African Journal of Business Management

Volume 9 Number 1 28 January, 2015
ISSN 1993-8233

ABOUT AJBM

The **African Journal of Business Management (AJBM)** is published twice monthly (one volume per year) by Academic Journals.

African Journal of Business Management (AJBM) is an open access journal that publishes research analysis and inquiry into issues of importance to the business community. Articles in AJBM examine emerging trends and concerns in the areas of general management, business law, public responsibility and ethics, marketing theory and applications, business finance and investment, general business research, business and economics education, production/operations management, organizational behaviour and theory, strategic management policy, social issues and public policy, management organization, statistics and econometrics, personnel and industrial relations, technology and innovation, case studies, and management information systems. The goal of AJBM is to broaden the knowledge of business professionals and academicians by promoting free access and providing valuable insight to business-related information, research and ideas. AJBM is a weekly publication and all articles are peer-reviewed.

Contact Us

Editorial Office: ajbm@academicjournals.org

Help Desk: helpdesk@academicjournals.org

Website: http://www.academicjournals.org/journal/AJBM

Submit manuscript online http://ms.academicjournals.me/

African Journal of Business Management

Table of Contents: Volume 9 Number 2 28 January, 2015

ARTICLES

Research

academicJournals

Vol. 9(2), pp. 35-42, 28 January, 2015
DOI: 10.5897/AJBM2014.7579
Article Number: C8AE13550090
ISSN 1993-8233

http://www.academicjournals.org/AJBM

African Journal of Business Management

Full Length Research Paper

Motivational factors of formation, cooperate actions and gains obtained from the cooperation networks of building material retail in Parana: A comparative between the associated managers' and retailers' perceptions

Sandro Deretti[1], Loise Schwarzbach[2], Luciano Dalazen[3], Anderson Catapan[4*] and Claudimar Pereira da Veiga[3]

[1]Universidade Estadual do Paraná – Campus Paranaguá, Brazil.
[2]Universidade Federal do Paraná, Brazil.
[3]Pontifícia Universidade Católica do Paraná, Brazil.
[4]Universidade Tecnológica Federal do Paraná, Brazil.

Received 9 November, 2014; Accepted 19 January, 2015

This study analyzes factors that condition the formation of the building material of retailer cooperation networks and the results obtained with this actuation. This study was carried out of multiple descriptive and comparative cases, with transversal perspective of time. A non-disguised questionnaire was used, answered online by fifteen associated retailers and the manager of each one of the four formally incorporated networks acting on the field in the State of Parana, Brazil. On the basis of the answers provided by these two groups of managers, it was raised similarities and differences about the formation and gains obtained after entering these organizations. The study reveals that the main factors for the formation of the networks are: a) development of collective actions; b) pursuit of stability in the market; c) reduction of costs; and d) adaptation to the market conditions. The cooperated actions of big interest among the networks managers are those turned to the projection of a brand in the market. The main results obtained are: a) higher negotiation power with the suppliers; and b) exchange of experiences, importance of the business management. The study highlights the different dimensions for the constitution of the cooperation networks and that there are different perceptions regarding the obtained results for the cooperated actuation.

Key-words: Retail, building material, cooperation network, formation, results.

INTRODUCTION

The globalized economy determines the deep changes in the strategic process of the companies, propitiating opportunities and threat on every segment and requiring new ways to compete. On this environment of changes,

*Corresponding author. E-mail: andecatapan@yahoo.com.br. Tel: +554199216026.

some organizations seek acting on a cooperating way in order to face the problems related to costs, marketing, employees' training and others. For Balestrin and Verschore (2008), cooperation allows seeking technologies and the reduction of transaction costs related to the innovational process, increasing the economic efficiency and, therefore, improving the levels of competitiveness. In the retail scope, the approach of the business cooperation networks allows achieving actions previously inaccessible, specially the micro and small companies that find it difficult obtaining resources (Pereira, 2004; Castro et al., 2011).

In Brazil, the building material retail is prospering, driven by the habitation politics and the distribution of income applied by the federal government. The sales of the sector contributed to 1.9% of the Brazilian GPD in 2011 billing more than R$ 76 billion (IBOPE, 2012). The State of Parana counts with four building material of retailer cooperation networks that together account 145 associated retailers, mostly micro and small companies, acting in different cities. These organizations are formed to achieve common goals of their members.

The goal of the current work is to determine the factors that motivate the formation, the impacts on the cooperated actions and the gains obtained by the building material of retailer cooperation network existing in the State of Parana, Brazil. The methodology consists of a study of multiple cases, questionnaires answered by the managers of the four networks acting in the segment in Parana and by the retailers association.

This work is part of a wider study, still in development, that seeks to comprehend the marketing strategic formulation and implementation processes in the cooperation networks in the State of Parana. The study is structured in five sections that can be summarized this way: the first section approaches the introductory part and the goals of the study, the second handles the theoretical empirical approach, the third represents the methodological procedures, the fourth section presents the data analysis and the fifth approaches the final considerations and recommendations.

THEORETICAL EMPIRICAL ARPPOACH

The retail of building material in Brazil

The relevance of studying the retail and its activities is to represent a manifestation of the marketing concept in the exact moment good and services are delivered to the consumers (Las, 2010). According to Vieira et al. (2012), there is a strong tendency on which the Brazilian researches increasingly accompany the market dynamic; the retail activity is the right field for this kind of investigation that involves the relation between theory and practice.

According to the Annual Research of Commerce of IBGE (2008) the quantity of companies acting in a retail activity in Brazil accounts for more than 1.4 million establishments in 2008. From this total, the retail activity of building material congregates almost 145 thousand companies. The productive chain is segmented into four main groups: goods protection industry, building trade industry, building material commerce, and specialized services.

The retail building materials commerce is an important part of the complex called *Constru Business* that involves also capital goods for the construction and services that in 2011 represent around 14% of the Brazilian GDP (IBOPE, 2012). Data from IBOPE (2012) reveal that the building material retail is in a growing stage due to the good development of the real state sector, verified from 2005, with the financing politics of the building trade. Between 2003 and 2008, this retail sector increased by 117% and, in the same period was placed above the nominal increase of the GDP (78%) and the increase of all the retail activities (106%).

In 2011, the building material retail moves around R$ 86.4 billion. Class C represents the highest volume of consume in the Brazilian building material retail. The families with this economic profile represent 24.5% of urban homes in the whole country. In 2011, southern Brazil represented a consume potential for building materials of around R$ 13.1 billion. In that region, there are around 27 thousand commercial establishments (IBOPE, 2012), configuring a strong competition. This way the average of the featuring in the South is R$ 480 thousand for commercial establishment, value that is 15% below the national average, which is R$ 567 thousand for each establishment.

The National Association of Building Material Merchants- ANAMACO, professional class association that defends the sector interests with government entities and fabricants of products commercialized by the resellers has on its database around 50 thousand registered stores, of which 56% are located in the state of Sao Paulo; 10% in Minas; 6% in Rio de Janeiro; 4,5% in Rio Grande do Sul; 4% in Parana, around 4% in Bahia and 3.5% in Santa Catarina (ANAMACO, 2012). In order to meet up with the challenging environment, some building material retail companies act in cooperation networks to keep the competitiveness.

Building material retail cooperation networks

Facing the changes of production, management and distribution, there are new relations between companies and employees, and companies and institutions. From this new scenario, the cooperation relations are intensified in order to reduce the difficulties that "translate how costs of transaction for the companies, that is to say, the costs that go beyond the production costs" (Olavee, 2001, p. 290).

Malafaia et al. (2006) mention that the cooperation networks appear due to crisis in the traditional models of verticalisation, requiring lean and flexible actuation for a quick adequacy of the market conditions. The cooperation is a strong motivator of cross-organizational (Bengtsson, 1999). Among micro, small and medium companies, the link between the cooperation networks can be vertical, horizontal, and laterals, composing closer relations with the clients, suppliers, government agents and even the competition that seeks better conditions (Zeng et al., 2010). The horizontal networks between competitors are common in the retail context and especially in Brazil; they have been expanding not only for characterizing as a survival option but also for the opportunity of innovations generation (Bortolaso et al., 2013). Balestrin and Verschore (2008, p. 208) highlight the horizontal networks:

[...] formed by companies that hold each one its independency, but choose to coordinate certain specific activities in a cooperated way, with the following goals: creation of new markets, costs and risks support in researches and new products development, information and technology managing, definition of quality brands, interests defense, marketing actions, among others. These networks are formed in the dimension of cooperation of the members, that choose the flexible formalization in order to better adapt to the nature of their relations.

The retail environment is a propitious scenario to build cooperation networks, specially the micro and small companies that suffer with the difficulty of obtaining resources (Pereira, 2004). For Martignano et al. (2005), the building material retail in the Brazilian context suffers deep transformations from the 90s, with the intense dispute for better competitiveness positions among the international groups, such as Leroy Merlin and Castorama. This scenario also propitiates new stores layout, as *home centers* that intensify the auto-service. Furthermore, the imported goods increase due to the economy opening and the *mix* of products require adaptations of the distribution channels.

This way, understanding the strategic moves of this sector can generate subsidies to improve the decisions processes and a better comprehension of the potentialities and limits. Following the example of other segments, to adjust to the challenging environment, micro, small, and medium entrepreneurs of the building material retail substitute the paradigm of the individual competition to act on a cooperated way. Pereira (2004)'s study on marketing in cooperated networks, especially in a building material network created in 2000 in Rio Grande do Sul, formed initially with 11 stores, pointed many joint activities. The study reveals that the cooperated action improved the intern and extern communication and management by caption, the treatment and dissemination of information among the associated members. This way, the network faces the sector's strong competition in the most appropriate way, while it solidifies its image and increases the customer satisfaction. On a similar study, Castro et al. (2011) pointed that the combat of the industries action that sells direct to the final consumer, without the retailer participation, was an important conquer for an association of building material retailers in Parana. This practice affects the sector that cannot compete with the fabricant on equal conditions.

Currently there are four cooperation networks that compete in the building material retail in Parana. These networks are located in different cities and have important role on the generation of jobs and distribution of products, characterizing a propitious environment to investigate the forming motivations and the results obtained by this way of acting.

METHODOLOGICAL PROCEDURES

This research is characterized as a case study, with qualitative approach and consists of the determination of the motivational formation factors, the impacts on the cooperated actions and the gains obtained by the building material retail cooperated networks in Parana. The study is developed with the transversal perspective of time. According to Richardson (1999, p.148), "in a study with transversal cut, the data are collected on time based on a selected sample to describe a population in this particular moment".

For Yin (2010, a case study implies the investigation of a question explored by one or more cases inside a delimited system, comparing situations. Different from other qualitative methods, the case study combines many sources of evidence to promote a triangulation of information in order to explain the facts. The study of multiple cases involves the data collection and analysis of many cases, being useful to highlight the differences and similarities among them (Gil, 1999; Merriam, 2009). A case study can also present a descriptive purpose, building a detailed report of a phenomenon, involving the configuration, structure, activity, and relation with other phenomenon, as it is investigated in the current study (Godoy, 1995; Yin, 2010).

The secondary data were obtained from the websites of IBGE, connected to the building material commerce, and the studied networks. The primary data collection was made through the writing communication method, using a non-disguised questionnaire, answered by a manager of each one of the four cooperation networks formally formed in Parana, and by the managers of the associated stores. It was distributed and collected online using the help of the Qualtrics system. The instrument has closed questions, with answers pointed to scales that are, according to Gil (1999, p.139) "instruments building within the goal of measuring the intensity of the opinions and attitudes on the most objective way possible".

Open questions were used, in which the respondents can freely express themselves, giving the opportunity to explore the information not approached on the closed questions. This structure of the questionnaire, as well as its online hosting, considers the fact that all the respondents are in different regions of Parana, imposing limitations of time and access to them. In order to verify the consistency and adequacy to the proposed study, the questionnaire was previously tested with the manager of an informal cooperate network in Curitiba, and also in two building material stores connected to this network, chosen by the access and convenience criteria.

On this stage, it was made previous contact with the respondents, informing them the goal of the study and motivating them to indicate the strong and weak points of the instrument. This procedure allowed the elaboration of the questionnaire's final version that was passed, after the previous contact, to the promotion of the clarification and purposes of the study. The managers of the cooperation networks are included in the current study.

The link that hosts the questionnaire was sent to the network managers and redirected by them to the 145 associated retailers. Among these retailers, 15 filled the whole instrument, characterizing a non-probabilistic sample. The contacts with the managers were made between June and November of 2012, contemplating different stages and goals, such as: invitation to participate in the research, the delivery of the data collection instrument, the delivery of the documents explaining the study purposes, clarification of questions about the research protocol filling, solicitations of forwarding to the associated retailers, solicitation of additional information. These contacts happen many times through phone calls and emails.

The treatment of the secondary data was made through the content description. The primary data were treated from the analysis of the answers content issued by the cooperation networks and stores manager. The closed questions were treated from the indications made on the intensity and agreement scales in the data collection instrument.

PRESENTATION AND DISCUSSION OF RESULTS

Profile of the building material retail cooperation network

A common feature observed on the four studied organizations refers to the typology of the cooperation network. They are characterized as Horizontal Networks of Business Cooperation. On this typology, the competition is seen as similar, allowing finding common solutions to face market difficulties (Balestro, 2004). In fact, it was noticeable on the four networks that the main links are the associations, that is to say, building material retailers that, even competing in the same segment, seek ways of using the cooperated actions. Another point that is also a result of the studied organizations refers to the governance structure.

All of them have managers that are exclusively dedicated to the coordination and monitoring of the cooperated activities. This structure allows that the retails dedicate their routines and that the most important decisions are taken in assemblies. On the other hand, this formation makes the decision making progress bureaucratic on the network scope, as described in Provan's and Kenis' studies (2007).

All of the observed networks already celebrated more than 10 years of existence, congregating a significant number of associated stores. The biggest one is *Rede Bem Viver,* with 56 associations that together bill 10 and 15 billion *reais* a month, and employs 900 employees in the stores. The second biggest is *Rede Constru and Cia Maringa* owing 19 associated stores but do inform the number of employees and billing.

Motivations for the cooperate act

The organizations are built with a purpose. Yet, this purpose can change during the existence. It is important when analyzing an organization that is understood the motive of their existences. The mission is "a declaration of generic purpose, tougher, that identifies the operations achievements of an organization and what they can offer to the stakeholders" (Wright et al., 2000, p. 93).

Analyzing the mission declarations presented by the networks and comparing them to the view of the managers it is noticeable that: a) *Rede Bem Viver* directs their acting to seek efficiency through the associated action of the members, trying to get a better power of purchase and sells, and also to achieve the regional and national projection; b) *Rede Constry and Cia Cascavel* and *Rede Constru and Cia Maringa*, for being in the same brand of acting network, present the same purpose directed to the coordination of strategic bonds on business model and on the vision of the managers, achieve advantages in the moment of purchase with the suppliers; c) the Network seeks 100% partnering to strengthen the companies that compose the network to capacitate them to act in a more competitive way.

It is noticeable that the improvement in the competitive development is a recurrent element on the presented declarations, directing the difficulties on the acting of small building material stores observed from the 90's in Brazil, according to the studies of Martignano et al. (2005). This notion elaborated by the networks studied here is explained in the studies of Wegner and Padula (2010); they affirm that the retailing cooperate networks can strengthen their competitive positions regarding the competitors or even the position on the value chain when better negotiating with the suppliers and clients.

According to Castels (2007), the organizational transformations seek dealing with the uncertainty caused by the changes on the economic environment, making the companies rethink in the way of acting. Comparing the network managers' opinion (Table 1), it is possible to identify their perceptions about the facts that motivate the retailers to act on a cooperated way: a) the identification with the other members of the networks and the intention of obtaining easy resources are not common motivations; b) the sales increase, the development of collective actions, stability in the market, reduction of costs and adaptation to the market are more important motivational factors.

Table 1 also indicates two differences on the perception among the network managers. Regarding affirmative 2 (the retailers participate in the network to obtain easy resources), the average in the answers of the store managers are 3.20, while the answers of the network managers point 2.75, revealing a more optimistic comprehension of the retailers regarding this factor. Affirmative 5 (the retailers participate in the network to achieve stability in the market) also presents differences. The average

Table 1. Comparative between the network's and store's managers about motivations for cooperation act and obtained results.

Motivations for the Cooperate act	Average		Obtained gains	Average	
	Network managers	Store managers		Network Managers	Store Managers
1) The retailers participate in the networks because they identify with their members	3,50	3,67	1) The retailers increased the sales volume.	4,25	4,07
2) The retailers participate in the network to easily obtain resources	2,75	3,27	2) The retailers obtained risks reduction of being overcome by the competition	4,00	3,93
3) The retailers participate in the networks to sell more.	4,25	4,33	3) The retailers reduced the costs	4,25	3,70
4) The retailers participate in the network to develop collective actions	4,75	4,27	4) The retailers increased the involvement with the collaborators.	4,00	4,13
5) The retailers participate in the network to achieve Market stability	4,75	4,13	5) The retailers exchanged experiences about the managing of the business.	4,75	4,40
6) The retailers participate in the networks to reduce the costs	4,75	4,27	6) The retailers are collaborate on the proposition of innovations to be shared by the network members.	4,50	3,80
7) The retailers participate in the networks to better adapt to the market changes	4,75	4,33	7) The retailers conquered better power of negotiation with the suppliers.	4,75	4,53
General Average	4,21	4,03	General Average	4,35	4,08

Source: The Authors.

in the store managers is 4.13, while the network managers gave an average of 4.75, revealing a more pessimistic comprehension of the retailers regarding this factor.

Still regarding the motivations that make the retailers acting in a cooperated way, in the Works of the *Rede Bem Viver* manager the retailers participate in this network in order to "sell more and better, purchase better and understand better". For the manager of *Rede Constru and Cia Cascavel,* the retailers participate in this network to increase the buying power and act as a strong brand in the market, since the communication actions on TV, radio, and newspapers of the network are allowed by the assesses of the costs and by the bonus allocation coming from the suppliers according to the volume of purchase. According to the manager of *Rede Constru and Cia Maringa*, based on similar thing that happens with Cascavel region, the main reason that makes the retailers participate in the network is the purchase power increase with the suppliers. As the manager of *Rede 100%* highlights, the retailers seek the cooperation to "occupy a place in market, achieving competitive prices with the competition".

The motivational factors for the joint action are important for the establishment of the cooperation levels and the need of information Exchange among the members. At this point in the exchange of ideas, a strategic view is developed, and if we analyze the problems, the common solutions and the definitions of the performance papers among the partners are found (Casarotto and Pires, 2001; Balestrin and Verschore, 2008).

In the organizations observed here it is verified that before the entrance in networks the relationship among the retailers was characterized by the high competition. The unfolding of the cooperation view, especially those related to the expectation of a better financial and market development, created motivational factors that united the studied companies, corroborating for previous studies about such motivations for the formations of cooperation networks (Oliver and Ebers, 1998; Bengtsson and Kock, 1999; Livato and Benedicto, 2010). It is important to highlight that the motivation regarding the easy access to resource (Balestrin and Verschore, 2008), in the retailers perception, is the factor with lower relevance for the entrance into cooperation networks.

Cooperate acting

Comparing the opinion of the network managers it is verified as main cooperated acting implanted on the observed organizations: development of new business opportunities and new store managing processes, joint promotions of products commerce, and marketing of the name/brand of the network in the market. Although there are perceptions of improvement regarding the capacitation of the human resources, this result is less expressive comparing to the others.

The perception of the positive results seems to be more intense in *Rede Bem Viver* network. As the manager of this network highlights, the obtained results with the member's cooperation "in general are good and contributed to the growth of our stores". Still regarding the results of the cooperated acting, according to the manager of *Rede 100%* the cooperated actions help to increase the sales, but not all the stores to achieve good results". According to the manager of *Rede Contru and Cia Cascavel*, the visual identity strengthens the brand and the company (associates). Beyond that, the cooperated actions require training and consults, improving the managing of the stores in a generic way. The answers of the store's managers do not reveal bigger differences and follow the same perceptions presented by the network's managers.

The results of the cooperation actions presented previously approximate to the main ideas that the cooperation allows seeking new ways of acting and also for the reduction of costs (Bortolaso et al., 2013), increasing the economic efficiency. This improves the levels of the maturity stage of the network that composes the current study, compared to Castro et al.'s (2011) studies, developed in an association of building material retailers in Parana. This difference can come from the fact that the acting in formal cooperation networks, on which the associate share the same brand while keeping their own legal identity, can conduce to a bigger commitment when compared to a retailers association that does not have the same characteristic.

Gains obtained after entering the network

Comparing the opinion of the network managers (Table 1), is possible to determine their perceptions about the obtained gains by the retailers after entering the networks: a) Exchange of experiences about the business managing, the collaborative act in the position of innovations without being shared and the better negotiation power with the suppliers are the most noticeable gains; b) the sales increase and the reduction of operation costs are significant gains, but are not noticed with full intensity; c) the reduction of risks of being overcome by the competitors and the increase in the collaborators' involvement are gains that present more difficulties of being conquered.

Table 1 also indicates two differences in the perceptions among the stores managers and the network managers. Regarding affirmative 3 (the retailers could reduce the operation costs) the noticed average on the retailers varies from 3.80, while the answers of the network managers indicate 4.25. Affirmative 6 (the retailers are collaborative in the proposition of innovations to be shared with the network members) also presents a divergence. The verified average in the answers of the stores managers on this variable is 3.80, while in the perception of the network managers is 4.50. On these two affirmatives is verified a less optimistic perception of the retailers.

Still regarding the gains obtained by the retailers after entering the network, the competitive advantage seeking is evidenced on the words of *Rede Bem Viver* manager when he affirms that "the gain in purchase is not always what the retailers want, but regarding the marketing and apprenticeship they can get more than what was imagined when entering". According to the manager of *Rede Constru and Cia Cascavel,* the gains appear immediately, but are evident, especially due to the qualification actions in the stores managing through shared consulting. For the manager of *Rede Constru and Cia Maringa* it seems there is significant improvements in the general performance of the associated stores. According to manager, some affiliates already thought about changing the area due to difficulties found in the independent act.

Although, with the capacitation a collaboration actions that reflect on a better managing of the business, today they are stronger to face difficulties. From previous studies about building material retail networks (Pereira, 2004; Castro et al., 2011), the cooperate act reflects positively in some of the specific points observed on the networks, with a greater market power due to the enlargement of the clients base, collective solutions of operational problems such as storage managing and the need of disclosure, reduction of costs and risks, accumulation of social capital, collective apprenticeship, and collaborative innovation through the sharing of experiences among the members that compose the network. Beyond that, it is evident on these reports the improvement of the negotiation conditions with the suppliers, also in the perspective of Castro et al. (2011), about the practice of indiscriminate sells by the industry, since such behavior affects the sector that cannot compete equally with the fabricants. Contrary to the studies of Zeng et al. (2010), that affirm the acting in cooperation networks reduce the vulnerabilities facing the competition with *Rede Contru and Cia Maringa* that still did not conquer the advantages. Also *Rede Bem Viver* did nott conquer the goal of increased involvement of the collaborators. These data deserve a more detailed investigation since they do not meet the expectations of these organizations. However, the five other items that refer to the gains are found with high intensity.

Final considerations

This study is part of a wider research, still developing, that investigates the process of formulation and implementation of marketing strategy in cooperation networks in retailer segments of Parana. The study presents a qualified step, specifically about networks that act on the building material retail for constituting a solid example of this way of acting. The profile of the four formal networks on this segment of Parana is diversified regarding the number of stores, covered area, number of collaborators, and sales volume.

Regarding the factors of formation and the existence of cooperation networks observed, the sales increase, the development of collective actions, the market stability, the reduction of costs, and the adaptation to the market are the most important motivational factors on the search of cooperated action, in the opinion of the network managers. In the managers' opinion still, the identification with the other network members and the intention of obtaining easy access to the resources is not a consensus motivation. On the other hand, the search of resources in a facilitated way is the factor with lower relevance in the retailers' point of view when entering the cooperation networks. This specific point seems to be a mismatch between the retailers' expectations and the focus of the managers' actions in the networks.

Regarding the results of the cooperate actions on the networks studied here, it is verified that the managers of the networks highlight the new opportunities of business, the improvement on the store managing processes, and better promotion of name/brand of the network in the market. Despite the fact that there are perceptions of improvement regarding the capacitation of human resources, this result shows less expression regarding the others. About these results, the answers of the store's manager follow the same perceptions verified among the networks' managers.

About the obtained gains by the retailers after entering the networks, according to the opinion of the managers, stand out as bigger conquers the exchange of experience about business managing, collaborative action when proposing innovations to be shared, and a better power of negotiation with the suppliers. Still regarding the perception of the network's managers, the reduction of risks to be overcome by the competitors, and the increase of the collaborators involvement show more difficulty. The collaborative acting proposing innovations to be shared with the network's members and the reduction of operation costs are not very intense for the retailers, revealing a better optimism with the managers regarding these factors.

Finally, even though there are no bigger frustrations regarding the general expectations on the cooperated actions, this study reveals the importance of being considered the divergences between the perceptions of the network's manager, and the store's managers on a wider context, involving the factors of formation, results of the cooperated actions, and the gains obtained with this way of acting. On this context, the study shows that there seems to be no divergences on the governance structure of the organizations observed here, being an indication that they are on a stage of maturity and stability.

Even though the study here presented has involved all the horizontal cooperation network formally formed on the retailing sector of building material of Parana, it is necessary to present as limitations: a) the exploratory approach, that can limit the comprehension of complex situation with the organizational relations; b) the subjectivity regarding the results measuring mentioned by the stores' and networks' managers, that can constitute the imprecision of economic and market results related; and c) the transversal perspective used, that limits the capitation of the relational dynamic along the existence time of the networks. Future studies in retailing network of diverse segments must consider these limitations and can progress in other questions of relationships in co-operation network such as confidence and competi-tiveness among the associates.

Conflict of Interests

The authors have not declared any conflict of interests.

REFERENCES

ANAMACO (2012). Associação Nacional dos Comerciantes de Material de Construção. Available inhttp://www.anamaco.com.br/dadosSetor. Accessed in December 18th, 2013.

Balestrin A, Verschoore JR (2008). Redes de cooperação empresarial: estratégias de gestão na nova economia. Bookman, Porto Alegre.

Balestro MV (2004). Características estruturais e mecanismos de governança em redes de cooperação: apontamentos conceituais. In: Verschoore, J. R. S. (Org.). Redes de cooperação: uma nova organização de pequenas e médias empresas no Rio Grande do Sul. FEE, Porto Alegre, pp.49-67.

Bengtsson M, Kock S (1999). Cooperation and competition in relationships between competitors in business networks. J.Bus.Industrial Market.14 (3): 178-194.

Bortolaso IV, Verschoore JR, Antunes Jr JA (2013). Práticas de gestão de redes de cooperação horizontais: proposição de um modelo de análise. Contabilidade, gestão e governança16(3):3-16.

Casarotto Filho N, Pires LH (2001). Redes de pequenas e médias empresas e desenvolvimento local: estratégias para a conquista da competitividade global com base na experiência italiana. 2. ed. Atlas, São Paulo.

Castro M, Bulgacov S, Hoffmann VE (2011). Relacionamentos interorganizacionais e resultados: estudo em uma rede de cooperação horizontal da região central do Paraná. RAC-Revista de Administração Contemporânea 15(1):25-46.

Castells M (2007). A Sociedade em rede. A era da informação: economia, sociedade e cultura, vol. 1. Paz e Terra, São Paulo.

Gil AC (1999). Métodos e técnicas de pesquisa social. 5. ed, Atlas, São Paulo.

Godoy AS (1995). A Pesquisa Qualitativa e sua Utilização em Administração de Empresas. RAE-Revista de Administração de Empresas 35(4):65-71.

IBGE (2008). Instituto Brasileiro de Geografia e Estatística. Available in:http://www.ibge.gov.br/home/estatistica/economia/comercioeservico/pac/2008/default.shtm. Accessed in October 26th, 2013.

IBOPE (2012). O varejo de materiais de construção no Brasil. Available in:http://www.ibope.com.br/calandraWeb/servlet/CalandraRedirect?temp=5&proj=PortalIBOPE&pub=T&db=caldb&comp=Noticias&docid=8C028713B57298F2832578BC00690A9C. Accessed in September 15, 2013.

Las Casas AL (2010). Marketing de varejo. 4ª. ed. Atlas, São Paulo.
Livato M, Benedicto GC (2010). Redes de cooperação no varejo: um estudo teórico-empírico em centrais de negócios supermercadistas no estado de São Paulo. Base-Revista de Administração e Contabilidade da Unisinos 7(3):221-232.
Malafaia GC, Maciel AC, Camargo ME (2006). Atitudes de coordenação de produtores rurais na cadeia da carne bovina: o caso do Cite 120. In: Encontro Nacional de Pós-graduação em Administração – ENANPAD, September 2006.
Martignago G, Alperstedt GD, Fiates GS (2005). Mudanças estratégicas no varejo de materiais de construção. In: Encontro Nacional de Pós-graduação em Administração – ENANPAD, Setember2005.
Merriam SB (2009).Qualitative Research: a guide to design and implementation. JosseyBass, San Francisco.
Olave ML, Amato Neto J (2001). Redes de cooperação produtiva: uma estratégia de competitividade e sobrevivência para pequenas e médias empresas. Gestão , Produção 8(3):289-303.
Oliver A, Ebers M (1998). Networking network studies: analysis of conceptual configurations in the study of inter-organizational relationships. Organ. Stud. 19(4):459-583.
Pereira RCF (2004). Marketing em redes de cooperação: um estudo de caso na Redemac. In: Verschoore, JRS (Org.) Redes de cooperação: uma nova organização de pequenas e médias empresas no Rio Grande do Sul. FEE, Porto Alegre pp.17-29.
Provan K, Kenis P (2007). Modes of network governance: Structure, management and effectiveness. J. Pub. Adm. Res. Theory 18:229-252.
Richardson RJ (1999). Pesquisa social: métodos e técnicas. Atlas, São Paulo.
Vieira VA, Kato HT, Brito EPZ, Espartel LB (2012). Congresso Latino Americano de Varejo: retrospectiva de cinco anos. RAE-Revista de Administração de Empresas 52(6):590-594.
Wegner D, Padula AD (2010). Governance and management of horizontal business networks: an analysis of retail networks in Germany. Int. J. Bus. Manag. 5(12):74-88
Wright P, Kroll M, Parnell J (2000). Administração estratégica: conceitos. Atlas, São Paulo.
Yin, RK (2010). Estudo de caso: planejamento e métodos. Bookman, Porto Alegre.
Zeng SX, Xie XM, Tam CM (2010). Relationship between cooperation networks and innovation performance of SMEs. Technovation 30(1):181-194.

academicJournals

Vol. 9(2), pp. 43-49, 28 January, 2015
DOI: 10.5897/AJBM2014.7534
Article Number: 51ED20250093
ISSN 1993-8233

http://www.academicjournals.org/AJBM

African Journal of Business Management

Full Length Research Paper

Networking for SMES in Uganda: A conceptual paper

Peter Turyakira* and Cathy Ikiror Mbidde

Department of Marketing and Management, Makerere University, Uganda.

Received 24 July, 2014; Accepted 23 January, 2015

Small and Medium Enterprises (SMEs) are considered a sector with significant contribution to the economical growth of both developed countries and emergent countries. However, SMEs are facing challenges for their survival with their limited resources. There is also considerable lack of empirical studies focusing on networking between SMEs in developing countries. Promotion of networking approaches with other organizations could be a good start to develop and increase competitiveness of SMEs. The primary objective of this paper is to identify networking factors that influence the competitiveness of SMEs and to develop a hypothesized model that can be tested on SMEs. The outcomes of networking factors can help to improve the survival rate of SMEs, and may offer great opportunities for business competitiveness, locally and globally.

Key words: Networking, small and medium-sized enterprises, competitiveness.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are universally acknowledged as effective instruments for employment generation and economic growth (Basil, 2005; Damirchi and Rahimi, 2011; Johan, 2007). In Uganda, SMEs play a crucial role in creating job opportunities that make the attainment of equitable and sustainable growth and development possible (Turyakira, 2012).

It is estimated that there are over 1,069,848 SMEs in Uganda, providing employment and income generation opportunities to low income earners of the economy (Hatega, 2007; Uganda Ministry of Finance, Planning and Economic Development July, 2011). Despite their enormous contributions to economic growth, more than half of SMEs in Uganda fail during their first year (Harorimana, 2009; Tushabomwe-Kazooba, 2006).

Hence, their high failure rate is a cause for concern. In an era characterized by global competition, technological advances and innovation, business networking plays a vital role in increasing the competitiveness of SMEs (Lin and Zhang, 2005). Networking is a useful way for SME owner/managers to expand marketing expertise and improve their performance (Hakimpoor et al., 2011). As such, networking in form of clusters, strategic alliances and business collaborations has become popular among the SMEs as a competitive tool.

Although empirical studies have been done on business networking in developed countries (Thrikawala, 2011), little attention has been given to developing countries. Despite the academic interest in business networking and its impact on SMEs' competitiveness, inadequate theoretical and empirical studies exist in Africa; particularly in Uganda.

Therefore, the purpose of this paper is to identify

*Corresponding author. E-mail: pturyakira@bams.mak.ac.ug, pturyakira@gmail.com, pturyakira@yahoo.com. Tel: +256-772-586327.

networking factors influencing the competitiveness of SMEs and to develop a hypothesized model that can be tested on SMEs. The paper is mainly based on a literature synthesis of recent studies done on networking, both in developed and developing countries. The outcomes of networking factors can help a great deal in improving the survival rate of SMEs, and may offer great opportunities for business competitiveness, locally and globally. For the purpose of this paper, small and medium-sized enterprises in Uganda are considered as businesses which employ more than 5 but fewer than 100 persons.

Nature and potential outcomes of networking factors in SMEs

This section describes the nature and potential outcomes of networking factors with respect to SMEs, as indicated in the subsequent sub-sections.

Networking

Business network refers to a free business association, capable of creating structures and processes, joint decision making and integrating the efforts of members to design and produce goods and services, and exchanging information and other resources (Trequattrini et al., 2012). Networking in SMEs refers to the network process that is undertaken by SME owner-manager in managing the business activities (Hakimpoor et al., 2011). In Niu's study (2010), it is argued that the benefits of networking involvement enable trusting relationships among businesses. Furthermore, SMEs harvest from individual ties in their networks, including suppliers, customers, friends and relatives, for various purposes (De Jong and Hulsink, 2012). Relationships can be developed on the basis of trust (Gibb, 2006).

In this paper, networking refers to a free association of businesses with the aim of sharing information, resources and capabilities through clusters, strategic alliances or business collaborations. Networking involves communication and information exchange for mutual benefit (Camarinha-Matos and Afsarmanesh, 2006).

The notion of networking has been especially attractive as a means by which SMEs can collaborate in order to compete more effectively in the global marketplace. Many businesses have placed increasing emphasis on adopting strategic alliances as a strategic competitive choice (Akoorie and Pavlovich, 2003). Strategic alliances create interdependence between autonomous economic units, bringing new benefits to the partners in the form of intangible assets.

Businesses also network through collaboration, which involves mutual engagement of participants to solve a problem together. This implies mutual trust and thus takes time, effort, and dedication. A collaborative network consists of a variety of entities that are largely autonomous, geographically distributed, and heterogeneous in terms of their operating environment, culture, social capital and goals, that collaborates to better achieve common goals (Camarinha-Matos and Afsarmanesh, 2006).

Clusters as a component of networking are viewed as geographically proximate groups of independent but interconnected businesses in a particular field, linked by commonalities and complementarities. They are often concentrated in a particular national region, and sometimes in a single town, but increasingly 'cluster of clusters' are emerging across regional and even national borders. They may be collaborating or competing; and they may be institutionalized or non-institutionalized (European Commission, 2002).

It is argued that in an SME network, businesses that trust their partners are more likely to engage in networking with them. Businesses that have developed trust towards their partners within the SME network are more likely to turn to those businesses than try to network with organizations outside the SME network. After all, a business only possesses a certain amount of resources, and networking is resource demanding (Wincent, 2005).

The success of a business relationship lies in the development and the growth of trust and commitment amongst partners (Brink and Berndt, 2004). Trust is the first element needed in business relationship building and it is the first stage in the networking process hence, the most important aspect. Trust lays the foundation for a common ground, where SMEs can successfully meet their expectations (Zaheer and Harris, 2006).

The commitment of businesses to developing and maintaining relationships is essential to cultivate the level of trust and interdependency between partners that motivates exchange of resources (Carson et al., 2004; Clarke, 2006). Relationship commitment is vital as a precursor of network development (Johanson and Vahlne, 2006). Commitment is viewed in terms of the willingness and investment of a business in developing and maintaining relationships with partners (Tanga, 2011).It is empirically supported that businesses involved with networks have a relatively higher survival and success rate and that the primary variables influencing such performance are inherently social in nature (Smith, 2004). Previous studies (Cruickshank and Rolland, 2006; Inkpen and Tsang, 2005) acknowledge that joining a strategic network has a valuable path for SMEs striving to gain a sustainable competitive advantage within their business environments. It is evident that networking, whatever its form, has an impact on a business's survival and success (Grandori and Soda, 1995). Networks enable businesses to concentrate on core competencies, and to achieve economies of scale and scope through their loosely integrated form (Smith, 2004).

According to Kariv et al. (2009), networking enhances a business's competitiveness. SMEs rely on their networks to support and enhance their business efforts to be competitive (De Klerk and Saayman, 2012). A well-networked business enjoys higher growth rates and competitiveness (Hakimpoor et al., 2011). SMEs with more open networks and diverse connections have greater opportunities to develop successful businesses than an individual with many connections within a single or closed network (Harris et al., 2012).

Marketing networks serve as a means of facilitating business activity in transition economies, and have been widely recognised in the literature as affecting businesses' strategic choices and performance (Batjargal and Liu, 2004; Chung-Leung et al., 2008). According to Watson (2007), networking appears to be significantly positively associated with business's survival; and both formal and informal networks are associated with SME survival, but only formal networks are associated with growth.

Although it has been emphasized that SMEs can increase their competitiveness when participating in strategic networks, it is hard to determine which firm has better prospects for building competitiveness compared to other firms in the network. Lack of this knowledge may cause strategic SME network participants to lose interest in the long-run and stop using these networks as a tool for competitiveness building (Wincent, 2006). As such, attention to factors related to competitiveness development within strategic SME networks has been limited. Despite the potential to improve their competitiveness when participating in an SME network, members face external challenges, such as free riding, opportunism, and uncertainty of outcomes, when operating with partly independent members that can be competitors (Human and Provan, 2000). Nevertheless, achieving a competitive advantage position and enhancing business performance relative to their competitors are the main objectives that businesses in particular should strive to attain. The extent and the strength of networks constitute a significant competitive advantage for SMEs (Johanson and Vahlne, 2009). For the purpose of this study, competitiveness refers to a business's ability to sustain its long-term performance better than its competitors in the market, as indicated by profitability, market share, sales and growth rate.

Traditionally, business competitiveness has been measured using only financial indicators such as profit, market share, sales, and growth rate (Guzmán et al., 2012; Man et al., 2002; Singh et al., 2008). However, many researchers have suggested the use of subjective and objective measurements in order to measure performance, mainly because, in this context, performance, which is relative to its industry or sector, represents an indicator of their competitiveness level (Guzmán et al., 2012). The survey of five owners-managers of SMEs established that most SMEs use a hybrid approach in measuring competitiveness due to their concerns on meeting the financial as well as non-financial returns. Financial measures include profits and sales turnover while non-financial measures are the long-term growth rate and market share of the business (Chong, 2008). The financial performance can also be an effective measure of market share (Gorynia, 2005), and is generally defined as the return of capital, the return of sales and the improved measures for the comparison of the performance of businesses (Corsten and Felde, 2005). Hence, most SMEs use profitability, market share, sales and growth rate as measures of competitiveness over a period of time. Based on these notions, the following hypotheses are presented:

H^{1a}: There is a positive relationship between networking and the SMEs' trust.
H^{1b}: There is a positive relationship between networking and the commitment of SMEs.
H^{1c}: There is a positive relationship between networking and the competitiveness of SMEs.

Trust

Trust is an essential trait in networking (Kanagaretnam et al., 2010). Reliance on a particular type of trust depends on the developmental phase of the venture (Martinez and Aldrich, 2011). It is imperative for the SMEs to maximize the opportunities for building trust and learning from all of the stakeholder relationships (Gibb, 2006). Trust substitutes the cost of monitoring, decreasing transaction costs and increasing the efficiency of the collaboration (Casals, 2011) while enhancing competitiveness. The networks need to institutionalize the efforts to foster trust and commitment rather than treating them to be a natural consequence of the quality of interactions or individual efforts of the boundary spanners (Yaqub et al., 2010).

Trust can be conceptualized both as a calculation of risks and benefits, but also more socially, toward other people as well as toward society as a whole (Liljeblad, 2005). According to Coote et al. (2003), trust exists when one party has confidence in the honesty, reliability, and integrity of their partner. Trust is an aspect that is pro-actively pursued by all parties concerned and is a long-term commitment that is achieved through patience and endurance (Koot et al., 2003). As such, trust enhances cooperation and flexibility, lowers costs and increases the potential for businesses to share their expertise and knowledge (Nielsen, 2005). For the purpose of this study, trust refers to the degree of confidence the individual partners have in the reliability, honesty, integrity, benevolence and competence of each other.

According to Sahay (2003), a crucial relationship exists between trust and collaboration. Trust has a positive influence on commitment, and improves the relationship between business partners (Narayandas and Rangan, 2004). Despite increased interest and the acknowledged role of trust in a business's competitiveness, there have not yet been any theoretically and empirically coherent attempts to measure trust in an inter-organizational context (Seppa¨nen et al., 2007).

Although the primary objectives of the network activities relate to the support of business activities, social variables such as trust have been established as the primary determinants of the success of such business relationships (Smith, 2004). Relationships that are built on trust and confidence in each other are very valuable, in that it will minimize costs involved and will help to build sustainable competitive advantages for SMEs (Wickham, 2004). Trust also minimizes the levels of social litigation needed and it fosters and promotes social arrangements and contacts (Koniordos, 2005). Previous studies (Gibb, 2006) established that the entrepreneur, who had subsequently developed the most appropriate contacts into acquaintances, built them into transactional relationships and turned into partnerships. The partners were then turned into friends, the friends then into "family" and the family into networks whom he could trust and exchange favours with. Against this background, the following hypothesis is developed:

H^2: There is a positive relationship between achieving trust and the competitiveness of SMEs.

Commitment

Commitment has been defined and measured in different ways over the years, and its antecedents are based mainly on studies of dyadic relationships between individuals or businesses (Andrésen et al., 2012). Commitment is measured in terms of the frequency of communication between an SME owner-manager and each network member (Carson et al., 2004). According to Andrésen et al. (2012), commitment is defined as the allegiance of those representing the participating businesses to the network as a unit. For the purpose of this study, commitment refers to short-term sacrifices and allegiances made by partners to the relationships in order to realize long-term benefits. Positivistic research has led to an understanding that the concept of commitment is multidimensional and differentiated (McKenna, 2005). It comprises affective commitment which reflects an employee's emotional attachment to, identification with, and involvement in an organization.

Normative commitment, on the other hand, reflects the view that an employee has a duty or an obligation to stay with an organization. According to Da Rocha et al. (2012), commitment has three different, but closely related, multi-dimensional constructs: market commitment, relationship commitment and commitment to internationalization.

Previous studies (Nolan et al., 2007) reveal that commitment is characterized by formal yet interdependent relationships, encompassing clear business goals with collective accountability for delivery to give the business a competitive edge. As such, commitment can be attitudinal or behavioural (Andrésen et al., 2012). Attitudinal commitment concerns the process by which businesses come to think about their relationships, while behavioral commitment concerns the process by which businesses invest in their relationships (Sharma et al., 2006). In network contexts, it is not a case of a business tying itself to someone else in the network but rather of psychologically binding oneself by making a commitment or efforts to retain the relationship with the network (Johanson and Roxenhall, 2009). Based on the anecdotal and empirical evidence from the above, the following relationship is hypothesized:

H^3: There is a positive relationship between the commitment of SMEs and their competitiveness.

Proposed hypothesized model

The literature study has revealed a number of networking variables that influence the competitiveness of SMEs. Based on these factors, the following hypothesized model is proposed (Figure 1).

Figure 1 illustrates how the independent variable (networking) is influenced by the mediating variables, namely trust and commitment. These, in turn, lead to increased competitiveness (dependent variable), which is measured by profitability, market share, sales, and growth rate. The various relationships hypothesized between the independent, mediating and dependent variables are summarized below:

H^{1a}: There is a positive relationship between networking and the SMEs' trust.
H^{1b}: There is a positive relationship between networking and the commitment of SMEs.
H^{1c}: There is a positive relationship between networking and the competitiveness of SMEs.
H^2: There is a positive relationship between achieving trust and the competitiveness of SMEs.
H^3: There is a positive relationship between the commitment of SMEs and their competitiveness.

METHODOLOGY

This is a conceptual paper that will follow a quantitative research paradigm. The hypothesized model could be tested using SMEs in Uganda drawn from various industrial sectors. Quantitative data could be collected using a structured questionnaire and analyzed using Statistical Programme for Social Scientists (SPSS) for Windows. An exploratory factor analysis could also be conducted, and Cronbach-alpha coefficients calculated to

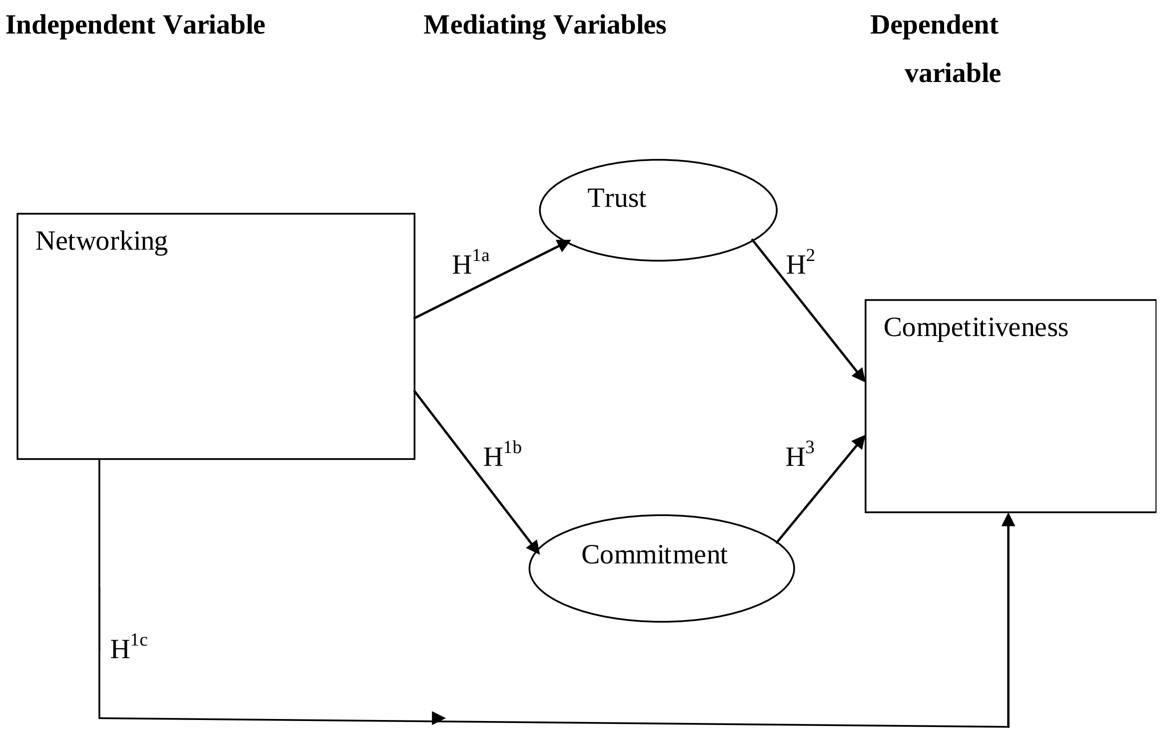

Figure 1. Proposed hypothesized model of networking factors and competitiveness. Source: Researchers' own construction.

determine the discriminant validity and reliability of the measuring instrument. Correlations could be analyzed using Structural Equation Modeling (SEM).

CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

SMEs play a crucial role and are considered to be one of the principal driving forces in the socio-economic development of modern economies, both developed and developing. However, with limited financial resources and managerial capabilities, SMEs in the majority of developing countries face tremendous difficulties to survive. It is acknowledged that networking among SMEs is an emerging approach to SME competitiveness in developing countries. Building a high-value network that makes a considerable contribution to a business' success is extremely important in today's competitive business environment. As the market realities change and businesses join forces under the umbrella of strategic alliances, collaborations and clusters, networking is an essential element that can increase the competitiveness of SMEs. Successful networking is created on the grounds of mutual trust, commitment, shared knowledge and valuable relationships that enable businesses to grow and survive by doing business directly with other businesses or by referring one another. Indeed, networking can be a business's best marketing strategy, especially for SME owners.

While this study sheds light on the relationship between networking and SME competitiveness, it has some limitations that must be taken into consideration. For example, subjective measures may be used to capture all the variables studied, which may contain biased responses from respondents. Literature on networking and SME competitiveness is also lacking, especially in developing countries like Uganda.

For SMEs to benefit from networking arrangements, they need to establish sincere interest to their partners by encouraging conversation. The goal of networking is to establish long-term mutually beneficial relationships with partners in order to boost profitability. SMEs should help promote other businesses as well in the context of creating mutually beneficial relationships. Governments need to provide an enabling environment and design policy frameworks that stimulate and accelerate forms of inter-business collaboration. Such networking arrangements will help SMEs co-operate and develop strategic alliances which can result in mutual benefits.

Conflict of Interests

The authors have not declared any conflict of interests.

REFERENCES

Akoorie M, Pavlovich K (2003). Strategic Alliances and Collaborative Partnership, A Case Book, Palmerston North, Dunmore Press.

Andrésen E, Lundberg HT, Roxenhall (2012) . Designing for commitment in regional strategic networks. Manage. Res. Rev.35(6):531-552.

Basil ANO (2005) . Small and medium enterprises in Nigeria, problems and prospects. Unpublished doctoral thesis, St. Clements University, Nigeria.

Batjargal B, Liu M (2004). Entrepreneurs' access to private equity in China, The role of social capital. Organizat.Sci. 15(2), 159-172.

Brink A, Berndt A (2004). Customer relationship management and customer service, Lansdowne: Juta & co Ltd.

Camarinha-Matos LM, Afsarmanesh H (2006). Collaborative networks, Value creation in a knowledge society. Conference Proceedings of PROLAMAT'06 (Springer) – Shanghai, China.

Carson D, Gilmore A, Rocks S (2004). SME marketing networking, A strategic approach. Strategic Change 13:369-382.

Casals FE (2011). The SME Co-operation Framework, a Multi-method Secondary Research Approach to SME Collaboration. 2010 International Conference on E-business, Management and Economics. IPEDR. 3 Hong Kong.

Chong HG (2008). Measuring performance of small-and-medium sized enterprises, the grounded theory approach. J. Bus. Pub. Affairs 2(1):1-13.

Chung-Leung L., Yau OHM, Sin LYM, Tse ACB, Chow RPM, Lee JSY (2008). The effects of social capital and organizational innovativeness in different institutional contexts. J. Int. Bus. Stud. 39(4):589-612.

Clarke N (2006). The relationships between network commitment, its antecedents and network performance. Manage. Decis. 44(9):1183-1205.

Coote L, Forrest EJ, Tam TW (2003). An investigation into commitment in non-Western industrial marketing relationships. Ind. Market. Manage. 32(7):595–604.

Corsten D, Felde J (2005). Exploring la performance effects of key-supplier collaboration, an empirical investigation into Swiss buyer-supplier relationships. Int. J. Phys. Distribut. Logistics Manage. 35(6):445-461.

Cruickshank P, Rolland D (2006). Entrepreneurial success through networks and social capital, exploratory considerations from GEM research in New Zealand. J. Small Bus. Entrepr. 19(1):63–80.

Damirchi QV, Rahimi G (2011). Design a conceptual ERP Model for small and medium enterprises of Iran. Interdisciplinary J. Contemp. Res. Bus. 3(5):850-860.

Da Rocha A, De Mello RC, Pacheco H, Farias ID (2012). The international commitment of late-internationalizing Brazilian entrepreneurial firms. Int. Market. Rev. 29(3):228-252.

De Jong JPJ, Hulsink W (2012). Patterns of innovating networking in small firms. Euro. J. Innovat. Manage. 15(3):280-297.

De Klerk S, Saayman M (2012). Networking as key factor in entrepreneurial success. Euro. Bus. Rev.24(5):382-399.

European Commission (2002). Final report of the expert group on enterprise clusters and networks, Brussels.

Gibb A (2006). Making markets in business development services for SMEs: Taking up the Chinese challenge of entrepreneurial networking and stakeholder relationship management. J. Small Bus. Enterprise Dev.13(2):263-283.

Gorynia M (2005). Competitiveness of firms from Ziemia Lubuska and Poland's accession to the European Union. J. East Euro. Manage. Stud. 10(3):195-217.

Grandori A, Soda G (1995). Inter-firm networks, Antecedents, Mechanisms and Forms. Organ. Stud. 16(2):183-214.

Guzmán GM, Serna MDM, Ramirez GCL (2012). Competitiveness in manufacturing SMEs, A perspective of México. Int. J. Arts Commerce 1(4):60-75.

Hakimpoor H, Tat HH, Khani N, Samani MB (2011). Marketing Networking Dimensions (Mnds) and Smes' Performance, A New Conceptual Model. Australian J. Basic Appl. Sci. 5(10):1528-1533.

Harorimana D (2009). The Gatekeepers' Intervention in Innovation and Technological Transfer. Electronic J. Knowl. Manage. 7(1):63-76.

Harris L, Rae A, Misner I (2012). Punching above their weight, the changing role of networking in SMEs. J. Small Bus. Enterprise Dev. 19(2):335-351.

Hatega G (2007). SME development in Uganda. Private Sector Foundation Uganda. Paper presented at a Local SMEs Conference on 14th-March, 2007, Sheraton Kampala.

Human SE Provan KG (2000). Legitimacy building in the evolution of small-firm multilateral networks: a comparative study of success and demise. Adm. Sci. Q. 45:1-33.

Inkpen AC, Tsang EWK (2005). Social capital, networks and knowledge transfer. Acad. Manage. Rev. 30(1):46–165.

Johanson J, Vahlne JE (2006). Commitment and opportunity development in the internationalization process, A note on the Uppsala internationalization process model. Manage. Int. Rev. 46(2):165-178.

Kanagaretnam K, Mestelman S, Nainar SM , Shehata M (2010). Trust and reciprocity with transparency and repeated interactions. J. Bus. Res. 63, 241-247.

Kariv D, Menzies TV, Brenner GA, Filion LJ (2009). Transnational networking and business performance, Ethnic entrepreneurs in Canada. Entrepr. Regional Dev. 21(3), 239-264.

Koniordos SM (2005). Networks, Trust and Social Capital – Theoretical and Empirical investigations from Europe. Hants, UK: Ashgate Publ.

Koot W, Leisink P, Verweel P (2003). Organizational relationships in the networking age – The dynamics of identity formation and bonding. Cheltenham, UK: Edward Elgar.

Liljeblad AJ (2005). Towards a more comprehensive understanding of trust, Exploring the public's trust in natural resource management. Unpublished master's thesis, University of Montana.

Lin CY, Zhang J (2005). Changing Structures of SME Networks, Lessons from the Publishing Industry in Taiwan. Long Range Plann. 38:145-162.

Man TWY, Lau T, Chan KF (2002). The competitiveness of small and medium enterprises, A conceptualization with focus on entrepreneurial competencies. J. Bus. Ventur. 17(2):123-142.

Martinez MA, Aldrich HE (2011). Networking strategies for entrepreneurs, balancing cohesion and diversity. Int. J. Entrepr. Behav. Res.17(1):7-38.

McKenna S (2005). Organisational commitment in the small entrepreneurial business in Singapore. Cross Cult. Manage. 12(2):16-37.

Narayandas D, Rangan VK (2004). Building and Sustaining Buyer–Seller Relationships in Mature Industrial Markets. J. Market. 68:63-77.

Nielsen BB (2005). The role of knowledge embeddedness in the creation of synergies in strategic alliances. J. Bus. Res. 58(9):1194-1204.

Niu K (2010). Organizational trust and knowledge obtaining in industrial clusters. J. Knowl. Manage. 14(1):141-155.

Nolan T, Brizland, Macaulay L (2007). Individual trust and development of online business communities. Inform. Technol. People 20(1):53-71.

Sahay BS (2003). Understanding trust in supply chain relationships. Ind. Manage. Data Syst. 103(8):553-563.

Seppanen R, Blomqvist K, Sundqvist S (2007). Measuring interorganizational trust, a critical review of the empirical research in 1990-2003. Ind. Market. Manage. 36(2):249-65.

Sharma N, Young L, Wilkinson I (2006). The commitment mix, dimensions of commitment in international trading relationships in India. J. Int. Market. 14(3):64-91.

Singh RJ, Garg SK, Deshmukh SG (2008). Strategy development by SMEs for competitiveness, a review. Int. J. 15(5):525-547.

Smith S (2004). The role of trust in SME business network relationships. University of Newcastle Callaghan, Australia.

Tang YK (2011). Influence of networking on the internationalization of SMEs, Evidence from internationalized Chinese firms. Int. Small Bus. J. 1:1-25.

Thrikawala SS (2011). Impact of Strategic Networks for the Success of SMEs in Sri Lanka. World J.Social Sci.1(2), 108-119.

Trequattrini R, Russo G, Lombardi R (2012). Defining Business Network. Int. J. Bus. Res.Manage. 3(1):29-34.

Turyakira P (2012). Corporate social responsibility, A competitive strategy for small and medium-sized enterprises in Uganda.

Unpublished doctoral thesis, Nelson Mandela Metropolitan University, South Africa.
Tushabomwe-Kazooba C (2006). Causes of Small Business Failure in Uganda, A Case study from Bushenyi and Mbarara Towns. Afr. Stud. Q. 8(4):1-13.
Uganda Ministry of Finance, Planning and Economic Development July, 2011. The National Micro, Small and Medium Enterprise (Msme) Policy Draft Report.
Watson J (2007). Modelling the relationship between networking and firm performance. J. Bus. Ventur. 22:852-874.
Wickham PA (2004). Strategic Entrepreneurship. 3rd ed. Essex, UK: Pearson Education.
Wincent J (2005). Does Size Matter? A study of firm behaviour and outcomes in strategic SME Networks. J. Small Bus. Enterprise Dev. 12(3):437-453.
Wincent J (2006). On Building Competitiveness in Strategic SME Networks: Empirical Analysis of 54 Firms in Two Networks. Unpublished doctoral thesis, Luleå Univ.Technol.
Yaqub MZ, Malik A, Shah H (2010). The Roles of Satisfaction, Trust and Commitment in Value-Creation in Strategic Networks. Euro. J. Econ., Finance Adm. Sci. 18:133-145.
Zaheer A, Harris J (2006). Interorganizational trust. In: O. Shenkar & J. Reuer (Eds.), Handbook of strategic alliances. (pp. 169-199). Thousand Oaks, CA: SAGE Publications, Inc. doi: http://dx.doi.org/10.4135/9781452231075.n10

academicJournals

Vol. 9(2), pp. 50-58, 28 January, 2015
DOI: 10.5897/AJBM2013.7299
Article Number: ECAB20950097
ISSN 1993-8233

http://www.academicjournals.org/AJBM

African Journal of Business Management

Full Length Research Paper

The relationship between some demographic variables and leadership effectiveness among local government managers in South Africa

Clement Bell[1], Roelf Rvanniekerk[2] and Petrus Nel[3]

[1]Department of Industrial Psychology, University of Fort Hare, South Africa.
[2]Department of Psychology, University of Nelson Mandela Metropolitan, South Africa.
[3]Department of Industrial Psychology, University of the Free State, South Africa.

Received 29 November 2013; Accepted 26 January, 2015

Scholars have argued that demographic variables are critical factors that could also be used together with other factors to explain the variances in the behaviour of effective leaders. They are very significant to virtually all kinds of modern organizations. The current workforce is increasingly getting younger and highly educated. And an increasing proportion of female managers are also found in today's organizations. The present study therefore, explored the relationship between some demographic variables and leadership effectiveness among local government managers in Eastern Cape Province. The data were collected from a sample of 222 local government managers using a self-designed biographical and occupational data questionnaire, and a leadership effectiveness questionnaire adopted from Fleenor and Bryant. Leadership effectiveness was measured as a unitary concept. The results indicated that gender, age and education have a positive and significant relationship with leadership effectiveness. The present study therefore, recommends that, local government departments should consider these demographic variables when assigning leadership responsibilities to managers.

Key words: Demographic variable, gender, age, education, leadership effectiveness.

INTRODUCTION

An understanding of leadership effectiveness often varies among different scholars (Avolio et al., 2003; Yukl, 2006). However, it is perceived globally, as something critical for the success of an organisation (Phipps and Prieto, 2011). Scholars have spent more than a century trying to understand the characteristics of effective leaders (Zaccaro, 2007). Waldman et al. (2001) however argue that this variable continues to attract a lot of interest in scholarly research. Globalization and the challenges of working in the global economy have only helped to increase this interest. Ineffective leadership destroys the human spirit that is critical in ensuring that the organisation is effective (Alimo-Metcalfe and Alban-Metcalfe, 2003). Effective leadership in organisation is

*Corresponding author. E-mail: E-mail:- clementbell86@gmail.com.

also understood as the relative lack of interpersonal weaknesses (Collins, 2001). Furthermore, it also involves having knowledge, and understanding of organisational dynamics and people. Scholars have argued that demographic variables could also be used with other factors to explain the differences in the attributes of effective leaders (Tsui and O'Reilly, 1989). As such, some demographic variables such as gender, age and education can have a significant influence on leadership effectiveness (Chen and Francesco, 2000). These changes challenge contemporary organisational research to explore whether established relationships between these variables exists (Maurer, 2001; Warr and Fay, 2001).

Statement of the problem

Several factors account for differences in the attitudes and behaviour of effective leaders (Mitchell, 2000). The level of education, gender and age was also identified as important determinants. The scholar argues that these demographic variables influence people's values, wants and needs, and makes them think and behave differently (Mitchell, 2000). The South African labour market is becoming flooded with people with high education. Scholars argue that managers are selected mainly because of their formal education and previous merits (Hooijberg et al., 1997). This has created a challenge for organisations in identifying effective leaders among people with seemingly good qualities. These credential requirements are seldom important, and too often, people with high education levels do not have the competencies to match with the job (Guion and Highhouse, 2004). Some scholars argue that without educated, skilled and motivated public managers, efficiency and effectiveness will never be attained (Gildenhuys, 2004). However, the scholar argues that, it is possible that leaders can be educated and learn by experience to become effective public managers. The personal qualities for effective managers include among others, intellectual capacity (Gildenhuys, 2004). Ineffective leadership destroys the human spirit that is critical for ensuring organizational effectiveness (Alimo-Metcalfe and Alban-Metcalfe, 2003). The human outcomes of ineffective leadership include among others, employee stress, disenchantment, lack of creativity, cynicism, high staff turnover and poor performance (Fincham and Rhodes, 2005). The present study therefore, seeks to explore the relationship between some demographic variables and leadership effectiveness among Local Government managers.

Objectives of the study

1. To determine the relationship between gender and leadership effectiveness
2. To determine the relationship between age and leadership effectiveness
3. To determine the relationship between education and leadership effectiveness

Significance of the study

Establishing the relationship between some demographic variables and leadership effectiveness could be of benefit to organisations because they can be used together with other factors as predictors of leaders' behaviour. The present study focused on the three most commonly examined demographic variables of age, education and gender (Murphy and Ensher, 1999). These demographic variables are relevant because they are easily measurable attributes (Somech, 2003). They are associated with the underlying work-related attributes (Jackson, 1996). And they have been shown to influence a leader's work behaviour (Epitropaki and Martin, 1999; Yukl and Fu, 1999). Moreover, they influence work perceptions and attitudes through interpersonal attraction (Tsui and O'Reilly, 1989). As such, they are a critical consideration to be included in the multiple factors that measure leadership effectiveness (Somech, 2003). Understanding this relationship can also help organisations improve their leadership development process. Thus, they will make effective development decisions of people suitable for leadership positions (Guion and Highhouse, 2004). Accordingly, the foregoing extant arguments suggest the significance of some demographic variables on leadership effectiveness processes in organisations.

THEORETICAL PERSPECTIVES

Social role theory

This theory argues that society prescribes different roles to members of different groups, and such roles generally coincide with power and status norms. When work roles break with social roles or traditional hierarchies, this conflict can lead to discomforting environment for the manager (Eagly, 1987). On the one side, when employees are older than their managers, such employees are more likely to resent and to disrespect their managers. On the other side, younger managers may defer older employees and may refrain from exercising their authority in order to avoid discomfort and disapproval. As such, these age differences dynamics have effect on leadership effectiveness (Eagly, 1987).

Social identity

Scholars adopt the social identity theory to understand the effects of workplace diversity (Northcraft et al., 1995).

However, a social identity theory has been used to predict and understand how age and gender diversity have influence on managers' attitude and behaviour (Jackson et al., 2003). In explaining the effects that age and gender diversity have on a manager's behaviour, the basic argument could be that manager's similarity on visible and relatively immutable traits influence manager's feelings of identification (Tsui et al., 1992). Gender is one obvious example used to illustrate how self-categorisation may increase or decrease the attractiveness of a group to a manager (Hoffman and Hurst, 1990). As such, it affects the interpersonal relations between the two groups. Effective leadership in organisations is also understood by the relative lack of interpersonal weaknesses (Collins, 2001). During the process of self-categorisation, managers classify themselves and others into social categories using attributes such as age, and gender (Williams and O'Reilly, 1998).

This process allows a person to define him or herself in terms of social identity, and that leads to in-group or out-group distinctions (Tajfel and Turner, 1986). Furthermore, individuals desire to maintain a high level of self-esteem and a positive self-identity (Tajfel, 1981; Tajfel and Turner, 1986). Individuals may seek to maximize intergroup distinctiveness in order to maintain a positive self-identity, and thus viewing individuals from other groups as less trustworthy, honest or even co-operative than members of their own group (Kramer, 1991).

Situational leadership

The situational leadership theory is regarded as a contingency theory because it focuses on effective leadership behaviour for a specific situation (Hersey and Blanchard, 1988).

These scholars argue that leaders are effective to the extent that they are able to behave appropriately in the situation they encounter. As such, leadership effectiveness is the outcome of interplay between leader behaviour and situation. This therefore, depends on the maturity of subordinates, their readiness to take responsibility for their behaviour. This in turn, is hinged on task and relationship behaviour. Task behaviour relates to the extent to which subordinates have the appropriate job knowledge and skill, and their need for guidance and direction while relationship behaviour denotes the extent to which subordinates are motivated to work without having a leader's guidance, and their need for emotional support. A combination of high and low levels of these individual dimensions creates four different types of work situations, each of which is associated with a certain leadership behaviour that is most effective. Thus, this theory explains leadership effectiveness from a contingency perspective (Hersey and Blanchard, 1988).

Path-Goal theory

The Path-goal theory proposes that subordinates are motivated by a leader only to the extent that they perceive this individual (e.g., age, gender and education) as helping them to attain important goals (House, 1971). The significance of the theory is the notion that effective leaders behave in ways that support subordinates situations and capabilities in a way that covers up for their weaknesses and it increases subordinates satisfaction and their performance (House, 1996). This theory contends that subordinates react favourably to the leader only if they perceive this individual as helping them to achieve their goals by clarifying the actual paths to such rewards. Thus, effective leaders simplify the path taken by subordinates to reach their destinations, and to help them do so. The theory therefore, suggests that leaders are effective to the extent that they help subordinates achieve organisational goals, and goal achievement is instrumental to performance.

LITERATURE REVIEW

Gender and Leadership effectiveness

The value of gender in our everyday life and society has increased substantially (Ijeoma, 2010). It was for the first time brought about in the 1970s by the feminist scholars. The underlying reason was to use gender as a measure for understanding the fact that women do not behave like men in all situations, and most importantly, that the position of women in society varies considerably (Ijeoma, 2010). A scholar argues that leadership has been explained mainly in terms of using male role models (Gedney, 1999). Consequently, this has created a gap in the development of many potential senior female leaders. However, with the advent of women in organizations, research on leadership has thus also included both feminine and masculine leadership behaviours (Deal and Stevenson, 1998). Male and female managers have been found to be possessing different leadership attributes which are the characteristic of their gender (Heilman et al., 1995). The present South African working environment gives men and women similar chances to move into leadership positions (Employment Equity Act 55, 1998). However, the challenge is that these positions are still generally stereotyped and therefore, are not taken seriously by women**.** Leadership effectiveness is not gender sensitive. It is the behaviour of the leader that is important for a leadership position. There are many characteristics that are found in both males and females that put them in favourable positions to become effective leaders (Gedney, 1999). Many people believed that leadership is commonly a man's territory (Kolb and Judith, 1997). If women in organizations become leaders, it is imperative that they are taken as individuals who can lead others effectively (Kanter, 1977). Both men and women have more similarities than differences in their leadership behaviours, and are equally effective. Although these groups are more similar than different, women are still having less chances of being selected as leaders. And that similar leadership behaviour is often perceived as more positively when shown by a male than a female. There is no gender difference in the group perceptions of leadership effectiveness (Gedney, 1999). Feminine traits do not lend themselves to leading to women viewing themselves as effective leaders. Only the females with strong masculine attributes view themselves as effective leaders most of the times.

Although women are accepted in leadership positions, many men still believe that leadership is their domain. The only reason why women are in the leadership positions at all today is completely because of civilian political pressure. Stereotypes often work to the disadvantage of women. They do not satisfy with the perceivers' characteristics of effective leaders (Gedney, 1999). Consequently, women are not considered for promotion and developmental opportunities in favour of men who are more often viewed as associated with effective leadership**.** There are still many challenges which women must overcome first in order for them to be considered as effective leaders. The gender role stereotypes suggest that female leadership behaviour is interpersonal-oriented and collaborative while male leadership behaviour is task-oriented and dominating (Cann and Siegfried, 1990). Women are thus viewed as more participative while men are viewed as more directive. The tendency to devalue female leaders is higher when women are behaving autocratically than when they are behaving in accordance with any other style (Eagly and Johnson, 1990). Female leader behaviours may be critically examined because of their role conflict while men are allowed to lead in different masculine or feminine ways without facing negative reactions because their styles of leading are generally viewed as legitimate (Pratch and Jacobowitz, 1996). Therefore, male leaders are not generally limited by the attitudinal bias of their work mates. They also argue that if there is a generally accepted level of competence, many of the behaviours whether they are congruent or divergent from the male gender role, are highly likely to be accepted in male leaders.

Consequently, female leaders are relatively limited in the behaviours that may be seen as effective because of the conflict they face as women and leaders (Pratch and Jacobowitz, 1996). Because females are largely viewed as being more change oriented, they are more accepted as effective leaders when organizations need change leaders in today global business environment where change is relentless and inevitable. These arguments therefore, lead to the following hypothesis:

$H_{1:}$ Gender is associated with leadership effectiveness among local government managers.

Age and Leadership effectiveness

The increasing number of young managers in different organisations has heightened more interest in the relationship between age and leadership behaviour among scholars (Zacher and Frese, 2009). Most scholars examined the impact of age on different facets of subordinates' behaviour (Zacher et al., 2010). The studies on the relationship of age and leadership behaviours have been neglected. And only limited leadership researches have been conducted in leadership behaviour that examined age as an independent variable (Zacher et al., 2011). Scholars believe that the combination of age and age-related developmental tasks such as generativity have a significant influence on leadership behaviours and its outcomes (Peterson and Duncan, 2007). Scholars also argue that a leader's age and leadership effectiveness may not be exactly related (Ng and Feldman, 2008). The few available research findings on the leader age and leadership effectiveness have generally confirmed that only insignificant relationships have been found (Vecchio and Anderson, 2009). Vecchio (1993) argues that the leader's age and subordinates' satisfaction with the leader are not significantly associated. Other scholars further argue that there is an insignificant relationship between the leader's age and the subordinates' satisfaction, and with subordinates' work commitment (Barbuto et al., 2007). However, there is a significant relationship between leader's age and overall leader effectiveness. According to the generativity theory (Erikson, 1950), leader generativity is the leaders' behaviours directed at developing and managing subordinates of the younger age, while focusing less on their own needs, career developments and accomplishments. Leader generativity is therefore; more significant for developing leadership effectiveness at older than at younger ages because subordinates normatively believe that older and experienced leaders should behave in generative ways and this cannot be done by younger leaders (Sheldon and Kasser, 2001). The integrated impact of the leader's age and leader generativity on leadership effectiveness is facilitated by the subordinates' own perceptions of the type of leader-member exchange (LMX) relationship, which is an important leadership process factor (Gerstner and Day, 1997). Scholars also argue that generative attitudes and behaviours develop from young leaders to old and experienced leaders (Sheldon and Kasser, 2001; Stewart and Vandewater, 1998). Furthermore, age-related reductions in the perception of the amount of life time remaining leads to a selection of emotionally important and generative goals (Carstensen, 1995). These empirical imperatives therefore, give way to the following hypothesis:

$H_{2:}$ Age is associated with leadership effectiveness among local government managers.

Education and Leadership effectiveness

Education is one of the most effective measures of good job performance across many different jobs (Gottfredson, 1997; Schmidt and Hunter, 1998). As such, it may be associated with leadership effectiveness. Scholars argue that it is a significant and predictive measure of effective leadership (Judge et al., 2004). Education is critical for effective leadership, and this is theoretically founded on different leadership behaviours that need strong mental abilities such as problem solving, planning, communicating, decision making and creative thinking (Tett et al., 2000). Scholars argue that leadership effectiveness is related to motivation, integrity, self-confidence, intelligence and emotional intelligence (Goleman, 1998). All these attributes can be increased through education. This education helps managers to better understand themselves and others, the emotional traits of others and the meaning of these traits for leadership behaviour. Scholars also believe that the style used by a leader is one of the most critical factors of leadership that increases leadership effectiveness (Sadeghi and Lope, 2012). A leadership style is a behaviour that a leader reveals while guiding subordinates in the right direction (Certo and Certo, 2006). As a consequence, leaders can improve their style through experience, education and training. Intelligence is perceived as a person‘s all rounded effectiveness in activities controlled by thought (Gedney, 1999). Intelligence is strongly related to educational achievement (Hernstein and Murray, 1994). Leadership and intelligence have been found to be associated (Gedney, 1999). More than 200 studies have been conducted and documented since 1963, and they reveal a great deal of evidence for the notion that leadership effectiveness is significantly related to intelligence (Gedney, 1999).

Many public managers are not educated adequately to meet the needs of leadership positions (Miller, 2004). These managers are given educational support when they are being given leadership responsibilities. Although these public managers are accountable to the government for their behaviours, the government also is accountable to its managers (Miller, 2004). Accordingly, the government must determine the educational support its managers need in order for them to be effective in their roles. Many state education departments and professional organisation (e.g. leadership associations) are now providing leadership mentoring programmes (Miller, 2004). Providing such programmes can help to reduce professional isolation, promote teamwork and encourage reflective thinking. The way managers can develop clear goals and pursue those goals in the organisation could be achieved through aligning their education to job responsibilities. The foregoing arguments therefore, suggest that education is related to leadership effectiveness. Local government managers are supposed to be given regular training programs such as seminars and workshops to better understand the responsibilities and accountabilities given in the local government code. The subject content to be covered during these education seminars and workshops for the managers may include; how to communicate effectively, how to co-ordinate and give support to development projects, how to make quality decisions and how to evaluate performance and give feedback. It is possible that managers can be educated and also learn by their experience to become effective public managers (Gildenhuys, 2004). Scholars further argue that managers are employed mainly because of their formal education and previous merits achieved (Hooijberg, Hunt and Dodge, 1997). These empirical imperatives therefore, give way to the following hypothesis:

$H_{3:}$ Education is associated with leadership effectiveness among local government managers.

MATERIALS AND METHODS

Sample and procedure

The research population constituted 261 managers from local government departments that were covered for the present study which included Buffalo City Municipalities and Local Government and Traditional Affairs Departments in Bisho and East London Town, in the Eastern Cape Province, South Africa. The population of managers constituted top-level, middle-level and lower-level managers. The whole population participated in the present study because it was small enough to be used as whole. As such, no sampling method was employed to select the respondents of the present study. To collect research data, permission was obtained by the researchers from the top managers of local government departments used in present study. All the managers were asked by the researchers to participate in the present study voluntarily. As such, all the managers were given enough time to complete the questionnaires. Of the 261 managers that were available for the present study, only 222 managers responded to this study. Amongst them who responded, 53.2 percent were female managers and 46.8 percent were male managers. With regards to age, 17.1 percent of the managers were between the age groups (20–29); 29.7 percent of the managers were between the age groups (30-39) and 32.0 percent of the managers were between the age groups (40-49). Also, 18.0 percent were of the managers were between the age groups (50-59) and 3.2 percent of the managers were above the age group of 60 years. With regards to their education level, 6.8 percent of the managers had completed high school; 5.4 percent had a certificate and 36.0 percent had a diploma. Also, 27.3 percent had a degree and 24.3 percent had a post-graduate degree. For reasons of confidentiality and anonymity, the names of the managers were not assessed so that their responses could not be assigned to specific individuals.

Instruments

Demographic variables. To assess some demographic variables displayed by a manager, a self-designed biographical and occupational data questionnaire was used. The questionnaire was used to collect data on gender, age and education.

Leadership effectiveness. To measure a managers' leadership effectiveness, the researchers adopted Fleenor and Bryant (2002)'s leadership effectiveness scales. This instrument has six items that

Table 1. Descriptive statistics and Chi-square test results of study variables (individual level) (N = 222).

Variable	Mean	SD	(X^2)	P	df
Gender	1.47	0.50	30.90	0.006*	14
Age	3.60	1.07	155.56	0.0000*	56
Education	4.57	1.12	130.41	0.0000*	56

* p < .01.

measure possible weaknesses (derailers) that can cause a manager to be demoted, fired or "plateaued" below the level of standard performance. Leadership effectiveness was measured as a low score on the derailment scales; indicating that a manager was performing effectively in those areas in which poor performance can lead to derailment. Sample items are, "a manager has problems with interpersonal relationships and a manager has difficulty in making strategic transitions" (reverse coded). The reliability level of alpha was 0.83 which is within the acceptable level of reliability. The respondents used a 5-point Likert-type scale ranging from strongly disagree (1) to strongly agree (5).

RESULTS AND DISCUSSION

This section will discuss the key findings of the present study. As such, the main findings and the relationships between the relevant variables will be presented. A Chi-square test was employed to analyse the relationships between the present study variables and the results are presented in Table 1.

The first hypothesis assessed the relationship between gender and leadership effectiveness among the local government managers. The results shown in Table 1, therefore found that gender and leadership effectiveness are positively and significantly related (X^2=30.90; df=14; p=0.006). As such, both local government male and female managers possess different effective leadership attributes which are the characteristic of their gender (Heilman et al., 1995). Both of them have more similarities than differences in their leadership behaviours, and are equally effective. The gender role stereotypes suggest that female leadership behaviour is interpersonal-oriented and collaborative while the male leadership behaviour is task-oriented and dominating (Cann and Siegfried, 1990). Local government women are therefore, viewed as more participative while local government men are viewed as more directive. As such, they are both effective in leadership responsibilities. The present South African working environment therefore, gives both men and women in local government departments similar chances to move into leadership positions (Employment Equity Act 55, 1998). According to the social identity theory, gender diversity of local government managers has influence on their work attitude and behaviour (Jackson et al., 2003).

The second hypothesis assessed the relationship between age and leadership effectiveness among the local government managers. The results shown in Table 1, therefore found that age and leadership effectiveness are positively and significantly related (X^2=155.56; df=56; p=0.000). As such, scholars argue that there is a significant relationship between local government managers' age and leader effectiveness (Barbuto et al., 2007). According to the generativity theory, older local government leaders' behaviour are directed at developing and managing subordinates of the younger age and they focus less on their own needs, career developments and accomplishments (Erikson, 1950). Local government leaders generativity is therefore critical for developing leadership effectiveness at older than at younger ages because subordinates normatively believe that older and experienced leaders should behave in generative ways, and this cannot be done by younger leaders (Sheldon and Kasser, 2001). Furthermore, the integrated relationship of the local government leaders' age and leader generativity, and leadership effectiveness is facilitated by the subordinates' own perceptions of the type of leader-member exchange relationship, which is an important leadership process factor (Gerstner and Day, 1997). On the other side, young local government leaders are also effective in local government departments depending on the prevailing situations (Hersey and Blanchard, 1988).

The third hypothesis proposed that there is a relationship between education and leadership effectiveness among the local government managers. The results shown in Table 1, therefore found that education and leadership effectiveness are positively and significantly related (X^2=130.41; df=56; p=0.000). As such, education is one of the most effective measures of good job performance across local government managers' jobs (Gottfredson, 1997; Schmidt and Hunter, 1998). Scholars suggest that it is a significant and predictive measure of effective leadership (Judge et al., 2004). This is theoretically supported by different local government leadership behaviours that need strong cognitive abilities such as problem solving, planning, communicating, decision making and creative thinking (Tett et al., 2000).

Scholars also suggest that leadership effectiveness is related to motivation, integrity, self-confidence, intelligence and emotional intelligence, and all these attributes can be increased through education. This education helps local government managers to better understand themselves and others, the emotional traits of others and the meaning of these traits for leadership behaviour (Goleman, 1998). Furthermore, many state education departments and professional organisation such as leadership associations are now providing local government leadership mentoring programmes (Miller, 2004). Providing such programmes can help to reduce professional isolation, promote teamwork and encourage reflective thinking among local government managers.

MANAGERIAL IMPLICATIONS

In general, the present study highlights the contributions of some demographic variables in determining leadership effectiveness among Local Government managers. Gender has a significant relationship with leadership effectiveness. Both Local Government male and female managers possess different effective leadership attributes which are the characteristic of their gender (Heilman et al., 1995). And both of them have more similarities than differences in their leadership behaviours, and are therefore, equally effective. The gender role stereotypes suggest that female leadership behaviour is interpersonal-oriented and collaborative while male leadership behaviour is task-oriented and dominating (Cann and Siegfried, 1990). Local Government women are therefore, viewed as more participative while Local Government men are viewed as more directive. The present study therefore, recommends that organisations should consider both men and woman for leadership responsibilities. Also, age has been found to have a positive and significant relationship with leadership effectiveness. This therefore, means that the Local Government leaders generativity is therefore critical for developing leadership effectiveness at older than at younger ages because subordinates normatively believe that older and experienced leaders should behave in generative ways and this cannot be done by younger leaders (Sheldon and Kasser, 2001). On the other side, young Local Government leaders are also effective in Local Government departments depending on the prevailing situations (Hersey and Blanchard, 1988). The present study therefore, also recommends that Local Government organisations should consider the age differences dynamics of their managers when assigning certain task responsibilities. Finally, education has been found to have a positive and significant relationship with leadership effectiveness. Education is one of the most effective measures of good job performance across Local Government managers' jobs (Gottfredson, 1997; Schmidt and Hunter, 1998). Scholars suggest that it is a significant and predictive measure of effective leadership in Local Government (Judge et al., 2004). This education helps Local Government managers to better understand themselves and others, the emotional traits of others and the meaning of these traits for leadership behaviour (Goleman, 1998). The present study therefore, recommends that education should also be considered when selecting Local Government managers for leadership roles.

Limitations and future research directions

The present study used the Local Government managers from all the management levels as the respondents. However, scholars argue that, it is not all the managers in the Local Government organisations that have leadership responsibilities (Kotter, 1990). Some managers are regarded as leaders whereas others are not regarded as such (Suar et al., 2006). As such, this may have negatively affected the reliability of the results achieved in the present study. Leadership effectiveness is perceived as the low score on the derailment scales; in other words, a demonstration of effective behaviours on these scales. However, this definition covers a limited range of the behaviours and attributes that make up the construct of leadership effectiveness. This therefore, limits the findings of the present study to factors used in the derailment scales. The present study focused mainly on the leadership effectiveness variable as a unitary concept and as a dependent variable instead of using the individual dimensions. Thus, it is also very important that future studies use those dimensions that make up leadership effectiveness construct as dependent variables on their own. This will produce a more thorough study as compared to the present one in respect of those dimensions of leadership effectiveness construct. Furthermore, the present study used self-rating measure of leader effectiveness which may have led to normative responses. Future studies should therefore, use a measure of leader effectiveness in terms of results or of perceptions of those around the leader because this may give more reliable results.

Conflict of Interests

The authors have not declared any conflict of interests.

ACKNOWLEDGEMENT

This research was funded by the Govan Mbeki Research and Development Centre (University of Fort Hare, South Africa).

REFERENCES

Alimo-Metcalfe B, Alban-Metcalfe RJ (2003). How to be a better leader. The Times, Public Agenda, 1 July, 4.
Avolio BJ, Sosik JJ, Jung DI, Berson Y (2003). Leadership models, methods, and applications: small steps and giant leaps. In: W. C. Borman, R. Klimoski, D. R. Ilgen & B. Weiner (Eds.), Handbook of psychology, New York: John Wiley, Sons 12:277-307.
Barbuto JE, Fritz SM, Matkin GS, Marx DB (2007). Effects of gender, education, and age upon leaders' use of influence tactics and full range of leadership behaviours. Sex Rol. 56:71-83.
Cann A, Siegfried WD (1990). Gender stereotypes and dimensions of effective leader behaviour. Sex Rol. 23:413-419.
Carstensen LL (1995). Evidence for a life-span theory of socio-emotional selectivity. Cur. Dir. Psychol. Sci. 4:151-156.
Certo SC, Certo ST (2006). Modern management (10th ed.). Upper Saddle River, NJ: Pearson Education Inc.
Chen ZX, Francesco AM (2000). Employee demography, organisational commitment, and turn overintentions in China: do cultural differences matter? Hum. Relat. 3(6):869-87.
Collins JC (2001). Good to Great: Why Some Companies Make the Leap...and Others Don't. New York: Harper Collins.
Deal J, Stevenson MA (1998). Perceptions of female and male managers in the 1990s. Sex Rol. 38:287-300.

Eagly AH, Johnson BT (1990). Gender and leadership style: A meta-analysis. Psychol. Bull. 108:233-256
Employment Equity Act, number 55 (1998).
Eagly AH (1987). Sex Differences in Social Behaviour: A Social Role Interpretation. Hillsdale: New Jersey.
Erikson EH (1950). Childhood and Society. New York, NY: W. W. Norton.
Epitropaki O, Martin R (1999). The impact of relational demography on the quality of leader–member exchanges and employees' work attitudes and well-being. J. Occ. Organ. Psychol. 72:237-240.
Fincham R, Rhodes P (2005). Principles of Organisational Behaviour (5 ed). New York: Oxford University Press.
Fleenor JW, Bryant C (2002). Leadership Effectiveness and Organizational Culture: An Exploratory Study; Center for Creative Leadership. Toronto: Canada.
Gedney M, USAF (1999). Leadership Effectiveness and Gender. Air University: Maxwell Air Force Base, Alabama.
Gerstner CR, Day DV (1997). Meta-analytic review of leader-member exchange theory: Correlates and construct issues. J. Appl. Psychol. 82: 827-844.
Gildenhuys JSH (2004). The Philosophy of Public Administration: A Holistic Approach; Introduction for Undergraduates Students. South Africa: Sun Press.
Goleman D (1998). Working with Emotional intelligence. NY: Bantam Books.
Gottfredson LS (1997). Why g matters: The complexity of everyday life. Intell. 24(1): 79-132.
Guion RM, Highhouse S (2004). Essentials of Personnel Assessment and Selection. Psychology press: London.
Heilman ME, Block CJ, Martell RF (1995). Sex stereotypes: Do they influence perceptions of managers? J. Soci. Issu. 10: 237-252.
Hernstein RJ, Murray C (1994). The Bell Curve: Intelligence and Class Structure in American Life. New York: Free Press.
Hersey P, Blanchard K (1988). Management of Organizational Behaviour. Englewood Cliffs: Prentice-Hall, NJ.
Hoffman C, Hurst N (1990). Gender stereotypes: Perception or rationalization? J. Pers. Soc. Psychol. 58:197-208.
Hooijberg R, Hunt JG, Dodge GE (1997). Leadership complexity and development of the leaderplex model. J. Manage. 23(3):375-4081.
House RJ (1971). A Path-goal theory of leader effectiveness. Adm. Sci. Q. 16: 321–338.
House RJ (1996). Path-goal Theory of leadership: Lessons, Legacy, and a reformulated Theory. Lead. Q. 7(3):323-352.
House RJ, Aditya RN (1997). The social scientific study of leadership: Quovadis? J. Manage. 23:409-473.
Ijeoma B (unpublished). Gender issues and Leadership Effectiveness in Nigeria Labour Union Activities: an Appraisal. Nigeria, University of Lagos.
Jackson SE (1996). The consequences of diversity in multidisciplinary work teams. In: M. A. West (Ed.), Handbook of work group psychology (pp. 53–75). London: Wiley.
Jackson ES, Joshi A, Erhardt LN. (2003). Research on team and organizational diversity: Analysis and implications. J. Manage. 29(6):801-830.
Judge TA, Colbert AE, Ilies R (2004). Intelligence and leadership: A quantitative review and test of theoretical propositions. J. Appl. Psychol. 89:542-552.
Kanter RM (1977). Men and Women of the Corporation. New York, NY: Basic Books.
Kolb, Judith A (1997). Are We Still Stereotyping Leadership? Small Group Res. 28(3).
Kramer R (1991). Intergroup Relations and Organizational Dilemmas: The Role of Categorization Processes. Greenwich, CT: JAI Press.
Kotter JP (1990). A force for change: How leadership differs from management. New York: Free Press.
Labawig MC (2000). Leadership effectiveness of Barangay captains: Its Implications to Barangay Development. Saint Louis University; Baguio City: Ched-Car.
Maurer TJ (2001). Career-relevant learning and development, worker age, and beliefs about self-efficacy for development. J. Manage. 27:123-140.
Miller K (2004). Creating Condictions for leadership Effectiveness: The District's role. Mid-Continent Research for Education and learning.
Mitchell S (2000). American Generations-Who They Are. How They Live. What they Think (3rd ed.) Ithaca, N.Y: New Strategic Publications, Inc.
Murphy SE, Ensher EA (1999). The effects of leader and subordinate characteristics in the development of leader–member exchange quality. J. Appl. Soc. Psychol. 29:1371–1394.
Ng TWH, Feldman DC (2008). The relationship of age to ten dimensions of job performance. J. Appl. Psychol. 93(2):392-423.
Northcraft G, Polzer J, Neal M, Kramer R (1995). Diversity, Social Identity, and Performance: Emergent Social Dynamics in Cross functional Teams. Stamford: JAI press.
Peterson BE, Duncan LE (2007). Midlife women's generativity and authoritarianism: Marriage, motherhood, and 10 years of aging. Psych. Agin. 22(3):411-419.
Phipps STA, Prieto LC (2011). The Influence of personality factors on Transformational Leadership: Exploring the Moderating Role of Political Skills. Int. J. Leadersh. Stud. 6(3):430-447
Pratch L, Jacobowitz J (1996). Gender, Motivation, and Coping in the Evaluation of Leadership Effectiveness. Consulting Psychology Journal: Practice and Research.
Sadeghi A, Lope Pihie ZA (2012). Transformational Leadership and Its Predictive Effects on Leadership Effectiveness. Int. J. Bus. Soc. Sci. 7(3):186-197.
Somech A (2003). Relationships of participative leadership with relational demography variables: A multi-level perspective. J. Organ. Behav. 24:1003-1018.
Stewart AJ, Vandewater EA (1998). The course of generativity. In: D. P. McAdams & E. de St. Aubin (Eds.), Generativity and adult development: How and why we care for the next generation (pp.75 - 100). Washington, DC: American Psychological Association.
Suar D, Tewari HR, Chaturbedi A (2006). Subordinates perception of leadership styles and their work behaviour. Psych. Dev. Soc. 18(95):96-114.
Tett RP, Guterman HA, Bleier A, Murphy PJ (2000). Development and content validation of hyperdimensional taxonomy of managerial competence. Hum. Perform. 13:205-251.
Tsui AS, Egan TD, O'Reilly CA (1992). Being different: Relational demography and organizational attachment. Adm. Sci. 37:549-579.
Tajfel H (1981). Human Groups and Social Categories: Studies in Social Psychology. United Kingdom: Cambridge University Press.
Tajfel H, Turner JC (1986). The Social Identity: Theory of Intergroup Behaviour. Chicago: Nelson-Hall.
Tsui AS, O'Reilly CA (1989). Beyond simple demographic effects: the importance of relational demography in superior–subordinate dyads. Acad. Manage. J. 32:402-423.
Vecchio RP (1993). The impact of differences in subordinate and supervisor age on attitudes and performance. Psych. Agin. 8(1): 112-119.
Vecchio RP, Anderson RJ (2009). Agreement in self-other ratings of leader effectiveness: The role of demographics and personality. Inter. J. Selec. Assessm. 17(2): 165- 179.
Waldman DA, Ramirez GG, House RJ, Puranam (2001). Does leadership matter? CEO leadership attributes and profitability under conditions of perceived environmental uncertainty. Acad. Manage. J. 44:134-143.
Warr PB (2001). Age and work behaviour: Physical attributes, cognitive abilities, knowledge, personality traits and motives. In: C. L. Cooper & I. T. Robertson (Eds.), Int. Revie. Indust. and organi. Psych. Chichester, UK: Wiley.
Williams K, O'Reilly CA (1998). Demography and Diversity: A review of 40 years of Research. Greenwich, CT: JAI Press
Yukl G (2006). Leadership in Organizations. Upper Saddle River: NJ.
Yukl G, Fu PP (1999). Determinants of delegation and consultation by managers. J. Organ. Behav. 20:219-232.
Zaccaro SJ (2007). Trait-based Perspectives on Leadership. Am. Psych. 62(1):6-16.
Zacher H, Frese M (2009). Remaining time and opportunities at work: Relationships between age, work characteristics, and occupational future time perspective. Psych. Agin. 24(2):487-493.
Zacher H, Heusner S, Schmitz M, Zwierzanska MM, Frese M (2010).

Focus on opportunities as a mediator of the relationships between age, job complexity, and work performance. J. Vocat. Behav. 76(3):374-386.
Zacher H, Rosing K, Frese M (2011). Age and leadership: The moderating role of legacy beliefs. Leadersh. Q. 22(1):43-50.

academicJournals

Vol. 9(2), pp. 59-66, 28 January, 2015
DOI: 10.5897/AJBM2013.7171
Article Number: 4A412A250102
ISSN 1993-8233

http://www.academicjournals.org/AJBM

African Journal of Business Management

Full Length Research Paper

The impact of credit risk on profitability performance of commercial banks in Ethiopia

Million Gizaw[1*], Matewos Kebede[1] and Sujata[2]

[1]Department of Accounting and Finance, Jimma University, Ethiopia.
[2]Department of Banking and Finance, Jimma University, Ethiopia.

Received 6 August, 2013; Accepted 23 January, 2015

The objective of the study was to empirically examine the impact of credit risk on profitability of commercial banks in Ethiopia. For the purpose secondary data collected from 8 sample commercial banks for a 12 year period (2003-2004) were collected from annual reports of respective banks and National Bank of Ethiopia. The data were analyzed using a descriptive statics and panel data regression model and the result showed that credit risk measures: non-performing loan, loan loss provisions and capital adequacy have a significant impact on the profitability of commercial banks in Ethiopia. The study suggested a need for enhancing credit risk management to maintain the prevailing profitability of commercial banks in Ethiopia.

Key words: Commercial banks, credit risk, Ethiopia, panel data regression performance, profitability.

INTRODUCTION

Management of trade of between risks and return is important for sustainable profitability of banks and other financial institutions. Among risks in banking operation credit risk which is related to substantial amount of income generating assets is found to be important determinant of bank performance. Hence credit risk management capability of a bank remained a live academic discourse in finance and economics.

Credit risk has been defined from different perspectives by different researchers and organizations. Most researchers agreed with the definition given by Basel (1999) who defines it as the potential that debtor or counter party default in satisfying contractually pre-determined obligation according to the agreed up on terms. Because failure of trading partner to repay its debt in full can seriously damage the affair of the other partner, credit risk always has been the vicinity of concern throughout the world (Achou and Tenguh, 2008).

The importance of strong credit risk management for building quality loan portfolio is of paramount importance to robust performance of commercial banks as well as overall economy (Charles and Kenneth, 2013). The growing stock of literatures in finance and economics underscores that failure in credit risk management is the main source of banking sector crises which possibly leads to economic failure experienced in the past including 2008 global financial crises (Fofack, 2005; Onaolapo, 2012, Charles and

*Corresponding author. E-mail: milli.gezaw@yahoo.com.

Kenneth, 2013). According to Onaolapo (2012), "*the Basle Committee on Banking Supervision (BCBS) (2003), management of bank risk relates to the minimization of the potential that a bank borrower or counter-party will fail to meet its obligations in accordance with agreed terms*" (p.1).

Prakash and Poudel (2012) also state that credit risk management is an important predictor of bank financial performance. Thus success of bank performance depends on effectiveness of credit risk management, among other things, which leads to a surge of academic papers on credit risk management and the effect on bank performance albeit the context of Ethiopia and other developing countries is scant. However there are some studies in developing countries in Africa such as Kenya (Angela, 2010; Danson and Adano, 2012), Gana (Samuel et al., 2012), Nigeria (Kolapo et al., 2012; Onaolapo, 2012) and few directly related to Ethiopia (Mekasha, 2011; Tefera, 2011). Its seem difficult to infer the results of these studies to the context of Ethiopia for the fact that the findings are mixed. Moreover, the unique context of commercial banks in Ethiopia such as restriction of foreign ownership, high dominance of state owned banks, and smallness of individual banks size may limit the possibility of inferring existing studies to Ethiopian banks. Hence, this study intends to explore the apparent relationship between profitability performance and credit risk measures from the context of Ethiopia. The finding of this study will contribute to existing literatures on credit risk and profitability, in addition to its managerial and policy implications for commercial banking industry in Ethiopia.

REVIEW OF PREVIOUS STUDIES

The relationship between credit risk and commercial banks performance has been the concern of emerging studies both in developed and developing countries. From the studies on this subject matter we presented some of the recent studies in this subsection.

Poudel (2012) studied the factors affecting commercial bank performance in Nepal for the period of 2001 to 2012 and followed a linear regression analysis technique. The study revealed a significant inverse relationship between commercial bank performance measured by ROA and credit risk measured by default rate and capital adequacy ratio.

Hosna et al. (2009) also found similar result with Poudel in his study of four Swedish banks covering a period of 2000 to 2008. The result showed that rate of non-performing loan and capital adequacy ratios was inversely related to ROE though the degrees vary from one bank to the other. Such inverse relationships between profitability performance and credit risk measures were also found in other studies (Achou and Tenguh, 2008; Funso et al., 2012; Musyoki and Kadubo, 2012). Though there are a number of empirical studies evidencing the negative and significance relationship of credit risk and commercial banks performance, concluding about this issue is somewhat difficult, because there are papers that come across with different results. For instance, Boahene (2012) found a positive and significance relationship of commercial banks performance and credit risk in his study of six Ghanaian commercial banks covering a period of 2005-2009. The panel data analysis model employed in the study revealed that indicators of credit risk, namely: non-performing loan rate, net charge-off rate, and the pre-provision profit as a percentage of net total loans and advances were positively related with profitability measured by ROE. The author suggested that Ghanaian commercial banks enjoy high profitability at time when the levels of credit risk variables are high. It is reasoned out on this study that this might be, because of prohibitively lending/interest rate, fees and commissions.

The prevailing relationship between profitability and credit risk is further complicated by the finding of Kithinji (2010). Employing a regression analysis on data collected from financial reports of commercial banks in Kenya for the period of 2004 to 2008 concluded that profitability of commercial banks measured by ROA did not show significant relationship with credit risk measures.

To the best of the researcher knowledge studies on the relationship between credit risk and profitability performance of Ethiopian commercial banks are few though many studies documented that credit risk is among the major challenges of banks in Ethiopia. Of these studies, Tefera (2011) and Mekasha (2011) each studied the effect of credit risk management on the performance of commercial banks in Ethiopia. Both used secondary data from annual reports of commercial banks and survey of primary data from bank managers and officers which similarly showed that there is a negative relationship between credit risk and performance of commercial banks in Ethiopia. The current study therefore aimed at contributing to the literature gap on the subject matter by expanding the sample observation both in time series and cross section so that a better picture of relationship between credit risk and profitability performance can be portrayed for commercial bank managers and policy makers. Further, the study will contribute to the literature by dropping the context of Ethiopian banks.

Research problem and objective

The relationship between credit risk and commercial banks performance has been the concern of various studies that prove that credit risk is among the major factors affecting profitability performance of commercial banks (Achou and Tenguh 2008; Hosna et al., 2009;

Mekasha 2011; Tefera 2011; Boahene, 2012; Funso et al. 2012; Poudel, 2012; Musyoki and Kadubo, 2012). Loan portfolio constitutes significant portion of income earning asset. Literatures on Ethiopian banking sector documented that credit risk and non-performing loan have been major challenges of bank performance in Ethiopian (Alemauhy, 1991; NBE, 2009; Tekilebirhan, 2010; Melkamu, 2012; Gethun, 2012; Mekonen, 2012). Nonetheless, very few (Mekasha 2011; Tefera 2011) examined the extent at which credit risk affected profitability performance of banks in Ethiopia. The overall objective of this study is to explore into how credit risk affects the performance of commercial banks in Ethiopia which is hoped to provide managerial and policy implication to Ethiopian banking industry. Its contribution to the literature could also be high for the fact that the results of existing literature are not conclusive. More over the unique nature of commercial banking in Ethiopia, such as high state owned bank domination, nonexistence of foreign bank could also add to literature.

In line with its general objective the paper tried to answer the following basic research questions:

1. How far credit risk affects profitability performance of commercial banks in Ethiopia?
2. Is there a statistically significant relationship between NPLR and profitability of Ethiopian commercial banks measured by ROA and ROE
3. Is there a statistically significant relationship between LLPR and profitability of Ethiopian commercial banks measured by ROA and ROE
4. Is there a statistically significant relationship between CAR and profitability of Ethiopian commercial banks measured by ROA and ROE
5. Is there a statistically significant relationship between LTDR and profitability of Ethiopian commercial banks measured by ROA and ROE

RESEARCH DESIGN AND METHODOLOGY

The overall objective of this paper was to explore into the relationship between credit risk measures and profitability performance of commercial banks in Ethiopia. To achieve this objective the study used a quantitative research design.

Secondary data collected from audited financial reports of commercial banks and from national bank of Ethiopia. As of June 2012 there were 18 commercial banks operating in the country (NBE, 2012) of which 8 banks that had been in operation from 2001 to 2012 were purposively selected which resulted in a panel data of 96 observations. A STATA software version 11 was used to compute a descriptive statistics (mean, standard deviation, minimum and maximum) of study variable and a panel data regression analysis to explore the relationship between credit risk and profitability performance.

Model specification

This study adapted a panel data model previously used by Kolade et al. (2012) in their study of "Credit risk and commercial bank performance of Nigeria". Kolade et al. (2012) used ROA as a dependent variable in their model, but we used ROA and ROE, the two most common indicators of profitability in two different models. Moreover, we modified the model on the right hand side by adding CAR as explanatory variable. Thus the dependent variables in this study, profitability were measured by rate of return on asset (ROA) and rate of return on equity (ROE). The independent variable, credit risk, was also measured by the ratio of nonperforming loan to total loan and advance ratio (NPLR), loan loss provision ratio (LLPR), capital adequacy ratio (CAR) and loan to deposit ratio (LTDR). To account for unexplained change on profitability performance by credit risk measures used in the model error terms was included in the model.

The models are expressed as follows,

Model 1: $ROA = \beta_0 + \beta_1 NPLR + \beta_2 CAR + \beta_3 LAR + \beta_4 LLPR + e$
Model 2: $ROE = \beta_0 + \beta_1 NPLR + \beta_2 CAR + \beta_3 LAR + \beta_4 LLPR + e$

Where,

β_0= constant parameter/ constant term
B_1 - β_3= coefficients of independent variables
$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$
$ROE = \frac{\text{Net Income}}{\text{Total owners' equity}}$
NPLR= Nonperforming Loan Ratio
CAR= Capital Adequacy Ratio
LAR= Loan and Advance Ratio
LLPR=Loan Loss Provision Ratio
e= error term

Definitions of variables

Return on assets (ROA)

Return on asset is the ratio of net income and total resource (asset) of the company. It measures the efficiency of banks management in generating profit out of its scarce resource. The more the amount of return on assets the better the efficiency of the bank management, which is good for the bank.

Return on equity (ROE)

Return on Equity (ROE) is the other variable used to measure profitability performance. It is a ratio of net income and total equity. It represents the rate of return generated by the owners' Equity.

Nonperforming loan ratio (NPLR)

This is the major indicator of commercial banks credit risk. It is the ratio of Nonperforming Loan to Total Loan. It represents how much of the banks loans and advances are becoming nonperforming which measures the extent of credit default risk that the bank sustained. As the amount of this ratio increase it will send bad message for the management of the banks because it shows high probability of none recovering the banks major asset.

Capital adequacy ratio (CAR)

Capital adequacy refers to the amount of equity and other reserves which the bank holds against its risky assets. The purpose of this

Table 1. Descriptive statistics of study variables.

Variable	Observations	MEAN	Std. dev	MIN	MAX
ROA	96	0.0236	0.00987	-0.00175	0.040254
ROE	96	0.2258	0.11722	-0.01418	0.703521
NPLR	96	0.1235	0.11838	0.0086	0.535
CAR	96	0.1153	.04414	0.037	0.294
LTDR	96	0.7324	0.21787	0.29687	1.60594
LLPR	96	0.0615	0.0536	0 0.2895	

Source: Authors' Computation.

reserve is to protect the depositor from any unexpected loss. The BASEL accord II requires banks to hold capital adequacy at least 8 percent of their risky assets.

Loan and advance to deposit ratio (LTRR)

To measure banks liquidity this research paper employed Loan to Deposit Ratio. This ratio indicates the ability of banks to withstand deposit withdrawals and willingness of banks to meet loan demand by reducing their cash assets. When the banks are more liquid, they can reduce risk of insolvency. This ratio provides more general information on the issue deposit because it takes no account the mix between time and demand deposit, and other issues. Even so, LTDR can be used as useful tools for assessing Banks liquidity.

Loan loss provision ratio (LLPR)

A loan loss reserve is a contra income account that enables banks to recognize in their profit and loss statements the expected loss from a particular loan portfolio(s). Depositors are protected against unexpected loss through capital adequacy reserve and protected against anticipated loss through loan loss provision reserve. Under Basel II, banks can include LLP under their capital. The basic assumption behind LLP is that banks managers reflect their belief toward the bank's asset quality. But most studies found that managers are using this reserve for different purposes like income soothing and earning management. On this paper the loan loss provision ratio is used to identify the level of banks' managers' expectation about their asset quality in Ethiopian banking industry. When the amount of Loan Loss Provision increases, the quality of the assets will decrease and vice versa.

Model diagnostic test procedure

Every estimator of the model should have to meet the OLS assumptions before the estimation is carried out. If the estimators of the model satisfy the OLS assumptions it is possible to say the estimators are BLUE (Best Linear Unbiased Estimators). According to Brooks (2008), the estimators of the models should satisfy four OLS assumptions. Accordingly we have conducted appropriate diagnostic tests for each OLS assumptions.

First, Breusch-Pagan test was used to test the problem of hetroskedasticity. Breusch-Pagan test assumes the error variance is a linear function of one or more variables. To test for multi-colinearity, we also checked the Variance Inflation Factor (VIF) and tolerance level. The third assumption of the OLS estimator is no serial correlation. To detect this problem the popular Derbin – Watson (DW) test was used. The other important assumptions of the OLS estimators are normality assumption that we tested using Shapiro wilk test.

RESULT AND DISCUSSION

This section of the paper is classified into description of the study variables and results of regression analysis.

Description of the variables

To provide a clear picture of profitability performance and credit risk indicators considered under study the descriptive statics, namely: mean, standard deviation, mean and maximum values computed for the sample observation of 8 selected commercial banks for a 12 years period are summarized in Table 1.

Profitability performance of Ethiopian commercial banks

To measure profitability performance, return on asset (ROA) and return on Equity(ROE) were employed in the study and the result on Table 1 showed that on average the banks under study earned a 2.36 percent return on asset with a 1 percent standard deviation. According to Flamini et al. (2009) a 2 percent rate of return on asset obtained in their study of banks in sub-Saharan African countries was viewed as higher than that of the ROA of banks in other parts of the world. Hence it can be argued that Ethiopian commercial banks had been efficient enough to generate a higher rate of return out of their asset. Flamini et al. (2009) also argued that high profitability of banks in sub Saharan Africa, where Ethiopia is located, may attribute to larger bank size, activity diversification, and private ownership. In case of Ethiopia also Kapur and Gualu (2010) argued that privatization contributes a lot for the profitability of Ethiopian banking industry. On the other side, it could also be argued that their profitability may not fully be attributed to good performance, but Ethiopian banks might get advantage of less competitive nature of the banking market which remains restricted from participation of foreign owned banks. In line with this, Alen et al. (2011) on their review of African financial system pointed out that the interest rate spread among banks in east Africa, including Ethiopia is high. Among other things, Alen et al. (2009) contend that "*The wider spreads reflect the risk a bank is taking or the monopolistic nature of the banking sector in the region*."(p.25). This suggests that to maintain the prevailing high profitability commercial banks in Ethiopia, they should identify whether the source of their profitability attributes to real productivity and effectiveness or just aggressive risk taking behavior so as to maintain it in the future. Because if their profitability largely attributes to lack of competition those Ethiopian banks have been sheltered from foreign owned banks, they will face challenging future when Ethiopia's accession to world trade organization finalized or the banking sector becomes liberalized at some event.

Profitability performance measured by ROE in Table 1 also showed that Ethiopian commercial bank earned a 22.58 percent average ROE, with 7 percent of standard deviation. At the outset this might also suggest that Ethiopian banks had been producing good return for their owners during the periods under study. Nevertheless, literature of Navapan and Tripe (2003) doubts that getting this much return on equity may not always send a good message, but it may also result from having a small, inefficient and less competitive market.

Credit risk measure in Ethiopian commercial banks

With regard to credit risk measures, Table 1 indicated that the average NPLR in Ethiopia commercial banking industry for the last 12 years was 12.35% with standard deviations of 11.8%. The difference between minimum value (1%) and maximum (53%) and the standard deviations demonstrated that there existed high variability with the NPL ratio. The result in general implied that the accumulation of NPL which was claimed as critical problem of the banking sector on previous studies (Alemayhu, 1991; Zerayhu, 2005; Abraham, 2006; Teklebrhan, 2010) showed an improvement overtime. According to Gethun (2012) and Melkamu (2012) who studied nonperforming loan in Ethiopian commercial banks in recent years said it exhibited a sharp decline.

Capital adequacy ratio shows the proportion of owners' equity to total asset. Central banks use CAR as a protection of the depositors' money from credit risk and other failures. For this reason the minimum CAR is determined by the regulatory agencies. Internationally BASEL set 8% CAR for commercial banks. According to National bank of Ethiopia directive No SBB/24/99 the minimum requirement of CAR for Ethiopian banks is also 8, but the result on Table 1 indicated that the mean value for the last 12 years was 11.5 % with a standard deviation of 5 %. The minimum and maximum values were also 3.7 and 29.4, respectively. The average amount of CAR is higher than the minimum capital requirement of the BASEL and NBE showing that the bank has ability to bear loss results from loan default and other operational shocks. However, higher CAR may also diminish the profitability, competitive ability and growth capability of the banks for the fact that shareholders' fund is kept idle (Ezike and Oke, 2013). Thus requires consideration of commercial bank managers and the national bank.

The ratio of loan and advance to deposit is the most commonly used measure of bank liquidity. The ratio can also indicate how far the bank used depositors fund on credit activity which is prone to default risk. As per the descriptive statistics in Table 1 the average LTDR of Ethiopian banks was 73 percent (with s.dev = of 21.78 percent). The maximum and minimum values were 29.6 and 160 respectively, suggesting that the banks concentrate on lending business which is relatively riskier than other options to use depositor money. The maximum value also raises a surprise on how banks lend in excess of their total deposit and engaged in high risk taking activity.

In this respect, Willem (2013) mentioned that there is no international limit for the amount of LTDR ratio though some countries required a limit to this ratio. Though literature on finance stated that high risk and high return are correlated, in a condition where the banking sector was claimed to be encircled with high NPL for good number of years (Alemayhu, 1991; Zerayhu, 2005; Abraham, 2006), it showed a decline recently. This much concentration on lending could lead to accepting higher credit risk unless accompanied by a rigor credit risk management and strong effective loan service process.

The last variable used to represent credit risk is loan loss provision ration (LLPR). This ration shows the default risk that the bank expects to sustain from lending business. As per the result shown in Table 1, Ethiopian Commercial Banks maintained an average of 6 percent loan loss reserve amount with a standard deviation of 5.4 percent. The maximum and minimum values were also 0 and 29 % respectively. The required amount of LLPR is determined by central banks and regulatory agencies and the ratio differs from country to country (Angklomkliew et al., 2009). In Ethiopia, NBE requires a reserve for loan loss to be charged on bank revenue on the bases of the amount of classified loan categories. Accordingly a 1, 3, 20, 65 and 100% provisions are required for loan classified as pass, special mention, substandard, doubtful and loss respectively. Thus, the mean value of LLPR (refer Table 1) fall under special mention category implying that the proportion of loan classified as high probability to default seems low. The finding here is consistent with the NPLR ratio in Table 1 and previous

Table 2. Random effect estimate for Model 1.

Variables	Coefficients	Standard error (Robust)	Probability /Z/	Conf. interval	
NPLR	-0.0761173	0.0090986	0.0000**	-.0939503	-.0582844
CAR	0.044624	0.0424872	0.294	-.0386494	.1278974
LTD	-0.0005475	0.006254	0.930	-.0128051	.01171
LLPR	0.0816622	0.0146518	0.0000**	.0529453	.1103791
C	0.0232674	0.0064861	0.0000	.0105548	.0359799

R2 = 0.51; D.W= 1.19;N=96; Prob> chi2= 0.0000. Source: Authors' computation. * 5 percent level of significance; ** 1 percent level of significance; Model 1; ROA= β0+ β1NPLR+ β2CAR + β3LTD + β4LLPR. Model 1; ROA= 0.02-0.076NPLR+ 0.044CAR + 0.081LLPR.

studies(Gethun, 2012; Melkamu, 2012) that indicated that NPL in Ethiopian commercial banks has started declining which shows a decline in credit default risk or improved credit risk management performance of the banks.

Results of regression analysis

As stated in research design and methodology section, the study used two models to estimate the quantitative effect of credit risk measuring variables (NPLR, LLPR, CAR and LTDR) on profitability of commercial banks in Ethiopia measured by ROA and ROE. The models were tested for OLS assumptions before estimation and the results of both models are presented in Tables 2 and 3. To control the presence of heteroskedasticity and autocorrelations the standard errors of the estimators are made to be robust. As observed in Table 2, the R^2 of model 1 is 52 percent indicating that credit risk indicators, independent variables in the model (NPLR CAR LTD and LLPR) explained 52 percent of the variance in profitability performance of Ethiopian commercial banks measured by ROA.

With regard to the effect of each independent variable, the results in Table 2 showed that, the rate of nonperforming loan to total loan and advances (NPLR) negatively affected profitability measured by ROA at a 0,01 level of significance. This suggests that a unit increase in nonperforming loan amount will result in 0.07 units decrease in ROA, citrus paribus. Contrary to this, the rate of loan loss provisions (LLPR) showed a positive effect at a 0.05 level of significance. This means that holding all other variables constant, a unit increase LLPR brings a 0.08 units change on ROA. The result in Table 2 however does not reveal statistically significant effect of CAR and LTDR on ROA.

The result from the second model (Table 3) also showed that R^2 is 46 percent suggesting that the independent variables in the model explained 46 percent of the variation on profitability performance measured by ROE.

With respect to the effect of each independent variable, the result in Table 3 indicated that NPLR and CAR negatively affect ROE at 0.01 and 0.05 level of significance respectively. Yet, LLPR showed positive effect and significant at 0.01 level. Holding all other variables constant a unit increase in the level of NPL, ROE is expected to decrease by 0.62 units. A unit increase in the amount of capital adequacy will also lead to a decrease of ROE by 1.02 units.

Intriguing finding of the study is the positive effect of LLPR on ROE as it had with ROA. Holding all other variables constant a unit increase in the level of Loan Loss Provision Reserve, ROE expected to increase by 0.83 units. The result in Table 3 in general showed ROE of commercial banks in Ethiopia is highly sensitive to ratio of nonperforming loan to total loan and advance (NPLR), capital adequacy ratio (CAR) and loan loss provision rate (LLPR). Yet, the effect LTDR having on ROE was not statistically significant at all.

Discussion on regression results

The impact of nonperforming loan on profitability

Observation from Table 2 suggested that NPLR which measures the extent of credit default risk sustained by the banks showed a statically significant large negative effect on profitability measured by ROA. The result in this respect is consistent with findings of Poudel (2012); Funso et al. (2012) and Chen (2008). Consistent with the findings of previous studies on Ethiopian banks and elsewhere, the criticality of credit default risk on efficient utilization of asset by Ethiopian commercial banks emerged from this study. The good thing is that the descriptive statics and the observation of the trend on NPL in Ethiopian banks as per the study of Getahun (2012) and Melkamu (2012) showed a sharp decline indicating that managers and policy makers in Ethiopia have enhanced credit risk management mechanism in the banking industry. With respect to profitability measured by ROE which indicates how far the owners earned from their investments in Ethiopian commercial banks, NPL

Table 3. Random effect estimate for Model 2.

Variables	Coefficients	Standard error (Robust)	Probability /Z/	Conf. Interval	
NPLR	-.619229	.121868	0.000**	-.8580859	-.380372
CAR	-1.021093	.4004441	0.011*	-1.805949	-.236237
LTDR	-.0677818	.0667983	0.257	-.1893091	.0537454
LLPR	.8317095	.2387132	0.001*	.3638402	1.299579
C	.4185701	.0926247	0.000	.2370291	.6001111

R2 = 0.46; D.W= 1.51; N=96; Prob> chi2 = 0.0000; Source: Authors' computation.* 5 percent level of significance; ** 1 percent level of significance. Model 2; ROE= β0+ β1NPLR+ β2CAR + β3LTD + β4LLPR; Model 2; ROE= .042 - .62NPLR -1.2CAR + .83LLPR.

showed a significant negative effect. The Negative impact of NPLR on ROE is supported by the finding of Achou and Enguh, (2008). However compared with the impact of NPL on ROA, the impact is high on ROE.

The result in this study therefore, suggested the need for strong credit risk and loan service process management must be adopted to keep the level of NPL as low as possible which will enable to maintain the high profitability of commercial banks in Ethiopia.

The impact of loan loss provisions ratio (LLPR) on profitability

Surprisingly, loan loss provisions ratio which is a forward looking measure of credit risk is found to have a significant positive effect on profitability measured by both ROA and ROE. This might suggest that the lending business in Ethiopian banks as presumed by mangers is risky though it could turn to high profit. Despite such expectation, the sharp decline in NPL (Getahun, 2012; Melkamu, 2012) could also suggest that the managers clearly recognized the risk arising from lending business and strengthen their credit risk management capability in addition to allowing high loan loss provisions to loan and advances.

The alternative explanation as per Liu and Hu (2012) might be that a positive relationship between performance and LLPR of commercial banks signals the use of LLPR for the purpose of earning management. Earnings management is defined by Healy and Wahlen (1999) cited in Muhammad et al. (2012) as a distortion to real reflections of economic events that take place in an organization through the use of managerial judgment. Though taking the alternative to the context of Ethiopian banks demands a further investigation, it is possible to suggest strict consideration of regulatory for the fact studies in different countries (Anandarajan et al., 2003; Muhammad et al., 2012) conclude that positive relationship between LLPR and profitability showed the presence of earning management by the management.

The effect of capital adequacy ratio (CAR) on profitability

Consistent with the findings of Büyükşalvarcı and Abdioğlu (2011) and Qin and Dickson (2012), this study showed that CAR has a significant negative effect on ROE, but not on ROA. Holding all other explanatory variables constant, a one unit increase in CAR, ROE is expected to decrease by 1.02 units, which is an inverses relationship. In this respect, Ezike and Oke (2013) mentioned that holding capital beyond the optimal level would inversely affect the efficiency and profitability of commercial banks. Though the minimum CAR requirement of commercial banks in Ethiopia is 8%, the descriptive statics in Table 1 indicated the average CAR of the banks under study was about 11.5%, higher than the minimum requirement. Taking the argument by Ezike and Oke (2013) the prevailing negative relationship between CAR and Profitability (ROE) appears to result from having reserve beyond the necessary amount enough to handle unexpected risk the banks may encounter.

The other independent variable which is used to measure the liquidity level and its impact on the banks is not significant at 1, 5 and 10 percent level of significance and it is not possible to infer it.

CONCLUSION AND SUGGESTIONS

The paper tries to identify the prevailing relationship between credit risk and profitability performance of commercial banks in Ethiopia. Previous studies in Ethiopia were very few and studies in general were inconclusive. Motivated to fill this gap a descriptive statics and panel data regression analysis were employed on secondary data collected from 8 commercial banks for a 12 years period (2003-2012).

The result revealed that credit risk profile of Ethiopian banks had been improving during the study period. The ratio of nonperforming loan and loan loss provision ratio are sharply declining in recent past. Even as the NPL reached minimum, the LLPR is about 6 %. The capital adequacy ratio of commercial banks was also found a little bit higher than regulatory requirement at local and international level, but the descriptive analysis indicated commercial banks in Ethiopia have adequate capital to withstand shocks resulting from credit and other operational risks.

This study found that credit risk measures: non-performing loan, loan loss provisions and capital adequacy have a significant impact on the profitability of commercial banks in Ethiopia.

Having the significant overall effect credit risk on profitability of commercial banks in Ethiopia, it is suggested that a rigor credit risk management process is of paramount importance. Hence managers are advised to employee a modern credit risk management technique and diversify the earning activity of their respective banks. The significant positive relationship between Loan loss provision and commercial banks performance on this study might indicates the presence of potential earning management activities by bank managers.

Conflict of Interests

The authors have not declared any conflict of interests.

REFERENCES

Achou TF, Tenguh NC (2008). Bank performance and credit risk management. http://his.diva-portal.org/smash/get/diva2:2459/FULLTEXT01.pdf

Allen F, Otchere I, Senbet LW (2011). African financial systems: A review. Rev. Dev. Finance doi:10.1016/j.rdf.2011.03.003

Anandarajan A, Hasan I, Lozano-Vivas A (2003). “The role of loan loss provisions in earnings management, capital management, and signaling: The Spanish experience”, Adva.Inter. Account. 16: 43-63. http://www.sciencedirect.com/science/article/pii/S0897366003160035

Angela MK (2010). Credit Risk Management and Profitability of Commercial Banks in Kenya.

Angklomkliew S, George J, Packer F (2009). “Issues and developments in loan loss provisioning: the case of Asia”, BIS Q. Rev. pp.69-83.

Basel (1999). Principles for the Management of Credit Risk. Basel Committee on Banking Supervision, Basel.

Boahene SH, Dasah J, Agyei SK (2012). “Credit risk and profitability of selected banks in Ghana” Research Journal of finance and accounting.

Büyükşalvarcı A, Abdioğlu H (2011). Determinants of capital adequacy ratio in Turkish Banks: A panel data analysis. Afr. J. Bus. Manage. 5(27):11199-11209.

Charles O, Kenneth UO (2013). Impact of Credit Risk Management and Capital Adequacy on the Financial Performance of Commercial banks in Nigeria. J. Emerging Issues Econ. Finance Bank. 2(3) http://www.globalbizresearch.com/.../22882_JEIEFB_OGBOI

Damena BH., 2011. Determinants of Commercial Banks Profitability: An Empirical Study on Ethiopian Commercial Banks.

Danson M, Adano SK (2012). The impact of credit risk management on the financial performance of Banks in Kenya for the period 2000 – 2006. Inter. J.Bus.Pub. Manage. 2 (2).

Ezike JE, Oke MO (2013). Capital adequacy standards, basle accord and bank performance: the nigerian experience (A case study of selected Banks in Nigeria). Asian Econ. Financ. Rev. 3(2):146-159.

Fofack H (2005). Non-Performing Loans in Sub-Saharan Africa: Causal Analysis and Macroeconomic Implications, World Bank Policy Research Working Paper No. WP 3769.

Hosna A, Manzura B, Juanjuan S (2009). “Credit risk management and profitability in commercial banks in Sweden” School of Business Economics and Law.

Kolapo T, Funso, Ayeni R, Kolade Oke MO (2012). Credit Risk and Commercial Banks’ Performance In Nigeria: A Panel Model Approach. Australian J. Bus. Manage. Res. 2 (2).

Muhammad F, Ammara S, Abrar HC, Fareeha K (2012). Economic Determinants of Non-Performing Loans: Perception of Pakistani Bankers. Euro. J. Bus. Manage. 4(19).

Mekasha G (2011) “Credit Risk Management and Its Impact on Performance on Ethiopian commercial Banks” unpublished thesis (Msc), Addis Abeba University.

Mekonen Y (2012). “Health check-up of commercial bank in Ethiopia by sing CAMEL frame work” unpublished), Thesis Submitted for partial Fulfillment of MSc Degree in Accounting and finance to Department of Accounting and Finance, College of Business and Economics, Jimma University, Ethiopia

Melkamu G (2012). Factors Contributing for Non-Performing Loans in Ethiopian Commercial Banks (unpublished), Thesis Submitted for partial Fulfillment of MSc Degree in Accounting and finance to Department of Accounting and Finance, College of Business and Economics, Jimma University, Ethiopia

Musyoki D, Kadubo AS (2011). The Impact of Credit Risk Management on the Financial Performance of Banks in Kenya for the Period 2000–2006. Int. J. Bus. Public Manage. 2(2):72-80.

Negussie H (2012). Determinants of Bank Profitability: An Empirical Study on Ethiopian Private Commercial Banks.

Onaolapo AR (2012) Nigeria Commercial Banking Sector, (2004-2009), Far East Journal of Marketing and Management, Vol. 2 No. 1 April 2012, available [online] at www.fareastjournals.com, last accessed on July,2013

Poudel RPS (2012). “The impact of credit risk management in financial performance of commercial banks in Nepal”. International Journal of arts and commerce.

Prakash P, Poudel S (2012). The impact of credit risk management on financial performance of commercial banks in Nepal. Int. J. Arts Commerce 1(5):9-15. http://www.ijac.org.uk/images/frontImages/gallery/Vol._1_No._5/2.pdf

Qin X, Dickson P (2012). Commercial Banks Profitability Position: The Case of Tanzania, Int. J. Bus. Manage. 7(13):136-144.

Samuel HB, Julius D, Samuel KA (2012). Credit Risk and Profitability of Selected Banks in Ghana. Res. J. Finance Account. 3(7).

Tefera T (2011), Credit risk management and profitability of commercial bank in Ethiopia. Unpublished thesis (Msc), Addis Abeba University.

Tony VG, Bart B (2009) Credit Risk Management Basic Concepts: financial risk components, rating analysis, models, economic and regulatory capital. Oxford: Oxford University press.

African Journal of
Business Management

Related Journals Published by Academic Journals

- Journal of Geography and Regional Planning
- Journal of Economics and International Finance
- Journal of Hospitality Management and Tourism
- International Journal of Sociology and Anthropology
- Journal of Public Administration and Policy Research
- African Journal of Marketing Management