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Welcome Address from President, Sripatum University

Welcome to the third volume of International Journal of Management, Business, and Economics (IJMBE). IJMBE is dedicated to increasing the depth of the subject across business disciplines with the ultimate aim of expanding knowledge of the subject. The IJMBE is a thrice peer-reviewed journal published by Graduate College of Management, Sripatum University; University of Greenwich; and Lincoln University.

In retrospect, Sripatum University, one of the oldest and most prestigious private universities in Thailand, was established in 1970 by Dr. Sook Pookayaporn by the name "Sripatum College." The name "Sripatum" meaning "Source of Knowledge Blooming like a Lotus" was conferred on the college by Her Royal Highness the Princess Mother. In 1987, the college was promoted to university status by the Ministry of University Affairs, and has since been known as Sripatum University. The university's main goal is to create well-rounded students who can develop themselves to their chosen fields of study and to instill the students with correct attitudes towards education so that they are enthusiastic in their pursuit of knowledge and self-development.

To strive to be among the best, this third volume of the IJMBE is therefore instrumental for the most important academic growths to extend a high quality tradition in the education field to the world. The journal welcomes the submission of manuscripts that meet the general criteria of significance and scientific excellence, and will publish original articles in basic and applied research, case studies, critical reviews, surveys, opinions, commentaries and essays. It is hoped that this inaugural issue will set a new benchmark in terms of academic publications. Through the support of our Editorial and Advisory Boards, I hope this journal could provide academic articles of the highest quality to all readers.



Dr. Rutchaneeporn Pookayaporn Phukkamarn
President, Sripatum University

Welcome Address from Dean, Sripatum University

It is appropriate to celebrate the continuity of an exciting and esteemed journal. The IJMBE will serve and provide a forum for exchange of ideas among business executives and academicians concerned with Management, Business, and Economics issues. With the rapid evolution of corporate business from international to global in recent years, general business has been one of the areas of greatest added complexity and concern for corporate managers. The IJMBE will be an academic journal combining academic inquiry and informed business practices. It will publish empirical, analytical, review, and survey articles, as well as case studies related to all areas of Management, Business, and Economics. A sentiment often expressed by practitioners is that academic research in general may not be addressing the most relevant questions in the real world.

It is fair to say that the IJMBE will publish high-quality applied-research papers. Nevertheless, studies that test important theoretical works and shed additional light on the issue with some business implications will also be solicited. Each submitted paper has been reviewed by several members of the IJMBE international editorial board and external referees. On the basis, we would like to thank all of them for their support with review process of submitted papers.

I cordially invite papers with theoretical research/conceptual work or applied research/applications on topics related to research, practice, and teaching in all subject areas of Management, Business, and Economics, or related subjects. I welcome paper submissions on the basis that the material has not been published elsewhere. The ultimate goal is to develop a journal that will appeal to both management and business practitioners. I expect the IJMBE to be an outstanding international forum for the exchange of ideas and results, and provide a baseline of further progress in the aforementioned areas.



Dr. Vichit U-on
Dean, Graduate College of Management,
Sripatum University

The Editors

Editor-In-Chief



Dr. Ungul Laptaned is an Assistant Professor in the Graduate College of Management, Sripatum University. He graduated with a Ph.D. in 2003 from the University of Nottingham, United Kingdom in the field of Manufacturing Engineering and Operations Management. Ungul has published over 60 proceedings and journal papers; for instances, Industrial Engineering Network, Asia Pacific Industrial Engineering and Management, International Association of Science and Technology for Development, Operations and Supply Chain Management, Intelligent Manufacturing System, Business and Information, etc. He served as a program chair and a steering committee for several domestic and international conferences. He was a journal editor of International Journal of Logistics and Transport, and Thai Researchers' Consortium of Value Chain Management and Logistics Journal, and has consulted for several public organizations and industrial firms on logistics and supply chain management such as Thailand Research Fund, Phitsanulok Province, Public Warehouse Organization, Amatanakorn Industrial Estate, Wyncoast Industrial Park, Iron and Steel Institute of Thailand, Chacheongsao Province, JWD Infologistics Co., Ltd., Kerry Distribution (Thailand) Co., Ltd., TKL Logistics and Supply Chain Co., Ltd., and Ministry of Transport (Thailand).

Associate Editor



Dr Ioannis Manikas holds a Bachelor in Agriculture and a Master of Science in the field of logistics from Cranfield University. He holds a PhD from the Department of Agricultural Economics in AUTH and his primary interest includes supply chain management, logistics and agribusiness management. Dr Manikas has conducted research for projects regarding supply chain modelling, development of IT solutions for agrifood supply chain management and traceability both in Greece and the UK. He has a wide experience in the elaboration of research proposals under FP6, FP7, and Eurostars-Eureka funding mechanisms; lifelong learning oriented programmes such as Leonardo; and Interregional development programmes such as Interreg III and Interreg IV. His work as a self employed project manager and consultant in the agrifood sector includes the design and development of regional operational programmes; analysis of regional needs and respective development policies focused on rural and food production; definition of funding areas and financing resources; definition of strategic goals for regional development and formulation of respective performance monitoring systems; and assessment (ex-ante, on-going, ex-post) of the implementation of EC and national funding mechanisms in national and regional levels.

Guest Editor



Dr. Gilbert Nartea is an Associate Professor in the Faculty of Commerce, Lincoln University, New Zealand. Dr. Nartea graduated a Master's Degree from New England and a Ph.D. from Illinois, USA. He is a senior lecturer in Finance. His teaching interests are in the area of investments, futures and options, and finance, futures and options. The area of research interests area asset pricing, investment management, decision-analysis and risk management, and microfinance and poverty alleviation. He has published several papers in such journals as of Property Investment and Finance, International Journal of Managerial Finance, Asian Journal of Business and Accounting, Australian Journal of Agricultural and Resource Economics, Pacific Rim Property Research Journal, Review of Applied Economics, Review of Development Cooperation, American Journal of Agricultural Economics, and Journal of the American Society of Farm Managers and Rural Appraisers.

Foreword

Welcome to the 3rd issue of the 3rd volume of International Journal of Management, Business, and Economics (IJMBE), the Editors received a number of papers from different countries such as Brazil, Iran, Morocco, Netherlands, Pakistan, Thailand, Turkey, and United Arab Emirates. The received papers encompassed many areas of marketing, banking, economics, insurance and risk management, industrial and operation management, strategic management, and international and global business management. After the review process, a total of ten manuscripts were selected for publication.

The first article is authored by *Amporn Soongswang*, and named as “*Are IPOs really underpriced?*”. This study analyzes Thai IPOs’ performances assessing initial returns of the 123 stocks first listing on the Market for Alternative Investment (MAI) between 2003 and 2015 (January-June). The IPO stocks were examined whether or not they significantly underprice using several metrics. These included the non-adjusted and market-adjusted initial returns models, three types of calculations and a significance statistic test.

The second paper is examined by *Anam Tasawar*. Their paper is entitled “*Corporate Monitoring Mechanism and Corporate Governance Influence on CEO Compensation Level in Case of Pakistan*” This paper empirically evaluate the impact of different corporate governance attributes such as institutional shareholders activism, independence of audit committee and board and block holding on level of compensation paid to CEO of Pakistani listed firms for a period of 2007-2013. The results found that independent audit committee and board of director along with dual CEO structure and greater family ownership are helpful in mitigating the higher level of CEO compensation with is in align with agency cost hypothesis.

The third article deals with Human Resources issues. This paper is authored by *Ayşe Esra Peker and Yeşim Kubar*, and is entitled “*The Effect of Human Capital on Economic Growth: Panel Data Analysis*”. The authors stated that the human capital is a production factor as important as physical capital and took its place in the economic literature, revealing the need for classic production factors as well as human capital. In this study, based on Internal Growth Theories, it is aimed to introduce the relationship of economic growth and human capital in the developed and developing countries.

In the fourth article, entitled “*The Structural Relationship Model of Talent Management Affecting on Organizational Performance*”, is written by *Chayaras Sapphayarat and Vichit U-on*. The authors identified talent management that is viewed as one of the most critical issue affecting on the strong and sustainable growth and success of business. The purposes of this study are to examine components of the factors of talent management, work engagement and organizational citizenship behavior impacting on organizational performance; examine the factors influencing on organizational performance; and create the new model of talent management effecting on organizational performance.

In the fifth article, entitled “*Democratic Governance and Think Tanks: The Six Pillars to Form a Strategic Thinking in the Arab Countries*” conducted by *Mohamed Harakat*. It was stated that the development of endogenous TT is hampered by the dominance of international organizations in developing public policies in developing countries. The authors aim to highlight the main aspects of democratic governance and the role of Think tanks in this process, including the leadership of public policies in the six areas where public administration will formulating programs and work on the basis of criteria’s and clear timeframe.

The sixth article is conducted by Hooi Lai Wan, and is entitled "Justice-Citizenship Bond: Is Leader-Member Exchange a Missing Link?". The study examines leader-member exchange (LMX) as a mediator in the relationship between organizational justice and organizational citizenship behavior. Using a sample of 267 employees in the manufacturing sector, results indicate that informational justice rather than distributive, interpersonal or procedural justice is a stronger predictor of LMX. Additionally, LMX has a significant relationship with altruism, civic virtue, and conscientiousness.

Article number seven is written by *Iana Araujo Rodrigues, Wilhelmus Ruijgh, Marcelo Vinaud Prado and Tito Livio Pereira Queiroz e Silva*, and is entitled "*The Development of the Multimodal Corridor Concept in Brazil*". The authors stated that to implement a multimodal corridor transport network, it appears as a good way to improve the transport system in Brazil. The objective is to learn the best practices to be adapted, during an implementation of a multimodal corridor pilot project in Brazil, with a well-defined governance model and coordination, that will allow logistics cost reduction and a more efficient and environmental friendly transport system.

The eight article is conducted by *Konrad Gunesch*, and is entitled "*Tourism for Peace and Development: Creating Global Tourism Company Value Through Local Sustainability, and Finding Inspiration in Slow Tourism*". This paper firstly evaluates the conceptual and operational advantages of the triple bottom line against criticism in one of worldwide tourism's core concerns and responsibilities in the new millennium. This paper presents, considers and assesses companies' triple bottom line dimensions, as well as economic, social and environmental performances and impacts via a range of key indicators. The paper secondly evaluates the concept, forms, and contributions of slow tourism to worldwide sustainability discussions, especially to forms of fast tourism.

Article number nine is entitled "*Slow Tourism's Sustainability Supported by Environmental and Social Considerations of Airline and Business Travel*", and is examined by *Konrad Gunesch*. The author mentioned that slow travel's key themes are environmentalism, sustainability, and low-to-no carbon emissions. Slowness has several practical and spiritual dimensions of meaning, central to which are environmental ones. As an opposite to slow tourism, airline travel has developed quickly in terms of airplanes, liberalization and technology, all related to the industry's efforts at more sustainability, but conflicting and seeking solutions within the airline and tourism industries, their customers and the global environment.

Last but not the least, the article entitled "*Nonlinear Relationship between Globalization and Control of Corruption along with Economic Growth*" is examined by *Reza Ezzati and Elnaz Entezar*. This study by using the data of KOF Economic Institute and the World Bank for 113 different countries during the period 2002-2012, by taking advantage of panel smooth transition regression, and by taking Gross domestic product as transmission variables discusses the nonlinear relationship between research variables. The Results have revealed that globalization in low regime (countries with low GDP) has negative impact whereas in high regime (countries with high GDP) has positive impact.

It is hoped that you will enjoy reading these articles and that they will generate responses and discussions that will help advance our knowledge of the field of Management, Business, and Economics. The Editors and the Editorial Board of the IJMBE would like to welcome your future submissions to make this journal your forum for sharing ideas and research work with all interested parties.

Ungul Laptaned
Editor-In-Chief

Ioannis Manikas
Associate Editor

Gilbert Nartea
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Are IPOs really underpriced?

by

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Abstract

This study analyzes Thai IPOs' performances assessing initial returns of the 123 stocks first listing on the Market for Alternative Investment (MAI) between 2003 and 2015 (January-June). The IPO stocks were examined whether or not they significantly underprice using several metrics. These included the non-adjusted and market-adjusted initial returns models, three types of calculations and a significance statistic test. The results suggest that the mean of the total IPO stocks' initial returns are significant and positive at 56.26%, compared to those of -0.12% and -0.14% of the market measured by the MAI index (method1) and the MAI index (method2) consecutively. The IPO stocks outperform the market on average 56.38%, as estimated using the MAI index (method1) and 56.40%, when evaluated applying the MAI index (method2). Finally, it is concluded that Thai IPOs realize significantly substantial initial returns.

Keywords: IPO, IPOs' performance, underpricing, going public, initial return, abnormal return, excess return, Thailand

1. Introduction

A well-known way for a firm to raise capital is by selling its shares in the public financial markets, which is called going public. In other words, going public means that the owner gives up private benefits of control for the benefit of being a publicly traded firm (Benninga, Helmantel & Sarig, 2005; Latham & Braun, 2010). It is also referred to as initial public offerings (hereinafter, IPOs), where shares are sold to public, often at a price below those prevailing on the first-day of trading, which the phenomenon is called underpricing (Logue, 1973; Ibbotson, 1975; Krishnamurti & Kumar, 2002; Hanley & Hoberg, 2012).

Several studies document that IPOs assure superior results in the short-run, which has led to declare that underpricing exists. For example, Logue (1973) and Ibbotson (1975) suggest that when companies go public, the shares they sell tend to be underpriced meaning that the share price jumps substantially on the first-day of trading. However, underpricing varies from one market to another market; see for example, 5.40% in Canada to 388% in China. Furthermore, underpricing has tended to fluctuate a great deal, averaging 21% in the 1960s, 12% in the 1970s, 16% in the 1980s, 21% in the 1990s and 40% in the four years since 2000 (Kenourgios, Papathanasiou & Melas, 2007). Similarly, Lowry, Officer, and Schwert (2010) report significant volatility in initial returns. Engelen and Essen (2010) analyze 2,920 initial public offers in 21 economies, and show a 10% variation in the level of underpricing.

Going public marks an important watershed in the life of a young company. This provides access to public equity capital and so may lower the cost of funding the company's operations and investments. This also provides a venue for trading the company's shares, enabling the existing shareholders to diversify their investments and to crystallize their capital gains from backing the company.

Nevertheless, there are disadvantages. Underpricing is costly to a firm's owners. Shares sold for personal account are sold at too low price while the value of shares retained after the IPOs is diluted. Also, the company acquires new obligations in the form of transparency and disclosure requirements and becomes accountable to a larger group of relatively anonymous shareholders, who will tend to vote with their feet by selling the shares rather than assist the company's decision makers in the way a venture capitalist might (Ljungqvist, 2004). However, most companies that go public do so via an initial public offering of shares to investors.

There are extensive theoretical arguments and ample of empirical studies explaining the existence of underpricing in equity markets in various economies. These are; see, for instance, studies on the U.S. market by Ritter (1991); studies on the U.K. market by Goergen, Khurshed, and Mudambi (2007); Germany by Ljungqvist (1997); France by Husson and Jacquillat (1989); Finland by Keloharju (1993); Hong Kong by Vong and Trigueiros (2010); Singapore by Saunders and Lim (1990); Korea by Kim, Krinsky, and Lee (1995); India by Ghosh (2005) and Malaysia by Ahmad-Zaluki, Campbell, and Goodacre (2011).

Conversely, a small number of studies on developed and developing markets show different views. For example, the study by Ghosh (2006) documents that not all IPOs performed well in 1999, the majority of the twenty-five IPOs that had the highest first-day gains over 200% in 1999 also had a poor performance record during 2001–2002. Moreover, it is suggested that 'irrational exuberance', as it was witnessed in the late 1990s, will be rare to see for the foreseeable future in the U.S. Jones and Ligon (2009) suggest that approximately 76% of total issues (6,427 public issues) result in positive initial return, which is 18.64%. A more current study by Sieradzki (2013) analyzes IPOs' underpricing on the Warsaw Stock Exchange between 2003 and 2011, and reports that although on average IPOs' investments are profitable, the number of IPOs with negative initial returns is quite high at 26.69% and that of IPOs with initial returns equal to 0% is 6.75%.

In summary, most studies find positive short-run returns for IPOs with various levels or magnitude while few studies show negative and/or neutral initial returns. The outcomes are inconclusive. Thus, it is interesting to reexamine the IPOs' performances on either develop or developing markets that have dissimilar regulatory aspects and market condition applying different samples and analytical methods to answer questions related to underpricing and its level.

Considerably, in both developed and developing countries, most studies on IPOs' underpricing have focused more on the main stock exchanges. Likewise, in Thailand, apart from a limited number of studies on IPOs' performances, these studies have principally concentrated on IPOs' investment returns on the Stock Exchange of Thailand (SET)¹ rather than the Market for Alternative Investment (MAI)².

¹ The national stock exchange of Thailand officially commenced operations on 30 April 1975.

² It officially commenced operations on 21 June 1999 purposely to create new fund-raising opportunities for innovative business with high potential growth as well as provide a greater range of investment alternatives.

Therefore, this study was carried out to evaluate IPOs' initial returns on the Thai stock market, specifically the MAI. The investigations predominantly emphasize on the underpricing and its magnitude using several different metrics to answer question whether there is IPOs' underpricing on the MAI.

Thailand is an emerging market reducing risk and increasing expected returns, which renders significant diversification advantages for globally-minded investors (Bekaert & Urias, 1996 and Khanthavit, 2001). The results presented by this study are interesting and can be guidelines for both local and foreign investors. This study also makes numerous contributions to the literature in the aspect of a variety of outcomes for IPOs' performances; and national and international comparison results, whether underpricing exists and it is in the same direction and similar magnitude, added to this area for developed markets as general and emerging markets as particular.

The remaining paper is structured as follows. Section 1 introduces IPOs. Section 2 reviews the literature of relevant studies from both developed and developing markets. Section 3 describes data and methodologies used for analyses in this study. Section 4 reports results and the last section summarizes conclusions.

2. Literature Review

IPOs were the most prevalent form of securities issued to raise capital by firms going public during 1990-2000 in the U.S.; however, they have been imperative in both developed and developing markets. Regarding the definition of underpricing, which is the equally weighted average first-day returns measured from the offer price to the first closing market price, the U.S. has historically been the world's largest IPOs market; meanwhile China has had the most extreme underpricing. The average first-day return in the U.S. during the period 1990-2010 is 18%; whereas it is 156% for China (Mok & Hui, 1998).

Several studies have been conducted to examine IPOs' short-run performances. For example, studies on developed markets by Rock, 1986; Tinic, 1988; Allen & Faulhaber, 1989; Benveniste & Spindt, 1989; Welch, 1992; Brennan & Franks, 1997; Tsangarakis, 2004; Alvarez & Gonzalez, 2005; Kenourgios et al., 2007; Goergen et al., 2007; and those on developing markets; see, for example, studies by Paudyal, Saadouni & Briston, 1998; Jelic, Saadouni & Briston, 2001; Li & Naughton, 2007; Peter, 2007 and Marisetty & Subrahmanyam, 2010.

Specifically, most IPOs' underpricing studies demonstrate positive short-run returns for investments. However, the short-run performance of IPOs significantly varies across markets. For instance, Rhee (2002) analyzes 803 IPOs on the U.S. stock market in 1999 and 2000, and finds that the average initial returns are 72% and 56% respectively. This is significantly higher than the average initial returns for those between 1990 and 2001, which are approximately 24%. Ecbo (2005) presents statistics on the average IPOs' returns during 1990-2003 for nine-teen European countries and for six-teen countries in Latin-America and Asia-Pacific region: in Europe, the highest average initial return is in Poland, which is over 60%, followed by Greece, Germany and Ireland, which is around 40%. Correspondingly, Sukacz (2005) studies 185 IPOs on the Warsaw Stock Exchange between 1991 and 2002, and reports that the average IPOs' underpricing equals 26%. Sieradzki (2013) finds that the average IPOs' return on the same market between 2003 and 2011 is positive at 14.20%. Also, it is suggested that the lowest average IPOs' return is in Luxembourg and Denmark, which is less than 10%. In other regions, the highest average IPOs' return is in Malaysia, which is about 90%, followed by Thailand and Singapore, which is around 30%. The lowest average IPOs'

return is in Latin-American countries including Chile, Uruguay, Mexico and Brazil, which is less than 5%.

This is in accordance with the study by Kirkulak (2008), who reports that Japanese IPOs generate a statistically significant return of 49.93%. Meanwhile, Al-Hassan, Delgado, and Omran (2007) analyze 47 IPOs on six markets in the Gulf region between 2001 and 2006, and show that the average initial IPOs' return equals 290%, which is consistent with that for IPOs on the Chinese market documented by Mok and Hui (1998).

It is noticed that even though the average IPOs' returns vary significantly across markets, they are positive. Kooli and Suvet (2001) argue that many studies have indicated that the IPOs have been often notably undervalued in the primary market, with some movement towards a security's intrinsic value observed in secondary trading. This short-run phenomenon has been experienced in every country with a stock market although the degree of underpricing varies from country to country. Nevertheless, the more recent studies by Jones and Ligon (2009) and Sieradzki (2013) assert that not all IPOs perform positively. Thus, the results are mixed.

In Thailand, before 1999, all IPO companies were firms to be listing on the SET; however later the MAI was approved. Since then, Thai IPO firms have had a choice for going public by listing with either the SET or the MAI. With help promoting the listing of IPO companies by easing the requirement on track record; such as market capitalization and net profit, several more small and medium-sized enterprises (SMEs) are in the pipeline for entering the MAI.

Given a very limited number of Thai IPOs studies focusing either short-term or long-term performances; or either IPOs' underpricing or abnormal returns, these studies have only examined the IPOs' returns on the SET. There has not been a great deal of attention paid to those on the MAI. Furthermore, the prior studies used a small sample size of the IPOs, restricted research methods and limited international comparison. This leads to limitations of Thai IPOs' performance results in terms of knowledge, understanding and guidelines for both domestic and international investors.

Therefore, it was justified to conduct a comprehensive study investigating Thai IPO companies' performances on the MAI to add to the prevailing knowledge on the overall performances of the SET. In this study, in addition to including more sample data by covering a longer period from year 2003 – 2015 (January-June), Thai IPOs' underpricing on the MAI was examined using a variety of metrics. For example, two models: the raw initial return and the market-adjusted initial return with three types of calculations, and a significance test were applied.

3. Data and methodology

3.1 Data

Reddy, Nangia, and Agrawal (2013c) suggest that there are critiques about using an earnings' management method to compute simple returns while assessing a share price around various financial announcements. This study thus uses stock price data rather than accounting data for the IPOs' underpricing measurements. The SET is used as a significant source of data for the study. These data include the list of total IPO companies to be listing on the MAI during 2003-2015 (January-June), the IPOs' subscription dates and prices, the IPOs' first trading dates and prices and the MAI index.

3.2 Research methodology

The IPO price, by definition, is the price which the new shareholders buy the shares at issue. It is jointly determined by the listing firm and its underwriter at the end of the IPO procedure according to financial analysts' valuations and the demand expressed for the shares. The definitive offer price is generally lower than the first equilibrium price, which is well-known under the term of IPO underpricing (Gajewski & Gresse, 2006).

As earlier discussion, most studies on developed and developing stock markets find the short-run IPO performances or positive initial returns, or underpricing after firms go public. These studies include Chen, Choi & Jiang, 2007; Zheng, 2007; Vithessonthi, 2008b; Yeh, Shu & Guo, 2008; Zouari, Boudriga & Taktak, 2009; Moshirian, Ng & Wu, 2010 and Vong & Trigueiros, 2010. This is confirmed by the study of Loughran, Ritter, and Rydqvist (1994), who state that the IPOs' underpricing phenomenon exists in twenty-five countries, with higher IPOs' underpricing on developing markets than on developed markets. Huang and Levich (1998) also find that initial returns for non-OECD countries average 65.90% versus 11.10% average initial returns in OECD countries. The extent of the IPOs' underpricing ranges from a few percent for thirty-eight U.S. investment-bank issues to astounding 149.30% on the developing Malaysian market (Muscarella & Vetsuypens, 1989 and Hanley & Ritter, 1992).

Underpricing is measured by the percentage difference between the first-day closing price in the secondary market and the offering price at which the IPO shares were sold in the primary market (Ritter, 1998; Shi-yu & Chang, 2008; Chan, 2010). It can be alternatively measured as the amount of "money left on the table", which is calculated by the difference between the first-day closing price and the offer price multiplied by the number of shares sold at the IPO. In other words, underpricing means the initial return of an IPO corresponds to the difference between the equilibrium price following the issue and the IPO price. Moreover, it is advised that the post-IPO equilibrium price can be the first trade price following the IPO, the first closing price, or a closing price observed a few days after the IPO date (Loughran & Ritter, 2002; Ritter 2011).

Gajewski and Gresse (2006) document that raw initial returns can be measured by the difference between the post-listing equilibrium price and the final offering price divided by the offering price; and then, the raw initial return can be used as a measure of underpricing assuming that the normal return under efficiency would be 0 and that the equity risk is equivalent to the market risk.

$$U = (EP - OP)/OP \dots\dots\dots(1)$$

where U is the raw initial returns, EP is the post-listing equilibrium price and OP is the final offering price.

Considerably, the measures of underpricing differ according to which price is taken as the post-IPO equilibrium price and which return is chosen as a benchmark. Specifically, a main problem is the choice of the equilibrium price, and it is suggested that when the market is sufficiently liquid, the equilibrium price generally corresponds to the first-day closing price. In other cases, the equilibrium price may be obtained a couple of days after the IPO. Perrier (1996) also considers that the market movements are too small to affect the initial returns significantly, and most studies measure IPOs' underpricing with raw returns and select the closing price at the end of the first day of quotation as the equilibrium price. This is consistent with Kenourgios et al. (2007), Peter (2007), Reddy, Nangia, and Agrawal (2013c), who assert that several studies measure initial performance of IPOs by using raw returns, but inconsistent with Bessler and Thies (2007), who argue that raw

returns are not considered as the best measure to determine the long-term performance of public offerings.

To measure the level of underpricing, most previous studies used the conventional method where the initial return available to the subscribers is given by (2), which is similar to (1), or it is known as the non-adjusted approach.

$$\text{Initial return}_i = (P_m - P_e) / P_e \quad \dots(2)$$

where i = Firm i ; P_m = First day price; P_e = Offer price

Nevertheless, Kooli and Suret (2001) suggest that the raw initial return measured by equation (2) would be valid in a market, where there is no time gap between the application closing date and the first day of trading and no rationing takes place. If during this period, a major change occurs in market conditions, we should adjust for market return in the raw initial return estimated by equation (2), which is known as the market-adjusted measure model (3). Accordingly, Perrier (1996) states that the adjusted returns are preferred when the delay between the IPO date and the determination of the first equilibrium price is too long. Thus,

$$\text{Initial return}_i = (P_m - P_e) / P_e - (M_1 - M_0) / M_0 \quad \dots(3)$$

where P_m = First day price; P_e = Offer price; M_1 = Market index on the first day of trading; M_0 = Market index on the application closing day. This measure supposes that the market beta of the stock is 1.

Also, the following approach is used to measure the underpricing's level, which is to adjust for the systematic risk of the firm. The initial return available to the subscribers is given by

$$\text{Initial return}_i = (P_m - P_e) / P_e - \beta_i (M_1 - M_0) / M_0 \quad \dots(4)$$

where i = Firm i ; P_m = First day price; P_e = Offer price; M_1 = Market index on the first day of trading; M_0 = Market index on the application closing day and β_i = Systematic risk of the firm i .

It is noted that regarding the difficulty of measuring the beta for IPOs may explain the unwillingness of using the equation (4) to assess the level of underpricing; meanwhile empirical results of various studies indicate that the market-adjusted measure (3) is the most used to calculate the underpricing's magnitude (see kooli & Suret, 2001). Furthermore, Gajewski and Gresse (2006) state that the most widely utilized adjusted measure is the initial return adjusted for a market index return. However, Affleck-Graves, Hedge, and Miller (1996) evaluate the degree of underpricing for the U.S. IPOs during 1975-1985 using the non-adjusted ((1) or (2)) and the market-adjusted measures (3), and find that there is no significant difference between the mean of the underpricing calculated by the two approaches. Meanwhile, Mok and Hui (1998) affirm that this is generally the case, when the time gap between the offering and the listing is short, and they suggest that one day increase in the time gap between offering and listing raises the level of underpricing by a factor of 0.69%.

Obviously, there have been studies concentrate on IPOs' performances but most of them have focused on the main stock markets rather than alternative markets, emphasized more on long-term performance; or even short-term performance analyses, they have preferably evaluated abnormal returns to initial returns or underpricing. Specifically, by comparison, with a very limitation number

of Thai studies investigating IPOs' short-term performances; nearly all of them have given the priority to the SET, used a small sample size and applied the limited ranges of research methods.

This study is principally based on a sample of Thai IPOs to be listing on the MAI. The analyses emphasize the existing of IPOs' underpricing and its level using stock price data rather than accounting data, and applying several metrics. Specifically, an interest of this research is examining the IPOs' initial returns or underpricing: whether or not there is underpricing on the MAI as well as comparison results. The main issues are size and signs. Therefore, in addition to using a larger sample covering all data since the MAI index first established, or during 2003-2015 (January-June), more research methodologies are employed. For example, the study applies both the non-adjusted and adjusted approaches, which are (1) or (2) and (3). This also enables comparison of the results with previous studies.

3.2.1 Measures of IPOs' underpricing

To examine whether the existing of IPOs' underpricing, the non-adjusted (2) and the market-adjusted measures (3) were selected and used to assess the IPOs' underpricing and its level in the study, which are similar to those used by international studies such as Affleck-Graves, Hedge & Miller, 1996; Paudyal, Saadouni & Briston, 1998; Jelic et al., 2001 and Ahmad-Zaluki & Kect, 2012, and Thai studies such as Chorrak & Worthington, 2009. This helps make national and internationally comparisons with previous studies.

$$\text{Initial return}_i = (P_m - P_e) / P_e \quad \dots\dots(2)$$

where i = Firm i ; P_m = First day price; P_e = Offer price

$$\text{Initial return}_i = (P_m - P_e) / P_e - (M_1 - M_0) / M_0 \quad \dots\dots(3)$$

where P_m = First day price; P_e = Offer price; M_1 = Market index on the first day of trading; M_0 = Market index on the application closing day (hereinafter, method1); M_0 = Market index on the day before the first day of trading (hereinafter, method2) . This measure supposes that the market beta of the stock is 1.

Thus, the initial returns were estimated using the three types of calculations along with (2) and (3).

3.2.2 Significance Test of Underpricing

To test the significance of underpricing, the t -test statistic was applied.

$$t = \frac{\bar{x} - \mu}{s / \sqrt{n}} \quad \dots\dots\dots(4)$$

where $\bar{x} - \mu$ = average returns; and s = standard deviations of initial returns for the sample of n firms.

4. Results

The following section presents and explains the results of the analyses of performances of IPOs, or IPO stocks first listing on the MAI between 2003 and 2015 (January-June) in terms of the average initial returns for investors. The main issues are the size and signs of these initial returns and whether or not they are significantly different from zero.

Table 1 Initial Returns of IPO Stocks First Listing on the MAI between 2003 and 2015

Year	No. of Listed Companies	IPO Stocks' Initial Returns
2003	6	55.8313
2004	14	17.1063
2005	14	3.0182
2006	6	2.6341
2007	6	33.0338
2008	3	25.2424
2009	11	16.2885
2010	7	50.6242
2011	7	91.3542
2012	10	92.6827
2013	15	90.3701
2014	20	113.6542
2015	4	71.3568
Average		51.0151

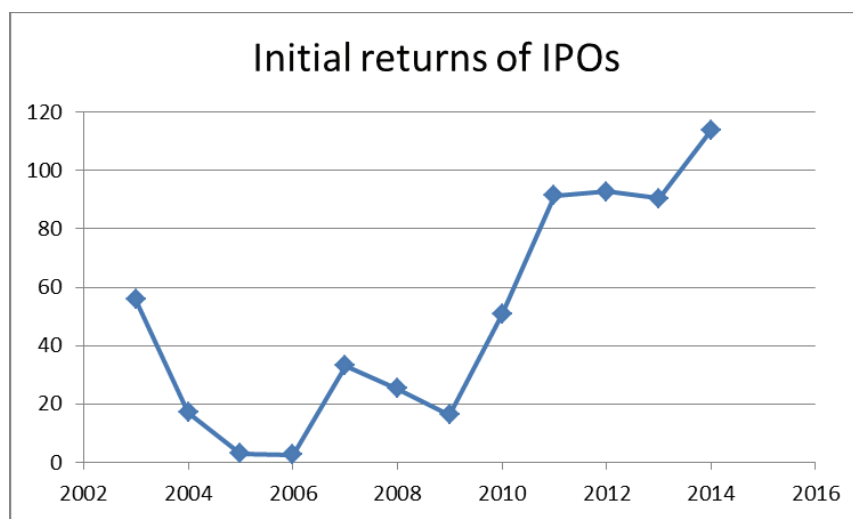


Table 2 Ranking of Initial Returns of IPO Stocks First Listing on the MAI between 2003 and 2015

Year	No. of Listed Companies	Ranking of IPO Stocks' Initial Returns
2014	20	113.6542
2012	10	92.6827
2011	7	91.3542
2013	15	90.3701
2015	4	71.3568
2003	6	55.8313
2010	7	50.6242
2007	6	33.0338
2008	3	25.2424
2004	14	17.1063
2009	11	16.2885
2005	14	3.0182
2006	6	2.6341
Average		51.0151

Table 1 presents that most of the IPOs were issued and to be listing in 2014, 2013, 2004, 2005, 2009 and 2012, which are the years for the IPO stocks of twenty, fifteen, fourteen, eleven and ten stocks respectively. The each year average initial returns of the IPO stocks between 2003 and 2015 are completely positive. Even though the returns change over time ranging from 2.63% up to 113.65%, more than half of the IPO stocks; seven out of thirteen or around 53.85% generate positive initial returns greater than 50%.

Meanwhile, table 2 shows that the highest each year average initial returns of the twenty IPO stocks first listing on the MAI in 2014 are approximately 113.65%; meanwhile the lowest average initial returns of the six IPO stocks first listing on the MAI in 2006 are about 2.63%. These lead to the positive average of each year initial returns of 51.02%.

As to the total 123 IPO stocks first listing on the MAI between 2003 and 2015, 100 out of 123 stocks or 81.30% have positive initial returns, twenty out of 123 stocks or 16.26% earn negative initial returns and the remainders' initial returns are neutral. As a result, the average of initial returns of the total IPO stocks is approximately 56.26%, which is close to those of 51.02% shown in Table 1.

Table 3 Changes in the MAI index (Method1) according to the IPO Stocks First Listing on the MAI between 2003 and 2015

Year	Changes in the MAI Index (Method1)
2003	1.1887
2004	-1.2612
2005	0.0199
2006	0.6482
2007	0.2793
2008	0.1546
2009	0.3844
2010	122.2738
2011	1.1528
2012	0.5742
2013	-0.3957
2014	-1.6154
2015	0.5004
Average	9.5311

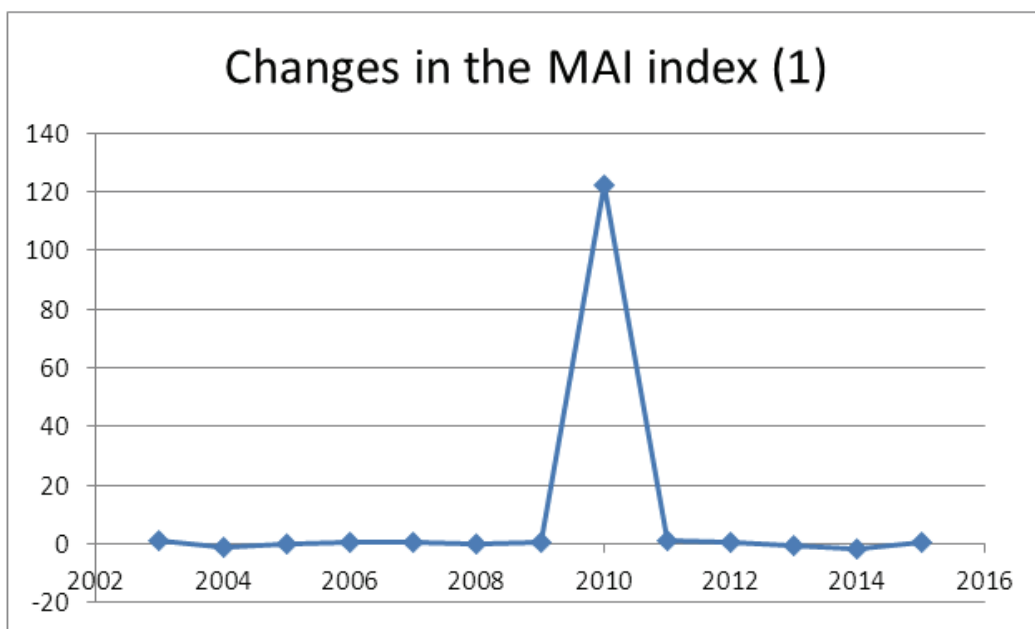


Table 4 Ranking of Changes in the MAI Index (Method1) according to the IPO Stocks First Listing on the MAI between 2003 and 2015

Year	Ranking of changes in the MAI Index (Method1)
2010	122.2738
2003	1.1887
2011	1.1528
2006	0.6482
2012	0.5742
2015	0.5004
2009	0.3844
2007	0.2793
2008	0.1546
2005	0.0199
2013	-0.3957
2004	-1.2612
2014	-1.6154
Average	9.5311

Table 3 presents that the each year changes in the MAI index (method1) according to the IPO stocks first listing on the MAI between 2003 and 2015 are positive and negative ranging from -1.62% up to 122.27%. By comparison, the market and the IPO stocks perform differently in terms of both magnitude and direction.

At the same time, table 4 demonstrates that the highest each year changes in the MAI index (method1); or in the other hand the increases of the MAI index are around 122.27% in 2010, which is similar to those of the initial returns of the IPO stocks of 113.65%. Meanwhile the lowest changes are about -1.62% in 2014. However, most of the changes or around 76.92% are positive resulting in 9.53% the average of each year increases in the MAI index (method1), as compared to 51.02% of the IPO stocks. Thus, on average, the IPO stocks outperform the market.

In line with the total 123 IPO stocks first listing on the MAI between 2003 and 2005, seventy-two out of 123 or 58.54% of the changes in the MAI index (method1) are positive, the remainders 41.46 % are negative. The changes in the MAI index (method1) on the day according to the first trading day of the IPO stock (AIE), which first listing on the MAI in 2004, are negative up to -52.70% compared to -25.47% of the initial returns of the IPO stock. This lastly is the explanation why the market exceptionally underperforms the IPO stocks. Finally, the average of all changes in the MAI index (method1) is negative at -0.12%, which is diverse from those of approximately 9.53% shown in Table 3.

Table 5 the changes in the MAI index (method2) according to the IPO stocks first listing on the MAI between 2003 and 2015

Year	Changes in the MAI index (method2)
2003	-0.1147
2004	-0.7917
2005	0.0472
2006	-0.0664
2007	-0.2382
2008	-1.2709
2009	0.2058
2010	0.3195
2011	0.3804
2012	-0.2195
2013	-0.1420
2014	-0.2104
2015	0.9869
Average	-0.0857

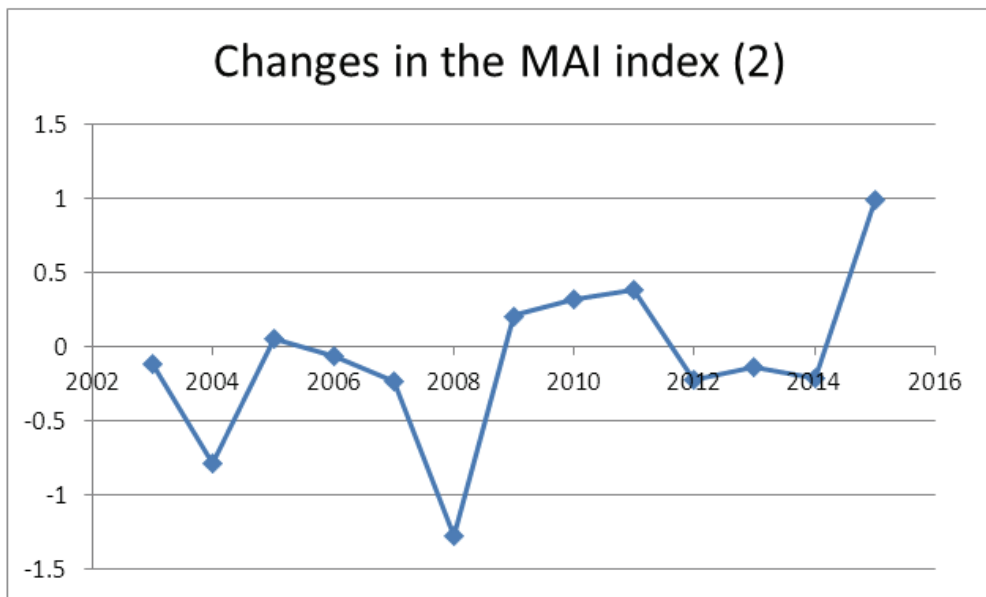


Table 6 Ranking of Changes in the MAI Index (Method2) according to the IPO Stocks First listing on the MAI between 2003 and 2015

Year	Ranking of changes in MAI index (method2)
2015	0.9869
2011	0.3804
2010	0.3195
2009	0.2058
2005	0.0472
2006	-0.0664
2003	-0.1147
2013	-0.1420
2014	-0.2104
2012	-0.2195
2007	-0.2382
2004	-0.7917
2008	-1.2709
Average	-0.0857

Table 5 describes that corresponding to the IPO stocks first listing on the MAI between 2003 and 2015, the changes in the MAI index (method2) also diverse from the IPO stocks' each year average initial returns in terms of both magnitude and direction. However, they are similar to those of the MAI index (method1) especially in the aspect of the direction, not magnitude. The changes are inconclusive.

Table 6 shows that the highest each year changes in the MAI index (method2) are around 0.38% in 2011 meanwhile the lowest ones are negative at -1.27% in 2008, which is accordance with those of the MAI index (method1). Nevertheless, the changes are much smaller, when compared to those of the IPO stocks and the MAI index (method1). The average of each year changes are negative -0.09%.

In relation to the total 123 IPO stocks first listing on the MAI between 2003 and 2005, sixty-three out of 123 stocks or 51.22% of the changes in the MAI index (method2) show positive performances; meanwhile sixty out of 123 or 48.78% of the performances respond negatively. The average of all changes is -0.14%, which is consistent with those of around -0.09% presented in Table 5.

Table 7 Comparison between the Initial Returns of the IPO Stocks and the Changes in the MAI Index (Method1) and (Method2) according to the IPO Stocks First Listing on the MAI between 2003 and 2015

Year	IPO stocks' initial returns	Changes in the MAI index (method1)	Changes in the MAI index (method2)	Outperformed IPO stocks (method1)	Outperformed IPO stocks (method2)
2003	55.8313	1.1887	-0.1147	54.6426	55.9460
2004	17.1063	-1.2612	-0.7917	18.3675	17.8980
2005	3.0182	0.0199	0.0472	2.9983	2.9709
2006	2.6341	0.6482	-0.0664	1.9859	2.7005
2007	33.0338	0.2793	-0.2382	32.7545	33.2720
2008	25.2424	0.1546	-1.2709	25.0878	26.5133
2009	16.2885	0.3844	0.2058	15.9041	16.0827
2010	50.6242	122.2738	0.3195	49.5223	50.3047
2011	91.3542	1.1528	0.3804	90.2014	90.9738
2012	92.6827	0.5742	-0.2195	92.1084	92.9021
2013	90.3701	-0.3957	-0.1420	90.7658	90.5121
2014	113.6542	-1.6154	-0.2104	115.2696	113.8645
2015	71.3568	0.5004	0.9869	70.8563	71.1100
Average	51.0151	9.5311	-0.0857	50.8050	51.1578

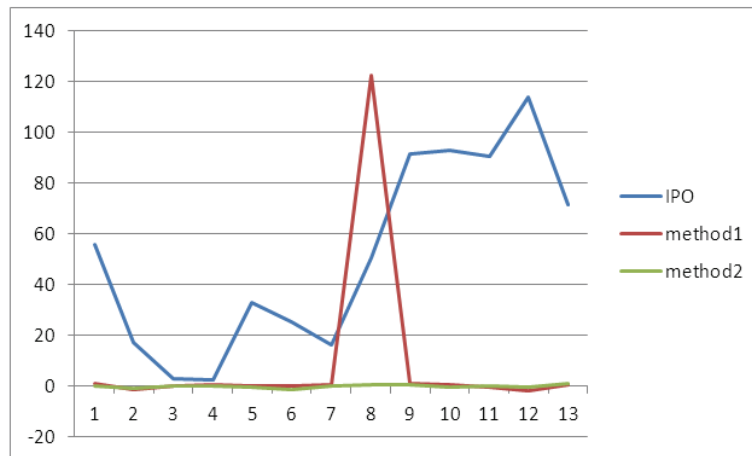


Table 7 presents that most of the IPOs were issued and listing on the MAI in 2014, 2013, 2004, 2005, 2009 and 2012, which are the years for the issues ranging from ten to twenty stocks. The average initial returns of the IPO stocks for each year between 2003 and 2015 are positive at between 2.63% and up to 113.65%; meanwhile those of the market analyzed by the MAI index (method1) and the MAI index (method2) are positive and negative ranging from -1.62% up to 122.27% and -1.27% to 0.98% respectively. They are far different. However, the market's performances measured by the MAI index (method1) and the MAI index (method2) are similar in terms of the direction, not the magnitude. The returns or the market's performances are mixed. Nevertheless, the returns estimated by the MAI index (method2) are much smaller, when compared to those of the IPO stocks and the

MAI index (method1). As a result, the average of each year initial returns of the IPO stocks are approximately 51.02% and those of the market are 9.53% and -0.09% consecutively.

Consequently, the IPO stocks outperform the market, when estimated using either the MAI index (method1) or the MAI index (method2). In other words, the IPO stocks behave greater than the market on average 50.81% and 51.16% respectively.

Table 8 Ranking of Comparison Results of the Initial Returns of the IPO Stocks and the Changes in the MAI Index (Method1) and (Method2) according to the IPO Stocks First Listing on the MAI between 2003 and 2015

Year	Ranking of IPO Stocks' Initial Returns		Ranking of Changes in the MAI Index (Method1)	Year	Ranking of Changes in the MAI Index (Method2)	Year	Ranking of Out-Performance of IPO Stocks (Method1)	Year	Ranking of Out-Performance of IPO Stocks (Method2)
2014	113.6542	2010	122.2738	2015	0.9869	2014	115.2696	2014	113.8645
2012	92.6827	2003	1.1887	2011	0.3804	2012	92.1084	2012	92.9021
2011	91.3542	2011	1.1528	2010	0.3195	2013	90.7658	2011	90.9738
2013	90.3701	2006	0.6482	2009	0.2058	2011	90.2014	2013	90.5121
2015	71.3568	2012	0.5742	2005	0.0472	2015	70.8563	2015	71.1100
2003	55.8313	2015	0.5004	2006	-0.0664	2003	54.6426	2003	55.9460
2010	50.6242	2009	0.3844	2003	-0.1147	2010	49.5223	2010	50.3047
2007	33.0338	2007	0.2793	2013	-0.1420	2007	32.7545	2007	33.2720
2008	25.2424	2008	0.1546	2014	-0.2104	2008	25.0878	2008	26.5133
2004	17.1063	2005	0.0199	2012	-0.2195	2004	18.3675	2004	17.8980
2009	16.2885	2013	-0.3957	2007	-0.2382	2009	15.9041	2009	16.0827
2005	3.0182	2004	-1.2612	2004	-0.7917	2005	2.9983	2005	2.9709
2006	2.6341	2014	-1.6154	2008	-1.2709	2006	1.9859	2006	2.7005
Average	51.0151		9.5311		-0.0857		50.8050		51.1578

Table 8 demonstrates that the highest each year average initial returns of the IPO stocks are 113.65%, which the responses from the ones are first listing on the MAI in 2014. The four followers are 92.68%, 91.35%, 90.37% and 71.35%, which are the performances of the IPO stocks first listing on the MAI in 2012, 2011, 2013 and 2015 respectively. By comparison, the highest average initial returns of the market estimated using the MAI index (method1) and the MAI index (method2) are up to 122.27% and only 0.99%, in relation to the IPO stocks first listing on the MAI in 2010 and 2015 respectively. The four followers show quite small magnitude: these are 1.18%, 1.15%, 0.65% and 0.57% according to the IPO stocks first listing on the MAI in 2003, 2011, 2006 and 2012; and 0.38%, 0.32%, 0.21% and 0.05% along with the IPO stocks first listing on the MAI in 2011, 2010, 2009 and 2005, consecutively. Accordingly, the best performers are the IPO stocks that outperform the market 115.27% and 113.86%, when evaluated using the MAI index (method1) and the MAI index (method2), in line with the IPO stocks first listing on the MAI in 2014, respectively. Meanwhile, the four followers are the IPO stocks outperforming the market ranging from 70.86% to 92.11% corresponding to the IPO stocks first listing on the MAI in 2015, 2011, 2013 and 2012; and ranging from 71.11% to 92.90% according to the IPO stocks first listing on the MAI in 2015, 2013, 2011 and 2012, consecutively.

Consideration of each of the total IPO stocks first listing on the MAI between 2003 and 2015, 100 out of 123 stocks or around 81.30% earn positive initial returns; meanwhile seventy-two out of 123 or about 58.54% of the performances of the MAI index (method1) and sixty-three out of 123 or approximately 51.22% of the changes in the MAI index (method2) are positive. At the same time, twenty out of 123 stocks or 16.26% suffer negative initial returns compared to fifty-one out of 123 or about 41.46 % of the changes in the MAI index (method1) and sixty out of 123 or 48.78% of the responses of the MAI index (method2) presenting negative returns. Finally, the average of initial returns of the total IPO stocks are positive approximately 56.26% compared to the negative returns at -0.12% and -0.14 % of the market measured by the MAI index (method1) and the MAI index (method2) consecutively.

Noticeably, the market's performances evaluated by the MAI index (method1) and the MAI index (method2) are closer than those of the IPO stocks and the MAI index (method1) or between the IPO stocks and the MAI index (method2).

For the analyses whether the IPO stocks outperform the market, in regard to each of the total 123 IPO stocks first listing on the MAI between 2003 and 2005, 101 out of 123 stocks or 82.11% outperform the market, as assessed by the MAI index (method1). Similarly, 103 out of 123 stocks or 83.74% outperform the market, when measured by the MAI index (method2). Meanwhile, the remaining twenty-two out of 123 stocks or 17.89% and twenty out of 123 stocks or 16.26% underperform the market, as evaluated by the MAI index (method1) and the MAI index (method2) respectively. In summary, on average, the IPO stocks perform better than the market up to 56.38 % and 56.40 % consecutively.

According to the ranking of the outperformed performances of the IPO stocks using the MAI index (method1), thirty out of 123 stocks or roughly 24.39% outperform the market up to more than 100%, which range from 101.02% to 208.08%. Approximately 19.51% perform better than the market ranging from 53.66% to 99.40; 23.58% behave greater than the market between 11.01% and 46.05% and around 14.63% earn positive abnormal returns lower than 10%, when compared to the market; meanwhile the remainders 17.89% underperform the market between -20.14% and -0.08%.

Correspondingly, when applying the MAI index (method2), thirty out of 123 stocks or 24.39% outperform the market more than 100% ranging from 100.03% up to 201.02%. Nearby 19.51% perform superior the market, which range from 50.17% to 99.40%; 21.95% behave greater than the market between 11.64% and 47.21% and roughly 17.89 % produce positive excess returns less than 10%, as compared to the market; meanwhile the remainders 16.26% underperform the market ranging from -26.06% to -0.65%.

As to whether or not the underpricing is significant, the results show that eighty-seven out of 123 or about 70.73% of the IPO stocks first listing on the MAI earn significant and positive or negative returns. Meanwhile, 90 and 100 out of 123 stocks, or approximately 73.17% and 81.30% of the MAI's returns are either significantly positive or negative, when measured applying the MAI index (method1) and the MAI index (method2) respectively. Thus, on average, the IPO stocks first listing on the MAI gain significantly and substantially positive initial returns. Lastly, it is concluded that there is significant IPOs' underpricing on the MAI. The results are consistent with most of the previous studies focusing both developed and developing markets.

5. Conclusion

This study examines the underpricing of Thai IPO stocks. The initial returns were used for the estimation of the IPOs' performances on the MAI whether or not they significantly underprice. The non-adjusted and market-adjusted initial returns methods for the return measurements, three types of calculations and a significance statistic test were applied.

The results suggest that the each year average initial returns of the IPO stocks are positive ranging from 2.63% up to 113.65%; meanwhile those of the market analyzed by the MAI index (method1) and the MAI index (method2) are positive and negative between -1.62% and 122.27%, and -1.27% and 0.98% respectively. The market's performances are similar specifically in terms of the direction.

For further analyses, as to the total 123 IPO stocks first listing on the MAI between 2003 and 2015, approximately 81.30% earn positive initial returns compared to those of 58.54% and 51.22% of the MAI (method1) and the MAI (method2) respectively. Meanwhile, 16.26% of the IPO stocks suffer negative initial returns compared to the returns of 41.46% and 48.78% of the MAI (method1 and 2) consecutively. The results are consistent with each other especially in the aspect of the positive and negative returns proportion. As a result, due to the different magnitude, the average initial returns of the total IPO stocks are approximately 56.26% compared to those of -0.12% and -0.14% of the MAI (method1) and the MAI (method2) respectively.

By comparison, the IPO stocks outperform the market on average 50.81% and 51.16%; and 56.38% and 56.40% for method 1 and 2 respectively, when estimated from averaging each year performance and each of the total IPO stocks consecutively.

As to whether or not the underpricing is significant, the results show that eighty-seven out of 123 or about 70.73% of the IPO stocks first listing on the MAI earn significant and positive or negative returns. Meanwhile, approximately 73.17% and 81.30% of the MAI's returns are either significantly positive or negative, when measured applying the MAI index (method1) and the MAI index (method2) respectively. Thus, on average, the IPO stocks first listing on the MAI gain significantly and substantially positive initial returns. Lastly, it is concluded that there is significant IPOs' underpricing on the MAI.

The results are completely consistent with most past studies especially in terms of the direction even using different data and methodologies, finding that IPOs generate superior positive returns. For the underpricing degree, the outcomes are entirely consistent with studies focusing on developing markets. These studies include Bessler & Thies, 2007; Ritter, 1991 and Sahi & Lee, 2011, and Thai studies such as Chorruk & Worthington, 2009. In addition, Kim, Krinsky, and Lee (1995) state that investors who purchase IPOs at the offer price earn abnormal returns in the early aftermarket period. Likewise, Tsangarakis (2004) suggest that investors who buy newly listed shares on the first trading day realize positive average returns for periods up to a year. Ahmad-Zaluki and Kect (2012) assert that investors who purchase IPO shares on the MESDAQ Market gain high positive returns.

Overall, the results presented by this study suggest that investors who purchase IPO shares gain high positive returns on the first listing on the MAI. Finally, it is concluded that Thai IPO companies are significantly underpriced on the MAI.

The study gives light to many results which are robust with respect to the different samples, methods, and time periods of the investigations. Explicitly, the findings are consistent with each other, particularly in terms of the return direction at least, when comparisons are made between the non-adjusted and market-adjusted models and comparisons across these two models and the three types of different calculations and between the each year average returns and the average of returns of the total IPO stocks. The results are mostly internally consistent, when compared within this study itself and also with most of the findings of previous studies of the developed stock markets and the limited existing studies of the Thai stock market.

Obviously, this study contributes to the understanding of the IPOs' performance on the MAI and can be guidelines for both local and foreign investors. Also, it enriches the Thai financial literature in terms of greatly enhancing the existing literature given the limited number of prior studies involved and the variety of their results.

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Corporate Monitoring Mechanism and Corporate Governance Influence on CEO Compensation Level in Case of Pakistan

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Abstract

Managerial compensation to top executives has remained a topic of continuing interest in corporate finance literature. Corporations are required to pay a handsome amount to appeal and motivate qualified people to get their jobs done in a befitting manner for the organization. Accordingly, executives try to grab higher level of compensation for themselves which might be at the cost of affecting firms' value and interests of principles. In this context, various monitoring tools have been used in order to better monitor this opportunistic behavior. Therefore, this paper empirically evaluates the impact of different corporate governance attributes such as institutional shareholders activism, independence of audit committee and board and block holding on level of compensation paid to CEO of Pakistani listed firms for a period of 2007-2013. The results found that independent audit committee and board of director along with dual CEO structure and greater family ownership are helpful in mitigating the higher level of CEO compensation which is in align with agency cost hypothesis. Moreover, higher financial institutional ownership found positively related to CEO compensation which is in accordance with strategic alliance hypothesis.

Keywords: CEO Compensation, Family Ownership, Firm Performance, Board Independence, Institutional Ownership, Audit Committee Independence

1. Introduction

Managerial compensation is considered as an important topic in the mainstream of corporate finance. Corporations are required to pay a handsome amount to appeal and motivate qualified people to get their jobs done in a befitting manner for the organization (Abed et al., 2014). There are two leading issues related to deal with managerial compensation; one is related to magnitude of amount paid while other is how this compensation should be paid (Jensen & Murphy, 1990) as different ingredients/elements of compensation motivate the manager to do work in best interest of shareholders. For example, implementation of innovation strategy is possible through incentive that pursue the innovation in high technology industry (Yanadori & Marler, 2006) so many studies are presented which highlighted the role of cash as well as stock compensation paid to CEO and top executives in enhancing the firm performance (Chalmers et al., 2006).

Consequently, the more and more demand for high compensation fueled many spectacular cases in which managers misleading financial figures to which pay elements is attached. These cases attached with executive compensation that patronage executive involvement in frauds because they get high incentives through this epic act. The study of Johnson et al., (2005) found that during period of frauds, the executive was mostly exercises the large number of vested options and receive high

compensation. So, the likelihood of committing the frauds is high if the compensation is attached with equity based firm performance. Erickson et al. (2003) also support this result by finding out position association between the chances of committing frauds and percentage of equity-based compensation in the preceding year. This is interesting dynamic to review financial fraud in framework of executive compensation. Even though compensation is always study in content of reducing agency problems that heighten due to interest conflict between managers and owners. This positive influence of compensation is only get by legitimate and moral means. But these compensation contracts is also have negative side that highlighted when growing number of cases related to misrepresentation and fraudulent financial data. This wrong picture of firms misleads analysts about evaluation of firms (Johnson et al., 2005, Chesney & Gibson-Asner, 2004). The arising question is based on executive either commit fraud just misinterpretation the stock price or through this means increase their payoffs under stock performance related compensation contract (Johnson et al., 2005).

Compensation system is an important topic in the previously conducted empirical studies because it motivated the personnel of the organizations which at the end increase the productivity of firms. A number of studies found on compensation structure which showed that chief executives receive high incentives, ultimately a big cost born by shareholders. Therefore, it is necessary to introduce a system that has effective control on CEO compensation. This study also help to trace out the way and reason of misrepresentation of firm earnings to which elements of compensation is attached.

All misrepresentation and bad earning management is just controlled through implementation of corporate governance. On this situation, monitoring mechanism of governance is required to reduce the flaws of corporate systems. Some internal mechanism is proportion of independent directors (Jensen, 1986), board monitoring (He et al., 2009) composition of monitoring committees (Cotter & Silvester, 2003), audit fee, audit committee independence (Vafeas & Waagelein, 2007), and external monitoring mechanism based on shareholder activism through institutional investor, larger shareholder ownerships and family ownership. As existing empirical research show that corporate governance implemented through appropriate mechanism is helpful in better monitoring and control the opportunistic behavior of managers. Hence the present research paper also considers the impact of different monitoring mechanism of corporate governance in order to control the level of compensation paid to CEO in Pakistani firms.

2. Theoretical Background

In existing research, various measurement are used to evaluate the monitoring effect of corporate governance mechanisms on the firm such as financial intuitional ownership, board structure, and audit committee independence etc. The evolving topic during the last 15 years in financial markets is shareholder's activism that is also known as relationship investing. The primary objective of shareholder activist is to increase effectiveness of the firms performing poor through tough and proper monitoring. The most important distinction is gained by institutional investor in content of shareholder activism (Gillan & Starks, 2000). The empirical work focused on this issue is limited and the concentration of studies on this topic is covered through different endeavors of institutional investors like california public employees retirement system Huson (1997), Nesbitt (1994); on specific proposal (poison pills) (Bizjak and Marquette, 1998) and effect on executive compensation (Johnson & Shackell, 1997).

The empirical studies shepherded effect of institutions activism on firm performance showed mixed results. Those studies piloted under large sample of pension funds that were more active, disclose firm successfully met performance target (Smith, 1996). Moreover, the announcement belongs to shareholder activism are shake firm performance for short period of time, no long term effect is observed (Wahal, 1996), Del Guercio & Hawkins (1999), and Gillan & Starks (2000). In another strand of the studies like Cornett, Marcus, Saunders, and Tehranian (2004) highlight the issue of institutional activism with the social bonding and findings support the institutional investor that have terms with firm management bear cost in form of bad operating performance. Contrarily, McConnell & Servaes (1990) verdicts support strong relationship of Tobin's q with institutional shareholder ownership specifically with private pension funds Woidtke (2002).

The institutional investor does not only mitigate the agency issue relevant to managers and shareholder but also have effect on compensation through monitoring role. The involvement of institutional in decision making through managerial opportunism is noticeable in prior literature (Smith, 1996; Useem, 1996). Chowdhury & Wang (2009) examined the monitoring role of different type of institutional activism and three apparatus of boards on CEO contingent incentives in Canada. The finding show that independence board, instructional activism increase the compensation level. Oppositely, Hartzell & Starks (2003) reveal influence of investor that is measured through the ownership concentration of institutional investors has negative impact on compensation level. The institutional investors have effect on the executive compensation whereas Executives' compensation has no reverse effect on institutional investors. Another interpretation of these findings may be based on simultaneous effects of institutional investors, monitoring and compensation level. This correlation exists where monitoring is done through stock market (Holmstrom & Tirole, 1993), outside equity holders (Burkart et. al 1997) and institutional investors (Chidambaran & John, 1999). The relationship between monitoring and incentive pay should base on cost and benefit analysis because monitoring through institutional investors has some benefits (Shleifer & Vishny, 1986; Huddart, 1993) as well as some cost effects. The monitoring cost ascends when investors require additional resources for taking managerial actions (Noe, 2002). Likewise, incentive compensation puts burden on shareholders and reduces the agency cost (Hartzell & Starks, 2003)

The relationship of audit committee effectiveness and executive compensation is discussed in literature in content of audit cost. If audit committee plays an effective role, it reduces the need of external auditing and strengthens the internal control. Similarly if compensation incentives reduce the conflicts and deter the managers to provide bad earning, it can reduce the external auditing need (Vafeas & Waagelein, 2007). This is reflection of a well-managed organization. On other side, in feudal organization, the compensation is a reason of earning manipulation which increases the external cost of auditing (Bedard & Johnstone, 2004) and requires more audit efforts (Gordon, 2002). Therefore, this argument shows positive link between compensation and audit efforts.

Another monitoring mechanism which is discussed in the content of independent board has effects on CEO compensation (Hermalin & Weisbach 1998; Almazan & Suarez 2003; Hermalin 2005). Another study also highlights the role of board in which monitoring is a key focus (Adams & Ferreira, 2007). But involvement of CEO in board selection distracts roles that board performed because mostly directors who got selected have the social relationships with the firm. In this way just requirement of independent board is fulfilled but not in actual sense (Klein 1998; Shivdasani & Yermack 1999). Ultimately, such grey directors focus on personal benefits, not on monitoring perceive (Westphal & Zajac, 1995). So the independent board is required for better monitoring of managers and control over the CEO compensation (Laux & Lsux, 2009).

The board independence increases the effectiveness of board but when board is increased in its size, it becomes less capable to take effective decisions and shows low effectiveness (Lipton and Lorsch (1992) and Jensen (1993). These arguments support high power that CEOs gain due to ineffective board. On this premise, Yermack (1996) found negative link between firm performance and board size.

The extant financial literature has typically examined compensation decisions from the perspective of a board of directors who seek to produce an optimal contract to mitigate agency conflicts. Recent researchers, however, suggest that the process of determining compensation is better described as a negotiation between the board and the CEO. For instance, Hermalin & Weisbach (1998) model a bargaining game in which the selection of directors and the CEO's compensation are negotiated between the two parties. Similarly, Bebchuk et al (2002) argue that the CEO's managerial power over the board of directors distorts optimal compensation contracts. Moreover, they suggest that the existing empirical evidence better supports the bargaining model than an optimal contracting paradigm. In light of these arguments the independent boards increase the effectiveness of board, performance in a better way and monitoring role in making decisions of executive compensation.

2. Research Methodology

All 557 companies that are listed on 31st December 2014 at Karachi Stock Exchange are the target population for the present study. Among these, randomly 150 companies were selected for proposed sample based upon the complete data availability for study of 2007-2013. During the initial screening of data for outliers, 18 more companies were dropped due to outliers for ownership and financial variables. The present study focused on 2007 to 2013 which leads to a final year end observations of 924 for a cross section of 132 firms. The data on study variables is obtained from annual reports of sample companies. In order to examine the impact of monitoring mechanism on CEO compensation, following regression models have been estimated:

$$COMP_{it} = \alpha + \beta_1 INST-OS_{it} + \beta_2 AUDIT-IND_{it} + \beta_3 EX-AUDIT_{it} + \beta_4 B-IND_{it} + \beta_5 B-ACT_{it} + \beta_6 B-PART_{it} + \beta_7 CEOD_{it} + \beta_8 FAM-OS_{it} + \beta_9 BLOCK_{it} + \beta_{11} ROA_{it} + \beta_{12} TQ_{it} + \beta_{13} SIZE_{it} + \varepsilon_{it}$$

$$COMP_{it} = \alpha + \beta_1 INST-ACT_{it} + \beta_2 AUDIT-IND_{it} + \beta_3 EX-AUDIT_{it} + \beta_4 B-IND_{it} + \beta_5 B-ACT_{it} + \beta_6 B-PART_{it} + \beta_7 CEOD_{it} + \beta_8 FAM-OS_{it} + \beta_{10} BLOCK_{it} + \beta_{11} ROA_{it} + \beta_{12} TQ_{it} + \beta_{13} SIZE_{it} + \varepsilon_{it}$$

Where:

$COMP_{it}$ = CEO compensation measure of log of compensation for firm i at time t

$INST-OS_{it}$ = institutional ownership for firm i at time t .

$INST-ACT_{it}$ = institutional activism for firm i at time t .

$AUDIT-IND_{it}$ = audit committee independence for firm i at time t

$EX-AUDIT_{it}$ = external audit quality for firm i at time t

$B-IND_{it}$ = board independence for firm i at time t .

$B-ACT_{it}$ = board activity measure as board meeting for firm i at time t

$B-PART_{it}$ = board participation for firm i at time t .

$CEOD_{it}$	= CEO duality for firm i at time t .
$FAM-OS_{it}$	= family ownership measure as proportion of family shareholding for firm i at time t
$BLOCK_{it}$	= block holder for firm I at time t .
ROA_{it}	= firm performance measure as return on assets for firm i at time t
TQ_{it}	= firm performance measure as Tobin's Q for firm i at time t .
$SIZE_{it}$	= firm size measure as log of total assets for firm i at time t .
ϵ_{it}	= error term

Variable Description

The executives' remuneration is considered as a significant fact which helps to enlarging motivation level of top management that ultimately influences firm's profitability. The compensation is adhere different elements like salary, bonus, stock option, pension and different allowances. In present study the total CEO compensation is taken by gauging elements of the salary, bonus and all non-financial benefits (Nourayi and Mintz, 2008) then taking log of them.

The independent variable is taken institutional investors as monitoring party that have power to motivate and monitor CEO compensation (Lee & Chen, 2011). Due to better governance of institutional investors became reason of negative relationship with level of compensation (Chen and Firth, 2005). The percentage of shares that are taken by institution invertors is consider as institutional ownership in current study as used by Croci et al. (2012). In second model, analyze the effect of institutional activism on the compensation level. Another variable for corporate monitoring is used as audit committee independence and role of external auditing. Audit committee effectiveness has strong relationship with internal control mechanism of the business (Abbott et al., 2010).

The different control marks of board of director are used like board independence, board participation and board activity. The independent executive directors have monitoring right that left negative effect on the pay packages of CEOs (Chhaochharia and Grin-stein, 2009) as well as positive impact on pay as reported by Fernandes et al. (2012). The family owiership also change the level of compensation especially in those countries where legal corruption is high (La Porta et al., 2000)

The firm performance is independent variable that used measurement of ROA, Tobin's q . In which, ROA is accounting based measurements of firm performance that obtained through dividing the net income of firm by firm assets also used by Wu (2013) The Tobin's q is also taken as market based accounting measurement. It is better way to measure the market valuation of the firms that is based on the use of assets and growth opportunity of firms (Bharadwal et. al, 1999). It also highlights the investors' expectation about the future events of firms, which including the assessment of business strategies impact on business (Demsetz and Villalonga 2001). It is measured by adding the market capitalization and book value of total liabilities divided by total assets. the variable measurement used in current study is provided in appendixA

According to stewardship theory the firm performance increase through CEO duality (Nishat , 2004).

RESULTS AND DISCUSSION

Table 1 below reports the results of some descriptive statistics about the sample data. It is evident from the figures reported in table that the average level of CEO compensation during the study period for sample firms is 11,585.071 million PKR along with standard deviation of 7.277 million. The level of family ownership in sample firms ranges from zero to 93% of total shares with an average of around 19.11%. There are 12.94% shares held by financial institutions in sample companies which include banks, insurance companies, mutual funds and other institutional investors on average. This could be called as a quite a good percentage held by institutional monitors. On average, the foreign investors hold the firm share at 6% in our sample. This amount is much low then other ownership level. The level of board independence is 37.88% for selected companies where almost one-third board members are non-executive directors and not working in the organization on any managerial posts. The maximum number of board meeting is conducted is 35 and on average, sampled firms show just 5 meeting are directed. In these meeting the director participation is 79% on average. This result shows those directors are interested to attending firms meetings also increase board monitoring efficiency. In terms of performance, the sample companies have 5.45 % of returns on total asset during the sample period which might be considered at an appropriate level as indicated by many other earlier studies in their sample. Q was taken as a measure of market performance of firms measured as a ratio of market value of firm to the book value of firm. It is clear from the descriptive statistics that study sample firms have a q ratio of 2.028 which is greater than the benchmark level of 1. So, the sample firms are quite profitable firms.

TABLE 1
DESCRIPTIVE STATISTICS

Variables	Minimum	Maximum	Mean	Std. Deviation
ROA	-3.3261	0.7836	0.0545	0.1552
Q	0.4224	7.2679	2.02819	2.1984
Size (in Million PKR)	8.561	26,2673.406	11,585.071	26418.519
AC_IND	0	1	0.8002	0.1854
B-IND	0.0166	0.9333	0.3788	0.3003
B_ACT	2	35	5.53	2.965
B_PART	0.2121	1	0.7978	0.12647
CEO Comp	0	13.2816	7.2779	3.0628
FAM_OS	0	0.9328	0.1958	0.2399
INST_OS	0	0.8855	0.12943	0.12139
Valid N (924)				

Before going for empirical testing of our regression models, it is necessary to validate the issue of multicollinearity between the independent variables of the study. For this purpose, the Pearson correlations between the study variables are obtained using SPSS and reported in Table 2. the return on assets have no association with audit committee but ROA have positive and significant association with external auditing activities with value of 0.186. The family ownership and CEO duality have negative relationship with firm performance. the value of coefficient of correlation ($r = 0.113$) showed that there exists a weak positive relationship between firm size and ROA that is significant but when firm performance is measure as Tobin's q , firm size not show significant relation. The firm size has statistically significant relationship with all variables except foreign ownership.

The audit committee independence has positive and strong association with board independence with coefficient value of 0.54 with 1% significant level. This value represent as highest amount of correlation comparatively in all other values in correlation table. This result is due to high number of independent director in corporate board show reflection in his related committee. The audit committee have negative association with some other variable such as board meeting ($r=-0.14$), board participation ($r=-0.011$), CEO duality ($r=-0.155$), family ownership ($r=-0.322$). The external auditing relationship has negative association with CEO duality with coefficient of -0.29 and with family ownership. The most of values show association with other independent variables at level of 1%.

TABLE 2
CORRELATION ANALYSIS

Variables	ROA	Q	Size	AC_I ND	Ext_AD UI	B- IND	CEOD	B_AC T	B_PAR T	COM P	Fam_O S	Inst_OS
ROA	1											
Q	.010	1										
Size	.113* *	-.027	1									
AC_IND	.036	.055 *	.144* *	1								
EXT- ADUIT	.186* *	-.002	.356* *	.236**	1							
Bod-IND	.018	-.026	.239* *	.543**	.264**	1						
CEOD	- .155* *	.031	- .150* *	- .155**	-.295**	.227* *	1					
B-ACT	-.018	.008	.180* *	- .148**	.000	-.002	-.015	1				
B_PART	.060* *	.037	- .056* *	-.011	.007	-.048	-.018	- .172**	1			
Comp_CEO	.153* *	.009	.359* *	.090**	.385**	.136* *	- .181* *	.002	-.005	1		
Fam_OS	- .095* *	-.027	- .232* *	- .322**	-.334**	-.345* *	.225* *	-.045	.090**	.238* *	1	
Inst_OS	.007	.014	.068* *	.111**	.122**	.135* *	- .105* *	- .111**	-.100**	.130* *	-.189**	1
Block	.109* *	.020	.173* *	.172**	.195**	.194* *	- .163* *	-.007	-.051*	.186* *	-.576**	.12**

**Correlation is significant at the 0.01 level

*Correlation is significant at the 0.05 level

In model 1 of table 3 shows the impact of monitoring mechanism on compensation contract but in this model use the institutional ownership that differ from model 2 of table 3. The accounting based performance has positive impact on CEO compensation. The one point change in return on assets is upturn the compensation with 1.199 point that is statistical significant. The market based measurement of firm performance is also increase level of executive incentives but this result is not significant. The firm size also has positive impact on firm performance. The large organizations are rewarded more to their manager comparatively small organization because executive put extra effect to manage large organization. The 1% changes in firm size increase the compensation 46%. The presence of independent director in audit committee has negative influence on compensation contract. Its means that internal audit system play monitoring role in effective way to restrain the excess increase of compensation. Along that the external committee have opposite impact. The overall picture shows that the internal controlling management is complement of the external auditing. This finding is supported by (Vafeas & Waagelein, 2007) in which effectiveness of audit committee is analysis through audit fee. This study show that if audit fee is increase the pay level decreased. Along that board independence is also having opposite liaison with firm performance. The 1 % change in reduce the 12% portion of compensation but that value is not significant. The corporate board shows its effectiveness through arranging more board meeting in which focusing on management issue and management activities. so the firm internal controlling and monitoring mechanism is effective and in working condition.

With concentration on the external monitoring mechanism like institutional ownership, the findings reveal the opposite functioning behavior then internal mechanism. The concentration ownership of institutional shareholder increases the level of CEO compensation. The findings of Fernandes et al. (2012) support our results. This positive effect may be because of less circumspect monitoring of investors on level of compensation. This positive impact of institutional investor is partially counterbalance effect of family firm on compensation (Crocì et al., 2012). The findings endorse strategic alliance hypothesis that stimulate the ineffective role of institutional investors, might be due to social interaction with managers or due to have some personal interest (Afza and Nazir, 2015).

In the model 2 of table 3, the result is based on effect of institutional investor's activism on the level of compensation. The finding shows that 1% boosting level of activism increase the proportion of compensation with 58%. The study of Chowdhury and Wang 2009 support this result. The other variables show same influence that have in model 1.

TABLE 3
EFFECT OF CORPORATE MONITORING MECHANISM ON CEO COMPENSATION

Variables	Model 1			Model 2		
	b	t-value	Sig.	b	t-value	Sig.
(Constant)	.091	.100	.920	-.081	-.090	.928
INST-OS	1.583	2.720	.007			
INST-ACT				.582	3.942	.000
ROA	1.199	2.650	.008	1.150	2.551	.011
TQ	.002	.712	.477	.002	.675	.500
SIZE	.462	10.041	.000	.469	10.223	.000
AUDIT-IND	-.846	-1.862	.063	-.793	-1.750	.080
EX-AUDIT	1.535	9.607	.000	1.481	9.239	.000
B-IND	-.121	-.426	.670	-.137	-.483	.629
CEOD	-.289	-1.842	.066	-.329	-2.107	.035
B-ACT	-.046	-1.884	.060	-.044	-1.811	.070
B-PART	.195	.351	.725	.324	.585	.559
FAM_OS	-.853	-2.241	.025	-.909	-2.405	.016
Block	.305	1.669	.095	.273	1.496	.135
F value	38.536*			39.411*		
R Square	0.228			0.232		
Durbin Watson	1.464			1.467		

* denotes the level of significance at 1%

CONCLUSION

This paper tried to build indirect link between monitoring mechanism of corporate governance and CEO Compensation. The executive compensation is middle way through which the executive extract extra benefit for the firm and inappropriately use the income of others. Even corporate executive misrepresent the financial statement to which their equity base compensation is attached. But all these problems are solved, if tough monitoring mechanism is introduced in firm through different ways. Thereby, these strong governance mechanisms help to improve the firm performance. The present model highlight the tracks through which the CEO extract the money. For example, one possibility is that equity based compensation element motive manager to manipulate earning of firms. But if firms increase the audit efforts then effectively detect the earning manipulation (Gordon, 2002). The present study shows that the institutional investor in Pakistan do not perform effective role for controlling the faulting activities. The reason behind may be their social relationship with the managers that restrict them to performing their monitoring duties. In case of Pakistan, the independence of board and board member meeting and their participation in board play effective role to controlling the compensation contract. Moreover, audit committee of Pakistani firms also help to save the interest of shareholders. in future, the different elements of compensation is taken for clear impact of auditing efforts on different variables of equity based compensation.

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APPENDIX A

Independent Variables	Measurement
Board Size	Number of directors on the board
Board independence	Ratio of non-executive directors to the board size
CEO duality	CEO dummy, value of 1, if the CEO also served as board chairman and 0 otherwise
Board activity	Number of meetings held by the board of directors annually
Board Participation rate	Sum of meetings attended by total directors divided by Sum of meetings required to attend by total directors
ROA	Ratio of net profits to total assets of firms
Tobin's q	Market value of firm / book value of firm
Family ownership	The proportions of family shareholding
Institutional ownership	The proportion of institutional shareholding
Institutional Shareholders' activism	Dummy variable and takes the value of 1 if there is nominee director of financial institutions on the board of the underlying company and zero otherwise
Audit committee independence	The proportion of independent director in audit committee of firm.

The Effect of Human Capital on Economic Growth: Panel Data Analysis

by

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Abstract

The emergence of the concept human capital and its beginning to use it date to the period after the 2nd World War. Neo-Classic Economic Theories that are current before the 2nd World War put forward that the resource of economic growth is only physical capital i.e. quantitative resource and, keeping human knowledge, skills, experiences out of the concept capital, these theories defined it in the narrow scope. Internal Growth Theories enlarging the concept capital, eliminating this deficiency of Neo-Classic Theory, argued that human capital is a production factor as important as physical capital and took its place in the economic literature, revealing the need for classic production factors as well as human capital. Together with internal growth theories, the relationship between human capital and economic growth turned into a popular subject, theoretically discussed and empirically tested. In this study, based on Internal Growth Theories, it is aimed to introduce the relationship of economic growth and human capital in the developed and developing countries.

Keywords: Endogenous Growth Theory, Human Capital, Economic Growth, Panel Data Analysis

1. Introduction

After 2nd World War, for Europe, attempted to be transformed into more stable region, concrete steps were taken and, in order to realize this aim, European Society of Coal and Steel Community (ESCSC) Treaty was signed in 1951. In integration process formed by ESCSC, the treaty was revised by generalizing the advantages provided, in order to accelerate structuring of Europe. After 1957, this treaty left its place European Economic Community (EEC) Treaty. Developing countries closely following economic and political developments, not remaining insensitive to this integration process, have evaluated multidirectional integration process, experienced in the Continent Europe, as an opportunity in the framework of providing westernization and modernization and, for providing high tempo growth trend, accepted to include in the group as a requirement. One of the countries evaluating this process is also Turkey.

Turkey, since its foundation, has closely followed international developments in the way of reaching the level of contemporary civilizations and taken place in important international formations such as OECD, European Council, and NATO. In this direction, Turkey, not also remaining uninterested to European integration movement, qualified as the largest peace project in history, in 1959, applied to EEC, European Union with its today's name, which is the most important organization of this movement. Upon application of Turkey, on account of the fact that developmental level do not enable Turkey to fulfill the requirements of full membership, [imposed] by Community Council, for establishing a partnership

relationship that will be valid until the conditions of full membership will become fact, Ankara Agreement was signed on the date of September 12, 1963 between Turkey and Community. Thus, Turkey has been the second country establishing a partnership with the society, following Greece. Customs Union Agreement that is the last period of Ankara Agreement, consisted of three periods, has started in respect with the date of January 1, 1996. Together with the process of Customs Union, integration process has gained an acceleration and, in accordance with the decisions made in 1999 Helsinki Summit, positive developments were experienced, and full membership negotiations have been begun with the respect of October 3, 2005 ((Karluk, 2015:215).

Human capital, defined as sum of the information and skill qualities country economies have, is today accepted as a main driving force of economic growth. One of the most fundamental features of information society, defined upper stage of economic growth, is to have a qualified population that can use and produce information.

The century we live in is called as information age by many researchers and academics accepting information and qualified labor force as the resource of competitive advantage. In this century, in which information is accepted as a main production factor, for economies to be able to grow and develop, experiencing technological developments is accepted as one of indispensable conditions. In other words, the essence of actualizing economic development and growth consists of science, technology, and increasing R&D activities. One of the main conditions of successfully carrying out this process is also to raise qualified labor force i.e. human capital, which can use this technology and adapt to the new technology, because however high technology a country has, if there is no labor force to be able to use this technology, technology possessed does not express any meaning.

The importance of the relationship between economic growth and human capital has been more clearly emphasized for the last 20 years. The element of human capital, accepted as the reflection of the knowledge, skill, and experience to the production and ignored especially in developed countries, has become intensively a current issue in the last years and has been the most important element of long term development programs. In this framework, when the studies carried out are regarded to, in developing or developed countries, we see that many studies dealing with the relationship of accumulation of human capital and economic growth take place in the literature. In this study, it is aimed to compare human capital structure of Turkey, which has attempted to access to EU for 50 years, and EU by means of panel data analysis. There are two important reasons for this. The first of these is to relatively reveal the situation of human capital, which has importance in terms of closing the developed gap, while another reason is to evaluate the thoughts, voiced by academics in Turkey, in the direction of that the demographic structure of Turkey is not an opportunity for EU membership, not threat. In this framework, as the components of human capital, considering the variables of education, health, and R&D, it is aimed to make a comparison. In the light of empirical findings, obtained at the end of the study, in the section of Conclusion, policy suggestions are tried to be presented.

2.The Concept of Human Capital

In that human capital gains an important place in the literature of economics, the contribution of Neo-classic economics based human capital studies, carried out in the period of 1960-1990, has become relatively more (Bal, 2014:2). Today's concept of human capital was developed by Denison (1962), Schultz (1968), and Becker (1964)(Eser and Gökmen, 2009).

The concept of human capital was first used by Theodore W. Schultz (1961) and Gary S. Becker (1964) in the second half of 20th century. According to Schultz, since human capital is the resource of future income, it is a specific form of a capital and the dimension of income is shaped according to the level of knowledge and skill of individual. In addition, according to Schultz, human capital has feature of accumulation (Schultz, 1961:7). Extension of the concept of human capital was realized by Becker (1964). Becker formulated human behaviors with an economic approach and, in contrast to physical and financial capital, also in human capital, argued that individual himself/herself had his/her own investment and that each individual will receive far better the return of investment he/she makes (Becker, 1975:16). The scientists dealing with the studies of human capital from different aspects in their own studies also made different definitions from each other. According to the definition of OECD, human capital includes all qualities individual can present productively by means of knowledge, skill, and the other features to be able to exist in an individual related to economic activities (Eser and Gökmen, 2009:3).Setting out from this definition and taking into considerations today's conditions, if we define human capital, for human to increase labor productivity and obtain income, it is a specific sort of capital covering health, knowledge, motivation, initiative, general culture, some of which is inherently existing and some of which is acquired in time, and ability to correctly use all of these in the correct time and place (Zhumabekova and Bilen, 2016:2).

Qualified labor force, which is the most important wealth of a country, is a determinant factor, in utilizing the resources of country in the most productive way and providing economic development. Also, that population is young and dynamic provides important advantages from economies and increases the efficiency of human capital. Hence, in selection of education and health policies to be applied toward increasing the quality of population, it is necessary to consider the level and potential of human capital of country (Güran).

For being able to study the effect of the level of human capital countries have on economic growth, it is necessary for human capital to be expressed measurably (Dura, Atik and Türker, 2004: 14). In this context, the indicators of human capital can be classified in three groups. These are: (Öz et al,2010: 9-11);

1. Criteria determining educational level.
2. Criteria health level
3. Indicators regarding labor force market

In these indicators of human capital stated, education has a specific importance. The main reason for this is difficulty in measuring the other components of human capital. In addition, labor force forming by means of investments and expenditures made on education is one of the leading realist indicators to be used for the measurement of human capital of a country (Gökçen, 2007:7). Among educational criteria showing the level of human capital, educational records, educational time, share of public expenditures transferred to education in national income, physical numbers of the teachers and students in the

country and literacy rate of country, and schooling rate take place among important indicators in terms of identification of human capital. Among the most important indicators regulating health level, infant and child mortality, average life time, sort of diseases, average lifetime, and health expenditures take place (Taban, 2007: 35). That educational and health structure of a country is strong makes an effect increasing the effectiveness and productivity of country. Indicators regarding labor force, total population, population increase rate, the participation rate of women to labor force, and statistics of educational status of labor force play a determinative role in terms of human capital.

3. View to Human Capital in Growth Theories

The past of the concept of human capital dates to 1776 classic economics emerged. In other words, with contribution of classic economics, human capital has become a scientific concept (Fitzsimons, 1999, Akt; Dae-Bong, 2009). While Adam Smith, the founder of classic economics, defined the concept of human capital, he went to the distinction of qualified and unqualified labor. According to Smith, qualified labor force, besides obtaining incomes, also make a contribution to society. He, defining unqualified labor force as labor force devoid of education and experience, put forward that this labor force should be assigned in the jobs requiring physical power. In addition, Smith emphasized that qualified and unqualified labor force should not be equally treated (Awan, 2012).

In classical age, in dealing with human element as capital, Smith, who made the first important contribution, and emphasized that productivity increase emerging as result of division of labor, in fact, arose from mental labor, unfortunately, going beyond this, could not produce a growth theory established on the relationship of mental labor and growth; however, he made important contributions in the period he was in. Another one of economists making important contribution to growth theory among classic economists is Ricardo. In the time of Ricardo, in England, industrial production and employment were rapidly increasing thanks to investments. Technological innovations were creating new continuous opportunities of profit. However, Ricardo could not also achieve the level to make a relationship between growth and new technologies.

When we regard to pre-Schumpeter period, among the leading economists, we see Marx as someone giving importance to technological change. The issue concerning Marx more is the conditions creating surplus value, not the effect of technological change on growth (Marx, 1986, pp.165-524) As a result, we can say: although classical economists such as Smith, Ricardo, and Marx know that “internal” technological renewals and qualified labor are very closely related to growth process, since they concentrate on the different subjects, they generally ignored these subjects in their analyses.

The access of the concepts such as human capital, social capital, and technology to the literature of economics has been later compared to some concepts such as labor and capital. Neoclassic economic theories put forward that the resource of economic growth was only physical capital i.e. quantitative resources. Internal growth theories, which eliminate this deficiency of neoclassic economic and introduce the importance of human capital, argued that human capital was as an important production factor as physical capital and, thus, the foundation of human capital in the literature of economics was laid. In other words, internal growth theories, expressed as new growth theories, have attempted to

account for growth, utilizing the factors such as human capital, technological development, and research and development (Eser and Gökmen, 2009:42-43).

Neoclassic growth model emphasizes the importance of physical capital accumulation and labor force and suggests the single resource of total factor productivity as external technological development. That neoclassic model remains dependent on the view of Alfred Marshall, among the most important representatives of the model, that “labor will not be subject for an exchange like the other factors” until 1950s has hindered the development of the concept of human capital for long time. When reached 1950s, together with the studies of Solow, this thought began to change. According to the analyses carried out by means of Cobb-Douglas production function, developed by Solow the rate of population increase and technological development are “external” variables determining economic growth. However, neoclassic model dealt with the results of technological developments rather than their reasons and technological renewals could not pass beyond being an external factor and, in the model of Solow, therefore, the technological changes that are not certain from where they come remained out of system. In neoclassic economics, it is accepted that human capital is as important production factor as physical capital. However, that human capital is viewed as only production factor and that it is not included in the explanations stands out as an important deficiency. It is considered that internal growth model begun to be developed, beginning from 1980s, eliminate this deficiency. In internal growth models, important cause underlying that economic growth depends on technology and advancement detected in information is that human capital is included in the information and abilities (Yaylalı and Lebe, 2011).

However, in 1960s, some economists (Arrow, 1962; Kaldor and Mirrlees, 1962; Uzawa, 1965) introduced the opposite thesis that Solow growth model can be explained in internal form, based on simplicity in external technology assumption, while technological development, on economic factors. When Romer (1986), who carried this thought until today, supports internal technology thesis with increasing return, new internal growth models emerged, which rapidly proliferated after mid-1980s. The studies after this baseline data are collected in four principal areas, which they view as the origin resource of growth: In the first group, there are that R&D sector in profit search produces information (Romer, 1990; Grossman and Helpman, 1991; Aghion ve Howitt, 1992); in the second group, physical capital investments and “learning by doing” models (Romer, 1986; Rebelo, 1991; d’Autume and Michel, 1993); in the third group, “human capital accumulation” (Lucas, 1988; Jones, 1996); and in the fourth group, public investments (Barro, 1990). The common parts in these models can be indicated as reinterpreting the definition of capital in broad meaning, increasing return, and fixed return (Ateş, 1998:3).

4. Dataset and Method

4.1. Dataset

Panel data analysis conducted in the study includes 26 European countries, including Turkey. In the selection of country, since priority is given to the countries, whose data can be reached, in the period of 1995-2014, Luxemburg and Greece were excluded from the analysis. The dataset of the study was compiled from dataset of World Bank (World Development Indicators WDI). For being made the dataset suitable to analysis, logarithms of variables have been taken. In this study, analyses were conducted by

using the programs of Views 7.1, Gauss 10.0 and Win-RATS pro 7.0 and codes developed for these programs. The variables used in the analyses and their abbreviations are presented in Table 1.

Table 1 Variables used in Analyses

Variables	Explanation	Resource
Lgdp	Economic Growth (%)	WDI
Lheal	Health Expenditures in GDP (%)	WDI
ledu	Educational Expenditures in GDP (%)	WDI
large	R&D Expenditures in GDP (%)	WDI

In the study, panel data model, established toward determining long term relationship between human capital and economic growth, is shown in the following equation:

$$lgdp = \alpha_0 + \alpha_1lheal + \alpha_2ledu + \alpha_3large + \varepsilon_{it} \quad (1)$$

4.2. Econometric Method

The main aim of statistical studies carried out in many sciences is to reveal the relationship between variables and determine that variation occurring in variation will cause which amount of variation and in which direction. In the recent years, it is observed that panel data analyses are frequently used, which is a method, in which in accounting for the behaviors of micro and macroeconomic units, the same units of horizontal section (N) are discussed in a certain slice of time (T), and both differentiations between units and in time are simultaneously examined. In frequently using panel data analysis, development of computer medium and package programs have made an important effect (Baltagi, 2001:5-7).

Methods of panel data analysis is a method, which was begun to be developed in 1960s, and which is also still in developmental process today. Panel data models are generally examined under two main titles as static and dynamic. While static models are not taken dynamic structure between variables into consideration dynamic panel data models take into consideration the dynamic structure between dependent and independent variables. In panel data analysis, which consist of both horizontal section and time series, in general, the structure of horizontal section is gained weight and panel datasets, in which the number of horizontal section unit is considerably more compared to the time, are worked with. Data structures, in which time is more compared to the number of horizontal section unit is called horizontal section unit time series (Kubar, 2015:155).

In beginning to be commonly used panel data analysis by the researchers, besides the effect of development of data collecting and analysis methods, the fact that method has many advantages compared to the existing horizontal section or time series analyses has been effective. It is possible to put the advantages of panel data analysis in order as follows:

- With panel data analysis, compared to horizontal section or time series analyses, conducted alone, more effective parametric predictions are obtained.
- The quality of the results, obtained by panel data analysis, is too high to be able to obtain by the methods of horizontal section or time series in alone (Hsiao, 2003: 3),
- Freedom degree grows, depending on increase of the number of observation.

- With time series analysis, while interferences belonging to the units examined can be made, since more than one units are examined with panel data analysis, more detailed information can be obtained.
- Increase in the number of data provided by together analysis of both time and horizontal section units gains highly importance in terms of reducing multiple linear connection beside increasing freedom degree and thanks to the differences between units
- With dynamic panel data models, in horizontal- section data, the variations occurring in time can emerge (Wooldridge, 2002:169).

Prediction with panel data analysis: This enables to deal with unit variability, increase efficiency by using diversified productivity, make low multiple connection, and predict more complex models (Kennedy, 1998: 231). Classical analyses of production functions divide economies to degrees and remain inadequate in expressing technological changes. Using panel data, the degree of multiple connection between the independent variables can be reduced or completely destructed (Hsiao, 1986: 3).

5. Results of Analysis

5.1. Results of Panel Unit Root Test

In this direction, the results of unit root test takes place, which is one of the assumptions of panel cointegration test, and introduces the condition that the variables must be stationary at the level of I(1). For determining the unit root tests to be used in the study, first of all horizontal section dependency, CD_{LM} was tested. Whether or not horizontal section dependency is considered significantly affects the results to be obtained. Therefore, it is necessary to test the presence of horizontal section dependency in series and co- integration equation (Kubar, 2015).

Test of horizontal section dependency suggests whether or not the variables are affected in the same degree from a shock coming to series (Göçer et al., 2012: 454). In panel datasets, the tests used for the horizontal section dependency are Pesaran (2004) CD_{LM} test, Breusch-Pagan (1980) CD_{LM1} test and Pesaran (2004) CD_{LM2} tests. CD_{LM1} and CD_{LM2} tests, in case of $T > N$, are the predictors testing whether or not there is horizontal CD_{LM} is a predictor and whether or not there is horizontal section independency in case of $N > T$ (Çınar, 2010: 594).

In the study, Since “N”s is bigger than “T”s ($T > N$), the predictor CD_{LM} was used. For the cases, in which N and T are bigger, CD_{LM} test statistics and hypothesis are as follows. (Güloğlu and İvrendi, 2008; 384): In the form of

$$CD_{LM} = \sqrt{\frac{1}{N(N-1)} \sum_{i=j}^{N-1} \sum_{j=i+1}^N (T\hat{p}_{ij}^2 - 1)} \sim N(0,1)$$

$$H_0 : p_{ij} = p_{ji} = \text{cor}(u_{it}, u_{jt}) = 0 \quad i \neq j \text{ (there is no dependency)}$$

$$H_1 : p_{ij} = p_{ji} \neq 0 \quad i \neq j \text{ (there is dependency between horizontal sections)}$$

H_0 and H_1 hypotheses were formed. H_0 hypothesis is rejected or accepted according to the probability values of the data used in the study, considering the values of significance level of 1%, 5%, and 10%. The results of predictor CD_{LM} belonging to the variables is given in the table

Table 2 The results of horizontal section analysis belonging to the variables and model

Test of horizontal section dependency test for variables		
Variable	CD TEST	
	t-statistics	Probability
lgdp	2.518***	0.006
ledu	3.563***	0.000
large	-2.098***	0.018
lhel	-2.382***	0.009
Test of horizontal section dependency test for		
CD_{LM} (Pesaran 2004 CD)		
	17.275***	0.000

For $*CD_{LM}$ test results, package program Gauss 10 package program was used.

When the results of horizontal section dependency belonging to the variables taking place in Table 1, it was identified that there was a horizontal section dependency in all of variables taking place in the series, rejecting null hypothesis, H_1 hypothesis, alternative hypothesis, was accepted. In other words, it was identified that in all models, there was horizontal section dependency.. In the same way, test CD_{LM} prediction results belonging to the models taking place in Table 1 are examined, in low income countries, null hypothesis H_0 , which rejects horizontal section dependency in all models, is statistically rejected, hypothesis H_1 , alternative hypothesis, is accepted. In other words, for both variables and models, it was accepted that there was horizontal section dependency.

Unit root tests are divided into two as first generation and second generation First generation tests are divided into two according to whether the data forming panel are homogenous or heterogeneous. While . Levin, Lin and Chu (LLC) (2002), Breitung (2005) and Hadri (2000) are based on the homogeneity assumption, Im., Pesaran and Shin (IPS) (2003), Maddala and Wu (1999), Choi (2001) tests heterogeneity assumption. First generation tests are based on the assumption that horizontal section units are independent and that from shock coming to one of panel section units, all horizontal section units are affected at the same level (Nazlıoğlu, 2010; 4). However, that shock coming to one of panel section units affects the other units at the different level is a more realistic approach. Therefore, second generation unit root tests were developed. Among the major second generation unit root test, the tests of MADF (Multivariate Augmented Dickey Fuller), developed by Taylor and Sarno (1998), SURADF (Seemingly Unrelated Regression Augmented Dickey Fuller), developed by Breuer et. (2002), and CADF (Cross-sectional Augmented Dickey Fuller), developed by Pesaran (2006) take place. In this study, among first generation unit root analyses, LLC and IPS tests, quite frequently used, were utilized. Among second generation unit root tests, CADF test, applicable in the cases of both $T > N$ and $N > T$ were used. For CADF test, the results of CIPS unit root test including group averages of countries were interpreted.

The results of first generation unit root test is given in Table 3.

Table 3 The results of first generation unit root test

Variable	Unit Root Tests	Economic indicators		Variable	Unit Root Tests	Economic indicators	
		Level				First difference	
		t- statistics	P-value			t- statistics	P-value
lgdp	LLC	-1.42541	0.0770	Δlgdp	LLC	-12.7462***	0.0000
	IPS	4.13870	1.0000		IPS	-8.78660***	0.0000
	ADF	16.0137	1.0000		ADF	-176.864***	0.0000
	PP	14.2340	1.0000		PP	-168.574***	0.0000
ledu	LLC	-0.91571	0.1799	Δledu	LLC	-12.5619***	0.0000
	IPS	4.18853	1.0000		IPS	-10.0319***	0.0000
	ADF	15.3641	1.0000		ADF	-203.013***	0.0000
	PP	14.0980	1.0000		PP	-201.537***	0.0000
large	LLC	-1.59411	0.0555	Δlarge	LLC	-16.4009***	0.0000
	IPS	2.71399	0.9967		IPS	-15.3267***	0.0000
	ADF	39.7859	0.9676		ADF	-310.150***	0.0000
	PP	25.5388	0.9999		PP	-415.467***	0.0002
lhel	LLC	-3.82250***	0.0001	Δlhel	LLC	-3.30285***	0.0005
	IPS	0.26266	0.6036		IPS	-2.37736***	0.0087
	ADF	52.2575	0.6877		ADF	-83.2759**	0.0165
	PP	57.0661	0.5100		PP	-87.6352**	0.0212

*(Δ) is first degree different processor.. (l) expresses that logarithms of variables are taken. For unit root tests, Eviews 7 Package program was used.

According to the results of unit root test analysis taking place in Table 3, in the first difference of variables, it was identified that I(1) was stationary and it was concluded that the necessary conditions were provided for conducting cointegration analysis.

In order to obtain the reliable and consistent results, it is also necessary to use second generation unit root tests. In the application, Im, who made predictions about the stationaries of panel countries from second generation unit root tests, taking the averages of CADF unit root test by Pesaran (2007), used CIPS (Cross-sectionally Augmented Version of IPS) predictor, depended on Pesaran and Shin (2003) test. As a result application of CIPS predictor, comparing the values of test statistics reached with critical table values in Pesaran (2007), whether or not panel data are stationary as a whole should be tested. If critical table values is bigger than the values of CIPS test statistics, null hypothesis is rejected and it is accepted that panel series is stationary as a whole.

The results of unit root test accepting that there is horizontal section dependency are given in Table 4.

Table 4 CIPS Results of Unit Root Test

Variable	CIPS		Pesaran CADF(2007)		
	Level	first difference	1%	5%	10%
lgdp	-1.661	-2.387*	-3.51	-2.69	-2.30
ledu	-2.159	-3.138**	-3.51	-2.69	-2.30
large	-1.793	-2.784**	-3.51	-2.69	-2.30
lheal	-1.667	-2.448*	-3.51	-2.69	-2.30

*Critical table values: For N=26 T=20, critical table values of Pesaran (2007)

In table, according to CIPS results, when the value of t-statistics belonging to the variables are compared to the critical table values of Pesaran (2007), it is seen that they are significant at the different significance levels and the variables become stationary at I(1) level. In the results of first and second generation unit root test obtained in the study, it was identified that the variable became stationary at I(1) level and this shows that the necessary conditions were provided for panel cointegration analysis.

5.2. Results of Panel- Cointegration Analysis

In this section, it is aimed to reveal long termed co-integrated relationship between economic growth and elements of human capitals. For this, Pedroni (1999) cointegration test and panel cointegration vector analysis estimation were made. Panel cointegration test and vector estimation results were given and interpreted for each model according to the country group.

For panel- cointegration analysis, whether or not there is a long termed relationship between growth and elements of human capital was tested. In the study, regression model presenting the panel cointegration relationship between economic growth and elements of human capital is given below. Model is defined in the form of

$$lgdp = \alpha_0 + \alpha_1 lheal + \alpha_2 ledu + \alpha_3 large + \varepsilon_{it} \quad (2)$$

and test results are given in Table

Panel cointegration test, developed by Pedroni (1999 and 2004) is widely used in empirical analyses in testing long term cointegration relationship between the variables in panel dataset. In Pedroni approach, firstly, regression model is predicted by EKK method. Model is defined as follows:

$$y_{it} = \alpha_i + \delta_i t + \beta_i x_{it} + e_{it} \quad (3)$$

In the model;

y denotes Dependent Variable;

x, Explanatory Variable,

α_i , Fixed Effect,

t=Trend, and

e_{it} , error term.

Since β_i can vary for each horizontal section in panel, it is based on the assumption that cointegration vector is heterogeneous between sections forming panel. In Pedroni approach, hypotheses are expressed as follows (Pedroni, 2004: 599):

$H_0 = 0$ There is no cointegration relationship for all horizontal sections

$H_1 = 1$ There is cointegration relationship for all horizontal sections.

Pedroni tests were developed as an approach based on error terms obtained from regression model. On this reason, long term coefficients of tests, predicted from level values of the variable should equal to short term error correction coefficients, predicted by using the first differences of coefficients. In case that this condition did not actualize, its application results in occurring of regression relationship (Westerlund 2007: 710). Tests of Pedroni Statistics shows standard normal distribution, regarding to t-statistics values, it is tested whether or not there is panel-cointegration relationship is. In the study, Pedroni panel cointegration test predictions were obtained by means of Win-RATS 7.0 econometric package program.

Westerlund (2007) developed four panel cointegration tests based on error correction model. Both of these tests are called as group average statistics and the other two, as panel statistics.. This test developed by Westerlund is based on the assumption that the series, forming panel are I(1) stationary at the same degree and the first difference. The null hypothesis and alternative hypothesis belonging to panel test statistics are expressed as follows:

$H_0 = a_i = 0$ (There is no cointegration relationship)

$H_1 = a_i = a \neq 0$ (There is cointegration relationship)

While panel cointegration test, developed by Westerlund (2007), is compared to critical value of standard normal distribution, the assumption made is independency between horizontal sections. Westerlund (2007) suggest that test statistics calculated for considering horizontal section dependency should be compared with the critical values of "Boostroop" distribution. The results of panel cointegration tests results are given in Table 5.

Table 5 Results of Panel Cointegration tests or Model

	Fixed		Fixed and Trend	
<u>Panel A: Pedroni (1999)</u>	Statistic	Prob.	Statistic	Prob.
Panel v-Statistic	1.154153	0.1242	1.830695	0.0336
Panel rho-Statistic	0.399957	0.6554	2.268368	0.9883
Panel PP-Statistic	-6.240554	0.0000	-6.4388521	0.0000
Panel ADF-Statistic	-7.524839	0.0000	-6.920663	0.0000
Group rho-Statistic	1.881663	0.9701	3.528731	0.9998
Group PP-Statistic	-8.803950	0.0000	-11.55017	0.0000
Group ADF-Statistic	-8.646752	0.0000	-8.202160	0.0000
<u>Panel B: Westerlund (2007)</u>	t-statistic	asym prob		
<i>LM_N</i>	12.086	0.0000		

*In Pedroni (1999) tests, lagging number was taken 2 and in Westerlund (2007) test, premise and lagging numbers as . Probability values, reported for Westerlund (2007) tests, was obtained from 1000 repeat bootstrap distribution.

lagging lengths were determined according to Schwarz information criterion. The symbols of .(), (**), (***) denotes that coefficients are significant at the levels of 1%, 5%, and 0%, respectively.

In Pedroni panel cointegration test, four out of seven statistics show that there is cointegration between the variables. While the results of Westerlund (2007) cointegration tests that are of second generation cointegration tests are interpreted, since there is horizontal section dependency in the series forming panel, and that the values N are bigger than the values T, while the numerical values taking place in the results are interpreted, the values 'Asym' of panel statistics were taken into consideration. The values show that there is cointegration between variables. According to LM test results, it was concluded that there was cointegration between variables in the long term.

Following the identification of the presence of long term cointegration relationship, the values DOLS, FMOLS, long-term cointegration parameters were obtained and they were presented in Table 6 and Table 7 as the values of FMOLS group for 26 countries.

Table 6 Results of Panel CoIntegration Relationship Prediction

	DOLS		FMOLS	
	Coefficient	t-Statistic	Coefficient	t-statistic
ledu	0.91129***	135.0491	0.691117***	125.09028
lheal	0.089651***	6.318968	0.079019***	4.378343
large	-0.49818***	-9.35845	-0.299355***	-8.738645

*For the results of DOLS and FMOL WinRATS pro 7 package program was used.

When the results of panel cointegration group prediction are examined, it was concluded that there was a positive directional relationship between economic growth and educational expenditures and health expenditures and R&D expenditures. According to the results of analysis, the predictors of both DOLS group and FMOLS group predictors turned out statistically significant. When the results are evaluated on the basis of panel, that in long term, increase of one unit in educational expenditures increase economic growth by 0.91% according to DOLS group results and 0.69 % according to FMOLS results. Increase of one unit in health expenditures increase economic growth by 0.09% according to DOLS group results and 0.08 % according to FMOLS results. When the relationship between economic growth and R&D expenditures is examined, increase of one unit in R&D expenditure increases economic growth by 0.50% according to DOLS results and 0.30% according to FMOLS results. FMOLS results of panel cointegration relationship prediction was given in Table 6.

Table 6 Results of panel cointegration relationship prediction

	large		ledu		lheal	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
Austria	0.976685***	2.61419	0.827322***	11.51569	-2.23765***	-2.95350
Belgium	2.22019**	2.39044	0.160800	0.540534	2.198823	1.241233
Bulgaria	1.053665***	2.925072	0.808733***	44.4348	0.471842***	6.514405
Cyprus	3.83073***	4.76629	1.087959***	12.18293	0.32038**	2.286440
Czech Republic	0.65887	1.49836	1.051875***	24.76963	0.156959	0.252698
Germany	0.48541	1.42231	0.862505***	44.83477	0.023413	0.054239
Denmark	2.11523***	5.19896	0.588129***	6.191427	2.926222***	4.505224
Spain	1.200274***	3.46224	0.904418***	4.495529	-1.56507	-1.62438
Estonia	0.81069***	4.18702	1.553821***	16.7852	-0.46564***	-2.98976
Finland	2.788984***	13.59803	1.160625***	10.5182	-3.49005***	-5.78015
France	1.22774***	4.15497	0.816954***	35.97096	0.634619***	3.751976
United Kingdom	3.70863***	3.07569	1.174282***	5.896476	-1.19002***	-2.66550
Greece	2.72734***	39.7744	0.497851***	20.088	2.923216***	18.78062
Croatia	0.56188***	6.3708	0.878841***	86.42452	-0.32971***	-4.79928
Hungary	0.859967***	11.82578	0.800718***	27.57638	-0.04955	-0.21207
Ireland	2.69903***	7.4338	0.831262***	16.40655	0.207461	0.883364
Italy	1.31679***	5.19476	0.943773***	34.43125	0.881883***	5.457655
Lithuania	0.165649	0.204122	0.525751***	9.995429	1.248565***	4.849962
Luxembourg	1.049878***	6.186675	1.063212***	65.5612	-0.18844***	-3.37282
Latvia	-0.43978	-0.8313	1.302829***	12.82139	-0.13621	-0.37684
Malta	-0.15428	-0.49792	0.471116***	6.929259	0.580299***	6.269892
Netherlands	1.93728***	2.84124	0.237095	0.819422	1.464371	1.906201
Poland	0.587371**	2.324267	1.111883***	20.07209	-1.34547***	-3.12290
Portugal	0.319629***	7.044544	0.677895***	18.95214	0.623515***	12.91618
Romania	0.46852	0.66772	1.001303***	11.06249	0.60924	1.534842
Slovak Republic	0.94615***	3.5943	1.230667***	11.401	-0.38118	-1.22104

Slovenia	0.30385***	11.2335	1.140958***	134.8987	-0.02685	-0.54268
Sweden	3.481165***	5.459313	1.738051***	16.26314	-1.36675***	-8.69465
Turkey	0.31816	0.90733	0.976795***	15.42245	0.101647	1.179338
Group	0.49818***	9.35845	0.91129***	135.0491	0.089651***	6.318968

*For DOLS and FMOLS results, WinRATS pro 7 package program was used.

6. Conclusion

Economic growth is the increase of amount of goods and services, produced in a country, in time. It is also the only way of raising life standards of individuals. Therefore, one of the main macroeconomic targets of all countries is to realize a rapid economic growth. With human and physical capital accumulation, technological development forms resource for economic growth. For growth to be able to actualize, it is necessary for these three resources to work together. In this study, the relationship between human capital, whose importance in internal growth theory is emphasized, and which is forward that whose contribution to economic growth is positive, and economic growth was discussed in the context of panel data. In this framework, for the period of 1995-2014, in order to test this relationship, as indicators of human capital, while the rate of R&D expenditure in GDP and the rate of health and educational expenditures in GDP was used, as indicator of economic growth, real GDP variable was based on.

In the study, it was identified that the relationship between the educational, health, and R&D expenditures, among the elements of human capital, and economic growth was positive directional. It was concluded that that, among the elements of human capital, educational expenditures in GDP increases by one unit increased economic growth by 0.91%; and that R&D expenditures increases by one unit, increased economic growth by 0.50%. It is seen that the findings of the study are largely consistent with theoretical framework, called internal growth.

Especially in developing countries, the development and use of human capital are highly important. Human capital, making contribution to the production of new technologies, increases productivity of labor force and economic growth. That countries can be successful in economic development processes depends on development of physical capital as well as human capital. Physical capital, affecting the development of human capital, accelerates development process. According to the findings, obtained from the study, in EU countries, it was statistically identified that an improvement seen in the indicators of human capital, led to a positive effect. Hence, in EU countries, in this study, in which the relationship economic growth - human capital was tested by using the indicators of human capital, compatible results with the other studies in literature were reached. As a result, in the societies consisting of the educated and healthy individuals, socio-cultural development forms one of important resources of economic growth and it is also seen that it emerges as an element increasing productivity of the other resources as well.

For Turkey, to converge to developed countries and for it to increase growth performance it must show and make sustainable this performance, it is necessary for it to implement very long term human capital investments rather than short term solutions. Therefore, in Turkey, long term planning and effective technology and innovation policies must be produced and, in these policies and planning, universities must effectively have role. Not only government but also private sector, for surviving and growing in the

globalizing and growing world markets, should paid attention to R&D investments. Hence, in Turkey, in order to utilize in higher rates from the positive economic effects of human capital, there is a need for the labor, education, and health plans, which are compatible with market occupational standards, give weight to applied education toward production, encourage R&D investments, and develop qualitative norms in production and service organizations. This issue has made obligatory to carry out multidirectional studies and, especially education, to realize important changes in many policies.

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The Structural Relationship Model of Talent Management Affecting on Organizational Performance

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Abstract

Talent management is viewed as one of the most critical issue affecting on the strong and sustainable growth and success of business. It possibly can link with the factors of work engagement and organizational citizenship behavior to drive the organization achievement. From reviewing mostly western literature, the author has found that there have been gaps aroused to be reviewed and be filled due to talent management: ambiguity or no clarity of definition, scope of practices, overall target of talent management; overlap between talent management and Human Resources practices (HR); scarcity of the empirical studies relevant constructs of talent management, organization citizenship behavior, as well work engagement effecting on organizational performance; and a hardly rigorous measurement for talent management effecting on organizational performance in comprehensive dimensions of financial and non -financial outcome ,especially inclusive stakeholder implications. Accordingly, in this essence, the author is intensively attempt to bridge the gap for this study, the authors have consolidated the existing literatures and theoretical concepts by academics, practitioners and researchers on talent management and mediating role played by work engagement and organizational citizenship behavior and designed an integrated model of talent management including two relevant constructs and its consequence. The purposes of this study are to: 1) examine components of the factors of talent management, work engagement and organizational citizenship behavior impacting on organizational performance; 2) examine the factors influencing on organizational performance; and 3) create the new model of talent management effecting on organizational performance.

Keywords: Talent, Talent Management, Work Engagement, Organizational Citizenship Behavior, Organizational Performance

1. Introduction

The growing effects of the information economy, globalization and environment described as consisting of VUCA, namely the Volatility, Uncertainty, Complexity and Ambiguity are occurring and continue to directly impact towards the survival or success of organizations as they are today. Accordingly, the implications of challenging business climate arouse the contemporary economy organizations to become adaptive and responsive to transformation and change around them. In essence, to reach their sustainable achievements, organizations are forced to mainly build the high capability to effectively response these challenges through “the people” that are generally accepted to the most valuable resource within employees of key success indicator of organization (Abbasi, Sohail, Cheema, & Syed, 2013; Campbell, Coff, & Kryscynski, 2012 ; Mucha, 2004) and increasingly recognized as critical source of strategic success and sustainable competitive advantage (Boudreau & Ramstad, 2007). However, the significant factors affecting the quantity, quality and characteristics of talent : (1) global demographic and economic trends (2) increasing mobility of people and organizations (3) transformational changes to business environments, skills and cultures and (4) growing levels of workforce diversity caused for the war for talent (Schon Beechler & Ian C. Woodward, 2009) and it leads to the phenomenon of “brain drain” and the scarcity of the talented employees who are high capabilities, high potential and pivotal skilled people.

Thus nowadays each organization seriously turn back to recognize the people who are most valuable to the success of organization and strives for having the best people possible with commitment needed for current and future organizational success (Monika Chodorek & Agata Sudolska, 2015; Shadiya Mohamed Saleh Baqutayan, 2014). By the reviewing literatures, talent management has attracted increasing attention from both practitioners and academics in research studies as a new strategic cornerstone in recent years (Boudreau & Ramstad, 2005; Cappell, 2008; Farndale et al., 2010; Frank, Finnegan, & Taylor, 2004); moreover, it was proven be a critical action needed to undertake firstly more than only be a strategic business success. (Hartman, Faisel E., & Schober H., 2010) Accordingly, effective talent management has now been acknowledged in a prevailing solution for these dynamic challenging of business environment and particular winning the war for talent by undertaking the proactive and strategic integrated approach to attract, select, develop, retain and exploit the high skilled and valuable employees in an optimal way for its future benefits (Monika Chodorek & Agata Sudolska, 2015; Shadiya Mohamed Saleh Baqutayan, 2014) and constitutes an essential competitive tool for organization worldwide (Beechler & Woodward, 2009; Boudreau & Ramstad, 2004) and sustain the growth and strength of organization business (Tarique & Schuler, 2010).

Even though talent management is needed to give the intensive contribution of superior organizational performance and the sustainable economic development as well delivering the value created to business stakeholders (Hadia, 2013; Muhammad Umair Abbasi, Muhammad Sohail, Farooq-E-Azam Cheema, & Nadeem A. Syed, 2013; Rita Kagwiria Lyria, 2014), but the business results of the everlasting growth could be inclusively derived by the good or positive work behaviors of employees also (Harter, Schmidt, & Hays, 2002; Organ, 1988; P.M. Podsakoff & Mackenzie, 1997; Saks, 2006; Schaufeli & Bakker, 2004). While the most of Western studies happened to particularly investigate the impact of talent management on organization effectiveness or business results in the area of empirical financial performance aligning to organizational target, what limits advance in research for the stakeholder dimensions to be measured as well. The presented paper focuses on discovering the comprehensive view of the talented people with good job, good behavior, and good people impact on organizational performance. By theoretical concept thoroughly reviewed and synthesized , therefore, this article is to investigate a relevance of not only talent management but also desired employees’ behaviors positively impact on organizational performance ;namely

work engagement (Aakanksha Kataria, Renu Rastogi, & Garg, 2013; Babcock-Roberson M E & Strickland O J, 2010; Erickson, 2005; Gruman & Saks, 2011; Kahn, 1990; W. H. Macey & Schneider, 2008; Saks, 2006; Schaufeli, 2013) and organizational citizenship behavior (Asiedu, Sarfo, & Adjei, 2014; Barnard, 1938); P. M. Podsakoff & MacKenzie, 1994; P.M. Podsakoff & MacKenzie, 1997; P. M. Podsakoff, MacKenzie, Paine, & Bachrach, 2000). And the impacts of three factors linked to organizational performance on main two performance facets, namely economic performance and stakeholder responsibility performance.

2. Literature Review

2.1 Talent

Further evidence of the disparity of views about talent definition was provided by McKinsey in their follow up to the ground breaking 'War for Talent' research of the late 20th Century. They also found that there were several variants of how talent was defined. Each had implications for focus, resource allocation and management (McKinsey 2009). From a 32 literatures reviewed and synthesized, the author has defined "talent" is one who have desired competency described knowledge skills, attribution by organization and be able to perform more distinctly and outstandingly than another one did, and whose superior performance and high potential, taking a position of a pivotal or critical position significantly affecting on the strategic objectives of organization and business achievement.

Talent Segmentation

A most comprehensive perspective on how an organization could segment its workforce to ensure a breadth of talent development was offered by Ulrich and Smallwood (2011) who proposed a model for segmenting the workforce to facilitate the development of a talent strategy. They worked on the assumption that everyone who worked in the organization should be considered to be a talent. Nevertheless, there would need to be different interventions for specific groups such as:

Executives- would require customized learning experiences including participation in external groups, executive coaching and targeted training. They would also have a particular interest in succession planning

Leadership cadre- this is the next generation of executives who would have development activity focused on subject areas such as shaping the future, making things happen, engaging today's talent and building the next generation of talent

High potentials are those 'in key positions throughout all levels of the organization. They may be technically proficient or they may be in key front line managerial roles. They have a large capacity for future growth.' For this group of talent task forces or special projects; mentoring by executives and specific targeted skills training are features of talent development

All employees have talent. That is why it is important that a talent culture permeates throughout the organization and that the opportunity to develop further is available to all.

2.2 Talent Management

Talent management is the pool of activities which are concerning to attracting, selecting, developing and retaining the best employees in the strategic roles (Scullion & Collings, 2011). They further point out that talent management recognizes people who excel at particular activities and performance upon whom support is offered to enable them to 'push the envelope' while capturing and sharing what they do differently so as colleagues can emulate them.(Scullion & Collings, 2011) Organization should have ability and capacity to recognize the people and the capability that may create value and deliver the competitive advantage for the organization; in addition talent management also aims at developing and deploying the right people at the right job on the right time and providing them the right environment to show off their abilities in a best possible way for the organizations (Howard, 2008). By a thorough review and synthesis, the author has defined a definition of talent management is an integrated set of procedures, programs and organizational context designed and implemented to attract, select, develop, deploy, retain and evaluate talent to achieve strategic objectives and meet future business needs.

Importance of Talent Management

The severe competition in the globalization business world with the particular rapid mobility of the high skilled workforces has directly impacted on organizations to confront with the talent paucity. According to the Manpower Group's survey report "Global Talent Shortage in 2015" by 41,700 respondents from 42 worldwide countries has significantly revealed a critical shortage of talent with average of 38% in 2015 and has continuously risen from 30% in 2009. As for the shrinking availability of exceptional talent, there are a number of factors that have driven talent management to be a strategic solution undertaken: 1) heightened competition for skilled workers, 2) approaching retirement of the baby boomers, 3) low levels of employee engagement, 4) acknowledgement of the high cost of turnover, 5) strenuous demands of managing global workforces. 6) recent trend in offshoring and outsourcing, 7) dynamic and volatile business environment (Saxena, 2013), 8) shortage of aging workforce whose valuable knowledge and experience. 9) key risks (vacancy risk of job, preparation risk of leadership development, transition risk of successor and portfolio risk).

Accordingly, nowadays, talent management implementation requires a high degree of attention and commitment from three internal stakeholders of organizations: top management, the human resources functions and line managers. (Mohammad Othman El nakhala, 2013). The notion of talent management has been transformed and placed in the critical issue of top priority action. (Hartman, et al., 2010) and one of the key success factor of organization is capability to manage the talent (Becker, Huselid, & Ulrich, 2001) by the terms of talent acquisition, utilization, development, retention and performance management.

Table 1 Benefits of Talent Management

From an Employer's Perspective Talent management can bring Significant business benefits:	From an Employee's Perspective When organization invest in talented people they are more likely to:
Ensure work force diversity	Engage with their work and be more effective
Build a high performance workplace	Leads to job satisfaction
Encourage a culture of learning and development	Increases employee referral
Ensures values for money	Have a good opinion of their managers
Employee engagement	Leads to high morale
Retain talented people	Accomplishment of personal and professional growth
Enhance company image and position in the employment market	

Source: Saxena, P. (2013) p: 53

Components of Talent Management

According to above definition and concept of talent management, it shows that the implementation of talent management is needed and crucial to take action seriously in order to enhance the organization capabilities and be able to response any business impacts and achieve better business results and competition edge. By the careful review and synthesize of many empirical literature, the author have found eighteen (18) components of talent management in a theoretical framework and used four components which studied most in the evidences. Four components of talent management used for this conceptual framework are: 1) Talent Recruiting, 2) Talent Development, 3) Talent Retention, and 4) Performance Management

- 1) Talent Recruiting is a process to explore, attract and acquire the people who have desired skills and competences that alignment to core value, culture and workforce environment of organization. Organizations develop the insider and outsider channels to acquire the targeted people and make a proposition of the value to response the talent needs as possible. Besides, making the attractiveness by brand image and good reputation of organization is crucial for appealing and retaining the talents. (Anneliza Botha, Mark Bussin, & Lukase Swardt, 2011; Armstrong, 2006; Baum & Kabst, 2013; Bohlander & S., 2010; Cappelli, 2002 ; Collins, 2007; Dell & Hickey, 2002 ; Gareth Bell, 2014; Joshi, Kathuria, & Porth, 2007; Kim, 2008; Lara Johannsdottir, Snjolfur Olafsson, & Brynhildur Davidsdottir, 2014; Michaels, 2001; Stone, 2005; Wikström & Martin, 2012)
- 2) Talent Development is a process to build the talent by developing 1) the career path advancement and ready-now moving for the key or critical positions, 2) the individual development program in a continuous term alignment of mission, vision and strategic objective of organization, 3) the desired and critical competencies specified for current and future business success. 4) the diversified ways of training and developing to reach

more capabilities and potential, and 5) a human capital intellectual or tacit knowledge learning. (Cappelli, 2002 ; Dychtwald, Erickson, & Morison, 2006; Jeffrey & David, 2007; Lance A.Berger & Dorothy R.Berger, 2004; Liker & Meier, 2007; McDonnell, 2011; Michaels, 2001; Tejaswi Bhuvanaiah & Raya, 2014)

- 3) Talent Retention is the capabilities of organization to concern, care for and keep the desired employees working in its workplace in a longer term. The capabilities to retain is measured by the turnover rate and the number of talent shortage. So the organization needs to develop essential programs or intrinsic and extrinsic incentive to fulfill employee's physiological needs to retain the talent with organization. (J Bhatnagar, 2007; Echols, 2007 ; Frank & Taylor, 2004; Horn & Griffeth., 1995; Kontoghiorghe & Frangou, 2009; Mendez & Stander, 2011; Pornrat, 2010; Sinha & Sinha, 2012; Vaiman & Vance, 2008)
- 4) Performance Management is the ability of the organization to measure its results to improve its business by executing the continuous process to identify, evaluate and measure the performance among employees, team, department which their performance must be cascading and alignment to organization's objectives which cascade top-down level. The main activities are comprised of target planning, performance assessment, performance review, performance renewal and feedback, employee and performance development, performance based pay and communication. (Armstrong, 2009; Armstrong & Baron, 1998; Herman Aguinis, 2013; Mathias & Jackson John H, 2006; Rollo, 2001; Vaiman & Vance, 2008). Also performance management is a means of increasing the engagement and motivation of people by providing positive feedback and recognition. This is part of a total reward system (Armstrong, 2006).

2.3 Work Engagement

In today's knowledge and innovation driven business success and competitiveness advantage, organizations are under severe pressure to develop and survive. Thus organizations need their valuable workforces to be active, dedicated, and full engaged in their works because the characteristic and high competences of human resources are important aspect under such circumstances (Xanthopoulou, Bakker, Demerouti, & Schaufeli, 2009) and lead to profitability improvement and the sustainable business growth (Welch, 2011). The concept of employee work engagement has received considerable scholar attention recently (Albrecht, 2010; A. B. Bakker & Albrecht, 2011; Brunetto, Shacklock, Teo, & Farr-Whartond, 2014). For academic research work engagement is used to particularly describe psychological behavior a relation between employee and his job role which shows the characteristics of enthusiasm, dedication, high energy, absorption as well work flow (A. Bakker & Schaufeli., 2008; Schaufeli, 2013; Schaufeli, Salanova, Gonz lez-Roma, & Bakker, 2002). Research revealed that work engagement is an important and positive predictor of individual and organizational performance (Luthans & Youssef, 2007) improvement of customer satisfaction and customer loyalty, profitability, including less turnover rate (Schaufeli & Bakker, 2010; Seligman, 2011). Previous research has mainly examined the consequences of work engagement and studies showed its consequences in 2 levels of 1) employee outcomes level ; -absence, quality of work, job satisfaction, organization commitment, employee performance and 2) business results level divided into financial outcomes and non-financial outcomes, namely financial one:- ROA, profitability, shareholder value and non-financial one:- intention to stay, productivity, innovation, customer loyalty, brand equity, organization performance (William H. Macey, Schneider, Barbera, & Young, 2009; Tejaswi Bhuvanaiah & Raya, 2014).

While there are various definitions of work engagement, Schaufeli and Bakker (2010) proposed that work engagement is composed of vigor, dedication and absorption. Scholars also share the perspective that work engagement involves feelings of energy and high levels of involvement in work (A. B. Bakker & Albrecht, 2011; W. H. Macey & Schneider, 2008; Scrima, Lorito, & Parryc, 2014). As for the author's review and synthesize significantly 38 empirical research and theoretical concept stated by previous academics and researchers over years, there is conclusively shown that work engagement is identified to "Positive attitude" "Behavior" and "Psychological state" perspective towards employee's job role with his commitment to achieve the success of his own and overall organization. So the author has defined work engagement is "the positive attitude of employee in organization towards his own work and organization, and willingly perform his job with high energy of emotion, physical and cognitive component for job achievement and directly contribute to meet desired business results of organization. Work engagement is driven by behavior of vigor, dedication and absorption." (A. Bakker & Schaufeli., 2008; J. Bhatnagar, 2012; Kahn, 1990; Koyuncu, Burkner, & Fiksenbaum, 2009; W. H. Macey & Schneider, 2008; May, Gilson, & Harter, 2004; Shuck & Wollard, 2010; Wittemeyer, 2013).

2.4 Organizational Citizenship Behavior

Over the past decades, researchers have observed that some specific features of employees attitudes such as: altruism, conscientiousness, kindness or carrying about organization can be helpful in talent management implementation. These supportive attitudes of employees have been recognized and named as organizational citizenship behaviors. The examples of such behaviors include a wide range of different activities, starting from employees helping one another in difficult tasks or projects, and ending with showing off company's logo during some charity events. Organizational citizenship behaviors are personal and voluntary. Moreover, they are not included into official system of payment and rewarding in an organization. However, it is known that such behaviors support enterprise's effectiveness and efficiency.

Organ (1988) stated that Organizational Citizenship Behavior (OCB) is defined as work-related behaviors that are discretionary, not related to the formal organizational reward system, and, in aggregate, promote the effective functioning of the organization. Organ (1988) also identified that an attempt to define OCB as behaviors that are not formally rewarded is equally too broad, as there are some few "in-role" behaviors that actually necessitate a formal reward. In view of this, Dyne (1995) suggested the broader construct of "extra-role behavior", which he defined as any behavior which benefits or is intended to benefit the organization, which is discretionary and which goes beyond existing role expectations". This definition goes on to suggest that organizational citizenship is pro-social, extra-role, functional organizational behaviors directed at individual, groups and / or an organization. (Michael Asiedu, Jacob Owusu Sarfo, & Daniel Adjei, 2014).

Organ (1988) identified five components of OCB: (1) altruism -- the helping of an individual coworker on a task, (2) courtesy -- alerting others in the organization about changes that may affect their work, (3) conscientiousness -- carrying out one's duties beyond the minimum requirements, (4) sportsmanship -- refraining from complaining about trivial matters, and (5) civic virtue -- participating in the governance of the organization. Each dimension of OCB offers a different rationale for the influence on organizational performance. Altruism or helping coworkers makes the work system more productive because one worker can utilize his or her slack time to assist another on a more urgent task. Acts of civic virtue may include offering suggestions for cost improvement or other resource saving ideas, which may directly influencing efficiency. To a lesser extent,

conscientiousness employees, as well as those who avoid personal gain or other negative behaviors, demonstrate compliance with company policies and maintain predictable, consistent work schedules, increasing the reliability of the service. As reliability increases, the costs of rework are reduced, making the unit more efficient.

2.5 Organizational Performance

From literature review and synthesize about performance, the author has conclusively defined organizational performance is a business results of organization occurred by the process and employee productivity which integrated to mission strategy target and objective of organizational. The business outcomes are predicted by the competitive capabilities in the current and future time. The results can contribute to creation of stakeholders satisfaction with tangible and measurable manner (Bititci, Carrie, & McDevitt, 1997; Connolly, Conlon, & Deutsch, 1980; Rouf, 2011; Watkins, 2007). This research uses performance measurement model of Juliana Bonomi Santos (2013) which comprising of a comprehensive dimensions of financial and non-financial and the selected indicators as Table 2.

Table 2 Performance Dimensions and Indicators Selected

Dimensions	Selected Indicators
Profitability	ROA, EBTIDA, ROI, ROS, ROE, EVA
Growth	Market-share growth, Asset growth, Net revenue growth, Net income growth, Number of employees growth
Employee Satisfaction	Turn-over, Investments in employees development and training, Wages and rewards policies, Career plans, Organizational climate, General employees' satisfaction
Customer Satisfaction	Mix of products and services, Number of complaints, Repurchase rate, New customer retention, General customers' satisfaction, Number of new products/services launched
Environmental Performance	Number of projects to improve / recover the environment, Level of pollutants emission, Use of recyclable materials, Recycling level and reuse of residuals, Number of environmental lawsuits
Social Performance	Employment of minorities, Number of social and cultural projects, Number of lawsuits filed by employees, customers and regulatory agencies

Source: Juliana, B. S., & Brito., L. A. L. (2012).

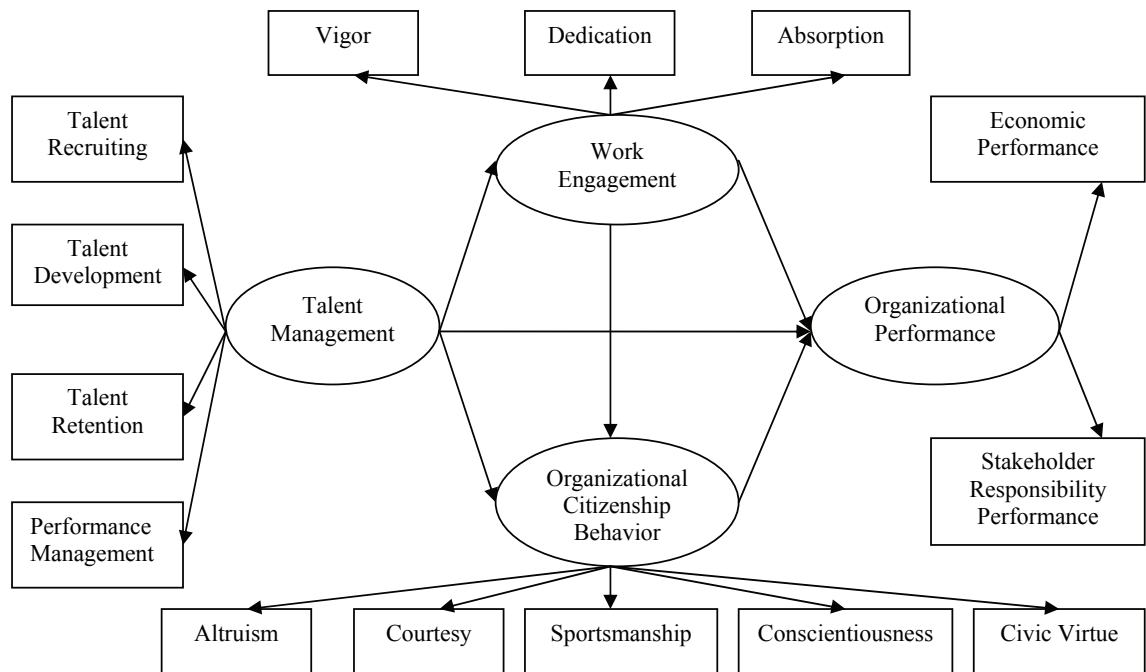


Figure 1 Research Framework

3. Conclusion

Talent management is the pool of activities which are concerning to attracting, selecting, developing retaining, and evaluating the best employees in the strategic roles. They further point out that talent management recognizes people who excel at particular activities and performance upon whom support is offered to enable them to push the envelope while capturing and sharing what they do differently so as colleagues can emulate them. Organization should have ability and capacity to recognize the people and the capability that may create value and deliver the competitive advantage for the organization; in addition talent management also aims at developing and deploying the right people at the right job on the right time and providing them the right environment to show off their abilities in a best possible way for the organizations.

Due to the gaps arising, there are found the insufficiency of empirical and/or comprehensive studies as mentioned above, so this present study attempts to bridge the gaps by investigating the structural relationship among the constructs of talent management, work engagement and organizational citizenship behavior impacting on organizational performance. Its components of talent management may comprise of talent recruiting, talent development, talent retention and performance. The conceptualization of this study significantly purpose that the organizations acquire the best people who have high competence and possibly fit in organizational needs and context and are expected to distinctly create and deliver the desired valuable contribution to his department as well organization via the process of identification evaluation and continuous learning and developing and retaining. While acquiring the talented people to enhance the competitiveness edge and capabilities of organizations for attaining the desired success, organizations are still needed to design and develop a strategic program or tool to support, commit and motivate the talented to exhibit their potential capabilities for the growth of organizations as a whole in a good manner, having work engagement and self- commitment to constantly provide value creation within a longer term staying. Besides providing a great job by full capabilities, the talented people are expected to be good

employees derived by having a good and positive behaviors which directly impact on their workplace, in featured actions beyond the formal specifications of work roles; such as, personal and voluntary, willingness involvement, altruism, conscientiousness, kindness, courtesy, sportsmanship, civic virtue and loyalty. Moreover, they are not included into official system of payment and rewarding in an organization. These supportive behaviors of employees have been recognized as Organizational Citizenship Behavior and have been found to have also significant relationships with important organizational outcomes such as increment in productivity, performance stability, profitability (N. P. Podsakoff, Whiting S W, Podsakoff, & Blume, 2009; P. M. Podsakoff, et al., 2000). Future talent management studies should aim at developing alternative model by investigating the relation casual constructs, particular employees' behaviors such as organizational commitment, organizational citizenship behavior, of talent management that effecting on organizational performance measured by comprehensive dimensions of economic performance and stakeholder responsibility performance.

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Democratic Governance and Think Thinks: The Six Pillars to Form a Strategic Thinking in the Arab Countries

by

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Abstract

The culture of a democratic governance moves beyond the mere procedures of democracy and the establishment of democratic institutions. It involves promoting the sustainability of democracy which includes an enduring capacity for: the separation of powers and independence of the branches of government; the exercise of power in accordance with the rule of law; the respect for human rights and fundamental freedoms; and, the transparency and accountability of a responsible civil service, functioning at both the national and local levels. The legitimacy of public action in Arab countries is dependent on the creation of democratic and institutional conditions conducive to the development of TT. These conditions are manifold may include: 1) the availability of funding; 2) the existence of supportive legislation; 3) political freedom and intellectual; 4) the existence of rules of good governance; 5) the independence of the State; and 5) the existence of good governance practices. Now if some authors consider that the development of endogenous TT is hampered by the dominance of international organizations in developing public policies in developing countries with regard to abuse of the outsourcing decision in favor of including the World Bank. This study aims to highlight the main aspects of democratic governance and the role of Think tanks in this process, including the leadership of public policies in the six areas where public administration will formulating programs and work on the basis of criteria's and clear timeframe.

Keywords: Democratic Governance, Six Pillars, Strategic Thinking

1. Introduction

“The culture of a democratic governance moves beyond the mere procedures of democracy and the establishment of democratic institutions. It involves promoting the sustainability of democracy which includes an enduring capacity for: the separation of powers and independence of the branches of government; the exercise of power in accordance with the rule of law; the respect for human rights and fundamental freedoms; and, the transparency and accountability of a responsible civil service, functioning at both the national and local levels”.

The constraints of Arabic countries on promoting democratic governance are complex, enormous and various. They are the conjunction of five essential factors:

- the lack of clarity and vision,
- The conflict of priorities and interest ,
- The weakness related to the use of knowledge and competence (cognitive governance) ,
- The absence of assessment culture and the inefficiency of decision making.

In fact, the strategic analysis is crucial in elaborating and achieving public policy in an area of globalization and crisis. In addition, to this logical approach that reasons in terms of vision, threat, risk, competence, communication, transparency and imagination (to be imaginative). The relationship is very intimate between geopolitics and geo-strategy in the process of identifying strategic thinking in the democratic global governance. For comparison, the legal framework for open government is largely in place in OECD member countries, and consists of:

- Laws on access to information give citizens the right to access information held by government (precondition for public scrutiny and participation)
- Laws on privacy and data protection (interest of protecting personal data)
- Laws on administrative procedures provide some guarantees for citizens in their interaction with government (mechanisms for holding administrative bodies accountable)
- Laws on ombudsman institutions establish a point of contact for citizens 'complaints', appeals and claims for redress in their dealings with government entities
- Laws of supreme audit institutions provide for an independent evaluation of public programs and projects.

2. Methodology

This communication aims to highlight the main aspects of democratic governance and the role of Think tanks in this process, including the leadership of public policies in the six areas where public administration will formulating programs and work on the basis of criteria's and clear timeframe.

The purpose of democratic governance is to achieve a balanced and sustainable development in order to ensure a high standard of living and human development. The general strategy is based on six (06) areas:

- Leadership and strategic plan,
- Public administration and competence ,
- System of auditing and ethics,
- Local authorities,
- Think tanks and innovation,
- Reviewing and updating legislation, regulation and control.

The general principles of the strategy in the Arab countries¹ are as follows:

- Build a society of knowledge and innovation,
- Improve decision – making mechanism,
- Revitalize the regulatory and policy making,
- Increase the efficiency of government bodies, and upgrade the level of service based on customers needs,
- Fight against corruption,
- Develop a culture of democratic governance based on transparency and participation and knowledge.

The main objectives of this communication are:

¹ The UAE Strategy - United Arab Emirates – office of deputy Prime Minister for Information affairs 2007,p.30

- Enhancing the competence and efficiency of administration and civil society in terms of leadership and democratic governance.
- Developing the values and virtues of strategic management and human resources by focusing on competence, merits and efficient rationalization and training in leadership ,
- Promoting transparency, evaluation of risk and internal control.

Our methodology consists of:

- Adopting a pragmatic and comparative approach in this analysis,
- Identifying the strengths and weaknesses in the Arabic governance system,
- Suggesting a strategy of development in democratic governance.

The Arab Spring was all over the world attracted the attention of many specialists from different fields, on the socio economic and cultural realities of this part of the planet. The concentration of wealth in the hands of a minority and autocrats in power failure and the opacity of its redistribution, corruption, absolute power, and especially the refusal of youth (Facebook Generation) to continue to accept this, are the detonators of the revolt in the Gulf, the Maghreb and elsewhere in Africa. The Arab Spring was not predictable.

Most studies today consider the revolutions that Arabs are claiming triggered a redistribution of wealth and the realization of human dignity within the society (Arabic) through building a new modern state based on transparency, efficiency and rationalization of power. In the midst of this debate are popular demands, including on constitutional reform, education, health, dignity governance and the fight against corruption. 50 years after the proclamation of independence of the countries of the Arab countries and African Union, it is clear that they understood that their economic and social stagnation in comparison with the economic vitality of some emerging countries Brazil, Russia, India and China is due to two major causes: a lack of transformational leadership and bad governance. With this in mind that the vast majority of these countries have adopted the strategic goal: African countries, emerging countries in 2025.

Specifically democratic governance is the key element of human development in its entirety. The success of this project is dependent on the establishment of a participatory development in terms of clear and shared vision, structures, skills, reliable information and communication and continuous risk assessment and that practical measure of support. In fact, the institutional capacity building and strategic actors in all countries of the world has become fundamental. The return of state capitalism today leads to other changes, including strengthening links between business and the rise of hedge funds. In this case it will draw on methods and scholarly approaches to strategy, including governance and ethical values in the process of wealth creation and balance of power. Taking into account the risks to the environment today is for people a source of anxiety, such as the phenomena of natural disasters, or cultural resistance and mental.

The concept of risk such a sociological concept cannot be treated as a pure objective reality. He proposes as an act, per formative engagement rather than simple fact. A risk is taken, is short, refuses, having been considered, calculated, and covered. The risk is a style of being in the world. It is the nature of moral commitment, ideological and practical interest to us in risk. More particularly, the emergence of cognitive and democratic governance in Arab countries comes with a challenge related to learning achievements and nature of planned development projects in the region (economic partnership, social peace, democratic processes) which faces a deficit including strategic and institutional size.

In this perspective the researches in this area do realize that poverty, not to say the misery of strategic thinking in the Arab and African countries. For example to achieve the vision 2025 in Africa should be put at the disposal of its member countries in the words of Kitsoro Kinzounza “a package of expertise ”in the following forms:

- Education and Training
- Scientific Research and Innovation
- Consulting and expertise.

This package cannot be validated without the establishment of democratic governance. This paper attempts to explore more closely the contribution of Think Tanks (TT) in the formulation and conduct of public action through passing of cognitive constraints of governance in order to legitimize power. It presents an approach in the light of recommendations of an international symposium which had held last year in Rabat (Morocco) would promote new mechanisms of integration of knowledge and expertise in the process of decision making on different terms: human organizational and strategic. What is likely to re-legitimize the power?

3. What's TT?

It is not easy to define the TT. Defined by Diane Stone and Mark Garnett who advance the following elements: according to these authors the TT are relatively autonomous organizations that are trying to inform or influence policy through intellectual arguments or analysis rather than lobbying. They are to bridge the gap between knowledge and policy. In this perspective *THE GLOBAL “GO-TO THINK TANKS”* 2010 provides a precise definition of TT².

"TT are organisms That generate policy-oriented research, analysis, and advice on Domestic and International Issues in year effort to enable Policymakers and the Public To Make Informed Decisions about public policy issues. TT May Be Affiliated With Political Parties, Government, interest groups, private corporations or gold have constituted independent Nongovernmental Organizations (NGOs). Often thesis institutions act as a bridge Between the academic and policymaking Communities, Serving the public interest as independent voice That year translate Applied and Basic Research into a language and form Understand That Is, reliable, and accessible for Policymakers and the Public. Structured as permanent bodysuits, in contrast ad hoc with commissions or research panels, a "substantial portion TT devout of Their Financial and human resources to commissioning and publishing research and policy analysis in the Social Sciences: political science, economics, public administration and international affairs. The major outputs of thesis organisms are books, monographs, reports, policy briefs, conferences, seminars, formal briefings and informal discussions With Policymakers, Government Officials, and key stakeholders".

The UNDP identifies think tanks as “[the] bridge between knowledge and power”. Certainly, this is true; at their best, think tanks are the filters and synthesizers that facilitate the identification of policy issues, the design of policy solutions, and the implementation of and feedback on policy decisions. The proliferation, global expansion, and networking of think tanks have magnified the potential for them to research and develop solutions to global public policy issues of today.

² *The Global “Go-To Think Tanks” The Leading Public Policy Research Organizations In The World*
Revised ,January 31, 2010

Table 1 Global Distribution of Think Tanks by Region

Africa	8%
Asia	19%
Europe	28%
Latin America And the Caribbean	10%
Middle East an north Africa	4%
North America	30%
Oceania	4%

Source: The Global “Go-To Think Tanks” The Leading Public Policy Research Organizations in The World, 2010, p.12.

Table 2 Number of Think Tanks in the Word (2009)

Region	No of TT's	% of Total
Africa	503	8
Asia	1183	19
Europe	1750	28
Latin America And the Caribbean	645	10
Middel East an north Africa	273	4
North America	1912	30
Oceania	39	1
Total	6305	100

Source: The Global “Go-To Think Tanks, p.13.

The illustrations show that the part of Middle East and North Africa in the global distribution is only 4%. So the TT ‘s contribution in the process of strategic management is limited. And Arabic countries aren’t classified between countries with the largest number of Think Tanks.

Table 3 Number of Think Thinks in the World 2009*

1	United States	1815
2	China	428
3	United kingdom	285
4	India	261
5	Germany	190
6	France	168
7	Argentina	132
8	Russia	109
9	Japan	108
10	Canada	97
11	Italy	88
12	South Africa	84
13	Sweden	74
14	Switzerland	71
15	Netherlands	57
16	Mexico	55

17	Romania	54
18	Israel	52
19	Taiwan	52
20	Belgium	51
21	Bolivia	51
22	Spain	50
23	Brazil	45
24	ukraine	45
25	Poland	41

Source: The Global “Go-To Think Tanks, p.15.

Table 4 Categories of Think Thinks

Category	Definition
Autonomous and Independent	Significant independence from any one interest group or donor and autonomous in its operation and funding from government.
Quasi Independent	Autonomous from government but an interest group (i.e. unions, religious groups, etc.), donor or contracting agency provides a majority of the funding and has significant influence over operations of the Think tank.
University affiliated	A policy research center at a university.
Political party affiliated	Formally affiliated with a political party.
Government affiliated	A part of the structure of government.
Quasi government	Funded exclusively by government grants and contracts but not a part of

Source: The Global “Go-To Think Tanks.

4. The Contribution of TT Strategic Analysis in the Arab Countries

The TT can provide many tools methodologies in developing strategies and participatory democracy in several areas: development of the knowledge economy, diplomacy, production expertise and experts, promotion of public debate, boosting the parliament involvement public opinion in decision-making, promotion of scientific research, mediation and crisis management and risk.

Who built these representations?

"All men are intellectuals, said Antonio Gramsci (1891 - 1937) in his prison notebooks, but all men do not function in society as an intellectual" already attracting attention to the existence of "professional intellectuals".

TT, Strategy and Dynamics of Crisis

The strategy is a concept of war. She thinks in terms of vision, threat, risk, competence, communication, transparency and imagination. The new governance is characterized by the authority

and decision-making authority in many public policy networks within civil society and a drain of skills of national institutions on a vertical axis toward sub-national levels on the one hand, and to institutions and international networks, on the other.

According to Francis B. Huyghe "TT, literally" Think tank ", is an organization (...) bringing together experts, dedicated to research new ideas and seeking to influence public affairs' According to calculations by Professor James McGann two thirds of the Think tanks that exist today were established after 1970, more than half since 1980. Their numbers have increased fivefold between early 1970 and late 1990. The TT has taken root in the cradle of democracy and liberalism. In fact, the TT are born in the rubble of crises.

There are four steps (or waves) of creation of TT:

- The first extends from 1884 to 1927 (social protests and the first world; war);
- The second stage (1943-1973) includes the "thirty glorious capitalism" through events and highlights of the Second World War and the Cold War;
- The third phase (1973-1986) was accompanied by the stagflation and oil crisis;
- And the fourth great wave (1989-2011). It is a very eventful period (fall of the Berlin Wall, the attacks of September 11, 2001, financial crisis, Arabic spring) have strongly promoted the creation of new TT.

The TT consists of a multiple field research and studies. It is a source of expertise and strength of proposal increasingly necessary to address complex issues of combining the technical aspects of economic, legal, institutional and strategic. According to Auguste Comte, "it is ideas that govern the world." For Alexis. Tocqueville TT are 'intermediary bodies created to counterbalance the power of the majority whose function is to educate the people to political freedom and equality. These instruments created and animated by free individuals and equal to channel the energy of a democratic society”.

These statements underscore the formidable power of these forces in the production and promotion of political debate and good governance. In a context characterized by the crisis and the emergence of these organizations "producers of ideas", the centers of strategic studies and TT are a significant example of these new political actors, these modes of governance that deliver new democratic values and shared expertise and make it more effective.

What model of TT for the Arabic countries of the 21st century? What can they serve?

Very little work has been devoted to the TT in this region (Maghreb and Francophone African or Arab).

The TT is a concept related to the Anglo-Saxon culture. The concept was designed in English and in the context of governance systems of the United States and England. It is the result of a tradition of pluralistic democracy. It is often difficult to translate into French or Arabic. The Arab and African countries like the developing countries need the TT very strong so they can contribute to the development of democratic global governance. But the level of this contribution is strongly conditioned by the level of democracy, to varying degrees in these countries. What these countries also lack is organization and investment "research that can help translate the proposals into public policy enforceable and enforced.

5. TT's Constraints in the Approach of Good Global Governance:

The TT is in both Arab and African countries use a technique (the production of information, evaluation of the system of global governance) and political (promotion of public debate). But in practice they face many constraints: financial, institutional and sociological.

Financial and Human Constraints:

The TT always needs huge logistical human and financial to run their organizations. States, businesses and local communities do not have a tradition of funding scientific research. Often the actors are not aware of the relevance and usefulness of these institutions to the extent that power is generally centralized. So, TT can be regarded as the power.

In practical terms the TT will require financial autonomy or independence that is not obvious. According to the international ranking among the criteria for selection of the most successful TT is cited among others: the ability to sustain human skills, the level of financial organization, budget, number of contracts with the private sector. Which assesses the degree of independence of TT and their ability to guard against conflicts of interest with the aim of producing objective report and criticism?

Sociological Constraints:

They are linked to the dominant culture in the third generation of information and the ability of TT to meet increasing demand from the public demand more transparency and democracy. Sociological limits faced by TT in the Arab countries are complex and multiple. The democratic deficit in particular related to the malfunctions that mark the democratic institutions (parliament, courts of auditors, justice, social inequality) may negatively affect the optimal functioning of TT. The development of the culture of TT in the Arab countries in the context of good governance requires the adoption of a strategy of empowerment and institutionalization of the principles and values of transparency, accountability and performance in society. This is an essential component of the reinvention of the state.

The Arab countries face several challenges. The State in the 21st century faces makes the dilemmas of governance and power of the bureaucracy. He is caught between democracy and bureaucracy. The new powers of the bureaucracy lie essentially within the limits of both the strategic management of knowledge, the knowledge economy than performance. In this context the charm of democracy is diffuse. It is in this case to build and reinvent the values of good citizenship. In fact, the strong nations are those that promote reconciliation between democracy and paradoxes of bureaucracy, hence the importance of TT in the process of change. Great nations are those which may here and now introducing revolutionary practices in the Authority by means of a governance so that the transparency of performance.

6. The Six Foundations for a Successful System of TT and Policy Analysis in the Arab Countries

The six benchmarks proposed in this study are an approach that can be invested in the process of developing a new culture of strategic analysis of public action to improve its performance as its political legitimacy.

Rethinking the Systems of Democratic Governance and Promote a Multidisciplinary Strategic Thinking:

We are talking today to the Arabic countries to rethink their systems of global governance in terms of participatory strategic planning opportunities, strengths and weaknesses and continuous risk assessment. The insistence on the strategic importance of TT as an instrument of a new generation of actors is crucial in the process of developing a new approach to making, communication and monitoring of public policies, and have a special place in international relations, the global production system, the knowledge society, democratic governance, respect for human rights and globalization.

This emphasis reflects the pressing need for governments to have an accurate, clear and appropriate, to help them understand their environment within which they operate, in a world where the population will exceed 9 billion people, and Global warming will increase by two points, but in a world experiencing the growing strength of China and India, which will lead to a profound reform of the global geopolitical map.

For comparison, the identification of growth factors and development of TT in the Anglo-Saxon is instructive in more ways than one. They are the result of liberalism, cultural and structural factors and development of democratic values in these liberal societies which have now become more open and responsive to the information revolution and e-governance.

Focusing More Reflection on The Manifestations of The Crisis of Democratic Governance:

The inability of African and Arab states to formulate a clear vision on the current situation, constraints and risks that threaten their integrity, identity and future of their generation gap and they are subject regarding the mechanisms of free thinking is evident.

These are likely to help identify problems and their explanation, then explore the future of the global human development in their region, and further develop their creative capacity in order to contribute to the enrichment of human civilization, in terms of thought and practice, hence the need to direct research projects, expertise and advice to the knowledge-based economies, innovation, and creating science and technology.

So in terms of their key role in developing the TT must maintain the support of civil society to achieve specific strategic objectives, with emphasis on threats brandished in Africa and the Arab world, and which are of a safe , that is to say relating to strategic security, educational, economic, cultural, food, health and environment, with the affirmation of their diplomatic and media presence in international organizations through the strengthening of their particular cultural diplomacy parallel to the global level. For the consolidation of dialogue between religion and civilization is a major contribution to the culture of peace and tolerance.

Create an Environment Conducive to the Development of TT and Public Policy Debate

The consolidation of democracy is an essential pillar of TT in Arabic countries. Thus, the emergence of the innovative nature of certain experiences such as that of Morocco should be appreciated and encouraged. They are characterized by the plurality of TT and their ability to use scientific controversy to arise in a large dynamic evaluation of the system of global governance, in accordance with existing international frameworks.

However such an approach can not succeed without enjoying the TT in this country of intellectual autonomy, organic and functional credibility and democratic legitimacy. Such a project should be based a set of principles such as design, innovation, imagination, realism and comprehensiveness in the reflection, participation and involvement of socio economic and skills in decision making strategic, with conservation of the main pillars of identity in the resolution of major problems, managing risks and threats in the era of globalization and crises.

Rebuilding TT Strong and Democratic Economy Based on Knowledge and Innovation

The importance of TT in the consecration of the values of tolerance, security and peace in the world and in all countries is crucial. So alongside the various partners and regional groupings, international, continental and global, because of the global nature of the TT in their relations with the state and businesses they can develop a new culture of democratic governance and cognitive. The pressing need for strong TT in Arab countries, is to help the state parliament, elected representatives and civil society in defining and developing clear strategic priorities and research platforms for debate, dialogue, and consultation, and to disseminate this new doctrines and expertise, academic theories and scientific studies, to bridge the gap between thought and practice, and strengthen democracy and the values of governance in these countries overall cognitive.

The TT will influence decision makers in the approach to major issues (horizontal integration and regional cooperation in the Mediterranean), and the development of civilizational values, strategic and human resources, and encouraging young people to strengthen their commitment to this geostrategic area.

Bridging the Gap between Knowledge and Policy Through the Creation of TT Strategists Brave and Powerful

In order to bridge the gap between knowledge and politics of Arabic countries need effective TT that are open about their socioeconomic environment, modern adopting a holistic approach and a scientific / pragmatic and objective in construction of a societal project advanced through the development of strategic capabilities, institutional and human state, parliament, local authorities and civil society and thus contribute to the achievement of global development to which citizens.

Such an approach can not succeed without taking into account the dangers which threaten security in its comprehensive sense in these countries and the control and implementation of development strategies consistent, and the design of structures for leadership training administration in the field of design strategy and an arsenal of internal control and ongoing evaluation of hazards, development projects, ensuring the transparency and the fight against corruption. The realization of the importance of TT as incubators of innovative policy solutions and Think tank to prepare politicians to good governance practices and professionalism in strategic management systems of governance and values of creativity and innovation.

But the success of TT depends on their capacity to drain the skills necessary human and firmness as to the consecration of the values of quality and honesty in their work, reports and studies and for an example of transparency and good practices. Otherwise, the value of the TT resides in the quality of the members who compose it.

Provide the Necessary Legislative and Financial Support to the TT

The TT will have to develop their financial independence and institutional scientific and moral approach to the expertise brought to the actors. For this purpose the TT will strengthen and consolidate the association agreements and cooperation protocols with all local stakeholders, national, and with civil society with the same interests and goals, as well as elected parliament, research centers, universities, opening with the youth and women.

The guarantee of institutional support, logistical and financial support is needed for these TT can carry out their tasks in accordance with international standards as incubators of educational action-oriented ideas, the distinction, competence, analysis and the influence of current policies, while maintaining the necessary independence. The assertion of such means is a sine qua non for better interaction between policy makers and academia, and an institutional and educational debate and consensus. Such interaction should be based on the design and sending of messages and reports clear policy for governments, public opinion and citizens in general.

Similarly we must ensure that strategic studies in Arab countries are subject teaching in universities and higher institutes of directors, to raise the cognitive level among Arab students and researchers in this field, and what to prepare scientifically evaluate their system of global governance on the basis of knowledge. Epistemologists correctly note "to assess that is changing."

7. Conclusion

The legitimacy of public action in Arab countries is dependent on the creation of democratic and institutional conditions conducive to the development of TT. These conditions are manifold may include:

- The availability of funding,
- The existence of supportive legislation,
- Political freedom and intellectual,
- The existence of rules of good governance,
- The independence of the State,
- The existence of good governance practices.

Now if some authors consider that the development of endogenous TT is hampered by the dominance of international organizations in developing public policies in developing countries with regard to abuse of the outsourcing decision in favor of including the World Bank. According to other reflections of the overwhelming majority of TT are far from reality. Only a minority, whereas in fact that nothing works, suggests that we change the vision, values and politics. Unlike the U.S. and TT are unsatisfactory because of the myth of world domination by the U.S., those of India, China and Brazil are very effective because they understood that the issue resides in the vision and not in technology.

Ultimately we are talking today to assess the performance of TT themselves and their involvement in the process of revitalization of the current global systems of governance in an era of crisis for how far they have a clear vision and shared future, reliable structures, skills, system of continuous assessment and risk communication in relation to the complexity of their tasks (conflict of interest). According to studies conducted in particular by Donald Abelson, James McGann, the TT can use various measures to assess the impact and value of their intervention through the calculation of their contribution to environmental public policy and civil society terms of output and impact. It's a great question, it seems, to what the political science and policy analysis can provide modern tools of analysis, relevant indicators and all the elements required response.

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Justice-Citizenship Bond: Is Leader-Member Exchange a Missing Link?

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Abstract

The study examines leader-member exchange (LMX) as a mediator in the relationship between organizational justice (OJ) and organizational citizenship behavior (OCB). Using a sample of 267 employees in the manufacturing sector, results indicate that informational justice rather than distributive, interpersonal or procedural justice is a stronger predictor of LMX. Additionally, LMX has a significant relationship with altruism, civic virtue, and conscientiousness. In the justice-citizenship relationship, interpersonal justice had a more significant effect on conscientiousness than on courtesy, altruism, civic virtue, or sportsmanship. Distributive justice positively influenced civic virtue whilst informational justice positively influenced courtesy. Procedural justice positively influenced civic virtue, but had a negative effect on courtesy and sportsmanship. However, the results of the mediated relationship implied that LMX did not mediate the relationship between OJ and OCB. These observations have implications for human capital management practices as it allows practitioners to take appropriate actions to elicit desirable employee work behaviors.

Keywords: Organizational Justice, Organizational Citizenship Behavior, Leader-Member Exchange

1. Introduction

The role of leaders in engendering OCB has become crucial as the “naked resignation” syndrome slowly creeps in with globalization and technological advancement. Developing countries including Malaysia are facing the challenging task of engaging workers in discretionary behaviors that are instrumental to the effective functioning of an organization. Prior studies emphasize that leaders can stimulate OCB through mutual interpersonal trust (Podsakoff et al., 1990), and enhancing the quality of LMX (Brandes et al., 2004; Settoon et al., 1996). Then again, solely ensuring LMX is unlikely to entice citizenship behaviors unless employees perceive justice in organizations. As OCB makes an organization more effective over time and across people (Organ, 1988), this study intends to explore further the interactive effects of OJ, LMX and OCB in the manufacturing sector in Malaysia. To sustain the nation’s effort to achieve Vision 2020 (a vision to attain developed nation status by 2020), Malaysia could ill-afford negative work attitudes and needs to address the “naked resignation” syndrome that has become the norm among Generation Y. It is, therefore, vital that organizations formulate human resource practices that promote OJ and train supervisors in the fair enactment of these practices to address this pattern.

In this study, OJ concerns distributive, procedural, informational justice and interpersonal justice. Distributive justice refers to the fairness of decision outcomes; procedural justice concerns perceived justice of the decision-making procedures used to determine the distribution of the

outcome; informational justice focuses on the perceived fairness of communication; and interpersonal justice is the interpersonal treatment that employees received from the superiors. LMX is concerned with the quality of social and resource exchanges between a supervisor and a subordinate, and the degree of emotional support. OCB covers courtesy (obligation of cooperation with others), sportsmanship (avoiding negative behaviors), altruism (voluntary behavior of helping coworkers), civic virtue (knowledge of organizational affairs), and conscientiousness (sincere devotion and respect).

Research on LMX has received growing interest in Asia (Lam et al., 2007) as high-quality LMX is generally desirable. Although employees view their relationship with the organization as one of economic or social exchange (Blau, 1964), LMX is reflected more in social exchange as it is premised in the notion of reciprocity (Chan & Mak, 2012). Employees are more likely to be in a reciprocal social exchange relationship with the organization unless the degree of quality exchange is low. Likewise, employees will reciprocate with discretionary behaviors if they perceived justice at the workplace (Organ, 1997). Prior studies reveal that subordinates are prepared to reciprocate by engaging in OCB without constraint if they feel that they receive more than they give to the leaders (Zhong et al., 2011). Zhong et al. (2011) reiterate that the effect of a high-quality LMX should be understood in relation to discretionary, volunteering, and extra-role behavior.

The primary rationale for the focus on the manufacturing sector is its significant importance to the gross domestic product of the country. To enhance sustainability, not only is it imperative to have high caliber industry captains, but also, employees who perceive the organization as their employer of choice. The presence of OCB would facilitate succession planning and management to enhance organizational performance. However, instilling OCB in the manufacturing sector would probably be more challenging considering the perilous nature of the work environment. Additionally, perceptions of organizational injustice may further dampen the spirit of OCB. To mitigate the effect, quality LMX, among other factors must improve. Otherwise, employee dissatisfaction may result in indifferent and negative work attitudes. Based on the theory of reasoned action, behavioral intentions is much dependent on attitudes and subjective norms. Undesirable attitudes lead to adverse behavioral intentions that affect organizational effectiveness. Moreover, the escalating cost of hiring and training as well as the growing competitiveness of the manufacturing sector make OCB an important issue that merits consideration.

While Chan and Mak (2012) examines LMX as a mediator of the relationship between benevolent leadership and follower task performance and extra-role performance, little empirical work has been done to examine if LMX is a missing link in the justice-citizenship relationship. This study attempts to address this gap by building on existing work to examine the impact of each component of OJ and LMX on the five dimensions of OCB. More specifically, the main objective is to test if LMX mediates the justice-citizenship linkage and to confirm if what is observed in justice literature would be applicable in the Malaysian manufacturing environment. Considering high power distance, the multiracial organizational environment in Malaysia, and the job switching habits of the current Malaysian workforce, the question of how employee perceptions of LMX facilitate the justice-citizenship bond remains to be addressed. That question is the focus of this study.

This study contributes to theory and practice in several ways. The primary theoretical contribution of the present research lies on the integration of theory of reasoned action and the LMX theory in predicting the discretionary behaviors of employees. It advances literature on LMX as the black box by examining whether it mediates the justice-citizenship bond. This provides a more nuanced understanding of the roles of OJ, LMX and OCB in the Malaysian manufacturing context. A contribution to practitioners will be to enlighten practitioners on the salient aspects of the justice-

LMX-citizenship relationship to help mitigate racial sentiments and promote citizenship behaviors. The findings from the study will enhance understanding of the antecedents and consequences of LMX and likely fill the gaps in present knowledge.

2. Theory and Hypotheses

2.1 Organizational Justice and Organizational Citizenship Behavior

Organizational justice and organizational citizenship behavior are not completely separate and unrelated ideas. An employee perception of OJ likely leads to OCB (Organ & Konovsky, 1989), as it reduces fears of exploitation and uncertainty at the workplace (Lind & Van den Bos, 2002). Moreover, fair treatment signals leaders' adherence to moral and ethical standards. This enhances employees trust in their leaders and legitimacy of their actions. As a result, employees may reciprocate positively by exhibiting OCB. Based on the norm of reciprocity, employees are likely to have a sense of obligation to reciprocate by exhibiting OCB when employees perceive that their supervisors are treating them fairly.

Warranted evidence is found in empirical studies that indicated a positive association between OJ and OCB (e.g., Abdullah & Mohd Nasurdin, 2008; Hassan & Mohd Noor, 2008; Lo et al., 2006; Moorman, 1991.) Ball et al. (1994) in their study on the effects of perceived unjust punishment on OCB contend that subordinates avoid anti citizenship behavior when perceived OJ is high. Likewise, Moorman (1991) finds a causal relationship between perceived OJ and OCB, though this was limited only to interactional justice. Thus, OJ is able to elicit OCB in many cases and citizenship behaviors are the mainstay in many organizations with high organizational justice. However, the relationships between the justice dimensions and citizenship dimension are inconsistent in the literature.

Tansky (1993) posits that procedural justice and fair treatment from superiors seem to be the most important component to the justice-citizenship bond. Fair treatment potentially encourages employees to engage in unrewarded, extra-role behaviors (Hassan & Mohd Noor, 2008). In addition, meta-analytic data show positive correlations between both procedural and distributive justice and OCB (Moorman & Byrne, 2005). For example, fairness in pay was associated with altruism and generalized compliance factors of OCB (Organ & Konovsky, 1989). Perceptions of job equity and pay equity are significantly correlated with extra-role, discretionary behavior (Dittrich & Carrell, 1979).

Likewise, Robinson and Morrison (1995) argue that employees are less likely to engage in civic behavior if they perceive that their employer had failed to fulfill employment obligations. Fair procedures move people to support the needs of the group and augment OCB (Moorman & Blakely, 1995). Konovsky and Folger (1991) and Farh et al. (1990) reveal a correlation between procedural justice and altruism. Similarly, studies show a positive relationship between procedural justice and four OCB dimensions (Moorman, 1991). Nonetheless, Tepper et al. (2001) conceive that the association between procedural justice and OCB is stronger for people who define OCB as extra-role than for those who define OCB as in-role.

Likewise, perceptions of interactional justice are instrumental in predicting OCB (Hassan & Jubari, 2010; Moorman, 1991). Interactional justice is positively associated with OCB (Greenberg, 1990). Greenberg (1990) observes that employees resort to negative OCBs (commit theft) to fulfill contractual obligations if no explanations or apologies were offered for the unfair treatment. In addition, Lazar et al. (2007) affirm that interactional justice is related to OCBs directed at the

supervisor. Individuals tend to do extra-role work to help when their supervisors treat them respectfully. Giap et al. (2005) support this assertion and argue that the only significant correlation is between interpersonal justice and altruism.

Building on this argument and inherent contradictions in the justice-citizenship bond, this study will extend prior research by testing a model that investigates the relationship between perceptions of OJ and dimensions of OCB. To verify if OJ does indeed have a greater influence on OCB, specifically the salient effect of each dimension, the following hypotheses will be tested.

Hypothesis 1 Organizational justice positively influences the dimensions of organizational citizenship behavior.

2.2 Organizational Justice And Leader-Member Exchange

LMX theory emphasizes on the quality of the relationships formed between leaders and members. Good quality relationship is likely to enhance harmony at the workplace, reciprocal dependence, mutual support, loyalty, contribution and responsibility, and other organizational phenomena as leaders and members share mutual outcome instrumentalities. As LMX relationships are inevitable at the workplace, it is vital to develop good quality relationship. LMX may develop in many ways depending on the amounts of currencies of exchange. An exchange might be based on task-related behaviors, mutual loyalty, simply liking one another or a combination of these currencies (Dienesch & Liden, 1986). Similarly, Dansereau et al. (1975) maintain that LMX relationships are characterized by mutual trust, respect, liking, and reciprocal influence. High exchange relationships are characterized by high levels of trust, liking, and respect (Graen & Uhl-Bien, 1995).

The LMX theory affirms that leaders exhibit different styles of leadership depending on the kind of leader's relationship with the different subordinates within work groups (Dansereau et al., 1975). Podsakoff et al. (1990) opine that the in-group subordinates perceive greater fairness from their leaders than members of the out-group. In-group members enjoy greater job latitude, as well as leader's support, confidence and consideration (Dansereau et al., 1975). In contrast, leaders relationship with out-group subordinates is relatively normal with out-group subordinates only receiving the standard benefits (Erdogan et al., 2006). In essence, the quality of the LMX relationship usually differs from one subordinate to another (Yukl et al., 2009).

The literature in the OJ-LMX linkage has consistently argued that organizational justice promotes social exchange relationships between employees and their supervisors (e.g., Organ, 1988; Roch and Shanock, 2006). The social exchange theory posits that LMX relationship develops steadily over time and is reciprocally strengthened by the behavior of the leader and the subordinates (Settoon et al., 1996). Therefore, it is hypothesized that employee perceptions of OJ positively affects the quality of LMX relationship. If perception of OJ were high, subordinates would place more trust in superiors, and hence, improve the LMX relationship (Naumann & Bennett, 2000). Trust in supervisors involves day-to-day interaction between supervisors and employees.

Prior research indicates a significant relationship between each component of OJ and trust in the supervisor (Cameron et al., 2007). For instance, procedural justice increases employee's trust in supervisor (Aycan, 2001). Brockner et al. (1997) find that trust based on procedural justice interacts with outcome favorably to influence employees' reactions. In social exchanges, trust is an important element for a continuous relationship. When an employee perceives that a decision is fair, the employee will assume that future decisions will be fair. Thus, mutual reciprocation over time will augment quality LMX relationship. Feelings of trust in the LMX relationship will result in long-term

reciprocal obligations (Rhoades & Eisenberger, 2002). In addition to trust, the quality of LMX relationship is likely to be affected by the extent to which the superior values the employee's contributions.

By the same logic, other justice dimensions potentially affect the quality of LMX relationship. For instance, interactional justice is positively associated with supervisory trust (DeConinck, 2010; Roch & Shanock, 2006). To enhance interactional justice, the supervisor has to explain the procedures involved, ascertain employee perceptions of the procedures, communicate with the employee, make timely decisions, and tailor decisions to meet the specific needs of the employee. Thus, it is important that interactional justice in a subordinate-supervisor relationship is high to enhance the quality of LMX. Perceived interactional injustice would create resentment towards the supervisor or institution (Aryee et al., 2007) and reduce the effectiveness of organizational communication (Baron & Neuman, 1996). Accordingly, the following hypothesis will be tested:

Hypothesis 2 Organizational justice relates positively to leader-member exchange.

2.3 Leader-Member Exchange And Organizational Citizenship Behavior

The main theoretical rationale for the association between LMX and OCB is based on social exchange theory (Settoon et al., 1996). Employees feel obligated to reciprocate in exchange for desired outcomes provided by the leader. In other words, employees are likely to engage in OCB to reciprocate leader's extra support and trust. Nonetheless, the engagement of subordinates in OCB is affected by the quality of LMX they are engaged in. The degree of quality exchange between the leader and subordinates may vary from high to low. High quality LMX can motivate subordinates to engage in performing behaviors beyond their formal work requirements (Ilies et al., 2007; Law et al., 2010) to enhance the effective functioning of the organization. Moorman (1991) maintains that better quality LMX promotes OCB. Similarly, Zhong et al. (2011) assert that in order to sustain a mutually beneficial relationship, subordinates engage in OCB to return the benefits the leaders offered. In line with this, Lapierre and Hackett (2007) affirm a meta-analytic mean of 0.32 between LMX and OCB. Therefore, high quality exchange relationships expounded by high-level of trust, liking, respect, and expectations of mutual exchange (Yukl et al. 2009) has an overarching effect on OCB. On the contrary, in low quality exchange relationships, subordinates are only expected to perform the formal requirements of their jobs.

As the quality of LMX relationship is crucial to employee attitudes and behavior (Napier & Ferris, 1993), a leader should strive to intensify high quality exchange relationships with as many subordinates as possible (Graen & Uhl-Bien, 1995). "A high-quality exchange may create a sense of obligation on the part of the subordinate to reciprocate in terms of behaviors valued by the supervisor" (Wayne et al., 2002, p. 593). Many other studies have also emphasized the importance of the LMX relationship on OCB (Moorman, 1991; Podsakoff et al., 1990). Even though OCB has been defined as a multi-dimensional construct, there are few previous studies on the association between LMX and the different dimensions of OCB (Organ & Ryan, 1995). Composite scores do little to illuminate the role of LMX on the specific dimensions of OCB. Therefore, the present study aims to re-examine the association between LMX and the dimensions of OCB.

Hypothesis 3 Leader-member exchange positively influences the dimensions of organizational citizenship behavior.

2.4 Leader-Member Exchange As A Mediator

In the existing literature, various studies provide empirical support for LMX as an antecedent. For instance, the quality of LMX relationship is an important antecedent of perceived procedural justice climate, which in turn affects attitudinal outcomes (Napier & Ferris, 1993). Although little is known about the relationship between LMX and justice (Pillai et al., 1999), studies have shown that LMX is positively related to procedural and interactional justice (e.g., Alexander & Ruderman, 1987). Likewise, Mahfooz et al. (2007) assert that affect and professional respect dimensions of LMX is significant to attitude-related outcomes in the Malaysian context. Moreover, the findings in this study reveal the mediating role of procedural justice climate in the LMX-attitudinal outcomes relationship. However, little is known on LMX as a mediator in the OJ-OCB relationship.

Organ (1988) posits that perception of justice promotes social exchange relationships between employees and their supervisors and leads to OCB. Hassan and Jubari (2010) contend that LMX fully mediates the relationship between interactional justice and organisational citizenship behaviour. Studies by Giap et al. (2005) and Erturk (2007) attest that trust in supervisors mediates the relationship between OJ and OCB. Thus, it is argued that there might be a correlation between perceptions of justice, the quality of LMX relationship and OCB. The rationale for LMX as a mediator in the OJ-OCB relationship is that the quality of relationship between leader and subordinates to a considerable extent is affected by perceived fairness of decisions made. Perceived equity would likely improve the quality of LMX relationship and enhance employees' trust in superiors. Employees' trust in their superiors would probably be higher if their superiors were more procedurally fair (Brockner & Siegel, 1996). Building on the above arguments, it is hypothesized that:

Hypothesis 4 Leader-member exchange mediates the relationship between organizational justice and organizational citizenship behavior.

3. Research Methodology

3.1 Sample Size

To test the hypotheses, the focus of the study was on the full-time management staff of manufacturing companies. The study used the Federation of Malaysian Manufacturers Directory as the sampling frame. The directory provides a list of 2,571 manufacturing companies. To balance survey cost and scope, a sample of 100 manufacturing companies was selected using stratified random sampling. Questionnaires were distributed to ten management staff from each of the 100 companies. Prior to sending the questionnaire, a pilot study was conducted to check for relevancy and comprehensibility of the items, as well as to determine the time necessary to complete the questionnaire. The final sample for this study was 267 from 43 manufacturing companies. Of the 267 respondents, 56.6 percent are male and 43.4 percent are females. The majority of the respondents are aged between 25 and 40 years (67.8%) and about two thirds (66.3%) are married. More than half of the respondents have at least a Bachelor degree (68.5%) and slightly more than a third are managerial staff (36.3%). Half of the respondents are either engineers or executives (50.9%). About half of the respondents (48.3%) have been with their current organization for between three to ten years.

3.2 Procedure

A packet containing the questionnaire in English, along with a cover letter and a prepaid reply envelope, was sent to the HR director of the selected companies. The cover letter explained the purpose of the study, and emphasized the importance of responding to the questionnaire. Assurances of anonymity and confidentiality were also stated. Two weeks later, follow-up letters were mailed to those who have not responded, stressing the value of the survey and the importance of their participation. Another reminder was sent a week after the first follow-up. This yielded a final sample of 267 valid cases representing a response rate of 26.7 percent. Non response bias was tested by comparing early and late respondents and responding and non-responding firms. These tests reveal no bias for early and late respondents. The insignificant results also show no bias for responding and non-responding firms.

3.3 Measurements

Items for all the constructs were measured using scales ranging from (1) strongly disagree to (5) strongly agree. The dependent variable, OCB was measured using 24 items developed by Podsakoff et al. (1990) in which internal consistency reliabilities for the OCB scales ranged from 0.70 for civic virtue and 0.85 for altruism. The Cronbach alphas for the current study were 0.872 for courtesy, 0.871 for sportsmanship, 0.845 for altruism, 0.789 for civic virtue, and 0.767 for conscientiousness. An example of an item was “I do not abuse the rights of others.” The independent variable, OJ was measured using 20 items derived from Colquitt (2001). An example of a statement is “The (outcome) I received is justified given my performance.” The Cronbach’s alpha for each component was 0.888 for procedural justice, 0.866 for informational justice, 0.914 for distributive justice, and 0.868 for interpersonal justice. The mediating variable, LMX was assessed using Graen and Uhl-Bien’s (1995) LMX scales. Prior studies confirmed the reliability of the measure with Cronbach’s alphas ranging from .87 (Yukl et al., 2009) to .91 (Hooper & Martin, 2008). The Cronbach’s alpha for this study was 0.852. Sample items include “My supervisor recognizes my potential very well.” and “I usually know how satisfied my supervisor is with what I do.” Eight questions tapped the demographic data of the respondents as well as some characteristics of the organizations.

3.4 Analysis

Data analysis was conducted in three phases after the accuracy of data entry was verified by checking a random sampling of survey items. First, after the removal of outliers, exploratory factor analysis rotated with Varimax was conducted to examine the factor structure of the scales. With eigenvalues set at 1.00, items with communalities more than 0.50 were retained.

For justice measures, the items formed four factors representing procedural justice (7 items), informational justice (5 items), distributive justice (4 items), and interpersonal justice (4 items). For LMX, only one factor was extracted explaining 62.9 percent of the variance. Two items were dropped due to low loading (LMX1 and LMX5). For OCB, all five factors, namely courtesy (5 items), sportsmanship (5 items), altruism (5 items), civic virtue (4 items), and conscientiousness (4 items), were included to represent the construct. One item (Con1) was dropped due to low factor loading.

Second, correlation analysis was conducted to describe the strength and direction of the linear relationship between the variables. Results of the correlation analysis provide support for discriminant validity considering the low correlation among variables that are supposed to be

unrelated. Examining further, none of the correlation coefficient is above 0.90, indicating that all the variables are distinct (Amick & Walberg, 1975). Preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity, and homoscedasticity. The VIF scores for all the variables are well below 10 and, therefore, there is no concern for multicollinearity (Pallant, 2007).

Third, confirmatory factor analysis (CFA) was conducted to test for convergent and discriminant validity of the constructs before analyzing the structural models. The final model was assessed using structural equation modeling with the AMOS 18 program to analyze its validity. To provide evidence of model fit, five fit indices have been identified for the study – Chi-Square (χ^2), Goodness-of-Fit Index (GFI), Tucker-Lewis Index (TLI), comparative fit index (CFI), and Root Mean Square Error of Approximation (RMSEA).

4. Results

4.1 Measurement Model Analysis

To assess the validity of the measure, the four justice factors were subjected to CFA. The results of the first-order CFA indicated an acceptable fitting model with $\chi^2 = 382.388$; $p < .001$; GFI = .877; TLI = .922; CFI = .932; and RMSEA = .071. All items that represented OJ were significantly loaded into their intended factors with standardized loadings of more than 0.50. The OJ construct was then subjected to second-order CFA. The results revealed an acceptable fitting model with $\chi^2 = 391.822$; $p < .001$; GFI = .874; TLI = .920; CFI = .930; and RMSEA = .072. The standardized factor loadings for all the items were more than 0.50 and were significantly loaded into their intended factors, indicating convergent validity.

Results of the first-order CFA for OCB signified an acceptable fitting model with $\chi^2 = 499.025$; $p < .001$; GFI = .862; TLI = .889; CFI = .903; and RMSEA = .069. Standardized factor loadings for all items ranged from 0.599 to 0.836, and, therefore, no items were dropped. Second-order confirmatory factor analysis carried out implied an acceptable fitting model with $\chi^2 = 520.290$; $p < .05$; GFI = .855; TLI = .885; CFI = .898; and RMSEA = .070. Except for sportsmanship, standardized factor loadings for all the other items were above 0.50, thus, confirming convergent validity.

The results of the goodness of fit indices indicated a well-fitting measurement model with $\chi^2 = 183.069$; $p < .05$; GFI = 0.904; TLI = 0.901; CFI = 0.919; and RMSEA = 0.074. The standardized regression weights showed that except for sportsmanship, all the items were significantly loaded into the intended factor with standard loadings ranging from 0.599 to 0.789. There was no empirical or theoretical justification to modify or re-specify any of the existing relationships in the hypothesized model. The CFA results confirmed that the theoretical measurement model was valid.

To measure discriminant validity, a Chi square difference test was performed on the nested models. Four models that were specified provided evidence for discriminant validity. First, the three-construct model was specified where all constructs – OJ, LMX and OCB – were treated as independent variables. Then, a two-construct model in which LMX and OCB were loaded into one construct was specified. Finally, only one latent construct model was specified in which the 14 measured items were indicators. Each model was tested and its fit compared to the fit of the original three-construct model. As shown in Table 1, the model fits were significantly different, suggesting that the 14 items represent three separate constructs. Significant Chi square differences ($\Delta\chi^2 > 3.84$

for $df = 1$) were observed in all cases, thus, providing evidence of discriminant validity. In essence, the model has fulfilled the criterion of distinctiveness. Having confirmed the adequacy of the measurement model, subsequent testing in the structural form was possible.

Table 1 CFA Comparison of the Measurement Models

Model	χ^2	df	GFI	TLI	CFI	RMSEA
3-Factor Model	183.069	74	0.904	0.901	0.919	0.074
2-Factor Model	375.260	76	0.805	0.734	0.778	0.122
1-Factor Model	454.763	77	0.776	0.669	0.720	0.136

4.2 Summary of Findings On Hypothesized Relationships

Hypothesis 1: OJ-OCB Relationship

As summarized in Table 2, the hypothesis relating employee perceptions of OJ to the dimensions of OCB was partially supported. Distributive justice positively influenced civic virtue whilst informational justice had a significant positive effect on courtesy. Procedural justice positively influenced civic virtue, but had a negative effect on courtesy and sportsmanship. Employee perceptions of interpersonal justice, however, positively influenced all dimensions of OCB. Comparatively, interpersonal justice had a more significant effect on conscientiousness than on courtesy, altruism, civic virtue, or sportsmanship. The influence of interpersonal justice on civic virtue was stronger than the effect of procedural justice or distributive justice. Similarly, interpersonal justice was more significant on courtesy as compared to informational justice or procedural justice. Comparatively, interpersonal justice had a stronger influence on sportsmanship than procedural justice.

Table 2 Organizational Justice: Organizational Citizenship Behavior

Factors/Items	Std. Loading	S.E.	C.R.	P
Conscientiousness \leftarrow Interpersonal justice	.480	.097	5.608	***
Courtesy \leftarrow Interpersonal justice	.389	.077	5.206	***
Altruism \leftarrow Interpersonal justice	.334	.082	4.324	***
Civic virtue \leftarrow Interpersonal justice	.327	.087	4.183	***
Sportsmanship \leftarrow Interpersonal justice	.191	.102	2.750	.006
Courtesy \leftarrow Informational justice	.177	.071	2.656	.008
Civic virtue \leftarrow Procedural justice	.170	.060	2.382	.017
Civic virtue \leftarrow Distributive justice	.153	.051	2.207	.027
Sportsmanship \leftarrow Procedural justice	-.136	.076	-2.007	.045
Courtesy \leftarrow Procedural justice	-.128	.051	-1.988	.047

Hypothesis 2: OJ–LMX Relationship

Table 3 Organizational Justice: Leader-Member Exchange

Factors/Items	Std. Loading	S.E.	C.R.	P
LMX ← Distributive justice	.302	.049	4.475	***
LMX ← Informational justice	.294	.081	4.082	***
LMX ← Interpersonal justice	.225	.075	3.298	***
LMX ← Procedural justice	.205	.056	3.061	.002

As evidenced in Table 3, employee perceptions of OJ positively influenced LMX. All dimensions of OJ were significantly related to LMX. Among the justice factors, distributive justice had a greater influence on LMX than informational justice, interpersonal justice, or procedural justice. Therefore, the hypothesis that employee perceptions of OJ positively influence LMX was supported.

Hypothesis 3: LMX-OCB Relationship

As evidenced in Table 4, LMX positively influenced all dimensions of OCB except sportsmanship. Thus, the hypothesis that LMX positively influence OCB was partially substantiated. The effect of LMX on OCB was most significant on civic virtue, followed by altruism, conscientiousness, and courtesy.

Table 4 Leader-Member Exchange: Organizational Citizenship Behavior

Factors/Items	Std. Loading	S.E.	C.R.	P
Civic virtue ← LMX	.477	.071	5.984	***
Altruism ← LMX	.452	.065	5.744	***
Conscientiousness ← LMX	.371	.067	4.685	***
Courtesy ← LMX	.359	.057	4.951	***

Hypothesis 4: LMX as a Mediator in the OJ-OCB Relationship

The possibility that the relationship between OJ and OCB was mediated by LMX was analyzed using a two-step process. At Step 1, the significant relationships between the constructs were established. From the analysis of the correlations that were obtained after standardization, the inter-construct correlations were significant for all the four constructs. Step 2 was to estimate the mediated model and assess the level of mediation. First, was to estimate the original model, which did not estimate the direct effect from OJ to OCB. Then, a revised model, with the added direct path between OJ and OCB was estimated. This was to assess if adding the direct effect would substantially change the model fit. The results in Table 5 showed that the revised model with the direct relationship had a slight decrease in Chi square ($\Delta\chi^2 = 4.222$, $df = 1$, $p = 0.000$) and a significant path estimate for the OJ-OCB relationship. These indicated that there was no mediation, that is, the existence of a non-mediated model. In the revised model, the path estimate between OJ and the mediator (LMX) was still significant. However, the relationship between LMX and OCB was

not significant. As $OJ \rightarrow LMX$ and $OJ \rightarrow OCB$ contained paths that were all significant, the model supported non-mediation. In essence, LMX did not act as a mediator.

Table 5 Testing for Mediation in the Justice-Citizenship Model

Model Element	Original Model	Revised Model
Model Fit		
Chi square (χ^2)	187.291	183.069
Degrees of freedom	75	74
Probability	0.000	0.000
CMINDF	2.497	2.474
RMSEA	0.075	0.074
CFI	0.917	0.919
Standardized parameter estimates		
$OJ \rightarrow LMX$	0.749***	0.742***
$LMX \rightarrow OCB$	0.415***	0.196
$OJ \rightarrow OCB$	0.000	0.269*

5. Discussion and Managerial Implications

5.1 Organizational Justice-Organizational Citizenship Behavior Relationship

The findings of the study affirm that there is indeed a positive relationship between OJ and OCB, albeit partially. This supports literatures that research the relationship between OJ and OCB. The findings establish the strong influence of interactional justice, in particular, interpersonal justice on OCB. To a certain extent, the findings support the assertion that interactional justice is the sole dimension of fairness to significantly relate to OCB (Greenberg, 1990; Lazar et al., 2007; Moorman, 1991). It is, therefore, crucial that organizations ensure politeness and treat employees with respect and dignity (Colquitt, 2001) as employees are more willing to accept unfavorable outcomes (Deutsch, 2000).

Besides, only interpersonal justice relates significantly to sportsmanship. In short, employee perceptions of justice do not necessary encourage avoidance of negative behaviors and complaints. Employees avoid negative behaviors only if superiors treat them with respect and dignity. Equity in the distribution of outcomes, objectivity in decision procedures, as well as adequate and honest explanations do not deter pessimistic behaviors. To avoid negative behaviors from escalating, it is desirable that organizations provide adequate training to enhance interpersonal skills of superiors. Enhanced interpersonal skill improves social relations among employees and mitigates misunderstanding and conflict at the workplace. Additionally, organizations benefit from activities that promote workplace harmony, as such activities that foster teamwork and increase employee morale. Well-established grievance procedures are also likely to improve sportsmanship at the workplace.

Furthermore, the results establish that interactional justice has a significant effect on courtesy, but only interpersonal justice significantly affects the other dimensions of OCB. The association between interpersonal justice and altruism supports the findings of Giap et al. (2005) which affirm that employees do extra-role work to help when their supervisors treat them respectfully; akin to Organ's (1997) contention that employees contain extra-role behavior if employees perceive injustice.

Similarly, Sweeney and McFarlin (1993) assert that employee perceptions of injustice restrict employee willingness to help other employees. Informational justice enhances employees' obligation of cooperation with others and has no significant effect on other dimensions of OCB.

However, the current findings dispute prior studies that contend that procedural justice is an important determinant of OCB (e.g. Farh et al., 1990; Moorman, 1991; Tansky, 1993). The current findings are also incongruent with the findings of Nadiri and Tanova (2010) where distributive justice is a stronger predictor of OCB and that distributive justice is associated with altruism and conscientiousness (Organ & Konovsky, 1989). It further differs from meta-analytic data that show positive correlations between both procedural and distributive justice and OCB (Giap et al., 2005; Moorman & Byrne, 2005). The current study suggests that perceived fairness of interpersonal treatment by managers as well as adequate and sincere communication of procedures and outcomes rather than fairness of a firm's procedures would have a stronger impact on OCB. Based on the current study, to enhance OCB, managers may have to make a concerted effort to treat employees with greater respect and dignity.

In the current study, employee perceptions of procedural justice relate negatively to courtesy and sportsmanship. Hence, the results challenge prior research that contend the linear relationship between procedural justice and altruism (Farh et al., 1990); and altruism, courtesy, sportsmanship, and conscientiousness (Moorman, 1991). The inverse correlation indicates that employees have a tendency of containing cooperative behaviors and complain more if procedures in decision outcomes were perceived as fair. In essence, perceptions of procedural justice reduce employees' efforts in avoiding negative behaviors and not complaining in case of problems. Concisely, employees are less tolerant and tend to behave negatively when equity in decision outcome procedures exists. Additionally, procedural justice hinders helpful behaviors, as well as discourages team working and collaboration among employees. Such attitudes may be detrimental to organizations, as collaboration and consultation are sometimes instrumental in mitigating the severity of a foreseen problem.

The current study ascertains that distributive, procedural, and interpersonal justice, positively influence civic virtue. This confirms the findings of Robinson and Morrison (1995) that employee perceptions of fairness enhance civic behavior. This indicates that OJ is a key determinant of whether employees take an interest in company affairs and developments, and make efforts that promote self as well as organization interest. Succinctly, OJ is a strong determinant of whether employees respond appropriately and responsibly to the political life of the organization. Fair procedures encourage employees to stay up-to-date with important issues of the organization and support the needs of the group (Moorman & Blakely, 1995). Awareness of happenings at the workplace not only helps employees respond quickly, but also promotes citizenship behaviors in the long run.

In summary, the findings of this study support prior research in asserting the significance of OJ in enhancing OCB (Dittrich & Carrell, 1979; Farh et al., 1990; Konovsky & Folger, 1991; Moorman, 1991). Specifically, particular attention should be paid to interpersonal justice, as it is significant on all dimensions of OCB. It is, therefore, imperative to provide industry captains or organizational leaders with interpersonal skills to communicate perceived fairness in decision-making. This involves giving employees due respect and increasing transparency in the decision making processes. This concurs with DeConinck (2010) assertion that for interactional justice to improve, supervisors need to explain not only the procedures, but also, response to queries regarding the process. In essence, it may be necessary for HR practitioners and developmental specialists to prioritize leadership training for all employees involved in decision-making. Though autonomy in decision-making may be encouraged, perceived injustice will strain relationships and hamper citizenship behaviors.

Therefore, it is crucial that organizations promote a culture of fairness and influence employees' perception of a quality relationship between OJ and OCB (Tansky, 1993). Employees reciprocate with discretionary behaviors when they are treated fairly and vice versa (Organ, 1997). Justice initiates neutrality and standing, which accordingly heightens reciprocation and communication (Brockner & Siegel, 1996). As behavior intent is the most important determinant of a person's behavior (Ajzen & Fishbein, 1980), employee perceptions of OJ will likely motivate employees to reciprocate positively. A mutually beneficial social relationship is established once the employer initiates fair treatment of its employees, as employees feel obligated to reciprocate (Blau, 1964). Employees reciprocate by exhibiting extra-role behaviors (Robinson & Morrison, 1995) such as OCBs (Organ, 1988).

5.2 Organizational Justice-Leader-Member Exchange Relationship

Numerous studies show that procedural or interactional justice are more related to LMX (e.g. Alexander & Ruderman, 1987; Brockner & Siegel, 1996; Brockner et al., 1997; Napier & Ferris, 1993). However, the current study affirms that informational justice is the most important, followed by distributive justice, interpersonal justice and procedural justice. That informational justice is highly significant on LMX supports the notion that organizations may not be communicating enough to convince employees that equity is in place. It further indicates the lack of objectivity and transparency in decision outcomes. The current findings suggest that the use of honest and adequate explanations for decisions is imperative for a higher degree of emotional support and exchange of valued resources between the leader and the subordinates. To enhance LMX, the supervisor has to explain explicitly the procedures involved in decision outcomes, and to communicate with the employees to assure consistency and transparency of procedures and outcomes. The reason for this is explanations often provide the information needed to justify the procedures and decisions taken.

Comparatively, distributive justice is more important than interpersonal justice as a predictor of LMX. This shows that employees are more concerned about fairness in distribution of outcomes and care less of whether superiors treat them with respect and dignity. This disputes Aryee et al.'s (2007) contention that perceived interactional injustice would create resentment towards the supervisor. Procedural justice has the least effect on the quality of LMX. Whether equity exists in decision-making procedures is relatively insignificant in determining the quality of LMX. The quality of LMX is greatly influenced by how much employees perceived that explanations for decisions are given adequately and honestly. However, this challenges prior studies that maintain that LMX is positively related to procedural and interactional justice (Alexander & Ruderman, 1987).

Earlier studies focus mainly on trust in supervisors (Naumann & Bennett, 2000) and maintain that procedural justice (Brockner & Siegel, 1996) and interactional justice (DeConnick, 2010; Roch & Shanock, 2006) are important predictors of LMX. The current study demonstrates that though employee perceptions of OJ influence LMX, the effect is less likely attributed specifically to one dimension of OJ. It concurs with past research that indicates a significant relationship between each component of OJ and trust in the supervisor (Cameron et al., 2007). However, it further differs from prior studies in terms of the significance of each component of OJ on the quality of LMX.

To enhance the quality of LMX, appropriate policies that address inequity at the workplace are essential. Specifically, measures taken to develop communication skills of managers in conveying decision outcomes may be instrumental in enhancing social exchange relations (Organ, 1988) and harmony at the workplace. Inadequate and dishonest explanations for decision outcomes or the availability of such information to certain groups of employees are likely to result in political factions among employees. Indubitably, dissatisfaction sets in, as the quality of the LMX relationship

is perceived to vary from one subordinate to another (Yukl, et al., 2009). In-group subordinates usually have more autonomy, support, and leader's consideration (Dansereau et al., 1975; Podsakoff et al., 1990). Such developments may jeopardize relationships at the workplace, especially in high power distance organizations where employees are expected to accept decision outcomes unquestionably. As perceived justice lowers job stress and enhance workplace safety (Erdogan & Liden, 2002), assuring OJ is vital for organizational excellence.

To improve LMX at the workplace, authorities may consider promoting a culture of intelligibility. Fairness in explanations may enhance LMX, which in turn may create a sense of belonging to the organization. Fostering commitment and loyalty among employees can be a competitive advantage in today's business world (Nadiri & Tanova, 2010). Hoarding of information may hinder mutual trust and reciprocal influence, which further aggravates the LMX relationship. It may be necessary to increase employee involvement in decision-making process to improve LMX as it enhances employees' perception of procedural justice (Van Yperen et al., 1999). As group interaction is essential for high quality LMX relationship, occasional informal gatherings such as Family Day, teambuilding workshops at resort locations, parties and sporting events are also likely to improve group morale and organizational effectiveness. Communication between the superiors and the subordinates tends to be less cautious and the informality would probably lead to better understanding among staffs. Employees are likely to reciprocate with positive behaviors that reinforce LMX if they perceive that leaders are supportive of their endeavors. Additionally, organizations may groom leaders to be more decisive and consistent in decisions, and hence, better decision makers. Leadership training that emphasizes on the importance of fairness, interpersonal skills, mentoring, and joint development of goals may increase their knowledge, skills, and self-confidence on the job. Leaders should be trained to make decisions based on merit or performance and not personal judgment. Emphasis should also be placed on the necessity to be explicit in whatever decisions made in order to mitigate perceptions of injustice.

5.3 Leader-Member Exchange-Organizational Citizenship Behavior Relationship

In order of importance, LMX relates positively to altruism, civic virtue, and conscientiousness. To a certain extent, it concurs with the findings of Wayne and Green (1993) and Truckenbrodt (2000) that LMX specifically relates to altruism. However, it confirms the findings of other studies that indicate significant correlations between LMX and OCB (e.g., Moorman, 1991; Organ, 1988; Podsakoff et al., 1990; Tansky, 1993; Van Yperen et al., 1999). As employees characterize that their working relationship with supervisors is extremely effective (LMX7), the quality of LMX is probably high. Consequently, trust, liking, and respect as well as expectations of mutual exchange (Yukl et al., 2009) is likely to be high. Besides, a favorable working relationship with supervisors, employees opine that supervisors understand their job problems and needs very well (LMX2). Employees believe that supervisors recognize their potential (LMX3) and would use their authority to help employees solve work-related problems (LMX4). This is not possible without emotional support and exchange of valued resources between the leader and members (Kang & Stewart, 2007). In exchange for desired outcomes provided by the supervisor, among others, subordinates reciprocate by defending and justifying supervisors' decisions in their absence (LMX6).

This can be seen in employees' willingness to voluntarily help coworkers in work-related matters; increased interest in company matters and personal development; and sincere devotion and adherence to company endeavors. However, the results reveal that the quality of LMX does not influence courtesy and sportsmanship. High quality LMX relationships do not enhance employees' obligation to cooperate with others. Employees are least concerned about actions that could affect their responsibilities. If left unchecked, such behaviors could possibly lead to disastrous

consequences for the organization. Organizations should therefore, be aware and cautious that high quality LMX relationships do not necessarily augment courteous behaviors from employees. Similarly, high quality LMX relationships do not guarantee constructive behaviors that would contribute to organizational effectiveness. The quality of LMX does not deter employees from exhibiting disapproving behaviors.

The significant correlation between LMX and altruism, civic virtue, and conscientiousness demonstrates that high quality LMX relationships are fundamental for positive employee attitudes. Thus, much empirical research link the quality of LMX with positive employee attitudes (e.g. Bhal & Ansari, 2007; Graen, 2006; Harris et al., 2007; Krishnan, 2004; Lapiere et al., 2006; Lee, 2005; Pellegrini & Scandura, 2006). As employee behavioral intentions are determined by their attitudes, positive attitudes augment affirmative behaviors. Rational, volitional, and systematic behavior (Fishbein & Ajzen, 1975) in which the individual has control is essential for productive behaviors. Despite being highly motivated by own attitudes and subjective norms, the lack of volitional control will constrain employees from giving their best. As altruism, civic virtue, and conscientiousness are employee behaviors that contribute significantly to organizational performance, it may be beneficial for organizations to invest in improving employee attitudes.

Increased LMX would probably enhance teamworking, create a more disciplined and committed workforce, and improve behaviors and attitude at the workplace. Employees would likely exhibit extra role behaviors – helping or cooperating with coworkers on organizational related matters. Employees may be more accommodating to fresh recruits, relieve a sick coworker, or volunteer to help others (Truckenbrodt, 2000). Besides, employees are expected to go beyond what is minimally required relating to attendance and punctuality at work, coffee and lunch breaks, working hours, notice on absenteeism, and general rule compliance. Positive work attitudes may result in a favorable organizational culture of growth and innovation. Human relations are likely to improve in an environment where high quality LMX relationships can thrive. Improving the quality of LMX will enhance subordinates' sense of commitment and citizenship behavior and aids in organizational growth and success (Truckenbrodt, 2000). A strong dyadic relationship will be beneficial to all – the leaders, the subordinates, and the organization.

In essence, LMX motivates employees to perform beyond the formal requirements of their jobs and provide mutual support to achieve organizational goals. Employees are likely to go for self-improvement to enhance soft skills and competencies at the workplace. Additionally, it has a big impact on employees' interest in the affairs and developments of the organization. Good LMX relationship augments a sense of commitment and identification with the organization. Employees proactively improve self-awareness of happenings in the organization and responsibly participate in company matters. Thus, practitioners may have to improve LMX if OCB were to increase. This may entail an open communication system, allocative procedures that are consistent across persons and over time (Leventhal 1976), greater employee involvement, and increase transparency in procedures. Open communication is necessary to establish a sense of trust in the LMX relationship. Feedback sessions could be established to encourage constructive feedback from subordinates and superiors. A corporate culture that encourages open two-way communication is highly recommended.

5.4 Leader-Member Exchange As A Mediator In The Organizational Justice-Organizational Citizenship Behavior Relationship

It is hypothesized that LMX mediates the relationship between OJ and OCB. LMX, however, does not act as a mediator in the OJ-OCB relationship. As empirical findings reveal the importance of trust in the LMX-OCB relationship (e.g. Erturk, 2007; Giap et al., 2005; Mahfooz et al., 2007;

Rhoades & Eisenberger, 2002), perhaps organizations should focus on improving trust to enhance OCBs. Trust enhances employees' confidence in supervisors and may instigate OCBs. This translates into positive work attitudes and volitional behaviors that may be valuable for organizational sustainability. In tandem with supervisor support, employee trust in supervisor probably works well in augmenting mutual reciprocation over time (Rhoades & Eisenberger, 2002). Mahfooz et al. (2007) assert that mutual leader-member interpersonal trust and support are vital for maximum business results. Additionally, mutual reciprocation further promotes quality LMX and induces a continuous win-win relationship.

The results of the study suggest that organizations need to focus on overall justice to enhance LMX, and hence, OCB. As OJ has a significant influence on the quality of LMX, it is crucial for organizations to manage fairness effectively to enhance OCB. The current study shows that OJ has a stronger influence on LMX than the effect of LMX on OCB. To justify the need to improve overall justice, the study concurs with the assertion that positive justice perceptions possibly reinforce affirmative citizenship perceptions, and, therefore, the more robust organizational citizenship perceptions are, the more positive the OJ perception will be (Yilmaz & Tasdan, 2009).

6. Conclusion

This study presented an integrated analysis of the OJ-OCB relationship by including LMX as a mediator to provide a wholesome perspective of the associations between OJ and OCB. Although the intention of the study is to enrich understanding of the mediating role of LMX in the OJ-OCB relationship, it provides guidelines for managing OCB. The proper alignment between OJ and LMX would determine employees' intention to exhibit OCB. Accordingly, it is important to remember that OJ is a significant predictor of OCB. A positive perception of OJ would enhance OCB, which helps an organization to sustain dynamism. On the contrary, perceived inequity can reduce OCB, which may affect the bottom line. It suggests that the survival of any organization depends upon the development of organizational mechanisms to achieve OCBs (Murphy et al., 2002) to ensure sustainability in today's turbulent environment.

Overall, the results of the study show support for many of the hypotheses in the model with justice perceptions differentially influencing LMX, and the dimensions of OCB. OJ perception of employees is very crucial in influencing OCB in that it significantly affects LMX and the dimensions of OCB. Therefore, organizations would have to improve OJ in tandem LMX to enhance OCB. Among justice factors, interactional justice is important in influencing OCB, in particular interpersonal justice. In brief, the findings indicate that personal factors are imperative for advancing OCBs.

In conclusion, management needs to focus on the quality of LMX, as today's employees reciprocate according to how they are treated. Positive perceptions of fairness are likely to improve the quality of LMX and elicit affirmative employee behaviors. In time, the quality of LMX may promote OJ climate that will strengthen employees' intention to demonstrate OCBs. Concisely, positive perceptions of fairness must be sustained at reasonably high levels in order to facilitate positive justice climate that would lead to increased quality of LMX, and finally, increased OCB.

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Abstract

The global economy requires efforts to provide good quality products, in a reasonable time and low price. It forces Brazil to increase its competitiveness to keep up as a big commodity exportation economy. However, it is still struggling in having a smooth and low cost transport system. Part of this situation is due to a lack of a proper governance model, with many institutions acting in a poor coordinated perspective, that results in an inefficient transport infrastructure, increasing the operations time variability and costs. To implement a multimodal corridor transport network appears as a good way to improve the transport system in Brazil and consequently its global competitiveness. In this context, the National Agency for Land Transportation – ANTT- and others public institutions are working on different actions to promote the multimodal transport in Brazil, as a solution to logistical bottlenecks. It was signed a Memorandum of Understanding (MoU) between Brazil and The Netherlands, which resulted in a blueprint of a specific transport corridor. Additionally, ANTT is participating in a project in cooperation with the European Union to deepen the knowledge about their transport network. The objective of all of this is to learn the best practices to be adapted, during an implementation of a multimodal corridor pilot project in Brazil, with a well-defined governance model and coordination, that will allow logistics cost reduction and a more efficient and environmental friendly transport system.

Keywords: Multimodal Transport, Logistics

1. Introduction

Economies have to be supported by efficient and sustainable logistics. In most countries, transport systems are developed from the needs of individual transport modes, and are mostly managed also at a modal basis. In addition, networks are designed and developed from a national/regional viewpoint, not taking into account the connections between countries/regions and certainly not the interoperability between these individual networks. Infrastructure plans carry names such as “National Highways Plan”, “Masterplan for development of Inland Waterways”, etc. and the funding mechanisms are also mode and network based.

Brazil is tied more and more into international trading patterns, and Brazilian prices for Brazilian products at the world market are negatively influenced by limited logistics system. A much stronger integrated multimodal approach of the logistics sector in Brazil is therefore a big necessity to support the Brazilian economy and to provide better outlets for Brazilian production.

The example of the Trans-European Network – TEN-T has created much interest in Brazil, leading to the question whether the same methodology could also be applicable to Brazil. The Trans-European Network – TEN-T was adopted with the objective of linking the Member States’ transport networks and to promote seamless transport chains for both passengers and freight. It is possible by removing infrastructural bottlenecks, improving functioning of the internal markets and resolving technical barriers such as incompatible standards. The main points of this strategy could be summarized as:

- An integrated approach to optimize the efficiency of the transport system and transport organization;
- Making transport and transport systems seamless;
- Keeping transport competitive;
- Improve safety, reduce energy consumption and environmental impact;
- Improving competitiveness of environmentally friendly modes of transport;
- Creating integrated transport networks used by two or more modes of transport.

In this context, this paper has the objective to describe the main concepts related to multimodal transport corridor, the characteristics of the TEN-T and how this concept could be applied in Brazil.

2. Multimodal Transport Corridor

In most countries and regions, the multimodal transport network is (still) a patchwork of single modal networks of roads, railways, waterways, pipelines, airports and seaports. These modal networks might be of high quality and well developed, but this does not guarantee smooth and seamless connections and logistic operations. Realizing efficient supply chains in practice is hampered by especially:

- the cross border or cross region infrastructures;
- the technical interoperability;
- the integration of different transport modes.

Efficient multimodal transport systems, which require high volumes of cargo and close coordination and facilitation, will normally develop faster in parts of these networks that connect

high volume generating areas, with destination areas, or international nodes such as seaports. In addition, the bundling of cargo, active or not, will concentrate the volume even more, combining different origin-destination flows into large bundles of goods that follow high capacity pathways. This is a self-enforcing mechanism, since high volume of cargo will result in cheaper transport solutions, higher efficiency and more reliability, and experimentation with multimodal concepts. This in turn attracts more cargo streams.

As a result, transport networks often consist of dominant paths, or corridors. The multimodal corridor concept looks at transportation from an integrated perspective: what are the overall transport requirements on a corridor that can be met by a combination of transport modes. A corridor in this case can be a connection between the hinterland and the port outlet, from a trade and logistics point of view, or between land locked regions.

A multimodal transport network or corridor consists of various components (described from the perspective of freight transportation) as illustrated in the figure below, which make cargo transport along a transport axis possible.

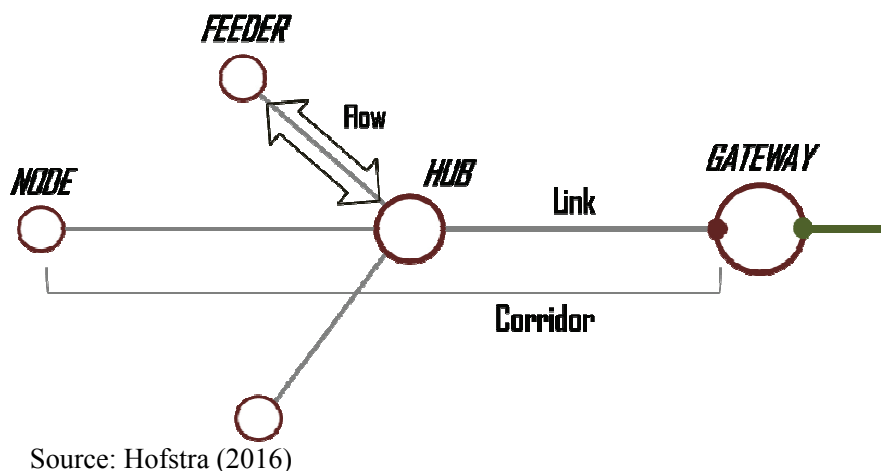


Figure 1 Structural Components of Transport Networks

Nodes are locations along the multimodal transport network, which provide access to the transport network through available transshipment facilities and transport services (e.g. at inland ports, distribution centers, logistical zones, etc.). Connections between several nodes along a corridor are enabled through (transport) links, mostly physical infrastructure like highways, railway tracks and waterways. Although the link itself lacks infrastructure, connections between airports are also nominated as links in this matter.

A transport hub is a location or node which typically handles large volumes of cargo and/or where cargo is consolidated into larger transport flows and/or where cargo flows are exchanged between modes. Typically, feeder locations (or feeder ports) are nodes where regional flows are consolidated and integrated in the multimodal corridor by means of a direct link to and from the transport hub.

The multimodal corridor networks typically link gateways (e.g. seaports) to the hinterland. It differs from hubs in such a way that hubs mostly consolidate cargo from various links of the same

mode and gateways typically involve a change of transport mode, such from maritime connections to road, rail or inland waterways. And, by the way, it should not be forgotten that short sea / cabotage can also play an important role in creating a smarter connection. Therefore, gateways connect multiple multimodal transport networks on a global scale and enable the import and export of cargo worldwide.

2.1 Trans-European Network – TEN-T

At the beginning of the 1990s, the then 12 Member States had decided to set up an infrastructure policy at Community level in order to support the functioning of the internal market through continuous and efficient networks in the fields of transport, energy and telecommunications (European Commission, 2016).

In contributing to the implementation and development of the internal market, as well as re-enforcing economic and social cohesion, the construction of the Trans-European Transport Network (TEN-T) was seen as a key element. Most of the Union's transport infrastructures have been developed by individual Member States. The TEN-T initiative seeks to establish a single, multimodal network integrating existing and new transport links and enabling people and goods to move quickly and easily between Member States (Cardiff, 2016).

However, in the first 20 years of TEN-T policy, not all the ambitious objectives were achieved (European Commission, 2016). During the economic crisis, targeted investments in infrastructure renewal or construction have been an important part of stimulus and recovery plans at EU and Member State levels, as a way of supporting aggregate demand while ensuring a long term return from money spent. Most importantly, the crisis has shown that infrastructures are crucial for Europe's economic future.

The European Commission then launched a policy review in 2009. These new policy framework started with an analysis of the strength and weaknesses experienced so far and brought innovations and significant progress in a number of areas: governance at European level, a strong legal form, a genuine network approach, a powerful instrument for TEN-T funding, etc.

The ambition of the EU is that two levels of multimodal networks are created, a so-called Comprehensive Network and the Core Network TEN-T. The comprehensive network is to be completed by the year 2050. It comprises a comprehensive network of routes, feeding into the core network at regional and national level. This network is largely financed by the Member States itself, with in some cases EU transport and regional funding. The Core Network is the TEN-T, the Trans European Transport Network that is composed by nine main corridors.

The TEN-T core network has been identified on the basis of an objective planning methodology. That methodology has identified the most important urban nodes, ports and airports, as well as border crossing points. Wherever possible, those nodes are connected with multimodal links as long as they are economically viable, environmentally sustainable and feasible until 2030. The methodology has ensured the interconnection of all Member States and the integration of the main islands into the core network. (EU-Lex, 2016)

In order to implement the core network within the given timescale, a corridor approach could be used as an instrument to coordinate different projects on a trans-national basis and to synchronise the development of the corridor, thereby maximising network benefits. For every priority corridor, a structured approach is followed, leading to a work-plan with proposed measures and funding: a

blueprint for the multimodal corridor. That instrument should not be understood as a basis for the prioritisation of certain projects on the core network. Core network corridors should help to develop the infrastructure of the core network in such a way as to address bottlenecks, enhance cross-border connections and improve efficiency and sustainability. They should contribute to cohesion through improved territorial cooperation.

The core network corridors should also address wider transport policy objectives and facilitate interoperability, modal integration and multimodal operations. This should allow specially developed corridors which are optimised in terms of emissions, thus minimising environmental impacts and increasing competitiveness, and which are also attractive on account of their reliability, limited congestion and low operating and administrative costs. The corridor approach should be transparent and clear and the management of such corridors should not create additional administrative burdens or costs.

The specific impact of this new policy is an accelerated implementation of the trans-European transport Core Network corridors that will favor more adequate transport infrastructure coverage of the Union. Innovative information and management systems, that are part of the network, provide support for logistic functions, inter-modal integration and sustainable operation in order to establish competitive transport chains, according to the needs of the users. And the efficiency of the transport system will be improved, with an important reduction of congestion and travel times.

Important to be mentioned is the governance model that was designed for the corridors:

- an European “Corridor Coordinator” (to support the implementation of the core network);
- a consultative “Corridor Forum” (to assist the EU coordinator);
- a multi-annual corridor development plan.

3. The Context of the Multimodal Transport in Brazil

The National Agency for Land Transportation - ANTT is the Brazilian Executive Agency of the Ministry of Transport that holds the legal competency to regulate multimodal transport services. For this purpose, ANTT, together with other public institutions, is working on different actions to promote the usage and efficiency of multimodal transport in Brazil, as a solution to the logistic bottlenecks.

According to the Brazilian regulation, the definition of the multimodal transport is the one done by two or more modalities under a unique responsible, the Multimodal Transport Operator, and contract (Federal Law nº 9611, 1998). It is a very simple definition, as this topic is much broader and complex.

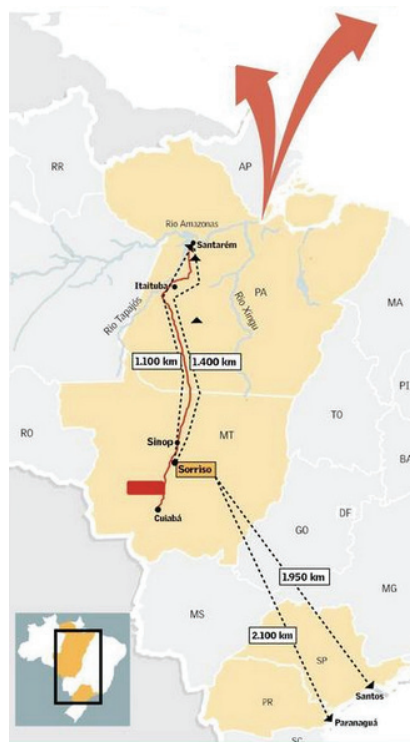
In Brazil, the usage of multimodality on transport, with modal integration, is extremely incipient. There are many bottlenecks in long distance multimodal transportation in Brazil, such as the general quality of infrastructure and especially transshipment points, strong focus on trucking and issues such as taxation systems that discourage crossing state borders. In addition, current regulation for the multimodal transport operator is restrictive, and does not encourage the full development of multimodal transport. Multimodal transport operations can only be done via registered or certified multimodal operators, which takes away freedom of choice and limits flexibility of logistic operators and/or shippers in setting up and using new services. In addition, many institutions are involved in the transport sector, making difficult a coordinated action for an efficient multimodal transport. For

this last point, Brazil had some progress in the last months, when a inclusion of institutions related to ports, land and air transportation were unified in a only institution. It is expected a more facility to promote the multimodal transport.

Brazil's multimodal transport challenges originate from the unprecedented growth in several sectors of the economy, and the concentration in specific geographic areas. In recent decades, the Brazilian agricultural production grew significantly either through increase in productivity due to technological changes made to the production system, either through the incorporation of new areas of production to those areas already explored. So the scale of Brazilian agriculture sector has changed drastically, resulting in massive flows of agricultural products to the major outlets of the country, the seaports.

The focus in this sector has been at ever increasing volumes of production, without properly taking into account the consequences that this would have for storage capacity, port handling facilities, land corridors to and from the ports, transport equipment etc.

As a concrete case, one of the biggest Brazilian logistic problems is the flow of the grain harvest from the Central Brazil to markets abroad. Usually, the production is transported more than 2,000 km by roads to the south and southeast to overcrowded ports, generating pollution and unsafe traffic on the roads, beyond the inherent inefficiency of this kind of transport mode for this type of cargo, which increases the costs and environment impacts. Alternatives routes are being studied, as the showed on the Figure 2 below:



Source: Amazonia, 2014

Figure 2 North Exit Route for the Grain Exportation

Due to this flawed logistic system, the economic and social costs are very high. Therefore, the public and private institutions, directly and indirectly involved with the logistic in Brazil, understand that the improvements in this area are mandatory, bringing an increase of the competitiveness and sustainable economic development to the country. Least to say that this is not only an infrastructure challenge, but also an operational and institutional challenge. How to properly organize and manage the transport system as an integrated part of the supply chain of these commodities?

To promote multimodal transport in Brazil, whereby the best of all worlds is obtained in the combination of all transport modes, with eventual reduction of logistics costs for the main export commodities, a corridor approach is advocated. This should be done in the context of a core infrastructure network analysis. Focusing on corridors will help to prioritize infrastructure investment, clear regulatory bottlenecks, and improve the overall quality of Brazil's connectedness. What is needed is a mechanism for a structure, efficient, affordable and implementable corridor methodology. Brazil needs to set priorities and developing corridors to set these priorities could help to develop the required transport solutions which will create benefits in terms of competitiveness of Brazilian products, job creation, more focused transport infrastructure investments and a more sustainable development of the Brazilian transport system as a whole.

In this context, the Brazilian Ministry of Transport and Secretariat of Ports have signed a Memorandum of Understanding (MoU) with the Dutch Ministry of Infrastructure and Environment that resulted in a blueprint of a Central North Corridor (see figure below).



Figure 3 Central North Corridor – Dutch Study

In this study that was done under the Brazilian-Netherlands cooperation, ANTT was one of the participants. Several possible corridors have been analyzed in general terms, and for the State of Mato Grosso detailed analyses were made of alternative routes, the alignments of corridors, the missing links and connections, freight flows and alternatives, this all according to the methodology that was also used in the TEN-T.

It recognized the not explored potential of inland navigation in the north region of the country, an area of low social and economic development. The potential of the north region is already being explored by the private sector, which is doing huge investments in inland ports. Because of that it is expected a significant increasing of the cargo flow in a short period. Considering that this area is part of the Amazon Forest, with a rich biodiversity, it is important to be aware about the environment impacts it could bring if its development happens in a not coordinated way.

Another action ANTT is taking is a project in cooperation with the European Union to understand the methodology used to define the advanced system of multimodal logistic corridors in Europe, TEN-T network, and how the regulatory, institutional, operational and technological aspects of the model. This partnership between ANTT and the European Commission's Directorate- General

for Mobility and Transport will allow a more critical and efficient analysis on the application and adaptation of the concepts and methodologies, when implementing multimodal logistic corridors in Brazil. It will make possible a better organization of the transport flow, reduction of the transportation costs and time, as well as the reduction of the environment impacts. The results of this partnership are being used as a reference of this article.

Considering all the facts described, there is an intention to implement a pilot project of a multimodal corridor approach in the north part of Brazil as a solution for the usage of a more efficient and sustainable way of transport for grains export. This strategy will enable to exchange cargo flows from roads to other transport modes, reducing the carbon emissions, fuel consumption and logistics costs. Additionally, it increases the Brazilian competitiveness in the global market and brings social and economic development to remote areas of the country.

4. Application of the Multimodal Corridor Concept in Brazil

For Brazil the need is high, there is no time to go through the whole process of defining comprehensive, core networks and a full balanced set of core network corridors. In Europe, that process took about 20 years and that is too long for Brazil.

In order not to lose time and to demonstrate in reality the application of the multimodal transport corridor concept in Brazil, progress should be made on establishing a pilot project. In the end this pilot project should create the basic approach for the other selected corridors in Brazil, that should happen in parallel.

In summary, the following steps are to be carried out in the first phase, and most likely several elements are already available:

1. A detailed definition of the alignment of the corridor
2. A market analysis
3. Identification of critical issues and corridor development objectives
4. Project lists
5. Multi-annual and annual work plan

The work plan contains the elements of the preparatory study work, containing a description of the objective for the corridor, which contains elements such as:

- enhance multimodal transport;
- rebalance of modal shift;
- deploy interoperability;
- mitigating environmental impact.

It is crucial in Brazil to think beyond the level of infrastructure provision for example in mitigation or removal of existing bottlenecks. It is important to look at logistics integration with parallel and simultaneous investments in various modes of transport and the connections, enabling efficiency gains and consequently competitive advantages. The workplan to be developed has to be a plan in which physical, technical, operational and management barriers between and within transport modes are to be removed. Finally, it contains the recommendations and priorities in projects and measures to be implemented, as well as an outlook for the next phase.

Issues beyond the level of infrastructure provision that are of relevance here are:

- institutional setting;
- stakeholder involvement;
- governance of the corridors;
- funding and financing;
- legal and regulatory barriers;
- information exchange;
- mitigation of external effects and working towards a sustainable transport system;
- possible incentives for system development and adaptation (soft measures).

In comparison with many other countries, notably in European Commission, the way the transport sector is organized in Brazil is complex. The transport sector in Brazil has a number of governmental entities that play a role in developing policies and infrastructures. However, as mentioned before, a very recent inclusion of institutions related to ports, land and air transportation in a unique institution may bring benefits.

The main thing about TEN-T is that all stakeholders along the corridors are involved and that those projects are prioritised that add value to the functioning of the corridor. Individual stakeholder interests are put aside, and consensus on corridor objectives and priority projects is essential. This implies that the governance of the corridor is a crucial essential element, not only in the study phase, but also in the implementation and operation.

The best way of getting commitment from all parties involved is to include all of them in the preparatory work right from the start, and make them part of the decision making process where priority measures are concerned, as well as the during the implementation phase. And of course, besides the governmental agencies, the parties at the private side, the cargo owners, transport operators, and logistic services providers, are part of the process as well. Rather than just offer the new multimodal infrastructure, the involvement of the users of the system right from the beginning is a prerequisite. They can be involved in several ways, either as experts from practice or as providers of cargo and services, or as financiers.

Since the concept of multimodal transport corridors is also relatively new in Brazil, the acceptance of the concept and the governance structure is a challenging task. A good start would be the drafting of a sort of protocol (or Letter of Intent) for corridor development between the main stakeholders in the pilot corridor. This protocol (for example: “Protocol on the Development of the Centro Norte Multimodal Transport Corridor”) explains the main objectives of the corridor, the proposed governance structure, private sector participation and the conditions under which this can be realised, temporary exemptions, easy/open access to the corridor, sustainability goals, etc. The key element of this governance structure is the corridor coordinator, an independent individual with good reputation, free of interests in the corridor, to be appointed by the Federal Government. The Corridor Coordinator also has the role to “arrange” the acceptance of the proposals with the involved government entities.

Another important point is that both in Europe and Brazil the public budgets available to develop all required infrastructures are not sufficient. It is clear that additional funding sources need to be identified at public and private sides and innovative ways of financing new infrastructures have to be explored.

Finally, to achieve an efficient operation of a multimodal transport corridor, a good system of information and data supply and exchange is crucial. Up to now most of the systems are mode based, meaning that are developed to be used in one mode only, and requirements are based on the mode characteristics. The systems that are put in place by the infrastructure managers especially relate to information regarding safety and traffic management. In most cases, cargo and logistics related information is not integrated in these systems. Of course the ideal world does not exist here and integration is a long term and complex process. In the course of the pilot project, a first set of data/information set and the way it can be shared among the stakeholders need to be identified by the participating shareholders.

5. Conclusion

An implementation of a pilot project in Brazil based on the TEN-T concepts will result in an institutional strengthening of public and private institutions to promote the multimodal corridor approach. It can enhance the logistics efficiency through the bundling of the available capacity and the reduction of costs and environment impacts.

It enables the use of the local economic potentials of the regions involved, offering new business opportunities and allowing the integration of isolated regions into the national economic and social development. Moreover, a planned and coordinated development of this corridor make possible to mitigate the social and environmental impacts and to reduce the greenhouse gas emissions.

Another benefit of doing a pilot project is to test solutions to be applied in a bigger scope, once the national multimodal network is defined. It could save effort and time of implementation.

Finally, the possible improvements of the logistics system resulted from these actions increase the competitiveness of the Brazilian products worldwide, making possible a more sustainable economic development.

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Tourism for Peace and Development: Creating Global Tourism Company Value Through Local Sustainability, and Finding Inspiration in Slow Tourism

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Abstract

This paper firstly evaluates the conceptual and operational advantages of the triple bottom line against criticism in one of worldwide tourism's core concerns and responsibilities in the new millennium. Worldwide tourism operates within decisive economic, ecological and social issues. One of these is sustainability, an argument developed around the turn of the millennium and documented by a series of political events such as world summits or conferences and their official reports, declarations or guidelines. A key concept of these sustainability discussions made operational by and regarded as a special responsibility of the global travel and tourism industry, is the triple bottom line as an internal managerial decision-making and planning tool and an external assessment and reporting framework. This paper presents, considers and assesses companies' triple bottom line dimensions, as well as economic, social and environmental performances and impacts via a range of key indicators. The paper secondly evaluates the concept, forms, and contributions of slow tourism to worldwide sustainability discussions, especially to forms of fast tourism. Slow travel's key themes are environmentalism, sustainability, and low-to-no carbon emissions. Slowness has several practical and spiritual dimensions of meaning, central to which are environmental ones. As an opposite to slow tourism, airline travel has developed quickly in terms of airplanes, liberalization and technology, all related to the industry's efforts at more sustainability, but conflicting and seeking solutions within the airline and tourism industries, their customers and the global environment. Business travelers' motivations, decision-making and beneficiaries moved environmental and sustainability considerations up on its agenda, in contrast to traditional forms of business encounters. International tourism's several stakeholders vary and often compete in outlook and interests, but reach as high as world peace contributions. Student travel grows in size and importance corresponding to the complex matrix of interests of its travelers and societies. Religious tourism has become a key sector of global tourism, with implications for religious sites' economies and environments. Altogether, increasing social and environmental considerations of fast travel forms and industries have come to both be inspired by as well as enrich slow tourism, with an ongoing and interactive development that promises to put high demands on, yet likewise to benefit the here analyzed stakeholders and forms of travel. In conclusion, combining slow tourism and the triple bottom line, even forms of fast tourism can draw concrete guidelines as well as far-reaching inspiration for global sustainability from this paper's presented concepts and practices.

Keywords: Sustainability, Triple Bottom Line, Slow Tourism, Airline Travel, Business Travel, International Tourism, Student Travel, Religious Tourism, Stakeholders

1. Evaluation of the Triple Bottom Line

1.1 Worldwide Tourism in the New Millennium

At the beginning of the new millennium (2001), the World Tourism Organization (WTO) published its *Tourism 2020 Vision*, describing eleven major “factors” for the development of worldwide tourism. Among the key factors were:

- Economy (from post-war to newly emerging economic powers);
- Demography (a possible fragmentation of traveler segments and tourism markets); and
- Social-environmental awareness (rising since shortly before the new millennium).

Around the same time (2004), the WTO also proclaimed twelve “major megatrends” of global tourism impacting its policies and strategies, among which were:

- Consumer-led campaigns for sustainable tourism (especially sustainability and fair trade);
- Increased socio-environmental consciousness (versus simple mass travel consumption).

The literature, similarly, sees six “key drivers” for world tourism, among which are:

- Economic (effects of globalization, labor demographics, and global wealth distribution);
- Social (such as societal value changes);
- Environmental (energy and natural resource preservation, or global climate change); and
- Basic human needs (global food provision, or strategies for increasing cultural diversity).

Whichever model of major tourism influences in the new millennium one prefers to follow (or combine), all suggest complex interdependencies, especially when considering them holistically under the concept of sustainability.

1.2 Sustainability in Tourism

“Sustainable development” was first defined in the 1987 *Brundtland Report* by the *World Commission on Environment and Development* (UNWCED) as “meeting the needs of the present without compromising the ability of future generations to meet their own needs,” uniting goals of economic progress and of environmental protection. Following up on these ideas, the 1992 *United Nations Conference on Environment and Development* (UNCED) in Rio de Janeiro produced the *Rio Declaration on Environment and Development* and *Agenda 21* (with principles and guidelines for sustainable development), followed in turn by the 2002 *World Summit on Sustainable Development* (UNWSSD) in Johannesburg, and then the 2012 *United Nations Conference on Sustainable Development* (UNCSD) in Rio de Janeiro.

For tourism, the WTO and the United Nations Environment Program (UNEP), in a 2005 *Guide for Policy Makers* entitled *Making Tourism More Sustainable*, defined sustainability as the suitable, long-term and evolving balance between the 1) environmental, 2) economic and 3) socio-cultural dimensions of tourism development. Specifically, sustainable tourism should 1) optimally use environmental resources (as by maintaining ecological processes and preserving natural resources and biodiversity), 2) respect the socio-cultural authenticity of host communities (as by conserving their cultural heritage and traditional values), and 3) ensure viable, long-term economic operations (as by providing and fairly distributing socio-economic benefits to all stakeholders, especially employees, host communities, and the poor).

Critics see the concept of sustainable development as vague and leading to uneven practices, or as Western or Euro-centric, suiting the developed nations but preventing developing countries from following their path of industrialization, and acquiring their living standards. Yet sustainability has become widely used in international key policy agreements and in industry practice, so most agree that it should be furthered in global tourism via specific frameworks and measures, such as the triple bottom line (“TBL”; informally also “3BL”).

1.3 Tourism, Sustainability, and the Triple Bottom Line

The first literature voice to suggest a comprehensive approach to sustainable development and environmental protection as a central business challenge was John Elkington’s 1997 book *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*: corporations should consider not just their economic, but also their environmental and social influence. His “triple bottom line” required business activities to be socially, economically and environmentally sustainable. The global tourism industry was soon attributed a key role for advancing and implementing this concept, due to its responsibilities for social and economic development.

Conceptually, the TBL frames business and corporate activities and performances, adding the two bottom lines (balance sheets) of socio-cultural and environmental impacts, thus providing criteria for audits and evaluations, and standardizing the assessment and reporting of all three types of impacts (economic, socio-cultural and environmental). Operationally, the TBL assists internal management planning and decision-making, and external reporting on the economic, environmental and social implications of organizational decisions and activities.

For each of the three dimensions, the reports use key indicators, depending on the tourism industry sector. As each of the three bottom lines measures different types of impacts, weighing and assessing them requires a company judgement. This is why they are seen as tools of a holistic process of appraisal, and more than just an accounting mechanism, namely as the most comprehensive consideration of multi-dimensional impacts of business activities.

1.4 The TBL: Dimensions and Assessments

In practice, a company monitors and reports to its triple bottom line using a

- Business Report Card (BRC),
- Social Report Card (SRC), and an
- Environmental Report Card (ERC).

For each card, the company selects key indicators (significant and measureable variables) relevant to its operations, expressed either quantitative (as a percentage over time, such as of growth), or qualitative indicators (as for evaluating levels of visitor satisfaction around tourist attractions, or the quality of staff-delivered safety instructions and training).

For an overview of the three report cards and their indicators of a tourism business (company, attraction, destination, or event), below the three impact dimensions (I-III) are categorized according to company stakeholders and interests (A, B, C), key indicators measuring tourism impacts (1, 2, 3), and possible sub-categories (a, b, c). A tourism company need not use all of these indicators, yet might add others that better suit its activity profile.

I) Economic Impacts (BRC):

- A) Company Benefits from Tourism:
 - 1) Revenue;
 - 2) Net profit or net income before tax (NIBT);
 - 3) Number of visitors.
- B) Company Costs from Tourism:
 - 1) Direct expenditures, including
 - a) Remunerations (wages, salaries or rewards),
 - b) Taxes paid, or
 - c) Costs for regulatory reports;
 - 2) Indirect expenditures, including
 - a) Externalities (costs not chosen, such as pollution cleanups),
 - b) Opportunity costs (investments in other feasible attractions).
- C) Stakeholder Benefits from Tourism:
 - 1) Total shareholder return;
 - 2) Value added or distributed to suppliers.
- D) Community and Destination Benefits from Tourism:
 - 1) Management of visitor demand and volume;
 - 2) Reduction of seasonality effects.
- E) Community and Destination Costs from Tourism:
 - 1) Costs for attraction's deterioration and repair;
 - 2) Costs for destination preservation.

II) Socio-cultural Impacts (SRC):

- A) Tourist Satisfaction:
 - 1) Openness of access;
 - 2) Visitors' motivation.
- B) Tourism's Impact on Public Health and Welfare:
 - 1) Workplace stability;
 - 2) Employee safety and risk management, including
 - a) Occupational health and safety audits and training,
 - b) Emergency plans,
 - c) Written safety instructions,
 - d) Security signage and lighting, or
 - e) Security patrols;
 - 3) Visitor safety (analog to 2).
- C) Host Community's Wellbeing and Participation:
 - 1) Impact on community quality of life;
 - 2) Impact on community pride;
 - 3) Local satisfaction with tourism;
 - 4) Community support and involvement, e.g. community partnerships;
 - 5) People performance management, or employment conditions with:
 - a) Opportunity,
 - b) Diversity,
 - c) Non-discrimination,
 - d) Human rights respect, and
 - e) Ethical corporate governance.
- D) Destination Planning and Control:
 - 1) Socio-cultural carrying capacity;
 - 2) Integration of tourism into local/regional planning and development;
 - 3) Tourist transportation facilities;

- 4) Sustaining the social and cultural assets of the destination;
- 5) Protecting the image of the destination.

III) Environmental Impacts (ERC):

A) Managing and Protecting Scarce Natural Resources and Valuable Assets:

- 1) Energy management and conservation, such as of
 - a) Oil,
 - b) Gas and
 - c) Electricity;
- 2) Water
 - a) Availability,
 - b) Quality and
 - c) Conservation;
- 3) Emissions from transportation of tourists.

B) Limiting Damaging Impacts of Tourism:

- 1) Destination's
 - a) Physical and
 - b) Environmental carrying capacity;
- 2) Ecosystems'
 - a) Conservation and
 - b) Rehabilitation;
- 3) Waste water quality and recycling;
- 4) Solid waste (metal, wood, paper, plastics) management or recycling;
- 5) Sewage treatment;
- 6) Weed and pest control,
- 7) Pollution via
 - a) Air,
 - b) Noise or
 - c) Visuals (such as architectural degradation);
- 8) Greenhouse gas emission reduction, such as
 - a) Carbon dioxide (CO₂) from transport, or
 - b) Hydrofluorocarbons (HFCs) from cooling;
- 9) Land-from-sea reclamation;
- 10) Ecological efficiency via
 - a) Design;
 - b) Packaging and
 - c) Recycling (strategies and actions for business operations),
- 11) Monitoring suppliers' environmental performances.

1.5 Criticism and Advantages of TBL Reporting

Criticism of the TBL is mostly addressing

- Redundancy (its three dimensions could be taken care of by single assessments);
- Practical challenges (finding suitable or quantifiable social and environmental indicators);
- Potential bias by businesses picking indicators to justify their investments.

Against these points, one can invoke that

- The TBL is precisely about unifying separate bottom lines;
- It allows for qualitative measurements alongside quantitative ones; and
- User bias is unavoidable and even speaks for the overall practicability of the approach.

In any case, most criticism implies that the TBL is (as of now) the most comprehensive and holistic framework for evaluating key indicators in the three most important dimensions that all tourism stakeholders face as a core concerns and responsibilities in the new millennium.

2. Slow Tourism's Sustainability

2.1 Development of Slow Travel

In the 1980s, an emphasis on quality of life, slower pace, relaxation, individuality, traditional culture and on cultural, local or ecological heritage gave rise to “slow” movements such as the Italian *Cittàslow* (“slow cities”) or “slow food” movements. Some see the slow movements connected by organic sustainability, respect for the seasonality and rhythm of travel, or their affective or multi-sensory dimensions, which allow to explore places and sights, but also feelings, sounds or tastes.

“Slow travel” or “slow tourism” is considered as a “viable” alternative to car or plane travel, being mostly “conducted” or “performed” over land or water, by means of foot, bicycle, train, coach, bus, ferry, canoe, kayak or sailing boat. It enables a more intense exploration of, engagement with, and enjoyment through the available or chosen transport, the destination and the localities, in a sustainable, supporting, conscious relationship with the environment, such as local landscapes and cityscapes. The slow speed and the time constraints of most people set limits to the mileage that can be achieved. This makes slow travel more suitable for short-to-mid-haul and intra-continental travel. Slow travel is then more likely the domain of relatively affluent and unbound tourists, such as backpackers on long vacations.

Recommended slow *actions and activities* are stopping at local markets, engaging with communities, emulating the locals in terms of habits such as eating or resting, or practicing the local languages and dialects. Desirable slow *attitudes* are seeing the journey as part of the pleasure, seeking out the unexpected, embracing lost connections on trips, or giving back to local communities. Slow *travel* sees the means and the time of transport and traveling as valuable parts of the vacation experience. Slow *tourism* applies to the destination and related activities, such as engaging with local landscapes and people. Hence they are two sides of one coin, characterizing the way to and within the destination.

2.2 Environmental Considerations of Slow Travel

While *green* travel focuses on technical aspects of transport, such as resource use or carbon dioxide and greenhouse gas emissions, *slow* travel sees environmental considerations as significant, but not sole driver of the journey. Travelers with central environmental considerations are labeled “hard slow travelers,” while “soft slow travelers” prefer either a slow travel mode or the slow experience, but consider environmental benefits just an added bonus.

Some hold that slow travel is also possible by cars, since, full to capacity, they rival trains for fuel- and carbon dioxide-efficiency per passenger kilometer. Others argue that: cars are usually not filled to capacity; worldwide on average, cars are not very fuel-efficient; for holidays, typically larger, emission-intensive and less environmentally friendly family cars or vans are used; and a car available at the destination often means longer or unnecessary trips.

Some hold that no special environmental actions or consciousness is required for slow travel, as it is about doing things with the right attitude towards time, and prioritizing quality over quantity

of experience. Others maintain that the slowness of non-consumerist experiences implies minimizing the environmental or emissions footprint, thus making slow travel by definition environmentally friendly.

Slow travel is also associated with efforts of a low-to-no carbon footprint. The worldwide tourism industry's emissions consist of: transport 87%, accommodation 9%, and tourist activities 4%. As transport has the largest share, slow tourism is considered as promising towards low-to-no carbon emissions. This especially since planes and cars are said to produce three to ten times more carbon dioxide per passenger kilometer than trains and five times more than coaches. Further suggestions to reduce the carbon footprint of slow travel are: longer stays, longer but fewer holidays, slow journeys combined with slow destination experiences, or several slow travel modes to and within the destination.

The slowest of all travel forms, relying only on the traveler's body, walking is the most direct, close and intense engagement with people and environments. The term 'budget' travel is rarely used for walkers, as cost considerations are not essential for them. "Hard slow travelers" relate walking to the immediacy and simplicity of sensory experiences, such as the contrasts between city and country, coast and desert, cave and mountain, of being in tune with local populations or fellow travelers, or of exploring the topography.

Cycling traditionally has the flair and ethos of being slow, sustainable, low-carbon, and an individual lifestyle statement. Besides physical benefits, cyclists often name the bike's flexible sociability as their reasons of choice: only the terrain (roads, cycle paths, cross-country) limits their experience, so stopping, starting, pausing, or meeting other travelers is uncomplicated compared to train travel. While cycling can be disconnected from environmental concerns, its travel and recreational activity has the strongest symbolical value of environmental friendliness among slow travel forms.

Many see train travel as the ideal slow travel form: changing vistas to avoid boredom yet allowing observation of landscapes and people, and offering the choice between relaxation, observation, or interaction with fellow travelers. Most relevant for slow tourist travel are intercity trains between cities or countries. Short-distance trains (within around 100 kilometers) or long-distance trains (between 500 and 1000 kilometers) can pass one or several countries and scenic landscapes. Some doubt that high-speed or bullet trains (up to 500 kilometers per hour fast) are still slow travel. Yet apart from the time and distance covered, all aspects of train travel apply to them too.

Coach networks (such as Greyhound) serve even remote or rural destinations, thus are often associated with exploration. Their benefits are affordability; their downsides, limited space and comfort. Logistically between the coach and the car, hitchhiking benefits car driver and hitchhiker: both are entertained; the driver remains alert and the hitchhiker can acquire local knowledge. Hitchhiking has considerable environmental potential by improving car loads and reducing carbon footprint, outweighed however by considerations of social appropriateness and personal safety.

Some freighter or cargo vessels offer cruises with accommodation, without the amenities of ocean liners but much cheaper. Ports enable authentic local exploration but require flexibility, making it less suitable for very young, old or time-bound travelers. By contrast, small pleasure craft like canoes, kayaks or sailing yachts allow for very individual routes. The Caribbean is popular for charter, the Mediterranean for cruise trips. Yet even low-carbon water travel can upset local ecology (wildlife or habitat) by erosion or waves, water quality (sediments, spillage, or fuel or exhaust

waste), or cause noise or air pollution (via motorized vessels, or sail boats towed into ports). Additionally, even low-carbon water travel often depends on high-carbon infrastructure, such as flights to or drives within destinations.

2.3 The Future of Slow Travel

Three future scenarios are: 1) slow travel continues as a market niche of alternative tourism, chosen by middle-class travelers from developed countries or by socio-economically disadvantaged groups with few alternatives; 2) slow travel becomes mainstream as low-carbon travel, provided changes in tourist and industry behavior; 3) slow tourism develops differently across global transit regions, depending on infrastructure quality. Overall, slow travel aspires to be a credible “new,” “alternative” or “green” tourism.

2.4 Environmental Considerations of Airline Travel

Since the turn of the millennium, the airline industry is increasingly balancing passenger capacity with environmental demands. Under the 1997 Kyoto Protocol, tradable emission permits have become a key element of international climate policy. Carbon offsetting is seen as corporate commitment towards carbon neutrality. Some airports have restructured themselves accordingly; however, important questions remain, such as contesting their “spheres of responsibility” or “ownership of emissions” (from their planes’ starting to them landing, including taxiing and parking). Implementing environmentally friendly policies will require increasing cooperation of governments and airports, and will depend on available technological solutions (such as emission filters), adopted policy measures (such as emission charges, fuel taxes, or restraint measures), and customer choices influencing the market (such as the selection of airlines for travel, or stock market investments in them). Overall, the airline industry tries to be ahead of the game for instance by innovative products, such as the Airbus 380, whose structure weight is made of up to one fourth of composite materials.

2.5 Social Considerations of Business Travel

Traditional business tourism has due to progress in collaboration software that enables sophisticated video conferences, replacing physical face-to-face meetings with virtual ones, and alleviating the burden on time, money and environment in the form of air travel, accommodation, and pollution, and giving new meaning to the terms “working out of the office” or “working anywhere,” thereby also enhancing the work-life balance. Some forms of traditional business encounters are still wanted, such as for sales or development people and major deals. But altogether, the return on investment of virtual travel is said to be superior to business travel. Others maintain that, as transnational companies become ever more important for business tourism, extending and diversifying their global reach and their international dependencies, and relying on telecommunication technology only on lower and medium management levels, face-to-face meetings are still useful for global-level coordination. But even in that case, companies are increasingly asked by their stakeholders (whether governments, shareholders, employees, or residents) to consider their environmental impact, such as their carbon footprint. This means that while a few aspects and types of companies of business tourism might afford to ignore environmental considerations, most of its “user-intensive” travel forms seem to adopt them increasingly.

2.6 Stakeholders of International Tourism: Travelers

Stakeholders of a company or an organization are all who are interested in, or affected by its activities. Stakeholders of international tourism can be private, public or business individuals or groups (travelers, organizations or corporations). Travelers can broaden their personal horizons with new experiences and knowledge of other peoples and reduce their prejudices, or discover or engage deeper with issues of environmental preservation and protection, or promote peaceful relations among countries.

2.7 Destinations and Hosts

Residents expect tourism to serve their interests above those of other stakeholders. Travelers contribute to the economic growth and development of host communities by buying locally produced goods and services such as food, accommodation, clothing, equipment, transportation, or additional cultural or educational activities. Many developing national economies are torn between their need of tourism profits and the socio-environmental costs of unregulated tourism development. Hence they try to prevent further deteriorations of their natural or built environment by unsuitable tourism complexes. Also, negative experiences might let them develop xenophobia, or pursue harmful actions such as prostitution or drugs. Yet tourism might also protect or conserve their landscapes, monuments or buildings, for instance by raising industrial, architectural or environmental standards. In any case, conflicts, wars, natural disasters, and the spread of communicable diseases remain the gravest concerns for developing countries.

2.8 Multinational Corporations

Multinational corporations' global mergers and acquisitions (such as *ITT Sheraton* for hotels, *Star Alliance* for airlines, *Thomas Cook* for agents, or *Gray Line Worldwide* for operators) enable them substantial economies of scale and thus profits even from small margins. But the pressure from continuous product development and aggressive low-price marketing also hampers sustainable development. Corporate social responsibility aims to enrich classical economic outlooks with social concerns, such as ethical or environmental business behavior, improving the quality of life of residents, communities, tourists and society, thus benefiting all tourism stakeholders. Yet many businesses feel that their capacity for socially responsible actions is limited by their profit margins, disadvantaging them to other sectors that do not have such restrictions. However, even they concede that corporate social responsibility can be successful, provided reasonable financial margins. This double goal can be achieved with a good public relations department.

2.9 Student Traveler Stakeholders

Students travel less long, but more often; explore more destinations; spend more on travel, relative to their income; book more travel on the internet; are relatively undeterred by terrorism, natural disasters, or pandemics; aim at experiences involving local people; innovate technologically and socially; and exemplify responsible and sustainable tourism. Students see travel as a way of life and element of their identity, consisting of learning, meeting people, places and cultures, personal and professional development, and reinforcing positive values. Student travel can thus contribute to the development and well-being of travelers, stakeholders, and societies educationally (broadening minds and horizons, accepting other cultures, questioning stereotypes, enhancing motivations, and improving interpersonal communication, self-awareness and confidence); culturally (raising trust, understanding, tolerance and compassion among peoples); politically and economically (stimulating or supplementing national outlooks, institutional programs, economic aid, or poverty relief); and

socially and ecologically (being role models for interactions with host cultures and destinations through respectful and sustainable tourism). These elements parallel those of tourism for world peace, once more showing the interconnectedness of this paper's issues.

2.10 Religious Tourism Stakeholders

Many religious sites were built in remote and pristine (such as mountainous) locations, fitting the ideal of pilgrimage as caring for the natural and social environment, and mediating between the natural, cultural and supernatural worlds. For example, Taoism and Buddhism venerate mountains (Chinese Buddhism's Four Sacred Mountains Wutai, Jihua, Putuo, and Emei are regarded as a bodhimanda, enlightened place, for a bodhisattva, enlightened being). Thus conflicts between sites' environmental and economic interests may erode their spiritual value. For example, the murals in northwest China's Dunhuang or Mogao Caves (or Caves of the Thousand Buddhas), painted between the 5th and 14th centuries across 577 grottos and 45,000 square meters, are being damaged by the many tourists who raise their internal temperatures.

Likewise, several of the 112 cultural tourist attractions on one of the four biggest Taoist mountains, Mount Wudang in central east China have been damaged, especially the Taihe (Golden Peak) and Zixiao (Purple Clouds) Palaces, while in the Taizi (Prince) Valley, the local government has constructed a concrete dam to raise the local water table for tourist leisure. Reacting, many religious tourist sites in China forbid littering, inscribing or photographing murals, open cooking, tree-cutting, or fireworks. Similarly, Santa Katarina Monastery at the foot of Egypt's Mount Sinai (or Jebel Musa) has benefitted from Egyptian, European and United Nations protection, preservation and awareness initiatives, and asks its daily 2000 visitors (and 300 nightly mountainside campers) not to pollute it in any way.

2.11 Tourism for World Peace and Development

For politically, economically and socio-culturally beneficial tourism, these elements have been suggested: 1) Protecting and encouraging cultural diversity in all areas of the tourism industry; 2) Reducing poverty by employing residents and local businesses for fair wages, and involving them in decision-making processes; 3) Avoiding to support conditions that lead to acts of conflict or violence; 4) Engaging in sustainable development by educated or at least caring ecotourism; 5) Physically and spiritually respecting peoples, traditions, spaces, and sacred or heritage sites; and 6) Supporting only tourism businesses which follow these principles.

Conclusion

Overall, the TLB approach improves a tourism organization in manifold ways:

- Conceptual clarity about sustainability (comprehensively defining and operationalizing it);
- Practical clarity about how to achieve it (slogan: "what gets measured gets managed");
- Strategic decision making (integrated and holistic decisions within ethical framework),
- Transparency and accountability (for stakeholders and society);
- Shareholder value (the TBL also positively impacts the economic "single" bottom line);
- Quality standards (institutionalizing best practices and benchmarks);
- Employee relationships (employees are more likely to be loyal and low in turnover);
- Corporate reputation (boosting company's products, marketing, and brand awareness);
- Market positioning (via self-reinforcing cycles of positive reputation);
- Stakeholder relationships (TBL implementations fulfil stakeholder demands); and

- Destination benefits (differentiation from competition, and benefit for local community).

If we combine these triple bottom line advantages and insights with those of slow travel, an interesting picture takes shape: many of the traditionally environmentally harmful ways of travel (air, business) increasingly realized ways to combine profits with more ecologically considerate ways. Other forms, such as religious or student travel, had ecological and environmental considerations more built-in as part of their self-understanding, and even they continuously look for ways to improve and integrate them into their guest, host and site experiences. International tourism's facets reflect the insight that better business can be achieved not despite, but because of better environmental and social considerations. Especially the seeming oxymoron between slow travel on the one hand and airline or business travel on the other hand makes course-changes of "fast travel" so interesting, insightful and valuable for slow travel. Likewise, the efforts of fast travel seem to be spurred by the philosophies, self-understanding and interactive ways of slow travel. Youth and student travelers might, due to their age, dynamism and possible future career aspirations, be familiar or even strive for environmentally or socially taxing travel forms as airline or business travel, while at the same time embodying (due to financial restrictions, but also inspired by deeper insight) more socially and environmentally-friendly travel forms, such as low-to-no carbon emissions and footprints. Altogether, the relationship between slow and fast travel seems to be increasingly developing, interactive, and relevant for us to contribute to it, in daily life and further research.

Part of this research might be already here, in the combination of triple bottom line and slow travel insights: first, these two concepts might be able to form a "double pack" of sustainability which each of them alone could not perform as effectively: for instance, the forms of slow travel can inspire those of fast travel simply with their existence and realization, and now we can add to that the substantiated evaluation and practice of triple bottom line reporting and improvement. Second, triple bottom line and slow travel could mutually influence and benefit from each other: for example, slow travel forms and companies could additionally seek to enhance their sustainability understanding and operations via a conscious implementation and application of the triple bottom line. Third, the benefits of combined or synthesized triple bottom line and slow travel reflections and actions could benefit even other industries which wish to consider sustainability as one of their operational criteria, for instance tourist resorts which, while not offering large-scale or long-distance travel on their premises, can still consider slow activities and their ecological, economic and social impacts on their own guest or the surrounding host community. Altogether, the dynamics and interrelationships found within each of the two areas of this paper, namely the triple bottom line and slow tourism, all the more apply to their mutual and intertwined interrelationship and potential.

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Slow Tourism's Sustainability Supported by Environmental and Social Considerations of Airline and Business Travel

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Abstract

Slow travel's key themes are environmentalism, sustainability, and low-to-no carbon emissions. Slowness has several practical and spiritual dimensions of meaning, central to which are environmental ones. As an opposite to slow tourism, airline travel has developed quickly in terms of airplanes, liberalization and technology, all related to the industry's efforts at more sustainability, but conflicting and seeking solutions within the airline and tourism industries, their customers and the global environment. Business travelers' motivations, decision-making and beneficiaries moved environmental and sustainability considerations up on its agenda, in contrast to traditional forms of business encounters. International tourism's several stakeholders vary and often compete in outlook and interests, but reach as high as world peace contributions. Student travel grows in size and importance corresponding to the complex matrix of interests of its travelers and societies. Religious tourism has become a key sector of global tourism, with implications for religious sites' economies and environments. Altogether, increasing social and environmental considerations of fast travel forms and industries have come to both be inspired by as well as enrich slow tourism, with an ongoing and interactive development that promises to put high demands on, yet likewise to benefit the here analyzed stakeholders and forms of travel.

Keywords: Sustainability, Slow Tourism, Airline Travel, Business Travel, International Tourism, Student Travel, Religious Tourism, Stakeholders

1. Slow Tourism's Sustainability

1.1 Development of Slow Travel

In the 1980s, an emphasis on quality of life, slower pace, relaxation, individuality, traditional culture and on cultural, local or ecological heritage gave rise to "slow" movements such as the Italian *Cittàslow* ("slow cities") or "slow food" movements. Some see the slow movements connected by organic sustainability, respect for the seasonality and rhythm of travel, or their affective or multi-sensory dimensions, which allow to explore places and sights, but also feelings, sounds or tastes.

"Slow travel" or "slow tourism" is considered as a "viable" alternative to car or plane travel, being mostly "conducted" or "performed" over land or water, by means of foot, bicycle, train, coach, bus, ferry, canoe, kayak or sailing boat. It enables a more intense exploration of, engagement with, and enjoyment through the available or chosen transport, the destination and the localities, in a sustainable, supporting, conscious relationship with the environment, such as local landscapes and

cityscapes. The slow speed and the time constraints of most people set limits to the mileage that can be achieved. This makes slow travel more suitable for short-to-mid-haul and intra-continental travel. Slow travel is then more likely the domain of relatively affluent and unbound tourists, such as backpackers on long vacations.

Recommended slow *actions and activities* are stopping at local markets, engaging with communities, emulating the locals in terms of habits such as eating or resting, or practicing the local languages and dialects. Desirable slow *attitudes* are seeing the journey as part of the pleasure, seeking out the unexpected, embracing lost connections on trips, or giving back to local communities. Slow *travel* sees the means and the time of transport and traveling as valuable parts of the vacation experience. Slow *tourism* applies to the destination and related activities, such as engaging with local landscapes and people. Hence they are two sides of one coin, characterizing the way to and within the destination.

1.2 Environmental Considerations

While *green* travel focuses on technical aspects of transport, such as resource use or carbon dioxide and greenhouse gas emissions, *slow* travel sees environmental considerations as significant, but not sole driver of the journey. Travelers with central environmental considerations are labeled “hard slow travelers,” while “soft slow travelers” prefer either a slow travel mode or the slow experience, but consider environmental benefits just an added bonus.

Some hold that slow travel is also possible by cars, since, full to capacity, they rival trains for fuel- and carbon dioxide-efficiency per passenger kilometer. Others argue that: cars are usually not filled to capacity; worldwide on average, cars are not very fuel-efficient; for holidays, typically larger, emission-intensive and less environmentally friendly family cars or vans are used; and a car available at the destination often means longer or unnecessary trips.

Some hold that no special environmental actions or consciousness is required for slow travel, as it is about doing things with the right attitude towards time, and prioritizing quality over quantity of experience. Others maintain that the slowness of non-consumerist experiences implies minimizing the environmental or emissions footprint, thus making slow travel by definition environmentally friendly.

Slow travel is also associated with efforts of a low-to-no carbon footprint. The worldwide tourism industry’s emissions consist of: transport 87%, accommodation 9%, and tourist activities 4%. As transport has the largest share, slow tourism is considered as promising towards low-to-no carbon emissions. This especially since planes and cars are said to produce three to ten times more carbon dioxide per passenger kilometer than trains and five times more than coaches. Further suggestions to reduce the carbon footprint of slow travel are: longer stays, longer but fewer holidays, slow journeys combined with slow destination experiences, or several slow travel modes to and within the destination.

The slowest of all travel forms, relying only on the traveler’s body, walking is the most direct, close and intense engagement with people and environments. The term ‘budget’ travel is rarely used for walkers, as cost considerations are not essential for them. “Hard slow travelers” relate walking to the immediacy and simplicity of sensory experiences, such as the contrasts between city and country, coast and desert, cave and mountain, of being in tune with local populations or fellow travelers, or of exploring the topography.

Cycling traditionally has the flair and ethos of being slow, sustainable, low-carbon, and an individual lifestyle statement. Besides physical benefits, cyclists often name the bike's flexible sociability as their reasons of choice: only the terrain (roads, cycle paths, cross-country) limits their experience, so stopping, starting, pausing, or meeting other travelers is uncomplicated compared to train travel. While cycling can be disconnected from environmental concerns, its travel and recreational activity has the strongest symbolical value of environmental friendliness among slow travel forms.

Many see train travel as the ideal slow travel form: changing vistas to avoid boredom yet allowing observation of landscapes and people, and offering the choice between relaxation, observation, or interaction with fellow travelers. Most relevant for slow tourist travel are intercity trains between cities or countries. Short-distance trains (within around 100 kilometers) or long-distance trains (between 500 and 1000 kilometers) can pass one or several countries and scenic landscapes. Some doubt that high-speed or bullet trains (up to 500 kilometers per hour fast) are still slow travel. Yet apart from the time and distance covered, all aspects of train travel apply to them too.

Coach networks (such as Greyhound) serve even remote or rural destinations, thus are often associated with exploration. Their benefits are affordability; their downsides, limited space and comfort. Logistically between the coach and the car, hitchhiking benefits car driver and hitchhiker: both are entertained; the driver remains alert and the hitchhiker can acquire local knowledge. Hitchhiking has considerable environmental potential by improving car loads and reducing carbon footprint, outweighed however by considerations of social appropriateness and personal safety.

Some freighter or cargo vessels offer cruises with accommodation, without the amenities of ocean liners but much cheaper. Ports enable authentic local exploration but require flexibility, making it less suitable for very young, old or time-bound travelers. By contrast, small pleasure craft like canoes, kayaks or sailing yachts allow for very individual routes. The Caribbean is popular for charter, the Mediterranean for cruise trips. Yet even low-carbon water travel can upset local ecology (wildlife or habitat) by erosion or waves, water quality (sediments, spillage, or fuel or exhaust waste), or cause noise or air pollution (via motorized vessels, or sail boats towed into ports). Additionally, even low-carbon water travel often depends on high-carbon infrastructure, such as flights to or drives within destinations.

1.3 The Future of Slow Travel

Three future scenarios are: 1) slow travel continues as a market niche of alternative tourism, chosen by middle-class travelers from developed countries or by socio-economically disadvantaged groups with few alternatives; 2) slow travel becomes mainstream as low-carbon travel, provided changes in tourist and industry behavior; 3) slow tourism develops differently across global transit regions, depending on infrastructure quality. Overall, slow travel aspires to be a credible "new," "alternative" or "green" tourism.

2. Environmental Considerations of Airline Travel

Since the turn of the millennium, the airline industry is increasingly balancing passenger capacity with environmental demands. Under the 1997 Kyoto Protocol, tradable emission permits have become a key element of international climate policy. Carbon offsetting is seen as corporate commitment towards carbon neutrality. Some airports have restructured themselves accordingly;

however, important questions remain, such as contesting their “spheres of responsibility” or “ownership of emissions” (from their planes’ starting to them landing, including taxiing and parking). Implementing environmentally friendly policies will require increasing cooperation of governments and airports, and will depend on available technological solutions (such as emission filters), adopted policy measures (such as emission charges, fuel taxes, or restraint measures), and customer choices influencing the market (such as the selection of airlines for travel, or stock market investments in them). Overall, the airline industry tries to be ahead of the game for instance by innovative products, such as the Airbus 380, whose structure weight is made of up to one fourth of composite materials.

3. Social Considerations of Business Travel

Traditional business tourism has due to progress in collaboration software that enables sophisticated video conferences, replacing physical face-to-face meetings with virtual ones, and alleviating the burden on time, money and environment in the form of air travel, accommodation, and pollution, and giving new meaning to the terms “working out of the office” or “working anywhere,” thereby also enhancing the work-life balance. Some forms of traditional business encounters are still wanted, such as for sales or development people and major deals. But altogether, the return on investment of virtual travel is said to be superior to business travel. Others maintain that, as transnational companies become ever more important for business tourism, extending and diversifying their global reach and their international dependencies, and relying on telecommunication technology only on lower and medium management levels, face-to-face meetings are still useful for global-level coordination. But even in that case, companies are increasingly asked by their stakeholders (whether governments, shareholders, employees, or residents) to consider their environmental impact, such as their carbon footprint. This means that while a few aspects and types of companies of business tourism might afford to ignore environmental considerations, most of its “user-intensive” travel forms seems to adopt them increasingly.

4. Stakeholders of International Tourism

4.1 Travelers

Stakeholders of a company or an organization are all who are interested in, or affected by its activities. Stakeholders of international tourism can be private, public or business individuals or groups (travelers, organizations or corporations). Travelers can broaden their personal horizons with new experiences and knowledge of other peoples and reduce their prejudices, or discover or engage deeper with issues of environmental preservation and protection, or promote peaceful relations among countries.

4.2 Destinations and Hosts

Residents expect tourism to serve their interests above those of other stakeholders. Travelers contribute to the economic growth and development of host communities by buying locally produced goods and services such as food, accommodation, clothing, equipment, transportation, or additional cultural or educational activities. Many developing national economies are torn between their need of tourism profits and the socio-environmental costs of unregulated tourism development. Hence they try to prevent further deteriorations of their natural or built environment by unsuitable tourism complexes. Also, negative experiences might let them develop xenophobia, or pursue harmful

actions such as prostitution or drugs. Yet tourism might also protect or conserve their landscapes, monuments or buildings, for instance by raising industrial, architectural or environmental standards. In any case, conflicts, wars, natural disasters, and the spread of communicable diseases remain the gravest concerns for developing countries.

4.3 Multinational Corporations

Multinational corporations' global mergers and acquisitions (such as *ITT Sheraton* for hotels, *Star Alliance* for airlines, *Thomas Cook* for agents, or *Gray Line Worldwide* for operators) enable them substantial economies of scale and thus profits even from small margins. But the pressure from continuous product development and aggressive low-price marketing also hampers sustainable development. Corporate social responsibility aims to enrich classical economic outlooks with social concerns, such as ethical or environmental business behavior, improving the quality of life of residents, communities, tourists and society, thus benefiting all tourism stakeholders. Yet many businesses feel that their capacity for socially responsible actions is limited by their profit margins, disadvantaging them to other sectors that do not have such restrictions. However, even they concede that corporate social responsibility can be successful, provided reasonable financial margins. This double goal can be achieved with a good public relations department.

4.4 Tourism for World Peace

For politically, economically and socio-culturally beneficial tourism, these elements have been suggested: 1) Protecting and encouraging cultural diversity in all areas of the tourism industry; 2) Reducing poverty by employing residents and local businesses for fair wages, and involving them in decision-making processes; 3) Avoiding to support conditions that lead to acts of conflict or violence; 4) Engaging in sustainable development by educated or at least caring ecotourism; 5) Physically and spiritually respecting peoples, traditions, spaces, and sacred or heritage sites; and 6) Supporting only tourism businesses which follow these principles.

5. Student Traveler Stakeholders

Students travel less long, but more often; explore more destinations; spend more on travel, relative to their income; book more travel on the internet; are relatively undeterred by terrorism, natural disasters, or pandemics; aim at experiences involving local people; innovate technologically and socially; and exemplify responsible and sustainable tourism. Students see travel as a way of life and element of their identity, consisting of learning, meeting people, places and cultures, personal and professional development, and reinforcing positive values. Student travel can thus contribute to the development and well-being of travelers, stakeholders, and societies educationally (broadening minds and horizons, accepting other cultures, questioning stereotypes, enhancing motivations, and improving interpersonal communication, self-awareness and confidence); culturally (raising trust, understanding, tolerance and compassion among peoples); politically and economically (stimulating or supplementing national outlooks, institutional programs, economic aid, or poverty relief); and socially and ecologically (being role models for interactions with host cultures and destinations through respectful and sustainable tourism). These elements parallel those of tourism for world peace, once more showing the interconnectedness of this paper's issues.

6. Religious Tourism Stakeholders

Many religious sites were built in remote and pristine (such as mountainous) locations, fitting the ideal of pilgrimage as caring for the natural and social environment, and mediating between the natural, cultural and supernatural worlds. For example, Taoism and Buddhism venerate mountains (Chinese Buddhism's Four Sacred Mountains Wutai, Jihua, Putuo, and Emei are regarded as a bodhimanda, enlightened place, for a bodhisattva, enlightened being). Thus conflicts between sites' environmental and economic interests may erode their spiritual value. For example, the murals in northwest China's Dunhuang or Mogao Caves (or Caves of the Thousand Buddhas), painted between the 5th and 14th centuries across 577 grottos and 45,000 square meters, are being damaged by the many tourists who raise their internal temperatures. Likewise, several of the 112 cultural tourist attractions on one of the four biggest Taoist mountains, Mount Wudang in central east China have been damaged, especially the Taihe (Golden Peak) and Zixiao (Purple Clouds) Palaces, while in the Taizi (Prince) Valley, the local government has constructed a concrete dam to raise the local water table for tourist leisure. Reacting, many religious tourist sites in China forbid littering, inscribing or photographing murals, open cooking, tree-cutting, or fireworks. Similarly, Santa Katarina Monastery at the foot of Egypt's Mount Sinai (or Jebel Musa) has benefitted from Egyptian, European and United Nations protection, preservation and awareness initiatives, and asks its daily 2000 visitors (and 300 nightly mountainside campers) not to pollute it in any way.

7. Conclusion

Many of the traditionally environmentally harmful ways of travel (air, business) increasingly realized ways to combine profits with more ecologically considerate ways. Other forms, such as religious or student travel, had ecological and environmental considerations more built-in as part of their self-understanding, and even they continuously look for ways to improve and integrate them into their guest, host and site experiences. International tourism's facets reflect the insight that better business can be achieved not despite, but because of better environmental and social considerations. Especially the seeming oxymoron between slow travel on the one hand and airline or business travel on the other hand makes course-changes of "fast travel" so interesting, insightful and valuable for slow travel. Likewise, the efforts of fast travel seem to be spurred by the philosophies, self-understanding and interactive ways of slow travel. Youth and student travelers might, due to their age, dynamism and possible future career aspirations, be familiar or even strive for environmentally or socially taxing travel forms as airline or business travel, while at the same time embodying (due to financial restrictions, but also inspired by deeper insight) more socially and environmentally-friendly travel forms, such as low-to-no carbon emissions and footprints. Altogether, the relationship between slow and fast travel seems to be increasingly developing, interactive, and relevant for us to contribute to it, in daily life and further research.

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Nonlinear Relationship between Globalization and Control of Corruption along with Economic Growth

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Abstract

In recent decades, trade flows, capital, work force, technology and information have increased between international borders and the globalization has turned to an undeniable process in international economics. Meanwhile, despite the positive aspects of globalization, the critics of globalization opine that the risks and costs of globalization for developing vulnerable economies and the world's impoverished people are high and significant. In this regard, this study by using the data of KOF Economic Institute and the World Bank for 113 different countries during the period 2002-2012, by taking advantage of panel smooth transition regression, and by taking Gross domestic product as transmission variables discusses the nonlinear relationship between research variables. The Results have revealed that globalization in low regime (countries with low GDP) has negative impact whereas in high regime (countries with high GDP) has positive impact. In spite of the fact that in the early stages of growth, control of corruption has a positive impact on economic growth, after a threshold has a negative impact on economic growth.

Keywords: Globalization, Corruption, Panel Smooth Transition Model, Economic Growth, Threshold, Economic Convergence

1. Introduction

Today, the term globalization has become a motto in the economies of the whole world. Economic and social development is one of the important issues in the world economies over the past several decades. The concept of globalization refers to the different areas and aspects such as economic, social, and political ones so that the term was introduced in the early 80th century but in the beginning, this term was not defined accurately and was often used in political economy. Although there was no proper definition of globalization, the term globalization noted to the economic convergence of the world through free trade, free flows of finance, as well as the mutual exchange of technology and knowledge. The process of globalization does not only include global trade openness but it contains the development of communication, the globalization of financial

markets, population migration and in general, increased mobility of people, goods, capital and information and ideas. Thus globalization simply means, the national economies movement towards integration (merge or convergence), freedom of trade, financial flows, foreign direct investment and increasing interactions of people in all areas of their life are included. Also the globalization refers to the globalization of production, distribution and marketing of goods and services and it also refers to adopting common policies by countries (Ray¹, 2012). Globalization is often a process of unification of goods and capital markets around the world that in this process, the international trade barriers and foreign investment are reduced. Globalization can be created with technological progress, in fact, this process reduces transportation costs and improves the flow of information which is possible with economic and political changes based on reducing protectionism, liberalization of foreign investment and immigration laws. In other words, globalization is a process in which national boundaries have no concept and national economies are merged together and culture, technology, governance and production are related with complex relations of mutually interdependence. Of course we should not forget that globalization in addition to creating opportunities for development, can also be associated with challenges and new dangers. Because integration with global markets, leads to increased competition and hence it is not clear whether the economy will benefit significantly from the rapid process of globalization or not? (Gurgul and lach², 2014).

This study discusses the relationship between globalization and control of corruption along with economic growth based on the grouping of countries to low-income countries, middle-income and high-income countries using a Panel Smooth Transition model. That's why the most important indicators of globalization including: (economic globalization, political globalization, social globalization) are used. Such an approach would permit us to do various analyses from different aspects of globalization. In this study, the global index calculated by Swiss KOF economic institute³ is used. Currently, this index is considered as one of the most comprehensive global indices, which has been expanded and developed by Axcel Dreher⁴ (2006).

2. Literature Review

The topics about the consequences of corruption have created two schools of important thought. Based on one of these schools, corruption is beneficial and leads to economic growth, but in other school, corruption is negative and is considered as an important obstacle in the way of economic growth and modernization.

2.1 The first group perspective: the effectiveness of corruption

Fans of school efficiency, such as Leff⁵, Bayley⁶ and Huntington With emphasis on ineffectiveness of the laws and institutions in developing countries, recognize the corruption in the public sector as a way to overcome the ineffectiveness of laws and regulations and believe that corruption has the grease role for dry tires of economic and administrative systems of these countries and provides economic growth and investment in these countries, So the fans of effective school of

¹Sarbapriya Ray (2012)

²HenrykGurgul and lukaszlach (2014)

³Konjunkturforschungsstelle der ETH Zürich

⁴Dreher (2006)

⁵Leff

⁶Bayley

corruption, Consider the corruption as a business expense that its benefits is more than its costs in developing countries and is hence more acceptable.

2.2 A second group perspective: the ineffectiveness of corruption

Although effective school of corruption had been offered base on some of relatively strong theoretical and empirical arguments, in later years, especially after 1995 a lot of researches in the field of effects of public sector corruption was performed, that their results challenged the arguments of this school and provide the context for the second school presence. Now by discrediting the school of corruption effectiveness in the field of theorizing, several evidences can be found that indicate that the damaging effects of corruption on economic growth and development. The World Bank in 1997 pointed out the corruption as the single greatest obstacle to economic growth and social development. Researches show that high levels of corruption severely reduce the growth rate of gross domestic product (GDP), which is an indicator of economic development. Mauro (1997) in his study on "the impact of corruption on growth, investment and government spending", Shows that 4.2 unit decrease in corruption index (an index that is graded from one to 10) is related to 4 percentage of point increase in capitation growth rate. That means the release of huge resources which can be used in healthier environment for the growth and development of the country. On the other hand, the corruption encountering with attraction level of foreign investment that is the other economic development indicators, will play a role as a deterrent and eerie factor for foreign investors. Recent school scholars have found that high levels of corruption will lead to increased income inequality and poverty through economic growth reduction. Furthermore, research results of researchers who have examined the effect of corruption on macroeconomic variables, indicate the high costs of corruption in the public sector on the economy and welfare of the citizens are another variable of economic development. Although these scholars do not agree on various aspects of corruption and its effects, all emphasize that corruption is caused by poor governance (Ellis⁷, 1998). Globalization is not a purely economic phenomenon, but economy is the most important aspect of it. In other words, the globalization is the most notable distinction of world's yesterday and today economy and the growth and convergence of financial markets, as well as the development of information and communication technology are the main causes of this process in the current era.

As regards with globalization, there are two perspectives:

Liberalization agreeing perspective:

Fans of this view believe that over the recent decades, globalization has led to GDP growth in the world and foreign investment growth particularly in developing countries has been accelerated. The elimination of trade barriers and capital mobility has led to technological advances and has reduced the costs of transport and communication, which this issue will increase the welfare of society and new economic opportunities as well.

Liberalization opposing perspective:

This view suggests that globalization is a terrible rule that will target valuable aspects of social, cultural and economic of countries. Fans of this view believe that globalization is useful and inevitable for future economic development, while opponents believe that globalization has increased inequality between countries and jeopardizes their employment, standard of living and culture (Ali Hasanzadeh, 2008). The positive effect of trade openness policies through the liberalization of trade,

⁷Ellis, 1998

investment and movement of capital between countries, on the growth and Increased Welfare around the world by economic theories such as comparative advantage theory of Ricardo, Heckscher-Ohlin model, Stolper-Samuelson, new trade theory, new model of Krugman theories and the international lending-borrowing model (or basket allocation models) have been supported. (This means that liberalization leads to growth and welfare and it has been proven in the economic theories). In this regard, two models and a theory that have great importance in theoretical economics are: Heckscher Ohlin model and Stolper-Samuelson theorem, which are briefly described below:

Heckscher - Ohlin model as the standard model of international trade, considers the key and determining factor of country's comparative advantage as the relative abundance of production factors. According to this theory, developed countries in their trade with developing countries export goods and services relying upon skilled labor and on the opposite side import goods and services relying upon low skilled labor. In countries with flexible wages, increased trade with developing countries will lead to a reduction in relative wages of low skilled labors and in countries where wages are more rigid and inexorable, opening trade routes with developing countries will lead to low-skilled workers more unemployment (Meschi and Vivarelli⁸, 2009, p. 291).

Stolper-Samuelson theorem states that high tariff or non-tariff protections (such as imposing quotas) will increase the price of domestic goods and subsequently will lead to an increase in the real price of inputs that has a greater contribution in the production of that good. According to this theorem, trade liberalization in each country will increase the demand for manufacturing inputs that are relatively more abundant in the country and consequently its price will increase. Since skilled labors in developed countries and unskilled labors in developing countries are abundant, trade liberalization will lead to an increase in demand and wages of skilled workers in rich countries but in developing countries demand and wages of unskilled workers will rise up. As a result, trade liberalization in developing countries, unlike developed countries, will reduce inequality (Chiquiar⁹, 2008).

Several studies have been conducted in this area that some of the latest studies in the field of corruption and globalization along with economic growth which have been conducted, are discussed briefly in the following.

Barro and Sala-i-Martin (1995), Sachs and Warner (1995), Edwards (1998), Greenaway et al. (1998) Vamvakidis (1998) with cross-sectional regressions for different countries concluded that trade barriers will reduce economic growth. Sachs and Warner (1995) Showed that only countries with open economies experience unconditional economic convergence. Quinn (1997) concluded that in 64 countries between the years 50 to 94, the liberalization of the capital account, is an important factor in economic growth and investment. Frankel and Romer (1999) found a strong and positive relationship between economic growth and trade with the introduction of instrumental variables. Brunner (2003) by developing the method of Frankel and Romer and by estimating the panel, found a positive effect between trade and economic growth. On the contrary, Rodriguez and Rodrik (2003) challenged the previous researches that were based on a strong relationship between trade and economic growth. In fact, Rodriguez and Rodrik argued that some of the factors affecting economic growth have not been considered in these studies, as well as they refuted the index of trade openness in these studies. Of course, Warner (2002) removed the flaws found by Rodriguez and Rodrik and He concluded that a strong and positive relationship exists between openness and economic growth by adding the new tests and criterias. Vamvakidis (2002) and Clemens and Williamson (2004) Using

⁸Meschi&Vivarelli

⁹Chiquiar

data from the 1780-2000 and 1865-1950 years concluded that the relationship between trade openness and economic growth is remarkable in recent decades. Stiglitz (2002) by examining the globalization and strategies of World Bank and International Monetary Fund in Washington Consensus concluded that although globalization has a positive effect on economic growth, its adverse effects on income distribution and the environment are greater than its benefits. In this regard it is worth noting that even proponents of globalization such as Blinder (2006) and Summers (2006) and Krugman (2007) have acknowledged that Globalization has some undesirable effects Which leads to increased inequality and insecure. Bhaskara Rao, Krishna Chaitanya Vadlamannati (2010) by determining the correlation between kof globalization and economic growth in the 21 least developed African countries concluded that Globalization has a weak impact but significant impact on economic growth in the countries listed. Sarbapriya Ray (2012) Using Granger causality and Johansen test for India concluded that there is the reciprocal relationship between economic growth and globalization in India In such a way that private investors, Commercial freedom and human development index have a significant and positive impact on economic growth but the globalization of financial variables (entry and exit of capital) have negative impact but meaningless on economic growth.

Nuno Carlos (2012) using generalized method of moments (GMM) concluded that globalization has a positive and significant impact on economic growth. Henryk Gurgul and lukaszlach (2014) During the period (1990-2010) in the countries of Central and Eastern Europe, studied the relationship between globalization and economic growth, meanwhile introducing the KOF index using various indicators of globalization (economic, political and social) concluded that there is a significant and positive relationship between the three criteria listed and economic growth. Aidt et al. (2008) Using data of short-term period (1995-2000) and relatively long-term period (1970-2000), using a threshold model and by defining two different governmental regimes (regime with high quality institutions and regime with low quality institutions) have examined the impact of corruption on economic growth and concluded that corruption in regime with high quality institutions has a negative impact on economic growth and in regime with poor quality institutions does not have a significant effect on economic growth. Campos et al. (2010), with total of 460 experimental estimates, examined the effect of corruption on economic growth in the 41 studies and concluded that 32% of estimates show significant and negative impact of corruption on economic growth and in 62% of estimates, corruption has no significant effect on economic growth and 6% of estimates represent a significant and positive impact of corruption on economic growth. Likewise in the countries of MENA (Middle East and North Africa) corruption has a negative impact on economic growth and in Asian countries (except the Middle East) corruption has a positive impact on economic growth. Swaleheen (2011) during the period (1984-2010) using a dynamic panel model (GMM) has examined the relationship between corruption and economic growth, concluded that there is a nonlinear relationship between corruption and economic growth. Saha and Mallik (2012) During the period (1984-2009) using a dynamic panel model for 150 countries have studied the effects of corruption on economic growth in the framework of a non-linear model and concluded that corruption affects economic growth but these effects are nonlinear So that corruption do not reduce economic growth in all countries and in countries having low levels of corruption, corruption leads to economic growth.

3. The introduction of model, data and research method:

3.1 Introduction of model, variable and data:

Based on the theories and studies done on the effects of globalization and control of corruption on economic growth, experimental model representing the relationship between globalization and corruption along with economic growth with the presence of variables affecting on growth, is clarified as follows.

$$LGDP_{it} = \mu_i + \beta_0 + \beta_1 LLAB_{it} + \beta_2 LKAP_{it} + \beta_3 ECO_{it} + \beta_4 CORR_{it} \quad (1)$$

Where LGDP is the logarithm of GDP at constant prices of 2005, LLAB is the logarithm of workforce, LKAP is the logarithm of gross fixed capital formation at constant prices of 2005, ECO is the index of economic globalization of KOF, CORR is the corruption control index. It should be noted that, Panel Smooth Transition model is conducted using data related to 113 different countries during the period of (2002-2012) in order to estimate the model. As well as, the data related to GDP (gross domestic product) variables, work force, capital, and control of corruption from the World Bank, also data related to the index of economic globalization have been extracted from KOF Institute site.

3.2 Methodology

PSTR model with two extreme regimes and a transition function occurs as follows : (following Gonzalez et al. 2005)

$$y_{it} = \mu_i + A_1 x_{it} + A_2 x_{it} F(T_{it}; \gamma, c) + u_{it}, \quad i = 1, \dots, N, \quad t = 1, \dots, T \quad (2)$$

Where y_{it} is the dependent variable, x_{it} Vector of exogenous variables, μ_i fixed effects of sections and u_{it} is the error term that it is assumed $i.i.d. N(0, \sigma_u^2)$. Transition function $F(T_{it}; \gamma, c)$ is a continuous function and bounded between zero and one that is determined by the value of the threshold variable and to comply with Gonzalez et al (2005) is stated logistically as below:

$$F(T_{it}; \gamma, c) = [1 + \exp(-\gamma \prod_{j=1}^m (T_{it} - c_j))]^{-1}, \quad \gamma > 0, \quad c_1 \leq c_2 \leq \dots \leq c_m \quad (3)$$

In this function, γ is the slope parameter and represents the speed of adjustment from one regime to another regime and T_{it} is threshold or transmission variable which can be selected between explanatory variables, pause of the dependent variable, or any other variable outside the model which in terms of theoretical studies related to the model being studied and causes a nonlinear relationship. Also, well as $c = (c_1, \dots, c_m)'$ is an m-dimensional vector of thresholds parameters or places of regime change occurrence. It should be noted that transmission function typically has a ($m = 1$) or two ($m = 2$) threshold. Thus with the assumption of $m=1$, there is a transmission function with two extreme regimes, Thus, with tending the slope parameter towards infinity, PSTR model Becomes to two panel threshold regime model (PTR) of Hansen (1999), So that if $T_{it} > c$, transmission function gets numeric value 1 and if $T_{it} \leq c$, transmission function gets numeric value 0 and with the assumption of $m=2$, there is a transmission function with two extreme regimes, so that with tending the slope parameter (γ) towards infinity, PSTR model Becomes to three panel threshold regime model that two regimes in proportion to its external values are similar and is different from the regime with its intermediate values. Finally, when the slope parameter (γ) tends to zero and by existence any number of m, PSTR model decreases to a linear or homogeneous regression with fixed

effects. With respect to the above mentioned points, in the PSTR model, estimated coefficients according to the observations of transmission variable and slope parameter continuously Change between two extreme states $F = 0$ and $F = 1$ that these two modes of extreme are explained as follows: (Thanh, 2015).

$$y_{it} = \begin{cases} \mu_i + A_1 x_{it} + u_{it} & F = 0 \\ \mu_i + (A_1 + A_2) x_{it} + u_{it} & F = 1 \end{cases} \quad (4)$$

4. Research findings

Expressed the model used as Pstar Model

To investigate the relationship between globalization and control of corruption, two regime PSTR models are explained with a transfer function is expressed as follows:

$$LGDP_{it} = \mu_i + \alpha_0 LLAB_{it} + \beta_0 LKAP_{it} + \delta_0 ECO_{it} + \theta_0 Corr_{it} + [\alpha_1 LLAB_{it} + \beta_1 LKAP_{it} + \delta_1 ECO_{it} + \theta_1 Corr_{it}] g(q_{it}; \gamma, c) + \varepsilon_{it}$$

Table 1 Test Results of Panel Unit Root - KPSS FISHER (for the Data of 113 Countries)

Variable	with intercept and Trend	With intercept and without Trend
LGDP	-0/915*	1/07*
LLAB	4/24*	-1/07**
LKAP	2/52*	2/94*
CORR	-2/44*	-0/33
Eco	3/85*	1/85*

Table 2 Test Results of Shin Boys Panel Unit Root for the Data for 113 Countries

variable	with intercept and Trend	With intercept and without Trend
LGDP	344*	-203*
LLAB	4/51*	31/18**
LKAP	1424*	14/49*
CORR	538*	493*
Eco	412*	128*

The obtained results for the data of 113 different countries in Tables 1 and 2 represent the stability of all the research variables¹⁰.

Obtained estimated results of basic PSTR model with two regimes are reported in Table 3¹¹. Slope parameter that represents the speed of transition from one regime to another regime is estimated equivalent to 12/08 and threshold value of logarithm of GDP is also 20/22. The threshold

¹⁰ *, **, *** are the significant levels of 1, 5, 10 percent respectively.

¹¹ The obtained results of the linearity tests and lack of non-linear relationship in the reminder of the model and determining test of regime number showed that the optimal model used, has a transfer function and a threshold.

is indeed a turning point and distinguishes two expressed regimes in PSTR model that according to the estimated slope parameter and amounts of transmission variable (logarithm of GDP), the estimated coefficients of model change from one regime to another regime. In the first regime means the linear part of PSTR model where the amount of transfer function is considered as zero, it should be noted that the zero regime is a regime that gross domestic product contains a small amount, on the other hand, one regime is a regime that GDP has a great value, In other words, with the transition from the zero regime to regime of one, GDP increases, in general, the regime of zero, represents countries with low per capita income and the two regime shows high-income and medium-sized countries.

A: Elasticity of GDP to work force and capital:

According to the results of estimated model, GDP sensitivity decreases by moving from zero regime to one regime, (moving from countries with low per capita income to high per capita income countries) So that the numerical value of this amount has been reduced from 25% to 12%. On the other hand the sensitivity of GDP has increased by moving from zero regime to one regime (moving from countries with low per capita income to countries with high per capita income), So that the numerical value of this amount has increased from 48 percent to 73 percent.

B: The impact of globalization on GDP:

The results of table 3 shows that by moving from zero regime to one regime, the impact of globalization has increased and has changed direction, To be more precise, the numerical value of the globalization coefficient (-0/0033) has increased and shifted to the numerical value of 0/063 by moving from countries with low per capita income to the countries with high per capita income. In general, the impact of globalization on countries with low per capita income and the countries with high per capita income is respectively negative and significant, positive and significant.

C: The impact of controlling corruption on GDP:

Results of table 3 shows that by moving from zero regime to one regime, the effect of controlling corruption is reduced and shifted, To be more precise, the numerical value of controlling corruption (-0/038) has decreased and shifted to the numerical value of 0/001 by moving from countries with low per capita income to the countries with high per capita income. In general, the impact of controlling corruption on countries with low per capita income and the countries with high per capita income is respectively positive and significant, negative and significant.

Table 3 The Estimated Results of the Model Used, Logarithm Transmission Variable of GDP LGDP

Coefficients of <i>LLAB</i>		Coefficients of <i>LKAP</i>		Coefficients of <i>ECO</i>	
α_0	0/2551 (2/11)	β_0	0/4829 (4/11)	δ_0	-0/0033 (-2/02)
α_1	-0/1351 (1/96)	β_1	0/2532 (8/98)	δ_1	0/0663 (4/26)
		Coefficients of <i>CORR</i>			
		θ_0	0/0038 (3/17)		
		θ_1	-0/0048 (2/98)		
The first regime : $G(q_{it}; \gamma, c) = 0$					
$LGDP_{it} = \mu_1 + 0.2551 LLAB_{it} + 0.4829 LKAP_{it} - 0.0033 ECO_{it} + 0.0038 CORR_{it}$					
The second regime $G(q_{it}; \gamma, c) = 1$					
$LGDP_{it} = \mu_1 + 0.12 LLAB_{it} + 0.7361 LKAP_{it} + 0.063 ECO_{it} - 0.001 CORR_{it}$					
$\gamma = 12,08 \qquad c = 20,22$					

Source: The research results (using software Matlab)

Note: The amounts in parentheses indicate t-statistics. γ and c represent the slope parameter and threshold respectively.

Conclusion

In order to examine the effect of controlling corruption and economic globalization on economic growth using a panel smooth transition regression, the relationship between the studying variables for the period of (2002-2012) has been investigated Using annual data of 113 different countries (including countries with high per capita income, middle-income countries and countries with low per capita incomes). The results of the model estimates revealed that if the GDP entered as a transmission variable to the model, there is no need to classify countries into countries with high per capita income and low per capita income, so one criticism of the linear model in this pattern was corrected. On the other hand, the threshold value and transmission slope parameter were extracted from the inside of the model. So that the elasticity of GDP compared to the work force decreases by moving from zero regime to one regime (moving from countries with low per capita income to high per capita income countries) in a way that the numerical value of this amount has been reduced from 25% to 12%. On the other hand, the sensitivity of the GDP compared to capital has increased by moving from zero regime to one regime (moving from countries with low per capita income to high per capita income countries), So that the numerical value of this amount has increased from 48 percent to 73 percent. On the other hand, by moving from zero regime to one regime, the impact of economic globalization has increased and the direction has been changed, more precisely, numerical value of the globalization coefficient (-0/0033) by moving from countries with low per capita income to the countries with high per capita income increased to the numerical value of 0/063 and has shifted. In general, the impacts of economic globalization in countries with low per capita income and in countries with high per capita income are respectively negative and significant, positive and significant.

As well as by moving from zero regime to one regime, the effect of controlling corruption is reduced and shifted, to be more precisely, the numerical value of the corruption control index (0/038) by moving from countries with low per capita income to the countries with high per capita income reduced to the numerical value of -0/001 and has shifted. In general, the effect of controlling corruption in countries with low per capita income and high per capita income countries are positive and negative respectively. In fact, the existence of such a relationship between the control of

corruption or in other words the corruption along with economic growth can be examined from different directions. In fact, most researchers believe the negative and linear impact between corruption and economic growth that, in this study, this type of relationship was observed for low and middle per capita income countries but in the case of countries with high per capita income, the case is somewhat different. It means that reducing the corruption control (increasing administrative corruption), has (positive) impact on economic growth before reaching the threshold. In fact, the researchers attribute such a relationship to various causes. Saha and Mallik believe that, because the level of corruption is low in developed countries with high per capita income and on the other hand control of corruption is also at a high level and since it is entirely adverse in countries with low per capita income, there is no threshold of controlling corruption. For countries with low per capita income, But about the countries with high per capita income, a thresholds for these countries for corruption is understandable. On the other hand, Swaleheen also believes that an increase in corruption and bribery, human capital accumulation and consequently economic growth are influenced. But by taking into account a specified amount of bribes between economies, large countries with low per capita income and low human capital, the impact of corruption on economic growth is negative but in countries with high per capita income, with existence of high human capital, a threshold can be considered for control of corruption. But Mendes and Spulda, believe that the existence of such a non-linear relationship between corruption and economic growth in countries with high per capita income and the existence of non-zero threshold of corruption in these countries can be attributed to three main factors:

A: In countries with high per capita income, the corruption is planned from the government side, so that clerks and governmental employees cannot commit bribery such as employees of low per capita income countries in the form of organized and collectively.

B: The positive impact of corruption on economic growth reaching to threshold level is feasible when that the country has good governance. Because in good governance, the aim of the administrative corruption for the government and clerks and governmental employees, is creating the competition between companies with the aim of producing not self-interested.

C: These two above mentioned items were more concerned with government, whereas the company itself and also individuals in countries with high per capita income and advanced with the aim of producing are more commonly prone to corruption and the corruption that mainly occurs is directed towards the production work but in developing countries and the least developed, the aim of the administrative corruption, is more concerned with personal capital accumulation and non-productive tasks.

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