Business Administration and Business Economics

Length of Service versus Employee Retention Factors: Hotels in Cape Town, South Africa

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Abstract: Employee retention can be measured quite accurately by the actual number of years that employees have worked in an organisation. This study investigates relationships between hotel employees' length of service and responses to individual variables explaining employee retention factors. A structured questionnaire survey of 217 hotel employees in Cape Town, South Africa was used to obtain information that were subjected to bivariate and multivariate analyses. Key results show that the employees who have worked longer in the hotel have particular characteristics: they perceive that working hours in the hotel do not infringe on their personal quality time with friends; they perceive it will be difficult for them to leave the hotel; they want to remain in the hotel for a long time; and quite interestingly, they perceive they do not receive continuous training in the hotel. Further costs of hiring and developing new employees can be reduced if loyal and talented employees are retained for longer periods through continuous career development. This study is of particular interest to the hotel sector management, as it is focussed on retaining those staff who really want to build a career in the hospitality industry.

Keywords: employee turnover; loyal employees; long service; hotel sector; sub-Saharan Africa

JEL Classification: 055; R11; Z32

1. Introduction

High employee turnover within the hotel sector is well documented (Davidson & Wang, 2011; Mohsin, Lengler & Kumar, 2013; Pearlman & Schaffer, 2013). Employees have stated unfair compensation, long working hours, little growth opportunities, and poor working relationships as causes of problems related to employee retention (AlBattat, Som & Halalat, 2014; Davidson & Wang, 2011;

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Kuria, Alice & Wanderi, 2012; Mohanty & Mohanty, 2014). Hotel managers strive to reduce costs resulting from staff turnover. These costs are also said by previous researchers to be those of hiring and training new employees, inconsistent service quality as previous and new staff may perform differently, and loss of customer loyalty (Kuria et al., 2012; Mohanty & Mohanty, 2014; Yam & Raybould, 2011; Yang, Wan & Fu, 2012).

Yee, Yeung and Cheng (2011) reported that organisation can create programmes tailored to enhance employee satisfaction and loyalty. When there are high levels of work satisfaction and employee loyalty, these can lead to higher service quality delivery (Yee et al., 2011). Karatepe and Ngeche (2012) therefore posit that employees who are well-rooted in their jobs will have little or no intention to leave their organisations and will likely have higher work performance.

Much study has been done on hotel employee retention, but there remains little literature about this in sub-Saharan Africa. Mohsin et al. (2013) posit that high staff turnover in hotels is a problem that is not unique to a particular nation, but a worldwide issue. It seems from previous studies that employee satisfaction is directly linked to employee retention, hence exploring the working conditions that enhance employee satisfaction and retention is a desired study focus. This study will therefore investigate relationships between hotel employees' length of service and responses to individual variables explaining employee retention factors. These employee retention factors can be seen as the working conditions that can cause employees to work for a short or long time in a hotel. The results of this study are of particular interest to the hotel sector management, as it is focussed on retaining those staff who really want to build a career in the hospitality industry. Cape Town, in South Africa, with its many hotels, is chosen as the study area, due to its importance as a world tourism destination. The survey was done in selected three, four and five star hotels, who are more likely to employ non-family members and are usually bigger in size than one or two star hotels.

2. Literature Review

The literature review will explore factors that have been reported in literature to have an influence on employee turnover or retention.

2.1. Compensation

Some authors (such as Ineson, Benke, & László, 2013; Jung & Yoon, 2015) posit that reasonable pay or reward is a significant factor contributing to job satisfaction. Nasurdin, Ahmad and Tan (2015) state that hotel compensation can be direct (salary and pay incentives) or indirect (health and unemployment insurance). It has been found that adequate information about pay differences has positive impact on satisfaction with pay level among employees (Till & Karren, 2011). Therefore understanding what employees expect of reasonable pay level and promotion opportunities will likely help to increase employees' commitment towards a firm (Yang et al., 2012). Implementing proper pay levels and other employee rewards will show top management's commitment to maintaining acceptable service quality and high level of employee satisfaction, as employees will perceive that their efforts are recognised and compensated (Karatepe & Karadas, 2012).

2.2. Employee Development

Human resource development in organisations involves combining training and development, career development and organization development to enhance individual employees', teams/groups' and organizational effectiveness (Stewart & Rigg, 2011). Therefore organisations try to use effective career support such as training and development, performance management and challenging jobs to increase employee career satisfaction (Kong, Cheung & Song, 2012). It is common knowledge that training supports organisational change management process, and employees are positively responsive to further training and the empowerment that it brings (Kong, Cheung & Song, 2011). Yang, Wan and Fu (2012) reported on the positive effects that training and development have on minimizing employee turnover. Kong et al. (2012) further posit that training and development programmes, co-learning among workers, internet training and career development help employees to remain viable and marketable with updated knowledge of the current developments taking place within the industry. They (Kong et al., 2012) asserted that career management and continuous learning opportunities are now being expected to be driven by employees themselves, but advised organisations to not neglect their responsibility towards the career management of their employees. Kong et al. (2011) reflect on the importance of career development towards enhancing employee career success. Therefore, Solnet, Kralj and Kandampully (2012) infer that when employees are given the opportunities for training and career development, they feel valued by their employers, thus increasing their level of confidence, up-selling willingness and service quality, which in turn leads to customer satisfaction and increased revenues. Nasurdin et al (2015) summarised the benefits of employee training to include higher employee satisfaction, improved productivity and commitment, and increased retention, depicting that it is a worthwhile investment.

2.3. Work Engagement

Organisations that share information and involve its employees in the decision making process empower their employees and win their loyalty (Zoipatis, Constanti & Theocharous, 2014). Karatepe and Ngeche (2012) posit that social support at work and job autonomy tend to increase staff work engagement. Yang et al. (2012) declare that when employees are trained to take on specific job responsibility and surmount job challenges, this will increase their sense of achievement, thus enhancing their commitment to the organisation. Karatepe and

Ngeche (2012) therefore conclude that employee work engagement influence job performance and turnover intentions.

2.4. Work Relationships

High quality co-workers' relationship exchanges can lead to better influence and co-ordination among teammates (Lee, Teng & Chen, 2015). Hon, Chan and Lu (2013) posit that team leaders' or supervisors' work relationship with employees influence employees' job motivation and performance. This relationship needs to take place without invoking seniority in rank or position (Kim, Im & Wang, 2015). Lee et al. (2015) therefore conclude that Leader Member Exchange (LMX) has a positive influence on job satisfaction, job performance, organisational commitment and loyalty towards managers and the organisation. O'Neill and Davis (2011) further posit that employee-guest related tensions and stressors have much less effects on employees than employee-employee related tensions and stressors.

2.5. Working Hours

Long working hours have been attributed to hotel employment's working conditions (Mohanty & Mohanty, 2014). Hence, Kim et al. (2015) posit that employee's intention of leaving a hotel employment is mostly determined by long working hours, poor salary, low possibility of promotion, shift duties, etc. More so McNamara, Bohle and Quinlan (2011) asserted that in hotel employment, temporary staff have less control over their work timing, work methods, and assortment of tasks. Posting work schedules at most a week in advance allows employees limited opportunity to balance their work, family and social responsibilities.

3. Research Design and Method

Most tourism and hospitality research need quantitative data to get required information (Ezeuduji, 2013; Ezeuduji & de Jager, 2015; Veal, 2011). We used structured questionnaire survey to obtain data that were subsequently analysed to reach conclusions in this study. Variables in the questionnaire were mostly close-ended and ordinal. We used 5-point Likert scale variables (1 to 5; strongly agree to strongly disagree) to measure respondents' level of agreement to variables explaining employee retention. Employee profile variables were mostly categorical in nature, and length of service item in the questionnaire was a ratio variable. Employee retention variables in the questionnaire originated from literature review done.

Our study used a non-probabilistic sampling approach - convenience sampling, to recruit hotel employees from three, four and five star hotels in Cape Town as the study respondents. We obtained permission from these hotels to conduct our research. 217 hotel employees were randomly surveyed, out of which 210 questionnaires were returned and found usable for data analysis.

We used IBM's statistics software for data analysis (IBM Corporation, 2016). Descriptive analyses of all the variables in the questionnaire, reliability tests of grouped employee retention variables, and correlation tests of length of service versus employee retention variables were performed. Reliability tests checked for internal consistencies among grouped variables used to explain employee retention factors. Veal (2011) proposed the use of correlation test to explore relationships between ordinal and/or ratio variables. Our study accepted relationship between variables at 95% confidence interval, which is very common in social science research.

We used Cronbach's Alpha score in the reliability tests to check for internal consistency among variables explaining each employee retention factor (Gliem & Gliem, 2003). The authors, Gliem and Gliem (2003) state that Cronbach Alpha's reliability coefficient can take up any value between 0 to1. George and Mallery (2003) asserted that Cronbach's Alpha score of between 0.5 and 0.7 can be used to explain adequate internal consistency among variables. Tavakol and Dennick (2011) however stated that low Cronbach's Alpha coefficient may result when there are few variables that are being used to explain a particular factor or when there exist a weak inter-relationship among variables being used in the data analysis. We used a Cronbach Alpha cut-off score of 0.6 in our reliability analyses due to the relatively few variables that were used to explain each employee retention factor.

4. Results and Discussion

4.1. Profile of Respondents and Level of Satisfaction

The respondents' profile results (Table 1) show that female employees dominate the hotel sector. Many (about 58%) of the employees are relatively young, less than 36 years of age. Employees from the Black and Coloured communities dominate the sample (about 71%), about 47% of the employees have no higher than high school education, and the majority (about 64%) have not worked in the hotel for more than 5 years. Most of the employees (about 66%) work in the rooms, and food and beverage sections; with first line staff dominating the entire sample (41%).

In as much as hotel employment has been widely portrayed to have dire working conditions (AlBattat, Som & Halalat, 2014; Davidson & Wang, 2011; Kuria, Alice & Wanderi, 2012; Mohanty & Mohanty, 2014), about 60% of the employees surveyed reported that they are either mostly or totally satisfied, while about 27% reported being neither satisfied nor dissatisfied, and about 14% are mostly or totally dissatisfied (Table 1). This is good news for the hotel sector as the majority of workers are satisfied with their employment. This result can be related to those in Table 2.

Table 1. Profile of the respondents and level of satisfaction (N = 210)

Profile of respondents		
Variable	**Category**	**Frequency (%)**
Gender	Female Male	63.8 36.2
Age group	18 – 25 years old 26 – 35 years old 36 – 45 years old 46 – 55 years old 56 – 65 years old 65 + years old	16.7 41.4 30.5 8.6 2.4 0.4
Cultural group	Black Coloured Indian Asian White Immigrant	35.7 35.2 5.2 1.4 13.0 9.5
Highest level of education attained	Matriculation or below College University national diploma or first degree University Master's degree or above	46.7 25.2 26.7 1.4
Number of years working in hotel[1]	1 – 5 years 6 – 10 years 10 years and above	63.6 19.5 16.9
Current department	Food & Beverage- food production/food services/room service/convention & catering	20.5
	Rooms- reservations/front office/housekeeping/laundry	45.2
	Personnel- employee relations/recruitment/training	7.6
	Finance/accounting	6.7
	Marketing and sales- sales	4.8
	Maintenance & Security – maintenance / security	9.5
	Other[2]	5.7
Current position	First line staff-reservations/bell service/ concierge/ valet/ waiter/waitress/counter reception	41.0
	Grassroots leader or supervisor	13.7
	Unit chief (deputy manager or manager)	6.7
	Department supervisor	11.0

	General manager	1.4
	Other[3]	26.2
Hotel employees' general level of satisfaction		
Level of satisfaction	Totally satisfied	21.9
	Mostly satisfied	37.2
	Neutral	27.1
	Mostly dissatisfied	9.5
	Totally dissatisfied	4.3

[1] Originally ratio variable that was recoded into categorical variable for simple presentation.
[2] "*Other*" here denotes managerial staff and staff in specialised units such as Spa and games.
[3] *"other"* here denotes managerial staff and staff in specialised units such as Human Resource, Spa, Accounts, Kitchen, Maintenance, Housekeeping and Security.

4.2. Length of Service and Employee Retention Factors

Hotel employees who responded to the questionnaire responded mostly positively to the employee retention statements (Table 2), validating the favourable general level of satisfaction reported earlier (Table 1). Their general responses in Table 2 raise no major concerns.

Table 2. Employee statements compared with years of service in hotel (N = 210)

1. Employee retention		
Statements	**Mean score (Level of agreement)[a]**	**Compared with employees' length of service [b]**
1.1. I feel attached to this hotel	2.35	N.S.
1.2. It would be difficult for me to leave this hotel	2.86	*the more employees agree, the longer they have worked in hotel.
1.3. Working in this hotel is a labour of love for me	2.50	N.S.
1.4. It would be easy for me to leave this hotel	3.12	N.S.
1.5. I want to remain in this hotel for a long time	2.80	*the more employees agree, the longer they have worked in hotel.
1.6. I cannot wait to leave this hotel	3.79	N.S.
Reliability Statistics (employee retention), Cronbach's Alpha =.857, N of Items = 6 *Valid cases = 207(98.6%), Excluded cases = 3(1.4%), Total = 210*		
2. Compensation		
2.1. The amount of pay I receive in this hotel is the industry wage for my position	2.58	N.S.
2.2. My monthly salary in this hotel is not satisfactory	3.18	N.S.

2.3. My salary in this hotel is fair for my responsibilities	2.98	N.S.
2.4. Benefits provided as a package in this hotel (e.g. sick leave, maternity & paternity) give me stability	2.16	N.S.
2.5. My pay in this hotel is not necessarily subject to organisational performance	2.81	N.S.
2.6. Employee initiative in this hotel is always compensated	2.81	N.S.
Reliability Statistics (compensation), Cronbach's Alpha =.676, N of Items = 5 (when item 2.5 in the Table – 'pay', is deleted) ***Cronbach's Alpha =.616, N of Items = 6 (when all items in the Table are included)*** *Valid cases = 210(100%), Excluded cases = 0(0%), Total = 210*		
3. Employee development		
3.1. If I do good work in this hotel, I can count on being promoted	2.70	N.S.
3.2. I did not receive extensive customer service training in this hotel	3.60	N.S.
3.3. Continuous training is provided in this hotel	2.20	*the more employees **disagree**, the longer they have worked in hotel.
3.4 Support for my long term career development is provided in this hotel	2.60	N.S.
3.5. My supervisors in this hotel explain the key success factors on the job	2.36	N.S.
3.6. This hotel has opportunities for skills development	2.32	N.S.
Reliability Statistics (employee development), Cronbach's Alpha =.829, N of Items = 6 *Valid cases = 210 (100%), Excluded cases = 0(0%), Total = 210*		
4. Work engagement		
4.1. In my job in this hotel, I have sufficient opportunities to use my initiative	2.45	N.S.
4.2. For a large part I determine how I work in this hotel	2.69	N.S.
4.3. I am not empowered to solve customer problems in this hotel	3.51	N.S.
4.4. I am not strictly supervised or controlled in this hotel	3.25	N.S.
4.5. I enjoy meeting and serving customers in this hotel	1.70	N.S.

4.6. I am afforded an opportunity to decide how to do my work from time to time in this hotel	2.42	N.S.
Reliability Statistics (work engagement), Cronbach's Alpha =.639, N of Items = 6 *Valid cases = 210 (100%), Excluded cases = 0(0%), Total = 210*		
5. Working relations		
5.1. I have a good working relationship with my supervisors in this hotel	2.22	N.S.
5.2. I work very well with everyone in this hotel	1.77	N.S.
5.3. I enjoy good communications with my supervisors in this hotel	2.25	N.S.
5.4. I enjoy good communications with my colleagues in this hotel	1.62	N.S.
5.5. I think of the workplace as my second home and my colleagues as my family in this hotel	2.31	N.S.
5.6. I have good working relationships with my colleagues in this hotel	1.76	N.S.
Reliability Statistics (working relations), Cronbach's Alpha =.803, N of Items = 6 *Valid cases = 210 (100%), Excluded cases = 0(0%), Total = 210*		
6. Working hours		
6.1. My working hours are adequate in this hotel	2.34	N.S.
6.2. My job schedule in this hotel does not interfere with my family life	2.82	N.S.
6.3. In this hotel, I am given enough time to do what is expected of me in my job	2.35	N.S.
6.4. Working hours in this hotel infringe on my personal quality time with friends	3.12	**the more employees **disagree**, the longer they have worked in hotel.
6.5. Long working hours are not a problem to me	2.94	N.S.
6.6. The hotel’s long working hours are unreasonable	3.41	N.S.
Reliability Statistics (working hours), Cronbach's Alpha =.717, N of Items = 6 *Valid cases = 210 (100%), Excluded cases = 0(0%), Total = 210*		

Notes: [a]Questionnaire were itemised along a 5-point Likert-type scale ranging from 1, strongly agree; 2, tend to agree; 3, neutral; 4, tend to disagree; 5, strongly disagree

[b]Spearman’s Rank correlation test significance. N.S., no significant results.*, $p < 0.05$; **, $p < 0.01$.

Hotel employees were asked to indicate the number of years they have worked in the hotel, and this variable was compared with the employee retention statements. Results reveal that the longer the employees have worked in the hotel; the more they perceive that working hours in the hotel do not infringe on their personal quality time with friends, the more they perceive it will be difficult for them to leave the hotel, the more they want to remain in the hotel for a long time, and interestingly, the more they perceive they do not receive continuous training in the hotel. This shows that employees who have worked longer time in hotels have adapted and accepted the hotels' working conditions like long working hours and nature of compensation. However, training and career development of these loyal employees need to be taken seriously by management to support their retention in the hotel sector. Kong et al. (2012) asserted that career management and continuous learning opportunities are now being expected to be driven by employees themselves, but advised organisations to not neglect their responsibility towards the career management of their employees. Yang, Wan and Fu (2012) reported on the positive effects that training and development have on minimizing employee turnover, and Nasurdin et al (2015) depicted employee training and development as a worthwhile investment, pointing to the benefits of employee training to include higher employee satisfaction, improved productivity and commitment, and increased retention.

5. Conclusion

High employee turnover within the hotel sector has been blamed on hotel employees' perception of factors such as unfair compensation, long working hours, little growth opportunities, and poor working relationships. This study however found continuous training and development, a major concern for hotel employees who have worked in the hotel for a long time. It has been reported that when employees are given continuous opportunities for training and career development, they feel valued by their employers, and this will increase their level of confidence, up-selling willingness and service quality, leading to customer satisfaction and increased revenues for the hotels. Hotel managers who want to retain their loyal and talented employees should therefore, among others, put in more effort towards their employees' career development.

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Customers' Perceptions of Value in Relation to Hotels in Gauteng, South Africa

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Abstract: This study is based on the premise that the hospitality industry operates within a highly competitive business environment and that the creation of customer-perceived value is a business component that concerns the striving to gain competitive advantage in terms of financial success, customer satisfaction and loyalty. The aim of the study was to explore the hotel value attributes perceived as being most important by hotel customers. To achieve the objective, a quantitative study design was employed, in terms of which data were purposively and conveniently collected by means of a survey questionnaire that was administered to hotel guests staying in 3- to 5-star hotels. The findings revealed that hotel customers tend to attach a high degree of importance to the issue of value for money, whereas the appearance of the hotel was least important to them of the tourism-related characteristics about which they were asked. Overall, the study found that hotels in Gauteng generally provide service that is satisfactory to their customers, but that the remaining challenge for hoteliers lies in their ability to sustain such levels of satisfaction through continuous employee motivation and skills development.

Keywords: Perceived value; value attributes; perceptions; hospitality industry; South Africa

JEL Classification: Z32; Z33

1. Introduction

In recent times, Sukwadi et al. (2012) have postulated that the study of customer value has caught the interest of academics and managers, because it is regarded as an essential means of gaining competitive advantage. Popova (2006) observes that, since consumers' perceptions of products and services offer direct input to service and product development, the findings from perceived value studies can easily be converted into marketing strategies and market segmentation. Therefore, Pihlström (2008) contends that understanding what customer's value is in terms of specific goods or services has long been acknowledged should benefit any customer-oriented organisational strategy. Currently, marketers are focusing on gaining a

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better understanding of how customers view services and products that are suited to their needs and situation. The reason for this focus, Kotler and Keller (2006) observe, is that the organisations that succeed in today's complex marketplace are those that are able to deliver superior value from the customer's perspective.

Consumers are more knowledgeable and empowered than ever before, with customer value presenting a solution to marketers who have to deal with the changing consumer market. Therefore, putting the customer first, and providing superior customer value, have increased in importance (Kotler & Keller, 2006). Customers' perceptions of value have been found to influence their evaluation of products/services, as well as their behavioural intentions and repeat purchases, all of which affects organisational success (Overby et al., 2005).

Within the hospitality industry, perceived value refers to the perceptions that guests hold before entering the service provider's facility. The perceptions might include the information provided to the customer, the reservation procedure, and the guest encounters during service delivery (which might include the check-in procedure, guest assistance, physical facilities, and guest service). Perceived value, in this context, consists of two components, namely perceived value before, and during, service delivery (Komppula, 2005). Value is made evident through various elements, including room quality, hotel atmosphere, the quality of meals, and the availability of recreation and sports facilities. Therefore, value is a combination of tangibles and intangibles that differ from place to place. Some customers might consider a service to be of high value, while others might not (Nasution & Mavodo, 2008). Furthermore, Nasution and Mavodo (2008, p. 204) argue that the creation of customer-perceived value is critical in relation to hotels, due to the fact that the hotel subsector is highly competitive compared to other economic subsectors. To be successful, hoteliers (hotel managers) need to provide continuously superior customer value from the customer's point of view. (Moreover, hotels need to place more emphasis on delivering superior quality products/services, and on ensuring that the needs and expectations of their guests are met). This means that the needs and wants of both current and potential customers require ascertaining (Cant & Van Heerden, 2010, p. 50).

In the hotel context, the creation of value is recognised as the answer for achieving a destination's competitive advantage (Gallarza & Gil, 2008). With the help of a valid and reliable measurement tool for establishing perceived value, hospitality organisations will be able to identify their existing positive value dimensions and attributes, as well as the areas on which they should improve (Jamal et al., 2011). Currently, hotel customers tend to choose to patronise hotels that offer them the best value within their existing budgetary constraints. Hotel managers, therefore, need to determine which products/services are preferred by hotel guests, so that they can prioritise the preferences that add the greatest value to the hotel's existing service offerings (Olsen & Connoly, 2000).

Komppula (2005) contends that, in hotels where there is intense interaction between customer and service provider, perceived value and quality play a crucial role. Consequently, there is a need to profile customers continuously, with a view to understanding their demand and consumption patterns. The current study investigated value attributes deemed important by hotel customers in Gauteng, South Africa, with the intention of making a useful contribution to an important research paradigm, and with a specific focus on proliferating the amount of existing scholarship from a developing perspective. In the study, the terms "customer" and "hotel guest" are used interchangeably to describe the same phenomenon.

2. Literature Review

Preceding works on value, as it is related to the hospitality sector, have examined a number of issues related primarily to the nature of value. The most widely known definition of perceived value is the one proposed by Zeithaml (1988, p. 13), who defines perceived value as "the overall assessment of the utility of a product or service based on the perceptions of what is received and what is given". The author argues that perceived value is a broad concept that considers not merely the financial implications, but also the psychological factors, involved. For example, Zeithaml (1988) points out that some customers might perceive value as being when the price for a commodity is low, whereas others might perceive value as being when there is a favourable balance between the value received and the price paid for a service. In measuring the benefits and costs of the perceived value component in different ways, some customers might prioritise quality, whereas others might prioritise convenience. Thus, some customers might be more sensitive to the actual cost incurred, whereas some might be more concerned about the amount of time and effort that is sacrificed to obtain a particular (quality of) service or product (Zeithaml, 1988). According to Lee et al. (2012), the value perceived by a specific customer will be high only when the offer that is intended for the customer meets or exceeds their expectations in terms of performance.

The hospitality industry has to create value continuously so as to gain market share and so as to remain competitive. Pricing strategy is an important issue for managers, since it is one of the main influences of accommodation selection decisions, as well as of consumer perceptions of quality and customer satisfaction, all of which eventually leads to customer loyalty (Chen, 2010; Mattila & O'Neill, 2003). Guests expect to receive a higher level of service when they pay more for it (Matzler et al., 2006). Nowadays, hotel customers choose to patronise hotels that offer them the best value under existing budgetary constraints. This means that, before pricing, hotel managers must determine which products/services are preferred by hotel guests. This should then enable them to prioritise those customer preferences that are likely to add the greatest value to the hotel’s existing service offering, which allows for justification of pricing (Olsen & Connoly, 2000).

Perceived value leads to customer satisfaction and loyalty. Therefore, the creation of such value entails examining the value that customers attach to particular products/service that leads to the charging of prices that they are willing to pay for the products/service involved. Taking into consideration the interests of both the customers and the business allows both to benefit therefrom (Hinterhuber, 2008, pp. 41−50).

Customer satisfaction is the result of customers’ perceptions of the value that they believe they acquire from using a particular service or product (Meng et al., 2011). Customer satisfaction plays an important role in discouraging customer defection, thereby improving customer loyalty. Loyal customers are an important and relatively cheap source of advertising for an organisation, as they tend to recommend the organisation concerned to friends and family through word-of-mouth promotion (Popova, 2006).

Different studies have been conducted on the subject of value attributes. Chan and Wong (2006) reveal that location and good service are key factors in customers’ selection decisions, while Mattila and O’Neill (2003) assert that guest room cleanliness, guest room items and friendly and knowledgeable employees are important aspects in terms of the levels of customer satisfaction attained by an accommodation establishment. Zhang et al. (2011) maintain that room design and amenities are aspects of the hotel that add value to their product offered, while location is most important in terms of potential customers choosing between competing brands. Other studies, including that of Callan & Bowman (2000), identify cleanliness, the value-for-money efficiency of service, and safety and security as being of importance to customers.

3. Methods

The current study employed a descriptive, quantitative research design, with the target population of the study being Gauteng hotel customers. The Gauteng province was deemed suitable for testing perceived customer value for a number of reasons. Besides being recognised as the country’s economic hub, the province in question contains two of South Africa’s major cities (Johannesburg, the economic hub, and Pretoria, the administrative capital). Furthermore, during the period from 1994 to 2010, many major international and national hotels were established in Gauteng (Rogerson & Sims, 2012). The hotels concerned contribute significantly to the employment and GDP rate(s) of the country. For the above-mentioned reasons, conducting the study in the area involved was regarded as being likely to be fruitful, not only for hotels in the area, but also for the country as a whole.

A questionnaire survey was used to collect the required data from the hotel guests in question. Besides considering the existing literature, the survey was developed with due consideration of previous studies that had been undertaken in the field (Callan & Bowman, 2000; Dolnicar, 2002; Dube & Renaghan, 2000; Popova, 2006), keeping in mind the local South African context of the current research. The questionnaire employed focused on the demographic information of the customers involved, and on their evaluation of the hotel service, as well as the degree of importance that they attached to the hotel value attributes. The attributes were: location, value for money; the brand image and reputation; safety and security; the physical appearance of the hotel; food and beverages on offer; the bathrooms and bathroom amenities, as well as the rooms and room amenities, available; perceived service quality; and transportation. A ranking system for responses was used to rate the degree of importance that the respondents attached to each of the value attributes mentioned in the main questionnaire. A 4-point Likert-type scale with responses ranging from 1 = Not important, through 2 = Least important and 3 = Important, to 4 = Very important was used.

A convenience sampling method was used to target the estimated 124 hotels that were considered to fall with the 3- to 5-star category range. Before the study was carried out, a letter of consent was sent to all the hotel managers concerned, and all the respondents were made aware of the nature of the study. A total of 300 valid questionnaires were solicited from hotel customers with the assistance of front-office staff. The survey conveniently targeted only hotel customers who had stayed in the hotel for at least one night. The Statistical Package of Social Sciences (SPSS) Program, version 23.0, was utilised to process the data obtained via the questionnaires. Descriptive statistical percentages for the frequencies involved were employed to present the data gathered from the responses that were obtained to the research questions asked.

To ensure the reliability of the data, the Cronbach’s alpha was used to assess the internal consistency of the scale used. A generally agreed-upon level of Cronbach’s alpha coefficient value is 0.70, implying that a measurement scale is reliable when the value is above 0.70 (Gliem & Gliem, 2003). According to Table 1, all the value dimensions that were tested with the instrument ranged from 0.73 to 0.88, thus confirming the reliability of the scale.

Table 1. Cronbach's alpha coefficient results

Measurement scales tested	*Number of items*	*Cronbach's alpha*
Location	4	0.76
Value for money	3	0.73
Brand image/reputation	4	0.82
Safety and security	6	0.85
Rooms and room amenities	14	0.88
Appearance of the hotel	3	0.83
Food and beverages	6	0.81
Bathrooms and bathroom amenities	5	0.77
Perceived service quality	11	0.88
Transport	3	0.84
Overall satisfaction	4	0.80

4. Results and Discussion

4.1. Demographic Profile of the Hotel Guests

The study found an almost equal gender distribution, with women forming 49% of the respondents, and men 51%. This finding confirms that, in general, Gauteng hotels tend to provide service to both men and women – thus the major market for hotels in Gauteng is not gender-specific. This finding is consistent with those of Kleynhans and Zhou (2012), who found no significant difference between the percentages of the different genders among hotel customers in Gauteng. In terms of purpose of visit, the majority (66%) of the hotel customers claimed to be visiting the hotels for business purposes rather than for those of leisure (34%), as can be seen in Figure 1 below. The customers were mainly South Africans (63%), suggesting that local customers constitute the major market share of the clientele using such accommodation establishments. This finding was in line with a study conducted by Varki and Colgate (2001), who revealed that the majority of the customers doing business with hotels proved to be citizens of the country in which the hotels were situated.

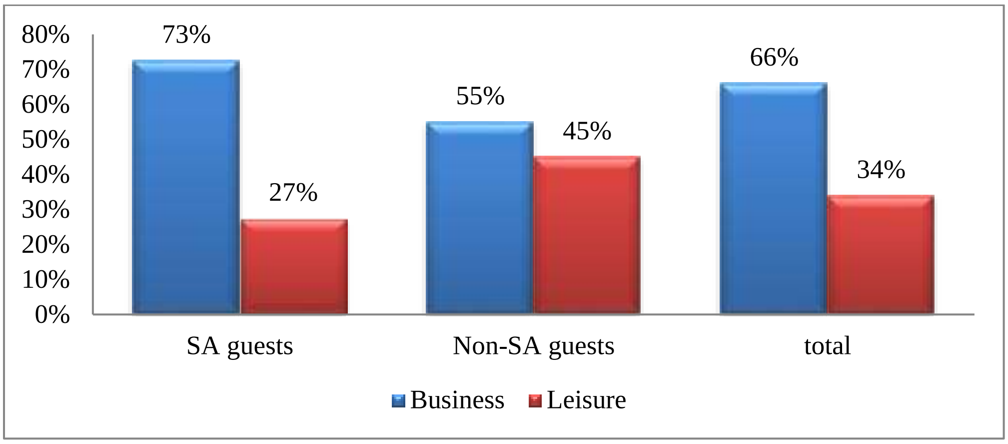

Figure 1. Nationality and motives for stay of respondents

Figure 1 further illuminates the fact that, while the majority of both South African and non-South African customers (73% and 55%) patronised the hotels mainly for business purposes, the figure for non-South Africans who visited the hotels for leisure purposes was high (55%), when compared to South African customers (27%). The big difference in percentages in this respect indicates that more non-South African customers were staying in Gauteng hotels for leisure purposes than were South African. Concerning age, the findings revealed that the majority of respondents came from the employable age group of between 25 and 54 years. Interestingly, those concerned were business professionals, or people who owned businesses that required them to travel to attend meetings and other business-related activities. From the remaining age group categories (55–64 and 65> years), the majority were found to be leisure guests.

4.2. Hotel Guests' Perceptions of Value

Hotel guests' perceptions of value were measured across the ten value dimensions based on a 4-point Likert-type scale, for which the results are shown in Table 2 below.

Table 2. Hotel guests' perceptions of value dimensions, in %

Dimensions	*Not important*	*Least important*	*Important*	*Very important*
Rooms and room amenities	3.7	8.4	25.4	62.5
Bathrooms and bathroom amenities	0.6	9.1	37.3	53.0
Food and beverages	3.1	9.4	32.0	55.6
Value for money	3.3	5.1	39.7	51.9

Location	2.6	13.0	31.3	55.1
Perceived service quality	4.0	10.0	31.0	55.0
Safety and security	6.0	11.0	31.0	52.0
Transport	5.0	12.3	39.7	43.0
Brand image/reputation	7.0	16.5	35.0	41.5
Appearance of the hotel	8.6	26.3	34.4	30.7

Table 3 below ranks the scores obtained when the rating "important" and "very important" are combined. The table reveals a clear picture that value for money (91.6%) was rated the most important predictor of perceived value. A previous related study by Chu and Choi (2000) also found that hotel guests tend to attach high expectations to the products and services that they procure. Dolnicar (2002) contends that all types of hotel customers repeatedly cite price or value for money in the literature as an important attribute of a hotel.

The findings also indicate that the hotel customers surveyed tended to regard bathrooms and bathroom amenities (90.3%) as being the second-most important attribute of hotels. Such findings confirm the importance of the hotel room, which was identified as being the third most important aspect of hotels, with bathrooms and their related amenities forming part of the overall room aspect. Furthermore, such a finding also confirms Dolnicar's (2002) finding that, although hotel customers tend to regard bathrooms and bathroom amenities, including shower facilities, as important, they are not the most important aspect of a hotel. Therefore, hotel management should be aware that the cleanliness and size of the bathroom, along with the provision of sufficient good-quality towels and bath mats, might be important in guests' rating of a hotel.

From the data collected in the current survey, it was found that the dimension of rooms and room amenities (88.0%) was deemed to be the third most important contributor to perceived value by hotel customers in the study. Mattila and O'Neill (2003) and Zhang et al. (2011) suggest that room cleanliness and guest room amenities are important aspects of hotel attributes contributing to the overall levels of customer satisfaction, which is consistent with the present findings made. The authors point out that, if customers are not satisfied with the way in which such attributes are delivered, they are likely to switch to supporting competitors, and to negative word of mouth. Thus, hotels have to deliver on the attributes concerned in the best possible way, otherwise the long-term consequences might be dire. Besides the room design (Dube & Renaghan, 2000), guests clearly are concerned about their sleeping place, the provision of which is the fundamental service of any hotel[1]. According to the findings made in the current study in regard to the hotel room and its importance, such room design should be paid more heed than it is at present by hotel managers when considering the relevant economic and financial factors. Although Popova (2006) found that customers tend to identify cleanliness as being the most important characteristic of a hotel room, the size of the room seemed to have little importance to hotel customers, which is a fact that conflicts with the results obtained in the current study.

Table 3. Rating of value dimensions, based on their importance

Dimensions	*Rank*	*Importance score, in %*
Value for money	1	91.6
Bathrooms and bathroom amenities	2	90.3
Rooms and room amenities	3	88.0
Food and beverages	4	87.6
Location	5	86.4
Perceived service quality	6	86.0
Safety and security	7	83.0
Transport	8	82.7
Brand image/reputation	9	76.5
Appearance of the hotel	10	65.1

“Food and beverages” was rated the fourth most important dimension in the current study, with it being assigned an importance percentage score value of 87.6%. In terms of the dimension, the hotel customers surveyed indicated that they were concerned with the quality of the food and beverages on offer, as well as with the taste of the food involved, and the variety of the food and beverages supplied. However, the surveyed revealed that they attached a low level of importance to such aspects as health-conscious menus. In a study conducted by Dube and Renaghan (2000), food and beverages-related services were rated as an attribute that created perceived value during the hotel experience. Consequently, it is important for hoteliers to provide a variety of food and beverage options (Emir & Kozak, 2011; Sukwadi et al., 2012).

Qu et al. (2000) assert that location is repeatedly confirmed as being a major attribute that hotel customers use to judge the quality of hotel service, with it being a salient factor in hotel selection. In the current study, location was found to be the fifth most important predictor of customer value, with the overall percentage score of importance for the dimension being 86.4%. Evidently, guests consider where a hotel is located when considering at which hotel to stay, with their attendant

[1] see (Ogle, 2009).

decision-making also being linked to the purpose of their visit. Moreover, Chan and Wong (2006) report that the convenience of location is regarded as being a key factor in customer selection decisions. The dimension of perceived service quality was identified by Gauteng hotel customers as being the sixth most important value predictor, with it having an overall percentage score of 86.0%. Most of the respondents were concerned about the service levels related to efficient check-in and check-out procedures, the politeness and friendliness of the staff, and the obtaining of reliable service. Therefore, for hoteliers, their levels of professionalism, reliability, congeniality and quick response to service should be of paramount importance (Merlo & Joao, 2011). Elsewhere, Popova's (2006) study reveals that friendly, polite and helpful staff, efficient service, and the sympathetic handling of complaints are regarded by hotel customers as being the most important aspects of service provision. Kashyap and Bojanic (2000) maintain that hotel staff service is a major area that affects customer decision-making and perceptions of overall hotel service. The results obtained in this respect suggest that the service personnel of a hotel can make a significant contribution towards improving customers' perceptions of value by treating the latter well, and by performing their duties in an outstandingly professional and efficient way. However, achieving such a high standard of service is likely to be relatively difficult to achieve, because the range of personnel who are employed by a hotel is likely to exhibit varying attitudes and behaviour that tend to make the quality of service delivered inconsistent, as is emphasised by Kandampully et al. (2004). However, hotels are likely to be able to minimise this problem by providing continuous training to their staff, specifically in terms of those aspects that could enhance levels of intellectual skill, professionalism and efficiency in respect of providing service. The provision of such training is especially important for front office personnel who are in ongoing contact with guests.

A key attribute that is linked to travel in general is the issue of safety and security at host destinations, with many (83%) of the respondents rating it as the seventh most important predictor of value. This ranking, in the context of the current study and country, namely South Africa, is remarkable, given that the country has, in recent times, been held to be a crime-infested destination. This finding might represent a perception shift of the visitors concerned, owing to their experiences during their stay at one of the establishments concerned, considering that they would have spent at least one night there prior to participating in the survey. Besides the above, South African hotels usually have security measures in place to help ensure the safety of their clientele. Nevertheless, the challenge that remains is for hotel managers to consider risk management strategies continuously when striving to ensure the safety and security of their guests.

Equally important to hotel guests in the current study was the transport services that were made available at the hotel concerned (82.75%), and the hotel brand and its image (76.5%). Despite receiving a good rating in terms of percentage, the appearance of the hotel (65.1%) was perceived as being its least important attribute. However, the relatively high percentages recorded for all the attributes listed in the survey indicate that all ten dimensions were of importance to the hotel customers involved. That the majority of hotel guests (88%) reported being generally satisfied in terms of value for money, and that 87.6% of them expressed their willingness to return to the hotel in question, or to recommend it to potential customers whom they knew.

5. Conclusion

This study has appraised customers' perceptions of value in relation to various hotels, from a South African perspective. The analysis established that customers are deeply concerned about the value that they receive on deciding to purchase, or to use, hotel service. Despite departing from the global south perspective, the study exhibits parallels with related studies conducted from the perspective of the global north. The price that customers pay seems simultaneously to influence perceived value and quality positively, suggesting that poor performance in terms of attributes could have a negative impact on return stay. Therefore, hotels need continuously to strive to balance the pricing and quality of service that they offer with a view to maintaining, or retaining, customers, and to gaining their loyalty. As Hellstrand (2010) observes, although hotels tend to be differentiated from one another in terms of their service quality, the guests' perceptions of the service that they obtain at such establishments is difficult to ascertain, due to the nature of the service itself. Consequently, the quest for customer satisfaction should be the focus of attention going forward for hotel management, in the light of the quality of guest experience being the precursor both to the level of satisfaction obtained, and to the perception of value (Hellstrand, 2010).

The recruitment of qualified hospitality personnel, as well as their consistent provision with up-to-date training and skills development linked to the management of hotel services, is, therefore, of essence. If the right standards are achieved in this respect, the possibility of improving upon the relevant performance attributes and of maintaining related quality standards should become a sustained, and sustainable, reality.

As the present study was not without its limitations, caution should be observed when attempting to generalise the results obtained through the survey discussed for the following reasons. Firstly, the study employed self-administered questionnaires, rather than personal interviews. As a consequence, the findings obtained might have suffered from some participants not having interpreted the questions asked in the way that the researchers had intended. Secondly, the use of a purposive convenience sample could mean that the population under study might not truly represent the greater population of hotel guests. Thirdly, the study focused on only one province (Gauteng) in South Africa, so that conducting the same study elsewhere might yield different results. Fourthly, only 3- and 4-star hotels were considered in the study, with the lower categories of hotel and ungraded hotels not being included in the sample. Lastly, the study was conducted at a time of year, namely between August and October, when most of the hotel customers were domestic business customers, therefore the views of foreign and leisure customers, who tend mostly to travel to the country during the holiday season, were only considered to a limited extent. Related research endeavours that are advocated should, therefore, consider such limitations when designing and approaching similar studies in future.

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Factors Influencing Training Effectiveness: Evidence from Public Sector in Bahrain

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Abstract: The objective of this study is to explore problems faced by training programmes implemented at the public sector in Bahrain. Key issues discussed are related to training and development. The significance of the training cannot be ignored in delivering the needed knowledge and capabilities. Therefore, the training should be effective enough to attain these objectives. This study evaluates in accordance with vocational training a number of contextual factors discovered to have an influence in a different combination with other previously examined effective factors. It explores the relationship between them. It also identifies types of relation between the training effectiveness and the contextual factors. The framework of this study is established according to the Kirkpatrick training model. This model consists of four levels measuring training effectiveness namely reaction, learning, behavior, and result. Instrument utilized in this study was a 122 item questionnaire combined to respond to 2 hypotheses. The questionnaire was prepared and distributed among the targeted respondents. It is revealed that contextual factors namely training environment, and trainee motivation have positive impact on the programms conducted in the public sector. This study provides critical input and contribution to literatures related to training in the public sector in Bahrain.

Keywords: Training effectiveness; training environment; trainee motivation; training factors

JEL Classification: H40; M53

1. Introduction

Training and its effectiveness has been currently a topic of attention and concern no matter what was the type of organization or its activity's nature. Organizations have understood the training importance and the significant role it plays in

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enhancing the job performance, and employee's efficiency. It also provides the organization with the ability to survive, especially with the hard competition nowadays. Training is the ideal approach for preparing employees with certain skills or giving them the ability to fill the gaps in their performance (Shree, 2017). For illustration, new computerized systems might need workers to be trained on the way to deal and work with those systems. Otherwise, the workers will lack the knowledge and understating of making appropriate use of them. Overall, training is a typical process to accommodate employees with new skills or improve their knowledge to a higher stage. It is well understood that training can be employed to empower manpower to alter the organizational or country's culture and productivity or service quality. Additionally, training can remedy to a great extent if not completely deficiencies related to job performance or problems. Training can serve as an immediate treatment or solution to the organizational requirements and a fast performance enhancer. It has a strong effect on the existing performance level. The main aim of training is the improvement or correction of any performance deficiencies. Training like anything else needs to have clearly indicated logical goals to be successful (Denby, 2010). These goals will set the proper frame for the training contents and define the benchmark to achieve the planned targets of training. It is very important to be realistic and not to expect overstated goals. Unrealistic goal anticipation ensures failure because it is simply unreachable. Training needs specifying and targeting the areas that needs improvement. Widening the training scope will interfere with its usefulness. Therefore, it should be focused (Denby, 2010). Training is effected by many factors such as the managerial support, peer encouragement, adequate resources and consequences for training application on the job field (Sanjeevkumar & Yanan, 2011). Although, there are other elements which were found to affect the positive results of the training such as the participants, training material, organizations, and trainer, this study is limited only to the training environment, and trainee motivation representing the independent variables as proposed by previous literatures, that may encourage to a higher degree the training effectiveness (Almakhadmah, 2012; Lin, 2012; Homklin, Takahashi, & Techakanont, 2013; Massenberg, Spurk, & Kauffeld, 2015).

2. Literature Review

Researchers have argued that employees' training can help increase the feeling of belonging and feeling of responsibility. The more training provided, the more benefits for the employees, the further enhanced skills and capabilities, and the more advantages reflected back to the organization (Terrana et al., 2016). Training advantages is not only limited to improvement in the occupational skillfulness, but also improvements in awareness and appreciation of the employee, and an affirmative mental and behavior characteristics of the employee.

Another importance of the training is that it gives the adaptation possibility to the competitiveness characteristic and market rapid changes. Training is a stored force to retain the liveliness of business. Organization's concurrence is the toughest kind of competitions. Training is clearly becoming an essential human investment. Developed countries pay much attention to mentality innovation and creativity and not only to equipment or technology. Developed countries take every advantage of the available and possible workers' development opportunities. Studies have confirmed that training is the main source of achieving employee development and expertise, with first class training that fulfils its aim to develop a first class service or product as a result of the developed performance. Therefore, the organization can maintain an insuperable position in the community (Sanjeevkumar & Yanan, 2012).

2.1. Training Effectiveness

Training has been defined as the trainee's behavioral influential process (Ghosh, Joshi, Satyawadi, Mukherjee, & Ranjan, 2011). It is a tool that allows the organization to survive and causes its persistence. The benefit of it is not limited to the organization, but to the employees as well by accommodating them with the expertise needed to meet the modern advancement in the work fields (Ahmed et al., 2010). It forms one of the methods to save the organization's investments. This is clearly valid in the event that new capabilities gained were applied in the work environment (Griffin, 2011).

In the past, people used to believe that the traditional education from the primary school to the college level was sufficient, unaware that training is mandatory for the development of employees of any level in the organization. It is also necessary for improving the quality of life. The public sectors are the organizations that control the development process and level of services in the Kingdom of Bahrain. That means equipping its staff with better skills and knowledge will be positively reflected in the society. It will act like training the developers which will yield a further developed output. According to Griffin (2010), the role of the government is to find a solution for the challenges faced to eliminate the gaps in the workforce skills to be able to follow up with the global economy. Lately, the ultimate goal of the development professionals and customers is to provide a method towards achieving the required results. They keep their acting and thinking within their limited experience of training which usually lacks the necessary farsighted vision of the business (O'Connor & Little, 2012).

After the consideration of the importance of training, another important factor is associated with it. As with everything that is surrounding us, time and money will not be spent on something that is useless and ineffective. Training effectiveness is another factor to be taken into consideration by people in charge of setting the organization's development plans. Training effectiveness is the relationship between the input variables, output variables and the process or transfer factor.

According to Bimpitsos & Petridou (2012) a successful systematic approach is a result of frequent evaluation and previous testing. This function integrates many different evidences to improve the learning and training activities. It requires the involvement of three parties, the assessment tool, the training/evaluation participants, and the party tracking this process, studying and using the results to improve them continuously.

2.2. Training Environment

Training environment is all about the condition or surrounding of the medium the training programme takes place in. It involves sound clarity and level, correct lighting such as the color/strength, active needed hardware and devices such as computers, site arrangement like U type table arrangement or groups or site arrangement such as the parking, and other training resources (Sanjeevkumar & Yanan, 2011). The learning environment is a link between the learning and the area created for this purpose. It covers the design, the structure, the contents, the control and the way of using these premises in favor of the learning. There is a lack of studies about the influence of the environment on the effectiveness of the training to cover the importance of the surrounding factors such as the lighting source (artificial, or natural from sunlight), brightness, color, angle of it, sound clarity, level, echo, and other sources of noise (Shabha & Gaines, 2013). It is one of the key factors responsible of the successful implementation of the training programmes. It is being measured based on the reaction of the trainees in level 1 in Kirkpatrick's evaluation model, in addition to other factors like (presentation methodology, trainer, material/handouts, and training audio-visuals). An unsatisfactorily prepared training environment has a distractive impact on the intake of the participants (Lendahls & Oscarsson, 2017). It is also one of the factors to establish the training programme and has been found to influence the effectiveness and the learning outcomes positively (Chukwu, 2016).

Quality in training programmes is what all the organizations are planning to reach. Quality in training requires quality in all the aspects related to the programme including the setup of the venue. A portion of the instructional activity of the programme can reflect the quality level from the point of view of a convenient learning environment, classroom convenience, organization of chairs, reachable water, toilet, fresh air etc., (Niwaz, Asad, & Muhammad, 2011). The training environment was found to have a significant correlation in addition to influencing the training effectiveness in any organization. It was also found to have a functional control over the expected results of trainees. On the other hand, an effective relationship was detected between the training environment and the work environment as IVs (independent variables) with the training effectiveness as a DV (dependent variable). It is critical to determine every factor that may contribute the outcomes in the stage of setting the objective to raise the probability of the success of the programme (Sanjeevkumar & Yanan, 2012).

2.3. Trainee Motivation

Keeping the employees motivated is the simplest way to reach the competitive edge, raise the rating, and profitability. Motivation is critical because it is a sort of involvement, recognition and a reward to the human resources, which is fundamental for any organization. Motivation yields satisfaction which is influenced by remuneration and recognition. Motivation is an internal generating force that controls our work (Pollitt & Oldfield, 2017).

According to Aziz & Ahmad (2011), there are six factors that increase the trainee motivation. This is very useful for the human resource (HR) and training professionals to setup a successful training. The first factor is to give the interested trainee the option to choose. Because the training will be very beneficial for both parties, the employee and the organization, it is very important to ensure of the interest of the employee to attend that specific training programme. This is attained by either making the option available for them, or by their involvement in the determination of the training. The second factor is the reputation of the training which will also influence the motivation. This can be derived from previous records related to certain training to get an observation and information about the training from the point of view of the contents and material, venue and facilities, trainer, trainer style, and the general background about the training. The third factor is the design of the training, which consists of principles like the relationship of the training contents to the job, expected reward or type of rewards available in the organization, training method applied, as well as honoring and appreciation by the firm. Fourth, trainees should find the training as a way to simplify or improve their capability to look after their form of work. Fifth, the training should fulfil their future's vision toward getting better opportunities and a better position. Finally, the training should also satisfy the trainees' needs. For example, to be distinguished by increasing their knowledge and skills or to obtain a better income. Training is a tool for any organizations' plans to enhance its functionality, because of the effect it has on the workforce potential, performance, level of skills and effectiveness. Training practitioners say it is difficult to measure the real effectiveness of the training because there are many other factors playing important roles in the personnel performance, in addition to the deliverable subject, such as supervision (social factor), trainee expectation from the programme, training aids (training environment) and other factors that has a deep impact on the effectiveness of the training and the motivation of the trainees. A good source for measuring the training effectiveness in the public sector is from the trainee's level of self-efficacy and motivation (Yanson & Johnson, 2016).

Motivation is connected with other essential factors to form an appropriate environment for training transfer to reach the effectiveness and the aim of the training. For example, suitable training facilities will motivate the employees' to attend and make the learning actually happen. Otherwise, their negative feeling will not be limited to the training itself, but to the organization in general and to the HR or training department specifically (Kirkpatrick, 1975).

3. Conceptual Framework

The framework of the study is shown in Figure 1. It presents the theoretical components of the traditional framework and illustrates the relationship between the independent variables with the dependent variable. In this study training effectiveness is the dependent variable. The independent variables are the training environment and trainee motivation. Independent variables are the factors that have influence into the effectiveness of training. Processing of data collected is by using quantitative method. Trainee’s gathered data forms the base for the training effectiveness different levels analysis.

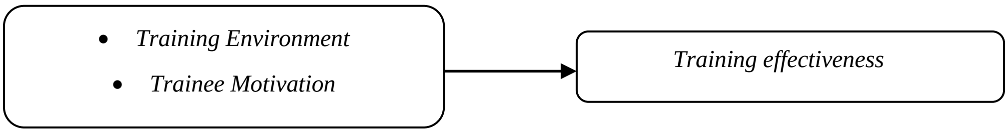

Figure 1. Research Framework of the Study

3.1. Hypotheses

Since there were studies indicating a positive and a significant relationship between training environment, trainee motivation and training effectiveness, while other studies presented conflicting results, it brings the need for more research in this subject. The aim of the study is to investigate this relationship between these factors in the public sector in the kingdom of Bahrain. Accordingly, and based on the framework of the study the following hypotheses were proposed:

H1. There is a positive relationship between training environment and training effectiveness.

H2. There is a positive relationship between trainee motivation and training effectiveness.

4. Method

Comparing the appropriateness between the measuring methods with the line of reasoning, quantitative survey type with Likert five points is the rating scale utilized that was found to be more suited for this research. Survey was found to be a useful tool for the examination of the variables’ relationship to verify the hypotheses, in addition for giving a probability to collect a large number of data from a large measure of respondents. At first pilot test is conducted to confirm the reliability of the instrument. Thirty questionnaires were requested to be filled by easiest reachable employees in the public sector. Cronbach's Alpha obtained values were 0.839 for training environment, 0.877 for trainee motivation, and 0.884 for training effectiveness.

As stated by (Krejcie & Morgan, 1970), 382 employees is the equivalent size of sample for an employees' number of population of 56,988 in the public sector. At least three months should pass after participating into the training was preserved as a criteria (Kirkpatrick, 1970). The target respondents were supervisors and clerks only. Taking into account the results of the assessment process of the factors involved, cross-sectional survey form of design was decided on to be used in addition to the quantitative method. Eleven items investigated the coefficient of influence into reaction, seven items for the learning, twelve items for the behavior, and six for the results. A total of Thirty two items were prepared to form a measuring instrument for the dependent variable. The second section of the questionnaire assessed the relationship between the training environment and trainee motivation. Six items measured the trainee motivation of the respondents. Nine items measured the training environment The Statistical Package employed for data analyses is SPSS version 23. While the third section of the questionnaire assessed the demographic analysis of the respondent.

Although, frequent attempts were made to get the entire questionnaires back, only 155 were brought back. This is according to several reasons like 60% of the targeted respondents refused to participate. Other respondents were found not to participate in any training courses in the specified period. Other respondents ignored to responsed or return back the questionnaire even with the frequent tries from the researcher. In addition 27 questioners were neglected because of unsuitably filled and accordingly deleted. The reason behind the small number of participation rate is because of the discourage research culture Arabian countries are known for (Gelaidan, 2012).

The questionnaire was also translated to Arabic language with the help of bilingual experts from the English Language Center in the University of Bahrain to increase the possibility of obtaining a clearer and precise response from a questionnaire that is conducted in an Arabic country.

4.1. Measurement of Items Virtuous

The questionnaire's items employed are extracted from other relative studies. They were examined and adopted to suit the nature of the study. The items for every training factors and the training effectiveness measured to assess the participants' response using five point Likert scale ranging from strongly disagree (1) to strongly agree (5). Eight items measured the training environment influence on the effectiveness of training programme obtained from (Yanan, 2011). The Cronbach's reliability test for the previous items was 0.839. Trainee motivation was assessed by five items (Green, 2002). The Cronbach's reliability test for these items yielded a value of 0.877.

The training effectiveness sub levels (reaction, behavior, learning, and result) are measured by thirty four items adopted from other related studies. The respondents' reaction is perceived by eleven items scales. Another three items were adopted from Al-Eisa, Furayyan, & Alhemoud (2009). Another item adopted from. One item from Barcala (2000). Another item constructed by Wilson (2000). Finally, the lasted one was from Lin (2012). The obtained value for the Cronbach alpha was 0.910.

To perceive the respondents' obtained learning seven items were adopted according to the following arrangements: Two items were from Al-Eisa et al. (2009), another one is from Tai (2006), one item obtained from Price (2001), three more were constructed by (Bin Lin, 2012). The obtained Cronbach alpha scale is 0.807.

To perceive the respondents' behavior change from the training ten questions were obtained from Lin (2012) and categorized under the training effectiveness. Two of them are from Barcala (2000), another two are obtained from Price (2001). 3 items are from Tai (2006), 2 items for (Wilson, 2000), an item for Barcala (2000), an item for Price, (2001) and the final one is from Pau (2001). The Cronbach alpha value was 0.880.

For the purpose to measure the return on investment (result), a number of seven items obtained from previous studies. Five of them were extracted from Barker (1997), and the additional one is obtained from Tai (2006), and another item was obtained from Lin (2012). The resulted Cronbach alpha was 0.939. It is identified that all the items accomplished the validity requirements.

5. Results

Computation of Cronbach's alpha displays the degree of participants' agreement toward every factor. Higher scores mean higher reliability, with extant ranges between 0 and 1. Most of the recorded dimensions represent a high level reliability. In particular, values obtained were above the cut-off 0.07 value as stated by (Pallant, 2002). The values for both the training environment and the trainee motivation were 0.850 (within acceptable limits and above 0.7). The dependent variable training effectiveness revealed an acceptable value of 0.960.

In accordance to examine the relationship between the independent variables (training environment, trainee motivation) and the dependent variable (training effectiveness) a statistics summary is performed in this section, starting by identifying the results of the descriptive statistics and analyzing the independent and dependent variables relationship. After that multiple regression analysis is conducted to measure the contribution level of the training environment and trainee motivation into the training effectiveness. Items' reliability of the survey is checked statistically by a theoretical assessment conducted in an Arabic country.

5.1. Descriptive Results

Referring to the descriptive statistics obtained data, which show that the larger number of the participants was males (58.6%). Females were only 41.4%. This does not support the idea which states that females are usually forming the larger employees' rate in the organizational culture. And referring to the age of the respondents, which show the following: 20-29 (14.8%), 30-39 (54.7%), 40-49 (19.5), and 50 or more (10.9%). This indicates that most of the respondents appear to be in the middle age. This is the most productive age for long years to come. They are far away from retirement. This supports the positive idea to maximize and get most performance of this category considering them to be the typical workforce for this sector. And in term of participants' experience, the following are the indicated information: Under 5 years (12.5%), 6-10 (30.5%), 11-15 (26.6%), 16-20 (8.6%), 21 or more were only (21.9%). It shows that most of the respondents' characteristics are considered to be beginners in the practical life. They are newly introduced to their jobs, luck the experience to shape their characteristics and behavior and will form a good category to react positively to the training. Training for sure will improve their performance from now on.

5.2. Correlation

Based on the generated outcomes from the variables analysis, it was found that an inter-item correlation of high value exists between all the dimensions. Appendix A displays the results of the correlation between training environment, trainee motivation and training effectiveness. It is revealed that training environment and trainee motivation are positively correlated to training effectiveness. These correlations confirm the study's hypotheses H1, and H2 to have a positive relationship between training environment, trainee motivation, and training effectiveness.

Table A. Correlation results

	Training Environment	**Trainee Motivation**	**Training Effectiveness**
Training Environment	1		
Trainee Motivation	.291**	1	
Training Effectiveness	.398**	.587**	1

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

5.3. Regression Analysis

Appendix B reveals the outcomes of the multiple regression analysis to which the training environment and the trainee motivation variables affect training effectiveness. These outcomes show that training environment and trainee motivation together contributed to training effectiveness by a variance of .401 (40.1%). It revealed that 40.1% of the variance in training effectiveness can be accounted by the individual variables dimensions. The trainee motivation has the larger influence on training effectiveness having a beta value of .515 over the influence of training environment which accounted for a beta value of .248.

Table B. Correlation results

Variables		**Beta**	**T-ratio**	**Sig. t**
Training Environment		.248	3.232	.002
Trainee Motivation		.515	6.705	.000
R Square	**.401**			
F	**37.150**			
Sig.	**.000**			
Durbin-Watson	**1.968**			

N=114 *p<.05 ** p<.01

5. Discussion

The concluded findings in this study clarify the positive significant relationship from training environment into training effectiveness. They match other previous studies' findings like the one by Shabha & Gaines (2013) stating the positive relationship between the training environment and the training effectiveness. While the governmental organizations suffer from shortage in other factors related to training effectiveness such as promotions or rewards to encourage employee's performance enhancements, brings the necessity to bring attention to different available training performance boosters subjects like the training environment and the trainee motivation. These organizations need to focus more into similar factors for the reason of a rapid development pressure from the current more complicated nature of work.

Arguably, the results in this study verify previous studies which confirm that well prepared and equipped training environment can enhance the trainee's reception of the new knowledge and intention to learn from the training. Trainee's enhanced learning performance is connected and influenced by the trainer ability to prepare a suitable training environment and employee to a high degree the training process equipment's and simulators exists in that environment. The organization and the trainer can affect the degree of learning obtainable by employment of the supportive medium and encouraging atmosphere. This in turn maximizes the organizations productivity and allows it's distinguishing. Plentiful advantages to all the parties involved; the staff, the management the clients or beneficiaries and the organization can be achieved using such approach. This statement confirms antecedent studies that viewed training environment as having an affirmative relationship with training effectiveness such as Diamantidis & Chatzoglou (2012), and Sanjeevkumar & Yanan (2012).

The above stated justifications in theory support the previously mentioned literatures reviewed supporting the importance of the training environment to create motivation inside the trainee facilitating the training's purpose. Even with the influence level of the other training process related factors, the above mentioned training factors antecedents can have lower or higher influence degree into the training effectiveness in comparison with other factors which has also been confirmed in the outcomes of the study. It was revealed in this study that the trainee motivation was the higher effective factor compared with the other argued factor. The training environment is still effective, but it is the least effective factor.

Finally, the results also show that there is a significant positive statistical relationship between the training effectiveness and trainee motivation. This supports hypotheses H2. This indicates the important role played by this factor and represents an essential practice for being one of the effective factors regardless of the population or nature of the organization. Thus, trainee motivation forms a supportive party to the public sector. However, in any status, organization is required to give much of important awareness to encourage employments of any employees' motivation enhancers such as post training rewards, because the better the encouragement the employee get, the more effectiveness will be reflected to the organization and gain from training. Therefore, when investing or establishing for a good motivation strategy for the advantages of training, it will be a successful training first of all which in turn helps the organization to jump into a higher profession stage.

6. Conclusion

The outcomes of this study studied the impact of training contextual factors on the training effectiveness by collecting primary data from employees in the public sector. Sample employees consist of clerks and supervisors to explore the dimensions' significance of the training factors placed under focus in this study. The accomplished results showed that training factors have a significant effect in the training performance. Accordingly, it verifies for the training specialists to pay attention to these important factors. This helps them to achieve competitive benefits. Other essential concerns are not researched on this study. More research is required to broaden the subject's area. Although with the existing boundaries in this study and possibility for more expansion, its findings' importances are still visible. An example of those boundaries is the limited participants' number forming the studies sample. This works against generalize the findings. This indicates the importance for more studies to increase the sample's size, and to explore other areas and factors such as the training material, trainer, and social support.

Moreover, these findings can also benefit any other organization without limiting the sector. They can also be used to evaluate the same programme in other countries, or a local different sort of training programmes. It is also important to indicate that in the course of inspecting and searching concerning literatures on training effectiveness and the related factors, most of the literature studies focused factors take place in the training venue such as the training material and the trainer style. Factors take place outside the training venue did not get the appropriate attention such as the social support. In addition to that, the majority of previous studies were conducted in either western or Asian countries.

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Small Business Tax Evasion, is There a Case of Internal Finance?

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Abstract: As long as there are taxes, the incentive for evasion will exist as well. Studies for tax evasion are of interest in different fields like that of economics, public finance, personal finance, business administration, business finance, financial accounting, in the banking system etc. However, there are only a few studies about the internal causes and financial incentives that oblige decision-makers of small firms towards tax evasion. When we refer to business tax evasion, always brings to mind sensational cases of large businesses that evade taxes, but business tax evasion is a widespread phenomenon even to small firms. To be more competitive, small business must have a consistently entrepreneurial orientation, but limited financing prevents this, therefore the business savings from tax evasion is believed to be an internally funding path. The restrictions on small firms financing often make them orientate more toward internal generation of funds, which also has few alternatives. As a way to internal saving, firms often find tax evasion, which is not only a deviant and unethical behavior, but also puts firms into many difficulties in the long run. Consequently, the study aims to discuss the phenomenon of tax evasion in the managerial practice of small business in an Albanian region, as well as its financial cause as is perceived by the small business. The study findings report that the deviant behavior of businesses from taxes considers the need for internal financing as an important reason. The study concluded that savings from tax evasion is an alternative of internal financing primarily for small and early-staged firms, and that if entrepreneurs are capable of a good business model and competitive strategy, they will not need to make evasion.

Keywords: small business management; small business financial planning; owner-manager; developing country

JEL Classification: D92

1. Introduction

Engelschalk and Loeprick (2016) stated that "Business taxation is at the heart of the relationship between the state and its economic constituents" (pp. 145).

Nyang'au (2016) remind us that:

Tax evasion and avoidance is not a new practice. It has existed for centuries, dating back to two thousand five hundred years ago. During this period (two thousand five

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hundred years ago), while writing about tax evasion Plato said that the Ducal palace of Venice had a stone with a hole in it through which people would inform the state about those who evade taxes. In India, during the third century B.C., the state craft, arthasastra did advise the Mauryan kings to take good care of state revenues or else they be misappropriated by the people for their own benefit (Fjeldstad, 2006; ac cited in (Nyang'au, 2016, pp. 17))

In financial viewpoint, taxes are cash inflow for public finances as well as cash outflow for business finances, so they are obviously two opposing interests, as well as two different financial goals. If we put these two orientations versus each other, we can say that while one of the financial objectives of business is to minimize taxes that does not seem consistent with the objective of tax authority. However, a small business has a range of financial objectives that vary from those of a large company, and so do the sources of small businesses financing compared to large companies. If we refer to the characteristics of a small business operating in Albania, it generally turns out that they are privately funded and mostly by personal savings of their owners which are moreover limited to financing due to poor financial reporting, and often apart earning after tax or accounting profit it creates an informal saving through tax evasion. Although the study deals essentially with an unethical behavior of business not only for the damage that this phenomenon causes to public finances, but also because this is a very important issue for the financial perspective of the business as a phenomenon that appears in the financial management practice of small firms, as well as the fact that tax evasion is considered by the owner-managers of these firms as a rescue plan for financing business.

2. Review of Literature

2.1. Issues of SMEs

Small and medium enterprises are an important pillar for the economy of all countries. The importance of SMEs is already well known for the Albanian economy, according to the Bank of Albania SMEs account:

On average 99.6% of total enterprises in the country, a figure almost stable throughout the period 2006-2011. Micro enterprises, which employ an average of 1 to 4 employees, seem to be typical enterprises in Albania representing on average 91% of the market share of enterprises in Albania. While large enterprises constitute a very small part of the total enterprises, accounting for only 0.38% of their total (Bank of Albania 2013, pp. 134).

According to ITC (2012):

Tax evasion and avoidance are both phenomena that are probably as old as taxation itself. Wherever and whenever authorities decide to levy taxes, individuals and firms try to avoid paying them. Though this problem has always been present, it becomes more pressing in the course of globalization as this process extends the range of opportunities to circumvent taxation while simultaneously reducing the risk of being detected (pp. 7).

According to Ojeka (2011) one of the main problems faced by SMEs is the difficulty in access to capital in the short and long term too. According to La Porta and Shleifer (2014) businesses or informal firms account for nearly half of economic activity, although their impact on economic development is to be discussed. According to a report of McKinsey, Global Institute defined informal businesses as parasitic that compete dishonestly with tax compliance firms (Farrell 2004; as cited in (La Porta & Shleifer, 2014)), therefore informality should be banned. Formal and informal firms have such big differences, for example, owner-managers of formal firms are more educated and consider that it is more productive to have businesses slightly larger and formal, while entrepreneurs of informal firms are often uneducated and run businesses that trade poor quality products for low-income consumers (La Porta & Shleifer, 2014). According to Boka and Torluccio (2013) informality in Albania's economy has emerged since from the initial stages of the Albanian economy transition into a market economy, which is also affected by the slow progress of the institutional and political changes and of the economic austerity ongoing. Evasion and tax avoidance seem to be a problem that accompanies the economies of all countries and that cause to the governments of these countries even more loss (Greene, 2009; Choong & Wong, 2011; Ahangar, Bandpey & Rokny, 2011; Ross & McGee, 2011, as cited in Zakaria Ahmad, & Noor, 2013).

According to Greene (2009) a study proved that 25% of US taxpayers admit that they are not honest in reporting taxes, a problem that in European countries is even more frequent, and also in developing countries, too (as cited in Zakaria Ahmad, & Noor, 2013).

2.2. Issues of Small Business Internal Financing

According to Lee (n.d.) extending small business does require investment, which will be realized only if the firm has adequate access to financing. Despite this, however, the external funders, moneylenders or potential investors are not very willing to finance small businesses, hence internal finance is the most accessible resource for small business investments.

2.3. Small Business Internal Sources of Finance

According to Lee (n.d.) retained earnings of the company are one of the easiest accessible sources of financing and are automatically active because the owner instead of withdrawing the profit can use it for investment. Current assets include cash or other assets that are more liquid, for example, inventory etc. However, given that this type of asset serves as a type of internal funding source, it should be regarded carefully because apart from that, their level should not be lower than current liabilities, for not risking financial failure of the company. Lee (n.d.) explains that fixed assets are not very liquid, so they cannot be a quick source of funding for the firm. However, a good case could be the sale of some fixed assets, such as a vehicle etc. in order to finance the purchase of new assets. The fact that personal savings of the owner are the main financing sources of small business is incontestable, especially in cases when the business is incapable of funding through the use of its assets. Personal savings can be used easily for business financing and they are a good alternative because assure a good way to keep business still under control (Lee, n.d). Empirical studies also show that a good part of the small Albanian firms are self- financed from internal resources, for example, according to the study of Lipi (2013) it is proved that the majority of firms, almost 84% of firms included in the study were financed by personal savings of the owner in the start-up stage and even during their evolution personal savings were one of the main sources of financing the SMEs.

2.4. Issues of Taxation and Tax Productivity for Albania

The World Bank (2014) report shows that tax productivity is determined by the tax collected as a percentage of the tax base (GDP or consumption) in proportion to the standard tax rate, so in terms of the VAT productivity, the basis is the total consumption.

While in regard to personal income tax and corporate income tax, the tax base in this case is the GDP. Logically related, productivity measures the length of tax base being taxed and the portion not being taxed because of the exclusion policy from tax, tax amnesties and tax subsidies that narrow the tax base, or due to problems in tax administration, corruption and collusion. The tax productivity, however, should theoretically be 100, considering the entire taxable base to be taxed, because theoretically there would be no exceptions or other spillages due to evasion. The report proves that (World Bank, 2014) VAT[1] productivity in the Albanian economy is 53%, while the productivity of this tax for Eastern Europe is 66%. In other words, for every 1 per cent of tax rate, VAT is collected only for about 53% of total consumption (the VAT base), as a result 47% of the base is untaxed. This performance is a consequence of the policy of exclusion of some sectors and transactions of the base, or due to problems of tax administration, tax evasion and corruption.

The productivity of PIT[2] and CIT appears lower, resulting 6% and 17% respectively, implying that only 6% of the base (or GDP) is taxed in terms of PIT, while the performance of CIT is presented somewhat better, while the productivity of Eastern European Countries in terms of CIT and PIT is on average 7% and 16%

[1] Value added Tax.
[2] Personal Income Tax and Corporate Income Tax.

respectively. The report (World Bank, 2014) also notes that there is enough room to improve the collecting performance of the income tax and VAT as well, by reducing exemptions and amnesties as well as by improving the capacity of fiscal authority in the sense of being capable to detect evasion through data investigation and coordination of information from different sources. However, the chances of improving tax productivity are greater for the income tax than VAT, referring here mostly to personal income tax. According to a study about shadow Economy (Schneider, Friedrich, Buehn, & Andreas, 2007), informality in Albania is estimated at 35.1% of GDP with an approximate result to the average of Eastern Europe. According to Transparency International Corruption Barometer[1], corruption in Albania is ranked as a major problem; even further World Bank in its report explains that the bulk of the informal economy, of the corruption and lack of efficiency of the institutions are associated with high levels of evasion and weak tax administration (2014).

3. Methodology

This study is organized by a qualitative approach due to its objectives, its main aim is to describe and define perceptions, mind-sets, beliefs, attitudes, experiences and generate insights for other future quantitative or qualitative studies regarding such a sensitive issue for its impact on Albanian economy. An interview has been the main data collection instrument, which contained mainly open questions with carefully chosen words. After analyzing the empirical data, I have defined the patterns of the answers according to the topics of the interview in attempt to understand the behavior of firms in relation to tax evasion by the firm longevity, firm sector and legal form, or in connection with the use of savings from tax evasion as a funding source for the firm, and in respect to other motives that push business towards tax avoidance. Also another important question and an important objective of this study was to explore who is responsible and even who takes the decision for small business tax evasion behavior, aiming to investigate as well this behavior according to a humane perspective. So through the perceptions of the respondents is intended to understand, describe and discuss the behavior of small business in relation to tax evasion in an Albanian region, making the results of this study descriptive rather than predictive. To organize this research 30[2] small businesses of different sectors such as trade, services, and good manufacturing are included in the study, aiming a representative sample from various sectors of the economy. Interviews were addressed to the economists of these firms and not to their owner-managers, in order to provide an objective inquiry, given that this is a very sensitive topic for the owners who are the main decision makers of small businesses. The research data were collected in the region of Vlora during the first

[1] Transparency International Corruption Barometer 2013. Transparency International.
[2] A sufficient sample for the object of this study and the research approach.

quarter of 2015[1], and in the focus of the study were a group of small firms[2] operating in Vlora Region, representing so a sample of entrepreneurial firms from a developing country.

4. Data Analysis and Study Findings

In the following are presented study findings after the research data haven been analyzed, referring respectively to the research questions or to the study objectives.

So referring to the question whether tax evasion can be stimulated by the need for cash and liquidity, results that all the respondents affirm that, and some of them imply that:

- The need for money is the main cause of evasion;
- Through tax evasion business enhance its income and thus maximize the firm's profits, or even the owner income;
- Businesses tend to save funds through tax evasion mainly when sales decrease.

However, despite the semantics of the answers of this question, almost 80% of respondents believe that tax evasion is so far largely driven by the business needs for financial resources.

Referring to the second question whether the savings from tax avoidance can serve as a source of internal financing, respondents generalize that although savings from tax evasion is a source of informal financing, it serves, however, as an important source of internal financing especially when the company is in the early stages; or when the business is small if we refer to its turnover of under 8,000,000 Lek and also when it operates as a sole Proprietorship.

Another question of the study is related to the impact that the firm age may have on tax evasion behavior, so I have chosen to describe their responses as follows, given that some opinions appear to be somewhat contradictory:

- The answers of this question result from several perspectives:
- If firms are older and more experienced, bigger is their incentive for evasion;
- Firms adapt better to fiscal requirements over the years;

[1] The action against informality by Albanian government started in September (which seems to have had no effect on the behavior and validity of the interviewees' opinion, given that interviews are made earlier than governmental action against informality).
[2] Classified according to the number of the employees based on law no. 8957, 17.10.2002, For small and medium business; small business have from 10 to 49 employees.

- The incentive for tax evasion depends not only by the age but also by firms financial performance;
- Evasion is a phenomenon of all firms regardless to their age and longevity.

However, most of the respondents believed that stimulation or incentive for tax evasion is related to the firms' longevity, arguing that the greater life expectancy of the firm the greater the incentive for tax evasion is, and also becomes more difficult for the firm to convert into a tax compliance in the future.

Another question of the study intended to bring to light the behavior of tax evasion by various sectors. The answers of the respondents implied that in terms of business sector the firms with greater evasion incentive are the bakeries, restaurants, and cafes.

Respondents also figured out that commercial retail firms are more likely to evasion being also influenced by poor financial culture of their customers who generally do not require an invoice or a fiscal receipt, and also because their suppliers are mainly households, farmers, cattlemen or different craft manufacturers. The respondents indicate also that trading firms are more likely to avoid taxes perhaps due to the uncertainty and competition, to the low profit margins, and of the selfishness of their owner-managers to maintain the profit.

"Is there a connection between the phenomenon of tax evasion and legal form of the firm?" was another question raised in this study.

From the responses emerge some contradictory perceptions, such as:

- Evasion behavior is related more to the sector where firm operates rather than its legal form;
- The larger the firm the better it is organized by a legal perspective, apparently less oriented toward evasion (e.g. as in a limited company);
- The larger the company the greater the profit to be preserved (e.g. as in limited companies);
- The bigger the firm the stricter the tax audit is (e.g. as in limited companies), therefore there is less abuse (or tax evasion) compared to sole proprietorship firm.

Yet it is worth explaining that the legal form of the firm is often unfairly selected or it does not adjust to its size and age, so given that the legal forms do not fit in well with the firm's own organization; so firms often opt for tax evasion to compensate their legal costs.

Another issue or important insight discussed in the study is about the reasons, motivations, and incentives that push businesses to avoid taxes[1]. In table 1 are

[1] This question is formulated based on previous studies.

listed a number of motives for which respondents have given yes or no answers based on their perception for these topics.

Table 1. Reasons of tax evasion

Are the following reasons incentives for tax evasion?	% Yes	% No
Culture of owners (such as lack of ethics or the ego to earn more etc.)	90%	10%
High costs of doing business	80%	20%
Higher taxes	80%	20%
Because others do not pay taxes too	76%	24%
To reduce cash outflows during difficult financial periods or during sales decrease	66%	34%
Higher interest and credit costs of financing	60%	40%
To reduce business costs and to be more competitive	60%	40%
Due to restrictions or refusal by banks for loan financing	30%	70%

Following the idea of the above question, another issue explored in this study questions: "Who is the most implicated decision-maker in tax evasion"? According to the empirical data, 100% of the interviewees testify that are precisely firm owners who orient the firm towards tax evasion behavior. They also mention other actors who through their action or inaction support this attitude such as the firm controller and public accountant, the manager, the salesperson, inventory specialist, cashier etc. (perhaps under the pressure of the owner itself).

5. Conclusions

As long as there are taxes, the incentive for evasion will exist as well. Studies for tax evasion are of interest in different fields like that of economics, public finance, personal finance, business administration, business finance, financial accounting, and also in the banking system. However, there are only a few studies about the internal causes and financial incentives that oblige decision-makers of small firms towards tax evasion (or fraud Taxation). Informality is a phenomenon that occurs to small firms and medium enterprises operating in all sectors of the Albanian economy. This phenomenon is reflected and implied in the statistics of the National Registration Center. According to this source only during January-October 2015 over 33,125 businesses were registered, about 122.3% more than the same period during 2014[1], assuming that some of these firms have exercised previously informal activity and due to considerate tax control they were later registered to run their activities formally. Also, if we refer to previous studies about tax evasion implications and funding sources results that:

When external sources of financing become more scarce or expensive, firms have incentives to avoid taxes. According to this reasoning, firms that depend more on external financing will have their tax avoidance activities more related to the external financing conditions. Hence, the more restrictive external financing conditions (the interest rate these firms face for credits) the greater tax evasion and avoidance (Troncoso & Vergara, 2010, pp. 10).

The study findings report that the deviant behavior of businesses from taxes considers the need for internal financing as an important reason. According to the findings of the study, although various and even opposing, has been defined that savings from tax evasion is an alternative of internal financing primarily for small and early-staged firms. In this way, the firm can increase the base of real earnings and internal funds, and thus minimize external financing and debt cost as well. So referring to the study objective it is recommended that policymakers must design a complete economic model to promote the formal economy for a simultaneous and harmonious benefit to all economic factors such as business, individuals, banks, society in general and public finance too. What we may conclude referring to the firms themselves is that if the entrepreneurs are capable to set a good business model and competitive strategy, they will need not to make tax evasion. It is also recommended that businesses, including small ones, must develop among other functions of the business especially the planning function[2], making thus possible that the business have legal benefits from the performance of its marketing function, administrative and financial management function, and not through temporary and unethical incentives.

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Implications of Fiscal Responsibility on Economic Growth

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Abstract: Governmental decisions play an important role in the critical periods of the economy and usually in base of the strategy adopted, can make an effective contribution to the budget process while preserving fiscal discipline. This study tests the implications of fiscal responsibility on economic growth with the scope to analyze and find out the major issue of responsible public finances. In base of logistic regression results, the study leads to the conclusion that may be wise to re-evaluate plans to cut net government revenue in future budgets and instead take a more strategic approach to nurturing growth in the EU economy.

Keywords: fiscal responsibility; fiscal rules; economic growth

JEL Classifications: G28; E62; H72

1. Introduction

Many decisions involve “temporal dilemmas”, that is conflicts between the immediate and delayed consequences of one’s actions. In the same way, governmental decision, have a direct impact on the standard of life and economic stability of entire populations, being very important that this decisions to have like support a solid strategy, a good management and a solid legal framework. We find also like argue that fiscal, or budgetary transparency has large, positive effects on fiscal performance (James, Dreyer, 2002, p. 141).

There are a lot of people who believe that fiscal responsibility, a concept who involves transparency, efficiency of public administration and care for future generations by improving sustainable development, has large and positive effects on fiscal performance. According to the IMF, “transparency in government operations is widely regarded as an important precondition for macroeconomic fiscal sustainability, good governance, and overall fiscal rectitude” (Kopits & Craig, 1998, p. 1). However, while such asserted effects are common, there is not

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much empirical evidence about institutional transparency and fiscal policy outcomes. Some links appear between fiscal transparency and fiscal performance in European countries, and between indirect measures of transparency and fiscal performance in Latin American countries. Many remain convinced of the importance of fiscal policy, unrealised the role of consolidate a series of principles to guide to the way of public health finance and care for future generations.

Ewijk and Casper (2006), relate that healthy public finances contribute to macroeconomic stability and support monetary policy in maintaining stable prices at low interest rates. Both effects are conducive to private investment and savings. On the other hand, by reducing public debt and the interest burden, this also creates room for a reduction in distortionary taxes and an increase in productive public spending (Wong, Christine, 2000, p. 55). The theoretical literature on the causes and consequences of fiscal, or budgetary, responsibility and transparency is not large (Rogoff, 1990). From a theoretical point of view, Shi and Svensson (2002) emphasizing that voters want more competent politicians in office, as they can provide more public goods for given levels of taxation and private consumption. In this way, besides issues related to the theory of public choice (Buchanan, Musgrave, 1999 p. 16), a theory widely treated by economists consecrated in the field, more important is the citizens' trust in the representatives of the central level. From other studies, results on deficit and debt accumulation: that transparency decreases debt accumulation, at least partly through an effect on the electoral cycle (Shi & Svensson, 2002), that increasing political polarization increases debt accumulation[1].

The economic and financial crisis badly weakened public finances in EU countries and significant efforts in recent years and an improved economic outlook are bearing fruit and Member States have succeeded in reducing deficits and stabilising debt levels. The purpose of this paper is to tests the implications of fiscal responsibility on economic growth with the scope to analyze and find out the major issue of responsible public finances. In base of logistic regression we want to offer an opinion on the specifics of fiscal responsibility, in order to predict GDP growth in the nature of tax rules (rules that based on own specific content, summarizes compliance with fiscal responsability of the budget).

2. Data and Methodology

The methodology used is quantitative, based on the use of logistic regression, wich in contrast to the multiple linear regression, where you can predict, based on several independent variables, a numeric dependent variable, logistic regression allows predicting a dichotomous nominal variables. Linear regression method

[1] See, for instance, (Alesina & Tabellini, 1990).

assumes that both factorial variables and variable the result is the continuous type; by contrast, logistic regression allows working other types of variables. Logistic regression model describe the relationship between a dichotomous variable Y, which takes values 1 (Success) and 0 (failure), and k factorial variables x_1, x_2, x_3…..x_k. Thus, we can focused to analysis the influence of variables on GDP growth, wanting to show the implications of fiscal responsibility on administrative work and indirectly, on economic growth.

A detailed presentation of logistic regression methodology and of the issues raised by its use was performed by Amemiya, T. (1985), Balakrishnan, N. (1991), Hosmer, David W.; Stanley Lemeshow (2000), Agresti, Alan (2002) and Green, William H. (2003). In this study, the dependent variables is: GDP growth, encoded in the analysis with 1 and 0-average under 2.27 = 0, over 2.27 = 1 and independent variables are: Total fiscal rules, Public Debt, Total revenue, Total fiscal pressure, Total general expenditure, GDP growth, Net lending (+)/net borrowing (-).

The variables considered in the logistic regression model are:

- ✓ **Dependent variable (Y)** – *GDPgr (*real GDP growth) – converted numerical variable in dummy variable- categorical: it resorted to calculating the average, was established as follows: 0 = average under 2.27 over 2.27 = 1.

- ✓ **Independent variables (X_j)**:

  - X_1 -Tfr (Total fiscal rules);
  - X_2-*Bl* (Legal basis of fiscal rules);
  - X_3-*Tec* (Type of economy).

By placing all variables used in the analysis of any nature whatsoever final logistic regression model used in the analysis is as follows:

$$\log\left(\frac{p}{1}-p\right)GDPgr = \alpha + \beta_0 Tfr + \beta_1 Bl + \beta_2 Tec$$

3. Results and Discussions

Statistical description of the evariables used in the analysis is shown in Appendix. no 1. It can be seen that the data set is complete quantitative variables, which each have a set of 28 records. Analysis of indicators aimed at central tendency, exemplified through the media, reveals that the average value: -1.50 GDP growth is due to negative values in some countries such as Cyprus, Finland and Croatia, the tax rules 2.00, 10.70 Public debt, total revenues, 33.60, 26 fiscal pressure, total expenditure, 34.4 and deficit, surplus, 8.50 due to the preponderance of deficits values in 28 countries.

Standard deviation analysis highlights the following issues:

- ✓ total sales tax rules is one less dispersed, which varies from the average level of 1.16553% positively or negatively. We can say that 68.2% of the total tax rules fall between ± σ x¯respectively ± 1.6553% 3.3929%;

- ✓ distribution of public debt is very dispersed that vary from the average level of 39.16905% of GDP positively and negatively. We can say that 68.2% of the total public debt distribution is between ± σ x¯respectively 74.2643 ± 39.16905% of GDP;

- ✓ total income distribution is one less dispersed, which varies from the average level of 6.62096% positively or negatively. We can say that 68.2% of the total income is between ± σ x¯ie 43.1679% ± 6.62096;

- ✓ distribution of total fiscal pressure is one less dispersed that vary from the average level of 0.06395% positively and negatively. We can say that 68.2% of the total fiscal pressure is between ± σ x¯0.3618 ± 0.006395% respectively;

- ✓ distribution of government spending is one less dispersed, which varies from the average level of 6.52418% of GDP positively or negatively. We can say that 68.2% of the total of private saving is between ± σ x¯ respectively 46.1750 ± 6.52418% of GDP;

- ✓ distribution Net lending (+)/net borrowing (-).is one less dispersed, which varies from the average level of 2.49549% of GDP positively or negatively. We can say that 68.2% of the total of private saving is between ± σ x¯respectively ± 2.49549 -2.49549% of GDP;

Analysis of form distribution reveals that shape distributions for four of quantitative variables are asymmetric to the right since the coefficient of asymmetry Perason β_1 is greater than zero $\beta_1 > 0$ for all distributions respectively: 0.052 for fiscal rules, 0805 for public debt, 0.365 for total revenue, 0,283 the tax burden, 1222.

Logistic Regression Results

Table Case Processing Summary (Appendix 2.) shows that there are 28 records used in the analysis 0while Table Dependent Variables Codings highlights that are specific codes for dummy variable, with 0 being denoted countries with a growth rate of GDP less than 2.27 to 1, those average over 2.27. Appendix 3. Classification Table, shows that there are 14 countries that have a GDP growth rate of less than 2.27, another 14 have rates above 2.27. It notes that the model fails to predict a probability of 57.5%.

Table 1. Variables not in the Equation

Variables not in the Equation					
			Score	df	Sig.
Step 0	Variables	TRF	1.287	1	.257
		Bazalegala	.206	1	.650
		Tipuleconomiei	2.800	1	.094
	Overall Statistics		5.177	3	.159

Source: own calculations using SPSS

In this table - Variables not in the Equation are presented variables that were not used in the initial stage forecasting logistic regression (Block 0), respectively: Type fiscal rules, the legal basis, the type of economy and value Sig. It shows how strongly influenced model as if it were introduced.

Table 2. Omnibus Tests of Model Coefficients

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	5.745	3	.125
	Block	5.745	3	.125
	Model	5.745	3	.125

Source: own calculations using SPSS

- ✓ *Hypothesis testing*

H_0: invalid model (independent variables have no influence on the dependent variable);

H_1: The model is valid (independent variables have influence on the dependent variable).

- ✓ Significance step: $\alpha = 0.05$;
- ✓ *Establishing the rule of decision:* If sig $\geq \alpha$ not reject the hypothesis H_0 &If sig $< \alpha$ reject the hypothesis H_0;
- ✓ *Interpretation of results.*

Omnibus test, shows that Sig = 0.12> α = 0.05, so the null hypothesis is accepted, the introduction of the model variables excluded in the preliminary stage significantly altered our ability to predict GDP growth based on the critical nature fiscale. Since the critical value = 0.125 Sig I can say with a 1% risk assumed that the model is statistically significant and its results can be used in predicting the dependent variable.

Table 3. Hosmer and Lemeshow Test

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	5.433	7	.607

Source: own calculations using SPSS

✓ *Hypothesis testing*

H_0: There is a good connection between the model and the data recorded;

H_1: There isn't a good connection between the model and the data recorded.

✓ Significance step: $\alpha = 0.05$

Establishing the rule of decision

If sig $\geq \alpha$ not reject the hypothesis H_0;

If sig $< \alpha$ rejected the hypothesis H_0;

✓ *Interpretation of results*

Sig = 0.607 > α = 0.05 which shows that the null hypothesis is accepted. It can guarantee a 95% probability that there is a good correlation between the model and the data recorded.

Table 4. Contingency Table for Hosmer and Lemeshow Test

Contingency Table for Hosmer and Lemeshow Test						
		GDP growth = under 2.27		GDP growth = over 2.27		
		Observed	Expected	Observed	Expected	Total
Step 1	1	2	2.545	1	.455	3
	2	2	2.205	1	.795	3
	3	3	2.123	0	.877	3
	4	0	.516	1	.484	1
	5	3	2.382	2	2.618	5
	6	1	1.395	2	1.605	3
	7	1	1.351	2	1.649	3

	8	2	1.064	2	2.936	4
	9	0	.420	3	2.580	3

Classification Table[a]					
	Observed		Predicted		
			GDP growth		Percentage Correct
			Under 2.27	Over 2.27	
Step 1	GDP growth	Under 2.27	7	7	50.0
		Over 2.27	3	11	78.6
	Overall Percentage				64.3
a. The cut value is .500					

Source: Own calculations using SPSS

Following the introduction of the logistic regression model of the independent variables, can be seen that the increased degree of accuracy estimation model from 50.0% (baseline when it was included only constant) to a 64% by inclusion of independent variables the legal basis, such as fiscal rules, such as the economy.

Table 5. Variables in the Equation

Variables in the Equation							
		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1[a]	Tfr	-1.190	.820	2.107	1	.147	.304
	Legal base	.045	.283	.025	1	.873	1.046
	Type of economy	2.087	1.112	3.522	1	.061	8.063
	Constant	-.848	1.473	.331	1	.565	.428

Source: Own calculations using SPSS

The logistic regression model equation: E (Y/X) = π (x) = $\frac{e^{-0.848 - 1.190 \cdot X_1 + 0.045 \cdot X_{2+2.087.X3}}}{1+ e^{-0.848 - 1.190 \cdot X_1 + 0.045 \cdot X_{2+2.087.X3}}}$.

The estimate parameter β1 is set to -1.190. The negative value of this ratio shows that an increase of 1.0% fiscal rules, lowering the chances estimated growth rate of GDP is below the average of 0.5%.

Table 6. Variables in the Equation

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	.000	.378	.000	1	1.000	1.000

Source: Own calculations using SPSS

Table Variables in the Equation are presented probabilities of Wald test (Sig = 0.1). For independent variables considered in the analysis, the value of these probabilities is greater than the materiality threshold α (0.05), thus accepting the null hypothesis (H0: βj = 0). Basically, there is a good connection between the model and the data recorded.

4. Conclusion

The way in wich the state uses the mechanisms of public finances to counteract some disturbing phenomena of the economy, is a subject of intense debate and I would say there are many studies that test the connection between the state and public finance mechanisms, but few bring into discussion the importance of fiscal responsibility and accountability of governments. In other, on the occasion of establishment of the economic crisis and an ever increasing need for efficiency in using financial resources and support sustainable development, has become a need for regulation at EU level, with implications for Member States, which led to the consolidation of certain tax rules, all this having as finality the creation of public administration efficiency.

The methodology is based on the use of logistic regression, wich in contrast to the multiple linear regression, where we can predict, based on several independent variables, a numeric dependent variable, logistic regression allows predicting a dichotomous nominal variables. Linear regression method assumes that both factorial variables and variable the result is the continuous type; by contrast, logistic regression allows working other types of variables. We had focused to analysis the influence of variables on GDP growth, and showed the implications of fiscal responsibility on administrative work and indirectly, on economic growth.

In base of study results, Sig = 0.607 > α = 0.05 which shows that the null hypothesis is accepted. It can guarantee a 95% probability that there is a good correlation between the model and the data recorded. Following the introduction of the logistic regression model of the independent variables, can be seen that the increased degree of accuracy estimation model from 50.0% (baseline when it was included only constant) to a 64% by inclusion of independent variables the legal basis, such as fiscal rules, such as type of economy economy. Wald test (Sig = 0.1). For independent variables considered in the analysis, the value of these probabilities is greater than the materiality threshold α (0.05), thus accepting the null hypothesis (H0: βj = 0). Basically, there is a good connection between the model and the data recorded.

Basically, the result of our study demonstrate that there are a lot of implications of fiscal responsibility on economic growth, because, in terms of transparency, care for future generations and a legal framework capable to assured a solid systems of public finances, responsibility, resolve the major issue of responsible public finances.

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Appendix

Appendix 1. Statistical description of the e variables

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Total fiscal rules	28	2.00	5.00	3.3929	1.16553	.052	.441	-1.482	.858
Public Debt	28	10.70	179.70	74.2643	39.16345	.805	.441	.726	.858
Total revenue	28	33.60	56.70	43.1679	6.62096	.365	.441	-.759	.858
Total fiscal pressure	28	.26	.48	.3618	.06395	.283	.441	-.905	.858
Total general expenditure	28	34.40	58.10	46.1750	6.52418	-.023	.441	-.773	.858
GDP growth	28	-1.50	8.50	2.2714	2.28081	1.222	.441	2.380	.858
Net lending (+)/net borrowing (-)	28	-8.80	1.50	-2.9321	2.49549	-.228	.441	.065	.858
Valid N (listwise)	28								

Source: Own calculations using SPSS

Appendix 2. Case Processing Summary

Case Processing Summary			
Unweighted Cases[a]		N	Percent
Selected Cases	Included in Analysis	28	82.4
	Missing Cases	6	17.6
	Total	34	100.0
Unselected Cases		0	.0
Total		34	100.0

Dependent Variable Encoding		
Original Value	Internal Value	
Under 2.27	0	
	Over 2.27	1

a. If weight is in effect, see classification table for the total number of cases.

Appendix 3. Classification Table[a,b]

Classification Table[a,b]					
	Observed		Predicted		
			Cresterea PIB		Percentage Correct
			mai mic de 2.27	peste 2.27	
Step 0	Cresterea PIB	mai mic de 2.27	0	14	.0
		peste 2.27	0	14	100.0
	Overall Percentage				50.0
a. Constant is included in the model.					
b. The cut value is .500					

Source: Own calculations using SPSS

The Economic Geography of South Africa's International Tourism Industry

Christian Myles Rogerson[1]

Abstract: The business of international tourism is a growth industry and key driver for economic development in many countries. For national and local policy makers the attraction of international tourists is of major importance for economic and social development. Understanding the flows and impacts of international tourism is a vibrant issue in global tourism scholarship. Although the global flows of international tourism are well documented, much less understood are the spatial patterns of international tourists within national territories. The objective in this paper is to analyse scientifically the overall economic geography of international tourism flows in South Africa. An uneven geographical pattern of development of international tourism is disclosed for the period 2001-2012. In interpreting this spatial distribution it is argued that a conceptual distinction be drawn between the different mobilities of South Africa's cohorts of long haul as opposed to regional African visitors. The economic geography of international tourism in South Africa is a composite of these two sets of visitors and of their differential flows variously for purposes of leisure, business and VFR travel.

Keywords: international tourism; uneven development; spatial inequalities; economic geography

JEL Classification O18; Z32; Z38

1. Introduction

As measured by data on international arrivals and receipts, the business of international tourism represents a growth industry and key driver for economic development in many countries. According to Jenkins (2015) for the past six decades international tourism has experienced a trajectory of continued expansion and diversification to emerge as one of the largest and fastest growing sectors of the global economy. During the past 20 years alongside the traditional destinations of Europe and North America the range of destinations impacted by international tourism has expanded considerably. The United Nations World Tourism Organization (UNWTO) asserts that an ever-increasing number of countries "have opened up and invested in tourism, turning it into a key driver of socio-economic progress through the creation of jobs and enterprises, export revenues and infrastructure development" (UNWTO, 2016, p. 2). Forecasts undertaken by the

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UNWTO point to continued growth from a total of 1.186 billion international tourists in 2015 to a projected 1.8 billion for 2030. This said, it is observed that there is an uneven development of international tourism between continents, countries and regions.

For tourism scholars the multiple issues around the growth and impacts of the development of international tourism have sparked a substantial research interest. Much scholarly work has focussed upon questions of international tourism demand forecasting (Peng et al., 2014; Smeral, 2014; 2015; Wang, 2014). Destination development and the impacts upon economic growth of expanding international tourism are explored in a number of different country investigations (Akkermik, 2012; Henderson, 2017). Issues around the sophisticated management of international tourism, including marketing, research and innovation, have also come under scrutiny (Witt et al., 2013). Another vital emerging focus of research on international tourism concerns its ramifications for climate change and of the corresponding importance for destinations to develop low-carbon tourism economies (Becken, 2013; Gössling & Schumacher, 2010; Gössling et al., 2013; Ismail & Rogerson, 2016; Kaenzig et al., 2016; Rogerson & Sims, 2012; Rogerson, 2016; Scott et al., 2012). A further new focus surrounding international tourism is the impacts of terrorism (Morakabati & Beavis, 2017; Onuoha, 2016).

Although the majority of scholarship around international tourism centres upon countries of the global North Christian (2016) points out that, at least since the 1970s, the growth of tourism to destinations in the global South has attracted a stream of academic writings[1]. Among classic works examining the critical developmental impacts of international tourism in developing countries are those by De Kadt (1979), Britton (1982), Brohman (1996) and Harrison (1994). This said, there is recognition that many countries in the so-termed global South are emerging as increasingly important sources (as well as destinations) for international tourists. In particular, countries such as India and China are becoming significant regional drivers of tourism (Jenkins, 2015; UNWTO, 2016). Cohen and Cohen (2015) draw attention to the growth of international tourism from what they term “emerging world regions”. Indeed, it is highlighted that outbound tourism flows in Asia, the Middle East, Latin America and sub-Saharan Africa are primarily intra-regional in character (Ghimire, 2001; Rogerson, 2004; Rogerson & Kiambo, 2007; Winter et al., 2009).

As argued by Kang et al. (2014, p. 793) “tourism is at its very core a distinctly geographical phenomenon, involving the movement of tourists from one place – their places of origin or generating regions – to one or more destinations via a complex web of multimodal transportation networks”. The spatial patterns of tourism supply and demand has long been a core focus of research by geographers

[1] See e.g. (Deichmann & Frempong, 2016; Ezeuduji, 2013).

involved in the analysis of tourism (cf. Pearce, 1979). The spatial differentiation of the impact of international tourism is recognised as a question of critical significance particularly for policy-makers in the developing world. For economic geographers the uneven development of tourism is one of the contributory factors for observed spatial inequalities in the developing world as a whole. Informed by a dependency theoretical perspective and using the case of Fiji, Britton (1980; 1982) contends that the international tourism industry in a peripheral capitalist economy is typically monopolistic and responsible for shaping a neo-colonial structure geographically characterised by the concentration of international tourism in isolated resort enclaves. For Botswana Mbaiwa (2005) charts how the patterns of international tourist flows are geographically concentrated in an enclavic fashion.

As argued by Ahebwa and Novelli (2014) an improved understanding of the spatial distribution of tourism can lead to better informed national policies. In many countries the promotion of tourism is a component also of place-based *local* development planning (Rogerson, 2014). Arguably, Li et al. (2016, p. 97) stress that "tourism spatial polarization which is treated as enlarging the existing inequalities, is mainly correlated with international rather than domestic tourism". This finding of the concentrated character or enclave nature of international tourism is supported also by research findings reported from variously China, Spain, Italy and Turkey (Cortes-Jiminez, 2008; Goh et al., 2015; Li et al., 2016). In Turkey Tosun et al. (2003) demonstrate that the introduction of international tourism as a growth strategy promoted coastal enclaves of mass tourism which increased the nation's regional disparities. Likewise, in China the expansion of inbound international tourism has been highly concentrated geographically in particular regions of the country and once again exacerbated spatial inequalities (Goh et al., 2014; Wen & Singha, 2009). Against this background scholarship, the rationale of this paper is to expand our understanding about the spatial patterns of international tourism by examining the geographical footprint of international tourism in one developing country context, namely the case of South Africa. Over recent years an expansion in tourism scholarship has occurred in South Africa as is shown by several recent reviews (Hoogendoorn & Rogerson, 2015; Rogerson & Rogerson, 2011; Visser, 2016; Visser & Rogerson, 2004). Nevertheless, no detailed examination concerning the economic geography of the country's international tourism sector so far has been undertaken for South Africa.

2. South Africa's International Tourism Economy

Until the early 1990s international tourism was undeveloped in South Africa as the country suffered international sanctions and boycotts because of its apartheid policies (Rogerson & Visser, 2004). However, with the ending of apartheid and democratic transition in 1994 South Africa experienced a major upturn in international tourism arrivals. Tourism has emerged as a critical sector on the policy agenda of the post-apartheid government (Department of Tourism, 2012). Major initiatives have been undertaken to grow South Africa's international tourism economy and increase its share in the overall economy of international tourism. According to Cornelissen (2005a) between 1995 and 2000 foreign tourism arrivals in South Africa recorded an average year-on-year growth of roughly 10 percent which was well above the 3% international average. Post- 2000 there has been a decrease in the rate of expansion of international tourism "largely due to the wearing off of the "Mandela syndrome" and international publicity on the high level of violent crime in the country" (Cornelissen, 2005b: 681). Between 1990 and 2004 South Africa's share of world tourism arrivals quadrupled which fundamentally changed the character of the country's tourism economy, not least with the establishment of an international standards accommodation sector (Greenberg & Rogerson, 2015; Rogerson, 2013a; 2013b). Notwithstanding the impacts of the 2008 global financial crisis an upturn in international arrivals was recorded for 2010 the year that South Africa hosted the FIFA World Cup. Since 2010, however, a downturn in international arrivals has occurred particularly from long haul markets for a mix of reasons including economic slowdown in source markets and South Africa's introduction of new restrictive visa regulations. During 2015 the total number of international tourist arrivals was estimated officially as 8.9 million (South African Tourism, 2016).

Patterns of international arrivals to South Africa indicate that, like other emerging world tourism regions, intra-regional travel flows dominate. On Table 1 is given the total numbers of international tourists and major purpose of visit for the leading 20 individual source markets for South Africa in 2015. A number of points are of note. Of the 8.9 million arrivals to South Africa almost three-quarters are from other sub-Saharan African countries, the most important being the neighbouring African land markets of Zimbabwe, Lesotho, Mozambique and Botswana. Other significant African source markets are Namibia, Zambia, Malawi, and Nigeria. The leading long haul source markers for South Africa's international tourism economy are United Kingdom, Germany, USA, France, Netherlands and Australia. Additional longhaul source markets of note are China, India, Canada, Italy and Switzerland.

Table 1. South Africa's Leading Source Markets for International Tourism and Major Purpose of Travel, 2015

Country	**Number of Arrivals (2015)**	**% Leisure**	**%Business**	**% VFR**
Zimbabwe	1900791	**45.6**	22.6	24.2
Lesotho	1394913	4.9	14.6	**63.2**
Mozambique	1200335	20.4	21.4	**52.7**
Swaziland	838006	16.6	15.0	**54.6**
Botswana	593514	16.3	27.5	**36.8**
United	407486	**39.1**	23.7	30.7

Kingdom				
USA	297226	**50.6**	22.0	13.8
Germany	256656	**51.0**	26.4	13.3
Namibia	212514	26.0	26.2	**30.1**
Zambia	161259	16.7	**54.1**	19.5
Malawi	135260	12.2	**52.5**	26.8
France	128438	**45.7**	32.5	12.3
Netherlands	121883	**51.7**	21.8	17.9
Australia	99205	39.4	15.4	**40.8**
China	84878	**47.6**	33.7	16.7
India	78385	15.0	**63.0**	16.6
Nigeria	59002	24.6	**31.7**	26.2
Canada	56224	**54.5**	20.4	16.5
Italy	52377	**48.3**	36.0	7.4
Switzerland	48510	**52.2**	22.8	14.7

Source: Adapted from South African Tourism 2016 Note: Bold font indicates a higher share than recorded for all international tourism arrivals.

Table 1 reveals analysis of country-specific differences in terms of the major purpose of travel of international tourists to South Africa. The purpose of travel is divided between the categories of leisure (which includes shopping for personal needs), business and visiting friends and relatives (VFR); the remainder is accounted for by other travel including (mainly) for health or religious reasons. It is observed that for the longhaul source markets of North America, Western Europe and China, leisure (holiday) is the major reason for travel to South Africa for its attractions of wildlife, natural beauty and beaches. In particular, for the major European markets South Africa is a popular holiday destination. In terms of leisure travel one exceptional case is Zimbabwe with 45% arrivals recorded for leisure purposes; this is explained by the fact that personal shopping is included in the category of leisure and that large numbers of Zimbabweans travel to South Africa simply to shop for goods that are unavailable in Zimbabwe because of the country’s economic crisis. This means that the actual share of Zimbabwe visitors travelling to South Africa for holiday purposes is less than 10 percent of the total (South African Tourism, 2016).

It is revealed that business travel is an important segment of international tourism arrivals and in particular for India, Zambia, Malawi and Nigeria it is the prime driver for visiting South Africa (Ezeuduji, 2013). For many African countries cross-border trading is a critical element in business travel to South Africa, in particular from Zimbabwe, Mozambique, Malawi and Zambia. Finally, a substantial share of international arrivals in South Africa is for purposes of visiting friends and relatives or VFR tourism. The highest levels of VFR tourism are recorded from the proximate countries of Lesotho, Swaziland and Mozambique; in the case of landlocked Lesotho which is surrounded by South Africa the VFR share is almost two-thirds of arrivals. Beyond Africa, however, VFR is an important driver for travel from certain longhaul markets where there is a South African diaspora (such as Australia, Canada) or from countries which historically were major souces of (white) immigrants to the country (such as United Kingdom, Netherlands).

Overall, a conceptual distinction must be made in South Africa's international tourism market between two different segments of visitors who are travelling to the country for different reasons. The smaller longhaul market – mainly leisure focussed – is (as a whole) a more lucrative higher yield segment of travellers. The larger segment of African visitors is travelling to South Africa for purposes of business (including cross-border trading), VFR and only for a small segment for holiday purposes (Rogerson & Visser, 2006). As has been shown by Cornelissen (2005a, 2005b) these two groups of international tourists to South Africa exhibit different geographical patterns of travel. The former concentrate in South Africa's iconic tourism destinations of the wildlife parks, and the core tourism attractions of the Western Cape, including Cape Town and the Winelands. The latter group of African tourists are drawn to South African cities primarily for business purposes and include a substantial number of cross-border shoppers. These different travel patterns of longhaul leisure travellers and the large numbers of short-stay African business travellers, shoppers and VFR tourists provide the foundations for the country's international tourism economy, including its economic geography to which attention now turns.

3. Methods and Sources

The analysis on the spatial distribution of international tourism in South Africa is based upon the local level tourism data set which is available from IHS Global Insight. The local level data provided by IHS Global Insight is used widely by both national and local governments across South Africa to inform public policy making. For tourism research the local tourism data base of IHS Global Insight is especially valuable as it contains details of the tourism performance of all local authorities in the country in respect of *inter alia*, the number of tourism trips differentiated by primary purpose of trip (leisure, business, VFR, other); origin of tourist (domestic or international); and calculation of tourism spend. From this data base information can be extracted for the period 2001-2012 relating to international travel as differentiated for all the country's provinces as well as for local, district and metropolitan authorities. The category of international travel includes both long haul travellers and the regional tourists from sub-Saharan Africa. The geographical differentiation of international tourist flows in the IHS Global Insight data is of particular interest for this research. Full information about the methodology used and the tourism data base is available from IHS Global Insight (2015a, 2015b).

4. The Economic Geography of International Tourism in South Africa

The changing geography of international tourism in South Africa is analysed through spatial mapping the absolute numbers and changes of international tourists on the basis of South Africa's network of metropolitan and district municipalities. This exercise of spatial mapping is undertaken for 2001 and 2012; further the net change is calculated across this time period. The last section of analysis shifts to interrogate the relative contribution and importance of international tourism in terms of each metropolitan and district municipality.

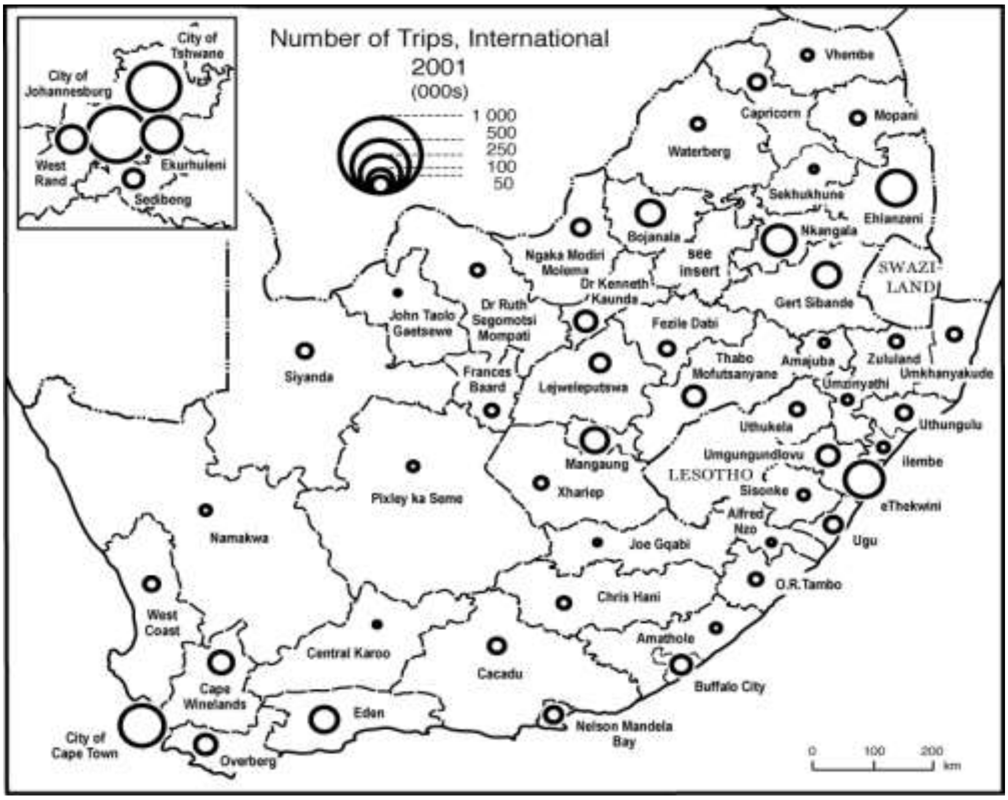

Figure 1. Patterns of International Tourism in South Africa, 2001 (Source Author)

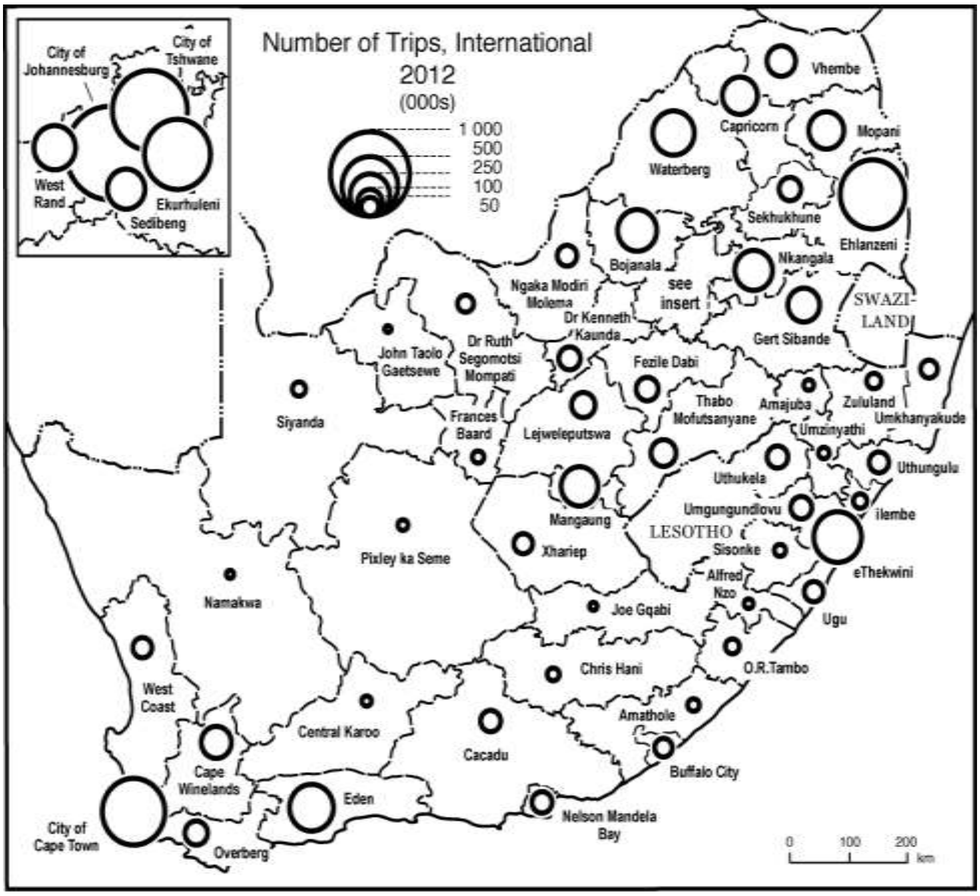

Figure 2. Patterns of International Tourism in South Africa, 2012 (Source: Author)

The Global Insight data on a municipal basis allows scientific analysis of the shifting patterns of international tourism flows. On Figures 1 and 2 are shown the destinations for international tourism travel, as indexed by total trips respectively for 2001 (Figure 1) and 2012 (Figure 2). In unpacking the spatial patterns of international tourism several points can be observed. First, is the geographical distribution of international tourism is markedly different to that observed in investigations on patterns of domestic tourism in the country (Rogerson, 2015). Domestic tourists in South Africa as a whole are far more geographically spread than are international tourists, a finding which parallels that in other countries of the relative spread of international as opposed to domestic tourism (Cortes-Jiminez, 2008; Goh et al., 2014; 2015). It is known that the patterns of (long haul) international leisure travellers exhibit concentrations at the tourist 'hotspots' of Cape Town, the Winelands, the gateway of Johannesburg, and areas surrounding South Africa's major nature tourism attractions which are mainly situated around

Kruger National Park in the eastern part of the country in Ehlanzeni district municipality (Cornelissen, 2005b; Rogerson & Visser, 2006).

This said, the overall landscape of international tourist trips is heavily weighted by the significance of African tourists which concentrate their business and shopping activities mainly in and around South Africa's major inland cities of Johannesburg, Tshwane (Pretoria) and Ekurhuleni (Rogerson & Visser, 2006) and the coastal city of Ethekwini. Indeed, as indexed by total numbers of trips the most important international tourism destinations are South Africa's major cities (Rogerson & Rogerson, 2014). As indexed by total numbers of trips five of the six leading international destinations in both 2001 and 2012 are all metropolitan areas, namely the inland centres of Ekurhuleni, Tshwane (Pretoria) and Johannesburg and the two coastal centres of Ethekwini (Durban) and Cape Town. The exceptional case is Ehlanzeni which is the gateway to the nature tourism "big 5" attractions of Kruger National Park. Another distinctive group of destinations for international tourists are the borderland municipalities adjacent to Zimbabwe, Swaziland and Lesotho (Figures 1 and 2). These are areas where ethnic ties exist to encourage VFR travel and also benefit from considerable flows of shopper tourists on short-stay trips to South Africa. In particular, several of the municipalities of South Africa's northern Limpopo province (Vhembe, Mopani and Capricorn) are destinations for considerable flows of cross-border Zimbabwean visitors (Tsoanamatsie, 2014).

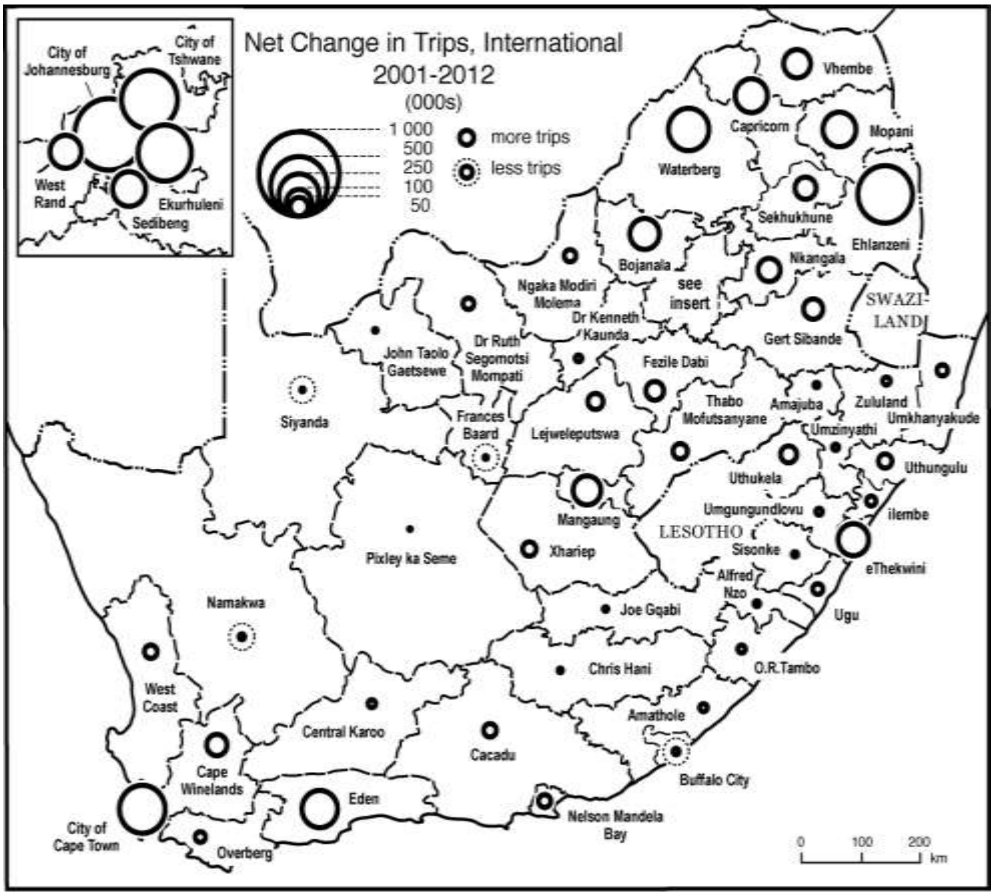

Figure 3. Net change in International Tourism Flows 2001-2012 (Source: Author)

Figure 3 provides a scientific analysis of changes occurring in spatial flows of international tourism between 2001 and 2012. Three points can be noted. First, is that there is evident an uneven pattern of change in international tourism flows across different destinations. Large absolute growth of international tourism trips is recorded in the metropolitan areas of Johannesburg, Tshwane (Pretoria) and Cape Town; the former two mainly because of African tourists, the latter because of its establishment as a globally iconic tourist city. Other areas of South Africa which record marked growth in international tourists are Ehlanzeni (nature tourism), Eden district (the Garden Route and beaches) and the borderland municipalities close to Zimbabwe. Although between 2001 and 2012 there is observed a net growth of international tourists for most municipalities, exceptions are in remote Northern Cape municipalities and most notably in the coastal metropolitan destination of Buffalo City centred on East London.

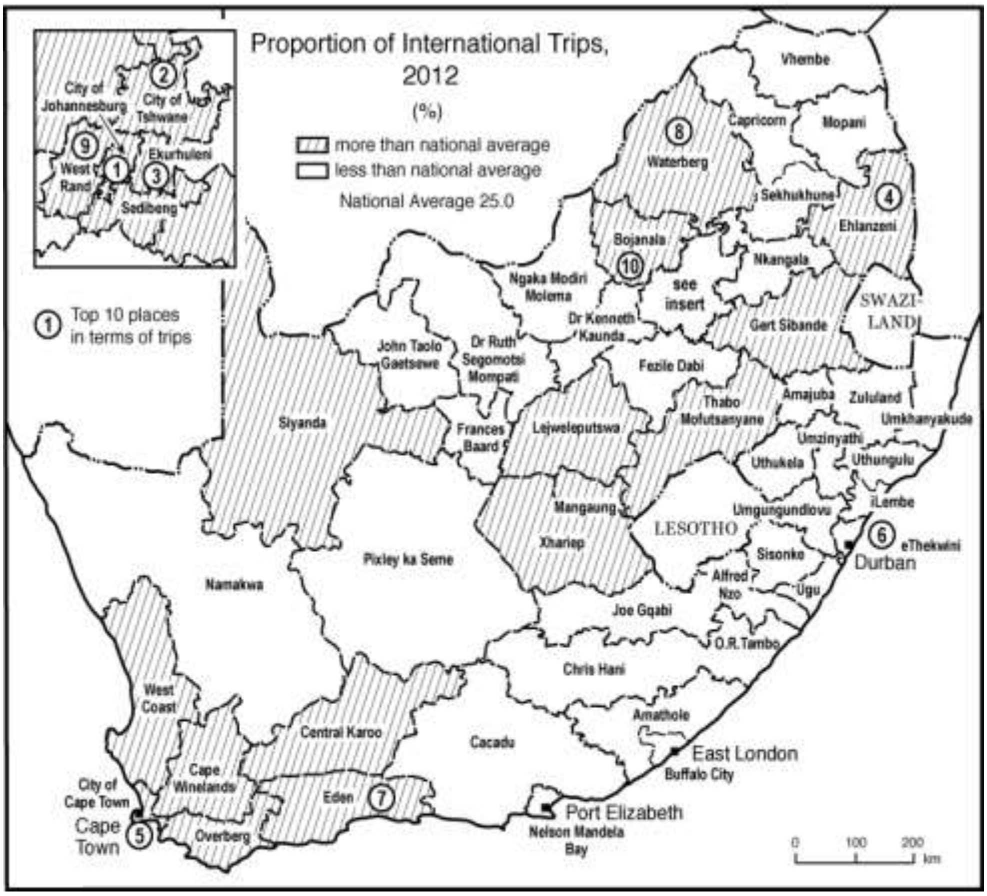

Figure 4. Share of International Trips in Total Trips, 2012 (Source: Author)

Finally, it is useful to interrogate scientifically the relative share of international trips in each municipality as compared to the national share of international tourist trips. Figure 4 shows the ten most important destinations for total international tourism trips, the dominance of the inland centres of Johannesburg, Tshwane and Ekurhuleni, and the two coastal centres of Cape Town and Ethekwini. In addition, it maps the relative share of international trips in each district relative to the 25 percent national share. It is evident from Figure 4 that international tourism is 'over-represented'and relatively important across parts of South Africa; in particular in the Western Cape, the inland metropolitan areas and in many municipalities proximate to international borders. By contrast, the areas of South Africa in which international tourists are relatively unimportant are much of Northern Cape, Eastern Cape and KwaZulu-Natal provinces. In the case of Limpopo despite increasing numbers of cross-border international trips the local tourism economies of these municipalities remain dominated by domestic travel, most of which is VFR tourism (Rogerson, 2015).

5. Conclusions

Understanding the flows and impacts of international tourism is a critical theme in global tourism scholarship. For national and local policy makers the attraction of international tourists is of major importance for economic and social development. Although the global flows of international tourism are well documented, much less understood are the spatial patterns of international tourists within national territories. This paper unpacks the economic geography of international tourism flows in South Africa. The technical findings highlight the theoretical imperative to differentiate the mobilities of long haul as opposed to regional African visitors to South Africa. The overall landscape of international tourism in South Africa is a composite of these two sets of visitors and of their differential flows variously for purposes of leisure, business and VFR travel. It is evident that tourism is a sector targeted for the leveraging of local economic development planning in South Africa. Arguably, in order to support tourism as a driver for local economic development programming there is a fundamental need for further research to enhance our understanding of the changing spatial complexion of visitor flows including of the cohorts of international and domestic travellers.

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Competition and Market Power in the Romanian Banking Sector

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Abstract: The current paper analyses the competition degree among Romanian banks during 2005-2015. We determine the bank-level competition for loans and deposits using efficiency-adjusted Lerner index, while Boone indicator shows how competitive these two markets are. Marginal costs (MC) are estimated with a Fourier flexible form cost function with two bank products, that generate the largest portion of revenues, (i.e. loans and deposits) and three input prices (i.e. labour, funds and physical capital). We use DFA for efficiency-improved Lerner index and Generalized Method of Moments with one-, two- or three-year lagged values of marginal costs as instrumental variables for Boone indicator. The results are compared to the values of HHI and C5, provided by European Central Bank. Overall, bank competition in Romania improves as a direct result of decreasing market power and concentration. On the loan market, we can notice that starting with 2014 banks have changed their behaviour by focusing more on optimizing their portfolios through a complex process of balance sheet cleaning, instead of acquiring additional market share and be more competitive.

Keywords: bank competition; adjusted-Lerner index; financial regulation; Boone indicator

JEL Classification: G2; D40; D4

1. Introduction

During the last years, Romanian banking market has continuously changed. The most recent financial crisis has brought about difficult challenges but Romanian banks have been able to overcome them, as they have been well capitalized and solvable. Lately there is a slight decline in the number of credit institutions mainly due to mergers, along with a focus on selling of the non-performing loans

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portfolios and restructuring the financial institutions by closing several branches and lowering the total costs.

This topic is relevant for both researchers and practitioners. The banking system represents one of the most important sectors for the Romanian economy since it provides 90% of the funding and herewith it determines the overall competitiveness, economic growth and prosperity. Romanian banking market has been subject to structural adjustments due to changes in external environment, caused mainly by financial crisis, regulatory framework and new ample projects. From 2008 to 2013, the personnel costs have dropped by 13%, one of the highest cost cutting rates from the region, along with a decline in the number of employees and bank outlets. Moreover, the implementation of European directives and regulations on lending, payments, saving and dispute resolution has caused greater expenses and stimulated credit institutions to consolidate their activities.

Competition plays an essential role in the Romanian economy since it fosters efficiency through better allocation of resources, improves the quality of goods and services, stimulates innovations and boosts international competitiveness. In the banking sector, higher efficiency translates into lower costs that are passed onto bank customers, in the form of lower charges, higher deposit rates and reduced lending costs.

From a policy point of view, it is difficult to know what impact these structural developments are likely to have on the competitive environment and how they may influence the efficiency and stability of banking markets. On the one hand, increased concentration is expected to intensify market power and therefore hinder both competition and efficiency. Hence, it might be argued that if bank mergers and acquisitions are driven by economies of scale, then increased concentration may foster efficiency improvements.

This paper marks its contribution to the literature in three ways. First, competition is measured at bank-level for each of the two markets: loans and deposits. The extant researches assess the overall Romanian banking competition. Our approach provides more accurate results in terms of costs and profits, and better competition measures since we take into account the competition faced by each bank and admit that even if the credit institutions operate in the same market, they deal with various competitiveness degrees. The average measures of competition for a certain market delivers incomplete information about the competitive position of each individual bank.

Moreover, adjusted Lerner index and Boone indicator represent the most recent indices on the market power of financial entities from Romania and they offer different perspectives on the degree of competition in the markets and for the banks under observation.

Finally, the extended timeframe provides valuable outcomes on the impact of European Union accession, financial crisis and new banking regulations. These three representative events have not been in-depth analysed yet, even if they have influenced the behaviour of the banks.

The paper is structured in several parts. Section 2 reviews the extant literature on the measures used to account for bank competition. The next section presents the data and the methodology followed. Afterwards, the main results and several conclusions come.

2. Literature Review

Bank competition has gained increasing interest in the last years due to the role it plays in the economy through the access to finance and capital allocation and its impact on overall financial stability and development. Academics, practitioners and regulatory authorities have constantly aimed at developing the most accurate measure of competition, determining the optimal level of market competitiveness and implementing the appropriate regulations to maintain it.

Nevertheless, assessing the competition degree is not an easy task, since one cannot measure it directly. Therefore, in the extant literature, the researchers make use of either structural (Structure-Conduct-Performance paradigm (SCP) and efficiency theory) or non-structural approaches (New Empirical Industrial Organization (NEIO). Both categories of models help at analysing whether a more concentrated market translates into collusive conduct of the major banks and better performance or only the efficiency of the larger banks causes superior financial results.

The structural approaches make a connection between competition and concentration, whereas their counterparties do not take into account concentration and aim at correcting the empirical and theoretical drawbacks of SCP and efficiency theory. The structural measures belong to two schools of thought: formal (number of firms, concentration ratios and Herfindahl-Hirschman index) and non-formal (SCP and efficiency theory). The number of companies on the market is the simplest competition indicator to compute since the data needed are easily available. Though, this measure does not take into account the distribution of the firms and is consequently less used. A better index that requires additional input on the market shares of the business units is concentration ratio (CR) that is more frequently calculated in the researches. The major flaw of CR is the focus on several companies (three, five or ten) and does not consider the distribution of the remaining market players. Researchers and regulatory agents prefer Herfindahl-Hirschman indicator (Hirschman (1964)) that equals to the sum of the squares of the market shares of the total number of companies (N). According to U.S. Antitrust Agencies Issue New Merger Guidelines of 2010, banking industry is competitive when HHI is below 1,500, concentrated if it ranges between 1,500 and

2,500, and very concentrated when the value of Herfindahl-Hirschman indicator goes above 2,500. In the computation of this index, larger companies receive a higher weight than the smaller firms, highlighting their importance. Mason (1939) and Bain (1957) develop the SCP theory and state that the structure of the industries and markets where companies operate determine the firm conduct and performance. The number of business entities, their absolute and relative size, entry and exit conditions, product differentiation and vertical integration describe the structure of a market or industry. The business conduct refers to price setting, collusion and other types of strategic behaviour such as product quality, expenditure on advertising, research, development and innovation. The performance of a company is a function of profit, annual growth, market share, technological progress and efficiency. The main take-aways from this theory are that the probability of collusion is a positively impacted by the market power and a more concentrated industry encourages firms to behave uncompetitively. Gilbert (1984), Reid (1987), Vesala (1995) and Bos (2002) note that all the researches based on SCP paradigm do not take into account the conduct of the bank.

The efficiency theory proposed by Demsetz (1973) and Peltzmann (1977) challenges the rationale behind the SCP paradigm by stating that once a bank is the most efficient its profit maximizing behaviour facilitates the increase in the market share by cutting down the costs. Banks' performance shapes the market share and concentration is the output of the leading banks.

The Lerner index is still currently the most widely and frequently used and it is known as a measure of market power and the intensity of competition. As a matter of fact, Lerner (1934) describes his indicator as "index of the degree of monopoly power" and defines it mathematically as

$$Lerner_i = \frac{P_i - mc_i}{P_i} \quad (1)$$

where P_i represents firm i's price whereas mc_i refers to marginal cost. The values of the index range between zero and one, with zero reflecting perfect competition and increasing values showing a higher market power. The spread usage of Lerner index stems from fewer data constraints, easy interpretation and simplicity. Basically, Lerner indicator shows the extent to which a bank can charge prices higher than the marginal cost. Consequently, there are only two data requirements.

Koetter et al., (2012) propose a new measure for market power, based on the fact that Lerner index makes two major assumptions. The former is the companies choose the prices that maximize the profits (profit efficiency). The latter refers to obtaining the inputs at the most appropriate cost (cost efficiency). Thus, the estimated price-cost margins do not accurately reflect the real market power of the business entities. As a matter of fact, Lerner (1934) focuses on actual or exercised market power, whereas Koetter et al., (2012) are concerned only with potential market power. Therefore, Lerner index is altered for efficiency and becomes adjusted Lerner index. The mathematical equation is

$$adjusted\ Lerner_i = \frac{\pi_i + tc_i - mc_i \cdot q_i}{\pi_i + tc_i} \qquad (2)$$

with the bank profit being π_i, total cost tc_i, marginal cost mc_i and total output q_i. The adjusted Lerner index can take values between 0 and 1, higher results reflecting stronger market power.

Boone indicator is a new approach to measure competition used by van Leuvensteijn et al. (2007) for the first time in an empirical study. The index replaces relative profit differences, a theoretical construct difficult to be implemented in practice and proposed by Boone (2008). As a matter of fact, Boone, Griffith and Harrison (2005) recommend profit elasticity (PE) or Boone indicator as empirical analogue of relative profit differences (RPD). Boone indicator expresses the elasticity of profits to marginal costs

$$profit\ elasticity_i = \frac{\partial \ln \pi_i}{\partial \ln mc_i} \qquad (3)$$

where π_i shows the firm i's total profits and mc_i equals the marginal costs. Profit elasticity is expected to take negative values due to the inverse relationship between profits and marginal costs.

The current studies have investigated the overall Romanian banking competitiveness using Lerner-index (Andrieș and Cãpraru, 2011; Cãpraru and Andrieș, 2012; Coccorese, 2014; Lapteacru, 2014; Clerides et al., 2015) HHI (Andrieș and Cãpraru, 2011; Lapteacru, 2014); C5 (Andrieș and Cãpraru, 2011); H-statistic (Bikker and Spierdijk, 2008; Andrieș and Cãpraru, 2011; Cãpraru and Andrieș, 2012; Lapteacru, 2014), adjusted-Lerner index (Clerides et al., 2015) and Boone indicator (Clerides et al., 2015).

3. Data and Methodology

The timeframe under analysis is 2005-2015. The sample consists in Romanian commercial banks. The database that provides the input for the computation of competition measures is Bankscope/ Orbis Bank Focus.

Marginal costs (MC) are estimated with a Fourier flexible form cost function with two bank products, that generate the largest portion of revenues, (i.e. loans and deposits) and three input prices (i.e. labour, funds and physical capital). We use DFA for efficiency-improved Lerner index and Generalized Method of Moments with one-, two- or three-year lagged values of marginal costs as instrumental variables for Boone indicator. The price of labour is equal to the ratio between the personnel expenditures and total assets of the banks, since the number of employees and branches is most of the time unavailable. The division of the costs represents the price of physical capital with premises by the value of fixed assets. The ratio between the interest rate on deposits and total deposits represents the cost of deposits.

The values for HHI and C5 are taken from the ECB.

4. Results and Discussions

A structural analysis of market competition for the period 2005 – 2015 highlights a decline in concentration for the Romanian banking sector in the case of both Herfindhal-Hirschman index (HHI) and the concentration of the first five banks (CR5). These results are depicted by the first two figures from the appendix. Therefore, we can state that from a structural point of view, competition is fiercer since starting with 2008 HHI lowers and remains constantly around the value 1,000, proving a high competition. Though, for the timeframe under analysis, the first five banks from the Romanian banking sector control more than half of the entire system. The number of credit institutions has ranged from a minimum of 36 in 2015 to 43 in 2008. Thus, after the global financial crisis we can notice the beginning of a continuous process of consolidation through either national or international M&As. For year 2015, we can notice an increase in concentration for both indices due to a drop in the number of financial institutions because of the mergers between Transilvania Bank and Volksbank and OTP Bank and Millennium Bank, and the exit of The Royal Bank of Scotland Plc, Edinburgh – Romanian branch.

Turning to the non-structural indicators, we can state that there is a tendency towards increasing competition in the Romanian banking sector. Therefore, we can conclude that there is a decline in the market power, along with higher profitability ratios because of a relocation of market share from the least to the most efficient banks, given the fierce competition.

Regarding the analysis of the competition on loan vs deposit market, we may see different sometimes opposite evolutions. As a matter of fact, adjusted Lerner index shows that the market power increases, indicating a decrease in competition opposite to deposit taking. Year 2008 can be considered a year of the extreme outcomes, given the strongest competition on loan market and the least for deposits. Practically, this year is the most effervescent after 1989, as it the year before the financial crisis when the highest volume of loans has been registered. A lower competition on deposit market might be due to important resources that the foreign banks from Romania obtained from their mother financial institutions.

On the other hand, Boone indicator displays similar trends for both markets, the only difference occurring in 2015. There has been an increasing competition for the deposits over the entire period, while the same situation occurs in the loan markets until 2011, followed by a sustained decline until 2015. This is due to the nonperforming loans and the bank focus on reducing their amount via sales and a more precautious attitude towards granting new credits. Besides, another cause is represented by post-crisis effects, when the number of fundable projects and firms has diminished due to worse business environment and creditworthiness of companies and individuals.

5. Conclusions

The Romanian banking sector has been subject of a consolidation and restructuring process after the international financial crisis. Overall there is an increase in the competition level, due to a decline in market power and concentration. Though, at the end of the period analysed there is an increase in concentration and lower competition on loan market. Banking competition has caused several banks to exit the marketplace or to merge in order to optimize their activities. Given these facts, we recommend to the supervisory authorities to pay more attention to the risks the new entities may generate and to the trend towards consolidation that is expected to continue several years from now on. As for bankers, we advise them to be cautious when it comes to lending and be more flexible towards SMEs financing with a stronger potential growth and sustainable businesses on the long-term. In this way, there will be set the premises for Romanian economic growth and implicitly, for the future development of the banking sector. At the same time, banks should pursue the adjusting process through the optimization of their processes, as higher competition will resettle the market share to the most efficient credit institutions.

6. Aknowledgements

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Appendix

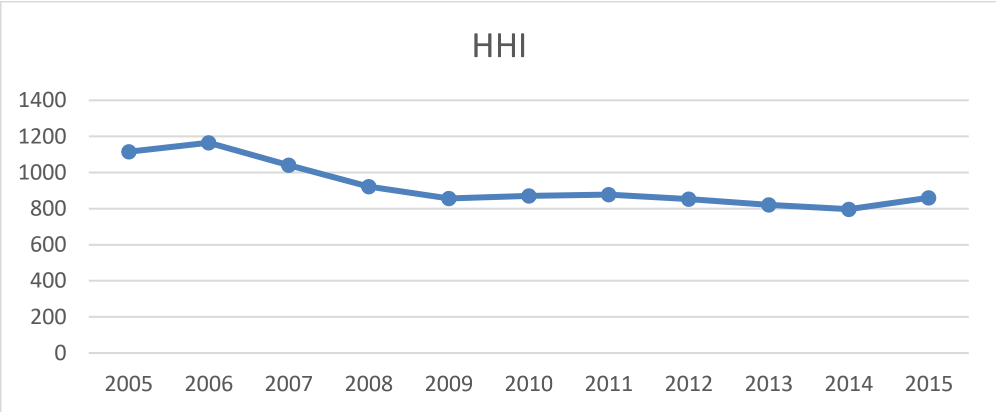

Figure 1. Evolution of HHI

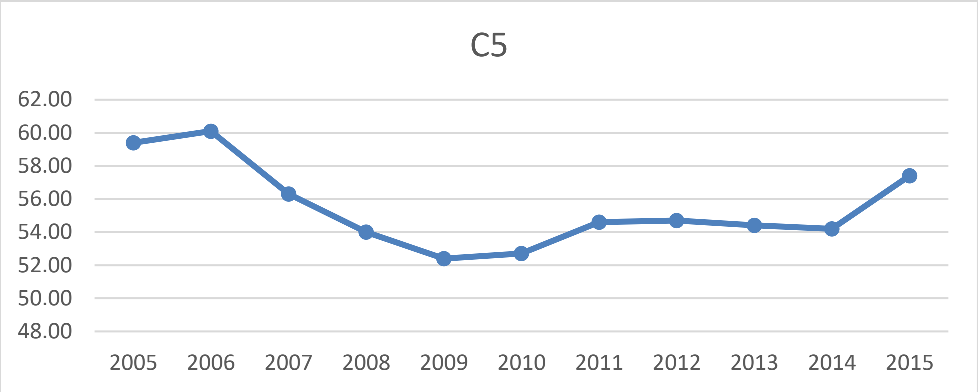

Figure 2. Evolution of C5

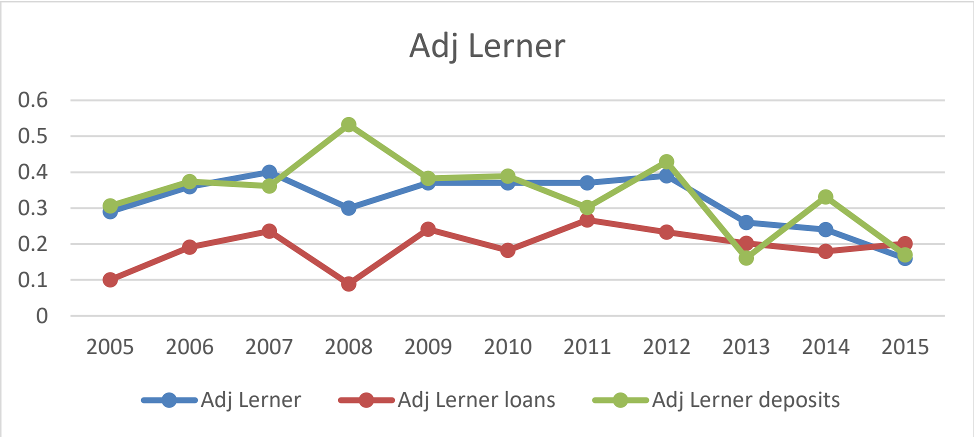

Figure 3. Evolution of adjusted Lerner index

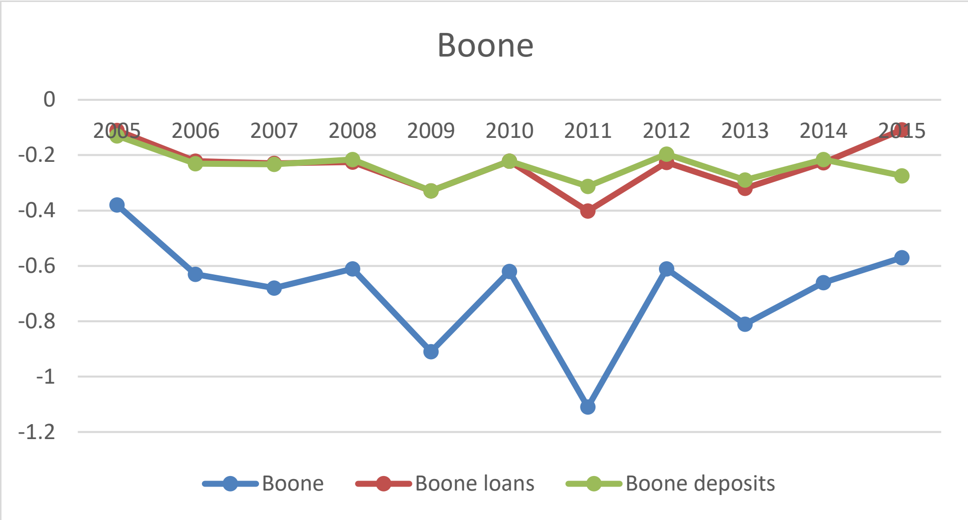

Figure 4. Evolution of Boone indicator

The Effects of the Structural Funds on the Romanian Economic Growth

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Abstract: The European funds are considered an attractive tool for supporting economic growth on short-term and at a macroeconomic level. The impact assessment of structural and cohesion funds on Romania's economic growth is sluggish because of the mismatches between official information at national and regional levels. The role of economic models in quantifying the impact of structural and cohesion funds at a macroeconomic level cannot be minimized. This paper aims to investigate the impact of European funds totally absorbed by Romania on the evolution of total GDP (Gross Domestic Product) in the period 2007-2015. Using linear regression in R (lm function), our goal is to explain the relationship between attracted European funds in total, as an independent variable, and the Gross Domestic Product which was considered a dependent variable. For data processing, the authors used the ANOVA software. However, the results shows that the impact of the absorption rate on short-term economic growth does not confirm the theoretical expectations.

Keywords: European Funds; Gross Domestic Product; economic growth

JEL Classification: C1; E6; O1

1. Introduction

The implementation of regional policies is based on Structural Funds, considered to be the most valuable instruments with the help of Member States' contributions, relative to their economic strength. The European Commission outlines the main directions on regional policy objectives for each stage of programming. Member

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States formulate regional development multiannual programs able to attract funding with the help of structural instruments.

The Europe 2020 strategy brings new changes on stimulating a new type of smart, sustainable and inclusive growth by: increasing the quality of skills and maintaining education during life, developing research and innovation, efficient use of smart grids, the digital economy, refurbishment and extension of industry, efficient use of energy and resources, promoting an economy with a high rate of employment, ensuring social and territorial cohesion; strengthening governance through: regular and transparent monitoring, taking decisions at high levels, advice, warnings, penalties; closer economic coordination, reports on economic reform programs and stability and convergence programs, the provision of funds necessary for financing programs [1].

Assessments regarding the absorption of European funds have emphasized the fact that the economic crisis had a strong impact on the operational programs and the implementation of crisis, being responsible for the lack of progress, reduced demand for grants under these programs, the lack of co-financing capacity for public and private beneficiaries, investor hesitation, and limited resources. In the context of the global economic crisis, any form of financing for Romanian environment is essential, which is why a study on the impact of absorption of European funds is relevant in identifying and defining any difficulties encountered and the ways to overcome them [2].

In Romania, an important part of the literature regarding the EU funds focuses on the factors which influence the absorption rate capacity on economic growth, but also the institutional and corruption problems [3-4]. Those specialists say that the funds allocated to Romania by the European Union through the cohesion policy instruments will successfully contribute to the attenuation of social, economic and territorial disparities, taking into consideration the fact that they could generate Romania’s economic growth, durable development and financial stability. Other experts in the field say that the European funds do not allow the economy to develop naturally, but they teach the company administrators to fill in forms and financing requests to make their investments and that they are making them forget the classical financing mechanisms and principles that would truly contribute to the economic development of a state [2].

The ability to build models by means of which to represent more adequate systems which it relates to has greatly increased in the recent decades due to both the development of operational research, which provide managers more and more types of models form the prefabricated, and the opportunities to appeal to an increasingly powerful computer able to test validity and solve models.

It is necessary that equations of the macroeconomic model which analyses the impact of European funds’ absorption rate on the Romanian economic growth rates be recalibrated annually, by extrapolating time series with a record of each variable for the input-output tables. The model must be detailed in the perimeter of structural fund impact on production factors, in order to take the indirect effects of the injection of structural funds.

Macroeconomic models (HERMIN, HEROM and QUEST) have the capacity to capture reactions that occur in economy and to estimate costs and benefits in the society as a whole. Unlike in pure econometric models, which may not be large due to the lack of data on long horizons of time, models of overall balance hybrid - statistic calibration type have the advantage of being able to separately analyses several institutional and economic sectors and to study the impact of economic policies on distinct sectors. [5,6,7,8].

Major deficiencies are derived from the fact that most parameters depend on the amount of resources used. The quality of models is in turn closely related to the quality of the coefficients and applied elements, which are difficult to validate. However, the limitations of these models should be viewed with caution, particularly in the Romanian economy, where statistics are insufficient or inadequate for econometric assessments, given the specificity of the transition period and reduced time range for essential variables, such as those relating to capital and types of investments (infrastructure, machinery and equipment etc.).

This article brings a new look to the impact of European funds totally absorbed by Romania on the evolution of total GDP (Gross Domestic Product) in the period 2007-2015. The main aim of this study is to deepen and discover a reality which is more or less known at the level of common sense. More importantly, the results of the present study suggest that the impact of the absorption rate on short-term economic growth does not confirm the theoretical expectations.

This paper is organized as following: section 2 describes the methodology and the data, section 3 is dedicated to the results, and section 4 concludes and addresses some policy implications.

2. Methodology and Data

Macroeconomic, multi-sectoral assessments are tools that can confer a holistic approach on the economy based on computer-assisted mathematical models. Their use involves applying econometric techniques based on long-term statistical data and a transition towards equation models, assessment of financial flows, detecting directions in which changes of the economic structure, labor or revenues and expenditures occur.

The regression function is usually used in making numerous micro- and macroeconomic analysis. After a logical study of the variables to be analyzed, we will continue with a graphical representation of data series, along with a primary interpretation, showing the substantiating of the econometric model used.

To build a linear regression model, EU funds were established per year and attracted European funds in total, as independent variable, while the Gross Domestic Product was considered a dependent variable.

To determine the linear regression model parameters, we considered two models:

- Model with one independent variable (absorbed European Funds per year)
- Model with two independent variables. (European Funds absorbed per year and Total European Funds).

In this first model, the dependent variable was considered the Gross Domestic Product (GDP) and the independent variable, absorbed European Funds (EF), with nine comments (2007-2015). The evolution of GDP and the rate of absorption of European Funds are presented in Table 1.

Table 1. The evolution of GDP and the rate of absorption of European Funds (thousand euro)

Year	European Funds per year	Total European Funds	GDP (Y)
2007	323	400	123700
2008	653	1100	139700
2009	903	2000	118300
2010	519	2500	124100
2011	692	3200	131500
2012	1153	4300	132600
2013	2920	5100	144700
2014	3554	8600	150800
2015	2229	11200	159000

Source of data: Authors representation based on information extracted from Ministry of European Funds, Romanian National Institute of Statistics and National Bank of Romania [9-15].

Also, match up with the data in Table 1, the regression equation is:

$\overrightarrow{GDP}$ = 122,959 + 5,142 (EF), where

122,959 is the intercept (the place where the regression ordered intersects OY, i.e. the value of Y to X = 0)

5,142 is the slope of regression (show how increase $\overrightarrow{GDP}$ when X increase by 1 unit)

Moreover, through GDP it is estimated by the model and the value 5,142 is the ratio of standard deviation with EF, multiplied by R the coefficient of correlation between X and Y

$122{,}959 = M\ GDP - 5{,}142 * M_{EF}$

where M_{GDP} represents the average GDP and M_{EF} represents the average of EF

In the second model, the dependent variable was considered the GDP and two independent variables with 9 comments (2007 – 2015). The independent variables are the European Funds (EF) absorbed per year and Total European Funds (T EF) totally absorbed. Also, match up with the data in Table 1, the regression equation is:

$\overrightarrow{GDP}$= 121,051 + 0,003FE + 0,003 TEF (Total European Funds)

The reason behind the two models was to show the effect that these funds have had in the evolution of the GDP in the analysed period of time, respectively 2007-2015.

3. Results and Discussions

Table 2 and Table 3 show the results of ANOVA used the data in Table 1. It is shown that there are the significant differences between the Gross Domestic Product and absorbed European Funds (EF) per year ($p<0.01$). The results support our predictions regarding model 1 with one independent variable (absorbed EU funds per year) and further analyses the mean value of the Gross Domestic Product.

Table 2. Regression to determinants differences between the GDP and absorbed EF per year

	df	**SS**	**MS**	**F**	**Significance F**
Regression	1	873,018973	873,018973	10,1449249	0,015380901
Residual	7	602,383249	86,0547499		
Total	8	1475,40222			

	Coefficients	**Standard Error**	**t Stat**	**P-value**	**Lower 95%**	**Upper 95%**	**Lower 95.0%**	**Upper 95.0%**
Intercept	122,959	5,141959944	23,9129	5,69E-08	110,80026	135,1179	110,80026	135,117867
EF	0,00903	0,002834178	3,18511	0,015381	0,0023254	0,015729	0,0023254	0,01572893

Notes: Dependent Variable: Gross Domestic Product; significant at $\alpha = 5\%$

Source: Primary data (processed)

Table 3. Residual Output – model 1

Observation	Predicted GDP	Residuals	Standard Residuals
1	126,7775555	-3,077555503	-0,354661825
2	128,853804	10,84619597	1,249930879
3	131,1105959	-12,8105959	-1,47631109
4	127,6441636	-3,544163582	-0,408434396
5	129,2058636	2,294136441	0,26437951
6	133,3673878	-0,767387773	-0,088434846
7	149,3183927	-4,618392735	-0,532230075
8	155,0416169	-4,241616926	-0,4888099
9	143,08062	15,91938	1,834571743

Source: Primary data (processed)

Correspond to model 1, to identify the type of regression function, there was performed a graphical representation of the pairs of points that comprise the gross domestic products and those of European Funds attracted (Figure 1 and Figure 2). The mean value of European funds significantly varied from 3.07 to 4.24 when the evolution of GDP by European funds increased from 126.78 to 155.04. The results supported our predictions regarding model 1 with one independent variable (absorbed EF per year). It is important to remember that, according to the graphics, there is no correlation between the independent variable and residuals, the model being chosen accordingly.

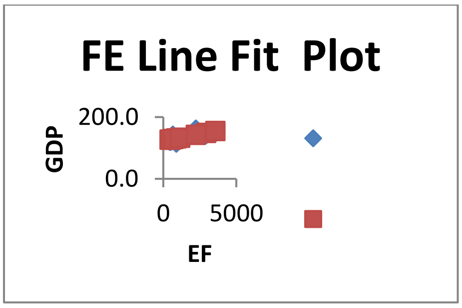

Figure 1. The residual graph as function of attracted European funds

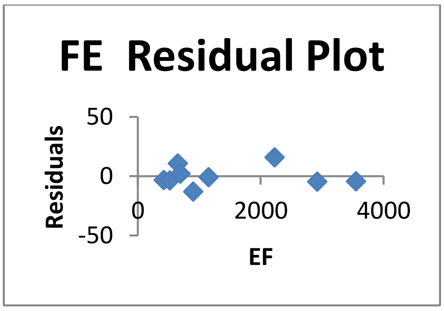

Figure 2. The graph represents the evolution of GDP by attracted European funds

In the case of the model 2 with two independent variables (European Funds absorbed per year and Total European Funds), the results Table 4 and Table 5 show that there are the significant differences between the Gross Domestic Product, absorbed European Funds (EF) per year and Total European Funds ($p<0.01$).

Table 4. Regression to determinants differences between the GDP and absorbed EF per year

	df	SS	MS	F	Significance F
Regression	2	1120,647185	560,323592	9,476797	0,013901268
Residual	6	354,7550375	59,1258396		
Total	8	1475,402222			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	121,051	4,362993507	27,74484	1,4E-07	110,374697	131,7264	110,3747	131,7264
EF	0,00295	0,003788014	0,777689	0,4663	-0,006323	0,012215	-0,00632	0,012215
	0,00251	0,001228124	2,046498	0,08666	-0,0004918	0,005518	-0,00049	0,005518

Notes: Dependent Variable: Gross Domestic Product; significant at $\alpha = 5\%$

Source: Primary data (processed)

Table 5. Residual Output – model 2

Observation	Predicted GDP	Residuals	Standard Residuals
1	123,3020142	0,397985761	0,059765181
2	125,7389186	13,96108137	2,096523652
3	128,7374118	-10,43741176	-1,5673772
4	128,8628636	-4,762863598	-0,715235154
5	131,1318518	0,368148236	0,055284506
6	135,2546003	-2,654600288	-0,398639055
7	142,4706863	2,229313675	0,334774128
8	153,1351246	-2,335124562	-0,350663659
9	155,7665288	3,233471169	0,485567601

Source: Primary data (processed)

The mean value of correlation coefficient of 0.87 and a coefficient F = 0.01 presented in Table 6 indicates the consistency of the multiple regression model (0.01 < 0.05). In conclusion, the results supported our predictions regarding model 2 with two independent variables (European Funds absorbed per year and Total European Funds).

Table 6. Summary Output – model 2

Regression Statistics	
Multiple R	0,871523768
R Square	0,759553678
Adjusted R Square	0,679404904
Standard Error	7,689332844
Observations	9

Source: Primary data (processed)

Consistent with the graphics below, there is no correlation between the independent variable and residuals, the model being chosen accordingly (Figure 3, Figure 4, Figure 5 and Figure 6).

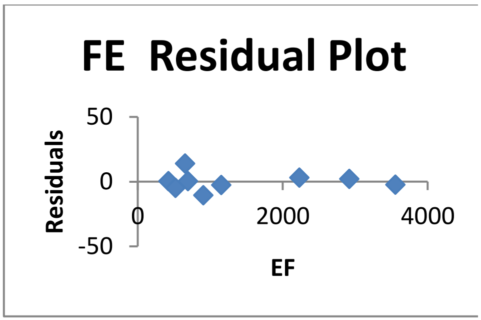

Figure 3. The graphic represents residual errors of GDP because of independent variable EF

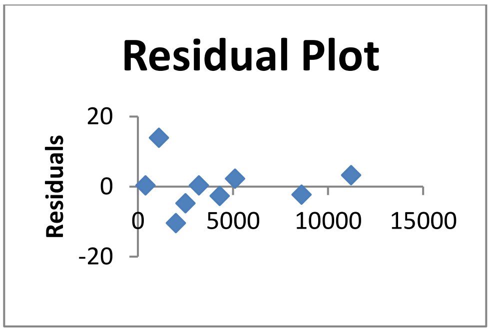

Figure 4. The graphic represents residual errors of GDP because of independent variable TEF (Total European Funds)

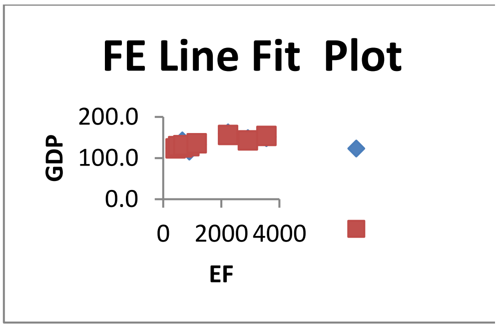

Figure 5. The EF graphic and the values computed based on the resulted model and GDP

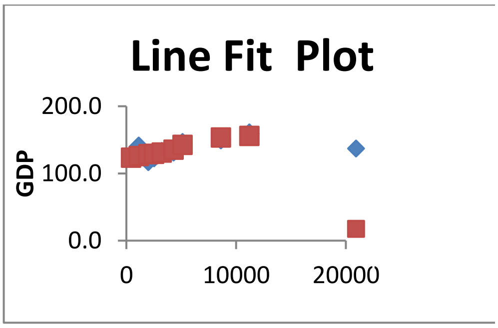

Figure 6. The GDP graphic function by EF

Given the analysis and interpretation of the data obtained in the two models, we can observe that the growth of the absorption rate of European funds in areas which promote investments and export could create stability and consistency upon the evolution of the Gross Domestic Product (GDP).

4. Conclusions

The absorption of European funds for Romania is a chance to recover from the social and economic gaps in order to become a competitive state in comparison with the rest of EU Member States. Low uptake is associated with the ability to regulate the spending of these funds. The potential conflicts of interest and falsification investigations reported in the media constitute effects of the lack of capacity to exercise effective control over the management of these funds from the responsible institutions.

The impact assessment of European funds in Romania starts with the evaluation of the achievements to date, the steps to be taken in the future, but also with the failures to understand the areas where we need to do more work and change things.

The present study shows that the two independent variables model is based on a high correlation coefficient of 0.87 and a coefficient F=0.01, which indicates the consistency of the multiple regression model ($0.01 < 0.05$)

Also, the value of the coefficient 5,142 (representing European Funds model with one independent variable) indicates that in the considered period (last 9 years), the increasing absorbed EF by 1 unit has as a result of GDP growth by 5 units.

In the other words, the impact of the absorption rate on short-term economic growth does not confirm the theoretical expectations. Contrary to the effects of the structural funds on the Romanian economic growth, the necessity to increase the impact of European Funds must start solving the problems associated with the capacity of spending these funds.

Solutions, proposals and courses of action to achieve the objectives, ensuring Romania's evolution in social and economic terms: the expertise of specialists in regional development, to ensure communication channels; encouraging cooperation between institutions, universities, public administrations and businesses; periodic training of persons seeking access to European funds; cutting red tape; facilitating access to information for all business actors, institutions; providing an updated database of region-wide development for real and concrete analysis.

The paper could serve as a starting point for future research that includes new variables from each Romanian region itself.

In the years 2014 – 2020, in order to ensure that the impact of European investments on growth and jobs is not undermined by unsustainable macroeconomic policies or weak administrative capacity, the Commission can ask for a review of the programs or suspend the funding if no corrective action is taken. The impact of the funds will also be strengthened by simplifying and harmonizing the rules of different funds, including those related to rural development and maritime affairs and fisheries. A single set of rules will apply for five different funds. Also, a more integrated approach will ensure that the various funds meet consistent objectives and mutually reinforce their effects.

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