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Cell: 01719398694, 01746844868, 01771564049

E-mail: [mojibur101092@gmail.com](mailto:mojibur101092@gmail.com)

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**With thanks,**

**Editor in chief**

**Barishal University Journal of Business Studies**

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# **Determinants of the Profitability of the Commercial Banks in Bangladesh**

**Papi Halder\***

## ***ABSTRACT***

*The aim of this study is to find out the bank-specific determinants of the profitability of the commercial banks in Bangladesh based on sample data of 20 private commercial banks over the period of 2010-2017. Various econometric tools and pooled ordinary least square (OLS) method have been used to analyze descriptive statistics, correlations and regression among the independent variables (capital adequacy, asset quality, management efficiency, liquidity management, bank size and growth of total deposit) and dependent variables (return on asset (ROA), return on equity (ROE) and net interest margin (NIM)). The result reveals that management efficiency, liquidity management, bank size and growth of total deposits have significant positive effect on ROA, while capital adequacy has significant negative effect on ROA. In the model for ROE, management efficiency, bank size and growth of total deposits have significant positive effect while asset quality and capital adequacy have significant negative effect. The bank size has significant positive effect on NIM while asset quality has significant negative effect on NIM. So, there is a significant relationship between the profitability measures of ROA, ROE and NIM and the determinants of the profitability of the banks. The findings of this study will help the management of the banks measure the bank performance and take appropriate decisions accordingly.*

\*Lecturer, Department of Finance and Banking, University of Barishal.



## 1. Introduction

Commercial banks play a key role in properly guiding and maintaining the economic development of a country through the proper and effective utilization of financial resources. The economic development of any country depends much on the performance of the commercial banks and their ability to make profit from financial activities. They borrow funds from the surplus unit, extend loan to the deficit unit and make the funds available for the investors for better productive investment purposes— which ultimately leads to the development of the country's economy. This, in turn, they encourage investment and mobilize capital. Therefore, banks need to be profitable to strengthen their financial ability and make contribution to the country's economic development.

The profitability is one of the main ways to determine the performance of the commercial banks. It is essential to evaluate the performance of the banks through profitability so that the depositors and investors as well as bank management can get information about how efficiently the banks use their assets, liabilities, revenues and expenses (Echekoba et.al, 2014). In Bangladesh, the commercial banks are a major part of the financial system. So, any failure of the commercial banks may directly and indirectly affect the country's overall financial system. On the other hand, the strength of the financial system depends on the banks' profitability which is associated with some factors. This study tried to identify these factors that affect the banks' profitability.

Bank performance or profitability is evaluated through financial ratios which are based on CAMEL and other bank-specific factors. CAMEL is an international bank rating system which was first introduced in 1979 and in Bangladesh; CAMEL became CAMELS with an addition of new component (sensitivity to market risk) in the year 2006. The CAMELS framework aims to categorize the key determinants of the financial performance of the commercial banks which are capital adequacy, asset quality, Management efficiency, earnings, liquidity and sensitivity to market risk. The five components of CAMELS have been used for evaluating the bank performance in Bangladesh. In this study, four ratios of CAMELS and two financial ratios have been considered as bank-specific factors to identify the bank-specific determinants of bank profitability. Different studies have been undertaken to evaluate the performance of banks taking into consideration the changes in banking policies. This study has been taken up to find

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out how the bank-specific determinants affect the profitability of the commercial banks in Bangladesh.

The rest of this paper is organized as follows: Section 2 gives a discussion on literature review. The objectives of the study have been described in Section 3. The Section 4 provides a description of the data and methodology used and applied in this study. The results have been discussed in the Section 5. The final section focuses on conclusion.

### **2. Literature Review**

There are many empirical studies in determining the banks' profitability although most of the studies on the determinants of bank profitability were conducted in view of the some developing countries like China, Pakistan and India. In Bangladesh, most of the studies were conducted on the basis of micro and macro-economic factors. There are a few numbers of studies on the basis of only bank-specific factors. This study has been taken up to verify the bank-specific factors and how the bank-specific determinants impact the profitability of selected commercial banks in Bangladesh. The empirical studies and findings are given as follows:

Gupta (2014) carried out his own study verifying the financial soundness of 26 public sector banks based on CAMEL approach for a five year period from 2009 to 2013 in India. It found a significant difference among overall performance of public sector banks applying the F-test and one way ANOVA test and provided a suggestion to least ranking banks to improve their performance.

Rahman et al. (2015) showed that how the commercial banks' profitability in Bangladesh is affected by bank-specific determinants — capital strength, credit risk, ownership structure, bank size, non-interest income, cost efficiency, off-balance sheet activities, liquidity and macroeconomic determinants — gross domestic products, inflation. They used three measure of profitability — ROA, ROE and net interest margin. They identified the positive impact on profitability with capital strength and loan intensity as well as negative impact on profitability with cost efficiency and off-balance sheet activities.

Gul et al. (2011) tried to find out the relationship between bank-specific and macro-economic characteristics on bank profitability. In their empirical results, they found strong evidence that

individual bank characteristics (both internal and external factors) have a strong influence on the profitability. The banks which have more equity capital, total assets, loans, deposits and macro factors i.e., economic growth, inflation and stock market capitalization are supposed to have more safety and such an advantage can be translated into higher profitability.

Muhammad and Siddiqui (2011) investigated the profitability differences and determinants of the commercial banks operating in Pakistan. They analyzed the influence of macroeconomic indicators (inflation and GDP) on foreign and domestic banking sector of Pakistan. Citing the study, they also found that locally controlled commercial banks in Pakistan were more profitable than that of the foreign controlled commercial banks as far as the volume of the profit is concerned which is reflected in their earnings per share but the foreign controlled commercial banks in Pakistan are more capital efficient in comparison to the locally controlled commercial banks subject to few exceptions.

A study has been recently conducted by Rahman and Islam (2019) to examine the impact of corporate governance practices on bank performance using econometric model and pooled ordinary least square regression analysis. They have concluded that there is a positive significant relationship between corporate governance and bank performance in Bangladesh.

Ahsan (2016) examined the financial performance of selected three Islamic banks in Bangladesh between the period 2007 and 2014. It was substantiated from this study that all the banks are in a strong position based on the parameter of CAMEL rating framework.

Singh and Pawan (2016) analyzed the financial performance scenario of private sector banks in India for the time period of 2011-2016. The banks' financial performance and soundness were evaluated by using CAMEL methodology. The results indicate that the overall performance of the selected banks in India is good on the basis of the parameters of CAMEL rating framework.

In determining the Chinese banks' performance between 1999 and 2006, Heffernan and Fu (2008) used Economic Value Added (EVA) and net interest margin (NIM) as a proxy of operational efficiency and ROAE and ROAA as profitability indicators and the result found a

## **Determinants of the Profitability of the Commercial Banks in Bangladesh**

negative relationship between operational efficiency and bank performance. It was found that economic value added and the net interest margin do better than ROAE and ROAA.

Keovongvichith (2012) analyzed the financial performance of the banking industry in Laos using key financial indicators and CAMEL framework. According to his study, Laotian commercial banks were found to be financially improved with satisfactory level of capital adequacy, good quality assets, better management efficiency, enhanced profitability and adequate liquidity.

Based on an unbalanced bank level panel data set of the period 1992-2003 which is marked as a time of significant reform in the Korean financial sector, Sufian, F. (2011) scrutinized the profitability of the banks operating in Korea while controlling a lot of macroeconomic determinants. The banks with lower liquidity levels in Korea attempt to exhibit higher profitability. As per the research findings, the industry concentration of the national banking system has a positive and significant effect on bank performance.

Flamini et al. (2009) analyzed the profitability of 389 banks in Sub-Saharan Africa (SSA) on the basis of ROA measure and according to the research result, ROA proved to be worked very well in determining the banks' profitability. They also concluded that high bank profit leads to the strong financial stability in SSA.

Birindelli and Ferretti (2015) analyzed how company-level factors size, revenue diversification, efficiency, credit portfolio, level and structure of capital, and funding affect banks' profitability. ROAA and ROAE are the measure of profitability in this study. This study shows that good efficiency, a low percentage of net loans over total assets, a high growth of gross loans raise bank profitability. On the contrary, bank size and funding indicators negatively affect the banks' profitability.

Alemayehu (2018) found significant impact of asset quality, management efficiency, earnings and liquidity on the banks' profitability where capital adequacy do not significantly affect profitability.

Echekobaet. al (2014) carried out a research which intended to find out the determinants of banks' profitability based on CAMEL model. The study pertained to positive significant effect

of liquidity on banks' profitability whereas capital adequacy, assets quality, management efficiency, earning have insignificant impact on banks profitability.

Ongore and Kusa (2013) conducted an experiment on the impact of bank specific factors, macroeconomic factors as well as moderating role of ownership identity on financial performance of the commercial banks in Kenya. In this study, bank-specific factors were capital adequacy, asset quality, management efficiency and liquidity. Macroeconomic factors were GDP growth and inflation and profitability measures are ROA, ROE and Net Interest Margin (NIM). The study found the significant effect of bank-specific factors on financial performance whereas the macroeconomic effects were found to be inconclusive.

Based on an unbalanced bank level panel data set of the period 1992-2003 which is marked as a time of significant reform in the Korean financial sector, Sufian, F. (2011) analyzed the profitability of the banks operating in Korea while controlling a lot of macroeconomic determinants. The banks with lower liquidity levels in Korea attempt to exhibit higher profitability. As per the research findings, the industry concentration of the national banking system has a positive and significant effect on bank performance.

Ferrouhi (2014) measured the capital adequacy, asset quality, management, earnings and liquidity of Moroccan financial institutions using various financial ratios over the period of 2001-2011 to identify the various ranking of banks.

Ramadan et al. (2011) found the individual effects on the banks' profitability by using the rates of ROA and ROE of 10 banks for the period of 2001-2010. They mentioned that Jordanian banks' profitability was significantly influenced by the bank-specific factors.

The study of Berger (1995) highlighted the relationship between bank capital ratio and ROE for the US banks considering the 1983-89 time period and found positive relationship between these two variables.

Kaur et al. (2015) used CAMEL approach to measure the financial performance of five public sector banks of India during the period of 2009 to 2014. The results found that Bank of Baroda

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was leading in all CAMEL parameters followed by Punjab National Bank in Capital Adequacy, Management Efficiency and Earning Capacity, and Bank of India in Asset Quality.

Vong and Chan (2009) evaluated the influence of macroeconomic and financial structure variables on the banks' profitability in Macao. As per the research findings, capital strength of the banks leads to higher profitability with low risk although banks with loan-loss provision negatively affect the banks' profitability. Inflation rate as macroeconomic variable has significant influence on the banks' performance.

### **2.1 Bank Performance Indicators**

There are various ratios to measure the profitability of commercial banks of which ROA and ROE are the best ones.

#### **ROA:**

ROA is an indicator of banks' profitability which indicates how profitable a bank is in contrast to its total assets. ROA is defined as a ratio of income to its total asset (Khrawish, 2011). ROA reflects the ability of a bank's management to generate profits from the bank's assets. It gives investors the information about how efficient the management of a bank is using its resources to generate income. The higher the ROA, the better the company is earning by using its resources (Wen, 2010).

#### **ROE:**

ROE is another yardstick of banks' profitability. It indicates how much profit a bank earns in contrast to the total amount of shareholders' equity. The higher the ROE, the better the company is generating profit (Khrawish, 2011). ROE is calculated by dividing net income after tax by shareholders' equity

#### **NIM:**

NIM is one of the key dimensions of bank profitability which indicates the cost of bank intermediation services and the efficiency of the bank. The higher the net interest margin, the higher the bank's profit and the more stable the bank is (Khrawish, 2011).

## 2.2 Bank Specific Factors

Researchers use CAMELS model and various financial ratios to proxy the bank specific factors. (Dang, 2011) Bank-specific factors are those factors within the bank which influence the banks' profitability. CAMELS framework stands for capital adequacy, asset quality, management efficiency, earning ability, liquidity and sensitivity to market risk. Of these six ratios, four ratios have been selected. Bank size and growth of total deposits have also been considered along with CAMELS ratios as bank-specific factors to conduct the study. The discussion of these selected six bank-specific factors is given below:

### Capital Adequacy

Capital adequacy is the bank's available capital which is used to maintain the efficiency and stability of the financial system when financial distress occurs. It indicates the bank's internal strength and affects its profitability. It is expressed as a ratio which is calculated by dividing a bank's capital by its risk weighted assets. In this study, capital to total assets ratio has been used in calculating capital adequacy ratio (CAR) due to the analysis difficulty. The banks which have high capital adequacy ratio are considered to be safe and capable of meeting their financial obligations. So, higher the bank capital, lesser the chance of financial distress (Diamond, 2000).

### Asset Quality

Asset quality represents a bank's loan quality. Loan quality indicates the quality of the bank's assets which give earnings to the bank and consequently influence the bank's profitability. If the quality of loan is bad, there is a higher possibility of being NPL with no return. The asset quality ratio is calculated by dividing NPL to its total loans and advances. High level of NPL decreases the earnings of the commercial banks. So, the banks should try to keep their NPL ratio up to the acceptable level to maintain good profitability. Lower the asset quality ratio, better the bank performance (Sangmi and Nazir, 2010).

### Management Efficiency

Management efficiency refers to the bank management's capability to manage lower operating expenses to generate maximum profit. It is the most important factor which affects the banks' profitability. This ratio is calculated by dividing operating profit to total operating revenue. The higher the management efficiency ratio, the more the bank is able to generate profit efficiently

## **Determinants of the Profitability of the Commercial Banks in Bangladesh**

with its minor operating expenses. So, high operating profit leads to the maximum profitability of the banks.

### **Liquidity Management**

Liquidity refers to the ability of a bank to convert its asset into cash with short-term liabilities to meet up liquidity requirements or day to day operations. Adequate liquidity positively affects the banks' profitability (Dang, 2011). There are various financial ratios to measure liquidity but the most common liquidity ratio is total loan to total deposits. Liquidity management ratio is the most important yardstick to evaluate liquidity risk exposure. Higher the liquidity ratio, more the bank is liquid and better the ability to pay off its outstanding debts.

### **Bank Size**

Bank size (SIZE) is considered as an essential determinant of bank profitability. The SIZE is measured as the natural logarithms of total assets. This ratio represents the ownership of assets by banks. High asset ownership enables banks to offer more financial services at comparatively lower cost.

### **Growth rate of total deposit**

Deposits are the main source of the fund of the banks. Deposits are the lowest cost of funds. The more deposits are transformed into loans, the higher the interest margin and profit. Banks are always willing to enlarge its market share of deposit in the deposit market with the intention of expanding its loan operation. The impact of growth in deposit may or may not ensure the bank profitability. To see the effect of growth in deposit on profitability, this variable has been included in this study.

## **3. Objectives of the Study**

This research study has six independent variables namely capital adequacy, asset quality, management efficiency, liquidity management, bank size and growth of total deposit and three dependent variables i.e. ROA, ROE and NIM. The objectives of the study are following:

- i. To find out the relationship between independent variables (capital adequacy, asset quality, management efficiency, liquidity management, bank size and growth of total deposit) and dependent variables (ROA, ROE and NIM )



- ii. To see to what extent the bank-specific determinants affect the profitability of the commercial banks in Bangladesh.
- iii. To determine how each bank-specific determinant affects each profitability ratio independently.

**Research Hypothesis:**

Based on the objectives, the study tries to test the following hypotheses:

. H<sub>1</sub>: There is a positive relationship between asset quality ratio and profitability of the banks.

H<sub>2</sub>: There is a positive relationship between capital adequacy ratio and profitability of the banks.

H<sub>3</sub>: There is a positive relationship between liquidity efficiency ratio and profitability of the banks.

H<sub>4</sub>: There is a positive relationship between management efficiency ratio and profitability of the banks.

H<sub>5</sub>: There is a positive relationship between bank size and profitability of the banks.

H<sub>6</sub>: There is a positive relationship between growth of total deposits and profitability of the banks.

## Determinants of the Profitability of the Commercial Banks in Bangladesh

### 4. Research Methodology:

#### 4.1 Data and Sampling

In this research, bank-specific data have been collected from the annual reports of 20 private commercial banks. To find out the impact of bank-specific factors on the profitability of private commercial banks in Bangladesh, 160 secondary observations have been taken covering the database from 2010 to 2017. Panel data have been used to determine the performance of the banking companies in Bangladesh.

#### 4.2 Econometric Model and Variables Specification

Multiple linear regression (MLR) Model has been applied on panel data with pooled Ordinary Least Square (OLS) estimator. Descriptive statistics, correlation matrix and pooled OLS regression output have been used to analyze the data. The regression equation model that has been used in this study:

$$r_{it}(\text{ROA, ROE, NIM}) = \alpha_i + \beta_1 \text{AQ}_{it} + \beta_2 \text{CA}_{it} + \beta_3 \text{LM}_{it} + \beta_4 \text{ME}_{it} + \beta_5 \text{BS}_{it} + \beta_6 \text{DP}_{it} + e_{it}$$

Where,

$\alpha$  = constant;

$\beta_1$  to  $\beta_6$  = Coefficient of determinants of independent variables;

$i$  (banks number) = 1.....20;

$t$  (time-interval) = 1.....8;

$e$  = residual component (error term)

The independent variables that have been considered to identify the financial performance of the commercial banks in Bangladesh are given below:

- $\text{CA}_{it}$  = Capital Adequacy of bank  $i$  at time  $t$
- $\text{AQ}_{it}$  = Asset quality of bank  $i$  at time  $t$
- $\text{ME}_{it}$  = Management efficiency of bank  $i$  at time  $t$
- $\text{LM}_{it}$  = Liquidity of bank  $i$  at time  $t$
- $\text{BS}_{it}$  = Natural logarithm of total assets of bank  $i$  at time  $t$
- $\text{DP}_{it}$  = Annual growth rate of total deposits of bank  $i$  at time  $t$

This research considers that bank performance which is measured by ROA, ROE and NIM are dependent on bank-specific variables. Definition of each variable is given below:

Dependent variables	Definition
ROA	Ratio of net profit after tax to total asset
ROE	Ratio of net profit after tax to total equity capital
NIM	Ratio of net interest income to total earnings assets

Independent variables	Definition
Capital Adequacy (CA)	Ratio of total capital to total asset
Asset quality (AQ)	Ratio of non-performing loans to total loans
Management efficiency (ME)	Ratio of total operating profit to total operating revenue
Liquidity management (LM)	Ratio of total loans to total deposit
Bank Size (BS)	Log of Total assets
Growth of total deposits (DP)	Annual growth rate (%) of deposits

## 5. Findings and Analysis

### 5.1 Test for Robustness of the Model

The existence of the problem of multicollinearity was tested using correlation coefficient test. Correlation above 0.8 between independent variables indicates the existence of the problem of multicollinearity. Since we can see from the tables that the correlation between or among the variables are not significantly high; we conclude that there is no multicollinearity among the variables.

Table 1: Correlation Coefficient between variables

	AQ	CA	ME	LM	BS	DP
AQ	1.000000					
CA	0.204663	1.000000				
ME	-0.355060	0.141407	1.000000			
LM	-0.276172	-0.081509	-0.105919	1.000000		
BS	-0.191211	-0.197153	-0.080167	0.227733	1.000000	
DP	0.169497	0.049919	-0.486183	0.148886	0.156727	1.000000

## **Determinants of the Profitability of the Commercial Banks in Bangladesh**

Source: Compiled by author

To check for normality, Jarque-Bera (JB) test was applied. It is a test based on residuals of the least squares regression model. In this study, JB statistics was 5.819306 with skewness of 0.453475 and kurtosis of 2.775638. Here, the probability value (0.054495) is greater than 0.05. We cannot reject null hypothesis rather we accept null hypothesis that the residuals are normally distributed.

### **5.2 Statistical Descriptions**

Table-2 shows the basic descriptive statistics of the dependent and independent variables of 20 private commercial banks for a period of eight years from 2010 to 2017 with a total of 160 observations. For each variable, Table-1 shows mean, median, standard deviation, minimum and maximum value. It can be observed from the table that the mean value of ROA, ROE and NIM are 1.22%, 13.63% and 25.47% respectively during the mentioned period. Maximum value of ROA, ROE and NIM are 3.63%, 38.80% and 50% respectively while minimum value are 0.01%, 0.13% and 6.31% respectively. Standard deviation of ROA, ROE and NIM are 0.64, 5.66 and 13.03 respectively which indicates the positive effects of bank performance and there is a little variation from bank to bank and period. The country's bank performance is average in comparison to the bank performance of some other countries measured by ROA, ROE and NIM. The mean values of independent variables such as asset quality, capital adequacy, liquidity, management efficiency, bank size and growth of total deposit are positive with the amount of 4.45%, 11.77%, 84.18%, 46.82%, 10.14% and 4.77% respectively. In the standard deviation value of the independent variable data set, management efficiency ratio is more variable than the other independent variables having a value of 16.22%. The average asset quality as measured by ratio of NPL to total loans of 20 commercial banks in the stated period is 4.45% and the standard deviation of the asset quality is 1.76% which is the second lowest among the independent variables. It shows the existence of low exposure to credit risk and the volume of NPL to total loans is expected to be low and it also indicates little variation from one bank to another. The mean value of capital adequacy ratio is 11.77% with a minimum value of 6.31% and maximum value of 17.43%. So, the selected commercial banks of Bangladesh maintain satisfactory capital. When the mean value of liquidity is 84.18%, minimum value is 58.25% and maximum value is 109.97%. This reveals that on an average 84.18% of commercial banks' deposit is used on lending and the remaining balance helps to maintain the liquidity position of

the banks. The standard deviation of liquidity is 8.63% which points out the indicative variation from one bank to another. The management efficiency ratio measured by the ratio of total operating profit to total operating revenue during the eight years on average is 46.82% which varies between 9.93% and 95.24%. The standard deviation of the management efficiency ratio is 16.22% which is the highest variability than the other independent variables. The standard deviation of bank size and growth of total deposit are 7.28% and 2.43% respectively which also indicates the little variation from one bank to another.

Table-2: Descriptive Statistics for the variables

Variables	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
ROA	1.22	1.05	3.63	0.01	0.64	160
ROE	13.63	12.94	38.80	0.13	5.66	159
NIM	25.47	30.00	50.00	6.31	13.03	160
AQ	4.45	4.34	9.73	1.18	1.76	160
CA	11.77	11.60	17.43	6.31	1.56	160
LM	84.18	83.69	109.97	58.25	8.63	160
ME	46.82	45.89	95.24	9.93	16.22	160
BS	10.14	9.50	38.80	0.0096	7.28	160
DP	4.77	4.18	12.01	0.040	2.43	160

Note 1: ROA for return on asset; ROE for return on equity; AQ for asset quality; CA for capital adequacy; LM for liquidity management; ME for management efficiency, BS for bank size, DP for growth of deposits.

Note 2: Author's estimation using E-views 10.0

## Determinants of the Profitability of the Commercial Banks in Bangladesh

### 5.3 Relationship between bank performance and its determinants

This section presents the relationship between the selected bank-specific factors and its relationship with bank performance as expressed by ROA, ROE and NIM. Correlation Matrix between dependent variables of this study is presented in the following table:

Table-3: Correlation coefficient between variables

	ROA	ROE	NIM
AQ	-0.345429	-0.442638	-0.342834
CA	-0.176345	-0.229036	0.018203
ME	0.262406	0.259045	-0.394563
LM	0.287932	0.159375	-0.060381
BS	0.534683	0.668388	0.462476
DP	0.117887	0.033975	0.275555

Note 1: ROA for return on asset; ROE for return on equity; AQ for asset quality; CA for capital adequacy; LM for liquidity management; ME for management efficiency; BS for bank size; DP for growth of deposits.

Note 2: Author's estimation using E-views 10.0

The correlation results in Table-3 show the relationship between dependent and independent variables. As it can be seen from the table that asset quality ratio as measured by NPL to total loans is negatively related to all profitability indicators (ROA, ROE and NIM) which shows that high NPL is responsible for the declining earnings of the commercial banks since they affect the net profit and lead to poor bank performance. The negative correlation coefficient between AQ and ROE is very strong which is (-0.4426).

Capital adequacy ratio is positively related to NIM. This relationship may indicate that banks face no volatility in earnings due to leverage. But when capital adequacy ratio is negatively related to ROA and ROE, it reveals that the commercial banks face volatility in generating profit. Management efficiency and liquidity ratio have positive correlation with ROA and ROE but negative correlation with NIM. ROA has positive correlation with LM (0.2879) and ME (0.2624). ROE has positive correlation with LM (0.1593) and ME (0.2590). It refers that when the values of these ratios increase, performance of the country's private commercial banks also increase and vice versa. Asset quality ratio and capital adequacy ratio have negative correlation

with ROA and ROE which indicates that when the values of these ratios increase, the performance of the private commercial banks declines. Bank size and growth of deposit have positive correlation with ROA, ROE and NIM which indicates that large commercial banks have more investment opportunities than smaller banks. It is clear from the correlation matrix that there is no high correlation value among the six independent variables.

#### 5.4 Results and Discussion

The following regression result shows the bank specific factors on the profitability of selected commercial banks in Bangladesh. The study used pooled Ordinary Least Square (OLS) method to find out the regression results and measured the banks' profitability by ROA, ROE and NIM. The independent variables are asset quality, capital adequacy, liquidity management, management efficiency, bank size and growth of total deposits.

Table- 4 presents the summary of the test.

	Dependent Variable: ROA			Dependent Variable: ROE			Dependent Variable: NIM		
	Coefficient	Std. Error	t-Statistic	Coefficient	Std. Error	t-Statistic	Coefficient	Std. Error	t-Statistic
AQ	-0.0285	0.0253	-1.1253	-0.7316***	0.1921	-3.8077	-2.1963***	0.5184	4.2367
CA	-0.0541**	0.0258	-2.0942	-0.4162**	0.1956	-2.1270	0.7388	0.5278	1.3995
ME	0.0170***	0.0029	5.8008	0.1068***	0.0222	4.8112	-0.2066***	0.0599	-3.4478
LM	0.0119**	0.0047	2.5353	-0.0267	0.0357	-0.7465	-0.1898	0.0965	-1.9676
BS	0.0399***	0.0054	7.2779	0.4779***	0.0415	11.4945	0.9657***	0.5184	8.6093
DP	0.0664***	0.0181	3.6650	0.3179**	0.1371	2.3173	0.1597	0.1122	0.4316
C	-0.5394	0.5458	-0.9883	12.6435***	5.6320	-3.8077	11.1511**	2.727	1.9802
R-squared	0.4803			0.615180			0.470453		
Adjusted R-squared	0.4599			0.600089			0.449686		
F-statistic	23.5684***			40.7647***			22.6543***		
Total panel (unbalanced) observations	160			160			160		

Table-4: Result of Panel Least Squares (Pooled)

Note 1: ROA for return on asset; ROE for return on equity; AQ for asset quality; CA for capital adequacy LM for liquidity management; ME for management efficiency; BS for bank size; DP for growth of total deposit.

## Determinants of the Profitability of the Commercial Banks in Bangladesh

Note 2: \*\*\*/\*\*/\* indicates level of significance at 1%, 5% and 10% respectively

Note 3: Author's estimation using E-views 10.0

In this study, the effect of determinants on the profitability of the commercial banks as expressed by ROA, ROE and NIM has been evaluated. It has been found that bank-specific factors significantly affect the profitability of the commercial banks in Bangladesh. Asset quality is significantly related to the profitability of the banks as expressed by ROE and NIM with 99% significance level. It reveals that the negative correlation coefficient between poor asset quality and ROE and NIM determines the poor bank performance. The correlation coefficient of capital adequacy with ROA and ROE is significant at 95% confidence level. But the results show that capital adequacy ratio (CA) has a negative impact on ROA and ROE which mismatches with the given hypothesis. The coefficient of ME, BS and DP has a positive impact on ROA at 1% significance level and the coefficient LM has a positive impact on ROA at 5% significance level that supports the study hypothesis. This positive relationship shows that satisfactory liquidity and higher operating profit positively and significantly affect the banks' profitability. The coefficient of LM has no impact on ROE and NIM but it has a positive impact on ROA. The coefficient of bank size has a positive impact on both ROE and NIM at 1% level of significance. The coefficient of growth rate of total deposits has positive impact on ROA and ROE at 1% and 5% level of significance respectively. The value of R-squared on ROA (0.4803) indicates that 48.03% of the variation in the dependent variable (ROA) is explained by the independent variables (asset quality, capital adequacy, liquidity management, management efficiency, bank size and growth of total deposit). R-squared is also getting at 0.615180 for ROE and 0.470453 for NIM. Though R-squared is slightly low but F-statistics is significant. So, the regression model is alright or well fitted for this analysis.

The regression equation can be written as follows:

$$ROA_{it} = -0.5394 - 0.0285AQ - 0.0541CA + 0.0170ME + 0.0119LM + 0.0399BS + 0.0664DP$$

$$ROE_{it} = 12.6435 - 0.7316AQ - 0.4162CA + 0.1068ME - 0.0267LM + 0.4779BS + 0.3179DP$$

$$NIM_{it} = 11.1511 - 2.1963AQ + 0.7388CA - 0.20660ME - 0.1898LM + 0.9657BS + 0.1597DP$$

This regression equation expresses that ROA, ROE and NIM are the dependent variables and the bank-specific independent variables are Asset Quality(AQ), Capital Adequacy(CA), Liquidity Management (LM), Management Efficiency(ME), bank size (BS) and growth of total deposit (DP).



If the coefficients are zero, it indicates that ROA, ROE and NIM will be -0.5394, 12.6435 and 11.1511 respectively regardless of the values of all independent variables. The coefficient  $\beta_1 = -0.0285$  for ROA,  $\beta_1 = -0.7316$  for ROE and  $\beta_1 = 2.1963$  for NIM indicates that when other independent variables remain same, the asset quality ratio will increase by 1%, ROA, ROE and NIM will decrease by 0.0285%, 0.7316% and 2.1963% respectively because of the negative relationship between the banks' profitability and asset quality.

The coefficient  $\beta_2 = -0.0541$  for ROA and  $\beta_2 = -0.4162$  for ROE indicates that if the capital adequacy ratio increases by 1%, ROA and ROE will decrease by -0.0541% and -0.4162% respectively because of the negative relationship between the banks' profitability and capital adequacy. But NIM will increase due to positive relationship of between the banks' profitability and capital adequacy.

The coefficient  $\beta_3 = 0.0170$  for ROA and  $\beta_3 = 0.1068$  for ROE indicates that there is a positive relationship between the banks' profitability and liquidity while other independent variables remain same. When the liquidity management ratio increases by 1%, the ROA and ROE will increase by 0.0170% and 0.1068% respectively but NIM will decrease by 0.20660%.

The coefficient  $\beta_4 = 0.0119$  for ROA,  $\beta_4 = -0.0267$  for ROE and  $\beta_4 = -0.1898$  for NIM indicates that if the management efficiency ratio increases by 1%, ROA will increase by 0.0119% but ROE and NIM will decrease by -0.0267% and -0.1898% respectively due to the negative relationship between banks' profitability and management efficiency. The coefficient of  $\beta_5$  and  $\beta_6$  for ROA, ROE and NIM indicates the positive relationship between the banks' profitability and bank size and growth of total deposits while other independent variables remain unchanged according to the regression analysis.

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### **6. Conclusion**

Being a developing nation, Bangladesh has undertaken several financial reforms which directly and indirectly affect the country's banking sector as well as bank profitability. This empirical study has showed that asset quality, capital adequacy, liquidity management, management efficiency, bank size and growth of total deposit affect the profitability of the commercial banks in Bangladesh though the influence of all the variables is not strong. The relationship between the banks' profitability and asset quality has been found to be negative. This indicates that high non-performing loans to total assets are related to less profitability of the banks. So, it can be concluded that the profitability of the commercial banks increases if the volume of their non-performing loans decline. The relationship between capital adequacy ratio and profitability has been found to be negative. In light of the standard level of significance, the results show that capital adequacy ratio is significant for ROA and ROE. As the commercial banks have low capital adequacy ratios, they should maintain reasonable capital to improve their financial position. Management efficiency and liquidity management have significant effect on the banks' profitability. So, it makes clear that the commercial banks are able to meet up liquidity requirements and achieve higher earnings (profitability) through efficient liquidity management. It has also been found that bank size and growth of total deposits have a positive correlation with ROA, ROE and NIM and the relationship is significant. This shows that bank size and growth of total deposits positively affect the profitability of the commercial banks in Bangladesh for the period under study. So, it can be concluded that bank-specific factors have significant impact on the banks' profitability. So, the commercial banks in Bangladesh should reduce their NPL and make comparatively better investment decisions to increase their profitability.

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# **Corporate Social Responsibility and its Impact on Financial and Non-financial Performance of Ready-made Garments sector on Bangladesh: A proof of Barishal.**

**Abdullah Al Masud\***

**Saima Afrin Liza\*\***

## ***ABSTRACT***

*Readymade garments (RMG) sector is one of the most important sectors in the economy of Bangladesh in terms of the labor force employed and export earnings. Each year this sector ensures billions of dollars of export earnings in our economy. Lack of Corporate Social Responsibility in this sector creates different kinds of social economic problems that reduce the productivity of Readymade garments Sector in Bangladesh. The absence of the practice of proper corporate Social Responsibility makes this sector vulnerable and sensitive. One of the fundamental reasons for absence or little practice of CSR in RMG sector because of it's going to reduce the profitability of the firm. The purpose of this research study is to determine the Corporate Social Responsibility and its Impact on Financial and Non-financial Performance of Ready-made Garments sector on Bangladesh: Proof of Barishal. The research study was used quantitative analysis approach in order to examine the cause and effect of the relationship between CSR and financial and non-financial performance by creating the null and alternative hypothesis. Though the study collected primary data from 402 respondents by using survey questionnaires, the researcher obtained secondary data by analyzing the audited annual and sustainability reports of various RMG companies. SPSS-23, AMOS was used to analyze the collected data. The researcher examined the correlational analysis between independent variables (CSR practices) and dependent variables (Firms Financial and non-Financial performance) by considering data collected. However, the results indicated that the relationship between CSR and Firms Financial and non-Financial performance is considerably positive particular in Barishal Region which suggests CSR practices benefitted for RMG companies in terms of long-term sustainable development by increasing firm's financial and non-financial performance in Barishal Region. The main limitations were identified in the research is that sample sizes of only 402 respondents, however, the study is predicted to contribute as a catalyst for future research. The research study is provided some important insights for our understanding concerning CSR framework in the context of developing countries like Bangladesh and its impacts on Financial and non-Financial performance in RMG sector of particular region of our country.*

**Keywords:** *Corporate Social Responsibility (CSR), Financial and non-Financial Performance, Readymade Garments (RMG), corporate social performance (CSP), corporate financial performance (CFP).*

\*Assistant Professor, Department of Management Studies, University of Barishal.

\*\*Lecturer, Department of Management Studies, University of Barishal.

## 1. Introduction:

This paper represents a study of Corporate Social Responsibility and its Impact on Financial and Non-financial Performance of Ready-made Garments sector on Bangladesh: Proof of Barishal. It examines the relationship between CSR and firm performance (Abdin, 2008). This report aims to contribute two criteria in that garments industry. Firstly, this paper is conducted to find out the relationship between corporate social responsibility and financial performance. Secondly, this paper also finds out the relationship between CSR and non-financial performance (Masud, 2019). This research uses a detailed method of analysis to assess the relationship between CSR and firm's financial and non-financial performance. It will contribute to the understanding concerning this relationship (Ahmed, 2013; Masud, 2018, 2019).

The Ready-Made garments (RMG) industries take up a unique position within the Bangladesh economy (BGMEA, 2011; Masud & Alam, 2014). It's the most important exporting business in Bangladesh that seasoned extraordinary growth throughout the last thirty years (Masud & Ferdous, 2016). Within a short period, Bangladeshi entrepreneurs got well-acquainted with the global apparel markets and selling billions of dollar (Darina, Kamal & Abdullah, Kaiser, 2015). The present study has created an exploration on completely different dimensions of contribution and challenges of RMG industry in Bangladesh proof of Barishal (Masud, 2019). The study reveals that since its origination, particularly throughout the last three decades, the RMG industry contributed considerably through creation of physical infrastructure which is incontestable by 5,600 RMG units along with the development of human capital as around more than five million workforce are directly involved during this industry (Masud & Mondal, 2017). It's additionally contributed enormously through empowering women as nearly 90% of its labor force is female that hierarchic the best in South East Asia (Bureau of Labor Statistics, 2017; Masud, 2018; Masud & Islam, 2018).

It has been noted this paper on CSR in some RMG industries in Barishal are based mainly on primary data. The research specifically uses primary and secondary data to arrive at a conclusion (BGMEA, 2019; Masud & Islam, 2018). The study relies mainly on the stakeholder theory and basically focuses on stakeholder CSR namely, employee CSR, customer CSR, supplier CSR, community CSR and environment CSR as an independent variables and The dependent variables like firm performance (Lee, Singal & Kang, 2013; Masud, & Alam, 2014; Masud, 2019)

This research has been conducted to study the CSR practices of some RMG industries in Barishal and the focus of this research was to see if there is any correlation between CSR and financial & non-financial performance of some RMG industries in Barishal. The research was conducted with a sample of 402 respondents. Statistical tools like correlation and regression

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analysis were used to analyze the empirical data in order to meet the defined objectives and examine the hypotheses of this research. The remainder of this paper is structured as follows. Firstly, the theoretical background for the work is presented and the authors' hypotheses set out. Then, using survey data, an empirical test of the theoretical model is presented using a structural equation modeling approach. A discussion of these results and their theoretical and managerial implications follows. The study concludes by discussing limitations and suggestions for future research.

## **2. Literature Review, Conceptual Framework, Objectives, Research Problem and Hypotheses:**

### ***Measurement of CSR:***

Corporate Social Responsibility (CSR) is created due to the conflict between the organizations' objectives of maximizing benefits with their consequent actions and the need of being responsible to society and environment (Sayekti, 2015; Kamal and Kaiser, 2015). Although CSR has been and is a very subjective concept, it has been a subject of extensive research and arguments over the last few decades. The World Business Council for Sustainable Development (WBCSD) defined CSR as "*the commitment of business to contribute to sustainable, economic development, working with employees, their families and the local communities and society at large to improve their quality of life*" (Lin, Yang, & Liou, 2009; Khan, 2010; Kriesler and Nevile, 2016). Corporate Social responsibility has been a topic of intense academic research, the alternative themes included are corporate social performance (CSP) and business ethics theory (Hohnenand Potts, 2007; Kamal and Deegan, 2013; Masud & Ferdous, 2016). Many of the studies have used the exploratory comparative case study method to understand how companies make sense of CSR (Tang, Hull, & Rothenberg, 2012). He suggests that CSR is an executive perk, in the sense that managers use CSR to advance their careers or other personal agendas (Sayekti, 2015; Masud, Alam & Hossain, 2014).

There is extensive literature on the relationship between CSR and financial and non-financial performance. However, the previous research has shown consistent evidence of CSR activities' impact on financial and non-financial performance (Dobers & Halme, 2009; Masud & Mondal, 2017). The literature presented for the purpose of this study will explore the research studies



conducted on the effect of CSR on firm's financial performance and non-financial performance and based on that determines if there exist a direct or indirect link between the two (Berg, Hedrich, Kempf, & Tochtermann, 2011; Mulyadi & Anwar, 2012). Based on the literature review, the relationship between CSP and CFP could be positive, negative, or neutral. Griffin and Mahon (1997; 2019) reviewed studies discussing the relationship between CSP and CFP for period of the 1970s (16 studies), the 1980s (27 studies), and the 2018s (8 studies) with total of 51 articles. Griffin and Mahon (1997; 2019) had mapped the issue of direction of the relationship between CSP and CFP for the periods (Mulyadi & Anwar, 2012; Osagie, Wesselink, Blok, Lans and Mulder, 2016; Masud, 2019).

### ***CSR towards employees and firm performance:***

A company's willingness to work for the betterment of its employees and satisfy their needs can be understood through proactive policies and practices toward the employees (Omar, Bin & Bibi, 2011; Patil and Smita, 2017; Masud, 2019). Some of the standards of a firm's CSR toward employees include policies and practices used in industrial relations, opportunity for employees to participate in decision making, policies regarding fair remuneration, better conditions of work and elimination of forced/child labor. If a firm practises such standards, it can make the employees satisfied and loyal which will ultimately lead to increased job performance and improved FP and NFP (Jo and Harjoto, 2011; Islam, Rakib and Adnan, 2016; Masud, 2018, 2019).

In the 1970s, there were 16 studies reviewed with 12 findings showing positive relationships. For the 1980s and 2000s, the findings of positive direction had been accounted for 14 of 27 studies and 7 of the 8 studies, respectively. Negative results (findings) were supported by 1 study in the 1970s, 17 studies in the 2010s, and 3 studies in the 2019s (Masud, 2019). Inconclusive findings were provided by 4 studies in the 1970s, 5 studies in the 1980s, and no finding in the 2000s (Van, Marrewijk, 2013; Masud, & Islam, 2018).

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***CSR towards customers and firm performance:***

Customer's positive perception on product quality and safety results in higher sales and lower cost related to stakeholder relationship (Waddock and Graves, 1997; Chaudhuri and Holbrook, 2001; Dickson, Waters and López-Gydosh, 2012; Masud, 2019). The higher will be the product safety and quality, the more improvement will be in the bottom line (Berman et al., 1999; Dobers & Halme, 2009). In retail market, customers' feedback for companies which are socially irresponsible is found to be negative (Bromiley and Marcus, 1989; Davidson and Worell, 1988; Crane, McWilliams, Matten, Moon and Siegel, 2008; Masud, 2014). Customers' dissatisfaction with a product and its concerted services, will results in negative customer reactions. Investors perceive that the negative feedback of customers in the form of lesser corroboration, lawsuits, or both, will have a direct impact on the bottom line (Berman et al., 1999; Freeman and Velamuri, 2006; Masud, Hoque, Hossain and Hoque, 2013; Masud, 2019). Event studies showed that corporate irresponsibility and illegal behavior lessen the market value of a company (Frooman, 1997; Masud & Ferdous, 2016).

***Hypothesis-1: Perceived corporate social responsibility (CSR to employees and customer) has a significantly positive impact on firm's financial and non-financial performance.***

It should be noted that different studies could have different findings. This is because the studies were conducted by using different approaches to establish the relationship between CSP and CFP. One study may use approach to measure CSP and one or more approaches to measure CFP. In other side, the findings may be positive and negative relationship as indicated, for example, in the studies of Cochran and Wood (Valente & Crane, 2010; Orlitzky, Siegel and Waldman, 2011; Masud& Mondal, 2017).The work of Griffin and Mahon (1997, 2018) was not all inclusive. There were some studies contributing to the direction of the CSP-CFP relation in the 1990s. McWilliams and Siegel (2001), and Moore (2001) had supported the inconclusive results. Fauzi (2004) using content analysis of annual reports of companies listed in the New York Stock Exchange for the year of 2004 showed an inconclusive result (Rhou et al., 2016; Masud& Mondal, 2017). Mahoney and Robert (2007, 2017), based on the Canadian companies and by excluding the environmental aspect from the CSR variable aspect to be a separate variable, examined the corporate social and environmental performance variables on financial

performance and institutional ownership using company size, financial leverage, and type of industry as control variables (Gupta and Hodges, 2012; Hossan, Sarker and Afroze, 2012; Masud & Ferdous, 2016).

***CSR towards community and firm performance:***

Generally, business and community involvement is noticed in areas of education, health, and income generation. CSR towards community is observed in terms of philanthropic attitude, public-private partnerships, community relationships, and participation in social and economic development issues. Recently, companies are carrying on meaningful partnerships with non-governmental organizations (NGOs) to boost the local community (Masud & Alam, 2014; Masud, & Ferdous, 2016).

The result of the study indicated that while environmental performance significantly and positively affected financial performance, corporate social performance variable did not. In addition, Mahoney and Robert (2007) Masud (2018, 2019) found that while a positive relation between corporate social performance and institutional ownership existed, it will also help achieve the objectives of this research and answer the study's questions (Hofmann, 2001; Masud & Mondal, 2017). Literature will also provide a base for the study by developing the case and setting a framework for the study (van Marrewijk, 2013; Masud, Ferdous & Hossain, 2017). Ultimately, this framework will help relate the findings of the study with the existing knowledge base and help identify similarities and highlight the new contributions by the study towards the existing body of knowledge (Peloza & Papania, 2008; Niluthpaul, Khaled, and Kohinur, 2016).

***CSR towards environment and firm performance:***

In recent years, environmental protection has become a major issue. There have been enormous global pressures for adoption and enactment of stricter legislations concerning environment protection in and around the globe. By forecasting future policy, societal and competitive development relating to environment, companies are adopting proactive initiatives for the reduction of emissions (Frooman, 1997; Freeman, 1994; Masud & Alam, 2014). Importance of environmental friendly products, processes, and services are increasing rapidly. Therefore, firms must realize the importance of pertaining to environmental standards in order to

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ensure the irsu stain ability in the long run. Increasingly, firms are understanding the value of becoming environment friendly and conducting operation maintaining environmental standards (Masud, 2018). This has paved the way for the development of green resources and capabilities and compliance with international standards such as ISO 14000, OHSAS 18000, and environmental legislations. Environment alper for manceisamplified by improvements in three aspects–(a) product technologies such as use of recycled raw materials and other resources saving programs, (b) process technologies such as use of efficient production systems and end-of-pipe controls, and (c) management systems such as workers’ training programs and environmental audit. Global standards on CSR towards environment endorse these aspects (Frooman, J. 1997; Masud, Alam & Hossain, 2014).

### **Hypothesis-2:**

*Perceived corporate social responsibility (CSR to community and environment) has a significantly positive impact on firm’s financial and non-financial performance.*

CSR is a western led concept and the business sectors are slowly trying to adopt and adapted with this concept in Bangladesh (Ahamed, 2013; Masud, 2019). But within the present economic structure of our country, ethics in business is very much confined to obeying some specific law of the state and CSR confined to donating various uncoordinated charitable or philanthropic affairs from the viewpoint of publicity ( Carroll, 1999; Freeman, Harrison, Wicks, Parmar and Colle, 2010; Masud, 2019).Therefore, here we suggest corporations to classify the major social issues and prioritize one or two issues as long-term concerning CSR area; and which should be as per the corporations’ abilities in terms of potential impacts, so that it would be easy for the corporations (Mulyadi & Anwar, 2012; Farhana, 2015; Masud, Alam& Hossain, 2014).There for the general or main objective of this research is to find out the relationship between corporate social responsibility (CSR) and financial and non-financial performance of textiles sector in Bangladesh especially in Barishal division.

### 3. Research Methodology

The data on CSR practices were collected through a survey of organizations based in Bangladesh basically in Barishal division because, unfortunately, it is difficult to obtain reliable, objective data of any type in Bangladesh (Belal and Cooper, 2001, 2010, 2011, 2016; Masud, Ferdous and Hossain, 2017). The survey was designed in English because English is the language of corporate or international communication (Mishra and Suar, 2010; Elfenbein and McManus 2010; Masud 2019). According to Mishra and Suar (2010, 2011) to collect data, companies are included in the sample based on three criteria: (a) a minimum investment of 25 million (Taka), (b) a minimum of 200 employees employed in the company, and (c) a minimum of 5 years of manufacturing activity.

However, the internet facility in Bangladesh is not rich enough to use email or internet surveys. Therefore, it was competent to use the survey and collection questionnaire in this study to collect the required data from respondents with greater accuracy, minimal cost and time. Then, to make data collection easier, a web version of the questionnaire was developed and served through online and 900 companies having e-mail IDs were emailed (Milne and Adler, 1999; Minor and Morgan, 2011; Mishra and Suar, 2010; Elfenbein and McManus, 2010, Masud 2019). Questionnaires were also sent to 600 other companies by post without they have an e-mail ID or e-mail experts. Of the 1,500 questionnaires distributed, 175 valid questionnaires were returned which are 11.67% of the total distributed. Executives, executive directors and, in absence of them senior managers such as vice-presidents, directors, blue-collar workers, non-managers, directors, general managers participated in the survey. It was very difficult to obtain personal interview because they were very busy with their daily individual work (Miller and Upadhyay 2000; McWilliams, Fleet and Cory 2002; Mishra and Suar 2010, 2011).

The majority of respondents were senior executives, namely executive directors, general managers, blue workers, presidents or vice-presidents. Financial data was collected about a year later for the same 402 companies. Finally, follow-up data were collected for 320 of the 402 companies included in the original survey (Michael, 2003, McWilliams and Siegel, 2000, Miller and Upadhyay 2000, McWilliams, Fleet and Cory 2002, Mishra and Suar 2010, 2011).

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**Measurement Model:** Before testing the hypotheses via the structural model, we evaluate internal consistency, reliability, and convergent validity of the measures. AMOS 16.0 (maximum likelihood estimation) was employed to complete the analysis. As illustrated in Table the Cronbach's alpha of each construct is between 0.820 and 0.908, higher than the 0.7 recommended by (Nunnally and Bernstein 1994; Bentler, 1990; Hair, Anderson, Tatham and Black, 1998), demonstrating adequate internal consistency. Composite reliability (CR) of all measures exceed 0.6 threshold suggested by (Fornell and Larcker, 1981; Hair, Anderson, Tatham and Black, 1998), indicating a favorable level of internal consistency reliability. The CFA results support convergent validity for all measures. All estimated regression weights of observed variables for the latent variables are significant at the 0.001 level. In addition, the average variance extracted (AVE) across the latent variables exceed the 0.5 benchmark recommended by (Fornell and Larcker 1981; Hair, Anderson, Tatham and Black, 1998).

$$CR = \left( \sum_{i=1}^i x_i \right)^2 \quad AVE = \frac{\sum_{i=1}^i L^2_i}{n} \quad H = \frac{1}{1 + \sum_{i=1}^p \frac{x_i^2}{1-x_i^2}}$$

### 4. Results and discussion:

Demographic details of executives were collected as part of the questionnaire survey. Data on age, years of service, education, and monthly salary of CEOs and top-level executives ( $M$  age = 49.53,  $SD$  = 7.13;  $M$  years of service = 13.79,  $SD$  = 10.19;  $M$  years of formal study = 18.74,  $SD$  = 2.22) were obtained through questionnaire surveys. In testing the research model using SEM with AMOS (Hair, 1998; Byrne, 2010), two models are analyzed and assessed: a measurement model and a structural model (Anderson and Gerbing, 1988; Hair, 1998). The measurement model specifies the relationships between the observed measures and their underlying constructs, with the constructs allowed to inter correlate. The structural model specifies the posited causal relationships among the constructs. The table is described in detail below:

**Table 1: Construct measure reliability and validity and confirmatory factor analysis and goodness-of-fit indices for measurement model.**

Construct	Indicator/Items	Standardized	t-Value	Regression weight	SE	P	CR	AVE	Cronbach's $\alpha$
F1: Employee CSR (EMP):	EMP-1	0.653	**	1.000			0.89 51	0.5189	0.894
	EMP-2	0.755	14.049	1.320	0.102	<0.001			
	EMP-3	0.629	12.244	1.008	0.093	<0.001			
	EMP-4	0.716	14.284	1.110	0.092	<0.001			
	EMP-5	0.791	15.334	1.252	0.096	<0.001			
	EMP-6	0.801	13.425	1.284	0.097	<0.001			
Model fit indexes $\chi^2(20) = 57.775$ ; $P = 0.000$ ; $\chi^2/DF = 2.889$ ; $CFI = 0.974$ ; $SRMR = 0.0324$ ; $RMSEA = 0.070$ (0.050–0.092)									
F2: Customers CSR (CST):	CST-1	0.787	**	1.000			0.90 9	0.559	0.908
	CST-2	0.737	13.682	0.890	0.058	<0.001			
	CST-3	0.782	14.517	0.907	0.056	<0.001			
	CST-4	0.676	16.868	0.818	0.059	<0.001			
	CST-5	0.696	15.074	0.880	0.062	<0.001			
Model fit indexes $\chi^2(20) = 60.797$ ; $P = 0.000$ ; $\chi^2/DF = 3.040$ ; $CFI = 0.975$ ; $SRMR = 0.0304$ ; $RMSEA = 0.073$ (0.053–0.094)									
F3: Community CSR (COM):	COM-1	0.587	**	1.000			0.83 44	0.562 9	0.829
	COM-2	0.859	22.395	1.481	0.128	<0.001			
	COM-3	0.687	20.268	1.206	0.117	<0.001			
	COM-4	0.834	19.074	1.473	0.129	<0.001			
Model fit indexes $\chi^2(21) = 0.675$ ; $P = 0.713$ ; $\chi^2/DF = 0.338$ ; $CFI = 1.000$ ; $SRMR = 0.0069$ ; $RMSEA = 0.000$ (0.000–0.073)									
F4: Environment CSR (ENV):	ENV-1	0.702	**	1.000			0.85 15	0.534 7	0.851
	ENV-2	0.761	15.019	1.157	0.089	<0.001			
	ENV-3	0.687	19.837	1.066	0.090	<0.001			
	ENV-4	0.722	18.191	1.046	0.083	<0.001			
	ENV-5	0.780	19.757	1.203	0.091	<0.001			

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Model fit indexes $\chi^2(5) = 8.809$ ; $P = 0.117$ ; $\chi^2/DF = 1.762$ ; $CFI = 0.995$ ; $SRMR = 0.0176$ ; $RMSEA = 0.045$ (0.000–0.092)									
F5: Financi al (FP):	FP-1	0.722	**	1.000			0.89 51	0.534 7	0.829
	FP-2	0.722	18.191	1.046	0.083	<0.001			
	FP-3	0.687	20.268	1.206	0.117	<0.001			
	FP-4	0.687	19.837	1.066	0.090	<0.001			
Model fit indexes $\chi^2(20) = 58.775$ ; $P = 0.000$ ; $\chi^2/DF = 3.889$ ; $CFI = 0.994$ ; $SRMR = 0.0224$ ; $RMSEA = 0.060$ (0.040–0.082)									
F6: Non- Financi al (NF):	NF-1	0.702	**	1.000			0.95 15	0.634 7	0.929
	NF-2	0.726	14.294	1.120	0.091	<0.001			
	NF-3	0.791	15.344	1.262	0.095	<0.001			
	NF-4	0.811	13.455	1.294	0.096	<0.001			
Model fit indexes $\chi^2(21) = 8.909$ ; $P = 0.117$ ; $\chi^2/DF = 2.762$ ; $CFI = 0.999$ ; $SRMR = 0.0186$ ; $RMSEA = 0.055$ (0.000–0.091)									

***SE standard error, CR composite reliability, AVE average variance extracted***

**Note:  $\chi^2(257) = 895.083$ ;  $P = 0.000$ ;  $\chi^2/DF = 3.483$ ;  $CFI = 0.910$ ;  $SRMR = 0.0497$ ;  $RMSEA = 0.081$**

From the above table shows the details outcomes of CFA. It is found that the items of each construct and standardize factor loading more than 0.60. The items of employees, customers, community and environment responsibility had factor loading from 0.82 to 0.93. And each item has high t values significant at  $p < 0.001$  with the estimated construct. These results are shown the figure indicated the unidimensionality of each construct. From the figure it was found that the constructs of financial and non-financial performance had an adequate standard factor loading from 0.92 to 0.93. Moreover, the 2<sup>nd</sup> factor CFA result showed that the model is also appropriate and good in fit. So the model summaries of 2<sup>nd</sup> order CFA was given below that indicate appropriate model fit.



Descriptive statistics and correlations for ownership, employees, firm size, CSR, FP, NFP,  
Mean and standard deviation.

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Listed	1.00												
2. Ownership	0.21**	1.00											
3. Employees	-0.09	-0.22**	1.00										
4. CSR employee	0.09	-0.05	0.09	0.10	0.83***	1.00							
5. CSR customer	0.16	0.05	0.05	0.00	0.56***	0.32***	1.00						
6. CSR community	0.12	-0.02	0.00	0.05	0.8***	0.64***	0.39***	0.71***	1.00				
7. CSR environment	0.17*	-0.05	0.02	-0.01	0.83***	0.60***	0.38***	0.63***	0.64***	1.00			
8. FP	0.32***	0.00	0.03	-0.01	0.41***	0.26***	0.26***	0.25**	0.39***	0.30***	0.45***	1.00	
9. NFP	0.05	-0.06	0.13	-0.02	0.46***	0.31***	0.27***	0.32***	0.44***	0.38***	0.43***	0.32***	1.00
M	0.67	0.79	6319.21	6682.98	3.47	3.37	3.74	3.81	3.41	3.70	2.80	0.18	3.62
SD	0.47	0.41	37000.21	28428.39	0.66	0.68	0.74	0.87	0.75	0.90	1.08	0.12	0.67

**\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$ .(Table-2)**

Descriptive statistics and Pearson correlation among the studied variables are presented (Table II). Positive correlations were found between aggregate CSR indicating a higher CSR value. Positive correlations between CSR status and FP implied that companies performed better than non-financial. However, all value did not relate to NFP. Similarly, the other two control variables, type of ownership, and the firm size did not relate to FP and NFP.

The correlation between two variables incorporates bidirectional relations that are unreserved in regression analysis. To examine the influence of control variables, aggregate CSR, and segregate CSR on FP and NFP of firms, hierarchical regression analyses were carried out. Better employees CSR, customer CSR, community CSR, and environmental CSR and FP and NFP. Second, controlling the confounding effects, both the aggregate and segregate measures of CSR predicted FP and NFP of firms but CSR influenced the NFP of firms more potently compared to FP of firms. Third, the non-explained variance of FP and

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NFP suggested that there were other potent explanatory variables beyond the aggregate and segregate measures of CSR and the relations between the explanatory variables and the criterion were not linearly robust.

### **5. Research Question Development:**

**RQ1:** Does employee CSR significantly influence the financial and non-financial performance?

**RQ2:** Does customer and supplier CSR significantly influence the financial and non-financial performance?

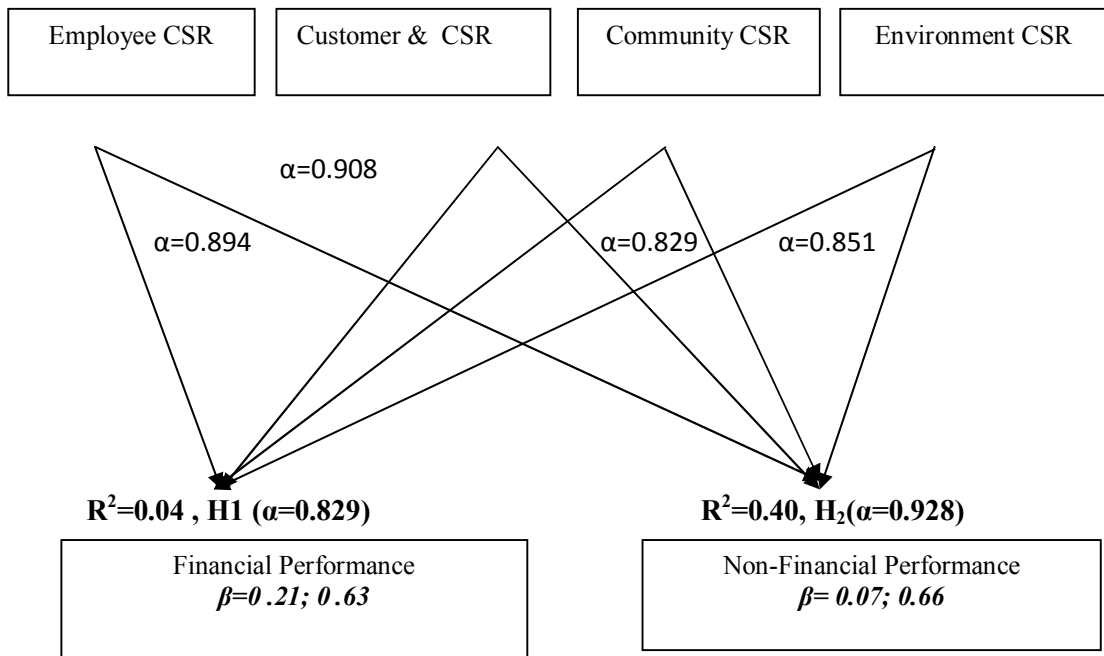
**RQ3:** Does community CSR significantly influence the financial and non-financial performance?

**RQ4:** Does environment CSR significantly influence the financial and non-financial performance?

**Fitted Model:**

For SPSS and SEM analysis, two dependent variable and 4 independent variables are chosen. Independent variables are employee CSR, customer, community CSR, environment CSR. Financial and Non-Financial Performance is considered the dependent variable.

Analyzing the data from 402 Bangladeshi southern RMG companies, the study examines the influence of CSR on financial and non-financial firm performance. CSR was assessed with respect to four primary stakeholders as well as with respect to the aggregation of all stake- holders. Results show that firms that are listed exchanges have better CSR and FP, but neither the ownership pattern nor firm size has influenced CSR, FP, and NFP. Controlling the confound in geffects of ownership pattern, and firm size, an increase in the aggregate measure of CSR has increased the FP and NFP of firms. Also, more favorable CSR towards each of the stakeholders has increased firm performance.



*Fitted model of CSR and firm performance*

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Final result of Hypothesis

Hypothesis	Result	Outcome
<p><b>Hypothesis-1:</b>  <i>Perceived corporate social responsibility (CSR to employees and customer) has a significantly positive impact on firm's financial and non-financial performance.</i></p>	<b>Accepted</b>	<p>Model fit indexes <math>\chi^2 (20) = 58.775</math>; <math>P = 0.000</math>; <math>\chi^2 /DF = 3.889</math>; <math>CFI = 0.994</math>; <math>SRMR = 0.0224</math>; <math>RMSEA = 0.060 (0.040-0.082)</math> as the p-value is lower than 0.05 (in table), so we accepted the hypothesis along with concluding that there is association between CSR and financial performance.</p>
<p><b>Hypothesis-2:</b>  <i>Perceived corporate social responsibility (CSR to community and environment) has a significantly positive impact on firm's financial and non-financial performance.</i></p>	<b>Accepted</b>	<p>Model fit indexes <math>\chi^2 (21) = 8.909</math>; <math>P = 0.117</math>; <math>\chi^2 /DF = 2.762</math>; <math>CFI = 0.999</math>; <math>SRMR = 0.0186</math>; <math>RMSEA = 0.055 (0.000-0.091)</math> as the p-value is lower than 0.05 (in table), so we accepted the hypothesis along with concluding that there is association between CSR and non-financial performance.</p>

**6. Findings and recommendations:**

**(H<sub>1</sub>)** Investigated the direct relationship between employees and customer CSR and firms financial and non-financial performance of RMG sectors in Barishal. It was hypothesized that there is a positive relationship between internal CSR and firm's financial and non-financial performance of RMG sectors in Barishal. Figure shows that internal CSR caused for variance in firms financial and non-financial performance by 4 percent ( $R^2 = 0.04$ ). The result is shown in table revealed a positive and significant relationships between internal CSR and firms financial and non-financial performance ( $\beta = .21$ ,  $t = 14.50$ ,  $P < 0.05$ ). The result also indicates that the intensity of the positive relationship between internal CSR and firms' financial and non-financial performance is moderate. From the findings, the hypothesis **1 is supported**. Thus, it can be concluded that there is positive relationship between employees and customer CSR and firm's financial and non-financial performance of RMG sectors in Barishal.

**(H<sub>2</sub>)** Investigated the direct relationship between community and environment CSR and firm's financial and non-financial performance of RMG sectors in Barishal. It was hypothesized that there is a positive relationship between external CSR and firm's financial and non-financial performance of RMG sectors in Barishal. Figure shows that external CSR caused for variance in firms financial and non-financial performance by 40 percent ( $R^2 = 0.4$ ). The result is shown in table revealed a positive and significant relationships between external CSR and firms financial performance ( $\beta = .63$ ,  $t = 10.67$ ,  $P < 0.05$ ). The result also indicates that the intensity of the positive relationship between external CSR and firm's financial and non-financial performance is moderate. From the findings, the hypothesis **2 is supported**. Thus, it can be concluded that there is positive relationship between community and environment CSR and firm's financial and non-performance of RMG sectors in Barishal.

So it has impact on financial and non-financial performance of Readymade Garments industries in southern region of Bangladesh. We have given some recommendations based on the findings of the survey conducted on employees of some Readymade Garments industries in southern region of Bangladesh basically in Barishal region. Employee will be given a weekly holiday and all other holidays as stipulated by the labor laws to increase employees' productivity as well as financial and non-financial performance. The employer should provide transport allowance, medical allowance, housing allowance etc. to satisfy employees that will help organization to increase financial and non-financial performance. Every factory shall employ employee without regard to race, cost, origin, color, gender, nationality, and religion, and age, maternity or marital status to satisfy community's demand. Employee must be allowed maternity leaves as stipulated by the laws. The CSR policy should be in action not only in books. The CSR policy should be for a specific period and after that period CSR policy should be reestablished. The organization should increase CSR practice that means employee CSR, customer and suppliers CSR, community CSR, and environment CSR to create financial and non-financial performance.

## **7. Conclusion**

Corporate Social responsibility is strategic when it yields business related benefits to the firm. This study has focused on the stakeholder approach to the business approach by linking CSR and firm performance (Mackey, Mackey & Barney, 2007; Masud & Alam, 2014) The first objective of the firm was to examine the relationship between CSR and financial and non-financial performance of Bangladeshi garments companies basically in Barishal region (Masud, 2019). The study found that CSR activities have a positive impact on a firm's financial and non-financial performance of firms and it is in the best business interests of the company to undertake CSR activities. While the correlation was significant for the CSR activities related to employees, community, customers and environment, it was statistically significant of CSR. The proof of the business case for CSR has been reiterated in the study. The cost outweighs the financial and non-financial performance in the long run (Masud & Ferdous, 2016). We have found that CSR engagement is financially and non-financially sustainable. The Companies with a reputation for investing in and developing communities are at a competitive advantage, as they are able to achieve capacity additions and expansions at a faster pace (Masud, Ferdous, & Hossain, 2017).

The relationship of each of these variables with firm performance has also been thoroughly examined. Though there have been many studies on CSR and financial performance but considerably less research has addressed the impact of different stakeholder CSR and financial and non-financial performance (Masud & Islam, 2018). This study is also conducted to analyze the prospects and expansions, problems and solution of problems of Readymade Garments Industry in Barishal, Bangladesh. The findings of this research show that Barisal has a great opportunity to contribute to increase in GDP through developing readymade garments industry. But some problems exist in this sector such as the transport, gas and electricity in Barishal is characterized by weak public and private institutions, and low level of investment. It operates in a physical environment of high levels of risk, and socio-political context of extreme poverty and frequent man-made disruptions.

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# Earning Management in Banking Industry: Evidence from Bangladesh

Mallika Saha\*

## *ABSTRACT*

*The paper aims to explore the prevailing scenario and determinants of earnings management in the perspective of the banking sectors of Bangladesh. For achieving the objective, this paper follows a two-step approach to investigate the prevalence of discretionary component of loan loss provisions (DLLP) to misrepresent earnings and the factors that may affect the DLLP using a balanced panel data of 30 listed banks for a period of 2012-2016. In the first step, the model determines the DLLP, a proxy for measuring earning management, and in the subsequent step, the model explores the determinants of it. This study finds that earnings management practice exists in Bangladeshi banks, which is higher in case of Islamic banks. Besides, the need for external financing, larger bank size, and management ownership lead to higher earning management; whereas, high earning before tax and provision deter bank managers from using income smoothing. Besides, conventional banks use less discretionary accruals activities than Islamic banks. The findings have some policy implications as it provides a deeper insight to strengthen the regulatory framework to improve the reporting quality. Besides, it might also help the auditors to identify the manipulations of financial statements while evaluating the provisioning practices adopted by the banks.*

**Keyword:** Banks, Discretionary loan loss provisions, DSE, Earnings management.

## Introduction

Bank managers, similar to managers in other sectors, usually “adjust earnings” to pursue their self-interest, for example compensation plan and/or protection of job, and maximize their own wealth. Relevant researches to date generally postulate that managers are engaged in earnings management for numerous reasons and typically manipulate the reported earnings using their accounting discretion (Chang, Shen & Fang 2008). Schipper (1989) define earnings management as “...a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain (as opposed to, say, merely facilitating the neutral operation of the process)”. It is well established in the previous researches that managers plan and manage the accruals in order to attain their primary capital, tax, and earnings goals (Moyer 1990; Scholes et al. 1990; Collins et al. 1995). Bank managers, unlike others, usually utilize loan loss provisions (LLP) to manipulate the reported earnings (Taktak et al. 2010). While most executives appreciate investors and stakeholders wellbeing, and report according to the guiding principles, yet there is a probability that some executives will distort financial details in order to obtain the contractual performance (Kellogg 1991). Managers may mislead regulatory authority by flattening income to avoid authoritarian action regarding capital adequacy requirement as Kim and Kross (1998) find that well-capitalized banks face less inquisitive regulatory action compare to other banks. De Angelo (1981) shows that employees’ incentive depends on firms’ performance and confirms that managers have both the incentive and the ability to manage income. Therefore, the earning management, regardless of the motives, implies a conflict of interest among managers, investors and other stakeholders.

Numerous researchers find that banks use LLP as a tool for long-term income smoothing (Collins et al. 1995; Anandarajan et al. 2005, 2007; Taktak et al. 2010). Though there are many researches on determinants of earning management however a few use discretionary loan loss

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provisions (DLLP) (Kanagaretnam et al. 2003; Kanagaretnam et al. 2004) to quantify manipulation of earnings. Using DLLP as a proxy for earning distortion rather than LLP provides better assessment for the discretionary element of accruals that depends on the managers' intention instead of the business activities. LLP consist of a nondiscretionary element as well as a discretionary element, the former resulted from the normal course of business, while the later could be altered to distort or smoothing the earnings deliberately to attain certain objectives, especially to pursue the self-interest of management. Therefore, analysing earning management using LLP could be misleading, spurious and sub-optimal policy making.

Moreover, Banks in the fast-growing emerging economies like Bangladesh exist at the top of the financial system with immense importance. Because of having a less developed capital market, Bangladesh mostly relies on banks to finance its economic growth and development. In addition, it is one of the largest sectors contributing to the GDP. As of December 2016, there are 56 banks and 9453 bank branches operating in Bangladesh. The amount of industrial term loan disbursed by banks and financial institutions was Taka 655.4 billion, and the holdings of capital market assets (equities, debentures) by scheduled banks stood at Taka 238.6 billion (Bangladesh Bank 2016). However, the NPL in the banking sector is raising sharply, rose by 6.67% from the previous fiscal year to Taka 633.7 billion (Bangladesh Bank 2016). Bank maintains a loan loss provision to make up against the loan loss, which is deducted from operating profit and could be influenced by managers' discretion for their self-interest rather than only covering the loan loss effects. This practice of falsification of income could severely affect stakeholders; specially the investors could be misled and could make a misguided decision, creditors' rights can be impaired, and the economy, as a whole, might be affected adversely. So, it is worth investigating whether bank managers use accruals discretion for reducing earning variability

and, if so, what factors provide an incentive for such discretionary practices, from Bangladeshi perspective?

Therefore, the aim of the paper is to investigate the practices of and factors affecting the earning management in Bangladesh using a balanced panel of 30 listed commercial banks for a period of 2012-2016, applying a two-step research technique similar to Kanagaretnam (2004); Taktak, Zouari, & Boudriga (2010).

This research contributes to the literature of earnings management in the following ways. First, it determines the earning management practices and gives a comprehensive scenario of the earning quality of banks operating in Bangladesh. Second, it compares the DLLP of listed Islamic and conventional banks to explore the possible differences in earning management practices. And finally, it investigates the determinants of earning smoothing, which might encourage and obstruct managers for such practice. Besides, as our study is based on a fast-growing emerging economy, Bangladesh, which is characterized as a bank dependent financial system, therefore the research approach and findings can be applied for other emerging countries to avoid such practices and thus, ensure the economic development of the nation.

The remainder of the paper is structured as follows: Section II present the theoretical framework and reviews the relevant literatures, section III explains the data and methods, section IV presents the results and discussion, and section V concludes.

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### **Theoretical framework:**

The earning management practices can be explained through agency theory, which recognizes the innate divergence of interest between managers and shareholders of the firms (Jensen & Meckling, 1976). Managers usually just comply the regulatory requirements and try to achieve their own goals instead of focusing on the shareholders objectives. Though Loan loss provision is management's current year's estimation of the level of future loan losses, managers used this as a tool to manipulate the earnings. Managers may increase loan loss provisions to decrease net income to minimise tax expenses and/or for many other purposes while decrease the recording of loan loss provisions to increase net income. This opportunistic behaviour of managers needs to be controlled through a variety of monitoring systems to uphold are more reliable and more useful accounting information. Developing an appropriate monitoring system requires a comprehensive study of the factors that determines the earning management.

### **Literature review and Hypothesis Development**

There are numerous studies on earnings management conducted on various sectors. Among these researches, Collins et al. (1995), Liu & Ryan (2006), Fonseca & Gonzalez (2008), Kilic et al. (2013), Kwak et al. (2009), Jin et al. (2018), Ezzeddine et al. (2013) provide evidence in support of earning smoothing. In contrast, Moyer (1990), Beatty et al. (1995) and Ahmed et al. (1999) find no evidence of earning management. Researchers who investigate the manipulation of earnings in the financial sector generally concentrate on loan loss provision (LLP) as well as on loan loss allowance. Accordingly, Beaver et al.(1989); Moyer (1990); Scholes et al. (1990); Wahlen (1994); Beatty et al. (1995); Beaver & Engel (1996); Kim & Kross (1998) and Liu & Ryan (2006) confirm that banks make use of accruals to reduce the variability of their earnings. Few research initiatives have examined the practice of earnings management in the banking



industry and concluded that managers employ their discretion for approximating LLP for income smoothing (Kim & Kross 1998; Shrieves & Dahl 2003; Kanagaretnam 2004; Agarwal, Chomsisengphet, Liu & Rhee 2007; Kwat et al. 2009;) and further confirm that they capitalize the benefit of their ability for preparing the financial statements.

Though bank executives are allowed to approximate LLP to account for the variability of expected future bad loans, however, it gives them a large discretionary authority to manipulate the estimation of LLP (Kanagaretnam et al. 2003). Beaver & Engel (1996) illustrated that LLP is found primarily in three kinds of discretionary practices, namely smoothing of earnings, managing capital, and signaling financial strength. These practices are categorized broadly under two purposes- efficiency purpose and opportunistic purpose (Lobo 2016).

In other investigations, Wahlen (1994) find that unexpected provisions influences existing pre-loan loss earnings positively, and suggest that discretionary element of unexpected provisions are used to reduce the variability fin come. Kanagaretnam et al. (2004) explore that banks having either good or bad current performance have higher tendency to smooth income compare to banks having average performance and further indicate that managers use gains or losses on sell of securities as an alternative for DLLP to smooth earnings. Therefore, I hypothesized that:

H1. Gains or losses on sell of securities have a substitutive (negative) impact on the DLLP.

Besides, since the regulatory authorities supervise the financial institutions according to the accounting-based capital measures, hence they have incentives to manage the LLP for complying with the requirement of minimum regulatory capital. The hypothesis of capital management anticipate a negative relation between capital ratio and LLP as bank having low capital ratios can improve the condition by increasing LLP to lessen the regulatory costs inflicted by capital adequacy regulations (Lobo & Yang 2001; Kim & Kross 1998; Ismail et al. 2005 and Ahmed et al. 1999). Bank managers, who are unable to meet the requirement of

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regulatory capital, utilize LLPs along with gains on sell of securities to exaggerate the disclosed earnings and equity capital (Moyer 1990; Beatty et al. 1995; Beatty et al. 2002; Kwak et al. 2009). Ryan (2011) explains that prior to 1990, LLP was a part of banks' primary capital, which was included beyond limit. Hence prior to 1990, banks' ability to dress the ratio of capital adequacy through LLP was much higher, which also corroborates the findings Chang et al. (2008).

H2. Capital adequacy ratio has a negative impact on the DLLP.

Kanagaretnam et al. (2004) and Taktak et al. (2010) claim that managers who hold bank's ownership are incentivized to manipulate earnings, therefore, higher the management ownership; the higher will be the LLP. Other studies (Klein 2002 and Peasnell et al. 2005) mention that earnings management depends on managerial ownership. They find negative relation between DLLP and managerial ownerships managers are shareholders in their firms; they avoid managing earnings in order to avoid the additional tax liability that has a negative impact on the shareholders' wealth.

H3. Management ownership has a positive impact on the DLLP.

Additionally, Kanagaretnam et al. (2004) indicate that the relationship between realized gains (losses) from sell of securities and DLLPs depends on whether the earnings prior to the tax and provisions is high or low. In particular, they find that gains and DLLPs are positively (negatively) associated in case of US banks that possess low (high) pre-managed earnings. In other words Kanagaretnam et al. (2004) show that bank managers in US use gains (losses) to counteract the DLLPs of banks that exhibit low (high) pre-managed earnings. Herrmann et al. (2003) show managers may sell asset to balance earnings and to minimize the errors of forecasting revenues. Shrieves and Dahl (2003) find gains and LLPs are positively associated,

and support that banks smooth the earnings using the gains and deal with the regulatory capital thorough managing the LLPs.

H4. Earnings before tax and provisions has a positive impact on the DLLP.

Choi & Meek (2005) state that management may tend to minimize taxes by reporting lower amount of profits. Oguri & Hara (1990) further show that the tax laws that incorporate special allowances and exemptions can motivate managers to overstate expenses (deductions) that help to window dress reported profits. Kanaya and Woo (2000) assert that historically, Japanese banks had maintained the highest permissible percentage of LLP in terms of the tax law, until 1990s, which helped to generate the lower taxable income resulted from higher LLP.

H5. Tax expenses to operating revenues ratio has a negative impact on the DLLP.

Besides, some other studies use external financing as an instrument to smooth reported income. Several studies (Kanagaretnam et al. 2004; Zoubi et al. 2007) are found to use the loan to deposit ratio as a measure of external financing. Earnings management is also found to measure investors' protection. The dividend policy and earnings management may have a negative relationship between them. Porta et al. (2000) analyzed dividend policy and show that investors' protection and dividend are positively associated. However, Ezzeddine et al. (2013) documented dividend policy fails to explain earning management.

H6. Loan to deposit ratio and dividend policy has a negative impact on the DLLP.

Furthermore, DeAngelo (1981) note that the probability of identifying errors and financial statements deficiencies determine audit quality, which is also highlighted by Defond and Jiambalvo (1991). Kanagaretnam et al. (2010a) show that the auditor independence may become weak in case of small banks. Kanagaretnam et al. (2010b) demonstrate the presence of the Big-4 auditors and industry specialist auditors can minimize earnings management.

H7. The presence of the Big-4 auditors has a negative impact on the DLLP.

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The board of directors' efficiency depends on its size. Likewise, Yermack (1996) and Beasley (1996) argue that the decisions taken in a small sized board of directors may become more effective than decisions taken in a large sized board of directors. Similarly, Xie et al. (2003) and Bradbury et al. (2006) find a negative relationship between board size and discretionary accruals. Hasan & Sharmin (2015) studied Islamic Banks in Bangladesh and concluded board size has significant influence on earning management.

H8. Board size and bank type has a negative impact on the DLLP.

## **Data and Methods**

### **Data source**

Data of this study are hand collected for a period of 2012-2016 from the annual reports of banks that are listed in the Stock Exchanges, which constitutes a balanced panel study of 150 total bank-year observations. Data are collected from the year 2012 to avoid the possible biases arising from some extraordinary events before the year 2012, such as liquidity crisis of the banking sector, stock market in stability, and non-uniform face value of shares. The name of banks, which are considered for the study, are given in Appendix-A.

## Measurement of Variables

Table 1 present definition and measurement of the variables used to attain the objectives of the study.

<b>Table 1 Variable description</b>	
<b>Variables definition and measurement</b>	<b>Variables used in earlier studies</b>
<b>Dependent variables</b>	
Discretionary component of the loan loss provision (DLLP): Residual value of equation-1 used as a measure for earning management	Kanagaretnam et al. (2004); Kwak et al. (2009); Jin et al. (2018)
<b>Explanatory variables</b>	
Loan to deposit(LDEP): Total loans divided by total deposits, a proxy for need for external financing	Kanagaretnam et al. (2003, 2004); Kwak et al. (2009); Fakir et al. (2015)
Gains and losses on securities(GLSEC): Realized gains and losses on securities for sale divided by initial total assets, a proxy for alternative mechanism for earning management	Ahmedetal. (1999); Kanagaretnam et al. (2003); Kwak et al. (2009)
Capital adequacy ratio (CAR): Total capital divided by total assets, proxy for equity capital availability	Herrmann et al. (2003); Kanagaretnam et al. (2003); Shrieves and Dahl (2003); Chang et al. (2008); Kwak et al. (2009)
Bank size (BS): The natural logarithm of total assets, proxy for size of the firm	Beatty et al. (2002); Kanagaretnam et al. (2003); Chang et al. (2008); Kwak et al. (2009); Ezzeddine (2013); Jin et al. (2018)
Tax expenses to operating revenues ratio (TAXP): Previous year tax expenses divided by previous year operating revenues, a proxy for incentive to evade tax payment	Choi and Meek (2005); Kwak et al. (2009)
Earnings before tax and provisions (EBTP): Earnings before tax and provisions divided by initial total assets, a proxy for earning smoothing over a period	Ahmed et al. (1999); Kanagaretnam et al. (2003); Kwak et al. (2009); Jin et al. (2018)
Board size (BDS): Number of board of directors	Hounaida et al. (2016);

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	Kumari (2017)
Management ownership (MO): Number of share owned by managers in the company divided by number of outstanding share	Hounaida et al. (2016)
Dividend per share (DPS): Cash dividend divided by share outstanding	Ezzeddine (2013)
Bank-type: 1 if the bank is a conventional bank and 0 otherwise	Othman et al. (2014)
Auditor: 1 if auditor is 'Affiliated BIG 4 audit firm' and 0 otherwise, proxy for audit quality	Fakir et al. (2015)

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### Model

#### Estimation of discretionary loan loss provision

To attain the aforesaid objectives, the discretionary component of loan loss provisions (DLLP) need to be approximated. The loan loss provision includes a discretionary element (DLLP) and a nondiscretionary element (NDLLP).

$$LLP = \text{Non-discretionary element of LLP} + \text{Discretionary element of LLP} \quad (1)$$

Following Kanagaretnam et al. (2004), change in nonperforming loans (CHNPL), the beginning balance of nonperforming loans (NPL<sub>t-1</sub>), and change in total loans (CHLOAN) is used to determine the nondiscretionary element of LLP. These explanatory variables explain the non discretionary element of LLP and, therefore, the discretionary component (DLLP) is the residual value in the equation (2).

$$LLP_{it} = \alpha_0 + \beta_1 NPL_{it-1} + \beta_2 CHNPL_{it} + \beta_3 CHLOAN_{it} + \varepsilon_{it} \quad (2)$$

### **Analysing the determinants of discretionary loan loss provision**

In the second step, the discretionary component of LLP is considered as dependent variable and after reviewing the existing literature, Loan to deposit ratio, Gains and losses on securities, Capital adequacy ratio, Bank size, Tax expenses to operating revenues ratio, Earnings before tax and provisions, Board size, Management ownership, Dividend per share, Bank-type and Auditor is chosen as the determinants of DLLP. The following equation investigates whether these variables can explain the discretionary element of loan loss provision.

$$DLLP_{it} = \alpha_0 + \beta_1 LDEP_{it} + \beta_2 GLSEC_{it} + \beta_3 CAR_{it} + \beta_4 BS_{it} + \beta_5 TAXP_{it} + \beta_6 EBTP_{it} + \beta_7 BDS_{it} + \beta_8 DPS_{it} + \beta_9 MO_{it} + \beta_{10} Auditor_{it} + \beta_{11} Banktype_{it} + \varepsilon_{it} \quad (3)$$

where subscripts i and t indicate bank and year respectively. DLLP discretionary part of the loan loss provision, estimated as the residual from equation (2); LDEP is Loan to deposit ratio; GLSEC is realized gains and losses on securities for sale divided by beginning total assets; CAR is Capital adequacy ratio; BS is the bank size; TAXP is Tax expenses to operating revenues ratio; EBTP is earnings before tax and provisions divided by beginning total assets; DPS is the dividend per share; BDS is the Board size; MO is percentage of managers' ownership in the company; Auditor is a dummy variable, equals to 1 if auditor is 'Affiliated BIG4 audit firm' and 0 otherwise, and Bank type is a dummy variable, equals to 1 if the bank is a conventional bank and 0 otherwise.

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### Result and discussion

**Table 2 Summary Statistics**

Variables	Observations	Mean	Std. Dev.	Minimum	Maximum
NPL/TL	150	0.094	0.19	0.003	1.097
DLLP/TL	150	0.015	0.017	0	0.11
LLP/TL	150	0.012	0.013	-0.001	0.102
CHNPL/TL	150	0.019	0.091	-0.132	1.054
CHLOAN/TL	150	0.123	0.097	-0.363	0.468
LDEP	150	0.83	0.092	0.561	1.084
GLSEC	150	0.018	0.083	0	0.495
TAXP	150	0.339	0.14	-0.014	1.477
EBTP	150	0.024	0.011	-0.026	0.057
DPS	150	0.156	0.071	0	0.4
BS	150	25.781	0.614	23.229	27.405
CAR	150	8.484	19.186	-108.49	16.65
BDS	150	13.96	3.976	5	22
MO	150	0.003	0.008	0	0.034
Bank type	150	0.733	0.444	0	1
Auditor	150	0.14	0.348	0	1

Table 2 presents the summary statistics for all variables used in this study. The mean and standard deviation of NPL are 0.094 and 0.19 respectively, showing a high cross-bank variation. The minimum value of -108.49 reveals and maximum value of 16.65 CAR reveals a wide variation and some banks might suffer from capital deficit. The data shows capital adequacy ratio of only one bank is negative in all year which is very unusual. Therefore, to avoid the outliers in the analysis, data of that particular bank is dropped and a balance panel of 145 observations is considered for the second step analysis. However, for the first step analysis the total 150 observations are considered to present a comprehensive picture of earning management practices of listed banks of Bangladesh. The minimum value of 0 to a maximum value of 0.11 associated with the DLLP also represents some banks are using Discretionary loan loss provision to manipulate the earnings. Bank type is a dummy variable for which 1 represents Conventional bank and 0 indicates the Islamic bank. Auditor is also a dummy variable; equals



to1 if the auditor is ‘Affiliated BIG4 audit firm’ and 0 otherwise. As our study includes banks of different size and market power, therefore, all other variables are heterogeneous.

**Table 3 Matrix of correlations**

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) DLLP	1.000									
(2) LDEP	0.400*	1.000								
(3) GLSEC	-0.012	-0.155	1.000							
(4) TAXP	0.068	-0.164*	0.146	1.000						
(5) EBTP	0.080	0.219*	0.064	0.312*	1.000					
(6) DPS	0.142	0.039	0.604*	0.125	0.522*	1.000				
(7) BS	0.512*	0.101	0.066	0.345*	0.535*	0.393*	1.000			
(8) CAR	0.200*	0.022	0.052	0.399*	0.731*	0.439*	0.768*	1.000		
(9) BDS	0.187*	-0.038	-0.280*	0.073	0.211*	-0.047	0.379*	0.323*	1.000	
(10) MO	0.348*	0.148	-0.085	0.051	0.139	0.138	0.236*	0.083	0.026	1.000

\* shows significance at the .05 level

Table 3 represents the correlations between the variables used in estimating equation (2). “The rule of thumb is that if the correlation between two variables is between -0.70 and 0.70, there is no problem of multicollinearity” (Lind, Marchal, & Wathen, 2008). However, the correlation between BS and CAR is 0.768, and the correlation between CAR and EBTP is 0.731, which might be a concern. Therefore, I reported the heteroskedastic and serial correlation adjusted results in all estimations and further use panels corrected standard errors (PCSE) regression for robustness check. All other variables are showing not very high correlation with each other.

**Table 4 Estimation of Discretionary loan loss provision**

Variables	(1) Pool OLS
$NPL_{t-1}$	0.061*** (0.025)
CHNPL	-0.048 (0.082)
CHLOAN	0.254*** (0.080)
Constant	0.003 (0.080)
Observations	150
R-squared	0.70

Robust standard errors are given in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

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Table 4 presents the first step result, specifically the pool OLS estimation of equation (2). To select appropriate model, the Breusch-Pagan Lagrange multiplier test is applied to decide between the panel data estimation and the pooled ordinary least squares estimation, following the suggestion of Wooldridge (2002). The results of the test suggest that no unobserved individual effects exist in the data. Therefore, pooled ordinary least square estimations (Pool OLS) for the first step estimation is used. The result shows that the lag term of NPL and change in total loans (CHLOAN) is positive and highly significant. This signifies that an increase in previous year's nonperforming loans lead to an increase in the provision for loan losses and an increase in total loans also might result in higher loan loss provision because of the consequential bad loans. However, the impact of change in NPL (CHNPL) is not significant.

Year	Conventional Banks		Islamic Banks	
	DLLPTA	DLLPTL	DLLPTA	DLLPTL
2012	0.009	0.015	0.017	0.024
2013	0.009	0.014	0.015	0.021
2014	0.008	0.012	0.016	0.024
2015	0.007	0.011	0.016	0.023
2016	0.007	0.010	0.017	0.022

Table 5 presents a comparative, conventional versus Islamic banking, year-wise mean of discretionary loan loss provision to total asset ratio, and discretionary loan loss provision to total loan ratio. The list of the name of conventional and Islamic banks are given in Appendix-A. Overall, Islamic banking is showing a high adaptation of discretionary loan loss provision than conventional banking. The potential reason might be the uncertainty of Islamic banks' income, as they do not charge interest on the loan instead takes a share of profit, if any, in the borrowers' business. Therefore the earning of Islamic banks might be volatile, and thus, they might use DLLP to smooth their earnings.

Table 6 presents the Bank-wise mean of discretionary loan loss provision to total asset ratio (DLLPTA), and discretionary loan loss provision to total loan ratio (DLLPTL). The ICB Islamic Bank Ltd. has the highest DLLPTA and DLLPTL, indicating a very high discretionary accruals activity. Others banks are showing a moderate DLLPTA and DLLPTL ratio.

**Table 6 Bank-wise mean of discretionary loan loss provision**

Bank	DLLPTA	DLLPTL
AB Bank Ltd.	0.007	0.010
Al-Arafah Islami Bank Ltd.	0.008	0.012
BRAC Bank Ltd.	0.007	0.011
Bank Asia Ltd.	0.007	0.011
Dhaka Bank Ltd.	0.008	0.012
Dutch-Bangla Bank Ltd.	0.007	0.011
Eastern Bank Ltd.	0.008	0.011
EXIM Bank of Bangladesh	0.008	0.010
First Security Islami Bank Ltd.	0.009	0.012
ICB Islamic Bank Ltd.	0.073	0.103
IFIC Bank Ltd.	0.009	0.013
Islami Bank Ltd.	0.004	0.005
Jamuna Bank Ltd.	0.010	0.016
Mercantile Bank Ltd.	0.008	0.012
Mutual Trust Bank Ltd.	0.011	0.017
NCC Bank Ltd.	0.009	0.013
National Bank Ltd.	0.006	0.009
One Bank Ltd.	0.011	0.016
Prime Bank Ltd.	0.005	0.007
Pubali Bank Ltd.	0.005	0.009
Rupali Bank Ltd.	0.006	0.010
Shahjalal Islami Bank Ltd.	0.009	0.012
Social Islami Bank Ltd.	0.010	0.014
Southeast Bank Ltd.	0.006	0.009
Standard Bank Ltd.	0.010	0.015
The City Bank Ltd.	0.008	0.012
The Premier Bank Ltd.	0.012	0.018
Trust Bank Ltd.	0.010	0.015
United Commercial Bank Ltd.	0.006	0.009
Uttara Bank Ltd.	0.008	0.016

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Applying the model selection process similar to the first step analysis, pooled ordinary least square estimations (Pool OLS) is chosen and used for the baseline estimation. In addition, random effect and Prais-Winsten's panels corrected standard errors (PCSE) regression is also used to confirm the robustness of the estimation. This paper checks the hausman test and finds that random effect is suitable for this data set. Table 7 presents the results of second step of the analysis, specifically, the estimation of equation (3). Model (1) and (2) show the results of pooled ordinary least square estimations (Pool OLS), model (3) and (4) show the results of random effect estimations and model (5) and (6) show the panels corrected standard errors (PCSE) estimations.

In all models, the coefficients of LDEP, BS and MO are positive and significant, signifying that the need for external financing, larger bank size and management ownership leads to higher earning management. Kanagaretnam et al. (2004) and Taktak et al. (2010) also claim that managers who have equity incentives are more likely to manage earnings.

**Table 7 Analysis of determinants of earning management**

Variables	(1) Pool OLS	(2) Pool OLS	(3) Random Effect	(4) Random Effect	(5) PCSE	(6) PCSE
LDEP	4.015*** (0.754)	4.351*** (0.804)	4.458*** (0.794)	4.803*** (0.844)	5.690*** (1.152)	6.519*** (1.235)
GLSEC	0.064 (1.037)	-0.243 (1.054)	0.318 (1.133)	-0.036 (1.144)	0.997 (0.780)	0.576 (0.726)
TAXP	0.267 (0.481)	0.198 (0.488)	0.213 (0.487)	0.134 (0.494)	0.015 (0.402)	-0.055 (0.408)
EBTP	-30.475*** (9.763)	-37.628*** (10.910)	-28.255*** (10.141)	-36.431*** (11.317)	-28.707*** (10.385)	-36.616*** (11.667)
DPS	1.625 (1.421)	2.336* (1.382)	1.347 (1.467)	2.122* (1.425)	0.407 (1.071)	1.272* (0.065)
BS	1.057*** (0.164)	1.172*** (0.185)	1.034*** (0.179)	1.185*** (0.206)	1.148*** (0.183)	1.445*** (0.216)

CAR	-0.007 (0.006)	-0.008 (0.006)	-0.007 (0.007)	-0.008 (0.007)	-0.007 (0.005)	-0.012** (0.005)
BDS	0.012 (0.017)	0.010 (0.017)	0.017 (0.019)	0.014 (0.019)	0.020 (0.021)	0.010 (0.020)
MO	20.333** (7.900)	19.284** (7.976)	17.895** (8.597)	16.951** (8.626)	19.880*** (7.191)	13.559** (6.655)
Banktype	-0.305** (0.151)	-0.275* (0.153)	-0.288* (0.170)	-0.252 (0.171)	-0.268* (0.143)	-0.247* (0.135)
Auditor	-0.104 (0.182)	-0.152 (0.185)	-0.096 (0.185)	-0.144 (0.188)	-0.121 (0.129)	-0.149 (0.126)
Constant	-30.249*** (4.102)	128.801 (116.166)	-30.096*** (4.477)	-64.238 (369.371)	-33.861*** (4.237)	0.00 (0.00)
Year dummy	No	Yes	No	Yes	No	Yes
Observations	150	150	150	150	150	150
R-squared	0.543	0.554			0.691	0.711
Number of Banks			30	30	30	30

Robust standard errors are given in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

In all models, the coefficient of DPS is positive but only significant at 10 percent when year dummies are used, which is similar to the findings of Ezzeddine et al. (2013), who documented dividend policy fails to explain earning management. The coefficient of EBTP is negative and significant at 1 percent irrespective of model used, implying bank managers is reluctant to use income smoothing when the earning before tax and provision is high. The finding corroborates the result of Wahlen (1994). The coefficient of CAR is also significantly negative in all models, suggesting higher capital adequacy leads to lower earning manipulation. The coefficient of Banktype, a dummy variable, is negative and significant except in model 4, where random effect with year dummy model is used. This result imply that conventional bank use less discretionary accruals activities than the Islamic banks. The impact of GLSEC, TAXP, BDS, and Auditor are not significant. Overall the results are consistent in all models suggesting the robustness of our findings. The value of R-square increases when PCSE model is used.

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### **Conclusion**

Most of the previous studies on earnings management do not consider the discretionary loan loss provision to estimate the manipulation in earnings. Moreover, most of studies focus on developed market; whereas, most emerging countries are characterized as bank dependent. Banks in Bangladesh, a bank dependent fast growing emerging country, is exhibiting higher nonperforming loan and thus, higher scope for discretionary accrual activities. Therefore, it is imperative to investigate the comprehensive scenario as well as the determinants of earning management of Bangladesh.

This study collects financial data of the Bangladeshi banks for the period of 2012-2016 and applies a two step approach to determine the discretionary provision of loan losses and examine the factors which may affect the earning management of banks. Besides, it also compares the earning management practice of conventional and Islamic banks.

The findings suggest that a high earnings management practices exists in Bangladeshi banks, and Islamic banks use more discretionary accruals activities than conventional banks. The study further confirms that the need for external financing, larger bank size, and management ownership lead to higher distortion of earnings; whereas, high earning before tax and provision deter bank managers from using income smoothing.

The findings have some policy implications, which may assist regulators with deeper insights to make the financial regulation stronger and to uphold the quality of financial reporting. The policy maker should improve the legal and financial framework and supervision to ensure that the earning management is adapted for operational efficiency rather than gaining personal interest of managers at the cost of stakeholders. Besides, the findings of the study might help

auditors to detect specific manipulations of accounting while evaluating the provisioning practices adopted by the banks.

The paper has some limitations; I could not include the banks which are not listed in DSE due to unavailability of the data. Besides, only cash dividend is considered to investigate the impact of dividend policy on earning policy while there could be other types of dividend, for example stock dividend. Moreover, the impact of regulations on earning management is not considered in this study which could be a future research area. Regulations could moderate the impact of different determinants of earning management.

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## **Earning Management in Banking Industry: Evidence from Bangladesh**

### **Appendix-A**

#### **Name of sample banks**

Total number of banks listed in Dhaka Stock Exchange (DSE): 30

#### **Conventional banks (22)**

AB Bank Limited  
Bank Asia Limited  
BRAC Bank Limited  
The City Bank Limited  
Dhaka Bank Limited  
Dutch-Bangla Bank Limited  
Eastern Bank Limited  
Jamuna Bank Limited  
Mercantile Bank Limited  
Mutual Trust Bank Ltd.  
National Bank Limited  
NCC Bank Limited  
One Bank Limited  
The Premier Bank Limited  
Prime Bank Limited  
Pubali Bank Limited  
Rupali Bank Limited  
Southeast Bank Limited  
Standard Bank Limited  
Trust Bank Limited  
United Commercial Bank Limited  
Uttara Bank Limited

#### **Islamic banks (8)**

Al-ArafahIslami Bank Limited  
Export Import (Exim) Bank of Bangladesh  
First Security Islami Bank Limited  
ICB Islamic Bank Limited  
IFIC Bank Limited  
Islami Bank Limited  
ShahjalalIslami Bank Limited  
Social Islami Bank Limited



# **Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh**

**Bankim Chandra Sarker\***

**Md. Aslam Uddin\*\***

**Mohammad Zahedul Alam\*\*\***

## ***ABSTRACT***

*At present, free classified advertisement is one of the new innovations in online marketing strategies in Bangladesh. Lots of classified sites have recently been evolved but many sites have not become successful and postponed their activities or merged with other classified sites and frequently changed their marketing strategies in order to survive in the marketplace. This points out the need for research to identify the factors that determine the acceptance of free classified site by the users. This study is descriptive in nature and aims to examine the factors affecting the adoption of online free classified advertisement in Bangladesh. Due to technological advancement and rapid globalization, the models of the product and its attributes have been changed rapidly. So, the adoption rate of the new product has been increased due to adjustment with the changing technological environment. As a result, the used products have utility for later usages. But there were no scopes for individual buyers and sellers to interact with each other. Classified advertisement is an alternative endeavour to make them realize how they can recycle and reutilize their used items and earn money. An exploratory factor analysis was conducted to find out the factors behind using the classified advertisement. It is revealed that there are many factors affecting the adoption of classified ads i.e. demographic and marketing mix, customer perceived value, ease of obtaining the products, users' attitude etc. Gender, age and income strongly influence the adoption intention of this platform. Finally, the implications for theory and practices are put forward.*

**Key Words:** *Free Classified Advertisement, Online Shopping, Classified Marketplace, Consumer Behaviour and Bangladesh.*

\*Lecturer, Department of Marketing, University of Barishal.

\*\*Assistant Professor of Marketing, Bangladesh University of Business and Technology (BUBT).

\*\*\*Associate Professor of Marketing, Bangladesh University of Professionals (BUP).

## I. Introduction

Advertising is a versatile and dynamic genre incorporating a constellation of subgenres, most of which are short messages subject to spatial or temporal restriction. One of them is the classified ad, a form of small, local advertising that, like other forms of written communication, has found its way on to the Web (Pierini, 2011). Classifieds sites are those websites that allow people to put their advertisement online for free of cost. Company will not charge anything for those services. Today, customers buy the products, place the orders of the product and pay the bills over the online. In today's cluttered commercial environment, advertising is very expensive which ultimately increases the total costs of the product. At the same time, free classified site is the best way to get free advertising which ultimately reduces the costs of products sold. Anyone can put their advertisements individually for their used products to be sold. Due to technological advancement, products produced in one country are found in another country within a short span of time. So, innovation in product replaces the old product within short span of time although it has some utility.

In this digital age, online marketing is becoming very popular among businesses. Understanding the consumer behavioral factors is prerequisite for successful marketing program implementation. Initially, internet was used as a means of communication, but now it is being used as a tool of marketing communication. At present, internet is affecting the ways consumers exchange goods and services, and has gradually been a global phenomenon.

To stay ahead in competition in the twenty first century, many companies have crafted effective strategies to sell their products and services through online. In Bangladesh during the last five years, the ICT and online businesses have been flourished tremendously. At present, ICT market size of Bangladesh is more than 650 million dollars (BASIS, 2016). Online shopping is gradually becoming a popular means of purchase in today's technologically interconnected world. In 2008, 875 million customers purchase over the internet which is approximately 40 percent of the world's online population (Acnielsen.com, 2013).

Recent research has shown an interest in investigating consumer motivations that affect the online shopping behavior. L, Cheng (2011) found that marketing communication process differs between online and offline consumer decision. Classifieds websites are very good to promote businesses absolutely free and there are 1000 of free classifieds websites in India and USA for posting advertisement for free (Quora, 2017).

## **Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh**

Free classifieds websites are used by online marketing companies for marketing their clients' businesses. There are huge business opportunities for second hand products in the marketplace of Bangladesh. In these circumstances, users are trying to sell their old products in the marketplace. So, classified advertisement is the platform for the buyers and sellers to sell their used products across the country. It is found that neighbouring countries have lots of classified websites like Bikroy.com, OLX.com, clickin.com and clickindia.com and these classified websites are very much effective in the market space.

Free classified advertisement is a new innovation in online marketing strategies in Bangladesh. Lots of classified sites have recently been evolved but many sites have not become successful and postponed their activities or merged with other classified sites and frequently changed their marketing strategies in order to survive in the marketplace. So, the study is conducted to identify the factors that determine the adoption of online free classified advertisement by the users in Bangladesh.

### **Background of The Study**

In Bangladesh, people can easily sell their own used products or new products to other customers by their own ways at their convenient time and place. They can communicate with customer individually. In Bangladesh, people can easily purchase the secondhand products by using this platform. Companies producing new products are facing the severe competition from the classified sites in online marketing. Some free classified advertisements have been postponed and merged with other sites due to less interest of the consumer. Under these circumstances, it is very imperative to analyze the factors that affect the adoption of online classified sites in Bangladesh. The findings will be very helpful for the online sellers for policy making and marketing strategies. Very few researchers focused on this issue. So, this paper has been concentrated on the scope of online classified business sector in Bangladesh. Though, there are number of research studies on online marketing throughout the world, in Bangladesh perspective it is a rarity. To have a thorough knowledge about online marketing, the study will be of immense help.

Being facilitated by e-business, the country can create immense opportunities for both producers and customers. The study explores the idea whether the country has proper



infrastructure facilities for doing free classified marketplace, the status of classified marketplace in our country, online transaction's applicability as a complementary to e-business, the target customers of this site, the consumer buyer behaviour of classified sites in Bangladesh. This study will add value to the existing field of consumer behavior research.

### **Key Concepts In Free Classified Site**

The websites of online classified advertisements are becoming very influential in how people are using the internet. Classified advertisement websites are successfully being used to promoting companies and their services or products. At present, classified advertising is one of the vital means of advertising on the internet that is very cost effective. They may seem very simple on the surface, but to make a great advertisement one needs to put some creative thought into how the ad flows. Like many things, what seems simple on the surface is actually carefully designed to make a specific impact. The fact that classified advertisements are bundled with news in a single physical product that has nothing to do with the inherent qualities of either product. An e-market is a facilitated online environment that connects multiple buyers and suppliers in a single, web-based hub. The e-marketplace works for companies engaging in collaborative business.

Advertising needs not to be expensive. There are many ways to advertise inexpensively. The best of these is the classified advertisement. The ideal way to use a classified ad is as "two-step" ads. Consumers always look for cheaper or better ways to come into exchanges. They watch classified ads for a purpose. They aren't interrupted - as in most advertising - the individual users are more prioritized here. Classified advertisement is an endeavour to make them realize how they can recycle and reutilize their used items and earn money.

### **Literature Review**

Very few studies have been found regarding the consumer buyer behaviour of free classified sites. Some studies were found regarding the online buyer behaviour i.e. e-commerce & e-marketing. E-commerce is one of those sectors which need more attention if we want to be a part of global business (Laisuzzaman, et. al., 2010). Online transaction would increase the Gross Domestic Product (GDP) growth and thus help Bangladesh accomplish the Millennium development goals (MDGs). The internet has gone through revolutionary changes, and in developing countries, e-commerce become a common norm of doing business (Deyet *al.*, 2009).

## **Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh**

In the business to consumer (B2C), e-commerce cycle activity, consumers use Internet for many reasons and purposes such as: searching for product features, prices or reviews, selecting products and services through Internet, placing the order, making payments, or any other means which is then followed by delivery of the required products through Internet, or other means and last is sales service through Internet or other means (Sinha, 2010).

On the other hand, online classified advertisement is a popular way to sell goods or services. The popularity of online classified advertisement websites such as craigslist, Backpage, Oodle and eBay classified is continuing to increase (McCormick and Eberle, 2013).

Consumer behaviour is one of much sought areas of present times. One of the major barriers to the e-commerce is that Web users may waste a lot of time and effort to search for information. Previous research explored that both goal and experience are important factors influencing user's Web search behaviour. Kotler and Keller (2012) showed that understanding consumer behaviour has become a factor that has a direct impact on the overall performance of the businesses. Surprisingly, due to complexities of life, online shopping has increasingly replaced traditional retail shopping, as a large number of consumers have adopted it on a global scale. However, while it is well established in developed countries, e-commerce is still at an early stage in emerging markets, hence there is a need to unveil which factors contributed to its adoption (Dakduk *et al.*, 2017) and they found that the intention to purchase online is mostly determined by the attitudes towards e-commerce which, in turn, are explained by perceived usefulness, perceived ease of use, and the subjective norms related to online shopping.

According to Kapoor (2012), online decision making and online shopping phenomena are governed by a number of consumer acceptance and behaviour characteristics and grounded in the theoretical aspects of consumer decision making. There are number of factors i.e. marketing efforts, socio-cultural influences, psychological, personal, post decision behaviour and experience that affect what we buy, when we buy, and why we buy. Government and industry organizations have declared information privacy and security to be major obstacles in the development of consumer-related e-commerce. Risk perceptions regarding Internet privacy and security have been identified as issues for both new and experienced users of Internet technology (Miyazaki and Fernandez, 2001).

Today, we are witnessing an increasing popularity of the online used product market. While customer behaviour has been studied extensively, that for the used product market is still not

well explored. Attracting potential customers in the initial stage of unknown online stores in the product marketing is critical and also a practical issue to the retailers. (Lee and Lee, 2005).

Hwang, Jin Sook (2012) found that sales motives of second hand goods were trends, practically, cashable, change of mind and suitability etc. while, purchase motives were an affordable price, trends, practically, and ostentation. On the other hand, Moshrefjavadi *et al.*, (2012) found that financial risks and non-delivery risk negatively affected attitude toward online shopping. Results also indicated that domain specific innovativeness and subjective norms positively affect online shopping behavior. Furthermore, attitude toward online shopping positively affected online shopping behavior of consumers. Information quality, user interface quality, and security perceptions affect information satisfaction and relational benefit, that, in turn, are significantly related to each consumer's site commitment and actual purchase behaviour (Chung-Hoon *et al.*, 2003)

Bashir (2013) found that e-commerce has made life simple and innovative of individuals and groups; Consumer behaviour in online shopping is different from the physical market where he has access to see the product physically. De Lone and Mclean (2004) indicated that the adoption of internet-based applications provides opportunities as well as introduces new challenges for firms. The Internet has dramatically influenced the way in which business is conducted. Markets, industries, and businesses are being transformed. IT is now a major driver for transforming businesses and markets.

Wang *et al.*, (2005) showed that convenience of the internet is one of the impacts on consumers' willingness to buy online. Online shopping is available for customers around the clock comparing to traditional store as it is open 24 hours a day, 7 days a week (Hofacker, 2001; Wang *et al.*, 2005). According to Yu and Wu (2007), online shopping has been shown to provide more satisfaction to modern consumers seeking convenience and speed. Besides, some consumers still feel indifferent to buy online. Lack of trust, for instance, seems to be the main factor that impedes consumers to buy online. Also, consumers may have a need to relate to the friends, families and others before purchasing. Such factors may have negative impact on consumer decision to shop online.

Buffam (2000) showed that companies that build the better e-business solutions will outperform their competitors. Companies that build the very best e-business solutions will transform themselves into zero-latency enterprises. Companies that choose not to embrace e-business, or do so ineffectively, will underperform or be driven out of business. After going through the

## **Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh**

literature review, it has been found that studies are rarely available about the factors affecting the adoption of free classified advertisement in Bangladesh. Thus the current study is an attempt to shed a light on this particular issue and to analyze the consumer buying behaviour of free classified market space in Bangladesh.

### **Objectives**

The broad objective of this study is to examine the factors that affect the adoption of free classified advertisement in Bangladesh. Specifically the objectives of the study are as follows:

- To profile the customers shopping online through the classified sites;
- To analyze the customers buying behaviour of free classified market space in Bangladesh;
- To examine the factors that affect the adoption of online free classified advertisement in Bangladesh; and
- To provide some managerial implications.

### **An Overview of Classified Marketplace In Bangladesh**

As information technology (IT) is growing in Bangladesh, classified websites are found to post advertisement in the top cities of Bangladesh like Chittagong, Dhaka, Barisal, Khulna, Rajshahi, Rangpur, Sylhet. Here are some popular classified websites with URL for posting advertisement in Bangladesh. One can post ad into the following category of- Jobs, Business, service, part time Jobs, Offering Jobs, Vehicles, Apartment, sell, rent, Bye online product, Car, bikes, Personal etc. There are different types of classified ads in Bangladesh i.e. Bikroy.com, Ekahnei.com, Click. BD etc., which were established in 2012, 2006 and 2005 respectively. Recently, lots of classified sites evolved i.e. Khan list. com, Lecanto and there are also many websites for classified sites in Bangladesh.

**Table No 01: Advertisements Distribution by Categories**

SL	Classified Sites	Descriptions
1	<b>Ekhanei.com</b>	Ekhanei has 9 categories. Phone & Electronics is by far the biggest category for ekhanei followed by home & living and Vehicles (total contribution 79%) and 86% ads in top 3 categories are from Private.
2	<b>Bikroy.com</b>	Bikroy has 12 categories. Electronics (49%), home and garden (15%) and vehicles (11%) are 3 largest categories for bikroy (75%). 73% ad in top 3 categories are from Private. Bikroy is pro heavy on vehicle category (60%).
3	<b>ClickBD</b>	Clickbd has 17 categories. Electronics 35%, computer & gaming 32%, mobile and telephone 29%, cars & vehicle 12%.

**Sources:** Secondary Sources & Company Websites (2016)

**Table No. 02: Advertisements Per Day in A Classified Site of Ekhanei.Com**

Category (All ads)	Total	% Private	% Professional		Total	% Private	% Professional
<b>Ekhanei.com</b>				<b>Bikroy.com</b>			
Business, Agriculture & Food	6466	27%	73%	Business, Services & Industry	7260	13%	87%
Cars, Motorcycles & Vehicles	25735	75%	25%	Cars & Vehicles	37918	40%	60%
Fashion & Personal Items	13094	43%	57%	Clothing, Health & Beauty	18359	28%	72%
Hobbies, Pets & Sports	14634	73%	27%	Education	3831	85%	15%
Home & Living	29999	69%	31%	Electronics	164593	80%	20%
Jobs & Services	6053	52%	48%	Food & Agriculture	560	53%	47%
Phones, Computers & Electronics	197723	90%	10%	Hobby, Sport & Kids	11894	69%	31%

### Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh

Property & Housing	25548	33%	67%	Home & Garden	49393	74%	26%
Other	852	45%	55%	Job Openings	6414	16%	84%
				Other	549	40%	60%
				Pets & Animals	14104	83%	17%
<b>Total</b>				Property	23564	57%	43%
	<b>320104</b>	<b>78%</b>	<b>22%</b>	Total	<b>338439</b>	<b>67%</b>	<b>33%</b>

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**Sources:** Secondary Sources (Ekhanei.Com, 2016)

### Methodology

This study is a descriptive study where quantitative data have been collected to examine the factors that affect the adoption of free classified advertisement in Bangladesh. The study is based on both primary and secondary data. For the study, primary data have been collected through administering the questionnaire survey. Secondary data have been collected from the following sources: documents (national and international published journals, newspaper, magazine), archival records and internet. The target population of this study was online users for used product or second hand products. 300 respondents (online users in Dhaka City) were interviewed for collecting the data for the study. As this study covers online shoppers and the respondents are geographically scattered, the use of questionnaire was considered the only choice of data collection. The researchers were actively involved in data collection. Convenience sampling technique has been used for the purpose of collecting data due to the limitations of time and resources. A mixed process has been followed to select a sampling unit. A mixed process means distributing survey online as well as in person to online users. The logic of using the mixed process is to collect empirical data conveniently and on time. Questionnaires were distributed both by online and by hand to respondents and enough time was given to respondents to fill in the questionnaires to reduce the sampling error. Data have been analysed by using frequency distribution and factor analysis. A factor analysis was run to identify the factors that affect the consumer buyer behaviour of free classified marketplace while purchasing through the classified sites in Bangladesh. Respondents were asked to identify the factors that affect their purchasing behaviour through the free classified sites in Bangladesh. Based on the

review of literature, 34 statements have been framed on the five point Likert scale which ranges from strongly agree to strongly disagree.

**Table No 03: Snapshot (Research Work Design)**

1.	Target Population	Online Users in Dhaka City (Mirpur-1,2, 10,11,12, Dhaka-1216)
2.	Sampling Frame	Dhaka City Corporation (Mirpur-1,2, 10,11,12, Dhaka-1216)
3.	Sampling Technique	Convenience sampling technique
4.	Scaling technique	Five point Likert Scale, which is a part of Non Comparative Scaling Technique
5.	Nature of the Study	Descriptive Research
6.	Data Used	Primary (Questionnaire Survey) and secondary data
7.	Sample Size	300

**Findings and Analysis**

Data have been analysed by using frequency distribution and factor analysis as described below:

**Frequency**

Data have been analyzed by the following bar chart that will help to understand the responses a glance and take further decision:

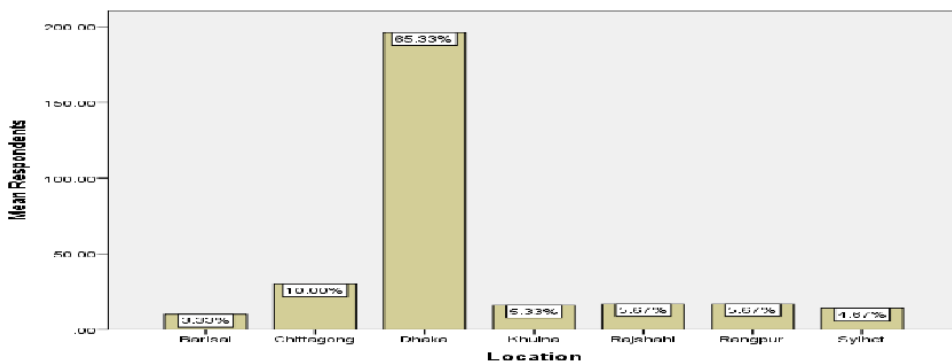


Figure 01: User Demographic location (Source: Field Survey, 2018)

Dhaka being the metropolitan as well as the capital city covers the maximum online shopping activities in the country with 65.33% of total traffic, followed by Chittagong with 10%,Rajshahi 5.67%, Rangpur 5.67%, Khulna5.33%, Sylhet4.67% and Barisal with 3.33%.

## Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh

**Table 4: Participants' Descriptions**

Variables/Dimensions	Frequency	Percentages	Variables/Dimensions	Frequency	Percentage
Gender			Experiences in Using classified market space		
Male	249	83	1 to 2 years	110	36.67
Female	51	17	3 to 4 years	80	26.67
Age			5 to 6 years	60	20.00
18-24	138	46	7 to 8years	30	10.00
25-34	105	35	9+	20	06.67
35-44	42	14	Experiences in Online shopping		
45-54	12	4	1 to 3 years	120	40.00
55+	03	1	4 to 6 years	70	23.33
Level of education			7 to 9 years	60	20.00
SSC	9	3	10 to 12 years	40	13.33
HSC	24	8	More than 13 years	10	3.33
Graduate	240	80			
Post Graduate	27	9			

Source: Field Survey, 2018

From the above table, it is seen that the majority of the respondents were male (83%). Majority of the respondents were graduates (80%). The remainder of the respondents have post graduate degree (9%), HSC (8%) and SSC (3%). This shows that inclination to online shopping using the classified sites is more in case of higher educated users. Majority of the respondents are in the age range of 18-24 year old (46%). The rest of the participants were in the age of 25-34 year old (35%), 35-44 year old (14%), 45-54 year old (4%) and 55 and above (1%). The reason found behind this is the young generation are tech savvy; tend to be technology oriented and highly aware. The majority of the participants' experience using classified markets pace was from 1 to 2 years (36.67%), whereas the majority of the participants' experience in online shopping was 1 to 3 years (40%).



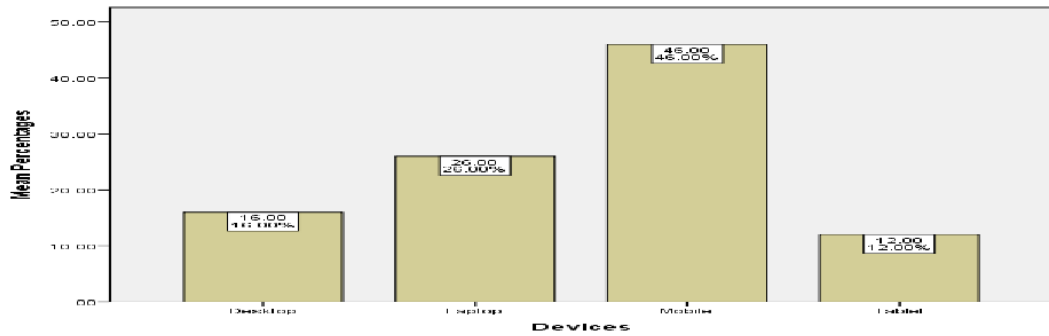


Figure 2: Different Types of Devices usage (Source: Field Survey, 2018)

The survey was based on some educated peer groups who have the minimum idea about internet. As mobile handset is easily accessible, portable and handy, it is possible to cover 46% of device percentage used by the users. Laptop and desktop are seen to be taking the second and third position, percentage comprised of 26% and 16%, total 42%. So, here is the potential to divert the users from the desktop version to mobile version.

**Items bought and sold by user**

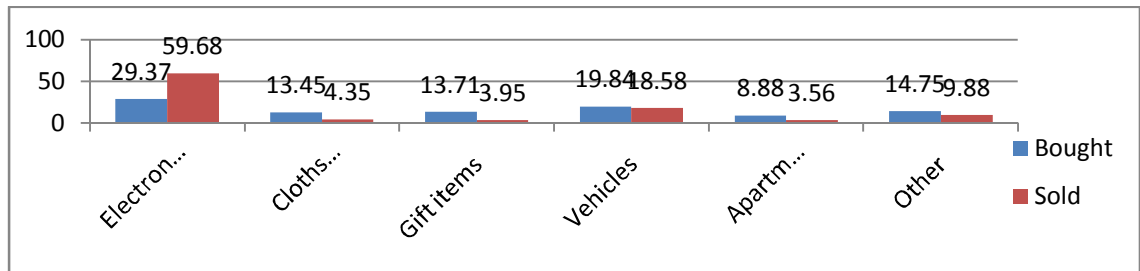


Figure 3: Types of Items (Source: Field Survey, 2018)

The survey shows that electronic item is the most popular item for buying and selling as people have the positive attitude towards using both used and unused electronics item. Analyzing the survey, vehicles including cars and motorcycle took the second position as people are intended to buy the used car and motorcycle depending on the capacity to purchase expensive product. On the contrary, the trend of shopping cloths & jewelleryes and gift items are noticeable in the classified platform. Apart from all the observation, 8.88% of the total user has the interest in buying old flat and apartment, whereas 3.56% are ready to sell their apartment. Some other items also can be the potential category of transaction that people mentioned. Furniture, pet, musical instruments are the rising popular items for transaction on classifieds.

## Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh

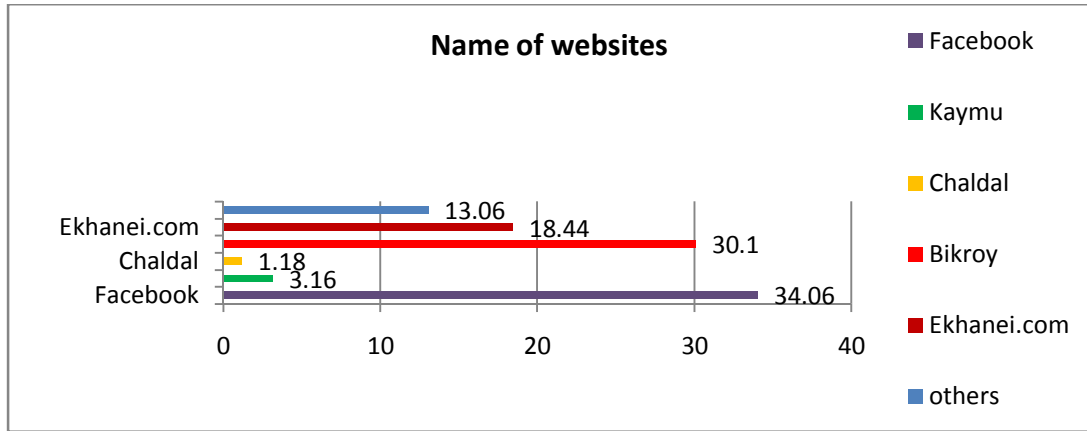


Figure 4: The name of Websites, the user made the purchase (Source: Field Survey, 2018)  
 Being the most popular social network, Facebook has been considered the most popular platform of online buying and selling. The percentage is 34.06%. Bikroy is taking the second position because of their distinct marketing strategies and other services.

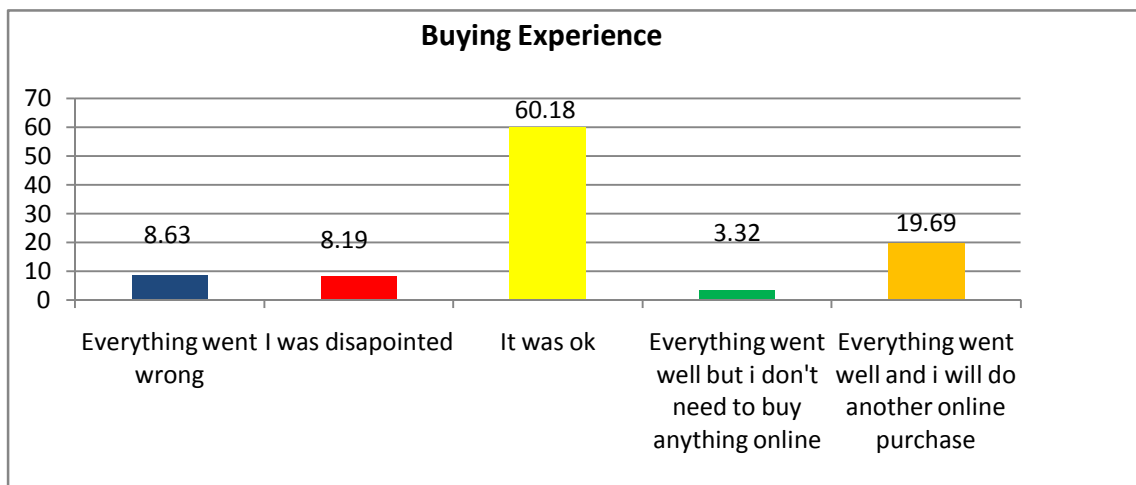


Figure 5: Buying Experience (Source: Field Survey, 2018)

Quality of product and service is very important consideration in online shopping. Customers always seek for the quality of the product. 60.18% users are satisfied with online platform and 19.69% of users are ready to make another try. 16.82% users are totally dissatisfied with the services.

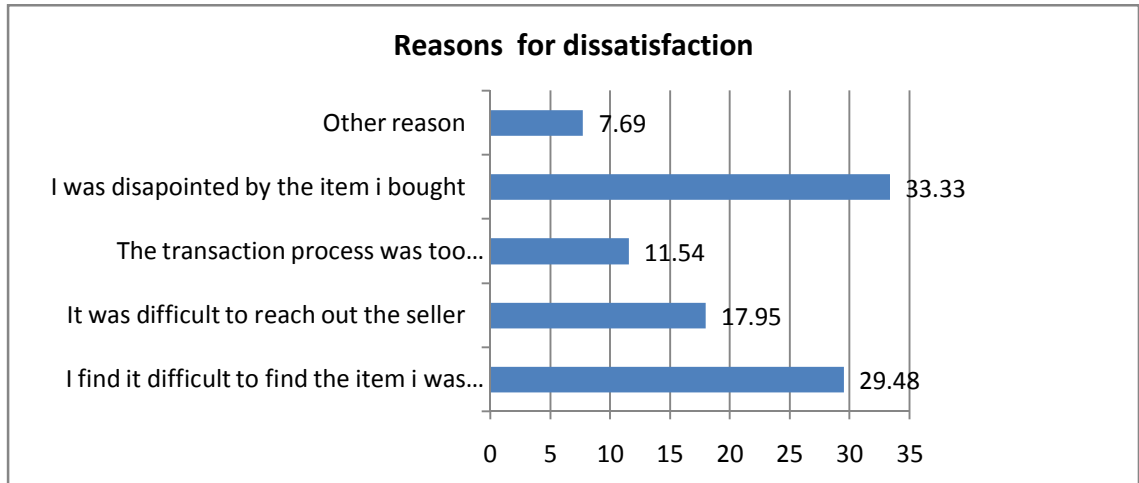


Figure 6: Reasons of dissatisfaction in buying items (Source: Field Survey, 2018)

As we have said earlier almost 16.82% users are dissatisfied with the online buying and selling, there must be some reasons for their dissatisfaction. Most of the respondents were not so happy with product quality and the other reason is product was not matching to the described information. The percentage is 33.33%. 29.48% of users didn't find their expected items. 17.95% of users said they faced complication contacting the sellers. Other few respondents complained against fake items and information.

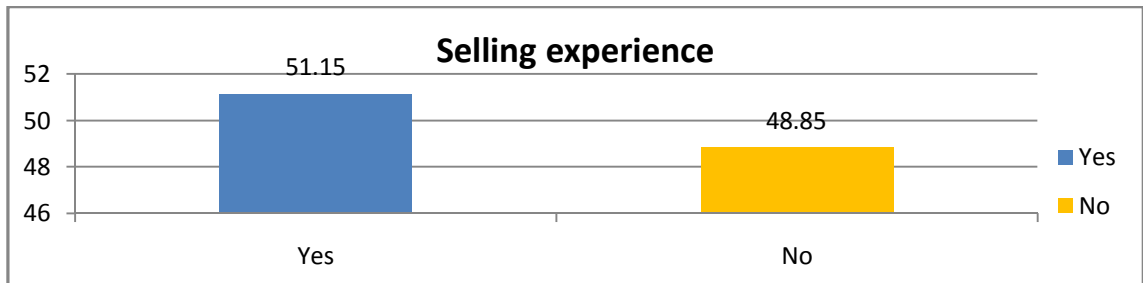


Figure 7: Selling experience by online in the last 3 years (Source: Field Survey, 2018)

51.15% of respondents have the experience of selling product online. On the contrary, 48.85% users have no idea about online selling process.

## Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh

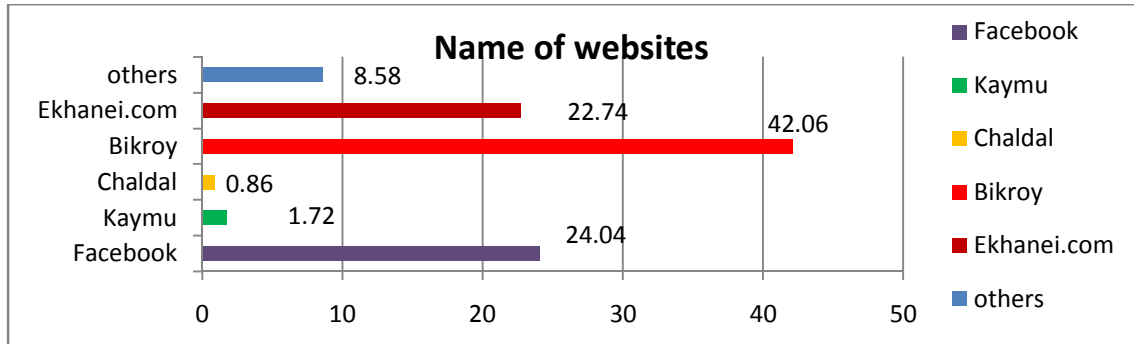


Figure 8: The name of website through which the users sold their products (Source: Field Survey, 2018)

In terms of selling items, Bikroy.com has taken the place as the most popular platform of online selling. People find it most trustworthy and secured way to sell their items on bikroy.com. Facebook has secured the second position in selling items. Ekhanei.com is the third most possible platform for providing the service.

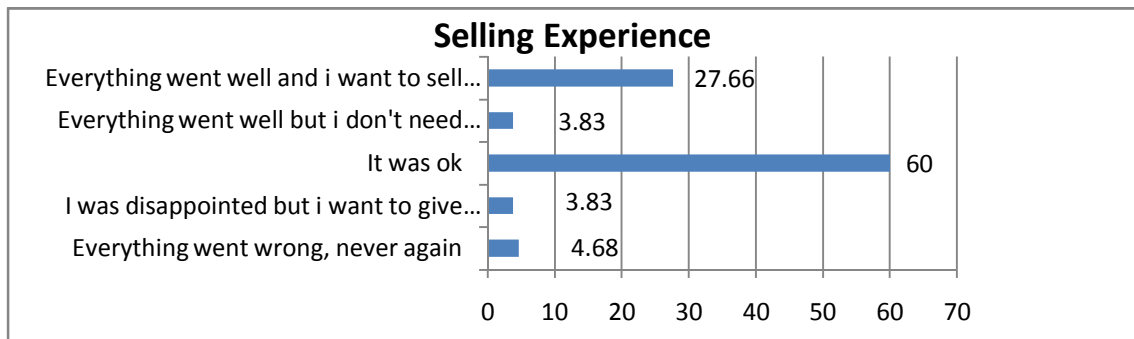


Figure 9: Selling Experience (Source: Field Survey, 2018)

60% of users have moderate selling experience. 27.66% had bad experience like the problems they mentioned are poor quality of products, transaction problem, payment and security problem.

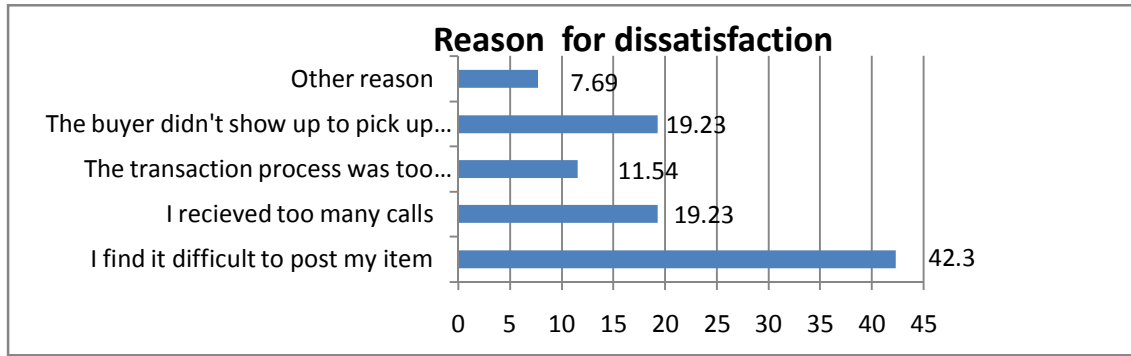


Figure 10: Reasons for dissatisfaction in Selling (Source: Field Survey, 2018)

42.3% faced difficulties in posting ad, 19.23% think it is a matter of irritation of getting to many calls. 19.23% complained against fake users or fake posting.

**Factor Analysis**

Factor analysis has also been done to reduce the variables into predominant factors that affect the buying behaviour of free classified marketplace. The application of factor analysis by principle component method derived the following components which are shown in the following table:

**Table 5: KMO and Bartlett’s Test**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.767
Bartlett's Test of Sphericity	Approx. Chi-Square	8,411.543
	df	561
	Sig.	.000

From the above table, it has been observed that KMO of this analysis is .767 which exceeds the threshold level which indicates that this analysis is appropriate for factor analysis. From the analysis, it is revealed that there are six components which occupy more than one Eigen values extracted. From the analysis, it is seen that there are nine components which exceeded the Eigen value more than one. But out of nine components, three components contain only one item that

## Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh

is why it has been omitted from the table. So, from the analysis, there are six major components that have an impact on consumer buyer behaviour.

**Table 6: Factors Extracted with their Loadings**

Variables	1	2	3	4	5	6
V1	.645					
V21	.624					
V31	.612					
V2	.608					
V16	.599					
V29	.585					
V13	.581					
V18	.569					
V6	.567					
V26	.537					
V8	.536					
V14	.527					
V30	.524					
V7		.602				
V9		.589				
V28			.738			
V34			.642			
V25			.558			
V19				.701		
V20				.696		
V17				.515		
V10					.757	
V22					.743	
V3						.706
V5						.683
V4						.651

The extracted factor pattern matrix represents how the observed variables are weighted with each of the factors and also the correlation between the variables and the factors. There were also many variables which are not associated with the extracted factor/ components. That is why

these variables have been escaped from the table. The item carries less than 0.50 co-efficient associated with other variables are omitted from the table. The first extracted factor comprises quality product, cost savings, lifecycle stages, multiple sources of second hand product, time savings and marketing tools which may be labelled as demographic factors and marketing mix. This factor is accounted for about 24.441 percent issues should be included in using these sites. The second extracted factor comprises of the variables that are related to time, money, energy and environmental factors which may be labelled as customer perceived value. This factor is accounted for 15.08 percent issues to be included in affecting buying behaviour of free classified marketplace. The third extracted factor comprises of the variables that are related to easy process of payment, availability of product and easy process of getting the product which may be labelled as ease of obtaining the product. This factor is accounted for 11.032 percent issues that should be addressed in purchasing the product through the classified marketplace in Bangladesh.

The fourth extracted factor consists of generation, lifecycle stages and religion which may be labelled as generation gap. This factor is accounted for 7.335 percent issues to be included in purchasing through the classified marketplace.

The fifth extracted component consists of reference groups and attitudes towards free classified ads which may be labelled as attitudes. This factor is accounted for 6.89 percent issues to be included in purchasing through the free classified marketplace.

The sixth extracted factor consists of information provider, variety of products and user friendly which may be labelled as sources of information. This factor is accounted for 5.809 percent issues to be included in purchasing through the free classified ads in the marketplace.

## **Discussion**

In today's marketplace, consumer is the king, queen and boss. So, analysing the consumer behaviour is a prerequisite for successful marketing program implementation. Consumer behaviour in electronics environment is critical as compared to physical world and crucial understanding can be examined if the factors that affect the shopping decisions are ignored and unambiguous. Online consumers fear the opportunity to physically examine the product which is specifically regarded as influential factor in purchase decision. Especially in free classified market space, the identity of the sellers is not known to the buyers, so they have to rely on trust and reliability.

## **Factors Affecting the Adoption of Online Free Classified Advertisements in Bangladesh**

**Convenient buying and selling option:** Quite a good number of users are satisfied with classified site as they get the chance to sell their unused items and they get so many options to compare while buying a second-hand item. 60.18 % were satisfied with buying through these platforms. 19.69% said their buying experience was absolutely going well and they would definitely go for another online purchase. 60% users had favourable experience of selling through these classified sites.

**Transaction process:** 11.54% consumers complained for not having a smooth transaction process for buying items. The actual process to transact their items has been identified that they meet each other at a specific point and negotiate for buying and selling. 19.23% said the buyer didn't show up at the pick point selected, so that was a more or less relating to harassment. 17.95% said that it was difficult to reach out the seller. The reason they mentioned behind this is the distance and the proper contact address. Especially many women consumers expressed their depression towards selecting a meeting place and contacting some stranger seller.

**Product quality:** 33.33 % said that they were disappointed by the items they bought. The reasons they mention that the quality didn't match to the information, the product wasn't good enough.

**Website design/features:** 42.3 % found that the posting ad process is a bit difficult for them. 29.48% said they found it difficult to find out the items they were looking for. If we look at the average score with the statement, improved website design can help consumers search the products easily.

Out of 300 respondents, many of them opted to write additional comments. After analysing their opinions, it is revealed that another important attribute considered by them is price and time convenience. They get items in lower prices and they get better discounts while shopping online. Online shoppers think of security issue, quality and reliability of information, the website design and its features. Factors like category unavailability, feedback from other users, quality of products and information quality affect consumers to shop online using these classified sites.



## **Managerial Implication**

Based on the findings of the study, the following managerial implications can be suggested:

- Quality of products is an important consideration for customers while buying online through classified sites. If the customers do not get the products they are looking for, they will be disappointed and their attitude towards these free classified sites will be negative. So, the vendors should offer quality products to the customers.
- Trust is an important issue in online marketing. Consumers of a developing country are naturally doubtful. The online shops have to build trust in the customers mind regarding the products or services they are selling.
- Design of these free classified sites should be distinctive so that these can attract the consumers to transact again and again.
- Internet shoppers seek more convenience and innovation and are fewer brands conscious. As the classified trend actually follows the customer to customer (C2C) business and users are basically responsible for their personal transaction, the government of Bangladesh should make the payment gateway as secured as possible.
- As people are getting more and more enthusiastic over online shopping, they must be looking for the easiest ways to solve their online buying and selling solution. So, it is important that marketers communicate with them in the convenient ways.
- The preferred location should be distinct and secured or the service can be interfered by some third party assistance in reducing the meeting place complication.
- Initiatives must be taken to convince buyers to shop online by creating awareness of various benefits of online shopping.

So, if the users follow these recommendations, it will pave the way to attain possibility of creating more positive experiences of transactions through these free classified sites.

## **Conclusion and Future Research Direction**

Now-a-days, shopping through the free classified marketplace is becoming more and more popular method in Bangladesh. Widespread usage of internet is having a dramatic impact on both buyers and sellers who serve them. Understanding customer behaviour has become a key challenge for marketers especially the customers' attitudes towards online shopping. This study helps to develop an understanding of the online behaviour of classified site users and the factors that affect their behaviour. An exploratory factor analysis was conducted to find out the factors

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that affect the adoption of free classified advertisement in Bangladesh. The study revealed that there are many factors affecting the adoption of classified advertisement in Bangladesh i.e. demographic and marketing mix, customer perceived value, ease of obtaining the products, attitude etc. Gender, age and income strongly influence the adoption intention of this platform. Online users usually use these sites in order to buy the products at the lowest possible prices in comparison to company websites. The findings of this study will be helpful for the sellers and buyers while designing the marketing strategies and plans for their products and services. Improving the factors that affect customers to shop online and working on those factors positively will help marketers gain the competitive advantage. It is very much satisfactory that shopping online has been emerged very immensely in Bangladesh. A direction for future research is to conduct the similar studies in Bangladesh considering a much large sample size to reveal a comprehensive result. Moreover, across-cultural or cross-national studies in different parts of the world to investigate the differences among the users' adoption behavior of online free classified sites would also provide additional insights.

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# The Development of Human Resource Competency by Performing Human Resource Roles: The Perspective from Line Management

**Rashed Mahmud Shakil\***

**Md. Alamgir Mollah\*\***

## ***ABSTRACT***

*In response to globalization and growing customer demands, HR department of many organizations are formulating competitive strategies and policies emphasizing on innovation and competency development. Up to recently, numerous efforts were made by past scholars to explain the roles and competency required for HR professionals. However, there exist a lack of empirical research relating line managers' (LMs) performance of HR roles and HR competency. The aim of this paper is to explore the relationship of four HR roles namely strategic partner, change agent, administrative expert, and employee champion with HR competency. A survey with self-administered questionnaire was utilized for collecting data and also the judgmental sampling method was used for obtaining responses from a sample of 220 LMs working in private commercial banks (PCBs) in Bangladesh. Applying variance based structural equation modeling (PLS-SEM), the findings pointed out that strategic partner, change agent, administrative expert, and employee champion role were significantly and positively related to HR competency. Thus, PCBs and their senior management should possess interest and nurture supportive environment for HR management, and prioritize HR policies which in turn lead LMs to assume newer HR roles and fulfill the HR competency target set by the organizations.*

**Keywords:** *Line Managers; Strategic Partner; Administrative Expert; Employee Champion; Change Agent; HR Competency.*

\*Lecturer, Faculty of Business Administration, BGC Trust University Bangladesh, Chittagong.

\*\*Assistant Professor, Department of Management Studies, University of Barisal, Barisal-8200.

## 1. Introduction

Over the past few decades, numerous researchers who attempted to develop strategic human resource management (HRM) acknowledged the necessity of talent retention. The buzzword “war for talent” is widely used in the current business environment since the acquisition of talent largely rest with the employees’ expectations regarding line managers’ (LMs) functions. Likewise, the best-performing employees likely to leave the organization when their interests are not duly considered and their dissatisfaction on the development of talent along with competency are increased, usually due to the poor relationship with their LMs (Hay, 2002). Against such backdrop, LMs are held responsible for taking on the responsibilities of HR operations for promoting the competency and knowledge development.

Put simply, LMs are conceptualized as the first level managers who builds reporting relationship with the employees of non-management level, in other words, employees of non-management level directly report to first LMs (Ryu& Kim, 2013). Previously, the role of LMs included controlling employees but their role now-a-days shifted to managing employees and putting HR functions into effect for the delivery of productive results. In today’s business environment, LMs are burdened with increasing authorities, responsibilities, status, and pressure for implementing HR functions together with their day-to-day operational functions (Bos-Nehles, 2010). The extant HRM literature identified a gap in recognizing the role of LMs in HR initiatives and their attaining of HR competency which is characterized as a set of pertinent abilities, knowledge, skills, mind-sets, traits, and the thought process achieved by HR professionals to accomplish job successfully (Amechi & Long, 2015). A number of scholars (Beeck, Wynen, & Hondeghem, 2018; Long, Ismail, & Amin, 2013) held their view that the successful execution of HR policies requires the undertaking of HR functions by LMs, but what HR roles are performed by LMs and how HR competency are developed among them are not properly defined in the scholarly literature. Following these line of thought, the present study is centered on LMs’ HR role performance and their gaining of HR competency.

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The objective of this study is to explore the influence of strategic partner, administrative expert, employee champion, and change agent on the HR competency in PCBs of Bangladesh. Our study is also attempted to fill the gap in the extant literature by testing the proposed model in Bangladesh context particularly among LMs working in PCBs of Bangladesh. Most notably, LMs play dominant role in HR operations since they are the key implementer of HR in the work floor, and such effective HR implementation assist them to gain HR knowledge and competency. The findings of the present study are expected to broaden our understanding of the LMs' performance of HR roles and their attainment of HR competency in banking sector of a collectivist culture. Correspondingly, the paucity of research in the banking industry will help the policy makers of this industry to gain insight of the importance of performing HR roles and the achievement of HR competency in ensuring HR effectiveness among the LMs.

This study, in the next section, will present the theoretical background of HR roles and its model along with HR competency before explaining the proposed hypothesis followed by the study setting, data collection procedure, sampling strategy, analysis, and findings. Afterwards, the discussion of results, limitations, implications, and conclusion of the study will be discussed.

## **2. Literature Review**

### ***2.1 HR Multiple-Roles Model***

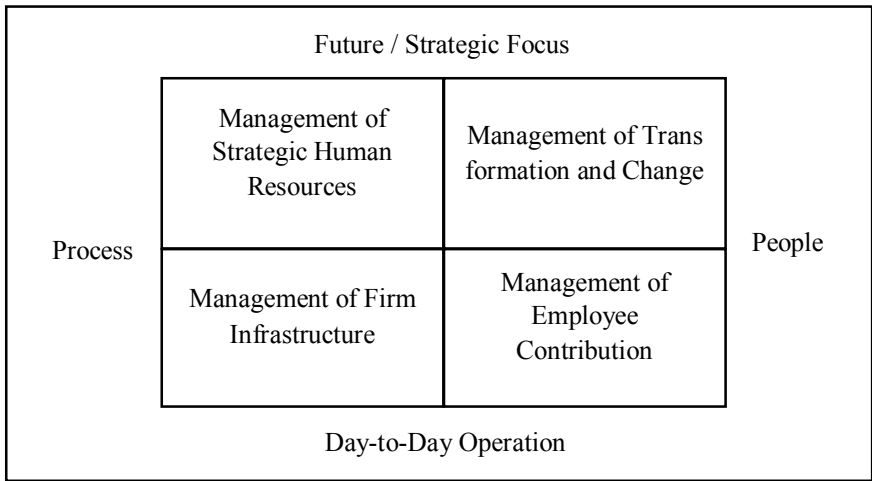
A detailed analysis was provided by Ulrich (1997) on the role development of HR professionals by reinforcing a traditional transition from operational focus to strategic focus; administrative level to consultative level; policing tasks to partnering tasks; function orientation to business orientation; quantitative nature to qualitative nature; short-term to long-term; and so on (Amechi& Long, 2016). The HR professionals' role create increased value for the business and also deliver that value, thereby helping them to grab a seat "at the table" of business discussions and fulfilling their HR competency target of the organization (Long et al., 2013).



The typology of HR role was developed by Ulrich (1997) proposing four roles including Strategic Partner (SP), Change Agent (CA), Employee Champion (EC), and Administrative Expert (AE). The SP role not only formulates the strategic agenda but also works collaboratively with senior managers for achieving strategic goals. The managers being CA has orientation towards the external environment undertaking new endeavours set out at the strategic level. Such role helps managers to implement change by comprehending the crucial processes for change and also developing commitment to that process for ensuring that intended change is occurring. Relatedly, the EC includes the concern for the well-being of employees, ensuring linkage between the individual aspirations and HR practices, functioning as a key interface between employees and senior managers, whereas the AE role of managers concentrates on managing systems based on operational efficiency (Hassan, Mansor, Rahman, & Kelana, 2015).

Correspondingly, a comprehensive framework based on HR roles was proposed by Dave Ulrich which is considered as the yardstick for HR roles till recently. According to Ulrich (1997), four main HR roles incorporate strategic partner, change agent, employee champion, and administrative expert by referring that HR champions should be accomplished for turning business partnership into reality. The roles can be classified into two dimensions, such as 1) Strategic versus Operational orientation, and 2) Process versus People orientation. The Strategic Partner and Change Agent are strategy oriented while Employee Champion and Administrative Expert are operation oriented. In addition, out of four HR roles, Change Champion and Employee Advocate are associated with process whereas Strategic Partner and Administrative Expert are associated with people. The diagram of four HR Roles is displayed in Figure 1.

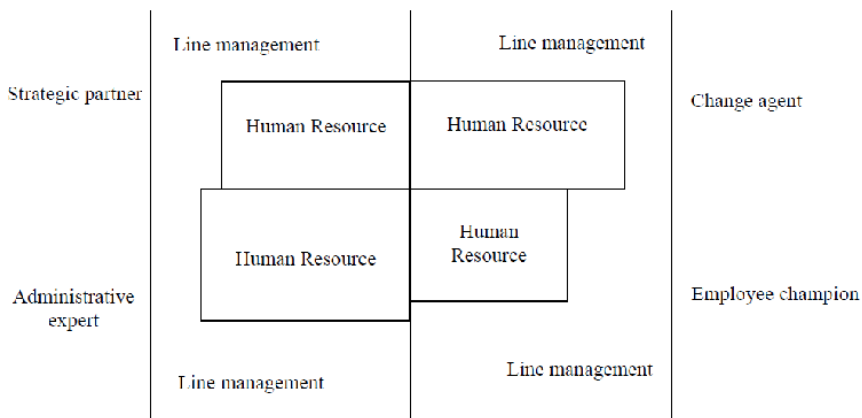
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**Figure1: HR Multiple-Roles Model**

**Source: Ulrich, 1997, p. 24.**

Alongside HR professionals, LMs are the key stakeholders of HR department to perform HR roles in efficient and effective manner. Likewise, Hunter, Saunders, and Constance (2016) in their study compared Dave Ulrich’s HR roles model based on the individual contributions of LMs and HR professionals in executing HR roles. The comparison between LMs and HR professionals in terms of HR roles is portrayed in Figure 2.



**Figure 2: The Scale of Contribution of line management and human resource**

**Source: Hunter et al. (2016), p. 61.**

## ***2.2 Human Resource Competency***

Over the past decades HR policies are contributing to the growth of the organization by accelerating the competitive advantage (Kaufman, 2012). This advancements were caused by the transitions of HR department from assuming HR roles to attaining requisite HR competency (Ulrich, Brockbank, & Ulrich, 2010). HR competency is characterized as the capabilities of HR to carry out assigned HR responsibilities with the help of necessary training, proper education, and experience, thereby resulting the organization to survive in the competitive market. In analogy, Amechi and Long (2015) noted HR competency as a set of pertinent abilities, knowledge, skills, mind-sets, traits, and the thought process achieved by HR professionals to accomplish job successfully.

Afterwards, the model of HR competency was developed by Ulrich et al. (2012) comprising six competencies which are essential for not merely HR professionals but LMs too. For instance, strategic positioner, capacity builder, technology proponent, HR innovator and integrator, change champion, and credible activist are included in this competency model. The strategic positioner competency encompasses being knowledgeable of external business trends and translating such trends into internal actions and decisions. Next, the competency of credible activist incorporates fulfilling the promise, building personal relationships of mutual trust, and meeting the commitments. The capacity builder competency involves the ability of auditing and investing in the generation of organizational capabilities. In the same vein, the competency of change champion embraces HR professionals' initiatives to make the organization's internal capacity for change happen. The HR innovator and integrator competency covers HR professionals' ability of innovating and integrating HR policies into combined solutions which solve organizational problems. Finally, the competency of technology proponent comprises the capacity of applying technology to deliver HR administrative services namely benefits, healthcare costs, payroll processing, and others more efficiently.

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### ***2.3 Hypotheses Development***

#### ***2.3.1 Strategic partner role and HR competency***

The role of strategic partner (SP) emphasizes on making the alignment between HR strategies and business strategies. LMs as active SP make sure the success of business strategies by gaining a series of HR competency (Luo & Milne, 2014; Shakil, Hassan, & Qureshi, 2019). In the extant HRM literature, a number of scholars recognized the role of SP by mentioning that when LMs are intended to be involved in HR policies implementation, their efforts of attaining HR competency are accelerated (Long & Ismail, 2010; Ramachandra, Mansor, & Idris, 2011). This proposition was supported by the study of Darvish, Moogali, Moosavi, and Panahi (2012) reporting that the SP role had positive relationship with HR competency. Therefore, the following hypothesis is proposed:

Hypothesis 1: The SP role of LMs is positively related to their HR competency.

#### ***2.3.2 Administrative expert role and HR competency***

The administrative expert (AE) role also called function specialists, focus on ensuring efficient and effective HR process management (Hassan et al., 2015; Ramachandra, Mansor, & Mohamed, 2011). In tandem with Ulrich (1997), the AE role comprises the minimization of non-essential costs, maximization of efficiency, improvement of job process which have linkage with the gaining of HR competency. This view was in line with the findings of Long, Ismail, and Amin (2011) specifying that the AE role was positively correlated with internal consultation competency of HR. Based on these findings, the hypothesis may be formulated in the following way:

Hypothesis 2: The AE role of LMs is positively related to their HR competency.

### ***2.3.3 Employee champion role and HR competency***

The next role of HR is employee champion (EC) highlighting that an EC oriented manager guarantee congenial employer-employee relationship, take employees' need into account, provide them motivation and training with a view to upgrading their knowledge, capabilities, and competency (Gilbert, Winne, & Sels, 2011; Hassan et al., 2015). Neglecting this EC role likely to have negative consequence on employees' sense of commitment, well-being, and competency development (Ulrich 1997). The consensus has been made by Darvishet al. (2012) on Iranian petroleum Company asserting that the EC role had significant positive correlations with all dimensions of HR competency. Thus, it could be hypothesized that:

Hypothesis 3: The EC role of LMs is positively related to their HR competency.

### ***2.3.4 Change agent role and HR competency***

A manager with change orientation, in other words, change agent (CA) places emphasis on helping make change happen by perceiving the critical change processes and raising commitment to those processes for ensuring the occurrence of intended change (Mei & Subramaniam, 2014; Shakil et al., 2019). According to Muchira and Kiambati (2015), this role allows the organization to handle change effectively and strengthen the fulfilment of HR competency target. Substantiating this view, Long et al. (2011) reported their study findings that the CA role was significantly correlated with the achievement of HR competency. These arguments built the foundations for forming the following hypothesis:

Hypothesis 4: The CA role of LMs is positively related to their HR competency.

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### **3. Methodology**

The choice of suitable method for the analysis should be centered on the type of problem (Kadhim, Mohammed, & Gremikh, 2018). The approach of quantitative research is the basis of the present survey. Nonetheless, in harmony with the study nature, we selected the cross-sectional design. In addition, SmartPLS 3 (SEM) was employed for analyzing the collected data. This study followed three stages to be completed. In the first stage, 6 respondents confirmed the face validity of the research instrument. The second stage employed 37 respondents for the pilot test that evaluated the reliability of scale by measuring the internal consistency of the constructs through Cronbach's alpha. And finally, the last stage was the main study using the revised instrument to collect the required data and to examine the relationship among the variables. In order to gather the information from the respondents, 5-point Likert scale was applied. In addition, we adapted the measures of the constructs from past studies. The scale of HR roles was adapted from the study of Ulrich (1997) consisting strategic partner (10 items), change agent (10 items), administrative expert (10 items), and employee champion (10 items). Moreover, the HR competency scale was adapted from the research of Ulrich, Younger, Brockbank, and Ulrich (2012) comprising 22 items. The sample was taken from Dhaka, Chittagong, and Sylhet divisions using judgmental sampling technique, a part of the purposive sampling utilizing a nonprobability sampling design. Sekaran and Bougie (2016) suggested using nonprobability sampling in the absence of a comprehensive population list. Though a list of banks was available, a complete list of line managers (LMs) was not found from which sample respondents could be selected. Therefore, this study followed the nonprobability sampling technique to choose the sample. From among the possible different groups, LMs were selected purposively to be the respondents for the present study, as they are the crucial implementers of HRM initiatives (Bos-Nehles & Meijerink, 2018). Additionally, there is a consensus between Debnath (2008) and Rimi (2015) that LMs in PCBs include

branch managers, assistant manager, and officer-in-charge of functional departments who will be considered as the survey respondents for the present research.

The details of response rate is provided in Table 2.

**Table 2: Response Rate**

Response	Frequency/Rate	Response	Frequency/ Rate
Number of questionnaires administered	350	Number of excluded questionnaires	20
Number of questionnaires returned	240	Response rate before data entry	68.57%
Number of Usable questionnaires	220	Response rate after data entry	62.85%

## 4. Data Analysis and Results

### 4.1 Sample profile

The respondents who completed properly the survey, 71.8% constituted the male while 28.2% constituted the female. The age range of respondents was between 30 and 50 years and major portion of age group was 36-40 (41.8%). More than half of the participants had MBA degree (56.5%) accompanied by Master's degree (38.2%), and Bachelor's degree (5.3%). The majority of participants had below 5 years of job experience as LMs comprising 45.3% while experience of 16 years and above as LMs made up only 6.5%. Less than half of participants (44.1%) had below 10 years' experience in banking industry. Finally, the maximum respondents (24.1%) were in the position of Officer in charge (Credit), whereas the least number (6.5%) were Branch Manager (see Table 1).

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**Table 2: Demographic Information about the Respondents**

Demographic Data	Number of Respondents (N= 170)	Valid Percentage (%)
<b>Gender:</b>		
Male	122	71.8
Female	48	28.2
<b>Age level:</b>		
30 - 35 years	55	32.4
36 – 40 Years	71	41.8
41-45 Years	28	16.5
46 years above	16	9.4
<b>Education:</b>		
Bachelor Degree	9	5.3
Masters	65	38.2
Master of Business Administration (MBA)	96	56.5
<b>Experience as a line manager:</b>		
Less than 5 years	77	45.3
6 - 10 years	54	31.8
11 - 15 years	28	16.5
16 years and above	11	6.5
<b>Experience in the banking industry:</b>		
Below 10 Years	75	44.1
10 to 14 years	62	36.5
15 to 19 years	21	12.4
20 years and above	12	7.1



<b>Position in the Organization:</b>		
Branch Manager	11	6.5
Assistant Manager	24	14.1
Officer in charge (General Banking)	39	22.9
Officer in charge (Credit)	41	24.1
Officer in charge (Foreign Exchange)	29	17.1
Officer in charge (Accounts)	26	15.3

#### ***4.2 Measurement model evaluation***

The measurement model was assessed by using SmartPLS3.2.7. In this process, we examined Cronbach's alpha, internal consistency, composite reliability, and average variance extracted (AVE). The outcomes of assessing the measurement model are displayed in Table 3. It is indicated in the outcomes that the threshold value was achieved in all values. Based on the view of Hair, Hult, Ringle, and Sarstedt (2017), factor loading value should be more than 0.50 and the items having the loading value less than 0.50 should be deleted. Thus, this study accomplished the internal consistency since the value of factor loading exceeded 0.50 confirming the convergent validity. Furthermore, composite reliability of more than 0.70 and AVE of more than 0.50 (Hair et al., 2017; Ramayah, Cheah, Chuah, Ting, & Memon, 2018) are fulfilled in the current study. Likewise, the discriminant validity was assessed by using the criteria of Fornell and Larcker (1981) to substantiate the external consistency. According to the Fornell-Larcker criteria, all the diagonal numbers are the square root of AVEs which must be higher than off-diagonal correlations of the constructs (Chin, 2010). The discriminant validity is confirmed in this study and the results are presented in Table 4.

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**Table 3: Results of the Measurement Model**

Constructs	Items	Factor Loadings	Construct Reliability	Composite Reliability	Average Variance Extracted
Strategic Partner	SP1	0.681	0.899	0.919	0.628
	SP2	0.655			
	SP3	0.801			
	SP4	0.639			
	SP5	0.648			
	SP6	0.717			
	SP7	0.671			
	SP8	0.774			
	SP9	0.728			
	SP10	0.692			
Administrative Expert	AE1	0.921	0.921	0.948	0.536
	AE2	0.750			
	AE3	0.830			
	AE4	0.746			
	AE5	0.705			
	AE6	0.942			
	AE7	0.794			
	AE8	0.823			
	AE9	0.804			
	AE10	0.752			
Employee Champion	EC1	0.765	0.825	0.849	0.518
	EC2	0.852			
	EC3	0.717			
	EC4	0.861			
	EC5	0.901			

	EC6	0.792			
	EC7	0.844			
	EC8	0.754			
	EC9	0.760			
	EC10	0.779			
Change Agent	CA1	0.671	0.905	0.926	0.621
	CA2	0.715			
	CA3	0.891			
	CA4	0.799			
	CA5	0.688			
	CA6	0.797			
	CA7	0.601			
	CA8	0.744			
	CA9	0.658			
	CA10	0.632			
HR competency	HRC1	0.767	0.851	0.881	0.548
	HRC2	0.786			
	HRC3	0.654			
	HRC4	0.642			
	HRC5	0.730			
	HRC6	0.627			
	HRC7	0.786			
	HRC8	0.650			
	HRC9	0.755			
	HRC10	0.713			
	HRC11	0.654			
	HRC12	0.792			
	HRC13	0.786			
	HRC14	0.718			
	HRC15	0.726			
	HRC16	0.734			

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	HRC17	0.700			
	HRC18	0.674			
	HRC19	0.706			
	HRC20	0.759			
	HRC21	0.754			
	HRC22	0.692			

**Table 4: Discriminant Validity (Fornell-Larcker criterion)**

	1	2	3	4	5
1. Strategic Partner	<b>0.792</b>				
2. HR competency	0.624	<b>0.740</b>			
3. Administrative Expert	0.512	0.617	<b>0.732</b>		
4. Employee Champion	0.407	0.524	0.668	<b>0.719</b>	
5. Change Agent	0.633	0.622	0.418	0.681	<b>0.788</b>

Note:Diagonals represent the squared root of the AVE, while the other entries represent the correlations.

**4.3 Structural model evaluation**

The results of direct relationship are shown in Table 5 where it is indicated that all t-values are more than 1.96 at the significance level of 0.05. As a result, the hypotheses of H1, H2, H3, and H4 are accepted. Apart from that, the effect size ( $f^2$ ) is presented in Table 4 based on the recommendations of Cohen (2013). The results of  $f^2$  shows that strategic partner ( $f^2 = .37$ ) and change agent ( $f^2 = .39$ ) have large effect size while administrative expert ( $f^2 = .15$ ) and employee champion ( $f^2 = .19$ ) have medium effect size in HR competency.

**Table 5: Results of the Partial Least Squares Path Analysis**

Hypothesis	Path	$\beta$ -value	(STDEV)	T Statistics	P-Values	$f^2$	Decision
H-1	SP → HRC	0.358	0.047	7.646**	0.000	.371	Supported
H-2	AE → HRC	0.713	0.032	3.719**	0.000	.155	Supported
H-3	EC → HRC	0.571	0.044	9.812**	0.000	.193	Supported
H-4	CA → HRC	0.415	0.041	12.416**	0.000	.398	Supported

Notes: \*  $p < 0.05$ , \*\*  $p < 0.01$  (based on one-tailed test with 500 bootstrapping).

SP = Strategic Partner, AE = Administrative Expert, EC = Employee Champion, CA= Change Agent, and HRC = HR Competency.

Correspondingly, Chin (2010) opined that, both path coefficients and  $R^2$  indicate how the proposed model is supported well by the data. In accordance with Cohen (2013),  $R^2$  value of above 0.25 is considered substantial. Nevertheless, the  $R^2$  value found in this study is 0.472 which is substantial. It implies that all four HR roles are expected to explain 47.2% variance of HR competency.

Finally, the model's goodness of fit (GoF) was computed for measuring how the model performs. Based on the directions of Wetzels, Odekerken-Schröder, and Van Oppen (2009), the GoF value was assessed in this study to ascertain the global presence of criteria values for the PLS model. The GoF of the model is calculated by applying the geometric mean value of the average communality (AVE values) of all constructs and the average  $R^2$  value(s) of endogenous variables (Tenenhaus, Vinzi, Chatelin, & Lauro, 2005). The cut-off value for GoF was 0.36 in this study and after the calculation of GoF value, the findings was 0.5187 which is higher than the baseline for large effect size of  $R^2$ . Thus, the model is concluded to be found satisfactory power of estimation in relation to cut-off scores based on the threshold of GoF value 0.1= small, GoF value 0.25= medium, GoF value 0.36= large (Cohen, 1988; Tenenhaus et al., 2005; Wetzels et al., 2009) (see Table 6).

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**Table 6: Goodness of Fit (GoF)**

Constructs	AVE	R <sup>2</sup>
Strategic Partner	0.628	
Administrative Expert	0.536	
Employee Champion	0.518	
Change Agent	0.621	
HR Competency	0.548	0.472
Average	0.5702	0.472
GOF	0.5187	

### 5. Discussion

The present research investigated the influence of four HR roles on HR competency of LMs in banking industry of Bangladesh. The results obtained from PLS-SEM analysis showed that four HR roles were significantly related with HR competency. In consistency with prior researchers, this study identified HR competency as crucial outcome of four HR roles of LMs, explaining that when LMs perform strategic partner, administrative expert, employee champion, and change agent role, their achievement of HR competency are facilitated.

The present findings lent support to the first hypothesis on the relationship between strategic partner role and HR competency of LMs. This finding was supported by the study of Long, Ismail, and Amin (2011) reporting that internal consultation competency of HR was significantly correlated with the strategic partner role. In line with this, when LMs play the strategic partner role they tend to be empowered for initiating and coordinating strategic tasks that will not merely facilitate their career development but also their development of HR competency (Guan, Yang, Zhou, Tian, & Eves, 2016).

The second hypothesis stating the positive relationship between the administrative expert role and HR competency was also confirmed. According to Nik Mat, Zabidi,

and Salleh (2015), the administrative expert role accelerates the attainment of competitive advantage by reducing operational costs and increasing efficiency which in turn leads them to fulfill the target of HR competency of the organization. Being the administrative expert, LMs and HR professionals ensure the process efficiency, optimize, monitor, track, and improve basic processes with a view to developing the competency in HR operations (Yusliza, 2012).

The third hypothesis was also found to be statistically significant reporting that the employee champion role was positively related to the HR competency of LMs. This finding was in line with the study of Shipton, Sanders, Atkinson, and Frenkel (2016), mentioning that LMs performing the employee champion role are concerned with employees' well-being, understand their need and aspirations, and take initiatives for upgrading their HR competency level. Likewise, LMs with EC orientation emphasize on relationship building by creating an employee-friendly atmosphere where employees are influenced to make them competent in HR operations (Mei & Subramaniam, 2014).

The findings confirmed the fourth hypothesis specifying that the change agent role had a positive relationship with the HR competency. The study conducted by Long et al. (2011) substantiated the present study findings referring that the change agent role was positively correlated with HR competency. Another study by Papalexandris and Panayotopoulou (2005) made agreement with this result by declaring that the change agent role was positively related to HR competency namely system analysis skills, implementing organizational change, and enhancing consultation skills.

## **6. Practical Implications**

The present study is intended to provide significant insights to the policy makers as well as practitioners which are vital for the contemporary business context. The growing process of transformations in today's business not only brought remarkable changes in the organizational structure, but also fulfills the expectations of HR operations. Such increasing demands and expectations are pushing LMs and HR professionals to carry out HR roles in an effective manner and attain HR competency. Now-a-days, the

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companies which are sound technologically and financially started their realization that only the development of competency ensures the organization's achievement of competitive advantage. LMs as a crucial stakeholder of HR department are increasingly performing strategic partner, administrative expert, change agent, and employee champion role for maintaining the organization's HR competency target.

This research has key implications of highlighting the necessity of gaining extensive knowledge regarding HR roles and HR competency. Here LMs' commitment of time, resources and initiatives are required for attaining strategic capabilities and expertise in HR functions. In this connection, LMs are expected to pay full concentration on gaining profound insight concerning the effective performance of HR roles. Even though, top management of many banking organizations recognizes the importance of HR competency, they lack enough interest to undertake initiatives to make sure HR competency for their LMs who implement HR practices in the organization. In contrast, top-level managers as well as policy makers should come up with requisite measures for upgrading LMs' motivation for appreciating HR initiatives and also make certain LMs' participation in HR meeting so that their knowledge and capabilities are enhanced regarding HR operations. In addition, fruitful consultation between LMs and HR professionals on different HR matters could expedite the capabilities and competency of LMs in banking organizations.

Furthermore, senior managers ought to take necessary initiatives to provide adequate support and allocate sufficient funds for training LMs, which in turn will improve their HR competency and accelerate their abilities of coping with HR challenges. Likewise, it is necessary for LMs to be provided education and training courses focused on HR processes. Taking Ulrich's (1997) proposition into account, organizations should implement personal development programmes based on performing HR roles effectively and developing the level of competency on HR operations. Also, the selection criteria of the organizations should incorporate the effectiveness in HR roles and HR competency during their recruitment, selection and promotion. The consensus



was made by Sikora, Ferris, and Van Iddekinge (2015) maintaining that organizations are believed to make selection of LMs not only by emphasizing on their technical competency but also their performance of HR functions and possessing of necessary HR competency.

## **7. Limitations and Future Research**

In spite of the present study's practical significance, a number of limitations need to be acknowledged which create avenues for future research in different contexts. This study applied cross-sectional data for investigating causal inferences. Future researchers are called on for employing experimental or longitudinal research design in order to overcome the causal relationship concern. The potential of response bias may be occurred in the results since the data regarding our predictors and outcome variables were collected simultaneously from the same source. This problem might be overcome if future research is carried out at different time periods. Additionally, using the self-reported questionnaires might increase another concern as respondents have tendency to provide answers based on social desirability rather than the accuracy of responses. Finally, the research model developed in our study was based on past constructs formulated in western scenario while we tested the model and obtained empirical support in Asian scenario as emphasized by Long et al. (2011). The generalizability of our findings could be increased by conducting future study in similar/dissimilar contexts in other country.

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### **8. Conclusion**

The review of literature and findings of this study showed that LMs performing strategic partner, change agent, administrative expert, and employee champion role facilitate their development of HR competency. All four HR roles developed by Ulrich (1997) were significantly related to the HR competency. Admittedly, the renovation of HR's visions, structures, strategies, processes, and systems cannot be sustained or advanced when new competency relating to HR operations are not duly developed. Hence, it is imperative for every organization to formulate an overall plan for boosting the HR competency for LMs alongside HR professionals, since LMs are the prime implementer of HR initiatives in the workplace. In order to achieve this, senior managers as well as HR professionals are expected to meet LMs' expectations and demands regarding HR policies, provide resources to facilitate competency development, and hold them responsible by periodic performance reviews. Thus, the fruits of such competency development will be harvested in the near future.

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# **Assessing Sustainability of Ecotourism in Bangladesh: A Study on Sundarbans**

**Md. Mehedi Hassan\***

**Md. Mahiuddin Sabbir\*\***

**Sadia Afrin Jarin\*\*\***

## ***ABSTRACT***

*This study describes the factors of sustainability of ecotourism at Sundarbans in Bangladesh by specifying the holistic relationship among community participation, tourism development, and environmental policies. In the study, a total of 301 (three hundred one) respondents participated. The data were analyzed using Pearson correlation and multiple regression analysis. The results revealed that community participation, tourism development, environmental policies, and sustainability of ecotourism at Sundarbans are significantly correlated with each other. Moreover, community participation, tourism development, and environmental policies are statistically significant in influencing the sustainability of ecotourism at Sundarbans. The study implicates that the government should take steps regarding community participation, tourism development, and environment policies to ensure the sustainability of tourism at Sundarbans. The authors' expect that this study will help the government and other stakeholders to formulate effective policies based on the significance level of each factor and contribute to the sustainability of tourism at Sundarbans.*

***Keywords:*** Sundarbans, Ecotourism, Community participation, Tourism, Sustainability.

\*Assistant Professor, Department of Marketing, University of Barishal.

\*\*Assistant Professor, Department of Marketing, University of Barishal.

\*\*\*Independent Researcher, Department of Marketing, University of Barishal.



## 1. Introduction

Tourism is one of the profitable sectors in Bangladesh (Arif, Islam, & Islam, 2011). The direct and indirect contribution of tourism in the economy of Bangladesh is increasing day by day. In the year of 2019, the contribution of travel and tourism to the GDP of Bangladesh was 3.0%, contribution to employment was 2.9% of total employment, and international visitor impact was 0.7% of total exports (World Travel & Tourism Council, 2020). Hence, tourism, especially ecotourism, is one of the most promising sectors for Bangladesh as the country is blessed with huge natural beauty, heroic historical background, and archaeological resources. Ecotourism has massive potentials as it is one of the fastest-growing forms of tourism.

Ecotourism is a new concept in Bangladesh, although this term was first introduced in the early decades of the 90s (Situmorang & Mirzanti, 2012). Indeed, the word “ecotour” was first recorded in 1973, followed by “ecotourism” in 1982, according to *The Oxford English Dictionary*. Ecotourism was perhaps best defined by The International Ecotourism Society (TIES) as “responsible travel to natural areas that conserves the environment, sustains the well-being of the local people, and involves interpretation and education” (The International Ecotourism Society, 2015). According to Kabir and Bhuiya (2004), ecotourism is revered for preserving and sustaining the diversity of natural and cultural environments.

Although ecotourism is quite a new concept for Bangladesh, it presents an excellent potential for growth if nurtured properly (Khondkar & Anis, 2016). Bangladesh is a ‘gold mine’ for ecotourism products (Khan & Han, 2013). The country is rich in archaeological, cultural, and religious heritage, holding plentiful sites ascribed with intact beauty gifted by Mother Nature. Very few countries in the world are as rich as Bangladesh in their assets of flora and fauna. In Bangladesh, there are many potential eco-tourism attractions (Ahsan, 2008). One such biggest ecotourism site is the Sundarbans, which is the world’s largest tidal mangrove forest, covering approximately 10,000 square kilometers, of which 60 percent is in Bangladesh with the remainder in India (Roy & Roy, 2015). While the Sundarbans has immense potentials as an ecotourism destination, destruction of natural resources, such as land, wood, culture,

species, wildlife, has become a recent phenomenon in the Sundarbans (Afroz & Mahmud, 2017).

This is why, sustainability or sustainable development of ecotourism at Sundarbans has been an essential issue of concern for relevant authorities. However, to date, not many studies have been conducted to address this issue. Some earlier studies were conducted focusing on the problems and potentiality of tourism in Bangladesh (Afroz & Hasanuzzaman, 2012; Afroz & Mahmud, 2017; Khanom, Shah, & Chaudhary, 2011). Moreover, extant studies have either focused on particular ecotourism destination in Bangladesh (Choudhury, Biswas, Islam, Rahman, & Uddin, 2004; Hamid & Frank, 1999; Iqball, Salequzzaman, Haque, Islam, & Ahmed, 2010; Islam, Iftekhar, & Islam, 2012; Khan & Han, 2013) or the general status of tourism for the whole of Bangladesh (Ali & Mohsin, 2008; Ashraful, Chowdhury, & Shahriar, 2012; Hassan & Shahnewaz, 2014; Jahan & Rahman, 2016). In this regard, this study aims to assess the sustainability of ecotourism at the Sundarbans. More specifically, as the community participation, tourism development, and environment are the essential elements for the sustainability of ecotourism (Ross & Wall, 1999; Tsaur, Lin, & Lin, 2006), this study will investigate the potential impact of community participation, tourism development, and environment on the sustainability of ecotourism at Sundarbans.

## **2. Literature Review**

### ***2.1. Assessing Ecotourism at Sundarbans***

Sundarbans is the largest mangrove forest in the world. It is located in the southern part of Bangladesh. It was declared as a world heritage site by the UNESCO in 1997. Sundarbans is the natural habitat of the world-famous Royal Bengal tiger, spotted deer, crocodile, jungle fowl, wild boar, lizards, monkeys, and an inestimable diversity of wildlife (Muhammed, Koike, & Haque, 2008). The central attractions of this area for tourists include wildlife photography, boating, meeting local fishers, woodcutters, and honey collectors. The three essential components for ecotourism development, namely natural environment, local community, and tourists, are present for Sundarbans (Islam et al., 2012). The enriched and unique biodiversity, picturesque scenic beauty, historical, cultural, and religious diversity make the Sundarbans an excellent potential

ecotourism spot (Alam, Furukawa, & Akter, 2010). Bangladesh Parjatan Corporation (BPC) and the Ministry of Environment and Forests are jointly working extensively in developing the Sundarbans as an ecotourism destination.

In Sundarbans, there are existing infrastructures to support ecotourism, such as accommodations, transportations, jetty, watch tower, wooden walkway, and communication (Afroz & Mahmud, 2017). However, visitors stated several notable problems, such as poor infrastructure, insufficient toilets, accommodation problem, non-availability of food and drinking water, poor sanitation system, lack of proper communication facilities, undeveloped transportation systems, lack of sufficient security and guiding (Howe, McMahon, & Propst, 2012). Such problems need to be appropriately addressed with essential policies and guidelines in place to draw the attention of the existing and potential stakeholders (e.g., entrepreneurs, tourists) to explore the immense potentials of Sundarbans as an ecotourism destination.

## ***2.2. Indicators of Ecotourism's Sustainability***

Ecotourism is increasingly viewed as a contributing tool for conservation and sustainable development (Ceballos-Lascuráin, 1996). It is therefore has become an essential concern to identify the indicators of sustainable development for an ecotourism site (Tsaur et al., 2006). According to the World Conservation Union's (IUCN) Commission, ecotourism is "environmentally responsible travel and visitation to relatively undisturbed natural areas, in order to enjoy and appreciate nature (and any accompanying cultural features both past and present) that promotes conservation, has low visitor negative impact and provides for beneficially active socio-economic involvement of local populations" (Ceballos-Lascuráin, 1996). The definition itself implies that sustainable development of ecotourism involves the positive interplay of various factors, including tourism, environment, and community. It also put forward that the introduction of tourism offers such framework where the environment and local community are unified in a synergetic relationship (Ross & Wall, 1999). Professional views vary amongst diverse domains (e.g., sustainable agriculture, sustainable forestry, and sustainable tourism) along with the implications of sustainable development. In this context, Ross and Wall (1999) argued that adequate policies and proper management could ensure a positive synergistic association between tourism, environment, and

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community as well as this association is a prerequisite for the sustainability of ecotourism. Later, Tsaur et al., (2006) and Su, Wall, and Ma (2014) depicted the validity of interaction between tourism, environment, and community in assessing the sustainability of ecotourism. In the context of Bangladesh, extant studies (Afroz & Mahmud, 2017; Ahsan, 2008; Haque, Reza, Alam, Ahmed, & Islam, 2016; Khan & Han, 2013; Khondkar & Anis, 2016) also emphasized on the necessities of the policies regarding tourism, environment, and local community for sustainable development of ecotourism. However, no such studies have yet discussed the impact of tourism, environment, and local community on the sustainability of ecotourism at Sundarbans. This study, therefore, aims to fill this research gap by identifying the impact of tourism, environmental policies, and local community's participation on the sustainability of ecotourism at Sundarbans. In this study, the sustainability of ecotourism at Sundarbans was measured by assessing stakeholders' (e.g., tourists, local community) perception toward the sustainability of ecotourism at Sundarbans.

### ***2.2.1. Community Participation***

The ethnic people, e.g., Munda (The Daily Star, 2015), along with the general people who live near Sundarbans and mostly dependent on Sundarbans for their livelihood, constitute the local community of Sundarbans. Due to the management structure, limited competence and training of the local community, lack of awareness about the extinction of insects and wildlife, government, and private organization facilities that aid the local community are the main factors that affect Sundarbans' environment. Therefore, community participation, along with the morality of local people regarding conservation guidelines, community outreach programs, educational programs, and resource conservation policies, is required for the sustainability of ecotourism at Sundarbans (Islam et al., 2012). Notably, community-based ecotourism has been implemented in many countries (Haque et al., 2016). In this context, Ryan (2002) put forward the significance of community participation in ensuring sustainable tourism development. As the local community is directly involved in ecotourism of the Sundarbans, their training for capacity building and understanding of ecotourism activities should be considered before extensive decision making. In this regard, proper policies should be in place that can augment the positive influence of the local

community on the sustainable development of ecotourism at Sundarbans. In the context of Bangladesh, several past studies (e.g., Islam, Abubakar, & Islam, 2011; Khan & Han, 2013) also indicated the importance community participation on the sustainability of ecotourism at Sundarbans. Hence, it is postulated that:

**H1:** Community participation positively influences the sustainability of ecotourism at Sundarbans.

### **2.2.2. Tourism**

While tourism can sustain conservation through private reserves, communal conservancies, and contributions to the public protected areas, associated negative impacts are also undeniable (e.g., causing severe environmental damage) (Balmford et al., 2009). In the context of Sundarbans, the disturbance created by negative tourism activities impacts badly on flora and fauna. However, positive government interventions with strict policies can reduce such undesirable incidents.

Indeed, from the economic point of view, tourism contributes to the resource development that further triggers the sustainable development of the tourist area (Tsauro et al., 2006). Charging fees for entry, parking, and guiding services could be the good sources of such economic contributions. Moreover, being satisfied with the high-quality experiences offered by ecotourism sites, tourists might make donations to the local authority for environmental protection (Miller, 2001). Besides, tourists spending in ecotourism sites produces increased opportunities for employment and income, thereby contributes to upgrading the quality of life of local people (Tsauro et al., 2006). Such circumstances are also evident in the context of Sundarbans as the number of tourists has been increasing in Sundarbans in the last couple of years (Islam et al., 2011). A few extant studies (Ahsan, 2008; Haque et al., 2016) also illustrated the positive importance of tourism development in the process of sustainable development of ecotourism at Sundarbans. In line with this discussions, this study has proposed that:

**H2:** Tourism development positively influences the sustainability of ecotourism at Sundarbans.

2.2.3. Environmental Policies

Adverse incidents, such as air and water pollution, soil erosion, the oil spill in the water, disposal of water materials, destruction of wildlife, disturbance of natural reproduction, extinction of species, loss of biodiversity, and loss of mangrove forest, are causing environmental degradation in ecotourism sites. Besides, untimely storm surges are another threat created by nature. In addition, tourists regularly dispose of wastages in here and there. Against such backdrops, environmental policies, management measures, and technologies are needed in place (Islam et al., 2011). Environmental policies might include strict laws against illegal construction of buildings and shops at ecotourism sites and wildlife hunting (Khondkar & Anis, 2016). While ecotourism has a positive impact on the environment, suitable policies regarding environmental protection and awareness can contribute to the sustainability of ecotourism sites (e.g., Sundarbans) (Afroz & Mahmud, 2017). This discussion has led this study to propose that:

**H3:** Environmental policies positively influences the sustainability of ecotourism at Sundarbans.

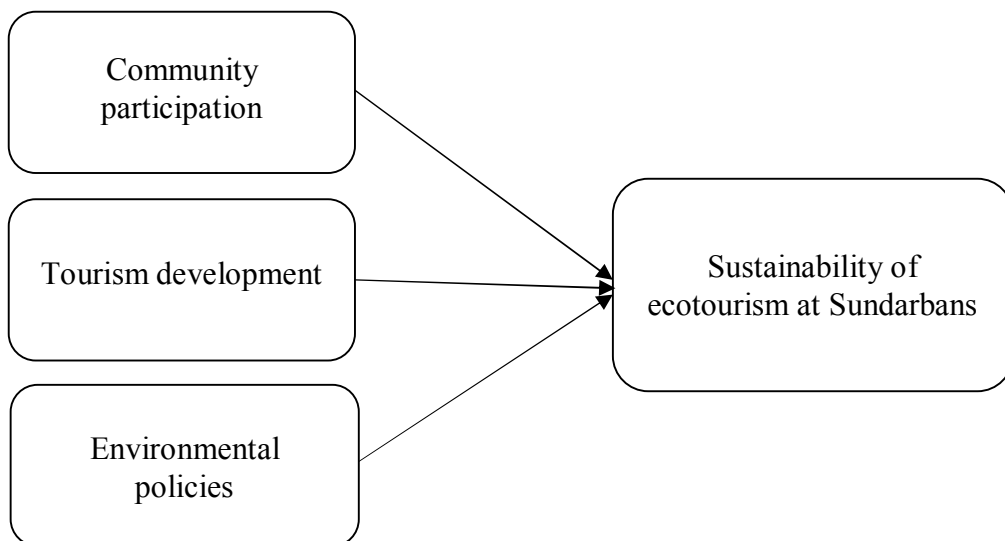


Figure 1: Conceptual framework of the study

### 3. Purposes of the Study

Building on the discussions of the literature review section and subsequent conceptual framework, this study intends to:

1. Examine the potential positive and significant relationship between community participation, tourism, environmental policies, and sustainability of ecotourism at Sundarbans.
2. Illustrate whether community participation, tourism, and environmental policies have a positive and significant impact on the sustainability of ecotourism at Sundarbans.
3. Reveal some insights for policy development concerning ecotourism at Sundarbans.

### 4. Research Methodology

#### 4.1. Research Design:

This study follows a descriptive research design. Besides secondary data, the primary data has been gathered only once from a group of individuals, so this study is a part of a single cross-sectional research design.

#### 4.2. Sampling Design:

*4.2.1. Population and Sampling Techniques:* People from all over Bangladesh, who are nature lovers and people near Sundarbans, are the target population of this study. Staff at the Sundarbans Forestry Department, Members of the Local Fishing Community at Soronkhola, Sundarbans, and Members of the Dhaka and Khulna University Tourists Society, have been used as the sampling frame. Finally, a judgmental sampling technique has been employed to choose a set of samples from the sampling frame.

*4.2.2. Sample Size:* A particular sample size is determined to make inferences about a population. In this regard, Green (1991) provided two comprehensive techniques for sample size determination in the case of correlation and multiple regression analysis. He suggested two formulae that are:  $N > 50 + 8m$  and  $N > 104 + m$  (where,  $N$  is the sample size and  $m$  is the number of independent variables). According to this suggestion, the

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sample size of this study should be at best 107, given three independent variables. Moreover, Tabachnick and Fidell (2014) posited that larger sample size should be used to avoid substantial measurement errors in the analysis. In response to such guidelines, this study contacted 350 respondents for data collection, and after cross-examination of the collected responses, 301 responses were deemed usable for analysis. Responses were collected from the respondents who are aged over 18 years.

### ***4.3. Type of Data and Data Collection Method:***

Both primary and secondary data have been used to carry out this study. Primary data were collected from sample respondents through the survey. The selected respondents from the sampling frame were interviewed face-to-face at their convenient locations using a structured questionnaire. Secondary data have been collected from sources, including articles, journals, magazines, brochures, newspapers, and other web-based sources.

### ***4.4. Questionnaire Design:***

A structured-questionnaire with a 5-point Likert-type scale (Strongly Disagree=1, Disagree=2, Neutral=3, Agree=4, and Strongly Agree=5) has been used to collect data from respondents. The questionnaire has two sections. The first section comprises of the questions relating to the demographic characteristics of respondents. The second section includes measurement items that were used to estimate the variables of the conceptual framework.

### ***4.5. Data Analysis:***

The data have been analyzed using the SPSS (version 20). Pearson correlation and multiple regression analysis were performed for estimating the relationship among variables. More specifically, such analyses are used to understand which independent variable(s) is/are mostly related to the dependent variable, and how the dependent and independent variables are interrelated to each other.



## 5. Analysis and Results

### 5.1. Demographic Characteristics of the Respondents:

Table-1 shows that among 301 respondents, 62.5% of respondents are male, and 37.5% of respondents are female. Besides, most of the respondents have completed higher secondary level and graduation with income less than BDT 20,000. All respondents selected in this study are aged between 18 and 45 years old.

Table-1: Demographic Characteristics of the Respondents

Variables	Respondents (N= 301)	Frequency (%)
<i>Gender</i>		
Male	188	62.5%
Female	113	37.5%
<i>Education Level</i>		
Higher	122	40.6%
Secondary	103	34.2%
Graduation	76	25.2%
Post-graduation		
<i>Monthly Income (in BDT)</i>		
≤19,999	189	62.8%
20,000-39,999	79	26.2%
40,000-59,999	22	7.3%
60,000-79,999	8	2.7%
79,999 +	3	1%

### 5.2. Reliability Testing:

Table-2: Reliability Statistics

Variables	No. of Items	Cronbach's Alpha
Community participation (CP)	9	.544
Tourism development (TD)	6	.546
Environmental policies (EP)	15	.784
Sustainability of ecotourism at Sundarbans (SES)	4	.778

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According to Hinton, McMurray, and Brownlow (2014), while an alpha score greater than 0.90 shows excellent reliability, scores between 0.50 and 0.70 can be considered as moderate reliability. Here, the calculated alpha scores for four variables (*Table-2*) are in the range between 0.544 and 0.784, meaning the items within each variable are well-related and moderately reliable.

### 5.3. Correlation and Multiple Regression Analysis:

Before proceeding to the multiple regression analysis, data were analyzed using Pearson correlation to measure correlation among variables.

Table-3: Pearson correlation

	CP	TD	EP	SES
CP	1			
TD	.377**	1		
EP	.576**	.506**	1	
SES	.491**	.491**	.615**	1

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

Table-3 represents positive correlations among all the variables. Among the independent variables, environmental policies is highly correlated ( $r=.615$ ,  $p=.000$ ) with the sustainability of ecotourism at Sundarbans, which is subsequently followed by community participation ( $r=.491$ ,  $p=.000$ ) and tourism development ( $r=.491$ ,  $p=.000$ ).

Table-4: Coefficients between dependent and independent constructs

Constructs	Unstandardized Coefficients		Standardized Coefficients**	t value
	B	Std. Error	Beta	
(Constant)	-1.533	.383		-4.005
CP	.256	.077	.176	3.303
TD	.347	.079	.222	4.382
EP	.668	.096	.401	6.990

- a. **\*\*Coefficients are significant at the 0.05 level.**
- b. *Dependent variable: SES.*
- c. *Independent variables: CP, TD, EP.*
- d. *ANOVA: F = 78.478, sig = .000*
- e. *Model summary: R = .665, R<sup>2</sup> = .442, Adjusted R<sup>2</sup> = .437*

Table-4 illustrates the results of multiple regression analysis. According to Table-4, all the independent variables have a positive effect on the dependent variable (i.e., sustainability of ecotourism at Sundarbans). Standardized coefficients show that environmental policies has the highest positive coefficient ( $\beta=.401, p<.05$ ), which is subsequently followed by tourism development ( $\beta=.222, p<.05$ ) and community participation ( $\beta=.176, p<.05$ ). Consequently, the regression equation can be stated as follows:

$$\text{Sustainability of ecotourism at Sundarbans} = .176CP + .222TD + .401EP$$

As,  $F = 78.478$  and  $p < .05$  (Table-4), the entire regression equation is statistically significant. That means, the above regression equation is deemed to accurately envisage the level of sustainability of ecotourism at Sundarbans.

Table-5: Results of Hypotheses testing

<b>Hypotheses</b>	<b>Coefficients</b>	<b>t value</b>	<b>p-value</b>	<b>Decision</b>
H1: CP→ SES	.176	3.303	.001	Supported
H2: TD→ SES	.222	4.382	.000	Supported
H3: EP→ SES	.401	6.990	.000	Supported

Results of hypotheses testing (Table-5) generated from multiple regression analysis ascertain that community participation ( $p\text{-value}<.05$ ), tourism development ( $p\text{-value}<.05$ ), and environmental policies ( $p\text{-value}<.05$ ) have a significant and positive relationship with the sustainability of ecotourism at Sundarbans. Accordingly, all hypotheses are supported.

## **6. Discussions**

One of the objectives of the study was to identify whether there is a significant correlation between the dependent and independent variables. Results from Table-3 suffice that particular objective. Table-3 illustrates statistically significant positive correlations among community participation, tourism development, environmental policies, and sustainability of ecotourism at Sundarbans. Secondly, results from Table-4 reveal positive coefficients of community participation ( $\beta = .176$ ,  $p < .05$ ), tourism development ( $\beta = .222$ ,  $p < .05$ ), and environmental policies ( $\beta = .401$ ,  $p < .05$ ). This posits that every 1 standard deviation change in community participation, tourism development, and environmental policies would cause an increase in the sustainability of ecotourism at Sundarbans by 0.176, 0.222, and 0.401, respectively. These findings are in line with the findings of Ross and Wall (1999) and Tsaur et al. (2006), who depicted positive synergistic interrelationships between these three elements, namely community participation, tourism development, and environmental policies. Moreover, such interrelationships are required for the sustainability of ecotourism. In the context of Bangladesh, Sundarbans is one of the major tourist destinations that is altogether a nature-based eco-tourism area. The findings of the current study imply that proper planning to ensure community participation and tourism development with essential environmental policies in place can play a vital role in achieving sustainability of ecotourism at Sundarbans. Delay in formulating such policies can cost a great deal as the Sundarbans is in vulnerable condition due to a variety of anthropogenic activity, including intensive boating and fishing, dredging, tourism and port activities, operation of mechanized boats, excavation of sand from riverbed, and the establishment of coal power plants.

## **7. Recommendations**

The exertion of this study is to find out a holistic guideline of key aspects of the sustainability of ecotourism at Sundarbans. Community participation, tourism development, and environmental policies are found out with their relative significance level for the sustainability of ecotourism at Sundarbans. The synergistic relationship of such variables is essential for the sustainability of ecotourism at Sundarbans, and this relationship will come from proper policy-making and monitoring them on a regular

basis. More specifically, community participation is influential in ensuring the sustainability of ecotourism at Sundarbans; thus, it is recommended that organizations (e.g., workers union, village committee) and required policies should be formulated to happen positive community involvement in the sustainability of ecotourism at Sundarbans. Moreover, research on tourists' numbers and their behavioral intentions should be studied so that management can make up links between the community and the tourists to make a positive tourism environment. Tour guides and tourism spots should be renovated to make Sundarbans better tourist attraction so that tourists' willingness will be increased.

Recently, several natural calamities (e.g., Ampan, Bulbul) have caused severe damage to the inhabitants of Sundarbans and the Sundarbans itself. Besides, local people and tourists are causing threats to the Sundarbans by poaching, unplanned usage of natural resources, cutting down trees, and not properly nurturing the wildlife. Against such backdrops, strict rules and regulations or policies regarding environment protection should be formulated and communicated properly with associated stakeholders (e.g., local people, tourists). Such approaches can contribute enormously to the sustainability of ecotourism at Sundarbans.

## **8. Conclusion**

This study attempts to create a framework for an understanding of influential factors of the sustainability of ecotourism at Sundarbans. In this context, the current study would add to our extant understanding of the interrelationships between community participation, tourism development, and environmental policies, and their cumulative impact on the sustainability of ecotourism at Sundarbans. In addition to that, this study acknowledges several limitations, which could be addressed in further studies by including a more diverse group of respondents, more robust analytical tools, and different other influential factors of the sustainability of ecotourism at Sundarbans.

However, while this study exerts that environmental policies has the highest significant effect, tourism development and community participation are no less important in the context of the sustainability of ecotourism at Sundarbans. Hence, associated policies are essential in this regard to maintain the sustenance of the Sundarbans. Thus far, it instigates hopes that relevant authorities are taking initiatives by enacting ordinances and promoting awareness-building campaigns regarding the Sundarbans. The authors expect that the findings of this study might contribute to such initiatives.

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# **A Study on Graduate's Perception on Factors that Influencing Career Choices on Ready Made Garments Sector in Bangladesh**

**Surajit Kumar Mondal\***

**Tanzia Rahman\*\***

**Ateef Rab\*\*\***

## ***ABSTRACT***

*The Ready Made Garments (RMG) sector has been showing huge influence on economic development of Bangladesh for the last few years. Garments industries need graduate employees for executive and higher level positions. But this sector often hires executives and professionals from neighboring countries though we have a large number of qualified graduates. This is detrimental to our economy. For this reason, the necessity to conduct a study on graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh has arisen. 388 respondents from several universities at undergraduate level have been interviewed face-to-face and via email using a self administered questionnaire following non-probability convenience sampling method. Ten (10) variables have been selected for this purpose. Factor analysis has been used to decompose the variables and then regression analysis has been applied to find out the effects of those variables in identifying and narrating graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh. Among the factors, Reputation Value (0.043), Corporate Culture (0.004), Career Prospect (0.000), Corporate Social Responsibility (0.000) and Working Environment (0.001) are highly significant in identifying and narrating graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh. The regression analysis of the factors revealed that these factors have significant effects. This study will help the garments companies to have a details understanding on graduate's perception on factors that influence their career choices on RMG sector and will help the garments companies to formulate their employment policies accordingly.*

**Keywords:** *Ready Made Garments (RMG), Economic Development, Executives, Graduate Employees, Bangladesh.*

\*Lecturer, Department of Management Studies, University of Barishal, Barishal-8200.

\*\*Lecturer, Department of Business Administration, Notre Dame University Bangladesh, Dhaka.

\*\*\*Independent Researcher, Notre Dame University Bangladesh, Dhaka.

## 1. Introduction

Starting in the late 1970s, expanding heavily in the 1980s and finally booming in the 1990s, Ready Made Garments industry has created a success story for Bangladesh. Turning up as a gigantic industry within a short span of time, RMG sector has become the backbone to the economy of the country as the largest source of export earnings and employment. The total number of garments factories registered under BGMEA is 4621 now and the total number of LEED-certified garment factories in Bangladesh is 90 now, including the 24 platinum rated buildings, according to the USGBC. Around 4 million people are employed in RMG sector in Bangladesh. Though most of them are less educated and employed at lower level but a large number of graduates are needed for executive and professional level employment. One research project has been taken by the ministry of textiles and jute, government of Bangladesh to forecast the need of textile and garments professionals in the upcoming years in the Bangladesh market. They have depicted that the industry will need around 25000 executives and professionals in the upcoming years.

Ready Made Garments sector is one of the biggest sources of foreign exchange earnings in Bangladesh and a large number of people from the population of Bangladesh are employed in this sector (Siddiqi, 2004). To attract and retain the most productive employees in today's labor market, companies must address the factors which contribute to employees' job happiness (William, 2018). In many developing countries, competitive employment markets have been creating due to changing demographics and technological factors. Competitiveness among the organizations creates scarcity of good employees. Therefore, planned steps in attracting qualified and skilled employees are always applauded. When a company better understands their target recruits, then the company can promote the aspects of their organization that are attractive to that potential candidate (Doane, 2009). Sarker & Afroze (2014) found that most of the employees in Bangladesh who worked in RMG sector are not satisfied with their jobs. The problem of garments sector is that employers hardly become successful in attracting competent executive or higher level employees. We know that less educated

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people are generally employed in this sector. But this sector also needs to pay attention to attract executive or higher level employees from the university graduates in Bangladesh. This is very unfortunate that a large amount of money is being taken away by our neighboring countries' citizens who are employed at the executive or professional levels in the RMG sector in Bangladesh. So, this is very urgent to attract university graduates of our country for executive and higher level employment. In Bangladesh, a number of studies have been conducted on organizational branding which highlights what employers are offering to their employees. However, there are few researches which intensely investigated the potential employees' perspective of what they want from their prospective employers. Therefore, this study attempts to reveal graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh.

### **2. Literature Review:**

This study presents the concept of graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh. In recent times, business organizations are facing great challenges to attract the talented candidates in RMG sector. Talent refers to something, which is cherished, rare and tough to imitate, that leads to extraordinary performances and talented people are often appreciated and valued (Govaerts, et.al, 2011). Very few literatures are found regarding the subject matter of this study.

#### **Reputation value**

Attraction of new employees largely depends on reputation value of a company. Goodwill works as a source of competitive advantage by which an organization can sustain in the market place for a long time (Doane, 2009). Good reputation works as one of the best staffing tools for attracting quality candidates towards an organization. When an organization is known for a progressive reason, the company can lead the HR

activities very well. Individuals are interested to pursue job prospects with that company only because they are familiar with the products or services offered by the company. Reduced recruitment expenses and increased retention can be ensured through a strong reputation of a company (Berthon et al., 2005). Several researches in the field of personnel psychology investigated the factors that influences potential recruits. The result tells potential candidates find an organization recognizable and attractive to potential recruits because of employer-branding. However potential job candidates are more likely to apply for a job at a specific organization that has an existing positive company reputation. The more a company's reputation, the better attractive it will be by prospective recruits. Numerous advantages for companies can be achieved through a superior employer brand including a stronger position in a high-rivalry labor market, better results in terms of quality of applicants, and lower turnover rate (Kucherov and Zavyalova, 2012, Biswas and Suar, 2014, Saini et al., 2014).

### **Training & development**

Gauging the potential of their direct report in time, providing them opportunities to grow, rewarding them in a fair and timely fashion, encouraging them to take charge of their career paths – all of these contribute in a positive way toward retaining employees (Alfes et al., 2013). Terjesen et al. 2007) conducted a study on university students and it was found that five most important organizational attributes that attracted the students were invest heavily in the training and development of employees, caring employees as individuals, clear opportunities for long-term career progression, variety in daily work and dynamic, forward-looking approach to businesses. It is also confirmed by other researchers such as Arnold (2005), Herman (2005) and Hiltrop (1999) that effective training, and opportunities to learn and develop, enhances employee retention.

Research has also shown that employees will be less inclined to leave as long as employees feel that they are learning and growing. On the other hand, employees begin to look externally for new job opportunities once employees feel that they are no longer growing and they begin to look externally for new job opportunities (Rodriguez, 2008).

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### **Remuneration**

Remuneration is the monetary rewards that influence in attracting and retaining skilled workers. Well-paid employees generally provide their best efforts in performing their job roles (Marchington and Wilkinson, 2008). Workers' enthusiasm can be reduced because of inadequate pay and incentives in the RMG sector. It has been observed that workers are not satisfied with their compensation even though employers paying standard salary; workers believe that it is not sufficient enough to motivate them for higher productivity (Hossain et al., 2012).

### **Working Environment**

Alniacik and Alniacik (2012) found six factors by conducting a study using questionnaires that influence employees in deciding if they want to join the organization, which were social value, market value, economic value, application value, cooperation value and workplace environment. They found social value as the most important among the subjects, which gave emphasis on the fact that employees now do not only concentrate on monetary terms. Ahamed (2013) found RMG sector's inadequate application of labor standards, and labor rights, law and enforcement, effective bargaining facilities as challenges regarding social compliance and stated that fair labor practices and government and entrepreneurs' role in the decent work implementation is necessary. Farhana, et al. (2015) in a study revealed that improvement is needed in some areas like labor wages, business climates, trade logistics, improvement compliance, and skills of workers. Sell & Cleal (2011) stated that "different psychosocial and work environment variables like work place, social support etc have direct impact on job satisfaction and that increase in rewards does not necessarily improve the dissatisfaction level of the employees".



## **Organizational Atmosphere**

When implementing retention tactics, attention should be imposed on demographic and other variables affecting the decision to stay on or quit an organization. Progression, challenging work, and career advancement are priorities for early career employees. For mid-career employees, workplace flexibility, the ability to customize their roles and deriving a sense satisfaction from their work are priorities. Employees later in their career look out for higher job security, benefits and a reciprocal loyalty from their organizations (Pandita and Bedarkar, 2015). Terjesen et al. (2007), conducted a study on university students and found five most important organizational attributes that attracted the students were “invest heavily in the training and development of their employees” “care about their employees as individuals” “clear opportunities for long-term career progression” “variety in daily work” and “dynamic, forward-looking approach to their business”. Bakotic & Babic (2013) found that workplace condition is a vital issue for job gratification and workers under a hostile working situation are not that much satisfied.

## **Career Prospect and Growth**

The retention of employees could be more effective with the implementation of the career development plan for the employees by the organizations. These career development opportunities play significant role in preventing employees from leaving the organization and results in increasing the loyalty of the workers towards the organizations (Vos & Meganck, 2009). A set of factors have impact on a person's job satisfaction including compensation, promotion, job security, workplace, transport facilities, training and development, behavior of managers. “In developing countries, people think, not from their brains but from stomach because of unemployment and destabilization of economy the only sure source of job satisfaction is pay and promotion” (Ehsan Malik, Muhammad, Danish, Rizwan, Munir, Yasin 2012).

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### **Corporate Social Responsibility**

Socially responsible behaviors taken by businesses help to create awareness and attract potential employees. However contributing in society's wellbeing through organizations behavior is commendable for retaining employees and maintaining a positive image in the community (Gowan & Zhang, 2008).

### **Corporate Culture and Social value**

Talented candidates are attracted by five practices, them being needs, differentiated employee value proposition, people strategy, brand consistency and communication (Botha et.al., 2011). Proper HR practices in the respective organization significantly regulate employee's behavior and bring out positive attitudes towards organization which in turn helps in attaining organizational goals with reference to the Bangladesh with lower per capita income (Khan, 2010). This is necessary to ensure that employees have a healthy workplace environment, guaranteeing the employees' physical, social and emotional well-being. Referring Maslow's hierarchy of needs here, it can be said that if these hygiene requirements are ensured, employees will not be forced to seek the same job elsewhere (Stevens-Huffman, 2011). Recognition for the work works as one of the most positive influences to prospective employees because they are concerned about the fact (Berthon et al., 2005).

### **3. Objectives of the Study**

The main objective of this study is to identify and narrate graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh. The specific objectives are:

- ✓ To identify significant factors those influence career choices of graduates on ready made garments sector in Bangladesh.
- ✓ To explore and describe the factors which influence career choices of graduates on ready made garments sector in Bangladesh.

#### **4. Research Problem**

In Bangladesh, a number of studies have been conducted on organizational branding which highlight what employers are offering to their employees. But, there are few researches which intensely investigated the potential employees' perspectives of what they want from their prospective employers. The research problem is to identify and narrate graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh.

#### **5. Methodology of the Study**

##### **5.1 Nature of the study**

This study is descriptive type of study and is designed to identify and narrate graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh.

##### **5.2 Sample size and sample selection procedure**

For conducting the study, convenience sampling technique has been used. Convenience sampling is very easy mechanism because readily available data is used here. Non-probability sampling method has been used here that involves non-random selection based on convenience or other criteria allowing easy collection of initial data. Malhotra and Dash (2011) stated that this sampling technique is a quick method of locating desired number of participants from the nearby population.

In this study, population encompasses all the university graduates of Bangladesh. But samples have been collected from six universities only that include three private and three public universities for ensuring proper representation of data.

To determine the sample size for this research, idea has been taken from the research of Gorsuch (1983). According to Gorsuch (1983), at least 100 samples are appropriate for factor analysis. However, Tabachnick and Fidell (2001) inferred that to conduct factor analysis 300 cases or samples are viable. Based on these research precedents, 388 samples have been used in this study. As this study aims to identify and narrate graduate's perception on factors that influence career choices on ready made garments

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sector in Bangladesh, only university graduates have been considered as the respondents of sample collection.

Variables have been identified based on different literatures relating to the subject matter of this study. The variables that have been considered here are reputation value, organizational atmosphere, corporate culture and social value, job profile, career prospect and growth, training & development, corporate social responsibility, working environment, decision making autonomy and remuneration.

**Snapshot:**

1.	Target Population	Elements	Students from different Public and Private Universities in Bangladesh
		Sampling Unit	Students
		Extent	6 Universities (Dhaka University, Jahangirnagar University, Jagannath University, East West University, United International University (UIU) and Notre Dame University Bangladesh). 388 participants have been selected for this study.
		Time	2019
2.	Sampling Frame	University Representatives helped to select the samples.	
3.	Sampling Technique	Non-probability Convenience Sampling.	
4.	Scaling technique	5 point Likert Scale, which is a part of Non Comparative Scaling Technique	
5.	Data Used	Primary and secondary	
6.	Sample Size	388	

### **5.3 Participants and Procedures**

Participants in this study were undergraduate students who were studying in different private and public universities. The respondents were selected randomly from different universities. A questionnaire was sent to 400 respondents through online. A total of 388 respondents completed the questionnaire, among them 196 were collected from private universities and 192 responses were collected from public universities. The survey responses were collected from final year students and both male and female students were selected to assure accurate representative data.

### **5.4 Data collection procedure and research instruments**

The study has been conducted during the period from January 2019 to September 2019. For the study, data have been collected from both the primary and secondary sources. Primary data have been collected through survey method under which the personal interviewing technique has been adopted. A self-administered questionnaire has been designed. Secondary data have been collected from books, journals, articles and from internet. Five-point Likert Scale has been used that refer “1= Strongly Disagree, 2= Disagree, 3=Neutral, 4= Agree and 5=Strongly Agree”.

### **5.5 Data Analysis and processing**

The data have been analyzed using Statistical Package for Social Science (SPSS) 23.0 software. Factor analysis is used to identify the factors that attract potential employees towards RMG sector of Bangladesh. Principal Component Analysis (PCA) using Varimax rotation with Kaiser Normalization (K1) method of Factor Analysis is used for this purpose. Multiple regression analysis has been used to measure the effects of factors decomposed in factor analysis.

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**6. Analysis and Findings**

**6.1 Tests for Reliability**

Cronbach's Alpha	N of Items
.767	11

**Table 1: Cronbach’s Alpha for Data Reliability**

The Cronbach’s Alpha is a measure of reliability of the statistics. An Alpha value of 0.70 or higher is often considered the criterion for internally consistent established factors. This study has an Alpha value of 0.767 with internally consistent 11 items which is higher than the acceptable level. From this result it can be stated that the factors or variables that have been taken into consideration here to identify and narrate graduate’s perception on factors that influence career choices on ready made garments sector in Bangladesh are internally consistent enough and indicating good reliability of data.

<b>KMO and Bartlett’s Test</b>		
Kaiser-Meyer –Olkin Measure of Sampling Adequacy		.742
Bartlett’s Test of Sphericity	Approx. Chi-Square	808.712
	df	45
	Sig.	.000

**Table 2: KMO and Bartlett’s Test of Sphericity**

The adequacy of the sample can be assessed by using the Kaiser-Meyer-Olkin (KMO) (Kaiser, 1970) measure. KMO measure ranges from 0 to 1. For this study, Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.742. So, the number of samples to identify and narrate graduate’s perception on factors that influence career choices on ready made garments sector in Bangladesh is adequate enough. This measure is

adequate and well-accepted for conducting Factor Analysis. Bartlett's Test of Sphericity (Bartlett, 1950) is used to make the chi-square significant. Hair, et al (1995) noted that Bartlett's Test of Sphericity verifies that correlation matrix is not an identity matrix and is significant at  $p < 0.05$  in Factor Analysis.

This study has an approximate Chi-Square statistics of 808.712. This is significant at the 0.05 significance level. This infers that the null hypothesis, that the population correlation matrix is an identity matrix, is rejected by Bartlett's Test of Sphericity (Malhotra & Dash, 2011). Therefore, this study finds that there is significant difference among the factors influencing career choices on ready made garments sector in Bangladesh.

In case of Factor extraction this study uses Principal Components Analysis (PCA) method. Principal Component Analysis (PCA) is appropriate when researchers have initially developed an instrument with several items and are interested in reducing the number of items (Netemeyer et al., 2003).

This study also uses the Kaiser Normalization method, known as K1, in PCA analysis. According to Malhotra and Dash (2011) in K1 approach, Eigenvalues greater than 1.00 are retained for interpretation and other values less than 1.00 are not considered.

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**6.2 Factor Analysis**

**Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.115	31.152	31.152	3.115	31.152	31.152	2.207	22.070	22.070
2	1.429	14.288	45.441	1.429	14.288	45.441	1.772	17.717	39.787
3	1.002	10.021	55.461	1.002	10.021	55.461	1.567	15.674	55.461
4	.853	8.530	63.992						
5	.830	8.298	72.290						
6	.790	7.899	80.188						
7	.700	6.999	87.188						
8	.555	5.552	92.740						
9	.447	4.465	97.205						
10	.279	2.795	100.00						

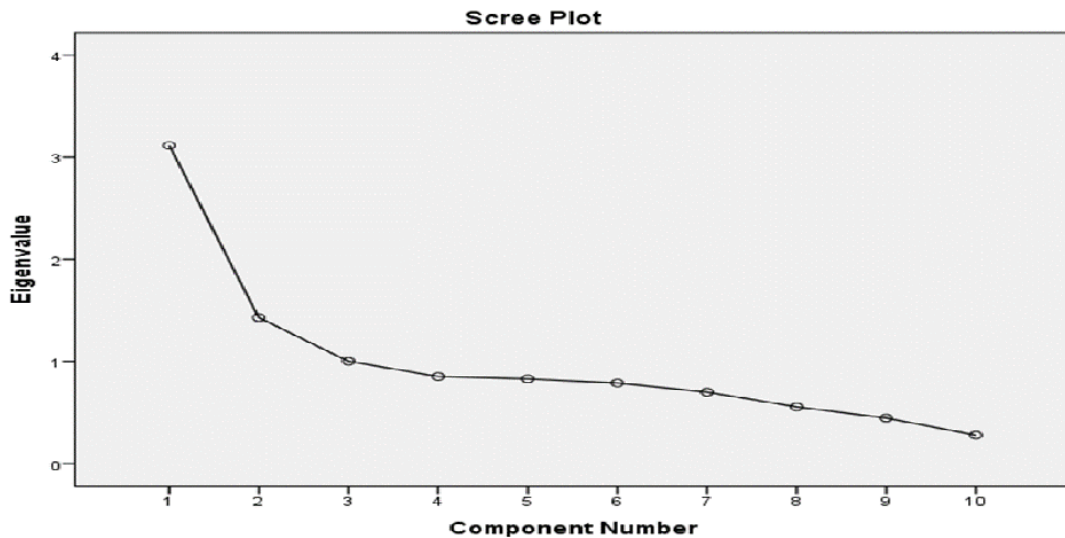
**Table 3: Total Variance Explained**

IBM (2018) found that, the total column shows the Eigen values or amount of variance in the original variables accounted for by each component. The % of Variance column shows the percentage ratio of the variance accounted for by each component to the total variance. The Cumulative % column shows the percentage of variance accounted for by the first *n* components.

The above table shows three (3) factors that have Eigen values greater than 1 are reputation value, organization atmosphere and corporate culture. This indicates that reputation value, organization atmosphere and corporate culture hugely influence to identify and narrate graduate’s perception on factors that influence career choices on ready made garments sector in Bangladesh.



The cumulative percentage for three factors is 55.461% where the first factor (reputation value) explained 31.152% of the total variance. The remaining two factors (organization atmosphere and corporate culture) explained 14.288% and 10.021% of the total variance respectively.



**Figure 1: Screen Plot**

According to Cattell (1966) to Plot the visual exploration of a graphical representation of the Eigen values, a screen plot is used. A screen plot shows steep curve pattern which is followed by a bend and then a flat or horizontal line. The above screen plot indicates that three factors (reputation value, organization atmosphere and corporate culture) explain most of the variability to identify and narrate graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh as a distinct break happens at factor 3. The remaining factors are less considerable as it contributes very small portion of the variability to identify and narrate graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh.

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**Component Matrix**

	Component		
	1	2	3
Reputation Value	0.515	0.751	-0.036
Organization Atmosphere	0.448	0.003	0.695
Corporate Culture	0.575	0.716	0.002
Job Profile	0.638	-0.155	-0.493
Career Prospect	0.482	-0.064	0.063
Training & Development	0.580	-.0.373	0.090
CSR	0.666	-0.355	0.199
Working Environment	0.546	-0.171	0.092
Decision Making Autonomy	0.499	-0.056	0.055
Remuneration	0.593	-0.161	-0.460
Extraction Method: Principal Component Analysis a.3 components extracted			

**Table 4: Components Matrix**

This study uses Principal Component Analysis (PCA) method of Factor Analysis and Varimax rotation with Kaiser Normalization method. Varimax rotation produces factors that have small number of large loadings and large number of small loadings (Abid, 2003).

This study has accepted those factors loadings whose absolute values are greater than 0.40 for identifying and narrating graduate’s perception on factors that influence career choices on ready made garments sector in Bangladesh.

The Rotated Component Matrix of this study has extracted three (3) rotated factors along with their loadings.

**Factor 1 (Reputation value of the company)** is positively correlated with Q1, Q2, Q3, Q4, Q5, Q6, Q7, Q8, Q9 and Q10.

**Factor 2 (Organization Atmosphere)** is positively correlated with Q1 and Q3.

**Factor 3 (Corporate culture)** is positively correlated with Q2.

### 6.3 Regression Analysis

The ten factors can be used as independent variables in multiple regression model to test hypothesis and determine their ability to identify and narrate graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh.

The linear multiple regression model has been developed as follows:

$$\text{GPFICCRMGSB} = \alpha + \beta_1 \text{RV} + \beta_2 \text{OA} + \beta_3 \text{CCSV} + \beta_4 \text{JP} + \beta_5 \text{CPG} + \beta_6 \text{TD} + \beta_7 \text{CSR} + \beta_8 \text{WE} + \beta_9 \text{DMA} + \beta_{10} e$$

Where, GPFICCRMGSB = Graduate's Perception on Factors that Influence Career Choices on Ready Made Garments Sector in Bangladesh,  $\alpha$  = Multiple Regression Constant, RV = Reputation value, OA = Organizational Atmosphere, CCSV = Corporate Culture & Social Value, JP = Job Profile, CPG = Career Prospect and Growth, TD = Training & Development, CSR = Corporate Social Responsibility, WE = Working Environment, DMA = Decision-Making Autonomy, R = Remuneration,  $e_i$  = Error term

### Model Summary

Model	R	R-Square	Adjusted R Square	Std. Error of the Estimate
1	0.948 <sup>a</sup>	0.898	0.895	0.197

a. Predictors: (Constant), Remuneration, Organization Atmosphere, Reputation Value, Training and Development, Decision Making Autonomy, Career Prospect, Working Environment, Job Profile, CSR, Corporate Culture.

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**ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1. Regression	128.910	10	12.891	332.089	0.000 <sup>a</sup>
	14.634	377	0.039		
	143.544	387			

a. Dependent Variable: K1  
b. Predictors: (Constant), Remuneration, Organization Atmosphere, Reputation Value, Training and Development, Decision Making Autonomy, Career Prospect, Working Environment, Job Profile, CSR, Corporate Culture.

**Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Standard Error	Beta			Tolerance	VIF
1 (Constant)	.280	.046		6.045	.000		
Reputation Value	.038	.019	.048	2.029	.043	.492	2.032
Org. Atmosphere	.008	.013	.010	.574	.566	.846	1.182
Corporate Culture	-.053	.018	-.071	-2.930	.004	.464	2.154
Job Profile	-.020	.027	-.015	-.764	.446	.682	1.467
Career Prospect	-.072	.018	-.072	-4.084	.000	.870	1.150
Training & Development	.010	.024	.008	.425	.671	.725	1.379
CSR	.941	.020	.979	47.602	.000	.639	1.564

Working Environment	- .056	.017	-.060	-3.284	.001	.821	1.218
Decision Making	- .003	.014	-.004	-.206	.837	.860	1.163
Remuneration	.015	.022	.014	.708	.479	.714	1.400
a. Dependent Variable: K1							

### Table 5: Coefficients

Among these factors, Reputation Value (0.043), Corporate Culture (0.004), Career Prosect (0.000), Corporate Social Responsibility (0.000) and Working Environment (0.001) are highly significant in identifying and narrating graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh.

Here  $R^2 = 0k.898$ . This indicates that 89.8 % variation in the dependent variables can be explained by the regression model. The value of adjusted  $R^2 = 0.895$  or 89.5 %. This suggests that, addition of the other independent variables does not make a contribution in explaining the variation in the dependent variable.

The ANOVA table of this study represents whether there is any relationship between dependent variable and independent variables. The ANOVA table shows a significance value of 0.000. The values of all independent variables are as follows:

Graduate's Perception on Factors that Influence Career Choices on Ready Made Garments Sector in Bangladesh =  $0.280 + 0.038$  (Reputation value) +  $0.008$  (Organizational Atmosphere) +  $-0.53$  (Corporate Culture & Social Value) +  $-0.020$  (Job Profile) +  $-0.072$  (Career Prospect and Growth) +  $0.010$  (Training & Development), +  $0.941$ (Corporate Social Responsibility) +  $-0.056$  (Working Environment) +  $-0.003$  (Decision-Making Autonomy) +  $0.015$  (Remuneration).

This indicates that there is a significant relationship between Graduate's Perception on Factors that Influence Career Choices on Ready Made Garments Sector in Bangladesh with (Reputation value)  $0.038 + 0.008$  (Organizational Atmosphere) +  $-0.53$  (Corporate Culture & Social Value) +  $-0.020$  (Job Profile) +  $-0.072$  (Career Prospect and Growth)

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+ 0.010 (Training & Development), + 0.941(Corporate Social Responsibility) + -0.056 (Working Environment) + -0.003 (Decision-Making Autonomy) + 0.015 Remuneration. Among these factors, Reputation Value (0.043), Corporate Culture (0.004), Career Prospect (0.000), Corporate Social Responsibility (0.000) and Working Environment (0.001) are highly significant in determining Attraction of Potential Employees in Ready Made Garments Sector.

### **These influential factors are described in brief:**

**Reputation Value:** Most of the graduates consider reputation value as one of the most influential factors that affects graduate's perception on factors that influence career choices on RMG sector in Bangladesh. Standardized coefficients calculated for each predictor variable shows the percentage of variation in the dependent variable caused by the independent variables. From the coefficient table, it can be said that Reputation value (0.043) is significant at 5% confidence level. The standardized beta coefficient of Reputation value is 0.048 which means Reputation value is an important variable that affects graduate's perception on factors that influence career choices on RMG sector in Bangladesh. So, Garments companies should continue their efforts to increase and maintain the reputation value of their organizations.

**Corporate Culture:** The next important variable is corporate culture that affects graduate's perception. Coefficient table indicates that corporate culture (0.004) is highly significant at 5% confidence level and it was observed at the time of data collection that graduates put high importance on corporate culture for building their perception on factors that influence career choices on RMG sector in Bangladesh. So, Garments employer should try to ensure a positive corporate culture to attract potential graduates at their organizations.

**Career Prospect:** Career prospect (0.000) is very highly significant at 5% confidence level that affects graduate's perception on factors that influence career choices on RMG sector in Bangladesh. A large number of graduates opined that there exists a positive tendency to build career in a sector where career prospect facility is available. Graduates give extra importance on promotion and job certainty to build career.

**Corporate Social Responsibility and Working Environment:** Corporate social responsibility (0.000) and working environment (0.001) are another two important factors that are significant at 5% confidence level. Graduates expect their prospective employers to conduct social welfare activities. At the same time, graduates want their working environment to be healthy, secured and enjoyable. Graduates think that if any organization performs CSR activities then it glorifies the profession of its employees and increase the social status of its employees. At the same time, graduates will feel extra motivation if the working environment becomes secured and enjoyable.

## 7. Conclusion and Scope of Further Study

This study aimed at identifying and narrating graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh. Data have been collected by using a questionnaire and ten questions (factors) have been selected as the factors which help in identifying and narrating graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh. Application of factor analysis led to the identification of three factors that largely contribute in identifying and narrating graduate's perception on factors that influence career choices on ready made garments sector in Bangladesh. The multiple regression analysis justifies the claims by demonstrating that these factors have meaningful impacts. The findings of this study tells that a garments company should maintain its reputation value (brand image, public reputation and compliments from family and friends lead university graduates to choose a garments company), organizational atmosphere (a company with few layers of management, a company with committed employees, a company with a

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friendly atmosphere and a company financially sound) and corporate culture and social value (organization with a distinct corporate culture, organization with a high social status, organization with a supportive and caring work culture and a company that encourages innovations) help in improving graduate's perception for career choices on ready made garments sector in Bangladesh.

Some constraints were faced while working on this issue such as unavailability of relevant literatures from the context of Bangladesh, refusal of some respondents to cooperate in the survey etc. This study uses ten variables for conducting factor analysis. Addition of some new variables may generate few more factors that might affect the subject matter of the study. The authors recommend that more studies may be viable in this field to find out the factors that improve graduate's perception for career choices on ready made garments sector in Bangladesh.



## 8. References

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# **Does Democracy Impact FDI?**

**Sujan Chandra Paul\***

**Md Harun Or Rosid\*\***

## ***ABSTRACT***

*This study investigates the impact of democracy indices (such as electoral process and pluralism indices, functioning of government indices, political participation indices, political culture indices, civil liberties indices) on Foreign Direct Investment. Panel Data of 148 Countries from 2007-2018 were collected from the website of Gap minder and The World Bank. This research found that functioning of government indices and civil liberties indices had positive impact on Foreign Direct Investment while electoral process and pluralism indices, political participation indices and political culture indices had negative impact on Foreign Direct Investment.*

**Key words:** *Foreign Direct Investment, electoral process and pluralism, functioning of government, political participation, political culture, civil liberties.*

**JEL Code:** E1, E2, F4

\*Assistant Professor, Department of Accounting and Information Systems, University of Barishal.

\*\*Assistant Professor, Department of Accounting and Information Systems, University of Barishal.

## 1. Introduction

Foreign direct investment (FDI) is fluctuating to the world countries from 2007 to 2018. In 2007, the world FDI was 3,135.87 billion USD and in 2018 it was 1,349.95 billion USD. From 2007 to 2018, 2010, 2011, 2013 and 2015 World's FDI are increasing 32.47%, 23.42%, 5.77%, 37.73% consequently. A summary of world's FDI from 2007 to 2018 was as follows:

**Table 1:** World's FDI for 2007 to 2018

SL No.	Year	World's FDI (in Billion USD)	Increase/Decrease
1	2007	3,135.87	
2	2008	2,478.03	-20.98%
3	2009	1,446.87	-41.61%
4	2010	1,916.74	32.47%
5	2011	2,365.70	23.42%
6	2012	2,065.26	-12.70%
7	2013	2,184.45	5.77%
8	2014	1,942.60	-11.07%
9	2015	2,675.51	37.73%
10	2016	2,672.90	-0.10%
11	2017	2,066.03	-22.70%
12	2018	1,349.95	-34.66%

In 2018, the highest FDI country was USA amounting 258.39 billion USD. China and Germany had also more than 100 billion USD FDI. In 2018, China's FDI was 235.37 billion USD and Germany's FDI was 167.96 billion USD. On the other hand, in 2007, the highest FDI country was also USA amounting to 346.61 billion USD. UK, China and Canada had also more than 100 billion USD FDI in 2007. In 2007, UK's FDI was 209.51 billion USD, China's FDI was 156.25 billion USD and Canada's FDI was

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120.45 billion USD. The 10 countries having highest FDI in 2007 and 2018 were as follows:

**Table 2:** Countries with highest FDI for 2007 and 2018

2018			2007		
SL	Country	FDI (in Billion USD)	SL	Country	FDI (in Billion USD)
1	United States	258.39	1	United States	346.61
2	China	235.37	2	United Kingdom	209.51
3	Germany	167.96	3	China	156.25
4	Singapore	91.04	4	Canada	120.45
5	United Kingdom	81.16	5	Belgium	96.55
6	Brazil	78.16	6	France	83.78
7	Australia	61.49	7	Hungary	70.63
8	France	59.86	8	Austria	68.87
9	Spain	49.07	9	Spain	68.23
10	Canada	258.39	10	Italy	65.98

Amitendu and Shoukie (2007) and Schneider and Frey (1985) have established the negative association between political uncertainty and foreign direct investment. Jafari et al. (2010) observed that the political stability of the MENA region has a positive impact on FDI. Biglaiser and Brown (2009) published a report on the effect of political stability on Latin American foreign direct investment ( FDI) and observed that prosperous developed countries are less likely to draw FDI inflows. Economic globalization has intensified the rise in foreign direct investment (FDI) and multinational business practices (MNE) (Busse 2003).



International investors are involved in deciding where money is to be put, not with political freedoms but with economic independence. Therefore, if economic rights are not assured, foreign direct investment (FDI) will have less flows to more stable countries. One theory may be that democratizing developing countries will still not drive through the kind of institutional changes that creditors want because of competing political interests. It may theoretically explain why FDI inflows perform well in countries such as China and Singapore, which are negatively rated in the democracy index but fairly good in the property rights index (Mathur A & Singh K., 2011).

The FDI has a negative effect on the political process. Moreover, economic uncertainty and growing disparities also dissuade foreign direct buyers (Resnick. A. L., 2008). Desbordes R. Verardi V. (2017) investigated the effect of various political features on foreign direct investment by developing a novel robust-to-outlier dummy estimator. They considered the relationship between democracy and foreign direct investment to be largely good. Fatehi and Safizadeh (1989) published a cross-section study of FDI flows to 36 countries in 1977 and 1982. There was no significant correlation between global prosperity and FDI. Political turmoil has a negative effect on economic development and foreign direct investment and has argued that land rights in politically insecure societies are not being followed (Barro 1995).

This paper is organized as follows: part two outlines the objectives of the study. The third part presents review of the literature, which covers the relationship of FDI and democracy indices. In part four, the research methodology and the chapter consist of four sub-sections: data collection, data processing, hypotheses and model construction. Part five covers finding and results and conclusions and final discussions are presented in part six.

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### **2. Research Objectives**

The study focused on an examination of the relationship of electoral process and pluralism indices, functioning of government indices, political participation indices, political culture indices, civil liberties indices with foreign direct investment.

### **3. Review of the Literature**

Li Q (2009) in his study of actual expropriation actions in 63 developed countries from 1960 to 1990 reveals that democracy is more likely to expropriate foreign investment when leaders face little political pressure and live in countries with regular changes of leadership. Faced with strong political restrictions, autocrats are less likely to expropriate foreign properties and stay in place for a long time to come. In fact, the strategic purpose and policy-making capability of the Chief Executive shall decide the decisions to expropriate the host country. The findings have important repercussions for the rule of law, the protection of property rights, procurement policies and the prospects for structural reforms.

Busse, M. (2003) used cross-section and panel research to empirically examine the complex relationship between government and FDI in a structural way. The results show that, on average, international investments are significantly higher in democratic countries, thereby refuting the hypothesis that FDI is motivated by political repression. Still, in the 1970s, when a vast proportion of FDI flowed into countries with repressive regimes, this positive dynamic does not continue.

Soper, D. et. all (2012) examined ICT strategies using a multi-level change model and observational data from 48 emerging societies over seven years to show substantial direct impacts on future institutionalized policy and FDI levels. The direct effect of ICT investment on future levels of institutionalized democracy in developed countries, having accounted for many covariates, is seen to partially explain the relationship observed between ICT investment and future FDI in these countries. The implications of these observations are explored in the light of the continuing and extraordinary

discussion on the World Bank on the unprecedented search for a simple blueprint for the development of global society and the need for a new way of thinking reflected in what has been called 'current structural economics.'

Kucera, D.C., Principi, M (2014 ) evaluated US FDI outflows to 15 industries (eight manufacturing, seven non-manufacturing) in 54 countries using an FDI model of linear hierarchical panel-data gravity using a simplified timing estimator method and three widely used indices of democracy. They expect a beneficial effect of democracy on FDI at the aggregate level, along with most previous studies. At the level of industry, they expect more positive effects of democracy on FDI services than on manufacturing sectors, in particular on finance and insurance and intelligence, and negative impacts on mining and oil and gas production.

Quan Li, Erica Owen, Austin Mitchell (2018) performed a metaregression analysis to test whether or not the methods mentioned are consistent with previous research results. The research contains an selection of 229 models from 40 prior studies. Three main findings are taken from the analytical methods, the FDI measurement and the coverage bias. Their research demonstrates that meta-regression offers a valuable tool for assessing theoretical arguments and evaluating bias in writing , especially when there are contradictory findings in the literature.

Doces, J.(2010) claimed that the purpose of his article was to analyze this problem by focusing on the effect of increased democracy rates on FDI inflows into developed countries. The correct macro and micro factors for greater FDI inflows are leading to an improvement in the rates of democracy. Econometric results show that increased FDI inflows are associated with a single standard deviation increase in the level of democracy. His quantitative findings endorse a strong association between increased democratic rates and FDI inflows, and the results call into question the idea that, as developing nations have opted to democratize, they draw fewer capital inflows. In

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reality, Li and Resnick 's re-analysis of the 2003 seminal paper effectively overturns their conclusions in favour of a causal link between an change in the degree of democracy and increased FDI inflows.

Malikane C & Chitambara P. (2017) analyzed data from 1980 to 2014 on panel data from eight Southern African countries. In order to link foreign direct investment, democracy and economic development, they used the GMM estimator and found that there is a positive association between foreign direct investment, economic growth and strong democratic institutions. They also noted that the economy of the host counties has an effect on the economic development of the FDI, which means that countries with good political institutions can better handle successful FDI spillovers. In political terms, the Southern African countries must continue the structural change process already underway to draw more from heavy FDI inflows.

Addison, Tony; Heshmati, Almas (2003 ) noted that while governments can do a lot to increase the return on property-based FDI, these capital inflows essentially rely on the wealth endowment (God-given) of the region. By contrast, decision makers have more resources to encourage 'vertical' FDI, which involves shifting the intermediate phases of production to benefit from lower costs. Apart from a favorable policy context, human capital investment has a major effect on FDI flows and related knowledge transition (Keller 1996; Noorbakhshetal . 2001; Saggi 2002).

Kobrin (1979) empirically observed that the effect of global instability on FDI stocks or flows was uneven and mixed. Alesina & Perotti (1996) found that there was a negative effect of political instability on investment in a survey of 70 countries from 1960 to 1985. Woodward and Rolfe (1993) found that political stability raises the possibility of choosing a nation as a place of investment, using data for all recorded factory openings from 1984 to 1987.

In a cross-sectional analysis of FDI flows to 36 countries in 1977 and 1982, Loree and Guisinger (1995 ) found that political stability greatly encouraged FDI inflows in 1982 but not in 1977. Jakobsen and de Soysa (2006 ) studied the same problem and found that such a adverse association between democracy and FDI is largely dependent on sample size and estimation methodology. Our findings underpinned a strong beneficial relationship between political and FDI inflows to developed countries.

From the point of view of MNEs (Multinational Enterprises), FDI is a mode of productivity that seeks to enable companies to enjoy cheaper inputs through FDI or to reduce freight costs associated with conventional trade (Leshner & Miroudot, 2006). In addition to offering additional investment capital, FDI offers access to new technology that can boost the productivity of the country, as well as knowledge transfer and employment growth (Chen, Geiger & Fu, 2015).

Countries where independence is respected are also seen as more attractive than those ruled by an autocratic FDI hosting system (Harms & Ursprung, 2001). This definition derives from the belief that democracy as a core determinant of FDI is the most stable mode of government and political stability (Busse, 2003).

If a corporation undertakes FDI, it must remain in the hands of the host government of the region. It can gain possession as long as the original expenses are incurred by the MNE (Büthe & Milner, 2008). Developed-country governments are more frequently granted long-term opportunities to draw FDI and therefore have no reason for exploiting and leveraging MNEs because, from a longer perspective, it would damage their reputation (Bellak, 2015).

When a government has larger short-term gains, it may have opportunities to change its actions to international investors in order to increase its own income (Bellak, 2015). Countries with a clear investment policy tradition tend to be more attractive to FDI and

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this is a big obstacle for many developing countries, as their reputation is frequently overshadowed by a questionable history of foreign investment (Egger & Merlo, 2007).

More than half of the overall FDI flows to developed countries around the world (Büthe & Milner, 2014) have been debated as to whether MNE is serious with the human rights and civil liberties of the countries in which it spends. Non-governmental organizations (NGOs) who accuse MNEs of supporting non-democratic modes of government by FDI are the sides they are arguing against (Busse, 2003). The claim derives from the fact that FDI has historically been dominated by natural resource extraction in developed countries, and opponents contend that it is just development in a negative context (Echandi, Krajcovicova & Zhenwei, 2015). Whether or not multinationals have civil rights at heart is still an open issue, but there is plenty of data to suggest a positive association between government and the FDI (Globerman & Shapiro, 2002).

Democracy aspires to a stable democratic environment as it establishes higher systemic obstacles against unilateral decisions (Jakobsen, 2006). In terms of democratic stability, political instability is seen as a primary determinant of FDI, and in the sense that populism stops regimes from whimsically changing policy, liberalism is positively associated with FDI (Globerman and Shapiro, 2002).

Turning to the literature on the role of the FDI in democracy, there is more or less consensus in this field that democracy favors foreign investment. Rodrik (1996), who withdrawn from the influence of American alliances for democracy on investment grounds, carried out one of the first research on the subject. His findings showed that the measure had a positive and important effect on government, and the results indicated that countries with a lower political rating were less likely to attract FDI from American MNEs.

Busse (2003) and Harms and Ursprung (2002) followed the course set out by Rodrik, using a variety of democratic measures. Busse (2003) used cross-sectional numbers as well as panel results from 1972 to 1999, representing 69 developing countries. His main freedom metrics are civil and political rights paid for by the Freedom House NGO. Harms and Ursprung (2002) use the same measures of democracy in their cross-sectional analysis of 69 developing countries over the period 1989-1997, grouping them into three groups. All studies show that there is a good partnership between the FDI and democracy.

Jensen N. (2007) found that legislative regimes reduce the risk to international investors, in particular by growing constraints on executives. Using contextual evidence from researchers, borrowers, and site experts and investigative mechanisms that link democratic regimes to lower levels of political risk.

Addison, Tony; Heshmati, Almas (2003) said that FDI inflows to developing countries are growing through democratization and ICT. He added that more aid should be given to developed countries to help them embrace ICT and clamp down on their ongoing ICT transformation. Geo-political shifts would quickly overturn investors' expectations about the protection of their property rights and the sustainability of their money, for better or worse. Obstfeld and Taylor (2002) and Williamson (2002) stated that the global political climate welcomed all sorts of private capital movements prior to the First World War, but then became hostile and hampered much of the 20th century.

Following the Russian, Chinese and Cuban revolutions and the extension of Soviet rule to Eastern Europe, FDI has been stagnant and concentrated on a limited spectrum of developing countries. In the 1960s and 1970s, FDI mistrust evolved as the ideology of dependency, influential in much of Latin America and the former colonial world (Cardoso and Faletto, 1979). Attitudes towards FDI have changed once again over the

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last 20 years. Ideological transformation is important — the abolition of the concept of dependency and the advent of a 'Washington Consensus' that advocated the opening up of trade and international investment (Velasco 2002; Kuczynski and Williamson 2003). More is needed in a society that operates better than actually integrating multi-party rivalry into the electoral system; significant institution-building is needed (Addison 2003).

### **4. Hypotheses based on overhead literature**

Based on the analytical framework and previous studies, this study defines the following hypotheses:

- H<sub>1</sub>. Electoral Process and Pluralism Indices (EPPI) has a positive relationship with foreign direct investment.
- H<sub>2</sub>. Functioning of Government Indices (FGI) has a positive relationship with foreign direct investment.
- H<sub>3</sub>. Political Participation Indices (PPI) has a positive relationship with the foreign direct investment.
- H<sub>4</sub>. Political Culture Indices (PCI) has a positive relationship with the foreign direct investment.
- H<sub>5</sub>. Civil Liberties Indices (CLI) has a positive relationship with the foreign direct investment.

#### **4.1. Research Methodology:**

First, data have been collected then completed for analysis and then analyzed with robust regression models to test the relevant hypotheses. Following data, research methods and techniques have been used to attain the objectives of the research.



#### **4.2. Data Collection:**

Both quantitative and qualitative data are used which are collected from secondary source. This study gathers quantitative data in form of foreign direct investment from the website of World Bank. Democracy indices data such as electoral process and pluralism indices, functioning of government indices, political participation indices, political culture indices, civil liberties indices data of 148 countries from year 2007 to 2018 from the website of Gapminder. On the other hand, the qualitative data are collected from journal, and working paper.

#### **4.3. Data analysis methods and techniques:**

After collecting the secondary data, the subsequent step is determining and defining variables. To estimate regression analysis, there are six variables utilized in constructing the model. Foreign Direct Investment is used as dependent variable and others such as electoral process and pluralism indices, functioning of government indices, political participation indices, political culture indices, civil liberties indices are used as independent variable.

This paper carried out regression analysis by utilizing ordinary least square method in order to see the relationship between foreign direct investment with electoral process and pluralism indices, functioning of government indices, political participation indices, political culture indices, civil liberties indices. ANOVA table (F-test), t-test are also used for the study. For ensuring the robustness of the models used in this study, multiple models like Driscoll Kraay (DK), Two stage least square (2SLS), and Generalized Method of Moments (GMM) have been used for cross verification of the coefficients in different models. Regression coefficients for the hypothesized variables have been found based the following basic regression model.

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**4.4. Model Construction**

This research simplifies the model by directly relating foreign direct investment and some independent variables such as electoral process and pluralism indices, functioning of government indices, political participation indices, political culture indices, civil liberties indices. The hypothesized relationship can be expressed as the following regression model:

$$F = f(LnEPPI, LnFGI, LnPPI, LnPCI, LnCLI) \dots\dots\dots (1)$$

Where,

- LnEPPI=Electoral Process and Pluralism Indices,
- LnFGI= Functioning of Government Indices,
- LnPPI= Political Participation Indices,
- LnPCI= Political Culture Indices,
- LnCLI= Civil Liberties Indices.

After formulating the model, the next step is to define the equation. Since it is assumed that electoral process and pluralism indices, functioning of government indices, political participation indices, political culture indices, civil liberties indices are helpful for increasing foreign direct investment, a positive sign has been used for the coefficients of all indices.

The full equation model for the regression analysis is as follows:

$$F = \alpha + \beta_1 LnEPPI + \beta_2 LnFGI + \beta_3 LnPPI + \beta_4 LnPCI + \beta_5 LnCLI + \mu \dots\dots\dots (2)$$

## 5. Results and Discussion

After collection of the data, it has been used in step by step manner. Firstly, data on FDI had been converted into billion USD. Then it has been log normalized for ensuring normality in the data. All the independent variables have been log normalized to ensure the consistency in analysis with FDI. After that multivariate partial regression model has been run for FDI based on democracy indices. The nature of relationship of the explanatory variables have been examined for every model. With some discrepancies, most of the variables have been found to be consistent in their nature of relationship with FDI. The nature and degree of relationship among the variables have been tested with robust regression models. These are Driscoll Kraay, Two stage least square (2SLS) and Generalized Method of Moments (GMM). A cross examination and matching has been observed for every regression model to find out the uniformity in findings in these models. In the result section firstly descriptive statistics of the variables would be presented, then pair wise correlation matrix for the determining variables of wealth efficiency would be reported, after that robust regression model results for the democracy indices would be presented. Then the impact and nature of relationship of these variables with FDI would be elaborated in detail.

### **5.1.Descriptive Statistics:**

Summary of the descriptive statistics of all the variables used in the models of this study is given below. The table includes the number of observations, mean score, standard deviations, minimum and maximum score for each and every variable.

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**Table 3:** Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
lnFDI	1902	18.966	9.709	-26.201	27.322
lnEPPI	1908	3.613	1.413	-1.194	4.605
lnFGI	1906	3.703	.819	-1.05	4.605
lnPPI	1908	3.795	.471	1.723	4.605
lnPCI	1908	3.986	.32	2.526	4.605
lnCLI	1908	3.971	.679	0	4.605

**Table 3:** shows the summary of the data collected for 148 countries, 12 years on 6 variables. With main dependent variable FDI is showing an average of 18.96 billion USD for the countries studied along with a very high standard deviation of 9.71 billion USD which indicates there is considerable disparity in FDI among the countries of the world. On the other hand, government index is 3.703 for each country on an average. Mean political participation index is 3.795 for each and every country. Average political culture index is 3.986 with very low standard deviation of .32 while civil liberties index has a score of 3.971 with a standard deviation of .679. So, a thorough study to understand the disparity among these countries is necessary beyond doubt. The current study had tried to do so to its scope limit.

### ***5.2. Pair wise correlation matrix:***

With the aim to identify the impact of democracy indices on FDI, first, we are going to analyze the correlations among the variables we obtained from literature. A combined correlation matrix is given below to report the variables.

Table 4: Pairwise correlations matrix

Variables	lnFDI	lnEPPI	lnFGI	lnPPI	lnPCI	lnCLI
(1) lnFDI	1.000					
(2) lnEPPI	0.019	1.000				
(3) lnFGI	0.123*	0.499*	1.000			
(4) lnPPI	-0.005	0.672*	0.524*	1.000		
(5) lnPCI	0.011	0.342*	0.532*	0.520*	1.000	
(6) lnCLI	0.059*	0.811*	0.611*	0.706*	0.525*	1.000

Table 4 shows little association among the variables indicating very low chance of endogeneity. Limited by the layout, only the correlation coefficient matrices and collinearity test results are provided here. However, the results meet the requirements of the correlation coefficient test and VIFs test. Also, the results show significance at least at .10 level for all the variables. No variable is showing association over .90 level.

### **5.3. Econometric Models:**

Multiple regression models have been run with the same dependent (FDI) and independent variables (EPPI, FGI, PPI, PCI, CLI). In the following section the results of those models are presented and interpreted below.

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**Table 5: OLS model**

lnFDI	Coef.	St.Err.	t- value	p- value	[95% Conf	Interval]	Sig
lnEPPI	-0.263	0.392	-0.67	0.502	-1.031	0.505	
lnFGI	1.851	0.545	3.40	0.001	0.783	2.918	***
lnPPI	-1.562	0.919	-1.70	0.089	-3.364	0.240	*
lnPCI	-1.916	1.365	-1.40	0.160	-4.591	0.760	
lnCLI	1.331	1.004	1.33	0.185	-0.637	3.300	
Constant	21.341	4.857	4.39	0.000	11.822	30.861	***
Mean dependent var		18.966	SD dependent var		9.709		
Overall r-squared		0.026	Number of obs		1902.000		
Chi-square		18.296	Prob> chi2		0.003		
R-squared within		0.003	R-squared between		0.077		

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

**Table 5:** shows functioning of government index and political participation index has significant positive and negative relationship with FDI respectively. The more governmental functioning and less political participation attract more FDI for the countries. On the contrary other independent variables have mixed but insignificant nature of relationship with FDI though the overall model is significant at 1% level. For more robustness of the results, the next model is run.

**Table 6:** Driscoll-Kraay pooled OLS model

Regression with Driscoll-Kraay standard errors Number of obs= 1902  
 Method: Pooled OLS Number of groups = 159  
 Group variable (i): ID F( 5, 11) = 7.31  
 maximum lag: 2 Prob> F = 0.0030  
 R-squared = 0.0266  
 Root MSE = 9.5920

Drisc/Kraay

lnFDI	Coef.	Std. Err.	T	P>t	[95% Conf.	Interval]	Sig.
lnEPPI	-0.538	0.142	-3.780	0.003	-0.851	-0.225	***
lnFGI	2.089	0.694	3.010	0.012	0.562	3.615	***
lnPPI	-1.824	0.765	-2.390	0.036	-3.507	-0.141	***
lnPCI	-2.131	1.356	-1.570	0.144	-5.116	0.854	
lnCLI	1.639	0.535	3.070	0.011	0.463	2.816	***
cons	22.078	4.472	4.940	0.000	12.235	31.921	***

**Table 6:** shows functioning of government index and civil liberties index has significant positive relationship with FDI flow. The more governmental functioning and civil liberties attract more FDI for the countries. On the contrary other independent variables (EPPI, PPI) have significant negative relationship with FDI though the overall model is significant at 1% level. For more robustness of the results, the next model is presented.

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**Table 7:** Two stage least square model

Instrumental variables (2SLS) regression

ln FDI	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval	Sig
ln EPPI	-0.538	0.284	-1.90	0.058	-1.094	0.019	*
ln FGI	2.089	0.361	5.79	0.000	1.381	2.796	**
ln PPI	-1.824	0.718	-2.54	0.011	-3.232	-0.416	**
ln PCI	-2.131	0.898	-2.37	0.018	-3.892	-0.370	**
ln CLI	1.639	0.657	2.49	0.013	0.350	2.929	**
Constant	22.078	2.950	7.48	0.000	16.293	27.863	**
							*
Mean dependent var		18.966	SD dependent var				9.709
R-squared		0.027	Number of obs				1902.000
F-test		10.350	Prob> F				0.000

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

**Table 7:** shows functioning of government index and civil liberties index has significant positive relationship with FDI flow. The more governmental functioning and civil liberties attract more FDI for the countries. On the contrary other independent variables (EPPI, PPI, PCI) have significant negative relationship with FDI though the overall model is significant at 1% level. For more robustness of the results, the next model is added.



**Table 8: Generalized method of moments (GMM) model**

Regression results of system GMM model

lnFDI	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
L.ln FDI	0.056	0.080	0.70	0.484	-0.101	0.214	
ln EPPI	-0.627	0.370	-1.70	0.090	-1.351	0.097	*
ln FGI	2.443	0.889	2.75	0.006	0.701	4.186	***
ln PPI	-2.092	1.277	-1.64	0.101	-4.595	0.410	
ln PCI	-1.851	1.377	-1.35	0.179	-4.549	0.847	
ln CLI	1.878	1.170	1.61	0.108	-0.415	4.171	
Constant	19.203	4.563	4.21	0.000	10.259	28.147	***
Mean dependent var		18.825	SD dependent var			9.954	
Number of obs		1742.000	Chi-square			9.278	

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ 

GMM post estimation test results:

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**GMM model post-estimation results**


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F-Value	15.36***
Wald Chi-square	9.28***
AR(2)	.190
Sargan Statistics	.468
Hansen Statistics	.664

Standard errors are in parenthesis

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\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Source: Authors' calculation

Table 8 shows functioning of government index and civil liberties index has significant positive relationship with FDI flow. The more governmental functioning and civil liberties attract more FDI for the countries. On the contrary other independent variables (EPPI, PPI, PCI) have significant negative relationship with FDI though the overall model is significant at 1% level. The post estimation test of GMM shows very convincing results of the model. The negligible Sargan test statistics ( $p < 0.05$ ) indicate the residuals are not associated with the instrumental variable (IV). In addition, the Hansen test supports the null hypothesis of instrument validity ( $p < 0.05$ ), suggesting that the instruments are exogenous and appropriate. Moreover, the model is free from second-order correlation indicating no serial correlation. So, the overall model is valid and relevant hypotheses are valid.

No.	Hypotheses	Results
H <sub>1</sub>	Electoral Process and Pluralism Indices (EPPI) has a positive relationship with foreign direct investment.	<i>Result is negative but significant (<math>p &gt; 0.000</math>) and supported by DC, 2SLS and GMM models.</i>  <i>Note: rejected the null hypothesis</i>
H <sub>2</sub>	Functioning of Government Indices (FGI) has a positive relationship with foreign direct investment.	Result is positive and significant ( $p > 0.000$ ) and supported by OLS, DC, 2SLS and GMM models.
H <sub>3</sub>	Political Participation Indices (PPI) has a positive relationship with the foreign direct investment.	<i>Result is negative but significant (<math>p &gt; 0.000</math>) and supported by DC, 2SLS and GMM models.</i>  <i>Note: rejected the null hypothesis</i>

H <sub>4</sub>	Political Culture Indices (PCI) has a positive relationship with the foreign direct investment.	<i>Result is negative but significant (<math>p&gt;000</math>) and supported by DC, 2SLS and GMM models. Note: rejected the null hypothesis</i>
H <sub>5</sub>	Civil Liberties Indices (CLI) has a positive relationship with the foreign direct investment.	Result is positive and significant ( $p>000$ ) and supported by OLS, DC, 2SLS and GMM models.

#### **5.4. Hypothesis results and interpretation:**

Based on the findings of the study only two hypotheses proved to be right and supported all regression models. In this study, functioning of government index and civil liberties index has significant positive relationship with FDI flow. The more governmental functioning and civil liberties attract more FDI for the countries. On the contrary other independent variables (electoral process and pluralism index, political participation index, political culture index) have significant negative relationship with FDI though the overall model is significant at 1% level. The post estimation test of the model shows acceptability of results of the model.

## **6. Conclusion:**

Based on the findings of the study, it can be recommended that a country should not put its concentration mostly on enhancing governmental functioning and civil liberties to attract more and more FDI for a country. Other democracy indices like electoral process and pluralism index, political participation index, political culture indices are affecting FDI in an unstructured and undesired way. The insight of this findings may require separate study. Overall, the study of 148 countries through a 12 years' dynamic panel data has come up with valuable findings to understand the economies of the world with respect to FDI and democracy indices.

### ***6.1. Contribution of the paper:***

The broad finding that FDI is not necessarily enhancing FDI in every aspect except for governmental functioning and civil liberties. Specifically, this paper had mainly contributed in two aspects: firstly, it has predicted and shown the relationship of FDI with democracy indices across the countries of the world and secondly it has scrutinized and identified the impact of different democracy indices on FDI flow through robust models like DC, 2SLS, GMM. Complementarily, the paper has the following implications:

***a) Theoretical Implications:*** The academia would be complemented through the analysis on the impact of democracy indices on FDI. This study will show how to use these different regression models jointly come up with the same results. Besides, academics of economic arena would be aware of the fact that which democracy indices are effecting FDI most. They will also be assisted to analyze further how to conduct more refined studies regarding FDI and democracy indices. The concept of FDI and democracy indices can also be used in broad theoretical discussion of the economic world in upcoming future.

**b) Practical Implications:** After establishing the findings of the study about how democracy indices can be better perceived to boost and attract more and more FDI is an important finding. The economic arena would be assisted to think about the importance of democracy indices in attracting FDI. Society as a whole be benefited by the findings as it will create a sense of democracy which will lead to set up a normative view towards the development of a nation. More and more concentration would-be put-on democracy besides other determinants of FDI. Also, a global sense of democracy based economic evaluation will draw attention at large.

### **6.2 Limitations and further research opportunities:**

Data were not collected for all the countries of the world because of the availability in the database. Also, more than 12 years' data would have been more conclusive. Data had to be converted for analysis which may lead to discrepancies. Besides, many variables have been untouched in this research. Future study may be conducted on finding out the most important determinants of FDI besides the democracy indices.

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# **A Study on Tourist Shopping Preference and Expenditure Behaviors: A Case Study of Domestic Visitors in Kuakata, Bangladesh**

**Md. Abir Hossain\***

**Tazizur Rahman\*\***

## ***ABSTRACT***

*Tourist shopping preference refers to the items that people prefer to buy during their vacations or trips, and tourist expenditure behavior is a complex decision-making process influenced by several factors. This study aims to determine the popular shopping items and expenditure behavior of domestic tourists in Bangladesh. The present paper determined the item questions from the previous literature and the insights of a pilot study. Analysis of variance (ANOVA) and Chi-square tests were used to analyze the data collected through an online survey of 150 participants who have recently visited the Kuakata, one of the popular sea beaches in Bangladesh. The results indicate that socio-demographic characteristics have significant relationships with expenditure behaviors except for gender and tour type. The findings also reveal that respondents prefer most local food items in the tourist spot. Besides, another remarkable result to emerge from the empirical data is that the aged person expenses more on different shopping items.*

\*Assistant Professor, Department of Management Studies, University of Barishal.

\*\*Assistant Professor, Department of Management Studies, University of Barishal.

## 1. Introduction

Tourism is one of the fastest-growing industries in the world. More than millions of visitors, both domestic and foreign, visited various locations around the year. According to the world travel and tourist council, 2017, domestic tourism represents 73% of total global tourist spending, and the amount was \$3971 billion. There have different variations from country to country and their local contributions. Such as Brazil contributes 94%, India, Germany, and china contribute 87% of their total spending on the tourism sector. China accelerates their domestic tourism growth by up to 62% from the last ten years. In 2008, china was in the fourth position in the case of local tourism, but in 2017 it gained a 1st position in the whole world under the domestic tourist spending. Moreover, it spends 841 billion dollars on it. So day by day, domestic tourists contribute drastically to the tourism sector. According to WTTC, in 2015, tourism's total contribution to the national GDP was 4.7% and forecasted to raise it by 6.4% in 2026.

Bangladesh is one of the natural resource affluent countries in the world. This country has a wide range of diversity in population, culture, and customs, and this variation makes the main attraction for tourists. Historically, Bengal was the haven for the Mughals. Later they divided the land, which makes this land more attractive to all, and in 1971 Bangladesh achieved independence. Since then, Bangladesh is growing up and working hard on all the areas it has. However, tourism, one of the potential fields, is yet to be emphasized. Tourism can play a very dynamic protagonist in Bangladesh's economy, and shopping is an adjacent vital relaxation activity that is directly related to it. Gratton and Taylor (1987) reported that two-third of visitor expenditure is on shopping purposes. The Government of Bangladesh is trying to show much concern in this sector. In Bangladesh, there are many attractive tourist places situated in different areas, and Kuakata is one of them. Kuakata is the sea beach, which is the most attractive sea beach in the world where tourists can enjoy sunset and sunrise staying at the same place. There are many beautiful places in Kuakata, such as Rakhine Polli, Sutki Polli, Kakrar Chor, Jhor Bojoy, Salbon, Lal Kakrar Chor, Buddhist temples, and others. As Bangladesh is about to compete in Asia's emerging tourism sectors, the government has focused on it. For keeping this forecasted growth rate, Bangladesh needs to focus on new forms of tourism to attract domestic tourists. By confirming proper development in this sector and appropriate buying choice of the tourists, it's possible to accumulate a vast amount of currency contributing to the national development of the country's economy. Frechtling (1994) argued that tourism

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activities effectively increase the gross wealth, or the income of a community makes tourism a popular form of economic development. Identifying the shopping preference of the tourist's so that adequate employment opportunity can be created on a regional basis. The income of the household will significantly increase with government revenue. It can easily contribute to narrowing the gap between rich and poor people in Bangladesh.

### **2. Literature Review**

A previous study has revealed that tourists shopping on vacation consider as a beautiful memory (Swanson and Horridge 2006), and their shopping behavior varies from person to person and different when they are at home. They have no obligations about purchasing goods; while purchasing various products, they get satisfaction from their shopping experience (Le Hew and Wesley 2007). Different researchers have shown, besides souvenirs, tourists buy cloth, jewelry, book, electronics appliances, and arts and crafts (TIA 2001; T mothy 2005). According to the previous research, tourists generally spend one-third of their trip budgets on shopping (Turner and Reisinger 2001). If tourist travels for another purpose than pleasure trips, they do shopping on an active activity trip. Sometimes, shopping can be used as motivational tools to visit some places. The research said that some people take shopping on the journey as the main motivational factor, which solely accounts for most tourist expenditures (Heung and Qu 1998). There have some tourist spots which have special attention for shopping on that particular destination. Recent research has shown that relative price is a significant determinant in breeding shopping trips (Keown, 1989). The tourist's income on gender also has significant determinants for Shopping (Lehto et al., 2004). As the primary trip purpose, shopping has drawn substantial attention in business and education but little recognized as a tourist activity in this context.

The previous literature motivates researchers to conduct a study to assess the tourist shopping preferences and to examine the expenditure behavior when they go for a vacation or a trip. Researchers tried to explore the different shopping items and their preferences among domestic tourists. Besides, researchers intended to assess the correlation between tourist shopping item preferences and demographic characteristics. As far as our knowledge, little or no research was

conducted to assess the issues mentioned above in Bangladesh. Therefore, this research initiative aims to fill the above-identified gaps.

### 3. Shopping Products

Generally, tourists shop for a different assortment of products. They have some tendency to find out souvenirs that can be valuable memory of that trip (Timothy 2005). Whereas a token is a symbol and reminder of an experience that is different from the daily activities, and that may remind intangible memories about people, places, and events (Littrell 1990; Timothy 2005). Souvenirs can help us as a reminder of the experience, which is the prime reason for purchasing it (Timothy 2005). However, tourists' range of goods has broadened day by day and has no longer consistency in souvenirs purchase (Turner and Reisinger 2001). Past researchers identified different diminutions of products that tourists care most, but they focus little attention on different sorts of merchandise. So, in this case, more research efforts should be applied to explore tourist's taste and preferences about foods and products, especially the goods and souvenirs they preferred most.

Tourist shopping items vary from person to person and country to country. From the previous study, researchers have been identified as different products. Research conducted by Turner and Reisinger (2001) revealed a list of products that tourists prefer, such as foods, cigarettes, clothing, household, souvenir, art, books, photographs, toys, cosmetics, jewelry postal, electrical and travel goods. Oh et al. (2004) used five tourists purchased items such as music, antiques, books, local arts and crafts, gourmet foods, jewelry, and shoes. A visitor arrived statistics that have been collected by Hong Kong Tourist Association (HKTA) where they enlisted the tourist items: garments, leather, perfume, alcohol, jewelry, medicine, foodstuffs, clock, camera, optical goods, electrical, souvenirs and toys (Heung and Qu 1998). Lehto et al. (2004) also examined data from Taiwan outbound Travelers Survey in 1999, where he disclosed the purchase items such as wine, art handicrafts, tobacco, jewelry, watches, toys, cosmetics, perfumes, local food, and medicine. Travel Industry Association of America (TIA, 2001) provided a list of products that tourist purchased most. They include shoes, souvenirs, books, clothes, music, beverage items, toys, crafts items, home furniture, jewelry, sports equipment, home electronics, camera, artwork, camping equipment, and luggage. This report mentioned that most of the money tourists spend on clothes or shoes (77%), souvenirs (49%) and books or music (42%). Based on the cultural background, tourist preference for products may vary. Asian

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tourists usually purchase medicine, duty-free products, and watches (Heung and Qu, 1998; Lehto et al., 2004), whereas these items are not preferable for American and Canadian tourists (Oh et al. 2004; TIA 2001; Turner and Reisinger 2001).

### **4. Methodology**

The questions used in our research initiative are collected from previous research focused on tourist shopping (Lehto et al. 2004). The survey questionnaire was in English as the target population can understand the basics of English, and the questionnaire had three parts. Part 1 briefly describes the objectives of the proposed research work and ensures the respondents that their responses only be used in this research work, and researchers will maintain strict confidentiality. Part 2 includes demographic questions, and part 3 includes item questions for tourist shopping items and expenditure. The item questions include information about the recent tour, purchased items, and the amount spent on those items. Here, tourist shopping items such as clothes, shoes, souvenirs, jewelry, children's toys, home accessories, and perfume, and cosmetics have been adopted from the shopping travel erre post (TIA 2001). Besides, this study conducted a pilot study with 20 samples who are the respondents of the target population. As per their feedback, researchers also included some other items in the context of our country. Those items were dry fish, candy, pickles, and local food. Furthermore, the item called "others" includes the cost of hotel expenses, travel costs, and unidentified items. These were included in this study for finding out the trip expenditure.

In this study, mainly, respondents are the students, teachers, and officers of Barishal University who recently visited Kuakata sea beach. Besides, some other service holders and business person have drawn their opinion in this study. Here convenience sampling has been used. Data were collected via an online survey with the help of Google form. Around 600 individuals who have recently visited the Kuaka sea beach were knocked for this study and only 150 respondents finally filled up the form. The Google form was open on May 17, 2019, and closed on August 16, 2019.

When the factor structure of tourists shopping items was determined, multivariate analysis such as chi square test and one way ANOVA test were employed to examine the relationship between tourist shopping items and their demographic characteristics.



### Statistical Procedure and Analysis:

In this study, chi-square tests were conducted to explain the single dimensional relationship between the respondents' preferences of shopping items and the income, age, marital status, educational level, and tour types. One way Anova tests were conducted to find out the relationship between tourist's shopping expenditure and the five socio-demographic factors.

### 5. Results and Discussion

Table I: Demographic Information

Overall, most of the domestic visitors were aged between 20 to 35 years old. The respondents were dominated by the student (82.67%). Besides, their average monthly income range was from BDT 10k to BDT 50k. In this survey, most of the tour type was with a companion basis, and the percentage rate was 88.67. In the case of educational level, 63% of respondents are at the bachelor level or passed bachelor degrees, and 37% of respondents have completed their master's degree. In marital status, 88.70% of respondents are unmarried, and only 11.3% of respondents are married. Here, the average amount of money spends on shopping items during the recent Kuakata tour was approximately BDT 3,685.5 per person.

Table II: Tourist expenditures on different shopping items.

Table II describes the shopping items that respondents purchased on their tour, and the average amount spends on each item. Respondents expensed most of their budget on local foods (BDT 109123). For the hotel bills, transport, and other unidentified objects, they spend BDT 79205. Besides, respondents pay for clothes, dry fish, arts/handicrafts, and souvenirs BDT 73563, BDT 67300, and BDT 41720, respectively. They also buy candy for BDT 40070, pickles for BDT 38965, jewelry for BDT 30264, home accessories for BDT 19075, perfume, and cosmetics for BDT 18760, shoes for BDT 17940 and children toys for BDT 16840 on their recent Kuakata tour. Table II also shows that about 82% of people spend their money on local foods, and 75% of people bought pickles. Others shop items such as candy (71%), souvenirs (60%), dry fish (57%), clothes (55%), for hotel, transport or other expenses (53%), home accessories (28%), shoes (27%) and perfume and cosmetics (27%).

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Table III: Chi-square: Purchased items versus income

Table III: shows that respondents who have not any direct income to their own are 44% of the total respondent. Having in the lower-income level, 38% purchase clothes, 38% purchase dry fish, 6% purchase shoes, 38% purchase souvenirs, 44% purchase jewelry, 25% purchase children's toys, 6.25% purchase home accessories, 56.25% purchase candy, 68.75% purchase pickles, 18.75% purchase perfume and cosmetics, 62.5% purchase local food and 43.75% purchase others expenditure. On the other hand, for the higher income range people who earn monthly 50k above taka, they spend more on different shopping items. 42.86% of this group people pay money for purchasing home accessories. On the other hand, only 6.25% of respondents who are in the lower spend on it.

Table IV: Chi-square: Purchased items versus gender

Table IV depicts that gender has a significant association with the buying of different shopping items. As per the result of IV, we can examine the relationship between shopping items and gender, where 63% of total female spend money on clothes. In contrast, only 50% of males spend money on that item. In the case of shoes, males spend much than females. For jewelry purposes, 76% of females devote cash to it, whereas only 40% of males spend on it. In the case of candy, pickles, perfume, and cosmetics, females spend much more in numbers than male respondents.

Table V: Chi-square: Purchased items versus marital status

In the above table V, marital status also found influential items to buy. In all the cases, married respondents spend much more on clothes, shoes, dry fish, jewelry, children's toys, home accessories, pickles, perfume, cosmetics, and local food than unmarried people. In the case of candy, both of the respondents are the same.

Table VI: Chi-square: Purchased items versus occupation

In the case of table VI, some difference is found between service holders and students. The majority number of service holders spend purchase all the items than students. Only in case of candy, pickles, bare fist, perfume, and cosmetics, more students choose these items than married respondents.

Table VII: Chi-square: Purchased items versus age

In the case of table VII, age was also found in influential items to buy. The under 20 age group people are the most enthusiastic shoppers for clothes (66.67%) whereas, 20-24 age group (53.54%), 25-30 age group (83.33%) and the above 35 age group (20%), choose clothes as a shopping item. In the case of shoes, dry fish, souvenirs, jewelry, children's toys, and local foods, aged people like to tend to buy it. In pickles, perfumes, and cosmetics, young people are the pioneer to purchase those items than the aged one.

Table VIII: Chi-square: Purchased items versus education level

In the above table VIII, it is seen, there have not found any significant influences between shopping items and educational levels. Both bachelor and master level respondents have somehow the same preference for product choices.

Table IX: Chi-square: Purchased items versus tour type

In the case of tour type (table IX), choosing shopping items may differ. For clothes, shoes, dry fish, and souvenirs, people prefer those that have companions with them. On the contrary, people without a companion chose children's toys, perfumes, cosmetics, and local food more than those who have a company.

Table X: Shopping expenditure variation: One-way ANOVA tests

In table X, tourists shopping expenditure behavior has been examined in the context with their socio-demographic features. From the chart, it can be seen that respondents who fell into the category of 30-34 years old spent significantly more than other age groups. Respondents under 20 and 20-24 years old appeared to spend the least amount of shopping during the tour. Although there is no significant difference, the female tends to spend much more money than male respondents on vacation. In the case of occupation, service holders spent twice than

## **A Study on Tourist Shopping Preference and Expenditure Behaviors: A Case Study of Domestic Visitors in Kuakata, Bangladesh.**

students while on trips. Tourist's monthly income and spending on trips have a mixed relationship. Respondents, whose monthly income range was 30001 to 40000 taka, spent higher than other groups. Tourists who traveled with friends and family tended to spend more (BDT 5280) than those who moved without friends & family members (BDT 3205.88).

### **6. Implication and Conclusion**

This study was conducted to determine the popular shopping items and expenditure behavior of domestic tourists in Bangladesh. Researchers also aimed to examine the relationships between socio-demographic characteristics and shopping expenditure behavior. In this context, researchers targeted the domestic visitors of Kuakata tourist spot and did an online survey to collect empirical data for this study.

For the tourists shopping items preferences, different shopping items have been identified by tourists. These basic questions can be raised, such as the most popular items for a specific demographic group, and the second question may arise what factors can be used to assume the spending level of tourist shopping. For example, past research has been addressed clothes, one of the most popular items purchased by the tourists (Kim and Littrell 2001; Rucker et al. 1986). However, present research brings the light that clothes' popularity for Kuakata tourists varies from one socio-demographic to other groups. For the income group of 50,000 BDT and above, clothes are less popular than dry fish, souvenirs, candy, pickles, and local foods. The purchase of clothes is more popular for females than the previous researcher (Ietho and chi 2004). The previous study has revealed (Arni et al. 1998; Otnes et al. 1993; Beatty et al. 1993) that females highly give souvenirs than males, but in this research, males purchase more souvenirs than female. Unmarried people spend much money on souvenirs than a married tourist, in the case of students spending much money on souvenirs for their near and dear people compared to service holders. Results showed that female visitors spend more on clothes, pickles jewelry, candy, perfume, and local foods than male tourists. Tourists who have not to companion with then spend much on clothes, dry fish, and souvenirs than with a companion. Whereas, there have not any significant difference between masters and graduate people about their product purchase habits.

On the other hand, based on expenditure, people in the age group 25-29 spend much money on shopping than other age groups. Females spend more money on shopping than male and simultaneously single people, and service holders spend more money than married people and students. These current findings will provide a better understanding of tourists shopping in Kuakata sea beach. Therefore, business people, government, and other stakeholders may make better decisions by using these insights identified in our research initiative.

## **7. Limitations and Future Research**

The first limitation of this study is the use of a convenience sampling method. Therefore, this method may hamper the generalization of these findings. Second, as we consider only the Kuakata sea, it may not represent the natural pattern of the whole domestic tourists of Bangladesh. Third, most of the respondents are students and age limit between 20 -29, which may not represent all the other aged people's perceptions about tourist goods and their buying attitude. We truly believe there has a vast scope in the future to investigate tourist shopping items preferences for the whole domestic people in Bangladesh with other homogenous places besides Kuakata, and that will represent identical results.

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Table I: Demographic Information

Items		Frequency	Percentage
Age	Under 20	6	4.00
	20-24	99	66.00
	25-29	34	23.00
	30-34	6	4.00
	Above 35	5	3.00
Gender	Male	101	67.30
	Female	49	32.70
Marital Status	Single	133	88.70
	Married	17	11.30
Education Level	Bachelors	95	63.00
	Masters	55	37.00
Occupation	Service holder	24	16.00
	Businessman	2	1.33
	Student	124	82.67
Income (Monthly)	No Income	16	10.67
	Below BDT 10,000	96	64.00
	BDT 10,001-BDT 20,000	11	7.33
	BDT 20,001-BDT 30,000	5	3.33
	BDT 30,001-BDT 40,000	10	6.67
	BDT 40,001-BDT 50,000	5	3.33
	Above BDT 50,000	7	4.67
Tour Type	With Companion	113	88.67
	Without Companion	17	11.33



Table II: Tourist expenditures on different shopping items.

Items	Count	%	Average	Total spending	Ranking
Clothes	82	55	490.42	73563.00	3
Shoes	40	27	119.60	17940.00	11
Dry Fish (Sutki)	85	57	448.67	67300.00	4
Souvenirs/Arts and Handicrafts	90	60	278.13	41720.00	5
Jewelry or accessories	77	51	201.76	30264.00	8
Children's toys	49	33	112.27	16840.00	12
Home accessories	42	28	128.02	19075.00	9
Candy	106	71	267.13	40070.00	6
Acher or Pickles	113	75	259.77	38965.00	7
Perfume and cosmetics	40	27	125.07	18760.00	10
Local Food	123	82	727.49	109123.00	1
Others	80	53	528.03	79205.00	2

**Note:** Average and total spending are in BDT

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Table III: Chi-square: Purchased items versus income

Shopping Items	Percentage of buyers							$X^2$	p-value
	IG1	IG2	IG3	IG4	IG5	IG6	IG7		
Clothes	44.00	57.00	55.00	80.00	40.00	40.00	57.00	158.80	0.000
Shoes	6.00	28.00	27.00	40.00	20.00	20.00	57.00	162.90	0.000
Dry Fish (Sutki)	38.00	55.00	45.00	80.00	80.00	80.00	71.00	163.40	0.000
Souvenirs/Arts and Handicrafts	38.00	60.00	73.00	60.00	70.00	60.00	71.00	160.10	0.000
Jewellery or accessories	44.00	50.00	55.00	60.00	70.00	40.00	57.00	157.50	0.000
Children's toys	25.00	34.00	36.00	20.00	30.00	0.00	57.00	160.50	0.000
Home accessories	6.25	26.04	63.64	20.00	10.00	60.00	42.86	171.70	0.000
Candy	56.25	76.04	72.73	100.0	20.00	80.00	71.43	173.20	0.000
Acher or Pickles	68.75	75.00	81.82	100.0	70.00	80.00	71.43	157.60	0.000
Perfume and cosmetics	18.75	27.08	54.55	0.00	10.00	40.00	28.57	163.90	0.000
Local Food	62.50	81.25	100.0	60.00	90.00	100.0	100.0	166.70	0.000
Others	43.75	54.17	72.73	20.00	50.00	60.00	57.14	159.80	0.00

**Note:** IG1: No Income; IG2: Below BDT 10,000; IG3: BDT 10,001-BDT 20,000; IG4: BDT 20,001-BDT 30,000; IG5: BDT 30,001-BDT 40,000; IG6: BDT 40,001-BDT 50,000; IG7: Above BDT 50,000

Table IV: Chi-square: Purchased items versus gender

Shopping Items	Percentage of buyers		$\chi^2$	p-value
	Male	Female		
Clothes	50.00	63.00	157.20	0.000
Shoes	29.00	22.00	155.70	0.000
Dry Fish (Sutki)	62.00	45.00	159.20	0.000
Souvenirs/Arts & Handicrafts	62.00	55.00	155.80	0.000
Jewellery or accessories	40.00	76.00	172.60	0.000
Children's toys	35.00	29.00	155.60	0.000
Home accessories	30.00	22.00	155.90	0.000
Candy	67.00	78.00	156.70	0.000
Acher or Pickles	70.00	86.00	159.40	0.000
Perfume and cosmetics	21.00	39.00	160.60	0.000
Local Food	86.00	73.00	158.70	0.000
Others	57.00	45.00	157.10	0.000

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Table V: Chi-square: Purchased items versus marital status

Shopping Items	Percentage of buyers		$X^2$	p-value
	Married	Unmarried		
Clothes	65.00	53.00	155.80	0.000
Shoes	47.00	24.00	159.20	0.000
Dry Fish (Sutki)	65.00	56.00	155.50	0.000
Souvenirs/Arts and Handicrafts	59.00	60.00	155.00	0.000
Jewellery or accessories	71.00	30.00	157.90	0.000
Children's toys	47.00	31.00	156.90	0.000
Home accessories	41.00	26.00	156.90	0.000
Candy	71.00	71.00	155.00	0.000
Acher or Pickles	82.00	74.00	155.50	0.000
Perfume and cosmetics	35.00	26.00	155.80	0.000
Local Food	88.00	81.00	155.50	0.000
Others	47.00	54.00	155.30	0.000

Table VI: Chi-square: Purchased items versus occupation

Shopping Items	<i>Percentage of buyers</i>		$X^2$	<i>p-value</i>
	Service	Students		
Clothes	58.00	54.00	155.10	0.000
Shoes	38.00	24.00	157.30	0.000
Dry Fish (Sutki)	69.00	84.00	157.10	0.000
Souvenirs/Arts and Handicrafts	65.00	69.00	155.40	0.000
Jewelry or accessories	69.00	48.00	159.20	0.000
Children's toys	35.00	32.00	155.10	0.000
Home accessories	31.00	27.00	155.20	0.000
Candy	58.00	73.00	157.60	0.000
Acher or Pickles	73.00	76.00	155.10	0.000
Perfume and cosmetics	23.00	27.00	155.20	0.000
Local Food	88.00	81.00	155.90	0.000
Others	50.00	54.00	155.10	0.000

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Table VII: Chi-square: Purchased items versus age

Shopping Items	Percentage of buyers					$X^2$	<i>p-value</i>
	AG1	AG2	AG3	AG4	AG5		
Clothes	66.67	53.54	55.88	83.33	20.00	160.00	0.000
Shoes	16.67	24.24	29.41	66.67	20.00	161.00	0.000
Dry Fish (Sutki)	50.00	55.56	55.88	66.67	80.00	156.60	0.000
Souvenirs/Arts and Handicrafts	50.00	59.60	58.82	50.00	100.00	159.00	0.000
Jewelry or accessories	33.33	49.49	50.00	83.33	80.00	160.20	0.000
Children's toys	16.67	34.34	26.47	66.67	20.00	160.10	0.000
Home accessories	16.67	25.25	32.35	50.00	20.00	157.80	0.000
Candy	66.67	74.75	64.71	66.67	40.00	158.90	0.000
Acher or Pickles	83.33	77.78	67.65	66.67	80.00	157.00	0.000
Perfume and cosmetics	50.00	24.24	32.35	16.67	20.00	158.00	0.000
Local Food	66.67	80.81	85.29	83.33	100.00	157.50	0.000
Others	50.00	55.56	50.00	66.67	20.00	158.10	0.000

**Note:** AG1: Under 20; AG2: 20-24; AG3: 25-29; AG4: 30-34; AG5: Above 35

Table VIII: Chi-square: Purchased items versus education level

Shopping Items	<i>Percentage of buyers</i>		$\chi^2$	<i>p-value</i>
	Bachelors	Masters		
Clothes	57.00	51.00	155.50	0.000
Shoes	24.00	31.00	155.80	0.000
Dry Fish (Sutki)	53.00	64.00	156.80	0.000
Souvenirs/Arts and Handicrafts	56.00	67.00	157.00	0.000
Jewelry or accessories	51.00	53.00	155.10	0.000
Children's toys	35.00	29.00	155.50	0.000
Home accessories	24.00	33.00	156.30	0.000
Candy	73.00	67.00	155.50	0.000
Acher or Pickles	80.00	67.00	158.10	0.000
Perfume and cosmetics	25.00	29.00	155.30	0.000
Local Food Consumption	77.00	91.00	159.80	0.000
Others	49.00	60.00	156.60	0.000

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Table IX: Chi-square: Purchased items versus tour type

Shopping Items	<i>Percentage of buyers</i>		$\chi^2$	<i>p-value</i>
	With Companion	Without Companion		
Clothes	63.00	65.00	155.80	0.000
Shoes	29.00	41.00	157.10	0.000
Dry Fish (Sutki)	64.00	76.00	158.20	0.000
Souvenirs/Arts and Handicrafts	69.00	71.00	155.90	0.000
Jewelry or accessories	61.00	47.00	155.10	0.000
Children's toys	40.00	24.00	155.80	0.000
Home accessories	34.00	18.00	155.90	0.000
Candy	84.00	65.00	155.30	0.000
Acher or Pickles	91.00	59.00	157.90	0.000
Perfume and cosmetics	34.00	12.00	157.20	0.000
Local Food Consumption	99.00	65.00	159.00	0.000
Others	66.00	29.00	159.60	0.000



Table X: Shopping expenditure variation: One-way ANOVA tests

<i>Items</i>		<i>Mean</i>	<i>F value</i>	<i>P value</i>
<i>Age</i>	Under 20	4250.00	6.609	0.000
	20-24	4137.83		
	25-29	5311.76		
	30-34	13800.00		
	Above 35	11600.00		
<i>Gender</i>	Male	4784.60	0.627	0.430
	Female	5581.63		
<i>Marital Status</i>	Single	11500.00	27.938	0.000
	Married	4225.15		
<i>Education Level</i>	Bachelors	4002.11	8.901	0.003
	Masters	6846.27		
<i>Occupation</i>	Service holder	8126.92	9.471	0.002
	Student	4398.75		
<i>Income (Monthly)</i>	No Income	5118.75	3.279	0.005
	Below BDT 10,000	4075.47		
	BDT 10,001-BDT 20,000	6209.09		
	BDT 20,001-BDT 30,000	4360.00		
	BDT 30,001-BDT 40,000	7100.00		
	BDT 40,001-BDT 50,000	6300.00		
	Above BDT 50,000	13000.00		
<i>Tour Type</i>	With Companion	5280.04	1.958	0.164
	Without Companion	3205.88		

**A Study on Tourist Shopping Preference and Expenditure Behaviors: A Case Study of Domestic Visitors in Kuakata, Bangladesh.**

**PART 01: Demographic Factors**

**Please supply the following information by making a cross [X] sign in the appropriate box where the options are provided.**

- |                     |  |   |
|---------------------|--|---|
| <b>1 Gender</b>     | <input type="checkbox"/> Male                  | <input type="checkbox"/> Female                                       |
| <b>2 Marital</b>    | <input type="checkbox"/> Married               | <input type="checkbox"/> Single                                       |
| <b>3 Education</b>  | <input type="checkbox"/> Bachelors             | <input type="checkbox"/> Masters                                      |
| <b>4 Occupation</b> | <input type="checkbox"/> Service Holder        | <input type="checkbox"/> Businessman <input type="checkbox"/> Student |
| <b>5 Income</b>     | <input type="checkbox"/> No Income             | <input type="checkbox"/> Below BDT 10,000                             |
|                     | <input type="checkbox"/> BDT 10,001-BDT 20,000 | <input type="checkbox"/> BDT 20,001-BDT 30,000                        |
|                     | <input type="checkbox"/> BDT 30,001-BDT 40,000 | <input type="checkbox"/> BDT 40,001-BDT 50,000                        |
|                     | <input type="checkbox"/> Above BDT 50,000      |   |
| <b>7 Tour Type</b>  | <input type="checkbox"/> With Companion        | <input type="checkbox"/> Without Companion                            |

**8 Total Expenditure during Kuakata tour (Approximately)**

<b>PART 02: Tourist Shopping Items and Expenditure</b>
--

Please mention the approximate amount you spend on your recent Kuakata tour.

<b>Shopping Items</b>		<b>Expenditure on items(Aproximately)</b>
<b>01.</b>	<b>Clothes</b>	
<b>02.</b>	<b>Shoes</b>	
<b>03.</b>	<b>Sutki or Dry Fish</b>	
<b>04.</b>	<b>Souvenirs/Arts and Handicrafts</b>	
<b>05</b>	<b>Jewelry or accessories</b>	
<b>06.</b>	<b>Children's toys</b>	
<b>07.</b>	<b>Home accessories</b>	
<b>08.</b>	<b>Candy's</b>	
<b>09.</b>	<b>Acher or Pickles</b>	
<b>10.</b>	<b>Perfume and cosmetics</b>	
<b>11.</b>	<b>Local Food Consumption</b>	
<b>12</b>	<b>Others</b>	