentative design sufficiently addressed the theory and whether or not it was correctly restricted. Try to present substitute explanations if they are sensible alternatives.
- One piece of research will not counter an overall question, so maintain the large picture in mind. Where do you go next? The best studies unlock new avenues of study. What questions remain?
- Recommendations for detailed papers will offer supplementary suggestions.

Approach:

When you refer to information, differentiate data generated by your own studies from other available information. Present work done by specific persons (including you) in past tense.

Describe generally acknowledged facts and main beliefs in present tense.

The Administration Rules

Administration Rules to Be Strictly Followed before Submitting Your Research Paper to Global Journals Inc.

Please read the following rules and regulations carefully before submitting your research paper to Global Journals Inc. to avoid rejection.

Segment draft and final research paper: You have to strictly follow the template of a research paper, failing which your paper may get rejected. You are expected to write each part of the paper wholly on your own. The peer reviewers need to identify your own perspective of the concepts in your own terms. Please do not extract straight from any other source, and do not rephrase someone else's analysis. Do not allow anyone else to proofread your manuscript.

Written material: You may discuss this with your guides and key sources. Do not copy anyone else's paper, even if this is only imitation, otherwise it will be rejected on the grounds of plagiarism, which is illegal. Various methods to avoid plagiarism are strictly applied by us to every paper, and, if found guilty, you may be blacklisted, which could affect your career adversely. To guard yourself and others from possible illegal use, please do not permit anyone to use or even read your paper and file.

Criterion for Grading a Research Paper (Compilation) by Global Journals

Please note that following table is only a Grading of "Paper Compilation" and not on "Performed/Stated Research" whose grading solely depends on Individual Assigned Peer Reviewer and Editorial Board Member. These can be available only on request and after decision of Paper. This report will be the property of Global Journals.

Topics	Grades		
	A-B	**C-D**	**E-F**
Abstract	Clear and concise with appropriate content, Correct format. 200 words or below	Unclear summary and no specific data, Incorrect form Above 200 words	No specific data with ambiguous information Above 250 words
Introduction	Containing all background details with clear goal and appropriate details, flow specification, no grammar and spelling mistake, well organized sentence and paragraph, reference cited	Unclear and confusing data, appropriate format, grammar and spelling errors with unorganized matter	Out of place depth and content, hazy format
Methods and Procedures	Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads	Difficult to comprehend with embarrassed text, too much explanation but completed	Incorrect and unorganized structure with hazy meaning
Result	Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake	Complete and embarrassed text, difficult to comprehend	Irregular format with wrong facts and figures
Discussion	Well organized, meaningful specification, sound conclusion, logical and concise explanation, highly structured paragraph reference cited	Wordy, unclear conclusion, spurious	Conclusion is not cited, unorganized, difficult to comprehend
References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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