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In This Issue

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Introduction

Tarja Laakkonen, Editor-in-Chief

This journal, the Interdisciplinary Studies Journal (ISJ), is an international forum exploring the frontiers of innovation, creativity and development. This journal does not limit itself to traditions specifically associated with one discipline or school of thought per se but embraces consideration of emerging issues assessing novel terrains and encouraging change. ISJ serves to both industry and academic communities by advancing the premises for implementing research into practice. These quarterly journal issues are published under a distinguished list of editors, including special issues, comprising an expected annual volume of over 700 pages. ISJ is listed in the Ulrich's Periodicals Director, and indexed and abstracted in the ProQuest.

All the ISJ papers are expected to contribute to raising awareness and rethinking the concept of interdisciplinarity. The readership of this journal consists of academics and (post) graduate students together with executives and managers, policy makers and administrators from both public and private sector. ISJ aims to publish papers on diverse subjects related but not limited to service innovation and design, nursing and coping at home, security and social responsibility, and student entrepreneurship.

In this special unfereed issue of ISJ we are delighted to present to you a variety of research articles and practical papers. **Adulesi**, **Nnadi** and **Amaewhule** examine the impact of school selection process on the academic performance of minority ethnic students. **Perez** describes microinsurences in three articles. In her first article Perez describes common issues which affect the growth and development of microinsurance as an access of financial services to the poor. In the second article Perez goes on examining the nature of performance assessments in microfinance. In her third article Perez decribes the important role of doners in the microinsurance programs. In his article **Kiabel** assesses the internal auditing practices on the financial performance of government-owned companies in Nigerian context.**Nwokah** and **Gladson-Nwokah** examine the relationship between the dimensions of customer experience and delivery total customer experience management. **Yusim**, **Kulapov** and **Fialkovsky** describe how the number of firms influences the development and welfare of an economy. **Ponkratov** depicts the current status and the future forecast of taxation of oil and gas production in the Russian Federation. In the LbD in Practice section we are proud to bring to you a great example of implementing the Learning by Development –model in practice. **Heiskanen**, **Kämäräinen** and **Jokela** describe the pedagogical arrangements of simulation-based learning Laurea Hyvinkää unit.

The Impact of Secondary School Selection Process on the Performance of Ethnic Minority Children in Vocational Subjects

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Abstract

The study examined the impact of school selection process on the academic performance of minority ethnic students and finds that career aspiration and classification of children on basis of their ethnicity significantly affect performance. The study confirms the view that children from background with history of academic attainment also aspire to achieve similar success. The type of school: grammar or public school and the selection policy are not found to be of any significant impact. However, there is a significant correlation between the type of school and career aspiration of the students.

Key Words

Minority, performance, ethnic, children, vocational

Introduction

The low participation of certain group of students in higher education programmes has been recognised over the years by both the government and educationists as an issue of concern. Incidentally, in most identified cases of low participation, cultural, financial and social factors play vital roles in the obstruction of certain social groups to higher education and progression in acquiring higher education (Hayton & Paczuska, 2002).

The system of banding used in England was to ensure a balanced intake in the secondary schools which arguably failed to achieve its aims. Banding was introduced to ensure that comprehensive schools led an academically balanced intake, ILEA transferred arrangements

were made to replace selection of testing for grammar selective schools. However, Inner London Education Authority (ILEA) children are assessed by head teachers in their primary school using verbal reasoning test and placed into a band group.

West (2004) mentioned three band groups: above average, average and below average. The children performance is not, however, affected by the secondary school allocation under ILEA. It was noted that there is a higher percentage of children placed in their first choice of school. The initial reason test was abolished and replaced with a London Reading Test (LRT) to identify the number of children who would need additional help in secondary school. It was noted that head teachers could not place children with EAL in correct bands of their ability due to language barrier. In addition, children from ethnic minorities are placed to lower verbal reasoning groups. More so, Voluntary aided schools have a right to their entry choice.

The gradual changes to comprehensive schools made it possible to compare the effect of comprehensive and selective system; there was little difference in performance. Jesson (2000) observed that pupils in comprehensive schools performed better compared to Grammar schools. The same research, found out that average pupil in comprehensive schools performed better at GCSE compared to those in selective. His work has been criticised for focusing on only GCSE outcomes while ignoring achievements in schools. However, he noted that selective schools had generally higher attainment which suggests the selective system is most effective in the first three years of secondary school education.

Schagen & Schagen (2003) also studied the impact of selective systems on young Key stage 3 children and confirmed that the minority ethnic background children were most adversely affected by the selection. The small number of grammar schools has made the selection even more discriminatory. Gillborn and Mirza (2000) suggested that the term 'underachievement' has become loaded in stereotype and has somehow slipped into the pervasive 'discourse of despair' among and about some ethnic minority groups. They contended that some groups, say Africa Caribbean may be ranked low in the national measure of achievement, yet the said group may well be achieving highly in some schools and some LEAs.

Research Questions

The following research questions were outlined to guide the study:

1. How does criteria used in selecting students into grammar and state schools as it affects minority ethnic groups?
2. What is the level of difference in the academic performance and behaviour of children attending grammar schools with those in state schools?
3. To what extent does school admission and selection policy impact on the performance and progression of ethnic minority children in schools?

Review of Related Literature

The literature focuses on two keys strands: the school selection process and academic performance. The admission and selection policy has been a key player in the placement of children in schools. The performance of the students, particularly those from the minority ethnic group has often raised concerns due to underperformance, thus warranting scrutiny of the selection policy.

The Education Act 1944 which introduced the tripartite structure of modern, technical and grammar schools was intended at injecting equality and eliminating all prejudice and hindrance in the choice of schools. Coldron et al (2009) opined that the main principle behind the policy was for secondary education to be accessible for all children. This implies equality and absence of any discrimination on bases of ethnicity and ability. The choice of school had earlier been tainted with several accusations of bias, often at the detriment of the poor and minority groups. Atkinson & Gregg, (2004) noted that grammar schools are populated by children from wealthy families with higher levels of education while comprehensive are populated by children from the less wealthy families with parents who have fewer education qualifications.

They argued that the use of the aptitude test in selection of pupils is inadequate as it leans towards predicting future attainment of pupils.
The selection policy often identifies students by their ability. West (2004) mentioned three band groups: those above average, average and below average. The local education authority tested pupils in their final year of primary school and allocating them to band groups. However, by 1990, there were noticeable changes to secondary school admissions policy. Most schools in inner London stopped using banding system. Banding was just seen as an unfair system of children intake into secondary (comprehensive) schools since children are placed into schools based on their ability. London Reading Test (LRT) was also introduced to identify the number of children who would need additional help in secondary school. It was noted that head teachers could not place children within correct bands of their ability due to language barrier. In addition, children from ethnic minorities are placed to lower verbal reasoning groups. Most parents were not getting their first preference with the band system.

The more competitive the system, the greater the number of children who are rejected since only few are selected. Coldron et al., (2009) stated that the test measures children's intelligence and how they are able to learn. On the other hand, specialist schools selection is likely less stigmatising for those that failed to be selected. The process of admission to selective schools is discriminatory. There are three methods in highly selective areas: the universal opt out, invited to opt in and primary school recommendation systems. They argued that the selective aptitude enhances the choice of available places only to those who have the capacity to excel in a particular subject but could not, and only contributes to social selection by default.

In a study by Iannelli, (2008), the Scottish comprehensive school was found to have a higher overall participation rates and more inclusive and free at compulsory level. The academic performance of children is often influenced by a number of factors. Family background, ethnicity and the career aspiration of the student have often been contributory factors to the excellence or failure of the children. Mocetti (2010) observed that schools failed to fill the gaps of those children coming from less-advantaged and ethnic minority families. Such inequalities are increasingly strengthened with the compelling risk of mistaking privilege with merit in the school environment. The fact that the social selection starts at such early age deserves greater attention in the policy debate.

Several studies have opined that children from ethnic minorities have not had similar measure of success within the British education system as other indigenous groups have had, even though surveys have shown that families from ethnic minorities tend to be more positive about the values and needs for education than their white counter parts (DfEE, 2001). Indeed, recent statistics show that black boys were more likely to be excluded (83% of the permanent exclusions in 1995-6) six times higher than their white counterparts. Poor academic outcomes of children from ethnic minorities particularly black boys, have well been documented (DfES, 2004), (Osbourne, 2000), (Majors, 2000) and it is suggested that the differences in attainment levels, particularly in GCSEs between black children and their white counterparts may represent a long process of decline in relative attainment of ethnic minority pupils in the compulsory education system.

Research methodology

The main research tool used in the data collection was the questionnaire, supplemented by interview. The questionnaire contains three sections of five open – ended questions each. The respondents include parents, teachers and students in secondary schools. The teachers are those directly involved in the teaching of students from the ethnic minority students. Parents and their children of same group were also the respondents. An equal number of 5 students were selected from both grammar and public schools. The total sample in the study was 15. The questionnaire was supplemented by few interview questions in which the respondents (teachers, parents and students) were asked to respond to questions on the selection policy of admission (see the appendix for the questionnaire and interview questions).

The data obtained from the questionnaire were keyed into SPSS programme and analysed. Three

statistical tools were used in the data analyses: descriptive statistics (mean and standard deviation), correlation and the standard deviation. While the mean and standard deviation measure the centrality of the variable responses, the correlation coefficient measures the relationship among the variables. The standard regression examines the effect of the independent variable on the academic performance of the ethnic minority students. The regression equation can be represented by the following simple equation:

Performance = **β + selection + behaviour + ethnicity + career + satisfaction + school + ξ**

Where:

Performance- the academic achievement of minority ethnic students
Selection- the selection policy of admission into grammar/public schools
Behaviour- the attitude, outwards disposition of students of ethnic minority
Ethnic- this includes students from non-white background
Career- the career plan, aspiration after secondary school such as university education
vocation training, jobs, dropping out after school.
Satisfaction– the enjoyment and comfort level in the present school (grammar/public)
School- whether present school is grammar or public school
ξ– Error term
β- Constant term

Findings and Analysis

The results from the data obtained from the questionnaire and interview are presented and analysed in this section. Table 1 shows the descriptive statistics of all the variables used in the research and shows the mean and standard deviation.

Table 1: Descriptive statistics

Variables	Mean	Standard deviation
School	1.50	0.53
Satisfaction	2.00	0.82
Career	2.30	1.34
Performance	1.60	0.84
Ethnicity	2.00	0.05
Behaviour	1.50	0.71
Selection	2.07	0.58

The value of the standard deviations is minimal and less than 1.00 except for ***career***. This shows the centrality of the mean responses of the respondents. The highest mean being ***career***, with a mean of 2.30 and a standard deviation of 1.34. The variables; ***school*** and ***behaviour*** have mean response of 1.50 each and a standard deviation of 0.53 and 0.71 respectively.

To establish any possible relationship among the variables, the Pearson correlation was used to test the correlations of the variables. This is necessary as to verify the extent significant relationship exists among the variables. The correlation result is reported in Table 2 and shows the significant interrelationship among the variables.

Table 2: Correlation of study variables

Variables	School	Satisfaction	Career	Performance	Ethnicity	Behaviour	Selection
School	1						
Satistaction	0.775**	1					
Career	0.867**	0.916**	1				
Performance	0.365	0.354	0.360	1			
Ethnicity	0.800**	0.904**	0.946**	0.091	1		
Behaviour	0.745**	0.770**	0.881**	0.002	0.984**	1	
Selection	0.816**	0.791**	0.837**	0.373	0.816**	0.609*	1

**correlation is significant at 0.01 levels (2-tailed) *correlation is significant at 0.05 levels (2-tailed)

The table shows that most of the variables are significantly correlated. For instance, ***school*** is significantly correlated with ***satisfaction*** at 0.775, ***career*** at 0.867, and ***ethnicity*** at 0.800, ***behaviour*** 0.745 and ***selection*** at 0.816 respectively. This implies that there is s strong interrelationship that exists among the variables; each could be affected by another's reaction.

However, not all the variables show significant or strong correlation. ***Performance*** does not show any relationship with ***ethnicity, behaviour*** and ***selection***. The relationship between ***performance*** and ***school***, ***satisfaction*** and ***career*** is also non-significant.

The importance of establishing any relationship among the variables is to help understand the influence and impact of each variable among the others. However, to specifically, assess the impact the independent variables have on the dependent variable (***performance***), the standard regression was applied. The regression measures the individual impact of all the other variables (***selection, behaviour, ethnicity, career and satisfaction***) on the dependent variable - ***performance***.

Table 3: Standard Regression

Dependent variable = performance **Variables**	**Model 1**	**Model 2**
Constant	1.833 (1.655)	2.500 (2.692)
Selection	0.075 (0.202)	-0.236 (-0.316)
Behaviour	-0.714 (-1.454)	-9.919 (-2.000)
Ethnicity	-2.130 (-3.306)*	-1.826 (-3.114)*
Career	2.510 (3.650)*	2.896 (4.880)**
Satisfaction	-	0.639 (1.225)
School	-	0.471 (1.069)
Adj. R sq.	0.781	0.775
Mean sq	2.167	2.625
Observation	10	10

*significant at 0.01 level; **significant at 0.05 level. Figures in parentheses are the t-statistics while others are the variables coefficients

The regression result is presented in Table 3. The results are in two models and show the coefficient and t-statistics (shown in parentheses) of each of the independent variables.

The regression result shows that career has the most positive significant effect on the performance of the ethnic minority students. The variable has a coefficient of 2.510 and t-statistics of 3.650 in model 1, which is significant at 0.01. The significance of career remains even stronger on the model 2 with a coefficient of 2.896 and t-statistic of 0.4880. This implies that career is a dominant factor in the overall academic performance of students from the minority ethnic group. The variable ethnicity shows a significant negative significance with performance of the students from the ethnic minority group. The variable has a coefficient of -2.130 and -1.826 and t-statistics of -3.306 and -3.114 respectively. This implies that ethnic background of the students from minority group has a negative impact on their performance. This result can be explained by the sometimes, negative stigma attributed to minority ethnic students.

The results obtained are not entirely surprising. Majors (2000) asserts that the prospect of good career has a propelling effect on students. This is particularly important for students from minority ethnic groups whose academic career prospects are hardly encouraging, either because of poor family orientation or lack of vision. Gillborn and Mirza (2000) found that black minority students often aspire lower than their white counterparts into positions of leadership and public service. Those with such aspirations are not surprisingly good in their academic performance.

Critique of research methodology

The research is a quantitative study, using primary data. A major shortcoming of the research technique is the analytical tools and the small sample size. Regression results are more reliable with a large sample. Hartas (2010) posits that large quantity of data yields more reliable and generalised results. The study was also confirmed to schools and minority ethnic groups within the Kent councils. A wider sample selection would ensure that the result reflects the minority students irrespective of area of settlement.

The questionnaire was closed ended which ensured that respondents tick options of their choice. The questions were drawn to primarily reflect only the research interest. This did not give room for parents to add as much information as possible. These shortcomings may have a significant impact on the results.

Conclusion

The study was set out to investigate the difference in academic achievement between students attending grammar and public schools. It also examined their academic performance and behaviour as it affects the minority group. The school admission policy and its impact on performance and progression on minority ethnic students were also investigated.

The study shows that career aspiration was the most significant factor affecting academic performance of children from minority ethnic background. Students from established academic backgrounds are likely to perform better than other. The study also found that identifying and classifying students on basis of their colour and ethnicity, significantly affected their performance. This is becomes noticeable in environments where minority groups are stigmatised with name callings as a result of their ethnic background. However, such stigma can be reduced with proper supervision by the teachers, ensuring that the feeling equality is entrenched among all the students.

Contrary to some studies, the choice of school (whether grammar or public) and the school selection policy did not play any significant role in the academic performance of ethnic minority children.

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A Preview on Microinsurance as an Access of Financial Services to Low Income Markets

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Abstract

Microinsurance as an access of financial services among low income markets has a long way to go in terms of coping with issues related to sustainability and growth especially among developing countries. Significant gaps exist in the delivery of the risk management arsenal for the poor. Gaps pervade as the needs of microinsurance for funding from donors and technical expertise from the formal insurance corporations arises. Microinsurance as a form of an access of financial services to the poor demands trust as supreme for sustainable operations while volume turnover is key for financial growth. The low income market is fundamentally affected with cash flow constraints and tends to constrain premium valuation and coverage computations. Further limited by lack of regulation to effectively monitor and simultaneously educate the low income market, issues among low income markets include comprehension of the concept of insurance, appreciation of the risk and return associated of insurance among micromarkets and clearly eventual acceptability of insurance as a form savings and investments.

Key Words

Microinsurance, Risk Management, Microinsurance Education, Savings and Investments, Access to the Poor

Introduction

This preview aims to describe common issues affecting growth and developments of microinsurance as an access of financial services to the poor. It shall cover the following areas.

1. Definition of Microinsurance
2. Overview of the Market
3. Sources of Main Risk
4. Institutional Form of Access to Microinsurance
5. Relative Complexity of Microinsurance Products
6. Key Cost to Operations
7. Key Success Factors

Theoretical/Conceptual Framework

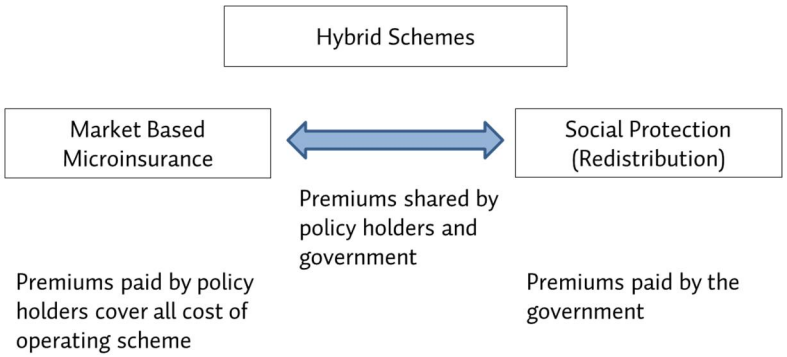
Microinsurance is an attempt to manage risk among low income markets where access to financial services are unavailable and where the magnitude of financial innovations hold promise for social impact and profitable gains.

In the study of USAID, microinsurance started as "industrial insurance" sold at factory gates in American cities in early 1900's. At that time, the Metropolitan Life Insurance Company considered the largest company in the world not only in insurance, introduced the selling of "industrial insurance" to factory workers. The insurance package was a response to a factory worker's requirements handled by agents at factory gates. The premium and coverage valuation measured the specific risk of a factory worker in comparison to his cash flow constraints. Every payday, premium collection was done at factory gates and it had become very efficient in a way that it enabled many developed countries to accumulate investment funds to help the economy grow.

This type of scenario however did not materialize among developing countries. Oftentimes even access to basic financial services as savings has not been smooth nor consistent. In most countries, insurance has only focused with servicing the financial requirements of high net worth individuals and corporate clients. This is understandable since there is huge capitalization needed to muster the administrative cost and portfolio rebalancing requirements in order to run insurance excellently.

In the draft issue paper Regulation and Supervision of Microinsurance, the International Association of Insurance Supervisors has defined the microinsurance insurance continuum in Figure 1.

Figure 1: The Microinsurance Continuum



Source: Issues in Regulation and Supervision on Microinsurance, Nov. 2006.

The continuum in Figure 1 has explained that the basic element of understanding insurance is that it is insurance accessed by the low income population, provided by different suppliers and is essentially run in accordance with the generally accepted insurance principles.

The State as the risk manager of the last resort may determine the need to sponsor access to microinsurance through redistributive practices.

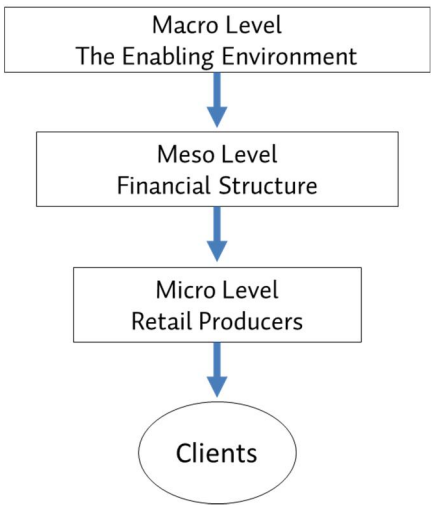
In Figure 1, the funding of microinsurance runs along a continuum where premiums maybe fully funded by private individuals (market led) or premiums (or a proportion thereof) may in fact be paid by the State (as form of redistribution) regardless of the type of entity providing the service. Thus, in both cases, it involves the business of insurance except that the distinction now falls on the type of fund provider.

Similarly, microinsurance products can be classified as welfare oriented such as health cover or maternity benefits while other products can be classified as market oriented such as life and property insurance. Product packaging can

also be a mix strategy of product and funding, making the insurance policy more flexible to the needs of the clientele. Such technique has enabled the basket of insurance product portfolio more attractive to the buyer and thus hopefully, more sustainable in the long run.

On one hand, the draft on Issues in Regulation and Supervision has cited the importance of promoting an "inclusive financial system" found in Figure 2. This diagram incorporates the low income household into the whole financial process while effectively serving the total insurance requirements in the financial market.

Figure 2: Building Inclusive Financial Systems



Source: "Issues in Regulation and Supervision on Microinsurance, Nov 2006.

The need to integrate microinsurance into the formal financial system ensures sustained and effective access of financial services at the most affordable cost among all players. At the same time, such integration hopefully shall pave way for potential channels in the market for gradual redistribution of wealth accumulation among all the players rich and poor alike.

This three tiered leveling defines the complexities of the financial market. The macro level includes the policy legislation, regulation and supervision while the meso level covers the credit bureau, auditors and technical service providers. The micro level consists of the banks, microfinance institutions and insurers.

Besides that the draft report on Issues in Regulation and Supervision in Microinsurance has pointed out that the demarcation line of social welfare (redistribution) programmes and the financial instruments is distinct and must not in any way inhibit the development of market led initiatives from the private sector especially in product and service innovations.

Review of Competing Thoughts

1. Definition of Microinsurance

There is an overwhelming agreement in USAID's definition of microinsurance as the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. From the draft on Issues in Regulation and Supervision of Microinsurance, a number of characteristics can be used to describe microinsurance:

1. Risk pooling instruments for the protection for low income households.
2. Insurance with small benefits.
3. Insurance involving low levels of premium and

4. Insurance for persons working in the informal economy.

However in another study CGAP on Microinsurance, it has added that microinsurance is not simply a process of downsizing commercial insurance products and marketing those to the low income market. It totally requires new and interesting policy components that specifically respond to the particular need of the low income market.

In fact, microinsurance creates a link bridging the gap in the financial market for providing much needed access of financial services to the poor. Microinsurance is as similar in concept with formal insurance except that this subjugation is clearly prescribed for the low income markets. The process of microinsurance covers the same principles and concepts governing the business of formal insurance. For microinsurance, the process has become far more exciting as it now requires creativity in the formulation of products and services distinctly unique and separate from among the array of formal standard insurance products.

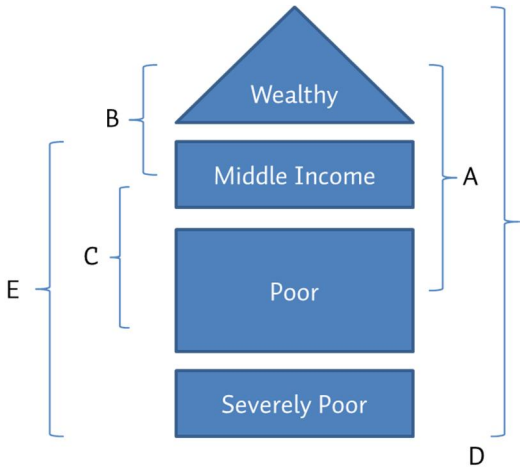
2. Overview of the Market

Indeed since the low income market is conventionally not of particular interest to huge insurance corporations, the importance and necessity of insurance however transcends market income classification and categories.

In Figure 3, the market income segmentation becomes pronounced as insurance converges on Area A where clients are companies and high net worth individuals. Insurance packages are described to be voluntary as life insurance and obligatory which are required either by law or by creditor banks while the B market tend to be mostly non auto related commercial products.

Microinsurance provides insurance to the Area C market. More often, borrowers are advised to obtain insurance for property or a credit life insurance as a means of securing the lending institution's interest.

Figure 3: Overview of the Market.



Source: USAID Report, 2005.

Area D is the domain of the social security and the public health insurance systems of the State. The insurance coverages are limited and incomplete oftentimes offered on subsidy to low income workers. This area runs across all sectors in the market as the coverage include pensions, disability benefits, primary health care and medications.

Area C is the present market for microinsurance while Area E indicates the potential market for microinsurance. Both these areas expand to providing access to individuals who often cannot

avail appropriate insurance products from the commercial sector. It can further extend to providing access to insurance below the Area E range. An example of such types of policy package is the insurance policy for bags of agricultural inputs sold through retailers, post offices or through computer kiosks.

3. Sources of Main Risk

Figure 4: Main Sources of Risks

	Micro	**Meso**	**Macro**
	Idiosyncratic		Covariant
Natural		Rainfall Landslides Volcanic Eruption	Earthquakes Floods Drought
Health	Illness Injury Disability	Epidemic	
Life Cycle	Birth Old Age Death		
Social	Crime Domestic Violence	Terrorism Gangs	Civil War War Social Upheaval
Economic	Unemployment Business Failure	Resettlement Harvest Failure	Financial or currency Crises
Political		Ethnic Discrimination Riots	Political Default or Social Programmes Coup d'etat
Environmental		Pollution Deforestation Nuclear Disaster	

Source: Issues in Regulation and Supervision in Microinsurance, 2006.

On the hand, the main sources of risks among the low income people are categorized in Figure 4. This illustration has implied that the type of risks faced by any individual is pretty much common to almost all income level. Apparently for the low income markets, the frequency of the risk and possibility of the risk event happening are relatively higher compared to their counterparts belonging to the higher income level. Perhaps this has been explained by the fact that more often, low income individuals reside in high risks areas and are endemically subject to greater risks. Obviously, such vulnerability is often identified with the low income individuals since they are the groups most likely to have limited or no money available to protect and hedge themselves against these identified risks.

4. Institutional Forms of Access to Microinsurance

The issue of access to insurance and more so to microinsurance among low income households within developing countries is completely laden with problems which is either described to be difficult or completely unavailable. However once insurance becomes available, two forms tend to flourish outside of the government social protection programmes.

1. The Formal Insurance Industry – these are the legally recognized insurance companies with adequate reserves, with capabilities for reinsurance and with huge capital requirements. Operates under the insurance law.
2. The Informal Insurance Industry – these are usually not regulated at this time moment and where portfolio is not re insurable because of insufficient capital or reserves.

Figure 5: Key Distinctions Between Conventional (Formal) and Micro insurance(Informal)

Conventional Insurance	**Microinsurance**
Premium collected from employers or bank account deductions	Premium often collected in cash or associated with another transaction such as loan repayment or asset purchase; should be designed to accommodate the market's irregular cash flow.
Agents primarily responsible for sales	Agents manage the entire customer relationship.
Targeted at wealthy or middle class clients	Targeted at low income persons.
Market is largely familiar with insurance	Market is largely unfamiliar with insurance and therefore requires a heavy investment in consumer education.
Sold by licensed agents	Often sold by unlicensed agents.
Large sums insured	Small sums insured.
Priced based on age/specific risk	Community of group pricing.
Limited eligibility with standard exclusions	Broadly inclusive, with few if any exclusions.
Standard exclusions	Few if any exclusions.
Complex policy document	Simple easy to understand policy document.
Agents paid on commission, which may encourage aggressive sales practices	Agents paid commission or get market up /inducements which may encourage abusive practices.
Claims process may be quite difficult for policyholders.	Claims process should be simple while still controlling for fraud.

Source: "Issues in Regulation and Supervision on Microinsurance", Nov. 2006.

It has to be noted that the major differences between the informal and formal insurance systems are not so much on principles governing the product differentiation among both forms of institutions. Instead, the key to microinsurance heavily anchored on the cost effectiveness of its processes and systems as it begins to operate.

Other than these differences, Figure 5 has also pointed out that these two institutional forms are distinguished with the kind of market they service. This institutional form fundamentally affect risk and coverage valuation, service operational requirements and structural design eventually established. Specifically the institutional form of an insurance entity has redound to cause an effect in its organizational structure, product portfolios, pricing premiums, coverage valuations as well as the administrative and other transaction costs.

5. Relative Complexity of Microinsurance Products

Interestingly, insurance products for the low income households more often exhibits innovations and creativity in all dimensions of the service design. Uniqueness becomes critical as products for the low income households requires strict adherence to limited cash flow

capabilities of the poor. Microinsurance packages must be specific to need of the poor. It must be easy to understand and must be cheap as affordable as the premium could possibly be valued.

Figure 6 has shown the basket of insurance products, its protection provided and the degree of complexity of the product. The complexity of the product tends to more likely indicates the premium and coverage valuations since the risk assessment has grown more uncertain and almost impossible to quantify. Expectedly in microinsurance the more complicated the product offering, the more likely the product will not flourish. The best way to operate in the low income market has to begin with testing the market with the introduction a basic microinsurance product and then proceed to branch off products for other related microinsurance products. As the first offer gained momentum, the microinsurance providers has already understood the advantage of a careful study and research in terms of dealing with low income markets. Therefore, timing is as equally important.

Figure 6: Relatively Complexity of Different Types of Insurance Products

Type of Insurance	**Protection Provided**	**Complexity of Product**
Crop Insurance	Poor crop yields due to specified causes. Natural disaster recovery.	Highly Complex
Health	Medical costs for illnesses and injuries.	
Annuities, Endowment and whole life.	Savings accumulation, retirement, premature death.	Complex
Property	Damage, destruction and theft of households assets.	
Term Life	Loan principal and interest paid. Benefit paid to beneficiaries. Burial costs.	Moderate
Disability for loans	On going loan payments if borrower becomes seriously disabled.	
Credit Life	Loan principal and interest paid on death of borrower.	Simple

Source: "Issues in Regulation and Supervision on Microinsurance", Nov. 2006.

Another product consideration in microinsurance has to do with the intangibleness of the product being marketed. It may be necessary to consider additional features of tangible intervention which can be enjoyed by the insured during the life of the policy. Tangible interventions can be as simple as monthly gathering with the clients, visits to the residence of the insured, birthday greetings, informal surveys, and other activities compatible with the clients culture and practices. Such intervention would usually promote both product and microinsurance provider loyalty.

This strategy however may tend to increase service and administrative cost which hopefully would allow gains for the microinsurance provider in the long run. In doing so, an information data base of the market must have already been built or must have already been reinforced from social and business relationships initiated beforehand by the microinsurance provider to the insured.

6. Key Cost of Operations

The key costs in operations in microinsurance are the cost of coverage and the administrative cost.

Both costs are as important as the other but it is the administrative cost where the microinsurance provider is most flexible in controlling and reducing expense in order to earn an extra notch in income. Remarkably the administrative costs can be reduced by technology solutions requiring however large initial investment. Although once servicing, the automated system will tend to save tremendous cost in making business less expensive and hopefully more efficient.

In the USAID report, the hospital cash policy of Aldagi Insurance which was sold through the Constanta Foundation in Georgia which links policies sold to Constanta's credit products. Once the loans are set up in the Constanta's system there is an indicator for the voluntary insurance purchase which is simultaneous once the loan is disbursed. A file is created that is batched and transmitted to Aldagi with a computed generated call which is then integrated into the Aldagi's system.

7. Key Factors to Success

The success of microinsurance as an industry is affected by several factors. Microinsurance products must be demand driven and must be delivered in a manner that responds directly to the insurance needs of the low income households. For the microinsurance provider, it is a must that the product must be designed in accordance to the cash flow characteristics of the targeted market. It is desired that benefits for the insured must not only come from the protection of the insurance product, but must also be enhanced with after sales service immediately after the policy commences. Such dedication in policy after sales servicing would tend to promote client loyalty and thus, would tend to build much needed boost in client diligence to service its premium requirements as well.

It is a constraint for microinsurance providers to niche in a market compounded with cash flow constraints to avail for quality extensive insurance policies. Despite such, it has been interesting to observe that what seems to have work for the formal as in the informal insurance is volume. Measured in terms of number in policy holders, this would imply that higher the volume turnover the better for the business.

Given minimal premiums, microinsurance providers similarly have to address a fact that the low income market considers insurance the least priority in the budget. In premium valuation the possibility for undervaluing premium is unwise as to the chance of overvaluing premium is ill advised. In both circumstances, the inaccuracy places unnecessary burden to an already cash trapped low income niche and instantly exacts pieces of perils in the operations of microinsurance.

Recently several microinsurance providers offer products on groups on a mandatory basis. These policies are primarily based to providing families with benefits once an accidental death occurs, thus allowing premiums to be relatively low and are easily linked to a loan product. Such strategy would tend to keep administrative costs minimal since no work is required to separate insured individual clients from the non insured in the microinsurance provider's activities and records. Similarly sales activity can be limited to informing and educating clients, thus hopefully minimizing adverse selection in both sick and healthy clients.

In a study of USAID, it cited AIG Uganda which has benefited implementing this technique. AIG Uganda covered over 1.6 million lives serviced only by 23 insurance policies. Clearly, these 23 policies were catered to microfinance institutions where clients were required to purchase group personal accident policy AIG Uganda has specifically developed for them. In this example, a partnership between a formal insurance provider (AIG Uganda) and a microfinance institution(MFI) has been forged and is now an important strategy as a form of delivery channel for successful microinsurance operations.

Target MFIs for partnership are described to be efficiently and actively working in low income areas, have an effective system to manage cash and have been serving a market who are described to be more future oriented. Formal insurance providers for instance like the AIG, ICIC and Alliance have found working with intermediaries (MFIs) more effective in delivering microinsurance. These channels can help reduce premiums assessments and collections while

effectively meeting the needs of the low income groups.

Certainly these innovative models of providing access of financial services to the low income market are constantly being tested as the industry begins to gain recognition worldwide. This technique of partnership between a formal insurer with a MFI has initially manifested success as a model for providing access to low income markets. In a USAID report, it cited a best list of MFI characteristics to include:

1. The intermediary needs to service regular transactions with the low income people to eliminate hindrances in premium payments. Premium payments must be as accessible as possible since the target market could go as low as house guards in Uganda and tea leaf pickers in Sri Lanka.

2. Intermediaries must enjoy the trust of their clients. Because money is precariously limited among the low income market, clients in this market tend to be distrustful of insurance and find insurance strange and therefore must be avoided. As such, in Indonesia workers with the postal service acquires microinsurance through its postal outlets.

3. The intermediary should have reasonable financial and management control systems which will allow for proper management and accounting of the premiums and other policy information based on the generally accepted insurance principles.

4. The intermediary must be trustworthy to the partner insurer. The role of the partner insurer is crucial in terms of product development and portfolio capitalization. While the partner insurer exposes among others, its name, its products and services, on one hand, the intermediary is expected manage claims and premium assessments with prudence and financial accountability.

5. Insurers must be willing to provide incentives to the intermediaries. Incentives can come in the form of commissions collected from premiums, profit sharing, provision of fees and other schemes which will motivate intermediaries as frontliners of the service.

6. Since insurance is keen on volume, an intermediary must have a large number of clients which can be potential policy holders. In the Philippines for instance, an insurance company tied up with a cell phone company to reach the market of microinsurance among subscribers.

The USAID report stressed the importance of all these characteristics in partnership agreements in view of the fact that the strength in one area may not necessarily mitigate the weakness of the other areas in the running the business of microinsurance. Moreover, creative delivery channels have to ensure that administrative costs are kept to its minimal.

Research Gaps

Culled from the study on Preliminary Donor Guidelines for Supporting Microinsurance and from the preview of other related studies, areas for research could be desired in four categories; for the formal insurer(partner); for the microinsurance provider(MFI or intermediary), for the insured(policy holder) and for the regulator.

For the partner insurer and microinsurance providers, research can be useful to answer issues on the following:

1. Technical Complexities.
   Insurance is a highly technical business requiring expertise both in concept and application of an intangible service. Microinsurance demands an even greater expertise in actuarial and servicing capabilities as it faces a market characterized to be highly prone to risk and with very limited cash flow.

2. Underwriting.
   The risk structure in microinsurance is different from that of the formal insurance simply because each institutional structure are faced with significantly different type of assets. What makes this more challenging for underwriting is the fact that the process of selecting risk to be insured and the process of determining the amounts and terms to be accepted for the risks identified have been made difficult by unavailable data. Among other things once data becomes available, these data are undermined by issues related to adverse selection, moral hazard and fraud.

3. Premium Collections.
   This is a critical concern for business and it is where major problems in microinsurance surfaces. To lower transaction costs and increase investment revenue, partner insurers often require a scheme for paying insurance premiums on an yearly basis in order to cut on administrative costs. Obviously this is not affordable for the low income market who prefers regular and smaller premium payments.

   Researches can further excite strategies on schemes for premium collections keeping in line with the low income market's cash flow constraints and budget allocation. Updating information developments of the target market and designing mechanisms to hasten premium payments and collections are definitely interesting areas for research.

4. Adequate Coverage.
   Researches must extract alternative options for reinsurance where microinsurance schemes could be able to enjoy similar protection against events such epidemics and natural disasters. Since microinsurance are more prone to covariant risk, it is imperative for the industry to have access to a reinsurance facility in order to hedge the industry from potential losses coming from macro level systemic risks.

   One strategy to address the reinsurance concern has been an attempt from various industry players to form partnerships involving a large insurance company with an intermediary (MFI). Research issues could be undertaken to carry out resolving partnership decisions fast and allow more time on resolving areas for enhancing partnership agreements which can help deliver better service to the low income markets.

5. Delivery Channel
   Research could also attempt on identifying effective delivery channels for microinsurance to undertake its programmes as it has already began to implement projects using community based and other local initiatives. Some of these initiatives are funded by donors to make markets more inclusive and most donors are giving assistance to microinsurance provders in terms of technical and financial assistance.

6. Lack of Financial Sustainability and Capabilities.
   The cost of acquiring and servicing customers, the cost of start up operations and excessive claims resulting from inexperienced underwriting, the cost of premium setting and uncontrolled management are surefire formula to bankruptcy and failed microinsurance operations. Enhancing limited insurance knowledge on sustainability and capability enabling strategies could be greatly desired to help develop and upgrade the industry.

For the insured (low income clients), the following areas could be undertaken.

1. Lack of Market Comprehension.
   Deforms the market and is clearly exacerbated if the target market is cash tight. Researches could expound on designing learning tools and instruments aimed at illustrating the benefits and responsibilities that goes with availing microinsurance. Outputs in educational

tools and learning aids in microinsurance must be user friendly, less costly and adaptable to the level of appreciation of the low income markets. Further research could be helpful especially if it ventures into the area of target market comprehension, directed towards constructing better understanding of the characteristics and nuances of the low income market.

For the regulators, research issues must cover regulatory mechanisms designed to protect consumers against misleading and fraudulent insurance practices.

1. Several microinsurance providers operate informally without access to technical expertise, without options for reinsurance and without consumer oversight. The lack of any legal contract between the low income policy holder and the microinsurance provider exposes the integrity of the business to potential dubious transactions which could eventually kill the industry in the long run.

2. It is also imperative for the regulators to uphold its function of educating the low income markets on the nature and dimensions of microinsurance. Educating the low income market should not be left solely to the agenda of huge insurance corporation as biases in information presentation could become unavoidable.

Conclusions

Several specific notes are observable in microinsurance as a form of an access of financial services to the poor. For instance in this industry, trust is supreme for sustainable operations while volume turnover is key for financial growth.

The low income market is fundamentally affected with their cash flow constraints and this situation tends to limit the premium valuation and coverage computations. This cash flow constraint similarly tends to create a downside delay, if not a tendency to totally avoid the decision to purchase insurance. Thus, educating the poor about microinsurance is an indispensable tool to saturate the market and to service them effectively. A well informed clientele would tend to be less costly to manage and more easy to maintain in the long run.

Regulators are fundamentally responsible for educating the public about microinsurance. Regulation must carefully assess enabling laws which will facilitate an environment ready for growth and development while at the same, regulators must uphold to protect the integrity of the microinsurance process.

Product introduction and design must always be demand driven. However, it should not inhibit a microinsurance provider to initiate the offering of an affiliate product or service as an offshoot of the main insurance policy. This service capability clearly requires an extensive data base network and updated knowledge of the segmented low income market.

Administrative cost needs to be monitored strictly as it the anchor with which microinsurance can maximize profitability. The microinsurance provider however must take caution against indiscriminate cost cutting of basic services, in view of the purposive interest of integrating the target market into its information base requirements and demand growth opportunities.

A microinsurance provider must always operate with a perspective of a long term partnership with clients. Only through building relationships and growing with the client can help enable microinsurance as an industry to reap rewards for social impact and to gain of financial recognition in the financial system.

There are significant gaps in the delivery of the risk management arsenal for the poor. These gaps pervade as we begin with the needs of microinsurance for funding from donors and for technical expertise from the formal insurance corporations. Several concerns of regulators are further limited by lack of regulation to effectively monitor and simultaneously educate the low income markets. Issues among low income markets include comprehension and eventual acceptability of insurance as a form savings and investments.

Clearly microinsurance as an access of financial services among low income markets has a long way to go in terms of coping with issues related to sustainability and growth especially among developing countries. Despite such, microinsurance as an industry has marked its business trade uniquely and has offered more promises than ever.

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Understanding Performance Assessments in Microfinance Programs

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Abstract

Much is needed in making microfinance sustainable and consistent. The urgency for agreement in standards and indicators to be used for microfinance assessments is crucial. The technical and conceptual literature are crude and synthetic, losing the advantage of a consistent body of procedure and field of knowledge. Although performance assessments and evaluations must be undertaken in order to provide an immediate measurement and continuous feedback mechanism for microfinance programs, it is interesting to note that the profile of funding allocation exhibited strategies of most of the development investors and that of social investment funds. It can be deduced that the funding allocation strategy of an investor is more often a function of where interest can be fully maximized. Favored programs or projects are found to be financially or socially outstanding or sometimes, are simply found to be politically strategic. It is inevitable to bring that the confusing and needy condition of microfinance performance assessments as a body of knowledge, is only a fair reflection of the state of the microfinance program as well.

Key Words

Performance Assessments and Evaluation, Microfinance Programs, Microfinance

Introduction

This review looks into the nature of performance assessments in microfinance. The idea of performance assessment is similar to any project evaluation procedure where programs are treated as options or alternative strategies available for consideration. It can be an expensive prerequisite to any project undertaking, more so, when performance assessments fires out important information, critical for verifying and validating the contribution of a project to the whole; in this case, of microfinance to an efficient financial system.

Objectives

The field of microfinance as a pursuit of study is constrained with several factors. Foremost, the constrain begins with the availability of comprehensive data to anchor on extensive analysis and empirical based policy recommendation. More often, the

current body of literature may only illuminate what is true for its given sample population. It may stand dangerous to be implied applicable for other markets therefore. As such, this review of performance assessments in microfinance programs shall attempt to undertake the following objectives:

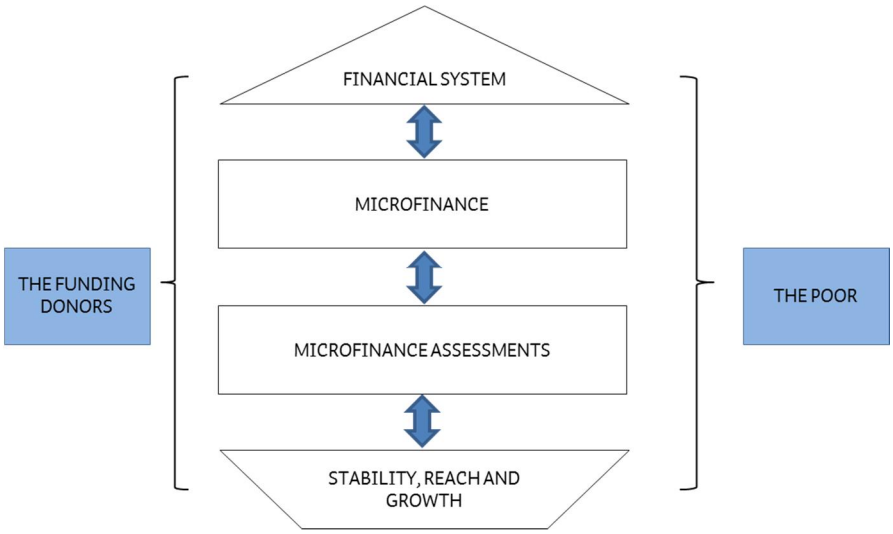
1. Describe the research challenges and issues in the financial system in relation to microfinance performance assessments
2. Describe the categories and sources of funding to microfinance and its effect to performance assessments and;
3. Describe the measurements of impact of microfinance and the methodologies available for performance assessments.

It is presumed that the output of this paper will only be an initial preview which in no way generalized a statement of all performance assessments happening in microfinance programs.

Theoretical/Conceptual Framework

An efficient financial system is an anchor for robust economic growth and sustainable development in a country. The paper asserts that microfinance is an effective tool of providing access of finance to the poor. As a poverty alleviation strategy, it is crucial that microfinance operations be evaluated and assessed of its viability and operational sustainability.

Figure 1: The Microfinance Impact and Assessment



Source: Author's Integration, 2008.

Using Figure 1, microfinance as a poverty alleviation strategy must be able to enhance stability of the financial system, must be able to widen reach of access of finance to the unserved market and must be able to increase chances for growth among the marginalized poor.

In an ADB study, it ironed out its research challenges and issues into two major thrust related to developing an efficient financial system. The first thrust deals with understanding how an efficient economic system contributes to economic development and poverty reduction. The second thrust deals with identifying best policies of improving effectiveness, stability and reach of the financial system to its market.

Furthermore, ADB synthesized its research thrust into one critical area of focus and that is to determine different channels and mechanisms of promoting access to finance and risk management.

Table 1: Research Challenges – Specific Areas

1. Just how limited is financial access?
2. What is the impact of greater access to finance and small firms and households?
3. What policies work best broaden access?
4. How should we ensure and sustain efficiency and stability of financial system?

Source: Culled from an ADB Study, 2008.

ADB defined access of finance as those that refer to the need that financial services essential for growth are widely reach through the economy. Risk however is defined as those that takes into account the heightened level of individual and firm uncertainty brought about by reinforced roles of financial markets and instruments for hedging and microlevel risk management programs. This is illustrated in the specific research areas of the ADB, Table 1.

1. Limited financial access deals with identifying who has access to financial services such as deposits, payments, credit and insurance and further attempts to identify the chief obstacles and policy barriers to access of finance.

2. Determining impact of improving financial access means designing mechanisms that empowers the poor to have direct access to financial services. It further undertakes evaluations to assess welfare and to assess impact of pro poor innovations It similarly attempts to assess best practices of improving financial access.

3. Broadening access means designing policies and financial interventions which will ensure that financial services reached a majority of the population. At this point, at most only 5% of the population has been served financial access by microfinance.

4. Sustaining efficiency and stability of financial system includes assessments of the impact of different supervision strategies, including the impact of compliance with BASEL and the impact of capital market developments and insurance growth.

It becomes clear therefore that the specific areas of research of the ADB presuppose the urgency of evaluations and assessments in project implementation and control. There is a need to evaluate policies which can make microfinance stable, which can enable programs deliver maximum reach of the population and which can enhance microfinance capability to add value to growth in developing countries like the Philippines.

Review of Competing Thoughts

1. Categories and sources of funding in microfinance and its effect to assessments.

It is believed that funding in any project or investments greatly goes hand in hand with assessments. More often funding continues once assessments are favorable and funding stops when assessments are unfavorable. The link of funding to assessments are so intertwined that usually micro finance practitioners are up and about of improving their performance statistics and viability dynamics.

Table 2: Investment Classification in Micro finance

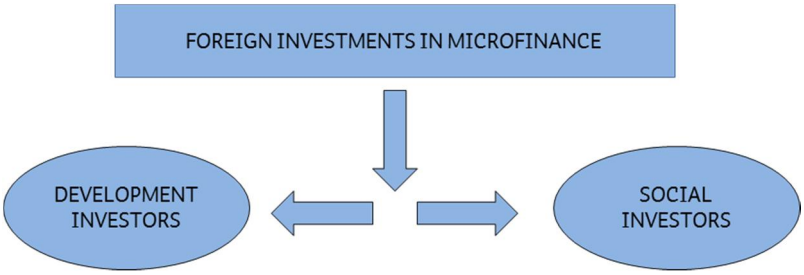
1. FUND SIZE
2. GEOGRAPHIC FOCUS
3. PROPORTION OF FUNDS COMMITTED
4. FINANCING INSTRUMENTS USED
5. CURRENCY OF INVESTMENTS
6. EXPECTED CAPITAL INCREASE

Source: Culled from the Foreign Investment in Micro finance, CGAP 2008.

In the Focus Notes of CGAP(2008), it stated that micro finance institutions will only be able to serve a massive number of the poor with high quality financial services once they tapped commercial sources of funding. The volume of foreign investments in micro finance showed that foreign and public investors have allocated about 1 billion USD to micro finance. USD 600 million have already been committed.

Using Table 2, six categories were used by CGAP in its study aimed to profile the status of foreign investment to micro finance institutions. The study of CGAP further characterized investments in micro finance institutions into two major categories of investors channeling funds to micro finance.

Figure 2: Two Major Categories of Foreign Investment in Micro finance.



Source: Culled from the Foreign Investment in Micro finance, CGAP 2008.

Using Figure 2, foreign investments include quasi commercial investments in equity, debt and guarantees. Once the investment is made by private sector, a funding arms of bilateral and multilateral donor agency, the investment becomes development investment. The person involve in the process is called development investors.

Table 3: Examples of Development Investors

MULTILATERAL
EBRD(European Bank for Reconstruction and Development)
IFC(International Finance Corporation)
OPEC FUND (Organization of Petroleum Exporting Countries)
BILATERAL
USAID Development Credit Authority
BIO (Fleischer Smatterings Mishapping door Ontwikkelingslanden)
FMO (Netherlands Financiering Mishapping door Ontwikkelingsladen NV)

Source: Culled from CGAP Focus Note # 25, January 2004.

Once the investment is socially motivated, involving privately managed investment funds financed both by public and private capital, the investment is considered as social investment funds.

Table 4: Examples of Social Investment Funds

PREDOMINANTLY DEBT FUNDS
ALTERFIN
ETIMOS
OIKOCREDIT
PREDOMINANTLY EQUITY FUNDS
ACCION GATEWAY FUND
AFRICAP MICROFINANCE FUND
PROFUND
GUARANTEE FUNDS
ACCION LATIN AMERICAN BRIDGE FUND
DEUTSCHE BANK MICROCREDIT DEVELOPMENT FUND
FONDS INTERNATIONAL DE GUARANTIE
MIXED DEBT AND EQUITY FUNDS
OPEN SOCIETY INSTITUTE
SARONA GLOBAL INVESTMENT FUND
UNITUS
NEW FUNDS
PLANET FINANCE REVOLVING FUND
DEUTSCHE BANK FUND
MICROVEST

Source: Culled from CGAP Focus Note # 25, January 2004.

Both type of investors manage their investments systematically with the social investors are fast catching up with development investors in terms of funds and approach of monitoring. This implies that they demand a return on investment which they believed should at least be equal or higher than the other poverty alleviation strategies currently available.

Table 3 listed popular development investors while Table 4 exhibited several participants in social investment funds. Between Tables 3 and 4, a number of the active investors are of European origin which racial history may perhaps explain the propensity of volume of investments to be pipelined to micro finance organizations based in Eastern Europe.

Table 5: Investment by Region (in USD millions)

Sourced Used	Eastern Europe	East Asia/ Pacific	Total
Development Investors	548	32	878
Social Investment Funds	30	10	213
Total Allotted Capital	578 51%	42 4%	1090

Source: Culled from CGAP Focus Note # 25, January 2004.

Table 5 identified 548 development investors fund which went to Eastern Europe compared to 32 development investors funds to East Asia and Pacific. This may be attributed to the fact that a large number of investors are based in Europe and are majority controlled by Europeans.

Table 6: Social Investment by Region

	Latin America	East Asia/ Pacific
Amount Committed	113	8
% of Amount Allocated	82%	85%
(in USD millions)		

Source: Culled from CGAP Focus Note # 25, January 2004.

In Table 6 however most of social investment funds went mostly to Latin American based microfinance institutions at 113 funds, compared to 8 funds channeled in to East Asia and Pacific. Comparing Tables 5 and 6, it is apparent that the East Asia and Pacific have the least endowments or investments from both the development investors and social investors.

Table 7: Top Social Investment Networks

ACCION
FINCA
OPPORTUNITY INTERNATIONAL
WOMENS' WORLD BANKING
WORLD VISION

Source: Culled from CGAP Focus Note # 25, January 2004.

Moreover, Table 7 exhibited the top five social investment networks headed by ACCION. This is a reputable service provider of microfinance products and services based mostly in North America, with multitude of investments in Europe and South American microfinance organizations.

It is interesting to note that CGAP emphasized that the volume of commercially oriented foreign investments in microfinance will only increase once investors and micro finance institutions adopt greater transparency and standardization in its program operations. Such requirement however is long and expensive process to pursue at this point.

2. Measurements of Impact in Microfinance

Measurements of impact of microfinance programs are a form of project evaluation technique where microfinance is viewed as one of the several projects currently feasible for poverty alleviation efforts. The urgency of project impact evaluations usually go hand in hand with any project implementation as it is a form of monitoring and control.

The technology for measuring impact of microfinance is as crude and hybrid as it can get now. A mountain of factors affect the concept of measuring impact beginning with the reference of defining what is impact and what is covered in measuring impact.

According to CGAP(2003), impact is about understanding how financial services affect lives of the poor. CGAP added however that most impact assessments have focused on microcredit programs rather than on looking at a range of financial services affecting the lives of the poor. Impact assessments however have demonstrated that financial services initially improve people's lives by increasing income and by being able to enhance the poor's capacity for paying for basic social services. The initial list of impact manifestations is illustrated in Table 8.

Table 8: Manifestations of Impact

1. OUTREACH
2. PRODUCT CHARACTERISTICS
3. ASSET BASE OF CLIENTS
4. SUSTAINABILITY
5. COUNTRY CONTEXT

Source: Culled from CGAP Note # 13, July 2003

Outreach is a measurement on the reach of the financial service to the most of the poor. Product characteristics refer to the quantity of how product and services are packaged and delivered to the client. Product characteristics fitting for the poor may mean short terms and transaction size loan, less loan processing time and availability of components of savings as well.

Impact can also be observed in the change of the asset base of the clients. More often, it is a step up ladder from a low asset base to an increase in the asset build up of the clients. It is not clear however how the range increase from low to medium, medium to high level of asset base category is defined.

Sustainability is another factor to verify impact of microfinance infuse in by microfinance programs. It is however a highly encompassing word that sometimes specific indicators to measure sustainability is ambiguity. There is no clear formulation for a sustainable project in terms of number of years of operations, liquidity and the other social components needed to capture the totality of sustainability in microfinance.

Country context nevertheless is an important condition in understanding impact of microfinance in an economy. Impact of microfinance coming in from large and stable economies would not be considered impact but rather an offshoot of other underlying factors working favorably in the economy. Impact of microfinance in less developed countries however would be more pronounced as the tangible effect would be felt dramatically of a base level point of deficiency and shortage to a base level one of surplus or flexibility. CGAP nevertheless attempted to enumerate specific indicators of impact of microfinance in the following Table 9.

Table 9: Categories of Impact of Microfinance in Three Level

HOUSEHOLD LEVEL	INDIVIDUAL LEVEL	ENTERPRISE LEVEL
Increase Income	Greater Control of Resources	Rise of Enterprise Revenues
Change in Mix of Assets	Higher Level of Savings	Increase Job Creation
Capability to Manage Risk		

Source: Culled from CGAP Note # 13, July 2003.

In the household level what stood out is the capability of the poor to manage risk specifically liquidity and default risks. Prior to the microfinance programs, the poor are more prone to cash flow fluctuations. Once microfinance programs set off stable, the poor would not be too vulnerable to cash flow fluctuations as steady stream of cash becomes embedded in a successful microenterprise funded through microfinance program.

It is interesting to notice that for the individual level, the impact of greater control of resources looks favorable especially in aspects of empowering women through microfinance programs. Greater access to resources accompanies wider choices and enhanced role in decision making both in family and community endeavour.

It is also emphasized that the possibility of job creation must transcend more than the job created in the person, principally responsible for the enterprise. Instead job creation must be able to assimilate other member of the family in the collective enterprise.

3. Methodologies of Microfinance Assessments

Microfinance assessements is an integral part of financial transparency and information sequence of microfinance institutions.

Table 10: Financial Transparency: An MFI's Information Sequence

Information Systems
Internal Control
External Audit
ASSESSMENT/PERFORMANCE MEASUREMENT
Peer Group Benchmarking
Performance Standards
Rating
Supervision

Source: Culled from CGAP Note, 2001.

From Table 10, as soon as the microfinance program becomes more transparent and reliable in its generation of financial information, the said program more often attracts a large volume of funding suppliers and investors. It is an inevitable consequence of accountability prevalent in the organization, which also prove to be more efficient in generating revenues and minimizing costs for the firm.

CGAP(2001) stressed that assessment methodologies for microfinance institutions must

be holistic in its approach of evaluating firm's performance. Assessments are critical management tools aimed at verifying the contribution of a program to the firm's overall goal. It is also a powerful weapon to determine whether it is worthwhile to supply funding and invest in a project.

Assessment methodologies can take a variety of form and procedure as long as the conceptual and technical justifications of such an approach are well founded. Microfinance ratings are different from public rating agencies like Standard's and Poor's, Moody's for they attempt to measure the ability and willingness of a borrower to meet an obligation. Their methodologies are driven by credit risk which then will become the base for their ratings.

Microfinance rating agencies however don't necessarily provide rating of the credit risk condition of a firm. They may adopt to assign a rating, a score or a grade indicating generally the overall financial condition and sustainable quality of the institution.

Table 11 identified five popular microfinance assessment methodologies.

Table 11: Popular Microfinance Assessment Methodologies

ACCION CAMEL
WOCCU'S PEARLS
PLANET RATINGS GIRAFE
MICRORATE
CYRIL

Source: Culled from CGAP Note, 2001.

The five assessment methodologies are elaborated in profile found in Table 12. ACCION Camel seemed to be the most well funded and long established microfinance institution supplying assessment methodologies in the industry. Furthermore, it is interesting to observe marked differences in the indicators of each of the assessment methodologies. Such distinguishing contrast maybe attributable to the preferences and strategies of each of the assessment methodologies.

Moreover, it is to be noted that microfinance assessments are severely affected by poor quality of information, by increased frequency of assessments required and by cost of implementing assessments. Cite for instance the information provided by microfinance institution. It is more often, not accurate and complete. This is due to the fact that microfinance institutions simply can't focus on developing an appropriate and reliable information system as it eyes more on improving its operational profitability and sustainability. Audits of financial statements are rarely conducted for it is expensive and costly in all respects of effort and time.

Table 12: Overview of the Five Assessment Methodologies

CRITERIA	ACCION CAMEL	WOCCU PEARL	PLANET RATING GIRAFE	MICRO RATE	M-CRIL
PURPOSE	Internal tool for mgmt, board and network	Ongoing performance monitoring by mgmt and external supervisors	Measurement and control of risk	Evaluate credit risk for investors and creditors	Evaluate credit risk for investors and creditors
KEY FEATURE IN METHODOLOGY	Roadmap for MFIs to become formal fin'l intermediary	Pinpoints key fin'l strength and weaknesses	Detailed rating but unclear definitions of risk level	Credit-worthiness and benchmarking	Clear rating opinion on specific debt issues
APPROACH BIAS	Strong mgmt, profitability, and bench marking	Strictly fin'l, comprehen-sive fin'l analysis	Strong on mgmt, governance and best practices	Strong on fin'l track record and benchmarking	Strong on capacity constraints based on specific issues
LIMITATION	N/A	No qualitative evaluations	Reliance on External Consultants	Relatively little judgmental input	Light on factual tables
KEY CRITERIA	21 indicators under 5 areas: Capital Adequacy Asset Quality Management Earnings Liquidity Management.	45 indicators in 6 areas: Protection Effective Financial Structure Asset Quality Rates of return and costs Liquidity and signs of growth.	26 factors under 6 areas: Governance and decision making Information and management tools Risk analysis and control Activities and loan portfolio Funding Efficiency and profitability.	3 major areas: Lending operations Organization/MIS Financial Position	30 indicators grouped under 3 areas: Organizational and governance aspects, Managerial and Resource Strengths, Financial Performance.

Source: Culled from CGAP Note, 2001.

CGAP(2001) reported that eight assessment organizations use more than 170 indicators to evaluate microfinance institutions. Among the 32 indicators with definitions, only five are defined similarly by more than two evaluators. Such alarming discrepancy of indicator and measurement categories reflect a spectrum of diversity, culture and purpose, from the extreme to the narrow among and within the microfinance assessment suppliers themselves

The microfinance institutions need to be conscious as well of its reporting frequency to be truly consistent with the condition of its asset liability mix. More often financial statements are churned out at end of the fiscal period notwithstanding the fact that microfinance assets are highly liquid and liabilities are short term in period and duration. Such mismatch in the reporting more often create inaccurate information.

Finally the cost of assessments are not cheap. Information reliability infused with varying degrees of indicators and performance measurements make the assessment

methodology far more complicated and tedious. Microfinance rating agencies need to re engineer systems and procedures for assessments.

Research Gaps

Assessments and evaluations are significant areas for study in microfinance operations. Several questions provide potential research issues crucial for enhancing the methodology and available technology governing microfinance assessments.

1. Research can be undertaken to design policy interventions and implementing rules and regulations aimed at enhancing greater transparency and wider standardization integrated into microfinance financial information sequence. Such designs must take into account opportunities for re-engineering systems and procedures to make financial information more relevant at the least cost.

2. Impact measurements are serious points for considerations once project evaluations are conducted before, during and after the project implementation. Research may pursue into refining the technology for measuring impact of microfinance, for identifying what consists impact and for distinguishing what inhibits impact measurements.

3. It is also important to note that microfinance assessments are severely affected by an alarming basket of non standardized set of performance indicators and measurements. Research may be undertaken to set fundamental principles, concepts and methods aimed to unify and contrast, indicators and measurements among all assessment methodologies.

Conclusions

Several ideas come into surface once we delve into microfinance assessments and its effect towards attaining financial reach, growth and stability in a financial system.

For one, it is obvious that much is needed in making microfinance stable. Performance assessments and evaluations must be undertaken in order to provide an immediate measurement and continuous feedback mechanism for microfinance programs.

It is interesting to note that the profile of funding allocation exhibited strategies of most of the development investors and that of social investment funds. It can be deduced that the funding allocation strategy of an investor is more often a function of where their interest can be fully maximized. Favored programs or projects are found to be financially or socially outstanding or sometimes, are simply found to be politically strategic.

The preview also emphasized the urgency for agreement in standards and indicators to be used for microfinance assessments. The technical and conceptual literature are crude and synthetic, losing the advantage of a consistent body of procedure and field of knowledge. At this point, it is inevitable to bring in the idea that the confusing and needy condition of microfinance performance assessments as a body of knowledge, is only a fair reflection of the state of the microfinance program as well.

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Understanding Doner's Requirements in Microinsurance Programs

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Abstract

As a relatively new area in the financial services market, researches can expound on appropriate design and applicable tools for performance evaluation, similar to a set of criteria of a donor's performance indicators checklist. A failure of donor appropriate intervention infects the sustainability of both the microinsurance programs and the industry where it thrives. Researches can be also be undertaken to enhance and fully equipped a donor in assessing and evaluating its terms and conditions of participation in a microinsurance program. Factors may include the length of financial assistance, frequency and mode of funding, mechanisms for fund monitoring and performance, and checks and control balances. Poor timing of financial intervention is dangerous as it is beneficial as it often cuts critical cash of a thriving microinsurance business. Timing mistakes of financial subsidies in a microinsurance program promotes complacency among beneficiaries and is totally unproductive.

Key Words

Donor Requirements, Donor Intervention in Microinsurance, Financial Services to the Poor, Microfinance

Introduction

This review admits the importance of the role of donors in any micro related programs. Due to the cash tight nature of the low income market and the seemingly desperate picture of financial returns coming from several microprograms, it has come to a point that when donor intervenes, it is always considered a welcome.

This paper therefore aims to undergo a thorough assessments of donor involvement in microinsurance programmes. It shall cover the following areas.

I. Donor's Perspectives of Insurance to the Poor.
   A. Rationale for Interventions.
   B. Strategy for Intervention.
   C. Donor's Internal Capabilities.

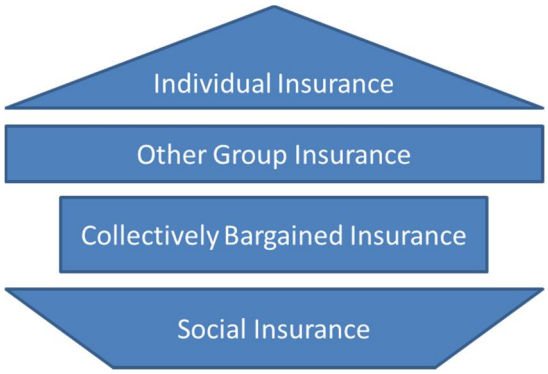
II. Donor's Choices in Intervention.
   A. Flexibility in Approaches.
   B. Types of Support.

III. Donor's Preferred Grantee.

Theoretical/ Conceptual Framework

Insurance has long been established as a financial instrument aimed at providing indemnification against losses from disasters. Several insurance structures are identified, most of which have complementary relationships in each category. This is illustrated in Figure 1, the insurance pyramid.

Figure 1: The Insurance Pyramid



Source: Preliminary Donor Guidelines for Supporting Microinsurance, Oct. 2003.

In Figure 1, the Preliminary Guidelines reiterated that commonly social insurance covers the biggest chunk of the population and in fact encompasses all sectors of a community. More often social insurance programs are characterized to have been:

1. Established through a political process and
2. Required in a way compulsory for all concerned sectors.

Likewise social insurance schemes have been designed to provide economic security to a large and marginalized sections of the population and are often regarded as social rights mandated in a Constitution. Such programmes are usually financed by taxes, levies, charges and other form of revenues of the government.

These schemes may be managed and operated by a separate department of the government or by an identified special private entity established for the purpose of accomplishing social insurance programs. Notably, most of the designed programmes have been centered on providing immediate income replacement once the insured becomes incapacitated or becomes disabled as caused by accidents, sickness, retirement, unemployment, maternity and paternity leaves.

The Preliminary Guidelines further added that social insurance programmes commonly involves five major types of activities including:

1. Labour Market Policies and Programs.
2. Social Insurance Programs.
3. Social Assistance.
4. Micro and Area Based Schemes.
5. Child Protection.

Nevertheless, insurance must not become a substitute or must not be a tool of several band aid solutions to social protections duties and responsibilities of the State. It must complement however the programmes and activities of the government in providing basic services to the marginalized and the poor.

Review of Competing Thoughts

I. Donor's Perspectives of Insurance Services to the Poor.

1. Rationale for Intervention

Different views reveal that donor's intervene in microprograms because of so many reasons. Although the interest vested in their intervention can range from the economic, to social, cultural and ultimately political reasons, trust to say that more often they do provide assistance to help improve the low income markets and the marginalized poor equip themselves in gaining economic freedom.

2. Strategy for Intervention

Two areas are cited in the Preliminary Donor Guidelines for Supporting Microinsurance in their strategy for design in microinsurance intervention.

A. Donors are advised to get involved in developing risk management tools aimed at enhancing and solidifying the poor's economic gains.

B. They are strongly advised to foremost, assist governments in their social insurance programmes and must avoid in creating new and untested microinsurance programs.

It is even desired that a donor must attempt to be able to integrate and synergize these two components in their programs so as to bring their level of intervention to a maximum. Such technique would tend protect the long term viability of the donor's intervention and perhaps, secure the limited financial budget for a specific country allocation.

Despite the fact that donors have tremendous financial capability to spend in a microinsurance project, more often huge and worldwide based operating microprogram donors would tend to maximize resources and would most likely distribute risk to several identified clients that will form their basket of intervention portfolio. In other words, programs identified for funding are constraint financially and are measured with perfomance indicators. Indeed it is wise to assume that donors involved in microinsurance programs have performance indicators which they need to hurdle and uphold. This is a must.

3. Donor's Internal Capabilities

Table 1: Doner's Internal Capabilities

Capability
Development Experience
Insurance Technical Expertise
Local Market Knowledge
Coordination

Source: Culled from the Preliminary Donor's Guidelines, 2003.

Table 1 reveals key internal capabilities donors should be able to muster before they attempt to engage in microinsurance projects. These competencies are generally referring to knowledge, competency and coordination.

Development experience implies the importance of years of experience in microprograms proving inherent capabilities in assessing feasibility and integrity of provider organizations.

Insurance technical expertise is basic understanding of insurance concepts including technical expertise in insurance management, actuarial sciences, underwriting and claims adjustment. It includes the familiarity with the rules governing appropriate accounting of

insurance transactions through the generally accepted insurance principles.

Local market knowledge deals with excellent market intelligence and data base network sufficient to answer analysis on priority needs of the target market, the type of risk they faced and their corresponding coping mechanisms. Local market knowledge also requires no nonsense grasp of government strategies aimed for social protection specifically affecting or particularly distinct to the area or locality considered for funding. Coordination is interesting because it recognizes the fact that donors must be able to effectively facilitate the linkages and distribution of its requirements and competencies, significantly more critical than their ability to flood a microinsurance project with funds.

Key indicated areas to be coordinated exact emphasis on:

1. Other Donors and Funding Agency.

This is to erase potential duplication and costly gaps in the development of complementary and mutually exclusive projects or separate and distinct microinsurance interventions. In doing so, all donors potentially designing microinsurance programs can be able to maximize available funding and manpower requirements.

2. Relevant Government Social Protection Offices.

Once a microinsurance program becomes compatible with the government's social protection agenda, there is a need to identify key implementing departments of the government. In doing so, the donor is able to tap current organizational structure which in the long run could free some items on the donor's budget and may perhaps lead to full commitment from the government in its social protection policies. It is even desired that this coordination competency has already taken the donor farther as it has already taken initiative in recognizing the head player and managers in the government department.

3. Private Sector Insurers.

Linkage with the private sector insurers brings in to the donor synergies in the form of local market intelligence and local market technical nuances. Once done perfectly, coordination may perhaps provide the most benefit to a donor on a number of factors most especially resource maximization. Yet this area will most likely bring as well, the most headaches and therefore will more often demand the most attention from the donors.

II. Donor's Choices for Intervention.

1. Flexibility in Approaches.

Table 2 speaks about a comparison of how private insurance, public and private initiatives and social protection projects adopt to a donor's three pronged microinsurance program objectives. It has to be noted that a donor may opt to pursue only one of the objectives, or a combination of several objectives or perhaps, the donor may create its own set of objectives distinct from the identified three targets as it explores microinsurance programs.

Table 2 also speaks about the flexibility in terms of strategic approaches that a donor may implement in its microinsurance policies. A social protection scheme makes the government directly involved while a private insurance tends to create sustainability for the microinsurance product. The donor may adopt a combination between a public and private initiative. The three approaches have worked to have reduced vulnerability of the poor against risk. However, social protection programs will tend to fluctuate on budget allocations and leadership changes of the national government.

Table 2: Comparison of Donor's Objectives with a Private Insurance, Mixed Public and Private Initiative and Social Protection

Objectives	**Private Insurance**	**Mixed/Public Private Initiatives**	**Social Protection**
A. The donor will contribute only to viable schemes or those realistically viable. Thus, the donor will assist the partner to:	1. Follow a formal product dev't process. 2. Identify effective demand. 3. Develop and follow a business plan. 4. Provide realistic projections showing financial sustainability. 5. Develop and maintain proper controls.	1.1 Follow a formal product dev't process. 2.1 Identify need and stratify demand by ability to pay. 3.1 Develop business plans that call for subsidies at the lower ends and using needs based segmentation. 4.1 Develop realistical projections for different markets that show subsidised sustainability in the lower market. 5.1 Implement very strong controls and structures to manage multilevel product.	1.1 Follow a formal product dev't process. 2.1 Identify effective need. 3.1 Have a realistic plan for longevity. 4.1 Generate long term realistic projections that show extended sustainability of the programme. 5.1 Develop and maintain proper controls.
B. The donor will prompt and assist in formalization for the microinsurance activity, thus the donor will assist the partner to:	1. Comply with regulatory requirements. 2. Link with formal sector to place risk where it is best managed. 3. Obtain professional assistance on technical matters.	1.1 Develop complex arrangements for mixed business and subsidized product. 2.1 Coordinate between private and public institutions. 3.1 Obtain professional assistance on technical matters.	1.1 Improve the capacity of bureaucrats. 2.1 Improve quality of social protection coverage. 3.1 Obtain professional assistance on technical matters.
C. The donor will establish a clear exit strategy thus, the donor will assist the partner to:	1. Formally plan for improved and maintained profitability. 2. Develop a strategy to move from grants to loans and other forms of capitalization. 3. Develop long term private sector relationships to address technical microinsurance issues.	1.1 Formally plan for improved and maintained profitability. 2.1 Plan for gradually reducing subsidies over many years. 3.1 Develop long term private/public sector relationships to address technical microinsurance issues.	1.1 Plan for gradually reducing subsidies over many years.

Source: Preliminary Donor Guidelines for Supporting Microinsurance, 2003.

The mixture between the public and private initiatives will most likely struggle with combining business performance indicators with the unstable funding subsidies of social protection programs from the government. The purely private microinsurance will more likely face problems related to cash flow constraints of the low income households in terms of the poor's inability to service premium payments on a consistent basis.

It is not clear though as to which of the approaches may prove superior over the other approaches except that a combination between a public and private initiatives may tend bring in more synergies in program implementation thus, perhaps higher chances for success. This combination of public and private initiative however may not prove to be easy in matters of coordination.

2. Types of Support

Table 3: Major Classifications of Intervention

Intervention
Technical Assistance
Financial Support
Linkages

Source: Culled from the Preliminary Donors Guidelines, 2003.

Depending on the overall masterplan of the donor, Table 3 shows several intervention opportunities classified into technical assistance, financial support and promotion of linkages. More often donors would tend to behave conservative in its degree of involvement in microinsurance programs especially if the donor is new player.

Technical assistance is the most preferred in view of the chance or in the event of financial loss. Such risk may significantly influence a large number of donors to tend to behave more prudent and would tend to manage program involvements similar to portfolio investments. Clearly it is possible for the donor to intervene using a combination of options consistent to its overall design in microinsurance programs.

As crucial as the microinsurance program is evaluated on its performance, more pressures are carried on the shoulders of the donors in their performance in the whole system of microinsurance intervention. This is serious concern since a failure of a donor usually infects not only the donor but also on the core sustainability of both the microinsurance programs and the industry where it thrives.

Table 4: Technical Assistance Interventions

Classifications
Market Research
Feasibility Studies and Pilot Tests.
On site Advisers
Business Plan Development
Short Term Consultancy Services.
Training
Staff Study Visits to other Institutions.
Support Information Clearinghouse.

Source: Culled from the Preliminary Donor Guidelines, 2003.

In Table 4, The Preliminary Donor Guidelines stresses the need for technical assistance to target on developing institutional structures, as it becomes more stable and critical in the long run. Likewise, the choice of options of the donors may become fully consistent on what best suit their overall intervention strategy at the minimum cost as possible.

Table 5: Financial Support Inverventions

Classifications
Grants
Institutional Development
Fixed Assets
Expansion to New Markets
Facilitate Reinsurance Solutions
Capitalization
Loans

Source: Culled from the Preliminary Donor Guidelines, 2003.

Table 5 illustrates several classifications of the financial support a donor may adopt in its intervention. The Preliminary Donor Guidelines reiterates that in the business of insurance, three categories of financial support are compatible with in three stages of the life cycle of the business.

1. Capitalization
2. Start Up Cost, and
3. Operating Deficits during all the early years.

Observe that donors are extremely careful in granting financial assistance and more often the length of time and the amount of involvement are already mapped out in their intervention strategy. It is not wise to subsidize the microinsurance program to more than what is required as it hampers the self sufficiency of the project. It is not wise as well to pull out support when the program self sufficiency structures has not been formalized causing the microinsurance program to bleed for funding support.

Table 6: Possible Roles for Donors in Microinsurance

Type of Involvement
Governance
Management and Organizational Design
Capacity Building and Training
Financial Resources and Management

Source: Culled from the Summary Discussions on Microinsurance, 2003.

Table 6 illustrates the possible roles for donors intervention. These involvements are quite similar to that of the items identified in the Preliminary Donor Guidelines except the item on Governance. This concept of governance is very important in terms of instituting structures which would eventually facilitate a culture of prudence and accountability in the microinsurance projects. In a way, governance practice in one microinsurance project would gradually make

roads in better defining the industry dynamics of microinsurance.

In Table 7, the Preliminary Donor Guidelines provided an approximate ranking as to the level and degree of involvement of a donor in a potential microinsurance program. This ranking however is only a base reference for donors to consider since each of the donor would be facing distinct microinsurance programs worldwide.

Table 7: Financial Support Requirements by General Methodology

Support Category	**Linkage Based Programme**	**Stand Alone Insurer**	**Social Protection**
Start Up Costs			
Market Research	3	3	3
Product Development	2	2	2
Training	1	3	2
Fixed Assets	1	3	3
Marketing	2	2	1
Institutional Dev't.	1	3	3
Operating Deficits			
Claims Costs	0	0	2
Operations(initial)	1	2	3
Capitalization	0	0	2

Source: Preliminary Donor Guidelines for Supporting Microinsurance, 2003.

ref: 0 = financial support not advisable
1= limited support required
2= significant support required
3= full support required

Every program in fact becomes unique from each other so much so that its commonality stood in only one fact, so pervasive among all the identified program. More often, it is evident that all requires financial intervention.

The process of assessing the degree and level of financial intervention using this indicators from the Preliminary Donor Guidelines made it a bit easy in matters of having a basic point of reference for further analysis. It should not however impose that as a ranking is applicable to a particular microinsurance program, it will similarly be an accurate assessment for the level and degree of financial funding required for the other seemingly related microinsurance programs. Consequently, the other way around must also done with caution and must be undertaken with full prudence and tact from the point of view of a prospective donor beneficiary applicant.

It happens and this is a danger that once a microinsurance program will be granted a level 3 category funding support, this will also tie the donor to bestow similar ranking as generated by overly excited recipient. Such a perception would tend to inhibit the flexibility of the donor to grant a ranking at the same such undue pressure, would tend to deflate a donor's interest in funding the program. Therefore, it would be best to allow a donor's judgment to have the leverage on its level of commitment and financial exposure to a particular microinsurance program.

Table 8: Linkage Interventions

Classifications
Promoting Suitable Partners
Partial Guarantees

Source: Culled from the Preliminary Donor Guidelines, 2003.

Linkage interventions usually lessens the learning curve, at the same the transfer of technology both in the technical expertise and human resource management peters off unnecessary cost and thus ensures a higher percentage of achieving a working and sustainable microinsurance programs.

In Table 8, one also draws observations pointing to the idea that the kind of linkage provided for intervention more often speak about the reputation of the donor and the level of network the donor has been able to build in the microinsurance and its affiliate industry. Looking at this donor capability deeply, facilitating linkages are more often a result of gained respect and lived trustworthiness of a donor in the field where it has been making its niche. Being offered with this kind of donor intervention therefore is actually more valuable than pure financial intervention or technical assistance or a combination of both. This is because a linkage capability often opens doors for more opportunities, built upon the bestowed trust and confidence the donor has immediately transferred to the beneficiary upon linkage.

In fact, the beneficiary becomes the de facto representative of the donor among its proven network of partners and affiliates. More often donors are not only armed with financial resources but are also with equipped with highly reliable partners and dependable friends in their field of expertise. It is a caution therefore that donors may become very strict in selecting beneficiaries for linkage intervention especially if the donor intends to protect its own name. They usually do.

Table 9 is very interesting because it identifies the methodology and criteria for assessing strong microinsurance institutions and programmes. The analysis of the candidate for grant and assistance is based on those and it does not in any become a choice of preferred institutions. At the same time although it is grouped directly group under a type of institution, the strength of a methodology or a checklist as a tool to make judgment from among a basket of choices is more effective. One reason for that is more often, questions of the reasonable chance of success upon implementation of a preferred option is supreme evaluation issue. Again this idea reinforces that donors are serious with their intervention role and are intent in making the microinsurance endeavour a success.

III. Donor's Preferred Grantee or Beneficiary.

Table 9: Doner's Citeria for Selection

Insurance Company With Partners	**Social Protection Programmes**	**MFIs with out Micro insurance Products**	**MFIs with Insurance Products**	**Eight Performance Indicators of Micro insurance Practitioners**
Proponent: CGAP on Microinsurance	*Proponent: CGAP on Microinsurance*	*Proponent: CGAP on Microinsurance*	*Proponent: CGAP on Microinsurance*	*Proponent: ADA asbl supported by the Luxembourg Dev't Cooperation.*
Environmental Factors	Environmental Factors	Environmental Factors		Separation of Data
Ownership and Governance	Ownership and Governance	Ownership and Governance		Collection of Relevant and Accurate Data
Culture	Culture	Culture		Production of Financial Statements
Capacity	Capacity	Capacity		Calculating and Setting Up Premium and Claim Reserves
Outreach	Outreach	Outreach		Efficient Claims Monitoring
Structures	Structures	Structures		Clear Investments Policy
Client Appropriate Products	Client Appropriate Products		Client Appropriate Products	Right Technical Insurance Expertise
Appropriate Operating Systems	Appropriate Operating Systems		Appropriate Operating Systems	Transparency
Quality of Services	Quality of Services		Quality of Services	
Claims Services	Claims Services		Claims Services	
Financial Performance	Financial Performance		Financial Performance	

Source: Culled from the Preliminary Donor Guidelines (2003)and the Seven Performance Indicators for Microinsurance Practitioners (2006).

Table 10 would exhibit to a donor potential benefits once it designs options for intervention in its microinsurance program masterplan. Although there are factors which would actually set discussion points for partnership negotiations, the Cautionary Note for Microfinance Institutions has reiterated that more often this includes concerns related to:

1. The Limited Availability of Potential Partners.
2. The Coverage of More Complex Risks.
3. The Difficulties Ensuring Repayment of Claims.
4. The Difficulties in Negotiating an Equal Partnership.

Table 10: Potential Benefits From Various Options

Partnering with a Microfinance Institution(MFI)	***Benefits of an Insurance Company Partnering with an MFI***	***Client Benefits***
Limited Initial Capital Investment and Low Variable Costs.	Access to New Markets.	Better Products at Lower Costs.
Rapid Product Launch and Scale Up.	Access to Clientele with Strong Financial Records.	Greater Financial Security.
Compliance with Legal and Regulatory Requirements.	Lower Transaction Costs for Serving a New Market.	
Potential for Stable Revenue Stream.	Corporate Citizenship.	
Learning the Business.	Regulatory Compliance.	

Source: Culled from Cautionary Note for Microfinance Institutions and Donors Considering Developing Microinsurance Products (2006).

It is desired that players contemplating of engaging in microinsurance endeavours must be certain of its fundamental intent. In other words, it is normal to iron out constraints and potential source list of disagreements in the implementation of the program. It is however critical that all parties involved in the microinsurance project stand united in its overall mission for getting into the program in the first place.

Research Gaps

As a relatively new area in the financial services market, several questions provide potential research issues extremely crucial for strengthening donor's involvement in the microinsurance industry.

1. More often donors intervene so as to enhance the roles of the private sector and the agenda of the government's social protection programmes. However as a microinsurance player with tremendous resources and capability for assistance, donors need research on exploring techniques, tools and mechanisms where the low income markets can be helped in solidifying their economic gains and possibly can be further augmented in increasing their wealth through microenterprise activities.

2. Researches can expound on appropriate design and applicable tools for donors performance evaluation, a set of criteria similar to a donor's performance indicators checklist. This is important because the business of donor intervention is a critical concern. More often a failure of donor's intervention initiatives infects the sustainability of both the microinsurance programs and the industry where it thrives.

3. Researches can be also be undertaken to enhance and fully equipped a donor in assessing and evaluating its terms and conditions of participation in a microinsurance program. Factors to consider include the length of period for financial assistance, its frequency and mode of funding, mechanisms for fund monitoring and performance, and checks and control balances. Poor timing in financial intervention is dangerous as it often cuts off critical cash flow requirements of a thriving microinsurance business. At the same, timing mistakes prolongs financial subsidies in a microinsurance program definitely promoting complacency among beneficiaries and is totally unproductive.

Conclusions

Interesting ideas come into surface once donor's intervention initiatives in microprograms are discussed in this special case, microinsurance.

For one, every program is in fact unique from each other so much so that its commonality stood in only one pervasive factor among all the identified programs. More often, it is evident that all microprograms including microinsurance projects require a kind of intervention which could be financial, technical, linkage capabilities or a combination of all. From the beneficiaries standpoint, financial intervention is most desired.

It is amazing to note however that in comparing donor's intervention to a grantee, linkage capabilities are more often prestigious than pure financial funding or technical assistance. This is because linkage capabilities open doors for more opportunities, built upon the bestowed trust and confidence the donor has immediately transferred to the beneficiary. In other words, the beneficiary grantee becomes the de facto representative of the donor among its proven network of dependable partners and reliable friends.

On the other hand, the process of assessing the degree and level of financial intervention among the donors is still new and very shaky expertise at this time. A lot of intuition and reasonableness are more often applied in identifying potential candidate for intervention and also in defining what kind of intervention is best.

Clearly, the business of intervention is a business. More often the issue of the reasonable chance of success of a microinsurance program under study reinforces the idea that donors are dead serious with their intervention role and are intent in making the microinsurance endeavour a success.

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Internal Auditing and Performance of Government Enterprises: A Nigerian Study

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Abstract

Purpose: The purpose of this paper is to assess the internal auditing practices on the financial performance of government-owned companies (GOCs) and to consider the effect of a contextual factor-Political influence – on this relationship.While much emperical works have given diverse reasons for the poor financial performance of GOCs, research evidence of the impact of internal auditing practices on the financial performance of GOCs in the Nigerian context is scanty.

Design/ Methodology/Approach : The study adopted a nomothetic methodology (quantitative approach). Data were collected from key informants using a research instrument. Employing the Statistical Package for Social Sciences (SPSS) Version 13.0, returned instruments were analyzed using frequency tables, Pearson's and Stepwise Regression Method.

Finding: The study found no strong association between internal auditing practices and financial performance of GOCs and thattt political influences do not significantly impact this relationship. The weak association between internal auditing practicesand financial performance is attributed to these enterprises' inadequacy and poor implementation of internal auditing practices. Where internal auditing is de-emphasized it cannot impact positively on performance.

Practical Implications: The paper recommends the need for the establishment of an Audit Department where it is non-existent, taking into consideration the size of the Enterprise as well as the strenghtening of the Department by according professional independence and employing adequate number of experienced and qualified staff.

Originality/Value: This paper has provided useful insights and fresh emperical evidence of the relationship between internal auditing practices and financial performance of government enterprises in the Nigerian context.

Key Words

Internal Auditing, Government –owned Companies, Political Influence, Financial Performance, Nigeria

Introduction

State participation in economic activity is a world-wide phenomenon. In Nigeria, the government at all levels is active participants in economic activity such as being involved in business activities through the floating of Government-Owned Companies (GOCs). GOCs in Nigeria are expected to operate like their private counterparts; obeying the rule of incorporation according to the company laws of Nigeria and making enough business profits to survive business competitions (Fubara 1982). However, quite a number of these companies are "sick" and some are in the process of becoming so. Concerned about the negative financial performance of majority of GOCs in Nigeria, Fubara (1982) examined the reasons for the prolonged abysmal GOCs' financial performance and established that GOCs perform very poorly in terms of profitability criteria set for them. He attributed the poor performance to inept management, insufficient funds, paucity of technology and incongruent management – organization-government objectives.

The unsatisfactory performance of GOCs in Nigeria had been blamed on diverse reasons. Makoju (1991) had blamed the poor performance state to the bureaucratic red-tapism and lethargy of the civil service which is still intact in the management and operations of such companies. The Federal Ministry of Finance Incorporated (2006) had identified high incidence of fraud, government's employment of staff based on political connections rather than on ability to perform, parliamentary control and financial indiscipline as causes of poor performance. Dogo (1990) has alleged that the accounting systems of GOCs in Nigeria do not seem to guarantee proper and up to-date financial records thus making auditing difficult, if not impossible. A BPE report (2003) states that only 160 of the 590 federal government-owned public enterprises were involved in economic activities and that their rate of return was less than 0.5 percent.

A company's accounting control practices (such as internal auditing) is widely believed to be crucial to the success of an enterprise as it acts as a powerful brake on the possible deviations from the pre-determined objectives and policies. This means that an organization that put in place an appropriate and adequate system of accounting controls is likely to perform better (in financial terms) than those that do not. As Okezie (2004) puts it, "an enterprise's internal audit function can significantly affect the operations of the enterprise and may have an impact on the ability of the entity to remain a going-concern. Conrad (2003) had portrayed Enron's demise as the consequence of a "few unethical 'rogues' or 'bad eggs' acting in the absence of any control". Thus inadequate control systems may negatively affect an organization's success. According to Hermanson and Rittenberg (2003) the existence of an effective internal audit function is associated with superior organizational performance.

Although prior research (for example, Mak, 1989 and Simons, 1987) suggest a link between accounting control practices and financial performance, majority of prior studies had concentrated mostly on the budgeting aspect of accounting controls. This aside, the available studies so far had dealt exclusively with large privately-owned companies especially in the advanced countries. Little is known, at present, about the influences of internal auditing practices on the financial performance of GOCs in Nigeria. It was in an attempt to fill this gap that we set out to assess empirically the impact of internal auditing practices on the financial performance of GOCs in Nigeria and to consider the effect of political interferences on this relationship.

Literature review

Internal Auditing

Internal audit is a long-standing function and an effective tool of management in many organizations. It has been a recognized component of organizations in both the public and private sectors and in most industries for many years. Internal auditing is often seen as an overall monitoring activity with responsibility to management for assessing the effectiveness of control procedures which arc the responsibility of other functional managers. The internal audit function is not limited to the operation of any particular function within an organization. Rather, it is all-embracing and accordingly is structured in the organization as a separate

entity responsible only to a high level of management. As Okezie(2004) puts it, the main objective of internal auditing is "to assist management in the effective discharge of their responsibilities by furnishing them with analysis, appraisal, recommendations and pertinent comments concerning the activities reviewed".

Internal auditing which is often seen as constituting a large and significant aspect of an organization's financial control system is a vehicle to success and survival. According to Rittenberg and Schwieger (1997) "internal auditing is taking on increased importance in many of today's global organizations by assisting management in evaluating controls and operations and thereby providing an Important element of global control". Venables and lmpey (1991) also recognized the control role of internal auditing when they stated:

It is generally recognized that the proper organization, staffing and methodology of internal audit presents the board with the best means of focusing on its obligation to ensure proper controls in the business …

However, the need for an internal audit function will vary depending on company specific factors including the scale, diversity and complexity of the company's activities and the number of employees as well as cost/benefit considerations (ICAEW, 1999). Moreover, Venables and Impey (1991) had argued that for an internal audit function to be effective to enable an organization realize its full benefits, the function must have clearly defined objectives, authority, independence and appropriate resources.

Corporate Performance

Performance is a term that is often discussed but rarely defined. Indeed, some writers see the term as highly ambiguous capable of no simple definition (Emmanuel et al 1990; Otley, l999). Earlier, Emmanuel et al (1990) had observed that the frequent use of the term suggests that it may more often be used to avoid precise definition of what is meant. According to Euske (1984), the most common definition of the term can be "accomplishments of the organization". Thus, an organization that is performing well is one that is successfully achieving its goals and is effectively executing suitable strategies.

GOCs are the creations of the government with government as shareholders holding these shares in trust for the general taxpaying public. Although, it is true that GOCs may be evaluated in the same way like their private counterparts (Mazzolini, 1979), it is equally important to remember that these companies were established also to promote government's socio-economic policies. Viewing it from this dimension, some scholars (for example, Lal, 1980) have argued that the evaluation of government investment should employ social/cost benefit analysis. In this circumstance, the performance of GOCs would be measured in terms such as employment which has been provided, assistance given in training manpower, standards of living improved and other welfare matters. These, no doubt, are important matters. But there is another side to this argument.

Fubara (1982) had established that the major objective of GOCs in Nigeria was "to make profit in order to remain in business". That means all other objectives such as providing employment and giving assistance to the community are regarded as secondary. If profit-making is the major objective of GOCs in Nigeria it follows that these companies should be evaluated using profitability criteria employed by privately-owned companies. Moreover, prior studies of GOCs' performance, for example, Prasad and Rao (1989), Fubara (1982), Hope (1982) and Rosete (1981) all employed profitability criteria in evaluating performance. Mazzolini (1979) had noted that economic results or performance of GOCs may be measured using their profitability: return on investment; sales growth and the balance sheet situation (say, liquidity situation). On the basis of these clarifications, the present study evaluates GOCs on the basis of their financial performance. Financial measures are typically derived from or directly related to chart of accounts and found in a company's profit and loss statement or balance sheet. According to Emmanuel et al (1990), financial performance measures serve two purposes: they measure the return given to the providers of finance (such as shareholders) and they present an assessment of the overall capabilities of the organization as a whole. The performance indices - profits, return

on investment and return on equity - were, thus, adopted in this study.

Political Influence

Political influence or ministerial interference has been identified as the major curse on GOCs (Prasad and Rao, 1989, Akinsanya, 1992, Babu and Rao, 1998). These authors contended that the Supervisory ministry(ies) wants (want) to retain tight control over these enterprises and no enterprise was ever permitted to function as an autonomous body. Bjorkrnan (1998) had argued that an influence relationship may develop in any context whenever one party can persuade others of his ascendancy through his own resources. Political influence is generally seen in the matter of appointment of board members and of high officials to these enterprises and in policy formulation. As argued by Prasad and Rao (1989), the men on the board of an undertaking is of vital importance since the success or failure of an undertaking largely depends upon the constitution and composition of its higher levels of management. Further, Akinsanya (1992) had observed that political interference through the appointment of board members is not a bad idea in itself so long as it is done on merit. However, in Nigeria the main problem is appointing as board members not only those who failed woefully at the polls but also party faithful who tend to place their interests and those of their parties before those of the enterprises they serve. What this means is that if board members have no other means of livelihood they are likely to play politics before the interests of the enterprises. Thus, they will interfere with corporate management rather than lay down broad policies for management.

Internal Auditing and Corporate Performance

Most internal audit professionals argue that an effective internal audit function correlates with improved financial performance. According to Bejide (2006), an effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the bottom line. Similarly, Venables and Impey (1991) had stated that internal audit is an "invaluable tool of management for improving performance". Fadzil et al (2005) had also noted that internal auditors help run a company more efficiently and effectively to increase shareholders' value". And Hermanson and Rittenberg (2003) had argued that the existence of an effective internal audit function is associated with superior organizational performance.

At the empirical level, a survey conducted by KPMG (1999) found that the internal audit function in organizations where it exists, contributes substantially to performance improvement and assist in identifying profit improvement opportunities. Moreover, research evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance (e.g. less independent boards or the absence of an internal audit function) and the incidence of problems (e.g Dechow, et al 1996; Beasley , 1996, Beasley et al 2000; Abott et al 2000). Thus, internal audit by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

Greenlay and Foxall (1997) note that although studies have found an association between accounting control systems and performance theory also predicts that these associations will be influenced by external environmental influences. Thus eventhough GOCs are intended to be insulated from politics they are however linked with politics through the powers vested in the respective Ministers, Commissioners or Deputy Governors. These powers, according to Akinsanya (1992), include power to appoint the Chairmen, Chief Executive Officers and members of the boards as well as power to offer advice or suggestions or make requests. Akinsanya (1992) contends that board members of GOCs in Nigeria are appointed not because of any requisite experience but largely because of political reliability. Hence, board members not only interfere with corporate management but also use their positions to promote the interests of their favourites with dire consequences for the enterprise's performance.

These considerations lead us to the following hypotheses:

Ho1: There is no significant relationship between the existence of an internal audit function and profit level in GOCs.
Ho2: There is no significant relationship between the existence of an internal audit function and returns on investment in GOCs.
Ho3: There is no significant relationship between the existence of an internal audit function and levels of return on equity in GOCs
Ho4: Political influences on the management of a GOC do not significantly influence the internal auditing practices/ performance relationship.

Data and methodology

Research Design

The study adopted the survey research design. We considered this method appropriate as it is useful for the study of non-observable events such as opinions, attitudes preferences or dispositions (Soyombo, 2002, Fubara and Mguni, 1995). Specifically, the study was a correlation, non-contrived and cross-sectional survey having individuals (officials of GOCs) as unit of analysis. The design was such as to discover vital predictive relationship and degrees of association among variables.

Population, Sample Size and Questionnaire Administration

The study population consisted of all companies established and operated by the various state governments in the South-South region of Nigeria. Thus the study population was made up of the 65 state-owned companies listed in the 2008 updated company directory sourced from the Port Harcourt office of the Federal Ministry of Finance Incorporated (FMOFI). Our choice of GOCs in the South-South states alone was premised on the fact that GOCs in Nigeria have much similarity with respect to size, structure, operation and management (Akinsanya, 1992). It is expected therefore that the findings of the study will have equal applicability to these enterprises in other states in Nigeria. The FMOFI list shows the total and percentage shareholding in each company by the various state governments. Of the 65 companies listed, 50 are fully-owned (100 percent) by government while the rest 15 had "mixed ownership". Since we were interested in the government fully-owned companies, the 50 companies fully- owned by government were taken to constitute the sample size for the study. The survey questionnaire was, accordingly, mailed to the key financially knowledgeable persons in each of the 50 companies making up the sample size. These individuals comprising accountants, Chief Accountants, Chief internal auditors, internal auditors and finance managers constituted the respondents of this study. One copy of the closed-ended questionnaire each were administered on the 50 GOCs thus making 50 copies of questionnaire distributed. Respondents were allowed two months to respond with an additional two weeks for late responses. Of the 50 copies of questionnaire distributed, 47 were returned while 2 were discarded as these were not properly completed by the respondents. Thus, 45 copies of the questionnaire constituting 90 percent of the total number administered were admissible and used for the study.

Measurement of Variables

The predictor variable (internal auditing practices) was measured on a 5-point scale from the end points of Strongly Agree to Strongly Disagree. The criterion variable (corporate financial performance) was measured adopting the subjective approach whereby respondents were required to indicate on a 5-point scale ranging from 5 = definitely better to I = definitely worse, how their company had performed over the last five years relative to their major competitors on each of the following performance criteria: profit level, returns on investment and return on equity. As Falshaw et al (2006) had noted, these financial performance measures (as adopted in this study) are typically employed to measure performance as they are of interest to and accessible to powerful external stakeholders of an organization such as shareholders (in our study, the government). The construct, political influence, was measured in terms of government appointment of Board members. Respondents were asked to indicate on a 5-point scale the extent to which they agree that this variable affect the company's financial performance.

Although "size" was not one of the variables tested in this study, respondents were required in the research questionnaire to indicate the size of their organization. Adopting the classification criteria offered by the National Council of Industries in July 2001, enterprises with a labour force of not more than 300 employees were classified as "small" while those with a labour force of over 300 employees were classified as large. Respondents were asked to indicate the category to which their enterprise belonged. It was considered necessary to evaluate the size of the enterprises under survey since previous studies (Carcello et al 2005; Stewart and Kent 2006) had found internal auditing to be associated more with large than with small companies.

Validity and Reliability of Research Instrument

Attention was accorded the validity of the research instrument. Validity, according to Cooper and Schindler (2001), is the ability of research instrument to measure what it is expected to measure. It is a measure of degree of accuracy. The validity of the scales used in this study was assessed for content and construct validity. The content validity measured the extent to which it provides adequate coverage of the investigative questions guiding the study. In this study, this was enhanced through the combined processes of logical validation and expert opinion in the accountancy field. Scales of the study variables were tested for construct validity to ensure that they measure the intended theoretical construct or trait that it was designed to measure. Thus, when there is a relationship between a property being examined and other specified variables, a construct validity is said to exist (Black and Champion, 1976). The correlation among the components of the study variables provided sufficient evidence of the construct validity.

The reliability question was also addressed in the study. The reliability of a questionnaire refers to the consistency of responses that it elicits as perfectly reliable measure gives the same result every time it is applied. The reliability of the measures used in this study was assessed by computing the Cronbach alpha which is a function of the mean correlation of all the study items with one another and is synonymous with correlation coefficient. It actually assesses the degree to which responses to the items on a measure are similar thus serving as an indicator of internal consistency of a measure. An eighteen (18)-item questionnaire was constructed. Of this number, thirteen (13) items were found to have Cronbach alpha exceeding 0.7(as suggested by Nunally (1978). Five (5) items could not meet this cut-off criteria and were accordingly expunged (see Copy of questionnaire in the appendix). The actual Cronbach alpha deemed significant relating to the reliability estimates for each of the constituent elements of the study are highlighted in table 1 below:

Table 1: Scale Reliability Perspectives

S/No	Scale Particulars	Correlation	Alpha
A	**Internal Auditing** **Coefficient alpha for scale 0.7762**		
1	The objective and scope of the internal audit function are clearly defined by company management	-0.2828	0.7544
2	In my company the internal auditor enjoys some degree of independence as manifested in his freedom to plan and carry out the work.	0.1182	0.7386
3	In my company, the internal auditor enjoys some degree of independence as manifested in his freedom to access the highest level of management	0.2444	0.7325
4	In my company, the internal auditor enjoys some degree of independence as manifested in his freedom to determine the appointment or removal, promotion and remuneration of all internal audit staff.	0.2924	0.7315
5	The internal auditor in my company has a clearly defined authority which empowers him to ask for any information which he considers necessary from any officer of the company.	0.3554	0.7281
6	The internal auditor in my company has a clearly defined authority which empowers him to the right of access to any part of the company property and to any document.	0.0525	0.7412
7	Our company management do take the necessary action on internal audit reports and recommendations.	0.6494	0.7126
8	The internal audit department of my company is adequately staffed in terms of number, qualification and experience.	0.6494	0.7133
9	In my company internal audit reports go to top management and this is considered better than taking such reports to the finance manager.	0.3491	0.7283
S/No	Scale particulars	Correlation	Alpha
B	**Financial Performance**		
	Coefficient Alpha = 0.7739		
10	Our company's profit levels are compared with those of major competitors	0.0527	0.7406
11	Our company's return on investment is compared with those of major competitors	0.1119	0.7482
12	Our company's return on equity is compared with major competitors	0.0959	0.7398
C	**Contextual (Moderating) Factor**		
13	Government's appointment of our company's Board members affect financial performance	0.0075	0.7427

Source: Survey Data, 2011

Methods of Data Analysis

Our statistical analysis of data using the SPSS involved the following: frequency tables, percentages, Pearson's Product Moment Correlation Coefficient, (r) and Stepwise regression analysis. Thus our interpretation of r and the level of statistical significance was strictly based on the SPSS output. Thus, the study used both descriptive and inferential analyses. Descriptive analysis was used to determine the extent of internal audit practices in the GOCs studied while the inferential analyses (Pearson's r and the Stepwise Regression Analysis) were used to test the hypotheses.

Data analyses and results

Describing Internal Auditing Practices in GOCs - Preliminary Analyses

Tables 2, 3, 4, and 5 summarised the questionnaire results of the internal auditing practices of GOCs using simple percentages and frequency tables. Table 2 shows the results on

the issue of existence of internal audit departments, staffing and headship of the department.

Table 2: Existence, Staffing and Headship of Internal Audit Departments

S/No	Item	Frequency	Percent
1	Existence of internal audit department:		
	Separate Internal Audit Dept	36	80
	No. Internal Audit Dept.	9	20
	Total	45	100
2	Number of Staff in Department:		
	Between 1 to 5	30	83.3
	Between 6 to 10	6	16.7
	More than 10	Nil	Nil
	Total	36*	100.0
3	Headship of Internal Audit Department:		
	• A Chief Internal Auditor with a Professional Accountancy Qualification	6	16.7
	• Graduate Accountant	13	36.1
	• A University Graduate without an Accountancy Background	Nil	Nil
	• A College Graduate with several years of experience	17	47.2
	Total	36*	100.0

Source: Survey Data, 2011

*Frequency total is 36 and not 45 since 9 of tile companies that have no internal audit department did not complete this section of the questionnaire.

The table shows that a majority of the surveyed companies, 36 (or 80 Percent) indicated the existence of an internal audit department while 9 (or 20 percent) said their company has no internal audit department. For the other companies having internal audit departments, the table shows that the departments are not adequately staffed in terms of numbers. None of the surveyed companies has more than 10 internal audit staff. Interestingly a majority of the GOCs (47 Percent) indicated that the department is headed by people with accountancy background that have several years of experience.

We also made an attempt to determine the degree of freedom of internal auditors to carry out their monitoring activities. Table 3 summarises the results on the extent of independence of internal auditors in GOCs.

Table 3: Extent of Independence of Internal Audit Departments

Scale	Manifestation of Independence					
	Freedom to plan and carry out work		Free access to highest level of management		Freedom to control affairs of Department	
	Frequency	%	Frequency	%	Frequency	%
1	3	8.3	10	27.8	11	30.6
2	21	58.3	18	50.0	12	33.3
3	4	11.2	3	8.3	4	11.1
4	5	13.9	3	8.3	4	11.1
5	3	8.3	2	5.6	5	13.9
Total	36	100.00	36	100.00	36	100.00

Source: Survey Data, 2011

Scale: Ranging from 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided; 4 = Agree to 5 = Strongly Agree

Table 3 shows that 66.6 percent of companies with internal audit departments disagree that their internal auditors have the freedom to plan and carry out the audit work. 11.2 percent were undecided while 22.2 percent agreed that internal auditors have that freedom. Also 77.8 percent disagree that the department enjoys free access by way of making reports to the highest level of management. On the issue of the freedom to control affairs of the department by way of determining the appointment, removal, promotion and remuneration of all internal audit staff, the majority view (63.9% percent) was that such freedom was absent. We also attempted to examine the question of whether internal auditors have clearly defined authority to carry out the work. That is, whether there existed any delegated authority to enter premises to interview staff, to examine documents and observe processes in order to collect audit evidence. As shown in table 4, the majority view was that internal auditors have restricted access to obtain information which they considered necessary for the audit (a 75 percent disagreement rating). 75 percent of the respondents also affirmed that internal auditors have limited right of access to examine documents. 19.4 percent and 16.7 percent respectively agreed on the aggregate that internal auditors have these rights.

Table 4: Extent of Internal Auditors' Authority

Scale	Access to all Relevant Information		Right to enter Premises and access to any Document	
	Frequency	%	Frequency	%
1	12	33.3	8	22.2
2	15	41.7	19	52.8
3	2	5.6	3	8.3
4	4	11.1	4	11.1
5	3	8.3	2	5.6
Total	36	100.00	36	100.00

Source: Survey Data, 2011

Scale: Ranging from 1 = Strongly Disagree; 2 = Disagree, 3 = Undecided; 4 = Agree to 5 = Strongly Agree

Matters relating to scope and objectives of internal audits, management action on audit reports and staffing in terms of number, qualification and experience also engaged our attention. The result is presented in table 5.

Table 5: Internal Audit staffing, Management Action on Reports and Scope

Scale	Definition of Function					
	A well-defined scope/objective of I.A. function		Management Action on I.A. Reports		Staffing of I.A. Depts.	
	Frequency	%	Frequency	%	Frequency	%
1	2	5.6	10	27.7	8	22.3
2	9	25.0	18	50.0	15	41.7
3	2	5.6	2	5.6	3	8.3
4	18	50.0	4	11.1	7	19.4
5	5	13.8	2	5.6	3	8.3
Total	36	100.00	36	100.00	36.	100.00

Source: Survey Data, 2011

Scale: Ranging from 1 = Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree to 5 = Strongly Agree

As revealed in table 5, the majority view (63.8 percent) was that there exist a well-defined scope and objectives of the internal audit function while 30.6 percent have a contrary view. As to whether company management does take the necessary action on internal audit reports and recommendations, the majority view (77.7 percent) was that this was not the case. On the issue of staffing of the department in terms of number, qualification and experience, 64 percent of the respondents disagreed that the function is well- staffed. 27.7 percent however, maintained that the department is adequately staffed while 8.3 percent were undecided. Having established the nature of audit practices in the surveyed GOCs, we now proceed to test the hypotheses of the study.

Hypotheses Testing

The system of hypotheses previously presented postulates relationships between corporate financial performance and internal audit practices and between the internal audit practice/performance relationship and the moderating variable-political influence. While the 2-variable hypotheses (Ho1-Ho3) are tested using the parametric Pearson Product Moment Correlation, r, the hypothesis involving moderator variable (Ho4) is tested using Stepwise Regression Analysis. The acceptance or rejection of each hypothesis is then determined by the significance of the regression coefficients.

Ho1: There is no significant relationship between the existence of an internal audit function and profit level in GOCs.

The test result is as shown in table 6. From the results there is a weak positive relationship between internal auditing practices and profit level in GOCs . The r value is 0.208 which is not significant (0.170) at the 0.05 level. The results support Ho1 that there is no significant relationship between the existence of an internal audit function and profit level in GOCs.

Table 6: Pearson's r (Internal Audit (I.A.) and Profit Level (PL)

	IA	PL
Pearson's r: IA Correlation Coefficient	1.000	0.208
Significance (2-tailed)		0.170
N	45	45

Source: SPSS Window Output Version 13.0

Ho2: There is no significant relationship between the existence of an internal audit function and returns on Investment in GOCS.

Table 7 contains the test results. The table shows an r value of 0.091 which is not significant (0.208) at the 0.05 level. There is a negligible positive association between internal audit practices and Return on Investment. The result support Ho2 that there is no significant relationship between the existence of an internal audit function and Return on Investment in GOCs. Thus, internal audit practices of GOCs do not significantly influence companies' return on investment.

Table 7: Pearson's r (internal Audit and Return On Investment)

	IA	PL
Pearson's r: IA Correlation Coefficient	1.000	0.091
Significance (2-tailed)		0.208
N	45	45

Source: SPSS Window Output Version 13.0

Ho3: There is no significant relationship between the existence of an internal audit function and levels of Return on equity in GOCs.

The test result is presented in table 8. From the table, the r value shows a negligible negative association (-0.081) which is not significant (0.598) at the 0.05 level. This offers support to Ho3 that there is no significant relationship between the existence of an internal audit function and levels of return on equity in GOCs. Thus, internal audit practices of GOCs do not significantly influence companies' return on equity.

Table 8: Pearson's r (Internal Audit and Return on Equity)

	IA	PL
Pearson's r: IA Correlation Coefficient	1.000	-0.081
Significance (2-tailed)		0.598
N	45	45

Source: SPSS Window Output Version 13.0

Test of mediator variable (political influence) on the internal audit practices/performance relationship.

Ho4: Political influence on the management of a GOC does not significantly influence the internal audit practices/performance relationship.

The Stepwise Regression Method was used for testing hypothesis 4. Using the method, data relating to the surveyed companies' internal audit practices were entered into the SPSS programme that ran the test. On the choice of "entry" and "stay" values of the Stepwise selection criteria we adopted the value of .05 and .10 for "entry" and "stay" respectively. Thus only variables that met the set criteria are entered into the model while those that failed to meet the criteria are eliminated. Variables are, thus, entered according to the magnitude of their contribution to R2.

We tested for the effect of political influence (measured by government's appointment of board members) on the internal audit practices/ performance relationship. For this purpose, respondents were put into two categories. In the first category were respondents who 'disagreed" (through their rating) that Board appointment by government had an effect on the relationship. The second group were those who, also by their ratings, "agreed" that government's appointment of Board members had an effect on the relationship. Table 9 summarized the SPSS output.

Using the Stepwise Regression Method, we tested the rating of respondents regarding whether appointment by government of GOCs' board members had an effect on the predictor variable's relationship with profits. With respect to those who agreed that Board members appointment by government influenced the relationship, table 9 reveals that internal audit having an r value of 0.176 with a p-value of 0.164 does not significantly correlate with profit at the 0.05 level. Thus respondents are agreed that political influences measured by government appointment of Board members does not mediate on the influences of internal audit practices on profit levels of GOCs. Similarly, for respondents that disagreed with government appointment of board members as having an effect on the internal audit practices/performance relationship the Stepwise procedure revealed that there was no effect as the predictor variable failed to meet the method's criteria at the 95 percent level of confidence. Table 9 also show that government appointment of board members as suggested by the respondents' ratings has no moderating effect on the influences of internal audit practices on return on investment and return on equity of GOCs - the predictor variable was not entered and retained at the entry and stay values of .05 and .10 respectively. Thus, the test results offer support to Ho4 that political influence on the management of a GOC does not significantly influence the relationship between internal auditing practices and financial performance.

Table 9: Summary of Results on the Effect of Political Influence

Moderating variable	IA/CFP Relationship	R^2	Pcc(r)	Sig	t	Sig.for t	F-value	Sig.for F
Political Influence:	IA&PL:							
Disagree with Board Appt.	IA		.241	.225				
Agree with Board Appt	IA		.176	.164	0.356	.724		
Disagree with Board Appt	IA&ROI:							
	IA		.486	.055				
Agree with Board Appt	IA		.129	.236				
Disagree with Board Appt	IA & ROE:							
	IA		.343	.137				
Agree with Board Appt	IA		.045	.401				

Source: SPSS Output of Survey Data, 2011

Correlation Significant at 0.05

APPT = Appointment; Pcc = Pearson Correlation Coefficient, r, IA = Internal Audit, PL = Profit Level; ROI = Return on Investment; ROE = Return on Equity

CFP = Corporate Financial Performance

Discussion of findings

Internal Auditing and Financial Performance of GOCs

It is widely believed that internal auditing, where it exists, contributes to improved financial performance of the organization. According to Bejide (2006) "an effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the bottom-line". Venables and Impey (1991) opined that internal audit is an "invaluable tool of management for improving performance".

To Hermanson and Rittenberg (2003) the existence of an effective internal audit function is associated with superior organizational performance. Prasad and Rao (1989) expressed similar sentiments when they observed that the internal auditor by acting as a watchdog saves the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

Our findings in this study, however, contradicts the above positions. We found that there was no significant relationship between the existence of an internal audit function and financial performance of GOCs. That is, internal auditing, where it exists, does not influence the profit levels, return on investment and return on equity of GOCs. This findings is at odds with that of KPMG (1999) which identified a positive association between an internal audit function and financial performance. In a survey of some 201 senior company executives in the United States, the KPMG study found that the internal audit function in organizations, where it exists, contributes substantially to performance improvement and assist in identifying profit improvement opportunities. Our findings in this study also contradicts that of Fadzil, et al (2005) which found that internal auditors assist in running a company more efficiently and effectively to increase shareholders' value. On the other hand, the findings is similar to that of Griffiths (1999) which found no relationship between internal audits and performance. That study found widespread "lukewarm" or negative attitudes to internal audit (in the privately.-owned organizations studied) and that the

function was lacking in skills and appropriately trained staff.

The absence of a significant relationship found between internal auditing practices and financial performance may be attributed to the size of GOCs involved in this survey. Internal auditing is believed to be associated more with large than with small companies. Prior studies (for example, Carcello et al 2005; Stewart and Kent, 2006) found a strong association between internal audit and the size of the firm. These findings suggest that smaller firms do not regard internal audit as cost effective. In the present study, a majority of the GOCs fall within the "small" category, (using the classification criteria adopted earlier stated in the methodology section). Even among some of the large ones having internal audit departments, the actual practices suggests a possible underemphasis on internal auditing. Therefore, the seemingly de-emphasis on internal auditing by the majority small GOCS may have contributed to the absence of a significant relationship between internal auditing practices and financial performance. Where internal auditing is deemphasized, clearly it cannot impact positively on performance.

It is a matter of concern that some of the GOCS do not have internal audit Departments. Interestingly, however, some of the companies (qualifying as large going by this study's criteria) had been making substantial profits for so many years now. This goes to affirm the fact that superior financial performance may not come about just from an internal audit function. Even in those cases where an internal audit department (or unit) exists, the departments were functioning with skeleton staff not adequate in relation to the size of the company. Majority of the companies have internal audit staff numbering between one and five. None has more than ten irrespective of the size (see Table 2). A majority of the internal audit Departments are headed by college graduates with years of experience or by graduate accountants. A negligible few are under the headship of a chief internal auditor with professional accountancy qualification.

The internal audit Departments of the surveyed enterprises could not have been effective as internal auditors in these companies lacked professional independence in the discharge of their duties. In order to serve a constructive purpose internal audit judgments have to be unbiased and therefore can only be made by taking an objective view from an impartial viewpoint. As we saw in Table 3, the internal audit Departments of these companies, where they exist, lacked the freedom to plan and carry out the work thus limiting the scope of the audit conducted by the Department. They also lacked the freedom of access to the highest level of management and to determine the appointment or removal, promotion and remuneration of internal audit staff all of which make for internal auditor's independence. In these situations, the watch dog's job of saving the undertaking from malpractices and irregularities which in turn leads to improved performance is greatly undermined. Moreover, where company management fails or it is reluctant to take actions on internal audit reports and recommendations, internal auditing suffers. This is the case of our surveyed companies as we saw in Table 5. The above discussion leads to a very significant conclusion: the internal audit function, where it exists, does not significantly influence financial performance of a GOC. The absence of a relationship may be attributed to a possible under-emphasis on internal auditing by GOCs. Where internal auditing is not accorded any serious attention, clearly it cannot impact positively on financial performance. Financial performance of a GOC may improve not as a result of just an internal audit function (especially when proper attention is not accorded it) but also from some other variables. The foregoing clearly shows that the functioning of the internal audit system in the surveyed GOCs had not been effective. Had it been effective, it would have benefited the enterprises in several ways by plugging out loopholes present in their various activities thereby improving financial performance.

Effect of Political Influence on the Internal Auditing Practice/Performance Relationship

Political influence (which we used in this study as synonymous with the external environment) was hypothesized to have a moderating effect on the internal audit practices/performance relationship. Political influence was measured by government's appointment of Board members.

Prasad and Rao (1989) had alleged that political influence is generally seen in the matter of appointment of Board members and other executives to GOCs. The variable - political influence - was found to have no moderating effect on the relationship between internal auditing practices and financial performance of GOCs. This finding is consistent with William's (2005) study of small and medium sized Singaporean firms which found no direct relationship between accounting control practices and the overall firm performance when the environmental influences of uncertainty was added. Government's appointment of Board members which may include politicians may not afterall be bad per se so long as it is done on merit and not on political grounds. Akinsanya (1992) had observed that in the United Kingdom, the Minister is required to make appointments from among persons "appearing to him to be qualified as having had experience of and having shown capacity in industrial, commercial or financial matters, applied science and administration or the organization of workers".

In concluding our discussion, it may be necessary to point out that the absence of a significant relationship between internal auditing practices and the measure of financial performance adopted could mean that internal auditing practices have become a necessary but not sufficient condition for financial performance in GOCs in Nigeria.

Implications of the study

The present study has made some contributions to theory building and provide guidance to operators of GOCs in Nigeria in the following ways:

Theoretical Implications

An unexpected result and indeed a more interesting contribution to the literature, is the findings in this study of the absence of a significant relationship between internal auditing practices and financial performance. The auditing literature widely concede that internal auditing, where it is practiced, should result in superior organizational financial performance (see for example, Vanasco, et al, 1995; Hermanson and Rittenberg, 2003; Fadzil, et al, 2005, Bejide, 2006). The findings of this study suggests that GOCs lacked an effective monitoring system provided by internal auditing which ultimately resulted in the absence of a significant relationship between this control practices and financial performance. This is an important contribution to the literature since as this finding imply, the mere creation of an internal audit department in an organization does not automatically result in superior financial performance. The department must receive the necessary adequate management support for it to function effectively.

Moreover, the present study extends previous research by providing useful insights into the internal auditing practices of GOCs in Nigeria. Prior accounting control practices research involving, particularly the budgeting aspect have largely been confined to privately-owned companies in the developed countries such as the U.S.A, the U.K. and New Zealand. Thus, the present study made a contribution given that there had been no prior research (to the best of our knowledge) dealing with the performance consequences of internal auditing practices in GOCs in Nigeria. The present study had filled this gap. Thus, the present study, has provided fresh empirical evidence relevant to theory- testing of the relationship between internal auditing practices and financial performance of GOCs. Thus, to researchers interested in this area, the present study had provided fresh empirical evidence relevant to theory-testing of the relationship between internal auditing practices and financial performance of GOCs. This study, hopefully, should rekindle their interest in this seemingly under-researched area in Nigeria especially when the bulk of the auditing literature suggests that internal auditing as a control mechanism should lead to improved financial performance of organizations. Evidence provided by the present study will provide a ready source of materials for such future studies.

Practical Implications

An important finding of this research pertains to the extent of the internal auditing practices in GOCs. The study had brought to the fore, the need for adequate staffing in terms of numbers, qualification and experience in the Internal Audit Departments of these companies as, well as the

establishment of the Department where it is non-existent. There is no doubt that Internal auditing benefits managers in providing bases for judgment and action, helping managers by reporting weaknesses in control and performance, providing counsel to managers and board of directors on the solutions of business problems and supplying information that is timely, reliable and useful to all levels of management. If properly implemented, internal auditing, should contribute meaningfully to financial performance of GOCs.

To policy makers in GOCs in Nigeria, this study had also brought to the fore the significance of internal auditing and how it could assist the organization to achieve its profitability goals. It is noteworthy that at the time of this study some of the GOCs (falling within the scope of the study) have remained closed for many years with some "only merely alive" as they were owing arrears of workers' salaries. The present study is, thus, significant as it provides fresh evidence as to whether or not the "poor" performance state of these enterprises was due to the non-existence and/or inadequacy of the control structure such as that provided by internal auditing. Consequently, policy makers will be assisted to know the state of these enterprises for appropriate measures to be taken so that the scarce resources of the government are not misutilized and does not lead to demoralization of the concept of public enterprise system in Nigeria.

Conclusion and Recommendations

From our discussion of findings, we can conclude that the present study provides some evidence on the performance consequences of internal auditing practices in GOCs in Nigeria. Specifically, the internal audit function, where it exists, in a GOC does not significantly influence financial performance and that political interferences by way of government's appointment of board members does not significantly impact these enterprises' financial performance. The absence of a relationship arose from possible under-emphasis on internal auditing by these enterprises. Where the internal audit function is de-emphasised (as the present study shows), clearly, it cannot impact positively on financial performance. Consequently, we strongly recommend the creation of an Internal Audit Department in those enterprises where there is none. Existing Departments then should be strengthened by according them the necessary professional independence and employing adequate number of experienced and qualified staff to enable the Department extend coverage of the audit to all significant activities of these enterprises. Had that function been effective, it would have benefited the enterprises in plugging out loopholes that may be present in the enterprises' activities with resultant positive effects on financial performance.

Although, the present study offered some contributions to our understanding of the relationship between internal auditing practices and corporate financial performance, future research should incorporate non-financial measures such as quality, employee satisfaction in addition to financial measures in order to further enrich our understanding of the internal auditing/performance relationship. It is also suggested that future research should examine companies with "mixed ownership", that is, those partly owned by government and partly by private investors so as to see what impact the elements of private and government ownership together would have in an internal auditing practices/performance study.

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Appendix

Survey Questionnaire

Identification of Respondent

1. Name of company (optional)

2. What percentage of the equity share is government-owned?

   ☐ 100 % ☐ 50 % and above ☐ less than 50 %

3. Your functional position in the company? Please tick

   ☐ Internal auditor ☐ Chief Internal Auditor
   ☐ Accountant ☐ Chief Accountant
   ☐ Finance Manager

4. Your level of schooling/professional qualification? Please tick

   ☐ Bachelours degree ☐ Masters Degree Diplom
   ☐ Post Graduate Diploma ☐ College Certificate
   ☐ ACA ☐ Other (please specify)

5. The number of workers in my company is:

   ☐ Below 300 ☐ Over 300

INTERNAL AUDITING PRACTICES

A. Please tick (√) as appropriate in the spaces provided:

   i. In my company:
      - there is a separate internal audit unit/ department
      - there is no internal audit unit/ department

   ii. The number of staff in the internal audit department is
      Between 1 to 5 ☐ Between 6 to 1 ☐
      More than 10 ☐

   iii. The internal audit department is functioning under the control of:
   ☐ A chief internal auditor with professional accountancy qualification
   ☐ A graduate accountant
   ☐ A college graduate with several years of experience
   ☐ A university graduate without an accountancy background

B. Please indicate your agreement with the following statements relating to the internal audit function of your company. Use the response key: SA (Strongly Agree): A = Agree; U = Undecided; D = Disagree; SD = Strongly Disagree

1	The objectives and scope of the internal audit function are clearly defined by company management	SA	A	U	D	SD
2	Freedom to plan and carry out the work					
3	Free access to the highest level of management					
4	Freedom to determine the appointment or removal, promotion and remuneration of all internal audit staff.					
	The internal auditor has a clearly defined authority which empowers him to:					
5	Ask for any information which he considers necessary from any officer of the company.					
6	The right of access to any part of the company and to any document.					
7	Company management do take the necessary action on internal audit reports and recommendations					

8	The internal audit department of my company is adequately staffed in terms of number, qualification and experience.					
9	The internal audit reports go to top management and this is considered better than taking such reports to the finance manager.					

FINANCIAL PERFORMANCE

10. Please rate by a tick (√), company's profit levels over the past five years relative to your major competitors using the following scale

Defenitely better	Better	Don't know	About the same	Definitely worse

11. My company had always met its annual profit target. Please tick (√)

Strongly Agree	Agree	Undecided	Disagree	Strongly disagree

12. Kindly rate your company's return on investment over the past five years relatie to your competitors. Please tick (√)

Defenitely better	Better	Don't know	About the same	Definitely worse

13. My company's Return on investment had been satisfactory ovet the past five years. Please tick (√)

Strongly Agree	Agree	Undecided	Disagree	Strongly disagree

14. Kindly rate by a tick (√) your company's return on equity over the past five years relative to your major competitors on the following scale:

Defenitely better	Better	Don't know	About the same	Definitely worse

15. My company had been paying dividents to government over the past five years. Please tick (√) the appropriate scale.

Strongly Agree	Agree	Undecided	Disagree	Strongly disagree

16. How would you rate the financial performance of your company? Please tick (√)

Very high	High	Moderate	Low	Very low

POLITICAL INFLUENCES

Please indicate your agreement with the following statement using the response scale: SA = Strong Agree; A = Agree; U = Undecided; D = Disagree; SD = Strongly Disagree

17. Government's appointment of my company's board members affect company's financial performance.

SA	A	U	D	SD

18. Political influence on my company's management generally affect financial performance

SA	A	U	D	SD

Delivery Customer Experience Management Practices in the UK and Nigeria Aviation Industry

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Abstract

This paper assesses the relationship between the dimensions of customer experience and delivery total customer experience management; and compares the differences in delivery total customer experience management practices in the UK and Nigeria aviations industry. The study adopted a survey method through the use of refined open and close-ended questionnaire from the results of two pilot studies to elicit information from 406 front office airlines staff of the UK and Nigeria aviations industry. Returned instrument were analyzed using both descriptive and inferential statistics; Pearson moment correlation was used to assess the degree of the relationship between the dimensions of customer experience and delivery total customer experience management and the independent sample t-test was used to assess the differences in delivery total customer experience management in both aviation industry. The study found positive relationships between the dimensions of customer experience and delivery total customer experience management practices. However people and culture dimension was found to have very strong relationship, Use of customer data to plan, drive and monitor services dimension was found to have a strong relationship, managing customer data dimension was found to have moderate relationship. Analysis and planning of services and contacts; Day-to-Day customer management were found to have weak relationship. Statistically significant differences in delivering customer experience management practices in the UK and Nigeria aviation industry were identified, with the UK aviation performing better than Nigeria aviation. A model of delivering total customer experience management was developed and recommendations for further study to investigate the extent to which the identified moderating variables mediate the relationship between the two dimensions of customers experience and delivery customer experience management.

Keywords

Customer-experience, Management, Aviation-Industry, UK, Nigeria

Introduction

Despite the realization of the contributions of aviation industry to the global economy through the passengers (customers), there appears to be lack of research evidence both from the practitioners and academics on the antecedents of the customers' experiences and how these experiences are managed in this sector. Rather, studies and discussions as well as reports on the airline emission and traffics have been overemphasized. However, a study to investigate the experiences the customers encounter in consummating aviation services and management responses to these encounters in offering positive experiences to the customers is called for, hence the purpose of this study.

Customer experience management (CEM) has been identified by researchers and practitioners' as a viable concept and strategy in fostering customer loyalty (Bentum and Stone, 2005; and Temkin, 2009). Despite the recognition of the importance of CEM, few academic researches (Verhoef et al, 2009) have conducted investigation on its usefulness and importance as well as testing its construct in corporate organizations. Many of the few articles available in CEM are from the practitioners' point of view and very little from the academic research with none discussing the importance of customer experience management strategy in the aviation sector.

For instance, Verhoef et al.(2009) study, focused on the determinants, dynamics and management strategies on customer experience creation in the retail sector; Lywood et al. (2009) studied CE and profitability in the UK call centres possibly advancing the earlier study of Dean (2004) also in the call centres. Other studies have been on conceptual development, for instance, Palmer (2010); Gentile, et al. (2007); Meyer and Schwager (2007); Frow and Payne (2007); Berry et al. (2002) and many more.

Again despite the large investments in implementing CRM programmes, customers are still changing loyalty from one airline to another due to dissatisfaction (Zehrer, 2009). This has lead to increased realization in the CEM, a more-focused program necessary for the success of the company. No doubt the seemly lack of sufficient study on CEM in the aviation sector impacts on understanding the key trends of customer experience management strategy in this sector. For instance, the volcano eruption experience in 2010 requires investigation to identify the customers' experiences with all units in the aviation industry and what strategies were utilised by management and workers to provide positive experiences to the customers. Again, implementation of loyalty scheme in the aviation sector has been an area of vulnerability where customers pass through negative experiences in receiving the benefits for long time loyalty (Schmitt, 2003).

Thus, this present study seeks to understand the key trends in the development and management of customers experiences in the aviation sector. This paper reports a cross cultural study carried out in a developed western country (UK) and a developing nation in the third world African country (Nigeria). The rationale is to gain a holistic understanding of how management in the aviation industry formulates strategies in developing positive customer experiences and to gain a cross cultural understanding of customer experience management strategies.

This paper is organized as follows: section two sets up the basic and concepts of customer experience and Customer Experience Management (CEM), previous studies, conceptual and opinions of researchers on CEM. The section also reviews literature on the UK and Nigeria aviation sectors, identifying the economic and social contributions of the aviation sectors to these economies. Section three discusses the study methodology and in section four, data collected are analyzed. Finally, section five discusses the summary of the main findings and makes recommendations for further studies.

The concept of customer experience management

Customer Experience Management (CEM) is becoming a popular way for companies and industries to capture customer loyalty. Pine and Gilmore (1998, p.98) observed that "an experience occurs when a company intentionally uses services as the stage, and goods as a props, to engage individual customers in a way that creates a memorable event". "Experiences provide sensory, emotional, cognitive, behavioral and relational values that replace functional values" (Schmitt,

1999, p.26).CEM puts the focus on the customer rather than the goals of the company, leading to better service and ultimately a higher number of loyal customers spreading word-of-mouth advertising to potential customers (Mayer and Schwager, 2007). Customer experience management practices strive to make the most out of every interaction with the customer; through advertising, sales, delivery, service and communications (Petit, 2009).

It is far wider ranging and complex than the traditional customer care. Levine (2008) observes that CEM encompasses service management, product life cycle management, device management, next generation management, and analytics. Ailwagli et al. (2009) argued that the success of any customer experience management strategy depends largely on the operators' ability to adopt a customer-centric mindset, an initiative that must be driven from the top. Gupta and Vajic (2000, p. 34) define CEM as "an experience which occurs when a customer has any sensation or knowledge acquisition resulting from some level of interaction with different elements of a context created by the service provider". Kamaladevi (2009) defined CEM in terms of total customer experience emphasizing the importance of all contacts that a consumer has with an organization and the consumer's holistic experience. Verhoel et al. (2009, p.2) while building on the works of Holbrook and Hirschmann (1982), Schmitt (1999); and Berry et al. (2002), argued that customer experience originates from a set of interactions between a customer and a product, a company, or parts of its organization, which provoke a reaction.

Meyer and Schwager (2007, p.2) see customer experience as the internal and subjective response customers have to any direct or indirect contact with a company. They further argued that direct contact generally occurs in the course of purchase, use, and service and is usually initiated by the customer. Nagasawa (2008, p. 314) observed that "customer experience is not an incidental value but an essential and intrinsic value where the products and services are understood from the customer points-of-views as those provided by the company and brand". He argued that the objective of marketing which creates customer experience is not to provide product and services as tangible objects to customers, but to take the aspect of consuming in context of the customers' lifestyles and to interpret their consumption by appealing to their senses and feelings in the process.

The above definitions and explanations clarify what customer experience is. One common agreement among the authors is that customer experience is both internal, personal, and can be provoked by emotion. Factors leading to a positive experience to one customer may not necessarily lead to absolute experience to another customer. However, one important aspect of customer experience management these authors seem to ignore is the management aspect of the customer experience. The above definitions tended to focus on the external factors of customer experience without a mention of the internal factors which underpins the management of customer experience. Even, authors with the title customer experience management (see Palmer, 2010; Petit, 2009) also ignored the inclusion of the managerial duties in providing positive experiences to the customers which is the essence of value creation in CEM study.

However, this study offers the definition of customer experience management strategy as:
.. a systematic analysis of the factors with customers experience (the external environment) and the organization itself (the internal environment) to provide the basis of rethinking the current management practices in providing positive customer experience.

This definition is offered realising that CEM should involve decisions concerning what a company might do, given the opportunities in its environment; what it can do, given the resources at its disposal, what it wants to do, given the personal values and aspirations of key decision makers; what it should do, given the ethical and legal context in which it is operating. Table 1 summarises the recent thinking in the definitions of customer experience and customer experience management by both practitioners and academics.

Table 1 Summary of customer experience and customer experience management definitions

Authors and dates	Definitions
Pine and Gilmore (1998, p.98)	An experience occurs when a company intentionally uses services as the stage and goods as props, to engage individual customers in a way that creates a memorable event.
Schmitt (1999, p.26).	Experiences provide sensory, emotional, cognitive, behavioral and relational values that replace functional values.
Schmitt (2003)	Customer experience management is the process of strategically managing a customer's entire experience with a product or a company.
Mayer and Schwager, (2007, p.2)	Customer experience is the internal and subjective response customers have to any direct or indirect contact with a company.
Feuss and Ramaswamy, (2007).	Customer Experience Management integrates customer research, quality improvement, operations research, technology strategy, employee training, and motivational programs to improve all aspects of a company's interactions with its customers
Levine (2008)	Customer experience management is a holistic concept that requires the operator to have visibility across multiple systems within their organization.
Levine (2008)	CEM encompasses service management, product life cycle management, device management, next generation management, and analytics.
Durst (2008)	The term "Customer Experience Management" represents the discipline, methodology and/or process used to comprehensively manage a customer's cross-channel exposure, interaction and transaction with a company, product, brand or service
Ailwagli, *et al.* (2009)	The success of any customer experience management strategy depends largely on the operators' ability to adopt a customer-centric mindset, an initiative that must be driven from the top.
(Krishnan, 2009)	CEM is a strategic approach taken by the CSP (customer service providers) to augment business processes and integrate a myriad of data sets, software systems, processes, and people to positively impact the subscribers' experience
Maclayton (2009)	CEM is concerned with the customer primarily and delivering what the customer desires during all the touch-points between the customer and company
Gupta and Vajic (2000, p. 34)	Customer experience management is an experience which occurs when a customer has any sensation or knowledge acquisition resulting from some level of interaction with different elements of a context created by the service provider
Kamaladevi (2009)	CEM in terms of total customer experience emphasizing the importance of all contacts that a consumer has with an organization and the consumer's holistic experience.
Verhoel *et al.*(2009, p.2)	Customer experience originates from a set of interactions between a customer and a product, a company, or parts of its organization, which provoke a reaction

As can be seen in Table 1, there is a great deal of confusion over what the term CEM really means. As more individuals get on board the CEM band wagon and build services in the arena, confusion seems to be increasing. Schmitt (2003) definition appears to be more appropriate because of the inclusion of the entire process of managing customer experience. The relationship between customer experience management and customer relationship management is discussed next.

Customer Relationship Management (CRM) and Customer Experience Management (CEM)

Customer Experience Management (CEM) is sometimes confused with Customer Relationship Management (CRM) and Marketing concept (Paula and Illula, 2008). While both are designed to increase company profitability, there are distinct differences between them. Customer relationship management is a holistic experience management strategy with internal and external focused

activities (Bentum and Stone, 2005). It focuses more on serving the customer by delivering what they want (high profits, more customers, etc.). CEM is concerned with the customer primarily and delivering what the customer desires during all the touch-points between the customer and company (Maclayton, 2009). Schmitt (2003, p. 17) observed that both marketing concept and CRM are "the devil in disguise", noting that the emphasis should be in setting appropriate customer experience management strategies

Bentum and Stone (2005) observed that unlike rigid, highly structured traditional marketing, the new marketing approach is based on empirical observation of competitive context, the understanding and anticipation of customers' needs and desires, the proposal of flexible solutions that place consumers at the heart of marketing process, and the use of new interactive marketing tools and techniques. The ultimate aim of CEM is to foster conversational relationship with customer. Customer Relationship Management (CRM) defines an organization's total integrated approach in understanding a cross-functional customer driven technology, integrated business strategy process and management strategy that maximizes long-term mutual relationships (Chen and Poporich, 2003; Wang and Swanson, 2008).

Chaffey et al. (2009) define CRM as the combination of four attributes of Database marketing, Direct marketing, one-to-one marketing and Relationship marketing. The aim is to reduce the risk and costs of attending to individual customers separately and focus on group of customers with the same needs. A general agreement on the definition of CRM by some scholars (Xu et al., 2002; and Vrechopoulos, 2008) appears to show that CRM defines organizations management strategy and integrated approach in understanding a cross-functional customer driven technology, integrated business strategy that maximizes relationship. Table 2 shows the distinctions between the CEM and CRM

Table 2 Distinctions between CRM and CEM

Customer Relationship Management (CRM)	**Customer Experience Management (CEM)**
Inside-out and outside-in approach	Out-side in approach
A holistic experience management strategy with internal and external focused activities	Concerned with the customer primarily and delivering what the customer desires during all the touch-points between the customer and company
It focuses more on serving the customer by delivering what they want (high profits, more customers, etc.)	Accomplishes many if not all the company-centric goals, by using CEM to meet the needs, desires, and expectations of the customer throughout the interaction
Establishing/managing a customer management platform	Designing the broad picture for customer experience (CE)
Installing/configuring hardware, software, systems	Designing integrated programs to support the CE
Assessing, consolidating & organizing (cust./sales) data	Aligning programs & campaigns with each other & CE
Enabling centralized metrics & analytics capabilities	Developing customer-centric touch management strategy
Enabling use of customer management & response tools	Defining company-wide, customer-centric, cascading metrics
Operationally connecting & synchronizing channels	addresses emerging market needs directly, while circumventing current perceptual biases of CRM
Attempting to align internal business process and policies	focuses heavily on conducting detailed **customer** (demographic, behavioral, ethnographic, profitability, etc.) and **environmental** (market, channels, competition) exploration and analysis
Translating programs & campaigns into new toolsets	CEM strategies and plans are used as the drivers that *shape* product and service offerings, *refine and align* customer interfaces and *conform* the operational platform (people, process, technology) for experience *delivery, management and measurement* - across channels, and over time.

As cab be seen in Table 2, it is obvious to note that both CRM and CEM complement each other. CEM as a new paradigm has not come to replace the CRM but has come to remedy the short falls of the CRM. Organizations wishing to deliver a comprehensive satisfaction and life time value to the customers may need to adopt the outside –in approach that proponents of CEM advocate, rather than an overemphasis on the inside-out approach of CRM. The next section discusses the recent studies in CEM.

Studies in Customer Experience Management

Though, the academic realization in the empirical study of customer experience management strategy is still at its infantry, recent studies have shown that companies that have better customer experience management capabilities, along with a strong customer orientation, enjoy a decisive competitive advantage (Cary, 2008; Rogers et al., 2008; Marchand et al., 2009). Cary's (2009) study shows that among companies reporting high customer-experience maturity, 81 percent reported outperforming their competition. Companies that reported outperforming competitors also reported higher future investment plans in customer experience capabilities. "…This study confirms that more companies are embracing the 3-I's of marketing - customer insight, interaction, and improvement as the key to growing long-term profitable customers," (Cary, 2009, p.1). Researchers in Aberdeen group (2009) observed that customer experience management is an emerging discipline, forged from the realization that the collective interactions between a customer and a supplier influence the long term success of an organization. They argue that every customer experience is an opportunity to influence customer acquisition, customer retention, loyalty, and advocacy. The Aberdeen's study examines why best-in-class companies (leaders in customer satisfaction and retention) outperforms their counterparts (Sauders, 2009). The study found that the top three drivers for investing in CEM are to improve customer retention, improve customer satisfaction; and increase cross-selling and up-selling.

Their research results show that Best Performing CEM Programmes have these features in place (Aberdeen group, 2009): An Executive-level focus on CEM and a disciplined approach to CEM including MBOs (Management by objectives) for empowered executive, managers, and subject matter experts; an empowered executive-level sponsor and a three-year continuous-improvement agenda; a cross-functional team designed executive multi-year plan; agreed-upon metrics and key performance indicators (KPIs) to provide competitive customer experience qualitative and quantitative measures; proactive periodic review of every business that touches the customer from a "right customer /right time/every time" perspective; a multi-year continuous-improvement plan to realistically access current and proactively get to relationship management activities.

Lywood et al. (2009) found a positive relationship between certain dimensions of CEM and profitability using the application of the Empathy Rating Index (ERIC) in the UK call centers. First their study validated the ERIC measurement scale using an exploratory factor analysis and also confirmed a high reliability test of the ERIC giving a Cronbach alpha coefficient of 0.98 per cent. Bennkon (2010) study outlined five factors to differentiate the superb customer experience management from the ugly CEM. These include: recognition that customer interactions are customer experience; designing the process with the customer in the forefront of consideration; recognition that variability is the enemy of effectiveness, instilling the customer experience focus into the culture; and recognition that good CEM design costs little and may in fact be free.

Davey (2010) developed six lessons from European customer experience world; Cornett (2010) study focused on enriching customer experience profitability; Amdocs (2008) observed that CEM still have a long way to go. Temkin (2008) recommended that companies seeking how to differentiate themselves through customer experience management can discover innovative breakthroughs by following three steps – uncover the needs; design a disruptive strategy; and evaluate the opportunity based on the R-W-W (real-win-worth it) screen. He went further to argue that as more firms think strategically about customers experience, their needs will overlap the traditional boundaries of strategy consultants and design firms. Temkin (2008) continued by arguing that firms know that they deal with customers' issues haphazardly, as a result, customers suffer

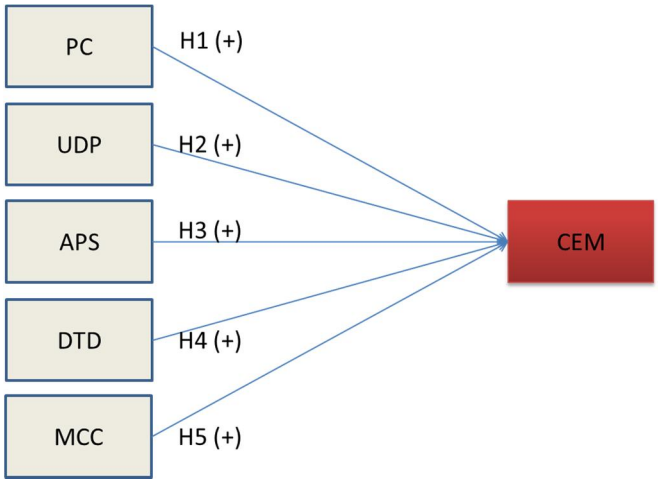
through needles painful interactions. He believes that this is why firms need a more disciplined approach to customer experience. Table 3 summarises the recent studies in customer experience management.

Table 3: Studies in customer experience management

Authors	**Studies**
Temkin (2004)	Scenario design: a disciplined approach to customer experience
Oh *et al.* (2007)	Measuring experience economy concepts: tourism applications
Woodcock *et.al.*(2008)	Customer management in public sector organizations
Amdocs (2008)	Customer Experience Management: Still a Long Way to Go
Temkin (2008)	Customer experience innovation in three steps
Cary (2008)	New study shows customer experience is a competitive differentiator
Rogers *et al.* (2008)	Multi-channel mayhem: tapping the customer experience for competitive advantage
Marchand *et al.* 2009)	The state customer experience management in Canade
Aberdeen group (2009)	Customer Experience Management: Engaging Loyal Customers to Evangelize Your Brand
Lywood *et* al. (2009)	Customer experience and profitability: an application of the empathy rating index (ERIC) in UK call centres
Bennkon (2010)	Customer experience management by design

Overall, Table 3 has indicated the positive outcomes from studies on CEM by academics and practitioners. It is important to note that effective management of customer experience could be helpful to organizations wishing to be customer centric. In the next section, the models of customer experience management are explored. Adopting Woodcock et.al's model, the study is guided by the following conceptual framework.

Figure 1 shows the operational conceptual framework of this study



CEM = f(PC+UDP+APS+DTD+MCC)

Keys

CEM	Customer experience management
PC	People and culture
UDP	Use of customer data to plan, drive and monitor services
APS	Analysis and planning of services and contacts
DTD	Day-to-day customer management
MCC	Managing customer contact

Based on Figure 1, this study hypotheses thus
H1: All dimensions of customer experience management have positive relationships with delivery customer experience management.

The UK aviation sector

Aviation is a major UK industry, carrying over 235 million passengers a year and over 2.3 million tonnes of freight (DFT, 2010). The aviation sector is one of the significant contributors to the UK economy in its own right, given the UK's geographical position as an island on the edge of Europe (OEF, 1999), and also due to its size (OXERA, 2009) and the wider economic benefits it generates (Bata, 2010). Aviation industry contributions to the UK economy are enormous. As a transport industry, many other sectors in the economy depend greatly on its infrastructures for growth. However, improvement in the infrastructures in this sector has a propensity to accelerate growth in the other sectors of the economy (OEF, 1999).

Economic contributions

The aviation industry contributes £18.4 billion, or a 1.5 per cent of the total Gross Value Added (GVA) annually to the UK Gross Domestic Product (GDP); raises £7.8 billion per-annum for government, with nearly £2 billion from Air Passengers Duty (APD) alone (CAA, 2004; Oxetra, 2009 and Bata, 2010). The record in 2008 a decade in 1998 the UK aviation industry directly employed 180,000 full-time equivalent workers representing a 0.8 per cent of total UK employment (measured on a comparative basis), and is thereafter shows a total employment of full-time employees totaling 240,000 people representing a 1.5 per cent of the UK economy (Bata, 2010). At present there are about 138,000 workers in the UK aviation (World of Work, 2010). The significant role the aviation sector play in the UK economy, gives rise to both a direct contribution from the activities of airports, airlines and aircraft service providers, and an indirect contribution from economic activity within the supply chain (Oxera, 2009).

Supply Size: Airlines Operating in and out of UK

The availability and cost of transport services are key drivers of economic performance. This may be driven by separate, but inter-related, mechanisms: improvements in connectivity between cities, regions, or countries; reduction in transport costs and location of transport hubs (Oxera, 2009). Growth in air transport enhanced links to worldwide destinations; it reflects the range an economic importance of destinations, frequency of service and the onward connections available through each country's aviation network. At present, there are eighty three airlines operating in and out of the UK (Baruk, 2010). These airlines operate among the fourteen international airports located in different cities in the UK. Table 4 shows the number of airlines operating in and out of the UK.

Table 4 shows a total number of 81 Airlines operating in and out of the UK. These airlines are owned and managed by government of different countries for instance; the Adrian Airways is owned by Slovenian government and has operated for 49 years (Adria Airways, 2010). Aegean Airlines is owned by Greece and has been in operation for 18 years (Aegean Airways, 2010); Air Astana is owned by the Republic of Kazakhstan and has been in operation for 8 years; Air Canada is the largest airline owned by Canada and has operated for 8 years with annual customers of 32 million per annum (Air Canada annual report, 2009).

Table 4: Airlines operating in and out of the UK

S/N	Airlines	S/N	Airlines	S/N	Airlines
1.	Adria Airways	28	Kingfisher Airways	55	Arik
2.	Aegean Airlines	29	KLM	56	Asiana Airlines
3.	Aeroflot Russian international Airline	30	Korean Air	57	Austrian Airlines
4.	Air astana	31	LOT-Polish Airlines	58	Belavia Belarusian Airlines
5.	Air Berlin	32	Lufthansa	59	Biman
6.	Air Canada	33	Malasia Airlines	60	Bmi
7.	Air China	34	Meridiana Fly	61	British Airways
8.	Air france-KLM	35	Middle East Airlines	62	Brussels Airlines
9.	Air India	36	Olypia Airlines	63	Cathay Pacific
10.	Air Malta	37	Omar Air	64	China Airlines
11.	Air Mauritius	38	Pakistan International Air	65	China Eastern
12.	Air Namibia	39	QANTAS	66	Continental
13.	Air New Zealand	40	Qatar Airways	67	Croatia Airlines
14.	Air Seychelles	41	Royal Air Maroc	68	Czech Airlines
15.	Air transat	42	Royal Brunei Airlines	69	Cyprus Airways
16.	Air Zimbabwe	43	Royal Jordanian Airlines	70	Delta Air lines inc
17.	Alitalia	44	Saudi Arabian Airlines	71	Egytair
18.	All Nippon Airways	45	Scandinavian Airlines	72	EI Al Israel Airlines
19.	American Airways	46	Singerpore Airlines	73	Emirates
20.	Iran Air	47	South African Airways	74	Etihad Airways
21.	Japan Airways	48	SriLankan Airlines	75	Ethiopian Airlines
22.	Jet Airways (India)	49	Swiss International Air Line	76	Eva Airways
23.	Kenya Airways	50	Syrian Arab Airlines	77	Iberia Airlines
24.	Virgin Atlantic	51	Tam Airlines	78	Icelander
25.	Finnair	52	TAP Air Portugal	79	US Airways
26.	Gulf Air	53	Tarom Romanian Air	80	Vietnam Airlines
27.	Tunisair	54	Thai Airways	81	Turkish Airlines

Source: Baruk (2010, p. 3)

However, these airlines among their international operations also connect and operate in 13 major international airports in the UK. Table 5 shows the international airports in the UK with the total number of passengers at the end of December, 2009.

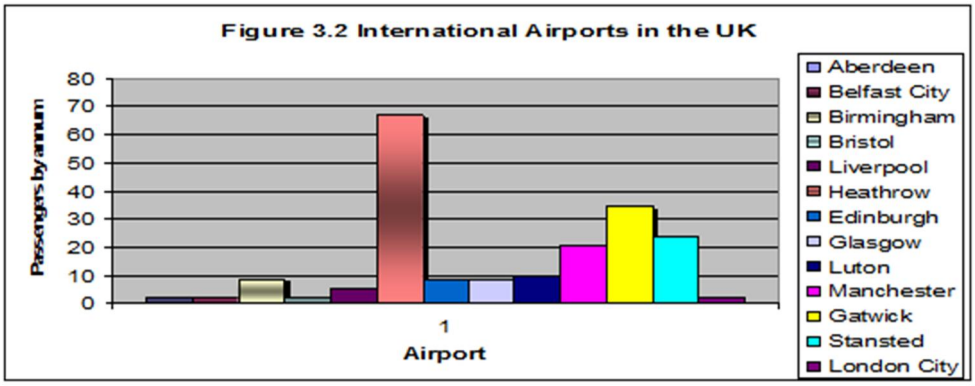
Table 5: International Airports in the UK

Airports	Passengers per year (million)
Aberdeen	2.4
Belfast City	2.5
Birmingham	9
Bristol	2.5
Liverpool	5.4
Heathrow	66.9
Edinburgh	8.3
Glasgow	8.5
Luton	9.7
Manchester Group	21
Gatwick	34.5
Stansted	23.6
London City	2.4
Total	192.3

Source: Colin Buchanan Associates (2009, p. 13)

As indicated in Table 5, the total number of airline passengers at the end of December, 2009 is 192.3 million. This shows that the demand for air transport has risen when compared to the total number of airline passengers in 1999 (OEF, 1999) despite the economic crisis. OEF (1999) had estimated the number of passengers travelling through the UK airports to reach 310 million by the end of 2015. The evidence in Table 5 shows an indication that the prediction may be feasible, given the huge increase in the number of passengers that travelled in 2009 even at an economic recession. The number of passengers that travelled through Heathrow airport accounts for 35% of the total passengers; Gatwick and Stansted had the second and third largest passengers with total of 18% and 12% passengers respectively. Figure 2 shows the representation of the distribution of passengers in the various UK international airports in 2009.

Figure 2: International Airports in the UK



As earlier observed by Givoni and Banister (2008) the size and importance of Heathrow airport to the UK means that its development cannot be done in isolation from the development of the rest of the transport network. As shown in Figure 3, Heathrow airport plays major roles in the connectivity and transportation of passengers in the UK and accounts for the number one airport in the UK where passengers can connect 'to and fro' any part of the world. Heathrow is the UK main gateway to

the global economy – supports billions of pounds of British exports and thousands of UK jobs, and encourages hundreds of international businesses to locate in the UK. Figure 3 show that Gatwick has the second largest number of passengers, while Stansted has the third largest passengers. However, the indication of this increase when analyzed by the projection of OEF (1999) shows the trend of growth in terms of the passengers. But surprisingly as will be discussed later in this paper, this has not corresponded to the number of employment but rather is on the reverse.

Employment

The evidence from the UK experience is that aviation has facilitated the growth and has boosted employment in the UK. Many more people are now directly employed in airlines, airports and in the ancillary industries that support aviation than before. Although there are a number of sources of data on airline employment such as national statistics, airline reports, these are not comprehensive, and there is some inconsistency between them. Consequently, the employment data provided in a report may be different from the other. For instance 'The Air League' (2010) observed that the air transport industry directly employs 141,000 people in the UK, increasing to some 234,000 with indirect employment. In 2006, Oxford Economic Forecasting (OEF), updated its 1999 report, 'The contribution of the aviation industry to the UK economy'. This study found that the aviation industry contributes £11.4 billion to the UK economy, supporting more than 520,000 direct jobs - over a quarter of which are within airport boundaries.

Table 7 shows the number of the UK aviation employees at the end of December 2009. This shows a 28% decrease when compared to the number of employees in the UK aviation sector in 2001. The total number of employees in 2009 is also less than the total number of employees in this sector when compared to the figure in 1991 by 0.61%. The decline in the number of the work force in the UK aviation could be argued to have been caused by the economic recession that engulfed every sector of the world economy. The increase in price of airplane fuels affected employment in the UK aviation within the period of 2007 to 2009 (CAA, 2008). Table 7 shows the number of UK aviation employees at the end of 2009.

Table 7: Number of aviation employees at end of December 2009

Zones	**Male**	**Female**	**Total**
North	552	573	1125
Yorkshire and Humberside	560	441	1001
East Midlands	647	694	1341
East Angelia	228	95	323
South East	25,748	22,461	48,209
South West	1,291	613	1,904
South Midlands	617	443	1,060
North West	2,229	3,050	5,279
Wales	1,055	201	1,256
Scotland	1,310	949	2,259
Total	**34,237**	**29,520**	63,757

Source: CAA (2009, p. 1)

As shown in Table 7, North zone comprises of all airports located in Tyne and Wear, Cleveland, Cumbria, Durham and Northumberland. Yorkshire and Humberside comprise of South Yorkshire, West Yorkshire, Humberside and North Yorkshire. East Midlands include airports located around Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire. East Angelia zone include Cambridgeshire, Norfolk and Suffolk. South West airports are those located in Avon, Comwell, Devon, Dorset, Somerset, Gloucestershire and Wiltshire. South East includes Greater London, Bedfordshire, Berkshire, Essex, Buckinghamshire, East Sussex, Hampshire, Hertfordshire, Isle of Wight, Kent, Oxfordshire, Surrey and West Sussex. West Midland airports

include those located at West Midlands, Hereford and Worcester, Shropshire and Staffordshire. North West includes Greater Manchester, Merseyside, Cheshire and Lancashire. Wales's airports include those located in Clwyd, Dyfed, Gwent, Gwynedd, Mid-Glamorgan, Powys, South Glamorgan and west Glamorgan. Finally, Scotland zone includes airports located in Highlands, Grampian, Tayside, Fife, Lothian, Borders, Central, Dumfries, Strathclyde and Galloway and Islands (CAA, 2009, p.2), the Nigeria aviation industry is discussed.

Airlines operating in and out of Nigeria

The global financial crisis brought a positive direction and influence on the Nigerian aviation sector in a way. Abioye (2009) observed that some of the global mega airlines were being forced to find survival opportunities in the Nigerian aviation sphere in 2009. Nigerian airlines have, no doubt, had their share of the global economic crisis that has seen the collapse of many international airlines. Three airlines - Bellview, Afrijet and Capital stopped operations before the end of 2009 due to the harsh economic condition.

However, DATR (2010) reports that the global financial crisis brought a positive trend on Nigeria aviation as quite a number of foreign mega airlines commenced operations in Nigeria in 2009. While more foreign airlines entered into Nigeria aviation, existing ones increased their entry points and frequencies. For instance, Emirates Airlines, Qatar Airways, Air France, Kenya Airways and Ethiopian Airlines have all increased their frequencies into the country within 2009, while new airlines, like Etihad, Air Arabia and a host of others commenced operations in 2010.

At presents airlines such as Lufthansa, British Airways, Air-France, Kenya Airways or Qatar Airways operate on what is called dual and multiple designations of airlines, which means that rather than these foreign airlines to end their final journeys to Nigeria at the Murtala Muhammed International Airport (MMIA) in Lagos, which is regarded as the hub, they go as far as Port-Harcourt, Abuja, Calabar and Kano to drop and pick passengers.

Local aviation experts according to Abioye (2009) have also predicted a massive influx of mega airlines across the globe into the country and the continent. According to these experts and analysts (Abioye, 2009), the global mega airlines, pressured at home by declining business volume and high cost of operation, are bound to look out to countries with low operating indices for diversification as a survival strategy, with Nigeria being number one priority. Table 7 shows the number of airlines that operate in and out of Nigeria airports.

Table 7: Airlines operating in and out of Nigeria

AIRLINES	OPERATORS	AIRLINES	OPERATORS
Chanchangi	Local	Egypt Air	Foreign
IRS	Local	Emirates Airlines	Foreign
Arik Air	Local	Ethiopian Airlines	Foreign
Virgin Nigeria	Local	Liberia Airlines	Foreign
Aero-Contractors	Local	Kenya Airways	Foreign
Afriqiyah Airways	Foreign	KLM Royal Dutch Air	Foreign
Air France	Foreign	Lufthansa German Air	Foreign
Alitalia	Foreign	Middle East Airlines	Foreign
Bellview Sierra Leone	Foreign	North American Airlines	Foreign
British Airways	Foreign	Qatar Air	Foreign
Cameroon Airways	Foreign	Saudi Arabian Airlines	Foreign
China Southern Airlines	Foreign	South African Airlines	Foreign
Delta Airlines	Foreign	Virgin Atlantic	Foreign
Sudan Airlines	Foreign	Virgin Nigeria	Foreign
Turkish Airlines	Foreign		

Source: DATR (2010, p. 1)

As indicated in Table 7, at present 24 foreign countries operate flights in and out of Nigeria with over 80 frequencies (DATR, 2010). This represents 80% of the total airlines operating in and out of Nigeria. Six local airline representing 20% of the total airlines operating in Nigeria are indigenously owned. At least, Lufthansa, British Airways, Virgin Atlantic and Air France all operate over 42 frequencies into the country weekly, with direct flights into Lagos, Port-Harcourt and Abuja. This accounts for 53% of airline operations in Nigeria. The local flights operate primarily within the local airports. However, passengers wishing to travel international from any city outside Lagos such as Port Harcourt, Kano, Abuja and Calabar would prefer entering direct international flights from these cities rather than entering local flight first to the hub airport, before joining the international flight.

Based on the foregoing discourse, this study hypotheses thus

H2: there is no significant difference between the customer experience management practices in the UK and Nigeria aviation industry.

The study

Methodology

This hypothesis-testing study adopted a correlational investigation to establish the differences or similarities (relationship) in customer experience management practices in the UK and Nigeria aviations (Sekaran, 2003). A survey research strategy in a noncontrived setting (aviation industry) was adopted since it is focused on empirically investigating the extent of the practices of CEM with representative sample with the view of generalizing the findings to the study population (Saunders et al., 2009). The deductive approach which explanation calls for a universal generalization, a statement of conditions under which the generalization holds true an event to be explained (Bryman and Bell, 2003) was adopted with the positivist stance of research philosophy. This stance described as sociological positivism in essence, reflects the attempts to apply models and methods derived from the natural sciences to the study of human affairs (Nwokah and Ahiauzu, 2008). Sampling method adopted in this study is discussed next.

Sampling

Because of the nature of the respondents, the non-probability convenience sampling methods was adopted. Three airports in the UK (Heathrow, Gatwick and Stansted) indentified in the literature as the UK international airports with the highest number of yearly customers (see Table 6); and the three international airports in Nigeria were chosen as the sample frame for this study. The front office staff of four international airlines (British Airways, Lufthansa, Air France, and Arik Air) indentified in the literature as operating in and out of the UK and Nigeria airports were chosen as the unit of analysis. By convenience sampling, airline front office staff who indicated interest to participate in the study was included in the sample unit. Over all, a total of 433 representatives were considered adequate to participate in the study and were therefore given the research instrument. However, an impressive number of 406 respondents' finally participated in the study and were considered adequate for the study.

Research Instrument

This study adopted the initial research instrument developed by Woodcock et al's.(2008) and used to test the customer management in the UK public sector. Woodcock at al. operationalized customer management into a six factor constructs (People and Culture (PC); Use of Customer Data to Plan Drive and Monitor Services (UDP); Analysis and Planning of Services and Contacts (APSC); Day-to-Day Customer Management (DTD); Managing Customer Contact (MCC); Defining and Delivery the Customer Experience (DCE)). A total of 59-item questionnaire in a four points Likert scale anchored by strongly disagree (SDA) to strongly agree (SA) were initially developed and used to measure these variables in the UK public sectors. From the initial instrument, the individual items were measured as follows - PC (12-items); UDP (15-items); APSC (6-items); DTD (14-items); MCC (3-items); DCE (9). Woodcock et.al's (2008) instrument was refined to look attractive and applicable to the study of customer experience management in the aviation sector. Six of the previous items were expunged and two new items were introduced. The total questionnaire items were reduced to 55 from the previous 59-items. Items on delivery customer experience were refined and used to reflect CEM.

Pilot Study Results

The refined study instrument was pre-tested for comprehensiveness, relevance and completeness. Two forms of pilot test were conducted. The first pilot test was carried out with researchers in Marketing and Tourism disciplines and the second with five frontline airline staff in the UK aviation sector. At the end of the first pilot test, a further refinement of the study instrument to enhance its suitability in the aviation sector was performed. Six items were considered inappropriate and were therefore expunged. Therefore, 49-items survived this stage of pilot testing. Two open-ended items were later added to elicit responses from respondents on the best and worst aspects of customer service practices in their various airlines.

The survived 49-items questionnaire were subjected to further pilot test, at this time from the key informants consisting of five front office airline staff in the UK aviation industry. 5-items were further deleted at the end of the field pilot testing leaving 44 items and were later used to assess the CEM practices in the UK and Nigeria aviation sectors.

Data Analysis

This study used three levels (primary, secondary and tertiary) of data analysis. At the primary level, a descriptive statistics was used to describe the characteristics of the respondents. At the secondary level, the test of the reliability and validity of the research instrument is shown. The tertiary level involved the use of inferential statistics. Tables and charts were predominantly used to describe the mean, standard deviation and Kurtosis. The Pearson moment correlation was used to test the relationships between the 5 dimensions of customer management and delivery customer experience management. The choice of Pearson moment correlation was chosen after running a descriptive statistics to determine the nature of the distribution which gave a normal distribution. The independent samples t-test was used to evaluate the differences in customer experience management practices in the UK and Nigeria aviations (Bryman and Bell, 2003; Pallant, 2007).

Findings

Demographics of the Sample

The analysis of demographics of the respondents is useful to confirm the eligibility and assess the extent to which the respondents are knowledgeable to the subject matter being studied. Table 8 shows the demographics of the respondents.

Table 8: shows demographic analysis of respondents (n=406).

S/N	Factors	Frequencies (UK)	%	Frequencies (Nigeria)	%
1	**Gender**				
	Male	77	23.9	84	20.7
	Female	136	26.1	109	26.8
2	**Age**				
	18-25	125	30.8	76	18.7
	26-34	61	15.0	95	23.4
	35-46	27	6.7	22	5.4
3	**Airlines**				
	British Airways	104	25.6	33	8.1
	Lufthansa	62	15.3	46	11.3
	Air France	29	7.1	36	8.9
	Arik Air	18	4.4	78	19.2
4	**Work experience in the aviation**				
	1-10 years	240	59.1		
	11-20 years	125	30.8		
	21-30 years	41	10.0		

As can be seen from Table 8, the demographics analysis of this study includes gender, age, workplace (airline), and work experience in the aviation. In terms of gender, as shown in Table 8, 136 UK female airline workers representing 26.1% of total respondents responded to the survey instrument. 109 Nigeria female airline workers participated in the survey representing a 26.8% of the respondents. 77 UK male airline staff representing 26.1% of respondents responded to the study questionnaire while, 84 Nigeria male airline staff representing 20.7% of the respondents participated in the survey. The result of the reliability and validity test of the measures is presented and discussed next.

Data Quality

After the survey had completed the reliability of the scales was further examined by computing their coefficient alpha (Cronbach Alpha). All scales were found to exceed a minimum threshold of 0.7 as recommended by Cronbach (1970); Nunnally (1978) and used in previous studies (Seeman and O'Hara, 2006; Nwokah and Maclayton, 2006). Convergent validity is also suggested when the individual variable scores are combined into a single scale to give a Cronbach Alpha of 0.89. The actual results of the scale reliability analysis of the customer experience measure are reported in Table 9.

Table 9: shows the reliability measure of customer experience management scale (n=406)

S/N	Item	No. of item	Cronbach's Alpha
1	People and Culture	10	.83
2	Use of customer data to plan, drive and monitor services	8	.83
3	Analysis and Planning of Services and contacts	5	.85
4	Day-to-day customer management	7	.84
5	Managing customer contact	4	.85
6	Delivering the customer experience	8	.88

Table 9 summarizes the reliability result of the dimensions of customer experience. It is important to note that all items are reliable and is used to study the CEM in the UK and Nigeria aviation industry. It confirms that the customer management scales developed by Woodcock et al's (2008) and used in the UK public sector can be applied in the UK and Nigeria aviation sectors.

Findings with Descriptive Statistics

The descriptive analyses of customer experience are expressed in five dimensions that characterized the construct being measured. The descriptive studies of the various dimensions are discussed next.

People and Culture

Table 10 shows the mean and standard deviation of people and culture as a dimension of customer experience.

Table 10: people and culture as a dimension of customer experience (n=406)

S/N	Items	Mean	S.D
1	We are likely to invest more in improving the customer management in our organization	3.42	1.21
2	Our managers believe that becoming more customer focused has reaped rewards for customers and for our organization	4.01	0.74
3	Our organization understands the implications of treating someone as a customer (eg their rights, perceptions and behaviors)	3.25	1.13
4	it is appropriate to look at the leading organization in our sector for guidance in some areas of customer experience management	2.90	0.93
5	We have a business case to justify the amount we are spending on customer experience management	3.86	1.01
6	Our managers give clear and visible leadership In customer experience management, encouraging excellent levels of service.	4.27	0.83
7	We have objectives and targets around our customer objectives (eg around satisfaction or customer segment outcomes)	3.26	1.22
8	We have a clear strategy for the development of insight into our customers	3.19	1.24
9	We have a member of staff in charge of customers' complaints	3.25	1.24
10	We have a common language (terminology) about 'Customers' across the organization.	2.76	0.99

*The scale; (1) strongly disagree, (5) strongly agree.

Table 10 indicates that the highest item that accounts for people and culture as a dimension for customer experience is the extent to which managers give clear and visible leadership in customer experience management, encouraging excellent levels of service. This is consistent with Woodcock et.al.'s (2008,p.18) finding in the customer management in the UK public sector. However, the other items also account for people and culture being dimensions of customer experience management as all factors show reasonable mean score with good standard deviation.

Use of Customer data to Plan, Drive and Monitor Services

Table 11 shows the mean and standard deviation of use of customer data to plan, drive and monitor services and contacts as a dimension of customer experience. Table 11 shows that all the items account for use of customer data to plan, drive and monitor services as a dimension of customer experience. However, capturing customers' preferred method of contact onto our database accounts for the highest item of measuring use of customer data to plan, drive and monitor services as a dimension of customer experience with a mean score of 3.94. This not consistent with finding of Woodcock et.al.'s (2008,p.16) who found that investing in improving customer management is the most driving force in measuring use of customer data to plan, drive and monitor services as a dimension of customer experience. In general, use of customer data to plan, drive and monitor services as a dimension of CE has a mean score of 26.52 and a standard deviation of 4.85 with a normal distribution.

Table 11: use of customer data to plan, drive and monitor services as a dimension of customer experience (n=406)

S/N	Items	Mean	S.D
1	We analyse communication campaigns to understand their impact against campaign objectives (eg response, service take-up, interest)	2.49	1.27
2	We analyse customer data to understand the performance of service delivering	3.29	1.33
3	We identify trends in attitudes and behaviours of different customer segments and act on them	3.32	1.06
4	We set and measure target outcomes for key customer segments or groups	3.61	1.22
5	We capture customers ' preferred method of contact onto our database (eg field, agencies, telephone, mail, e-mail, SMS, web/chat)	3.94	1.11
6	We routinely collect and store customer data across the local agencies (eg LA, PCT, police — data types may be behavioural, satisfaction, transactional, complaints, etc)	3.56	1.19
7	We have one main customer database across the organisation	3.56	1.08
8	We have a consistent definition of customer types throughout the organisation (eg ' types ' code(s) defining their likely needs, service requirements or engagement)	2.76	1.21

*The scale; (1) strongly disagree, (5) strongly agree.

Analysis and Planning of Services and contacts.

Table 12 shows the mean score and standard deviation of analysis and planning of services as a dimension of CE.

Table 12: Analysis and planning of services and contacts as a dimension of CE (n=406)

S/N	Items	Mean	Std. Dev.
1	We research the future needs of customers so that we can evolve our services over time	3.18	1.05
2	We benchmark our organisation's performance (eg service take-up, satisfaction) against competitors using comparisons of customer type	3.48	1.20
3	We monitor customer feedback regularly about the desired experience (at least quarterly)	3.93	1.10
4	We involve customers extensively in the design of our services	3.38	1.16
5	We measure customer engagement rather than just satisfaction	3.50	1.03

*The scale; (1) strongly disagree, (5) strongly agree.

Table 12 shows the evidence that analysis and planning of services is a dimension of CE. However, regularly monitoring (at least quarterly) of customer feed backs about the desired experience appears to be the most important measure of analyzing and planning of services as a dimension of CE. This is again not consistent with Woodcock et.al's (2008, p.21) who found that researching the

future needs of customers so that the UK public sector can evolve their services over time is the most important measure of analyzing and planning of services as a dimension of customer management.

Day-to-day customer management

Table 13 shows descriptive analysis of day –to-day customer management as a dimension of CEM. It indicates that capturing customers complains as an opportunity for service improvement contributes more in DTD as a dimension of CE. This is consistent with Woodcock et.al's (2008, p. 21) finding among the survived items.

Table 13: Day-to-day customer management as a dimension of CEM (n=406)

S/N	Items	Mean	Std.Dev.
1	Our managers see capturing complaints as an opportunity for service improvement	4.33	0.47
2	We have a ' no-blame ' culture for complaints	3.80	0.92
3	We have a customer care centre to improve communications and service	3.30	1.42
4	We collect and pool complaint data wherever it ' enters ' the organisation so we can identify trends	3.78	1.20
5	We communicate with individuals via their preferred channel	4.21	0.76
6	Our system provides prompts to ensure that timely follow-up happens/feedback is received	4.02	0.98
7	We capture and store key enquiry qualification data to enable excellent enquiry management	3.48	1.21

*The scale; (1) strongly disagree, (5) strongly agree.

As can be seen from Table 13, there are 7-items to measure day-to-day (DTD) as a dimension of CE with acceptable mean and standard deviation.

Managing customer contact

Table 5.8 shows the descriptive analysis of MCC as a dimension of CE. Generally, the mean distribution of MCC (14.12) and standard deviation of 2.02 with a normal distribution) show that MCC is a dimension of CE.

Table 14: Management of customer contact as a dimension of CE (n=406)

S/N	Items	Mean	Std.Dev.
1	Our customer contact management system provides complete and comprehensive tracking of information relating to any contact	4.04	0.72
2	Our customer contact allows us to be more effective in managing relationships by helping us manage interactions with prospects, customers, clients and business partners.	3.30	1.12
3	More than 75% of our customers say it is easy to contact the organisation (customers do not need to know how the organisation is structured)	2.92	0.96
4	Our enquiry handler can link any enquiry back to the customer's contact history	3.87	1.02

*The scale; (1) strongly disagrees, (5) strongly agree.

As can be seen from Table 5.8, there are 4-items to measure MCC as a dimension of CE. However, providing complete and comprehensive tracking of information relating to any contact appears to be the most important measure of the MCC as a dimension of CE with a mean of 4.04 and a standard deviation of 0.72. This item was not in the original instrument of Woodcock et.al's (2008) and can not be used as a basis of comparison.

Delivering the customer experience (DDC)

Table 15 shows the descriptive result of delivering total customer experience management.

As can be seen in Table 15, there are 8-items to measure "delivering the customer experience". The evidence in Table 15 suggests that the CE organization want to deliver has clearly defined aims for all delivering, and this accounts for the highest measure of DCE . The descriptive statistical analysis of DCE also shows a normal curve of the distribution. The next section shows the results of the hypotheses testing using the Pearson moment correlation coefficient.

Table 15: Delivering the total customer experience management (n=406)

S/N	Items	Mean	S.D
1	We understand our role in delivering excellent customer experience	3.30	1.19
2	Our manager work with us so that we understand how we have to 'behave' to deliver the desired customer experience	3.24	1.22
3	We have a mandatory customer service training programme to support the delivering of the customer experience	3.30	1.24
4	We measure the customer experience of all types of our customers	2.77	1.00
5	We have identified the organisational barriers to achieving excellent customer experience	2.55	1.23
6	We have defined what we want customers to think, feel and say about us so that we can deliver against this and monitor progress	3.37	1.32
7	We have mapped the journeys a customer takes through each of these moments of truth	3.71	1.06

*The scale; (1) strongly disagrees, (5) strongly agree.

Test of Research Hypotheses

This section is aimed at testing the research hypotheses stated earlier. This study hypothesized that people and culture has positive relationship on delivering customer experience management. Table 16 shows the statistical evidence of the relationship between these variables.

As can be seen in Table 16, the dimensions of customer experience management have positive relationships with delivery total customer experience. However, the degree of these relationships differs as can be seen in Table 16. People and Culture; and use of customer data to plan, drive and monitor services have strong relationships with delivery customer experience, with 0.815** and 0.721** Pearson Moment correlation coefficient respectively. Managing customer data has a moderate relationship with delivery customer experience with a 0.354** Pearson Moment correlation. Analysis and planning of services and contacts; and Day-to-day customer management have weak relationships with delivery customer experience with 0.223** and 0.288** Pearson moment correlation respectively. However, the evidence in Table 16 support research hypothesis H1 stated earlier. The next section evaluates the customer experience management in the UK and Nigeria aviations.

Table 16: shows the Pearson moment correlation of the relationship between people and culture; and delivering of total customer experience management (n=406).

Variables		People and Culture	Use of customer data to plan, drive and monitor services	Analysis and Planning of services and contacts	Day-to-day customer management	Managing customer management	Delivery the customer experience
People and Culture	Pearson Correlation	1	699**	0.226**	0.263**	0.377**	0.815**
	Sig. (2-tailed)		0.000	0.001	0.000	0.000	0.000
Use of customer data to plan, drive and monitor services	Pearson Correlation	0.699**	1	0.499**	0.201**	0.285**	0.721**
	Sig. (2-tailed)	0.000		0.000	0.002	0.000	0.000
Analysis and Planning of services and contacts	Pearson Correlation	0.226**	0.449**	1	0.185**	0.081	0.223**
	Sig. (2-tailed)	0.001	0.000		0.005	0.220	0.001
Day-to-day customer management	Pearson Correlation	0.263**	0.201**	0.185**	1	0.069	0.288**
	Sig. (2-tailed)	0.000	0.002	0.005		0.029	0.000
Managing customer management	Pearson Correlation	0.377**	0.285**	0.081	0.069	1	0.354**
	Sig. (2-tailed)	0.000	0.000	0.220	0.294		0.000
Delivery the customer experience	Pearson Correlation	0.815**	0.721**	0.223**	0.288**	0.354**	1
	Sig. (2-tailed)	0.000	0.000	0.001	0.000	0.000	

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

Evaluation of customer experience management practices in the UK and Nigeria Aviation Industry

This study was set to evaluate the customer experience management practices in the UK and Nigeria Aviation Industry. The results in Table 17 show the statistical evidence of this comparative study using independent sample t-test. As indicated in Table 17, all the Means of the dimensions of delivering total CEM are different between both aviations with very high significant level and equal variances not assumed. Specifically, the means of the dimensions of CEM are PC– Nigeria (2.91), UK (2.85) with 0.00 significant level at 0.95 level of confidence; UDP are different – Nigeria (2.81), UK (3.75) with 0.00 significant level at 0.95 level of confidence; APS – Nigeria (3.36), UK (3.61) with 0.00 significant level at 0.95 level of confidence; DTD – Nigeria (3.77), UK (3.91) with 0.02 significant level at 0.95 level of confidence; MCC – Nigeria (3.32), UK (3.71) with 0.00 significant level at 0.95 level of confidence. In general the means for DCE are different – Nigeria (2.12), UK (3.34) with 0.00 significant level at 0.95 level of confidence.

Table 17: Customer experience management practice in the UK and Nigeria aviations: Independent sample t-test (n=406)

Items	Aviation	Grand Mean	t-value	significant
People and Culture (PC)	Nigeria	2.91	-23.96	0.00*
	UK	3.85		
Use of customer data to plan, drive and monitor services (UDP)	Nigeria	2.81	-19.08	0.00*
	UK	3.75		
Analysis and Planning of Services and contacts (APS)	Nigeria	3.36	-3.94	0.00*
	UK	3.61		
Day-to-day customer management (DTD)	Nigeria	3.77	-3.12	0.02*
	UK	3.91		
Managing customer contact (MCC)	Nigeria	3.32	-6.20	0.00*
	UK	3.71		
Delivering the customer experience (DCE)	Nigeria	2.12	-25.13	0.00*
	UK	3.34		

*significant at p<0.05

The evidence from Table 17 suggests that the extent of delivering CEM practices in the UK differ completely from their Nigeria counterparts. However, Table 17 also suggests that there is a little similarity in their day to day practices of customer experience management. The statistical evidences in Table 17 support the research hypothesis (H1) that "There is significant difference between delivering total customer experience management in the UK and Nigeria Aviation Industry". It is possible by this evidence to argue that delivering total customer experience management is better practiced in the UK than in Nigeria Aviation Industry. This may have also accounted for the moderate and weak relationship between the three dimensions of delivering total customer experience management the UK and Nigeria aviations found earlier in this paper. The next section discusses the best and worst practices of the customer services in both aviation sectors.

Summary of main conclusion

After the review of relevant literature in this study, it was concluded that though, there have been few academic studies and on customer experience management, but known has focused on its application in the aviation industry and none has investigated its' concept in a cross cultural application. The review of literature concluded that the concept of customer experience management was started by Bernd H Schmitt (2003), and observed that though there have been avalanches of definitions of the concept; none has included the managerial aspects in the definition of customer experience management. This study therefore proposed a definition of customer experience management. This study concludes that the UK aviation industry is more organized than the Nigeria aviation industry, more so; detail literature on the employment, number of passengers and contributions of the aviation sector in the economic development of UK can be seen in abundance from both academics and practitioners; whereas, very scanty and somehow irrelevant literature can be seen in the Nigeria aviation industry.

Based on the results of the findings, this study concludes that Woodcock et.al's (2008) refined model is applicable in the UK and Nigeria aviation industry. Again, the study concludes that customer experience management is being practiced in both UK and Nigeria aviation industry. However, delivery total customer experience management practices is substantially and significantly higher in the UK than in Nigerian aviation industry. The study also concludes that there are positive relationships between the dimensions of customer experience and delivery of customer experience management in the UK and Nigeria aviation industry, but more efforts need to be made to improve on delivery total customer experience management practices in both aviations and Nigeria in particularly. The study identifies high level of unacceptable and unprofessional practices among staff of the Nigeria aviation industry, which may have accounted for

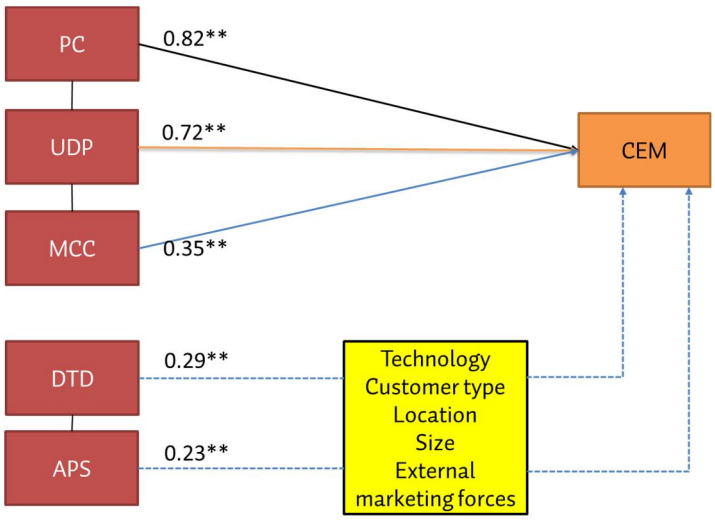
the weak practices in delivery total customer experience in the sector.

Contributions of the study

This study has contributed in the growing number of literature in customer experience management. The study has shown that it is possible to replicate a study in the UK public sector in the aviation sector, which therefore implies that it can also be replicated in any other sector. Specifically, based on the findings from this study, the authors propose a model of delivery total customer experience management as shown in Figure 7. This model proposes that delivery total customer experience management is influenced by five dimensions of customer experience with varying degrees of relationship.

People and culture has a very higher influence and is in fact the highest influencer of the dimensions of customer experience on delivery total customer experience management. The use of customer data to plan, drive and monitor service has a strong influence on delivery total customer experience and is the second influencer of the dimensions. Although, managing customer contact influences the delivery of total customer experience management, but the influence is weak.

Figure 7: shows delivery total customer experience management model



Keys

→	Very strong relationship
→	Strong relationship
→	Moderate relationship
⇢	Weak relationship
PC	People and culture
UDP	Use of customer data to plan, drive and monitor service
MCC	Managing customer contact
DTD	Day-to-Day customer management
APS	Analysis and planning of services and contacts
CEM	Customer experience management

As can be seen in Figure 7, day-to-day customer management; and analysis and planning of services and contacts also influence delivery total customer experience management, but through some mediating or intervening variables identified through the analysis of responses from qualitative instrument. This assumption is consistent with Verhoef et al's (2009) model showing some shopping trip as determinants factors that moderate customer experience management in the UK retail shops. Managerial implications of the study is discussed next

Managerial implications and further study

For managers, this study will help to build their knowledge on how best to manage customer experience, with the understanding that there are different types of customers with different antecedents. The study will help managers refine their customer experience management practices, by distinguishing the customer experience management practices from customer relationship management. Managers will need to understand the factors which bring positive experiences to the customers and improve on them and avoid the factors that bring negative experiences to the customers.

One area this study recommends researchers to investigate further is the extent to which the intervening variables identified in the proposed model mediate on the relationship between the two dimensions of customer experience and delivery total customer experience management. This study also recommends further study in this topical area to be carried out separately in both aviations to confirm the relationship found in this study so as to determine whether the weak and moderate relationships in some of the dimensions of customer experience was caused as a result of the comparative study. This study can also be replicated in other industries in the developed and developing nations.

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Influence Quantity and Quality of Firms on the Country's Income

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Abstract

The article shows that the factor of increase in the number of firms in the economy is no longer valid after a certain level of development and welfare provides increased efficiency of firms in developing an objective of fundamental laws.

Key Words

Firm, enterprise, efficiency, economy, welfare, society, influence, class, development

Introduction

In the beginning of the XXI century economics did not determine the way of estimation of comparable weight of the factors of quantity and quality of the firms in the country, which form national income [1,2,3,]. At the same time the majority of the economists, follow the opinion that the main factor of growth of welfare is the number of firms, operating in the economy.

According to A.Warner, growth of the number of organizations in China outrun the average rate of value added per company and ensured development of its economy. In the meantime the USSR, the amount of population of which had not changed for decades, reached gradual slowdown in the growth of the average added value of a company and in economic development.

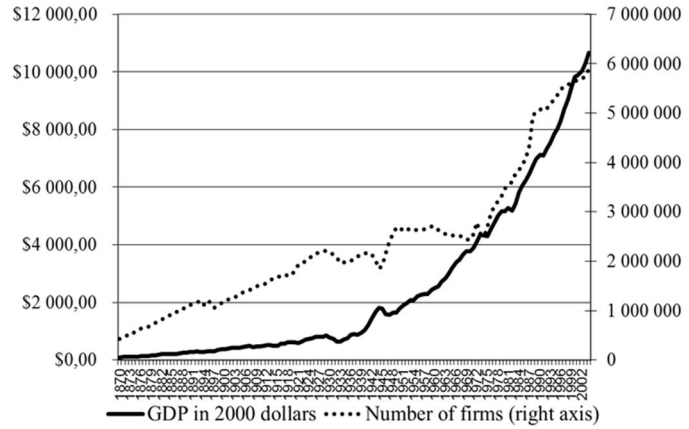
A. Warner also refers to the points that the majority of theories suggest that sooner or later economic organization reaches its 'optimal size' and stops growing. Consequently, growth of economy and welfare should be reached by increase of the total as well as the unit number of organizations per person. This point is backed up by theory. For instance, when examining the extreme case of the model of A. Curno[1] , A. Tsiplakov proves that with the number of firms going to infinity, consolidated profit of a firm vanishes while 'the indicator of welfare' – tends to unity, i.e. gets maximized.

This point also dominates in practice. The policy of the Russian Government has been focused on increase of the number of firms, especially small and medium businesses for a long time.

[1] Zhelobodko E., Tsiplakov A., Busigin V. Microeconomics. Novosibirsk: CO RAS, 2005 -704p, pp. 517-518.

Moreover, to a first approximation this proposition is confirmed by the graph illustrating changes in GDP and the number of firms in the USA for the period of 1870-2004 (picture 1)..

Picture 1: GDP and number of firms in the USA from 1870 to 2004 (Source: Bicentennial Edition: Historical Statistics of the United States, Colonial Times to 1970)

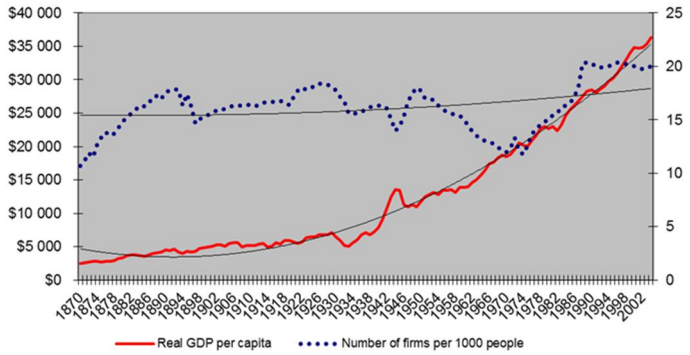


At a glance it is obvious that the two indicators correlate and the statistical analysis validates this "relationship". Correlation between GDP and number of firms is 0,908, which is one of the signs of quite a strong connection. Coefficients of the regression model here are significant at the 95% level of trust and coefficient of determination is 82,4 %, that indicates the high level of dependence of the GDP growth on the number of firms. I.e. according to the results of the statistical analysis it can be summarized that the number of firms in the economy of a country directly impacts the amount of GDP.

However the more detailed comparison of the graph illustrated in the picture 1 leads to considerable doubts in the correctness of this proposition. Indeed, from 1929 (year of the beginning of the great depression in the USA) to 1945, i.e. over 16 years the number of firms has not increased in practice and GDP has also doubled. Similarly, from 1947 to 1970, i.e. over 23 years the number of firms dropped and GDP had more than twofold increase. These facts doubt direct correlation of the amount of GDP and number of firms in the country.

The situation gets cleared up by correlation of dynamics of GDP per person and number of firms per 1000 people for the same period (picture 2).

Picture 2: Dynamics of GDP per person and number of firms per 1000 people in the USA from 1870 to 2004



As depicted in the picture 2, the situation has completely changes – the directions of the trend lines differ significantly. The amount of GDP per person as well as the annual GDP of the country in the period chart go up over time axis and increase in the number of firms per 1000 people is hardly tracked, though almost twofold periodical fluctuations of their number occur (within the interval from 11 to 20).

The illustrated result is backed up by statistical estimation, i.e. coefficient of correlation is less than 0.4, and coefficient of determination is only 13.1%.

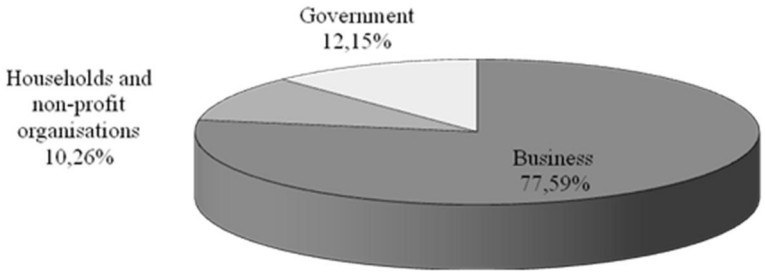
They point to lack of significant correlation between the amount of GDP per person and number of firms. Understandably, the illusion of correlation between the two factors, occurring in the first case, is engendered under the influence of the third hidden factor, mentioned in initial data, that is growth of the amount of population of a country.

Moreover, it is easy to demonstrate that the aforementioned theoretical assumption by A. Tsiplakov about maximization of the 'indicator of welfare' with the number of firms tending to infinity does not reflect realty.

In fact, conclusions made by Tsiplakov, correspond to the situation and the modern market model. However it follows from this model that when the number of firms tends to infinity consolidated income of a firm vanishes.
To put it another way, maximum efficiency of the economic system, researched by Tsiplakov, will reach in case the main driver of growth and the origin of firms disappear. It only shows that the analyzed system was excessively far from the reality. Hence, the preposition about the necessity to maximize the number of firms, which is quite fair given the accepted assumptions, cannot be considered as correct one for the real economic system.

At the present time it is strictly established that in the market economies the main part of the GDP (in the USA it is about 80%) is created by private sector (picture 3), i.e. by firms [5]. However, as mentioned above, the number of firms per 1000 people has remained unaffected for the last 130 years. And if we create the trend line for the unit number of firms in the USA starting from the year 1890 instead of 1870 as illustrated in the picture 2, practically the line will be horizontal even with some negative slope. I.e. it will look like since the period when the USA completely industrialized the number of firms per person has not changed in average.

Picture 3: The portion of firms (business) in the USA GDP



Taking into consideration the points of the paper [2] and the assumption that the trend of changes of the unit number of firms in the USA is quite typical, the conducted analysis enables to make the following conclusions.

Firstly, growth of the unit number of firms is typical only for the technologically poor developed countries.

Secondly, growth of unit number of firms itself does not ensure growth of welfare of the population.

Indeed, from 1890 to 2004 population of the USA increased sixfold, welfare of a resident increased by 600%, and the number of firms increased negligibly by only 15%.

In the meantime there were periods, when welfare growth corresponded with reduction of the unit number of firms.

The final conclusion is backed up by comparison of the firms of Russia and USA [5] (Table 1). The table demonstrates that the number of firms per person in Russia is more than in the USA[2] (the amount of Russian population is two times less than that of the USA). And the received value added per firm in Russia in all industries apart from mining, is much lower sometimes even 10 times lower than in the USA.

The conducted analysis, in opinion of the authors, reveals that economic development of civilization, expressed in the growth of welfare of the population, ensures growth of the firm's efficiency. As a result of this conclusion, a significant issue in terms of theory and practice comes about: to find out according to which rules or laws do firms increase their efficiency and such quantitative indicator as the amount of value added.

Practice shows that none of the famous concepts acknowledged as 'theory of a firm' enables to forecast the specific traits and peculiarities of the future firms. The paper [6] contains explanation of this fact and demonstrates that neither classical theories of firms and nor neoinstitutional and others provided sufficiently correct explanation of the reasons of firm emergence and formulated laws of their development.

[2] The paper [5] contains detailed description of the terms of selection of statistic data to get the illustrated result.

Table 1: Number and efficiency of firms in Russia and USA

Industries	Russia				USA			
	Number of firms, thousands	GDP per firm, thousand dollars	GDP in industry, thousand dollars	Firm capacity	Number of firms, thousands	GDP per firm, thousand dollars	GDP in industry, thousand dollars	Firm capacity
Total, in general	**4771**	**516**	**2461836000**	**17335,8**	**5930,1**	**2110,2**	**12513697020**	**41187,2**
Mining	17,2	13365	**229878000**	**1618,76**	21,3	14894,2	**317246460**	**1044,18**
Processing industry	411	1049,6	**431385600**	**3037,74**	293,5	5154	**1512699000**	**4978,86**
Energy, gas and water production and distribution	26	2783,2	**72363200**	**509,568**	5,7	45626,8	**260072760**	**855,996**
Construction	426	356,6	**151911600**	**1069,73**	761,4	818,7	**623358180**	**2051,7**
Wholesale and retail; renovation	1797,6	277,9	**499553040**	**3517,76**	1807,5	866,8	**1566741000**	**5156,73**
Transport and communications	238	958,1	**228027800**	**1605,73**	167,8	2091	**344596800**	**1134,2**
Finance, real estate, rent	876,6	438,9	**384739740**	**2709,27**	537	9029,9	**4849056300**	**15960**
Education, healthcare	240,2	1590	**381918000**	**2689,4**	699,5	16226,8	**11350646600**	**37359,2**

Up to date there have appeared considerable foundation to think that the economical and technological theory of a firm developed at Plekhanov Russian University of Economics widens this issue and formulates fundamental laws of development of firms and their complexes. Verification of the fact of existence and fundamental nature of the laws was fulfill based on three factors:

Firstly, basic reasons behind emergence of laws have not changed over the time of existence of the market economy that is for the last 1.5-2 thousand years.

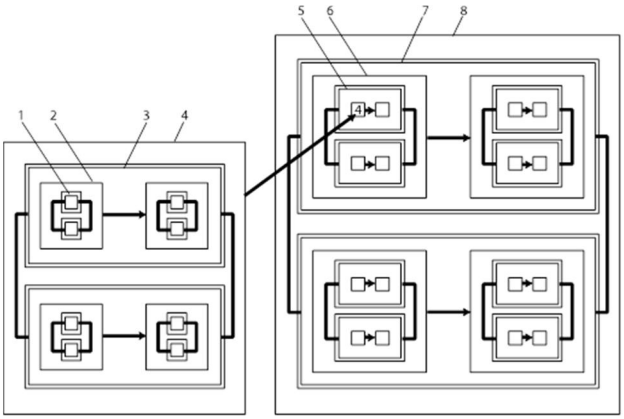
These reasons are human aspiration to maximization of welfare and inclination of the part of the population to creativity. It leads to enhancement of technologies and organizational structure of a firm via optimal and obviously standard methods. Thus there were created prerequisites for emergence of laws of development.

Secondly, the laws are confirmed by a number of facts of their manifestation in the particular period of time.

Thirdly, prediction of the basic trends and peculiarities of firm development for the last 20 years, taking place after formulation f the laws, were backed up by experiments.

Consequently, there is a possibility of grounding the more efficient strategies and methods of management of development of currently operating and future firms in any country of the world.

Picture 4: Change of economic and technological structure and growth of the size of firms in the course of development



1, 2, 3.… 8 – levels of firm development

The outcome of the joint impact of the two laws of firm development is illustrated in the picture 4. The effect of the laws of interchange of the economical and technological structure and growth of the reasonable amount of production leads to changes of the basic structures of the firms in the course of their development and increase in the production and efficiency.

The levels of firm development are indicated in the picture 4 numerically. The chart illustrates interchange of economic and technological structure and geometric growth of the firm scale in the process of development (growth of the firm level).

Maximum level of the firms, set up in the country corresponds with the efficiency of its economics and hence level of the population welfare.
So Russia experienced the stage of complete formation of the 5th level of firms, while the USA is at the 7th level.

Accordingly, the amount of GDP per person is 4-8 times higher in the USA than in Russia, according to different estimations.

The laws of economic and technological development of a firm enable to interpret the fact of continuous growth of the firm efficiency and to anticipate the peculiarities of the future firms. Their applications during the development of the state industrial development policy must dramatically enhance its efficiency [7].

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Taxation of Oil and Gas Production in the Russian Federation: Current Status and Future Forecast

Vadim V. Ponkratov

This article outlines a set of proposals to improve the system of taxation of hydrocarbon production. An appropriate analysis to determine a role of the oil and gas industry in the development of the Russian economy and formation of budget revenues was performed. Also, the description was given to the mineral resources of the industry.

The Russian economy is still largely focused on commodity and energy exports. A share of the fuel and energy complex of Russia's GDP in 2011 was about 32% (oil and gas production generates more than 20% of GDP). In 2011, oil production in Russia amounted to 511.4 million tons, which is 1.23% higher than in 2010 (an increase occurred primarily by entering large oil fields - Vankorskoye, Talakanskoye and Verkhnechonskoye). Oil exports fell by 2.4%, but the income from exports increased from $129 billion to $171.7 billion. In 2011, the total volume of exports from the Russian Federation in terms of value was $516.40 billion, including: crude oil - $171.69 billion, oil - $91.31 billion, natural gas - $58.47 billion[1].Therefore, hydrocarbon and its products constitute 62.3% of exports.

The consolidated budget of the Russian Federation in 2011 received 9,720 billion Rubles, or 26.3% more than in 2010. The formation of the revenue in 2011 was achieved to 83% by the following: income tax - 23% severance tax - 21%, personal income tax - 21%, VAT - 18%. In 2010, the combined share of these taxes was 82%.

In 2011, the consolidated budget of the Russian Federation received severance tax in amount of $2,046.9 billion Rubles, or 45.2% more than in 2010, due to favorable market conditions in the global commodity markets, and, only to a small extent, due to the growth in oil production.

The share of oil and gas revenues in the federal budget in 2005 - 2011 years varies between 27%and 35%, and demonstrates the sensitivity to external factors that determine the world price of oil. This is especially evident in the acute phase of the global financial and economic crisis, particularly in the first half of 2008 – 2009.

The share of the severance tax in the federal budget of Russia is significant but not dominant. It gives a false impression that the budget is not as dependent on hydrocarbon revenues. The situation changes if we add exports duties on oil, petrochemicals and gas to the budget equation. As a reminder, it was excluded from the structure of tax revenue in 2005 and is now considered to be a part of "Foreign Economic Activity." In 2011, crude oil export duty reached 2,332.4 billion rubles, natural gas export duty - 384.4 billion rubles. Export duties on petroleum products brought 936.5 billion rubles to the federal

[1] Federal Customs Service of Russian Federation

budget. During the same period, other export customs duties accounted for 57 billion rubles.

According to the FY2013 Budget Proposal and planning budget for 2014 – 2015, the share of oil and gas revenues for the period is estimated of 47%, which corresponds to the pre-crisis levels and indicates a vital dependence of the budget on the price situation in the markets of hydrocarbons. Taking in consideration rising uncertainty about the market price of hydrocarbons, there is a serious threat to the financial stability of the country and economic growth, in general. It should be noted that in this decade oil commodity pricing varies based on the market changes of financial instruments, and not on the traditional commodities. It makes it practically impossible to project the dynamics of the prices.

Russian Energy Strategy to 2030 envisages a gradual reduction of the share of the oil, gas and energy sector in the gross domestic product [1]. It is believed that rapid development of high-tech technologies, manufacturing, engineering and agriculture will guarantee the achievement of this goal. This sounds to be overly optimistic.

Let us make an analysis of the Russian crude oil and gas reserves. Russian proven oil reserves are estimated at about 10% of the world, after Saudi Arabia, Canada and Iran. Projections for output growth are significant: Russian oil deposits represent more than one third of total in the world, and most proven part of them – projected reserves (C3) - estimated at more than 12 billion tons. Distribution of oil and condensate oil reserves and deposits spreads unevenly in Russia. Nearly two-thirds of the reserves and about half of the resources are concentrated in the West Siberian Basin, one of the largest oil production regions in the world.

In 2011, two-thirds of Russian oil was produced, as before, in West Siberian Basin, mostly in Khanty-Mansiysk. It should be noted that the share and the volume of the Khanty-Mansiysk oil field has been shrinking in recent years. The reason is declining output of aging fields, as many of them are in production for 40 years or more, and also due to applications of limited technologies. Priobskoye is the leader in terms of oil production since 2007. In 2011, it produced 39.3 million tons, or 8% of Russian oil. Samotlor field, which for many years gave the maximum amount of oil, is the second on the list, with 26.3 million tons. Its reserves have been used for more than 70%. Since 2010 Vankor has been playing a significant role, due to rising output since its opening. 12.7 million tons of oil was extracted from its fields in 2011.

Volga-Urals Basin annually supplies about 20% of the total volume of oil produced in the Russian Federation. In 2011, its share was 22.7%, or 110.2 million tons. The largest in Tatarstan Romashkinskoye field continues to play a major role in the production of oil: despite the fact that its reserves have been already used by 88%, it produced 15.2 million tons. The remaining share of production is divided between almost a thousand fields.

Oil exports sharply increased from 2001 to 2004, and then stabilized at the level of 250 million tons. Two reasons can explain the above: maximum output of production and usage of export oil pipeline network to its capacity, as well as a shift towards the export of petroleum products due to the more favorable taxation.

Russia is a world's leader in natural gas production (more than a quarter of the world's volume). Russia holds the world's largest proven natural gas reserves (about a third of the world). Russian Federation is the largest exporter and the consumer (the second after the United States) of natural gas. Natural gas resources of Russia contain 236 trillion m3, including 160 trillionm3 onshore and 76 trillionm3 offshore. As of January 1, 2011, total gas production accounts for 18.2 trillion m3, or 7.24%, of all Russian reserves. Reserves of raw natural gas (including gas, concentrated in the gas deposits of oil and gas condensate fields) of Russia represent 47.2 trillion m3 in categories A + B + C1 and 4.2 trillionm3 of C2. In addition, the associated petroleum gas reserves in categories A + B + C1 are estimated of 1.35 trillionm3 and 0.89 trillionm3of C2. The resources of the reserves in categories C3 + D1 + D2 are projected of 159.9 trillion m3, of which a little-known category (D2)is of 77.2 trillion m3.

The natural gas resources are characterized by a high concentration of proven deposits (about

78% of the total in the country are located in Western Siberia, and 75% within the Yamal-Nenets Autonomous District). The largest proven reserves of raw natural gas (over 72%) are concentrated in 28 unique (with balance reserves of over 500 billion m3) oil fields that provide over 85% of the annual production in the country. Among them 8 fields are supergigantic, with initial extracting reserves of 2 trillion m3 each or more. 118 large (75-500 billion m3) fields contain 22% of proven natural gas reserves of the country. 740 small and medium-sized deposits account for just 6% of proven reserves.

As of January 1, 2011, 69% of Russian gas reserves of categories A + B + C1 (33,1 trillion m3) belongs to Gazprom, 21% (10.1 trillion m3) is owned by independent natural gas producers and vertically integrated oil companies. The remaining gas reserves (4.6 trillion m3, or 10%) are concentrated in undistributed reserves.

About half of the proven natural gas reserves are under development. They are located in the most cost effective and geographically more accessible deposits, in comparison with the untapped reserves. Currently, the West Siberian region provides about 545 - 560 billion m3, or 90%, of the total production. Nadym-Pur-Taz interfluve, which is the main natural gas producing region in the country, contains proven and developed reserves for 16 years. The output of the giant natural gas fields in Western Siberia, providing about 65% of total production - Medvezhy, Urengoy and Yamburg- reached respectively 73.2%, 44.3% and 35.8%. The output mostly declines in these particular fields - about 20 billion m3 per year. Production decreases also in one of the largest Orenburg field, of 0.7 - 1 billion m3. Overall, 84% of natural gas fields shows declining production.

Projections of regional structure of natural gas production to 2030 are as follows:

- in the European part of Russia, due to the development of the Timan-Pechora oil and gas fields and offshore reserves (primarily Stockmanovsky),natural gas production will grow to 131 - 137 billion m3 (in comparison with 46 billionm3 in 2005);
- West Siberia will produce natural gas on the level of 608 - 637 billion m3 due to the development of the Yamal Peninsula and the waters of the Ob and the Taz rivers, to offset declining output of aging fields (Urengoy, Medvezhy, Vyngapurovskoye and Yamburg);
- East Siberia and Far East will supply natural gas production up to 132 - 152 billion m3.

One of the major problems in terms of natural gas resources, which the Russian gas industry will face in the coming years, is the exhaustion of stocks of Cenomanian gas deposits, and as a result, the need for a major shift to the development of gas condensate fields and, consequently, to production of "dry gas".

The economic efficiency of dry gas production out of Cenomanian gas deposits is much lower. Accordingly, with respect to the extraction of dry gas, the tax rate should be revised and lowered in order to maintain the overall economic efficiency of its production.

From the point of view of consumption, all hydrocarbons are identical, and their parameters are regulated by one standard document - State Standard GOST 5542-87 USSR: Natural gas for industrial and household use and its specifications. In terms of tax law, there is no differentiation of the object of taxation according to the types of fields of hydrocarbon raw materials as well as of used technology for their production.

The minimum cost of the gas produced from the new fields, will be no less than $14.00per thousand m3 for the Cenomanian and over $23.00 per thousand m3 in the Lower Cretaceous and Achimov formations. Cost of extraction and transportation to the European part of Russia will grow from $42.00 per thousand m3 in 1997, and $12.00 per thousand m3 in 1998 (down from a sharp devaluation of the ruble) to $48.00 - $50.00 per thousandm3 by 2013 and to $50.00 - $55 per thousand m3 in 2020.

It is the right time to improve the economic attractiveness of the development of gas condensate fields (and most of them are hard to reach and of low profitability), especially through the introduction of tax benefits, in order to

ensure a step-by-step transition to the prevailing production of dry natural gas [2].

Maintaining the achieved production volume of hydrocarbons requires to develop the following:

- new oil and gas fields in the provinces, where there is no descent infrastructure, including off-shores of northern and far eastern seas, the area north of 65 degrees north latitude;
- hard-to-extract oil deposits, including high viscosity oil;
- gas condensate fields of Achim and Valanginian deposits;
- gas fields of shale formations, of low-pressure gas, of sour gas, and also of high helium content.

Here is what we know about the natural resource taxation system of hydrocarbon production in Russian Federation. In addition to general taxes and fees, paid by any company doing business in Russia (income tax, VAT, property tax, etc.), a company that carries mining operations, must pay a number of special taxes. The system of mandatory charges for using mineral resources contains severance tax, and also a number of fees and dues outlined by the Subsoil Law of the Russian Federation. In addition, any export of the extracted minerals is subject to customs duties according to the customs legislation. Special taxation regulations apply to those who signed a production sharing agreement.

Among the others, the following types of extracted mineral resources are listed in Section 2 of Chapter 337 of the Taxation Code of Russia:

- crude oil: dehydrated, desalted and stabilized;
- gas condensate from all types of hydrocarbon fields, which passed a technical field treatment in accordance with the technical specification of the field, before its further processing. In terms of tax legislation, gas condensate processing is the separation of helium, sulfur and other components and impurities, if any, to obtain stable condensate, a wide light-hydrocarbons fraction and its products;
- flammable natural gas (dissolved gas, or a mixture of dissolved gas and gas from a gas cap) from all types of hydrocarbon deposits, produced from the crude oil wells (associated gas);
- flammable natural gas of all types of hydrocarbon resources, with the exception of associated gas.

Zero tax rates apply to the following production:

1. Minerals in the standard losses of minerals;
2. Associated gas;
3. Minerals in the development of downgraded (residual reserves of low quality) or previously written-off mineral resources (except the cases of deterioration of mineral resources as a result of exhaustion of the deposit);
4. Extra-heavy oil extracted from the deposits of crude oil with viscosity of 200 mPa × s (under reservoir conditions);
5. Flammable natural gas (excluding associated gas), pumped into the reservoir to maintain reservoir pressure when producing gas condensate within one area of subsoil, in accordance with the technical specifications of the field development.

Severance Tax rate on hydrocarbons is as follows:

1. 446 rubles (for the period from January 1through December 31, 2012) and 470 rubles (since January 1, 2013) for 1 ton of dehydrated, desalted and stabilized oil. In this case, this tax rate is multiplied by a coefficient characterizing the dynamics of world oil prices, by a factor characterizing the level of exhaustion of a particular area of subsoil, and by a factor characterizing the size of deposits of the specific subsoil;
2. 556 rubles (for the period from January 1 through December 31, 2012), 590 rubles (for the period from January 1 through December, 31 2013), 647 rubles (since January 1, 2014) for 1 ton of gas condensate from all types of hydrocarbon reserves;

3. 509 rubles (for the period from January 1 through December 31, 2012), 582 rubles (for the period from January 1 through December 31, 2013), 622 rubles (since January 1, 2014) for 1000 m3 of gas when producing flammable natural gas, from all types of the hydrocarbon reserves. In this case, the taxation rate is multiplied by a factor of 0.493 (for the period from January1 through December 31, 2012), 0.455 (for the period from January 1 through December 31, 2013), 0.447 (since January 1, 2014), for the taxpayers, who are not a direct or indirect owner of production sites of the Unified Gas Supply System of Russia[3].

On May 3, 2012 the Russian government has approved an increase of severance tax for natural gas industry. These changes will gradually reduce the tax advantage of Gazprom over independent oil and natural gas companies. Since the second half of 2015 severance tax for the monopoly of Gazprom would be 1,062.00 rubles per 1,000 m3 of gas, for independent market players - up to 1,049.00 rubles.

The government estimates that severance tax for Gazprom in the first half of 2013 would be 582.00 rubles per 1,000 m3 of gas, in the second half – 679.00 rubles, in the first half of 2014 – 717.00 rubles, in the second half of 2014 – 859.00 rubles, in the first half of 2015 – 886.00 rubles, in the second half of same year– 1,062.00 rubles. For other companies the rates will be as follows, per 1,000 m3 of natural gas: the first half of 2013 – 265.00 rubles, the second – 445.00 rubles, the first half of 2014 – 456.00 rubles, the second half of 2014– 726.00 rubles, the first half of 2015 – 726.00 rubles, the second half of 2015 – 1,049.00 rubles. (Fig. 1).

Based on the calculations by the Ministry of Finance, the new severance tax rates on gas will provide over 440 billion rubles in additional revenues to the federal funds. In 2013, the budget will add 36 billion rubles in revenues, in 2014 - 134.3 billion rubles, and in 2015 - 270.3 billion rubles. Starting July 1, the gas tariff rates will be indexed annually, approximately 15%. It is also expected to repeal credits for property taxes for the transportation infrastructure, as well as to increase tariffs rates for pumping natural gas and for inflation.

The main outcome of the reform of the Russian system of taxation of oil and gas companies over the past decade is to intensify redistribution of an income from the production of hydrocarbons in favor of the federal budget. According to the experts of RBC, for the period from 1999 to 2011, the tax revenue from oil companies earnings increased from 20% to 55%, tax revenue from profits of oil companies went up from 32% to 81%. At $ 70.00 a barrel of Urals oil, the federal budget receives about 65% of revenue only in the form of severance tax and export duties, in addition to other taxes. When the price of a barrel of oil goes up from $ 30.00 to $90.00, after an oil company pays export duties and severance tax, the remaining portion of its revenue increases by only $ 7.8 per barrel (from $ 19.5 to $ 27.3).

A tax burden (the share of taxes in revenue) for the gas sector companies is 29 - 36%. Profitability of their business is about 17 - 21%. Analysis of the current system of the state regulation of the gas industry in Russia allowed to come to a conclusion that, as of today, the state uses a unique alternative mechanism to remove differential subsoil rent: under the state regulated gas prices (in comparison with the prices in the emerging independent segment of Russian gas, the market shows the difference of 40 - 60%, not including the structural imbalances in the consumption of primary energy), the state simply does not allow a formation of a rent in significant size, as it is being transferred to the gas consuming industries.

Severance tax is sharply featured by its dominant fiscal function. Up to a point, a higher tax component in the revenues of oil and gas companies should be considered as an attempt by the state to take away resource rents appeared by any company producing hydrocarbons. Using revenue from rent, it is necessary to create an impulse of development of the national economy, for its expansion, away from the narrow specialization of fuel and raw materials in the international division of labor. Many oil and gas companies in Russia have been operating in the low profitable fields. It increases

the cost of production, in terms of flat rate approach to collect payments, and does not ensure production growth and efficiency, and, therefore, leads to a reduction in tax collection.

Revision of applying of resource rents should not undermine the competitiveness of oil and gas industries. The interests of the government and business should be well balanced. It is in the interests of the country to attract investments in order to add value to the economy from its natural resources. A partial reinvestment of resource rents by the industries is a long term goal of the government and the business.

In my opinion, federal income taxation of oil and gas production can be based on the following:

1. Corporate income tax. It is a basic tax of the Russian taxation system, paid by any company (unless it operates under special taxation regulations) when net income is taxed. We should consider introducing tax credits applicable to aging deposits. Developed countries have actively used this mechanism in order to maintain profitability and to reduce corporate income tax in certain sectors of oil and gas industry.
2. Export duties. When selling hydrocarbons abroad, a company generates an additional income due to a significant difference between domestic and world prices for oil and gas. It is necessary to extend the upper limit of the interval of the world price of oil in the formula defined in section 4 of Chapter 3 of the Customs Tariff Law, adding more intervals of variation: for example price ranges from $182.5 to $290.00per ton, from $290.00 to $450.00 per ton, from $450.00 to $600.00 per ton and more than $600.00 per ton. This will allow the current arrangements to work more effectively under the existing and projected medium-term levels of world oil prices - about $75.00 a barrel ($546.00 per ton), and also to reduce the effect of flattening the trend of increasing the share of customs duties in the export price. [4] At the world price of oil $546 per ton, using the above proposal will allow to collect export duties on oil in amount of $302.00 per ton that accounts for 52.4% of the export price of oil. Under the currently used method of determining the export duty, its value is $268.00 per ton, or 48.74% of the export price. Therefore, the state will receive an additional revenue in amount of $34.00per ton or $8.4 billion (in total exports at the level of 2011).
3. The system of payments, defined in Subsoil Law - rentals. In my opinion, the system should be supplemented by a payment for the right to extract the minerals, taking into account geological, technical and economic criteria for field development. As an option, to significantly enhance the efficiency of evaluation and collection of rental income through the mechanism of granting licenses for the right to extract minerals.
4. Severance Tax. Severance tax should be a royalty. It means a payment to the owner of the resource for use of this resource - in our case it is oil from the deposits of the Russian Federation. By economic terms it is a royalty, and not a tax, due to its certain compensatory nature. It is necessary to drop currently existing binding to the world oil prices. In this case, the basic rate of the severance tax should go up, and the mechanism of export duty on crude oil and its products should be of higher fiscal efficiency. It should be noted that it can hurt the industry if oil prices drop sharply and will require urgent actions from the government and the legislators. The current economic situation corresponds to severance tax rate in the range of 2,800 – 3,300 rubles per ton of extracted oil. It is necessary to expand credits in respect of production of hard-to-extract deposits of oil.

It is important to differentiate the taxation of natural gas through mechanisms similar to ones applied earlier when differentiating severance tax on oil production. The first step of this procedure can be an application of tax credits (or special tax rate) for developing of new deposits which lack the necessary infrastructure - such as Yamal and

a number of the Eastern Siberia - Krasnoyarsk, Irkutsk region, as well as off-shores of the northern and Far Eastern seas.

The second stage of differentiation of severance tax on natural gas can be an introduction of the following corrections to the severance tax rate:

- a coefficient that characterizes level of aging of gas deposit in a specific site of the subsoil;
- a coefficient characterizing distance from the field of transport infrastructure and local consumers;
- a coefficient characterizing the composition of the produced hydrocarbons and takes into account non-hydrocarbon impurities in the produced raw materials - such as helium, and sulfur;
- a coefficient characterizing the depth of a particular subsoil.
-

So, the formula determining the severance tax rate on natural gas in 2012 will be as follows: severance tax on gas = 509 × coefficient of aging of the deposit × coefficient of the distance × coefficient of the composition × coefficient of the depth of the subsoil.

When finding the coefficient characterizing the depth of the particular subsoil, beware that the cost of gas production and its cleaning according to the requirements of GOST, Cenomanian gas and dry gas differ by 1.6 - 1.9 times. To produce oil at a depth of over 1,900 meters, severance tax rate can be reduced by 1.67 times for gas production from the deposits of 1,900 m deep (the coefficient characterizing the depth of the particular subsoil is taken to be 0.6). Starting January 2011, a gradual increase in the basic rate of severance tax on natural gas will prevent falling revenues. [5]

The outlined proposals will allow better distribution of the taxation share within the oil and gas industry, bringing closer together the economic efficiency of hydrocarbon production in different types of fields.

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LbD in Practice

Learning by Developing – A Pedagogical Innovation by Laurea

Learning by Developing (LbD) means a development-based learning. It is a new way to obtain the competences required in working life. A student's learning is based on development work, research, people skills and producing new knowledge. In LbD, the student is considered as the junior colleague of the expert from the collaborating organization and of the educator. Students will complete the majority of their studies in working life relating projects. Many of these projects are multidisciplinary. The projects can combine, for example, aspects of the welfare and business sector. Laurea R&D Labs as learning environments constitute a special feature of the LbD-model.

The Finnish Higher Education Evaluation Council appointed Laurea in its entirety as a Centre of Excellence for 2010-2012 for student-centred R&D work integrated in learning. Laurea has been appointed as a centre of excellence five times, and is thus Finland´s most awarded higher education instutions.

Achieving a More Developed Simulation Pedagogy in Nursing Through Student Feedback

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Abstract

The article discusses the pedagogical arrangements of simulation-based learning at the Hyvinkää unit of Laurea University of Applied Sciences. Student feedback has influenced the development of new ways of integrating simulation training more efficiently into the nursing curriculum. Both the flow of simulation experienced and observed by the facilitators and satisfaction expressed by students has been improved due to reforms based on feedback. Abilities to respond sensitively and to create relevant solutions are required in implementing simulation training successfully. Simulation-based learning that has been integrated into the curriculum can be expanded outside of the simulation centers and in to multi-professional situations.

Keywords

Nursing training, simulation-based learning, feedback, simulation, University of Applied Sciences

Achieving a more developed simulation pedagogy in nursing through student feedback

Simulation-based training has been a part of teaching in various fields for decades. Highly developed patient simulators have been a part of everyday life in nursing training since the turn of the millennium (Hovancsek 2007, 2). The concept of a simulator and the presentation of the simulation method are not sufficient motivators for simulation-based training and do not guarantee the quality of teaching. Therefore critical evaluations of teaching and determined development of practices are required. Simulation-based training must support the students when applying their learned skills in practical clinical nursing situations.

The practice of simulation-based training in nursing is based on the training of pilots. Many points of view meet in a simulation-based training: simulation is thought of as a fully rounded teaching method and learning experience. It requires thorough planning of teaching and goal setting, choosing the correct purpose and level of simulation, the pedagogical foundation work of

other teaching methods, and the correct allocation of teaching tasks between the instructors in charge of a simulation. (This characterization is based, as well as on literature, also on discussions with simulation instructor Veli-Matti Heinijoki.)

According to Rogers (2003, 172-173), we can refer to the awareness of knowledge, how to knowledge, and principles-knowledge. In our view, the pedagogy of patient simulation is facing the challenge of profound understanding of principles, for example in the practical application of multi-professional simulation training. (STM 2012, 18).
In patient simulation the nature of simulation in reference to the subject is different from the simulation of a technical system: the simulation is produced with the features of an information system, but the subject is a certain aspect of a person's life, in the end simplified in to a group of relevant variables (Maars & Lowry 2006, 44–50). "Finding the human patient behind the simulation" in simulation-based training in nursing produces pedagogical challenges for both the instructor and the student. On the other hand, just like aviation, nursing is an area of significant risks. (DeBourgh 2011; Nishisaki etc. 2007.)

The utilization of student feedback in Laurea

The systematic collection student feedback from simulation-based training began at Laurea University of Applied Sciences in 2009. The feedback has been used to understand the students' experiences of simulation-based training and its impact in professional development.

The system of feedback uses a data collection form that includes both structured and open-ended questions (Jokela 2011). A feedback form is collected after the debriefing of each simulation (McDonnell etc. 1997). The feedback form has had its current structure since the spring term of 2010.

The feedback forms are collected daily, for the purpose of fine-tuning the simulations, for example the timetable of the simulation is changed if required. At the end of each term, the feedback is analyzed and any changes required are made to the processes and practical arrangements. The way the feedback is used takes into account both the outcomes of the simulations and the development of the simulation processes.

The feedback is discussed at the simulation team's meetings and the material is available to the teaching staff via our internal internet. A summary of all the feedback received is written at the end of each term.

The instructors observe the students and their actions during simulations, and based on these observations, give the students feedback during debriefing at the end of the simulation. Learning from debriefing is not based on passive listening, but the students actively take part in the debriefing discussion and are able to process their learning experience (McDonnell etc. 1997).

Based on the feedback received, the following changes have been made to simulation-based training: 1. simulation orientation days for first year students, 2. orientation at the beginning of a simulation day and 3. intensive training for second year students. These will be looked at in finer detail next.

Simulation orientation days for first year students

In the past, first year students took part in their first 4 hour simulation without having previously been introduced to the simulation environment. This practice proved problematic, as the students did not grasp the idea of simulation-based training; activities and communications within the group were difficult. The students were also nervous of how the simulation was going to proceed, and of the fact that they were being recorded, these factors undermined both the individuals' and the whole group's performance (Toivonen etc. 2012, 20). An individual's orientation to the simulation and their performance showed significant differences.

As of autumn term 2012, the students have been familiarized with the running of the simulation center and simulation pedagogy in small scale simulations in workshops, where both low- and high-level simulators are used. In the workshops, the students get to experience for example an intravenous arm and a full-scale patient simulator. The students are able to orient themselves with

what to expect at the simulation and also to how authentic the simulation situation is. The orientation is two days long.

After the orientation the simulation training continues with small-scale simulations in workshops. At this stage the students practice isolated nursing skills in separate training modules, where internet-based learning and interactive applications such as the Flash-application (Bigeminy Oy) for interpreting ECGs are used. The support and feedback received by the students is plentiful and immediate and the learning emphasis is on isolated skills (Spouse 1998). Later on, the emphasis on the students' own decisions and reflections increases, and therefore the need for the instructor's support decreases.

The purposeful aim of simulation-based training is the students' professional growth: simulation is a fully-rounded situation, where, as well as clinical skills, handling of social situations and professional behavior are learned; the simulation center is a reflection of the workplace, where skills for the working life are developed.

Orientation at the beginning of a simulation day

Every simulation day begins with an orientation lesson that prepares the group for the day's activities. The way the patient simulator functions and the limitations of the simulation are revisited, and the students are familiarized with the simulation space and the equipment. Time for individual familiarization is also factored in.

The social customs of a simulation, trust issues, timetables and the aims of the simulation are recapped, and simulation groups are formed. Any potential problems and any questions that arise are discussed prior to the commencement of the simulation.

Intensive training for second year students

In the past, the simulation training that took place during the internal and surgical medicine study module was limited to just one simulation, and it did not have a permanent slot in the study module. Theory lessons were scattered throughout the semester. The students were finding it hard to piece everything together. The potentially weak theoretical basis was adding to the insecure feelings and nervousness experienced by the students during the simulation.

As a solution, a system was developed, where each group of students takes part in a week-long intensive training period. The students are familiarized with simulation-based training by combining independent study, theory lessons, workshops and simulations. This arrangement allows for the training to be adapted according the needs of the students and the observations of the instructors. These developments have introduced unique flexibility and the ability to react to the simulation process.

The group's needs are taken in to consideration in the execution of the simulation day; if needed, more personnel and other resources are utilized.

Information on the needs of the individual students and the group as a whole is gained during the pre-simulation orientation and also during debriefing. Based on this information different aspects can be included in the simulation day, such as the practicing of isolated skills or recapping of theory. When the group encounters a problematic situation during the simulation, the instructors supports the solving of this problem by talking the group through the situation (Spouse 1998, 263).

The planning and the execution of the simulation day is made more difficult by breakdowns in communications and the co-ordination of the timings of the curriculum: some students may lack the theory or the technical skills required for a successful simulation.

Summary

This article has discussed the development of practical pedagogical arrangements of simulation-based learning at Laurea University of Applied Sciences, based on student feedback and the experiences of the simulation instructors. The process of writing this article is an example of collaboration between content specialists and information management specialists: the skills of a freelance information specialists and outside views

were utilized in the gathering and arranging of information (see Turnbull etc. 2011).

The use of simulations has reached a stage where, as well as ensuring the smooth running of simulations, we can now also concentrate on developing new pedagogical models, for example for multi-professional efforts.

The simulation center in Laurea is a reflection of the workplace, where real life working practices are learned; simulation-based learning does not concentrate only on caring for the patient, but also on how to behave in the working environment and how to grow professionally. Simulation orientation and debriefing serve self-directing, professional information gathering and reflection (Clapper 2010, 13).

Theoretical and workshop-based teaching can be seen as areas of development in simulation-based teaching. It is possible to keep simulations as a separate entity from other teaching methods, but this is not a fruitful situation, although it can be justified by timetabling and other organizational reasons.

It has been found that the specialist teacher responsible for the student group's theoretical learning taking part in the planning, execution and evaluation of the simulation has improved the learning experience and the running of the simulation exercise. The importance of the specialist teacher is based on their more personal relationship with the students and on the teacher's ability to support the simulation exercise with their specialist knowledge, therefore strengthening the learning experience (STM 2012, 16). A personal relationship with the students is also needed in the successful solving of any problems between the students.

During a simulation, situations arise regarding specialized areas of nursing, the specialist teacher supports the handling and debriefing of these situations. Areas of such expertise are, for example, mental health, substance abuse and public health. From the teacher's perspective, taking part in simulations offers a direct feedback of the students' skills and therefore allows the teacher to develop their own teaching methods.

The challenges and opportunities of simulation-based training

The risks and threats of simulation-based training can arise from simulation technology, the simulation environment, the content and execution of teaching and how the simulation is experienced.

After a contact with a real patient, simulation is the most authentic method of learning in nursing. Taking part in a simulation and the following debriefing bring out feelings, one's previous experiences, and fears of performance. The instructors must take these views in to account (Stafford 2005).

The students need to be given the chance to get used to the simulation environment independently and as a team before the training commences, otherwise orientation can still present problems when the content of the simulation should be the focus. One of the aspects of orientation is the development of realistic development of expectations: simulation is not a copy of reality, but rather a practice environment that contains the essentials, to which the participants of the simulation are appropriately orientated.

For the simulation instructors, and the teachers working with them, one area of activity development arises from acknowledging and observing the practical theory behind their teaching. Through the observation and application of practical theory, the teacher or instructor can open up and talk through the beliefs, schematics and routines guiding their actions. (Aaltonen & Pitkäniemi 2002.)

An important direction in the development of simulation-based training is in expanding activities to the outside of the simulation center. Simulations can become a part of everyday theoretical teaching, by paying particular attention to bringing theory to life through simulation, and also by using other teaching methods to enhance the simulation exercises. The patient simulator environment also offers opportunities in learning and adopting multi-professional practices (STM 2012, 18).

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