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Quality Higher Education and Students' Perception: A Study on Private Universities of Bangladesh

Md. Mizanur Rahman

Senior Lecturer, Department of Business Administration, Metropolitan University, Sylhet, Bangladesh

ABSTRACT

This is a pragmatic study conducted to explore the quality higher education and students' perception towards the private universities in Bangladesh. This study examines the relationship between the quality higher education and students' perception using a structured questionnaire. A total number of 500 senior undergraduate and graduate level students from ten selected private universities in Bangladesh were taken as sample for conducting the study. The finding of this study discloses that the quality higher education is a dynamic factor that ensures the students' perception. It also shows that quality higher education can create positive students' perception towards the private universities in Bangladesh. Reliability, Responsiveness, Competence, Tangibility, Courtesy, Goodwill & Image, Empathy, Security and Costs are the dimensions of quality higher education. To quantify the variables a five point "Likert-type" scale has been used in this paper. The researcher conducted various analyses such as Multiple Regression Analysis, Descriptive Analysis, and ANOVA and identified a numerous key findings as to the students' perception towards the quality higher education.

Key Words: Bangladesh, Higher education, Private University, Students' perception, and Quality.

JEL Classification Code: I20; I23

INTRODUCTION

K.H. Rezwanul et al., 2009 mentioned "students are considered as the customer of a university especially in a private university". Every customer's in the world focus on quality products. As students are customer, their perception towards the university is to get quality education. So university should ensure the quality higher education. Numerous studies should have been conducted on quality higher education and students' perception. But limited research has been done in this area in context of Bangladesh. Higher education, the important parts of education system is provided through public and private universities. The significant purposes of higher education are to generate the new knowledge, explore research works on different social and development issues, anticipate the needs of the economy and prepare highly skilled workers. In these contexts, higher education should be standard, welfare and sustainable development oriented. The present paper intends to analyze the students' perception toward quality higher

education at private universities in Bangladesh. Most of the students of Bangladesh try to complete their higher education from public universities. But only public universities could not fulfill to meet or accommodate the demand of the students. Due to this reason private universities have started their journey in Bangladesh under the private university Act 1992. Up to the year 1996 there were only sixteen private universities in Bangladesh (Ashraf et al, 2009), the number has reached fifty four at present (BDNEWSCORNER 2012). The public and private universities are responsible to provide higher education but due to profit-making motive of private universities and lack of awareness of public universities, it is quite impossible to ensure quality education (Uddin, et al, 2011). In terms of quality in education, the World Bank (1995: 46) puts forth the following concept: Quality in education is difficult to define and measure. An adequate definition must include student outcomes. Most educators would also include in the definition the nature of the educational experiences that help to produce thus outcomes.

So, what is Quality Education? As defined by UNESCO (2001), "A renewal of higher education is essential for the whole society to be able to face up to the challenges of the twenty-first century and to ensure its intellectual independence. Quality higher education needs to be restored to create and advance knowledge, educate and train responsible, enlightened citizens and qualified specialists, without whom no nation can progress economically, socially, culturally or politically." How does this translate in terms of quality of graduates produced by Bangladesh universities? As a developing nation, Bangladesh needs graduates who can think independently and are willing to strive and experiment with new ways to bring Bangladesh out of the vicious circle of poverty. The question is, will the current education delivery model, which can at best be classified as following the "behaviorism" model, produce such graduates? Sadly, this model is even applied to language learning. Can learning by rote produce independent thinkers? If not, what needs to be done?

METHODOLOGY

Sources of data

For conducting this research both primary and secondary data have been used .To collect primary data, a structured questionnaire was designed in light of the objectives of the research. Students from different groups from ten selected universities were asked to fill up the questionnaire. Secondary data were collected from different books, publications, research studies, journals, articles, and websites.

Sample size and location

The sample of the study covers the students from ten selected private universities in Bangladesh. A sample of 500 students (male and female) selected purposely from some private universities. The study was limited to ten private universities of Dhaka and Sylhet City. According to the press briefing of the Ministry of Education of Bangladesh published in the daily Prothom Alo (2010) the private universities of Bangladesh have been classified into three groups resembling green, yellow and red signs. For the purpose of the study ten universities were selected representing three from the green group, four from the yellow group and three from the red group.

Assembling Sign	No	Name of the University	City	Year of Establishment
Green	1.	Ahsanullah University of Science and Technology (AUST)	Dhaka	1995
	2.	BRAC university (BRACU)	Dhaka	2001
	3.	North South University(NSU)	Dhaka	1992

Yellow	4.	United International University(UIU)	Dhaka	2003
	5.	Northern University of Bangladesh (NUB)	Dhaka	2002
	6.	Metropolitan University(MU)	Sylhet	2003
	7.	Daffodil International University(DIU)	Dhaka	2002
Red	8.	Leading University(LU)	Sylhet	2002
	9.	Sylhet International University(SIU)	Sylhet	2001
	10.	World University of Bangladesh(WUB)	Dhaka	2003

Source: The Daily Prothom Alo, 13th December, 2010

MATHEMATICAL TOOLS

We also decided to use Z-test,

$$\text{We know that, } Z = \frac{\bar{x} - p}{\sigma_p}$$

Z = Calculated Z value

\bar{x} = No. of sample success (No. of respondents supporting H_0)

P = Hypothesized population (Probability for H_0 Acceptance)

σ_p = Standard error of the population.

The level of significance for the test is 95%. This makes the tabulated Z to be ± 1.64 .

DEMOGRAPHIC INFORMATION

The demographic information of the students is designed on the basis of four important variables: Age, Gender, Department and Year of study.

Variable	Particulars	Frequency	Percentage
Age	Less than 19	20	04%
	19-24	305	61%
	24-29	35	07%
	More than 29	160	32%
Gender	Male	378	75.6%
	Female	122	24.4%
Department	Business	254	50.8%
	Humanities & Arts	148	29.6%
	Science	184	36.8%
Year of Study	First Year	50	10%
	Second Year	100	20%
	Third Year	180	36%
	Final Year and Above	170	34%

The result on respondent's age states that almost 61% students' age range between 19-24 years and 32% of the students are in the range of more than 29 years generally they are the students of MBA, MSC and MA program. The sample include 75.6% male and 24.4% are female students. Out of 500 students 50.8% are business students, 36.8% are science students and 29.6 are humanities and arts students. Majority of the students in this study are third year followed by final year and above, second year and first year.

LITERATURE REVIEW

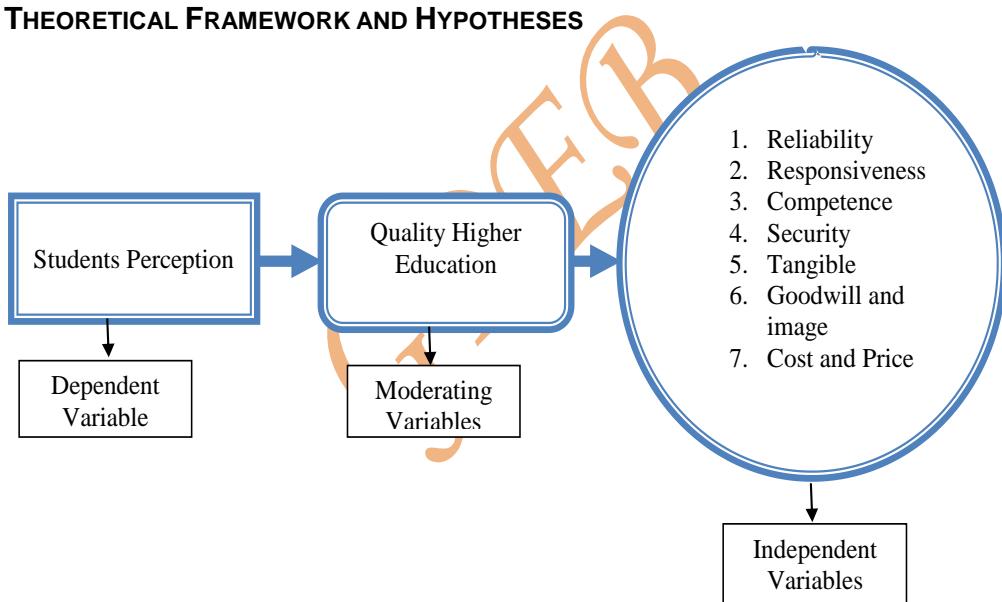
Perception especially the positive perception of the students is very important for the development of higher education in private universities. University authority should emphasize on quality higher education to create the positive perception. Pariseau and McDaniel (1997), emphasized that the feedback from students is very important aspect for several reasons to improve quality of programs that will be helpful for the educators to improve their level of service quality to create a positive image in the mind of students or positive perception about students. Anderson (1995) and Susan (1997), considered the feedback of students very important especially for providing educators the opportunity for the enhancement of quality of services and enabled them to create positive perception in the minds of the students about the institutes. Deming (2000), suggested that like as manufacturing sector of the economy the service quality factor should be applied in the education sector. Alves and Raposo (2010), said that the perceived quality is the factor which create positive image in the mind of students which ultimately caused of student's satisfaction. Cuthbert (1996), explained the nature of the higher education service quality as classical services. He said that it's an intangible and heterogeneous type of service which produced and consumed at the same time. Due to its characteristics of perishability, it meets the criterion of inspire ability and consider students as participant in the delivery process. Cubillo et al., (2006), discussed five factors that most of the student consider while selecting the institute. Three out of them are external and two are internal which directly related to the institute. The external factors were as the personal reasons, previous experiences discussed by the alumni and the location of the program. But the most related to the institute were the image of the institution and the perceived quality of the study programs. He also suggested that the importance of these internal factors was not ascertained but the institution must maintain their relative image and perceived quality for sustainable competitive position among competitors. Oldfield and Baron, (2000), considered the students level of satisfaction as an important source of the institute for the maintenance of its competitive position and financial stability.

Generally positive perception of the students towards quality higher education in a private university depends on some crucial factors such as infrastructure of the university (library facility, hostel facility, computer lab facility, class room facility, and laboratory facility), quality of faculty members, behavior of administrative staffs, and location of the campus and so on. Mamun and Das (1996), undertook a study and pointed towards some other attracting factors such as library facilities, laboratory facilities and internship assistance for students as the key factors of students' choice of private universities. Zahid, Chowdhury and Sogra (2009), and mentioned and extensive qualitative study of performance of business education in Bangladesh and identified the course system , quality of teaching , medium of instruction, campus size and location, accommodation for the students, campus facilities such as auditorium , parking, canteen, indoor and outdoor parking facilities as the factors of satisfaction.

There are almost fifty four private universities in Bangladesh (BDNEWSCORNER 2012).The growing trend as well as competition has stood up recently. It is good news for the students;

private universities are trying to compete with each other to provide quality higher education. Because in earlier it is said that quality higher education can create the positive perception on the students mind. Beaver (1994), noted the trend of increased competition among universities and option available for students to search and select universities of their own choice across the globe. Many of the colleges administrators for quality education implemented total quality management in their practices to assure the customers of the higher education they were been served in an appropriate manner. Abouchedid and Nasser (2002), said that the service quality to be considered as an unavoidable matter of attention for the successfulness and maintenance of competitive position among the higher education institutes. Md. Abu Naser says in his study regarding education quality of private universities in Bangladesh "The emergence and the growth of the private universities in Bangladesh have taken a unique shape in recent years and have introduced American system in country's higher education. They are playing an important role in spreading the opportunities of higher education and have a role to develop competent and market oriented human resources. But in recent years a widespread allegations were raised against PUs that some are selling certificates, easy-to-get degrees, very poor teaching qualities, poor infrastructure, high tuition fees, etc."

THEORETICAL FRAMEWORK AND HYPOTHESES



Reliability	Consistency of performance and dependability
Responsiveness	Willing and readiness of staff to provide service.
Competence	Required skills and knowledge to perform the service.
Security	Freedom from danger, risk or doubt.
Tangible	Physical evidence of the service.
Goodwill and Image	Accreditation, credit transfer facilities, affiliation, direct branches and franchising.
Cost and price	Fees to be paid in order to receive the service.

Drawing from the above literature review and theoretical framework discussion, the researcher has proposed the following core hypothesis.

H1: "There is relationship between the dimensions of service and quality higher education".

Supportive hypotheses:

After reviewing the literature the researcher thought that there are four important dimensions which are directly related to the quality of higher education. So the researcher has proposed the following four specific hypotheses.

H1a: There is a relationship between the reliability dimension and quality higher education.

H1b: There is a relationship between the responsiveness dimension and quality higher education.

H1c: There is a relationship between the goodwill and image dimension and quality higher education.

H1d: There is a relationship between the competences dimension and quality higher education.

EMPIRICAL FINDINGS AND ANALYSIS

No	Dimensions	No	Factors or Items Relating to Quality Education	Mean	SD
D1	Reliability	F1	Each semester starts at the right time.	1.05	.61
		F2	Examinations are held at the right time.	2.21	1.05
		F3	My academic and administrative documents are kept correctly.	1.65	.77
		F4	Results are published timely.	2.00	1.10
D2	Responsiveness	F5	My teachers' give me enough time for understanding the subjects matter.	1.31	.81
		F6	I also receive the attention from my teachers' than subject s matter.	2.05	1.11
		F7	University staffs are helpful in providing services.	3.00	1.44
D3	Competence	F8	Teachers' of my university are competent.	2.25	1.50
		F9	Teachers' can make the subjects understanding to me.	2.31	1.51
		F10	Teachers' have research expertise.	3.13	1.67
D4	Security	F11	The university has necessary measures to combat fire, electric short circuit and others.	3.87	1.81
		F12	It takes necessary action against the students' conflict.	2.21	1.43
		F13	Well-furnished class rooms with modern teaching aids.	2.61	1.75

D5	Tangible	F14	Extra-curricular activates can built the image of a university.	3.54	1.88
		F15	The authorities take proper steps for books, canteen, recreation, classroom facilities etc.	3.00	1.44
	Goodwill & Image				
D6		F26	I have selected this university as it has goodwill.	2.25	1.36
		F17	The image of the campus buildings.	2.87	1.33
	Costs & Price	F18	Credit transfer facilities and affiliation of a foreign University.	2.90	1.35
D7		F19	The service I receive from this university is quite equal to fees I pay.	3.00	1.44
		F20	Each semester the university gives tuition fees waivers to sum of our students.	2.85	1.35

EXPLANATION

The results of the descriptive statistics are described based on the five "Likert-type" scaling technique where 1 as strongly positive, 2 as positive, 3 as neither positive nor negative, 4 as negative and 5 as strongly negative. The descriptive table consists of seven dimensions and twenty factors. The researcher has discussed each dimension with its factors separately.

Reliability

The dimension reliability has four factors: each semester starts at the right time, examination are held at the right time, my academic and administrative documents are kept correctly and results are published timely. The mean score of these factors 1.05 to 2.00, which states that students' perception are generally between strongly positive and positive. The standard deviations are between .61 and 1.10 for these factors. It indicates students' perception towards the reliability dimension is positive.

Responsiveness

The dimension responsiveness has three factors: my teachers' give me enough time for understanding the subjects matter; i also receive the attention from my teachers' than subjects matter university, staffs are helpful in providing services. The mean score of these factors 1.31 to 3.00, which states, students' perception generally between strongly positive and neither positive nor negative. The standard deviations are between .81 and 1.44 for these factors. The mean 3.00 in terms of the service providing by the university staffs indicates that the perception of the students toward university is not so positive.

Competence

The dimension competence has three factors: Teachers' of my university are competent, teachers' can make the subjects understanding to me, teachers' have research expertise. The mean score of these factors 2.25 and 3.13, which state that students' perception generally between positive and neither positive nor negative.. The standard deviations are between 1.50 and 1.67 for these factors. The mean 3.13 in terms of the teachers' research experience indicates, the perception toward research activities of their teachers 'are not as positive as their expectation because at the time of conducting internship and thesis report the teachers cannot guide them as their expectation.

Security

The dimension security has two factors: The University has necessary measures to combat fire, electric short circuit and others, it takes necessary action against the students' conflict. The mean score of these factors 2.2 and 3.87, which state that students' perception are generally between positive and negative. The standard deviations are between 1.43 and 1.81 for these factors. The mean 3.87 is related to necessary measures to combat fire, electric short circuit and others that indicates students do not have positive perception towards the security system of the university.

Tangible

The dimension tangible has three factors: Well-furnished class rooms with modern teaching aids,

Extra-curricular activates can built the image of a university, the authorities take proper steps for books, canteen, recreation, classroom facilities etc. The mean score of these factors 2.61 and 3.54, which state that students' perception are generally between positive and negative. The students' perception towards extra- curricular activates the university is not positive along with library and canteen facilities. The standard deviations are between 1.44 and 1.88 for these factors.

Goodwill & Image

The dimension Goodwill & Image has three factors: i have selected this university as it has goodwill, the image of the campus buildings, credit transfer facilities and affiliation of a foreign university. The mean score of these factors 2.25 and 2.90, which states students' perception generally between positive and neither positive nor negative. The standard deviations are between 1.33 and 1.36 for these factors.

Costs & Price

The dimension of costs and price has two factors: the service i receive from this university is quite equal to fees i pay, each semester the university gives tuition fees waivers to sum of our students. The mean score of these factors 2.85 and 3.00, which state that students' perception generally between positive and neither positive nor negative. The standard deviations are between 1.35 and 1.50 for these factors.

TEST OF HYPOTHESIS

The hypotheses of the study were formulated in terms of null hypothesis (H_0) and alternative hypothesis (H_a). To know the perception the students regarding quality education in private universities of Bangladesh, the following hypothesis is formulated:

H_a : "There is a relationship between the dimensions of service and quality higher education".

H_0 : "There is no relationship between the dimensions of service and quality higher education".

The question relating to hypothesis was: Do you think quality higher education has a positive relationship with dimension of services?

On the basis of the responses of the 150 respondents following table is designed

Nature of Responses	Number of Responses	Percentage
Yes	425	85%
No	75	15%
Total collected data(2012)	500	100%

The table shows that, out of 500 students' 425 agreed that quality higher education has a

positive relationship with the dimension of services. Moreover only 75 students' does not agree that quality higher education has a positive relationship with the dimension of services. Accordingly, only 75 students supported null hypothesis (H_0).

Formulation of the Hypothesis: The researchers formulated the null hypothesis (H_0), that the number of success sample

X is equal to 75: $H_0=75$

X is not equal to 75: $H_a \neq 75$

$Z = -8.675$ (by using the formula of Z).

Since Z- calculated value (-8.675) < Z- table value (-1.64). It falls outside the acceptance region. Therefore, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_a) is accepted. Consequently, it can be said that there is a positive relationship with the dimensions of service and quality higher education.

MULTIPLE REGRESSION ANALYSIS

A multiple regression analysis was conducted to test the above mentioned sub-hypothesis. The result of the multiple regression analysis is shown in the table.

Dimensions	β	t	p
Reliability	.27	2.17	.45
Responsiveness	.25	2.04	.04
Competences	.23	2.00	.04
Security	.02	.44	.34
Tangibility	.03	.45	.54
Goodwill and Image	.24	2.01	.042
Price and Costs	.09	.87	.49

$R^2 = .70$, Adjusted $R^2 = .68$, $F (5.99) = 42.5$, $p = 0.05$ Source: By using SPSS-13 Version.

From the table we see that the factors of reliability are positively related with quality higher education ($\beta=.27$, $p<.05$) indicating that the higher level of reliability, the higher level of quality education which ensure the students' positive perception towards the private universities in Bangladesh. Responsiveness are positively related with quality higher education ($\beta=.25$, $p<.05$) indicating that the higher level of responsiveness, the higher level of quality education which. Goodwill and image ($\beta=.24$, $p<.05$) is positively related to the quality higher education, indicating that the higher level of goodwill and image of the university, the higher level students positive perception. Finally, competence ($\beta=.23$, $p<.05$) is positively related to the quality higher education that also indicates, the higher level competence , the higher level of students' positive perception. So the above findings support the hypothesis H1a, H1b, H1c and H1d. value of .70 indicated 70% of the variance in students' perception is explained by the seven dimensions of service quality.

CONCLUSION

The results of the analysis indicate that the students have positive perception towards the quality higher education of private universities in Bangladesh. They agreed with the service quality level provided by the universities except the service provided by the university staffs, security system, extra-curricular activities, quality of food and services level at canteen. They have overall positive perception towards the service quality

provided by the private universities of Bangladesh. The service quality dimensions as reliability, responsiveness, competence, goodwill & image, tangibility and costs are significant determinant of service quality for private universities of Bangladesh.

DISCUSSION AND FUTURE RESEARCH

The students have positive perception of service quality provided by the private universities in Bangladesh. The results of the hypothesis testing by one sample statistics also shows that the service quality dimensions as reliability, responsiveness, competence, tangibility and costs are appears significant. The findings of this research are only focused on the private universities of Dhaka and Sylhet city may not be generalized for the whole Bangladesh. This research contains the service quality dimensions as reliability, responsiveness, competence, goodwill image, tangibility and costs further research can be done by using other dimensions for data collection.

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Does Pakistani Society Accept Corruption as a Changed Value with Reference to Cultural Perspective?

Asad Ullah & Mussawar Shah

Lecturer, Department of Rural Sociology, Khyber Pakhtunkhwa Agricultural University, Peshawar
Professor, Department of Rural Sociology, Khyber Pakhtunkhwa Agricultural University, Peshawar

ABSTRACT

The major objective of this research study was to assess the impact of corruption upon the prevalent social values in Peshawar city, Pakistan. A sample size of 150 respondents was selected through stratified random sampling to ascertain respondents' attitudes towards phenomena at hand with Likert scale as measurement tool. At first stage uni-variate analysis and then bi-variate analysis were carried out to determine outcomes. The dependent variable (corruption perception) was cross-tabulated with the independent variable (social values and its societal aspects). A chi-square test was used to determine the association between dependent and independent variables. In addition, Gamma (γ) statistics were applied to determine the strength and direction of the relationship. The study found a significant and positive association between corruption perception with social values safeguarding the interest of rich ($P=0.022$), morality as existing behavioral standard in society ($P=0.000$), experience of corruption ($P=0.000$), significance of social pressure ($P=0.000$), use of social pressure ($P=0.000$), degradation of social values in society due to corruption ($P=0.000$), biased evaluative standards for various social classes ($P=0.000$). In addition, people who refused to accept and pay bribes, had followers in the society ($P=0.037$), increasing the magnitude of corruption with an increase in official rank ($P=0.007$), and finally, that an ethical environment based on social norms and values reduces corruption ($P=0.000$). The study concluded that, in the site of study, the social order is under deterioration due to corruption assuming the status of an emerging social value due to its practice amongst members of society in various fields of life. However, people still considered the prevalent social order strong enough to combat this changing dynamic by creating an ethical environment based on social alienation for those who acted corruptly.

Key Words: Corruption, Social values, Social mechanisms of dynamics.

GEL Classification Code: Z10; Z11; Z13

INTRODUCTION

The social order in any society across the globe functions through a well integrated system of norms and values. This system is responsible for providing a basis to the prevalence of healthy traditions and for devising the rules and norms which governs the relative society. Although, change has been witnessed in the history of both human beings and societies such change occurs in a subtle manner which tends to guarantee consistency to social equilibrium of a system. Any deviation or disregard to the existing value system can result in leading a society into a social disintegration and disorganization of its social fabric. Such a situation can also lead towards circumstances where individuals can be in disconformity to their cognitive beliefs and emotions (Moss & Susman 1980). Schwartz & Bilsky (1987) point out that values and beliefs are the evaluative standards by which people are sensitized through experience in an understanding of their surroundings, and thereby understanding and indentifying the differences between truth and falsehood. This chain of operative mechanics provides a broader base of acting's in a number of social situations based on the demand of the task of nature ought to be performed as rightly been asserted by Parson and Shills (1951) wherein purposes and means have been identified as major drives behind social actions. These actions are usually derived from morality, aesthetics and cognitions. Cultural values are synonymous standards of evaluation criteria humanly operational through social system. These cultural basis and norms are allocated at special positions and internalization of values generated by the individuals is a unique social mechanism displayed by any society (Rockeach, 1973). Changes in the evaluative norms and standards of a society are imperative with the social transitions from simple to complex. This trend of transition is also reported by (Thorton, 1985; Alwin, 1994; and Pope, 1997) that the strength of social values lie in the conformity to the social system where individuals and groups participate. The major reason attached to this phenomenon is the impression left on the mind map of people with respect to social values in a system. This system works as a catalyst for bringing stability, personality development and consistency to the prevalent cultural values. Disconformities and less regard to cultural value always hamper the prevalent value system thus by taking the whole phenomenon to complete disintegration where the proscribed norms and values sprout. This eruption of values in total disconformities comprehensively shatters the very basis of the social systems in many societies across the globe. Corruption is a value, every society is witnessing in the present day scenario due to the complex social systems based on new economic values which dictates for competition and development through both on individual to group endeavors. The concept of this competitive sense ought to have been controlled, governed and directed by the existing cultural and social practices. Any society having a broader base for internalizing the fragmentation within their social fabrics succeeded in controlling and directing the change. While others with less capacities to absorb, suffered with the menace of new values in total contrast to the operational social system identified and called as corruption.

Corruption is usually studied in relation to transitions within societies. It can be considered that corruption is usually less acceptable in traditional societies in contrast to the societies where value change is frequent. It is generally assumed that a moral breach, irrespective of the fact whether existing law is broken or not, provides an opportunity for corruption to occur. The 'principle of neutralization', which covers the moral defect for actions not to be exposed, can serve as a harbinger to the occurrence of corruption (Chiabi, 2006; Sykes & Maztza, 1957). Local cultural circumstances play an imminent role in making the idea of corruption either "excessive" or "appropriate" within a culture. Olivier (1999) claims that basically a loose cultural structure works for the growth of corruption as those affected consider it specific to cultural norms. This sense of ownership by those affected result in justifying the illegitimate

deeds as legitimate, legal and consistent to the local culture. Thus the social norms give tacit approval to the prevalent behavior to support and dissolve corruption as a friendly value. In such culture undertaking favors to relatives and/or doing immoral acts in a form of reciprocity can be viewed as solidarity within the group.

In Pakistan corruption remained was a priority problem area right from the independence (National Accountability Bureau, 2007), which has deep roots (Noman, 1988) as has been ranked worst than average in the international surveys on corruption (Mauro, 1995). Rose-Ackerman & Stone (1996) have linked corruption with poor governance which in turn impedes economic growth and slows down the development of a healthy private sector. In Pakistani society this phenomenon can also be viewed through the experience of harassment, hassle, 'red tapeism' and delays in accomplishing the legal tasks that provide few incentives for good performance (Murray-Rust & Vander Velde, 1994). Within the context of the relatively bleak picture of Pakistani society with reference to effects of corruption on its social order, this study was designed to explore these issues further, while proceeding with the objective of associating the people's perception on corruption with deteriorated social values.

Materials and Methods

The study was carried out in Peshawar City, Khyber Pakhtunkhwa, Pakistan. Drawing on a method devised by Sekaran (2003) a sample size of hundred and fifty (150) respondents were interviewed. In the assumption that leaders within society can be tested to view any changes within that society, these respondents were further categorized as Academicians, Anti Corruption Personnel and Religious Scholars as being the custodians of dynamic authority and thereby predicting the social value of transition in their society.

A conceptual framework was devised and questions were asked accordingly from the respondents through Likert scale. The dependent variable (Corruption Perception) was indexed to ascertain the level of association with independent variable (social values and its societal aspects). This association at bi-variate level was tested through Chi-square test outlined by Tai (1978) through the equation below;

Figure 1. Chi-square test equation

$$(\chi^2) = \frac{\sum \sum (f_{ij} - F_{ij})^2}{F_i F_j F_{ij}}$$

The assumptions for the (χ^2) test were that the subjects for each group are randomly and independently selected, the groups are independent, and each observation will qualify for one and only one category. Furthermore, the sample size must be fairly large that no expected frequency is less than 5, for r and c > 2 , or < 10 , if r = c = 2. These assumptions, however, were challenged several times during analysis and therefore, the Fisher Exact Test which also is known as Exit Chi-square Test was used instead of a simple Chi-Square, to overcome the violation of Chi-Square assumptions. The relationship developed by Fisher to overcome such violation is given in equation below (Baily, 1982).

Figure 2. Fisher Exit Test Probability

$$\text{Fisher Exit Test Probability} = \frac{(a+b)! (c+d)! (a+c)! (b+d)!}{N! a! b! c! d!}$$

GAMMA:

Gamma was used to measure the strength and direction of association between dependent and independent variables as devised by (Nachmias & Nachmias, 1992).

Figure 3. Gamma test

$$\text{Gamma } (\gamma) = \frac{\text{SN} - \text{DN}}{\text{SN} + \text{DN}}$$

NS=Same order pair

ND= Different order pair

Results and Discussion

Frequency and Percentage Distributions Regarding the Societal Aspects of Corruption

The socio-cultural roots of corruption in this study, were limited to a certain statement, attributing corruption to have association with culture, social change, social structure and social control. As depicted in Table-1, a majority of respondents (i.e. 62.6%) considered morality as a standard for human behavior with slight acceptance to corruption, 98.6% viewed corruption deteriorating the social values, 91.3% disclosed that acceptance of corruption is high among people who had experienced it.

However, 33.3% of respondents did not accept that corrupt people are becoming social ideals. Moreover, 64.7% respondents validated that people refused accepting the bribe to generate pressure in the shape of followers in society, while 94.7% agreed that social pressure was insufficient to control corruption, and 94.6% authenticated that people with varied position on socio-economic strata possess different evaluative standards of life. Further some 86.6% of respondents viewed an increase in corrupt scale with increase in official rank of a corrupt person, while 89.3% considered that a social alienation of corrupt individuals by sidelining them in future involvement in various decisions may reduce corruption, and similarly, 79.3% of respondents opted for creating an ethical environment based on upholding existing norms and values to curb corruption.

It could easily be inferred from the above findings that corruption can be seen as becoming rooted within the social system and perhaps become an integral component to it, thereby creating a weak and fragile functional aspect of the social system. It is pertinent to note that respondents continued to have faith in a value system which does not support corruption, however, it can also be concluded that changing life patterns based on economic positions are the main drivers in pushing forward a societal acceptance of corruption.

These findings are in support to the findings of Sykes & Matza (1957) that an increase in corruption is inversely related to a strong value system, which abhors corruption as a resultant factor devising own evaluative standards by the people for justifying the deeds. Loss of control over corruption creates fissures in the social system, which breeds different evaluative standards with conspicuous reference to economic and power structures. The situation deteriorates further as the rules of doing business become increasingly more flexible and where multiple norms from rigid to flexible prevail for doing the same job. This can both directly and indirectly shape the individual's behavior with a slight degree of variation (Myint, 2000; Sardan, 1999).

Table: 1 Frequency and Percentage Distributions of Responses Regarding the Societal Aspects of Corruption

N=150

Statements Regarding Societal Aspects of Corruption	Strongly disagree	Disagree	Uncertain	Agree	Strongly Agree
Morality is still the standard for human behavior with slight acceptance to corruption.	19 (12.7)	22 (14.7)	15 (10)	77 (51.3)	17 (11.3)
Corruption in society is deteriorating social values.	0 (0)	1 (0.7)	1 (0.7)	53 (35.3)	95 (63.3)
Acceptance of corruption is high among people who have experienced corrupt practices.	0 (0)	7 (4.7)	6 (4)	86 (57.3)	51 (34)
Corrupt people are becoming social ideals.	3 (2)	50 (33.3)	30 (20)	42 (28)	25 (16.7)
People who refuse to pay or accept bribes find several followers in society.	1 (0.7)	30 (20)	22 (14.7)	69 (46)	28 (18.7)
Social pressure has become insufficient to control corruption.	1 (0.7)	5 (3.3)	2 (1.3)	82 (54.7)	60 (40)
People varying in economic and social power have different evaluative standards of life.	0 (0)	2 (1.3)	6 (4)	116 (77.3)	26 (17.3)
A corrupt scale increases with increase in official rank of a corrupt person.	1 (0.7)	10 (6.7)	9 (6)	77 (51.3)	53 (35.3)
Social alienation of corrupt people by not involving them in decisions, and social relations, can reduce corruption.	0 (0)	8 (5.3)	8 (5.3)	86 (57.3)	48 (32)
Creating an ethical environment and following Social norms and values can reduce corruption.	0 (0)	11 (7.3)	20 (13.3)	89 (59.3)	30 (20)

* Number in table represent frequencies and number in parenthesis represent percentage proportion of respondents.

Association between Societal Principles and Corruption

To test the association of societal aspects (especially culture) and corruption reliably, perceptions of these variables were limited to some specific statements. Findings on the association are given in Table- 2 and discussed below.

A highly significant ($P=0.000$) and positive ($\gamma = +0.043$) relationship was found between morality as existing behavioral standard in society and corruption perception. The positive relationship suggests that the greater the acceptance of morality as a standard of behavior in the society the more would be clarity in corruption perception thus minimizing corruption as reported by Sykes & Matza (1957) where corruption is considered as a moral breach over societal values, ethics and moralities. However, corruption can provide justification for itself by making people believe that no moral violation has occurred, which breeds corruption.

Similarly, a positive ($\gamma = +0.311$) and significant ($P=0.000$) relationship was detected between experience of corruption and corruption perception. This association is a clear indication of greater clarity of corruption perception when a person comes across an event of corruption. This relationship further confirms the existence of corrupt practices in our society. The above results are similar to the findings of Darr (2003) who explained that when corruption is profuse, it becomes part of culture which is determinant in making decision of what is excessive or appropriate. Similarly, significant ($P=0.000$) and positive ($\gamma = +0.439$) relationship was found between significance of social pressure and corruption perception. It could be concluded from

this result that social pressure could significantly contribute in displaying right image of corrupt practices by allowing the event to go through the process of social sanctions, which would then result in reducing corruption in the society. This could lead to performance of a consensus for curbing corruption as righteously portrayed by Myint (2000) that when social control over corruption is lost, it becomes a suitable way of life. A positive ($\gamma = +0.233$) and significant ($P=0.000$) relationship was found between use of social pressure and corruption perception. This relationship suggests that use of social pressure to alienate corrupt people from society can have a two fold effect in reducing corruption, as first, it forces corrupt people to conform to the norms of honesty and second, the general population would be educated to consequences of corruption resulting in possibly more conformity to social values. Sardan (1999) found similar results, whereby cultural measures are termed as controlling mechanics for corruption rather than any formal steps taken by the state/government.

While making the association between the idea of degradation of social values in society due to corruption and corruption perception, a negative ($\gamma = -0.141$) but significant ($P=0.000$) relationship was established. It is quite evident from this relationship that degradation of values was taken as ideal condition for corruption to appear. However, a distortion of the value system in the existing culture was not supported as indicated by Gamma analysis. It suggests that cultural mechanisms could be used as instruments to control corruption and as reported by Sardan (1999) that a revitalization of social values signifies the effects to control corruption (Sykes & Matza, 1957). Similarly a moderate negative ($\gamma = -0.407$) but significant ($P=0.000$) relationship was found between biased evaluative standards for various social classes and corruption perception. It is obvious from this result that the people considered the existing value system free from any bias to the existing classes in the society. This could be due to a strong faith and belief in the values, working as guiding factor in different situations with little support to unpleasant deeds against the prevalent social standards. A similar situation was also reported by Sardan (1999) in his study where a more flexible frame of social values usually generates contradictory norms of addressing a single act, a characteristic based on dilemma of income power only.

A non significant but positive ($\gamma = +0.276$, $P=0.208$) relationship was found between corrupt people become social ideals with perception of corruption. This result highlights the status of the corrupt people in the relative social milieu with little acceptance as ideals in the society. This result is further supported while ascertaining the relationship between the people who refused to accept and pay bribes, had followers in the society with significant ($P=0.037$) but with mild negative ($\gamma = -0.132$) relationship. A negative value of Gamma analysis indicates for a slighter change of losing the support from the society for those neither pay or accept bribes. Furthermore, a magnitude of corruption increases significantly ($P=0.007$) and positively ($\gamma = +0.231$) with a perception of corruption because of the determination to accumulate and execute power. Vital (2005) described such situation of value transition indicative of change in individual's sense of value inside the society. However, a highly significant ($P=0.000$) with negative ($\gamma = -0.292$) relationship was traced between an ethical environment based on social norms and values reduces corruption with corruption perception. It is because people had a faith in ethics, however, that the application of ethics is wrongly interpreted for personal gains. Similar values based remedial measures were also proposed by Parson & Shills (1951) because of moral, aesthetic and cognitive basis of such social values.

TABLE: 2 ASSOCIATION BETWEEN PERCEPTION OF SOCIETAL PRINCIPLES AND CORRUPTION

Societal Aspects of Values	Attitude	Corruption Perception					Total	Statistics (P Value)
		Strongly disagree	Disagree	Uncertain	Agree	Strongly Agree		
Morality is still the standard for human behavior with slight acceptance to corruption.	Strongly disagree	0 (0)	0 (0)	0 (0)	19 (12.7)	0 (0)	19 (12.7)	$\chi^2= 50.421$ (0.000)
	Disagree	1 (0.7)	0 (0)	7 (4.7)	5 (3.3)	9 (6)	22 (14.7)	$\gamma = +0.043$
	Uncertain	0 (0)	0 (0)	0 (0)	15 (10)	0 (0)	15 (10)	
	Agree	0 (0)	2 (1.3)	12 (8)	56 (37.3)	7 (4.7)	77 (51.3)	
	Strongly Agree	0 (0)	0 (0)	4 (2.7)	12 (8)	1 (0.7)	17 (11.3)	
Corruption in the society is deteriorating the social values	Disagree	1 (0.7)	0 (0)	0 (0)	0 (0)	0 (0)	1 (0.7)	$\chi^2= 158.925$ (0.000)
	Uncertain	0 (0)	0 (0)	0 (0)	1 (0.7)	0 (0)	1 (0.7)	$\gamma = -0.141$
	Agree	0 (0)	1 (0.7)	11 (7.3)	40 (26.7)	1 (0.7)	53 (35.3)	
	Strongly Agree	0 (0)	1 (0.7)	12 (8)	66 (44)	16 (10.7)	95 (63)	
Acceptance of corruption is high among people who have experienced corrupt practices	Disagree	1 (0.7)	0 (0)	5 (3.3)	1 (0.7)	0 (0)	7 (4.7)	$\chi^2= 53.580$ (0.000)
	Uncertain	0 (0)	1 (0.7)	1 (0.7)	3 (2)	1 (0.7)	6 (4)	$\gamma = +0.311$
	Agree	0 (0)	0 (0)	13 (8.7)	63 (42)	10 (6.7)	86 (57.3)	
	Strongly Agree	0 (0)	1 (0.7)	4 (2.7)	40 (26.7)	6 (4)	51 (34)	
Corrupt people are becoming social ideals.	Strongly disagree	0 (0)	0 (0)	2 (1.3)	1 (0.7)	0 (0)	3 (2)	$\chi^2= 20.284$ (0.208)
	Disagree	1 (0.7)	1 (0.7)	7 (4.7)	30 (20)	11 (7.3)	50 (33.3)	$\gamma = +0.276$
	Uncertain	0 (0)	0 (0)	5 (3.3)	25 (16.7)	0 (0)	30 (20)	
	Agree	0 (0)	1 (0.7)	6 (4)	31 (20.7)	4 (2.7)	42 (28)	
	Strongly Agree	0 (0)	0 (0)	3 (2)	20 (13.3)	2 (1.3)	25 (16.7)	
People who refuse to pay or accept bribe find several followers in society.	Strongly disagree	0 (0)	0 (0)	1 (0.7)	0 (0)	0 (0)	1 (0.7)	$\chi^2= 27.453$ (0.037)
	Disagree	1 (0.7)	0 (0)	6 (4)	22 (14.7)	1 (0.7)	30 (20)	$\gamma = -0.132$
	Uncertain	0 (0)	0 (0)	2 (1.3)	19 (12.7)	1 (0.7)	22 (14.7)	
	Agree	0 (0)	0 (0)	13 (8.7)	46 (30.7)	10 (6.7)	69 (46)	
	Strongly Agree	0 (0)	2 (1.3)	1 (0.7)	20 (13.3)	5 (3.3)	28 (18.7)	
Social pressure has become insufficient to control corruption.	Strongly disagree	0 (0)	0 (0)	0 (0)	1 (0.7)	0 (0)	1 (0.7)	$\chi^2= 47.579$ (0.000)
	Disagree	1 (0.7)	0 (0)	3 (2)	1 (0.7)	0 (0)	5 (3.3)	$\gamma = +0.439$
	Uncertain	0 (0)	0 (0)	1 (0.7)	1 (0.7)	0 (0)	2 (1.3)	
	Agree	0 (0)	1 (0.7)	13 (8.7)	54 (36)	14 (9.3)	82 (54.7)	
	Strongly Agree	0 (0)	1 (0.7)	6 (4)	50 (33.3)	3 (2)	60 (40)	
People varying in economic and social power have different evaluative standards of life.	Disagree	1 (0.7)	0 (0)	0 (0)	1 (0.7)	0 (0)	2 (1.3)	$\chi^2= 108.700$ (0.000)
	Uncertain	0 (0)	0 (0)	3 (2)	3 (2)	0 (0)	6 (4)	$\gamma = -0.407$
	Agree	0 (0)	0 (0)	16 (10.7)	92 (61.3)	8 (5.3)	116 (77.3)	
	Strongly Agree	0 (0)	2 (1.3)	4 (2.7)	11 (7.3)	9 (6.0)	26 (17.3)	

	Strongly disagree	0 (0)	0 (0)	0 (0)	1 (0.7)	0 (0)	1 (0.7)	$\chi^2 = 33.243$ (0.007)
A corrupt scale increases with increase in official rank of a corrupt person.	Disagree	1 (0.7)	0 (0)	4 (2.7)	5 (3.3)	0 (0)	10 (6.7)	$\gamma = +0.231$
	Uncertain	0 (0)	0 (0)	0 (0)	8 (5.3)	1 (0.7)	9 (6)	
	Agree	0 (0)	0 (0)	13 (8.7)	50 (33.3)	14 (9.3)	77 (51.3)	
	Strongly Agree	0 (0)	2 (1.3)	6 (4)	43 (28.7)	2 (1.3)	53 (35.3)	
Social alienation of corrupt people by not involving them in decisions, and social relations, can reduce corruption.	Disagree	1 (0.7)	0 (0)	4 (2.7)	3 (2)	0 (0)	8 (5.3)	$\chi^2 = 45.488$ (0.000)
	Uncertain	0 (0)	0 (0)	3 (2)	2 (1.3)	3 (2)	8 (5.3)	$\gamma = +0.233$
	Agree	0 (0)	1 (0.7)	14 (9.3)	66 (44)	5 (3.3)	86 (57.3)	
	Strongly Agree	0 (0)	1 (0.7)	2 (1.3)	36 (24)	9 (6)	48 (32)	
Creating an ethical environment, following social norms and values can reduce corruption.	Disagree	1 (0.7)	1 (0.7)	3 (2)	6 (4)	0 (0)	11 (7.3)	$\chi^2 = 47.789$ (0.000)
	Uncertain	0 (0)	0 (0)	4 (2.7)	16 (10.7)	0 (0)	20 (13.3)	$\gamma = -0.292$
	Agree	0 (0)	0 (0)	12 (8)	71 (47.3)	6 (4)	89 (59.3)	
	Strongly Agree	0 (0)	1 (0.7)	4 (2.7)	14 (9.3)	11 (7.3)	30 (20)	

*Values in table represent frequencies and values in parenthesis represent percentage proportion of respondents

Conclusions

The study concluded that respondents had a clear vision about corruption as being lethal and as leading to deterioration of social order. Such corruption was prevalent among the practitioners of corrupt practices only. Social pressure (existing) was not enough to curb corruption in various social layers of different nature i.e. economic and social. It was identified as result of official business in an ordinary life. The study suggests that it could easily be concluded on empirical basis that morality, while under the changing dynamics with notion to corruption as emerging social values. However, people still considered the prevalent morality as the real tool to enable a curbing of this harmful practice along with creating an ethical environment through a model of social alienation.

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Nazneen Fatema & Abdullah Mohammed Ibrahim

Lecturer in Finance, International Islamic University Chittagong, Dhaka, Bangladesh
Assistant Professor of Marketing, Northern University Bangladesh, Dhaka, Bangladesh

ABSTRACT

In this depressed world financial scenario, Islamic banking has emerged as a strong alternate financial system. Its growth is not restricted to the Muslim societies but Islamic financial products are also gaining popularity among non-Muslim countries. The objective of this paper is to scrutinize and compare the liquidity and profitability performances of five Islamic banks in Bangladesh in between the period 2005 and 2011. In order to scan the performances, this study highlights on different standards of liquidity and profitability measurements logical to Islamic philosophy; such as liquidity and profitability ratios, liquidity reserves by the banks, net liquidity gap, profit creation from different sectors of the banks, etc. Multiple correlations among liquidity and profitability ratios are shown here. The results of all these measurements are quite apparent. In particular, among all the independent variables, at 90% confidence level only investment to total assets is found to be significantly affecting Return on Assets (a measurement of profitability ratio) for Islami Bank Bangladesh Ltd., Shahjalal Islami Bank Ltd. and EXIM Bank Ltd., whereas with Return on Equity for only Shahjalal Islami Bank Ltd. However, multicollinearity has been found to be a great issue when considering liquidity impact on profitability for Islami Bank Bangladesh Ltd., EXIM Bank Ltd. and Social Islami Bank Ltd. Overall P-values suggest that at 95% confidence level liquidity model proves significant on ROA for Islami Bank Bangladesh Ltd. and Social Islami Bank Ltd., while on ROE for Islami Bank Bangladesh Ltd. and Shahjalal Islami Bank Ltd.

Key word: Islamic banking system, Profitability analysis, Liquidity analysis

JEL Classification Code: G21; G30; M20

INTRODUCTION

Islamic banking system has been expanding so rapidly over the past few years. In addition, it has been developing significantly around the world including Middle Eastern countries, Southeast Asian countries, European countries and even in North American countries. It is

surprising to note that global conventional banks like HSBS, Standard Chartered Bank, Deutsche Bank, Citibank, etc, have also set up separate Windows/Divisions to structure Islamic financial products and are offering Islamic banking services to their Muslim clients and even to those non-Muslim clients who are interested in profit and loss sharing (PLS) financial instruments (Awan, 2009). The actual role of Islamic bank inherits in promoting and empowering the banking services and product based on Islamic principles. The main principles of Islamic banking comprise of prohibition of interest in all forms of transactions, and undertaking business and trade activities on the basis of fair and legitimate profit (Haron and Shanmugan, 1997). But according to Islamic principles, reward, i.e. profit without sharing the risks or hazards in the economic understandings is totally prohibited. Perhaps, the most significant risk of an Islamic bank is to build a sound liquidity management. So, what should be the crucial choice of an Islamic bank; whether to take fundamental choice of profit maximization or to concern more on assurance of liquidity in any banking business under Islamic principles? Possibly the answer could rise when we examine the real world scenario; i.e. real Islamic banks and their performance to see how they perform to manage noise liquidity in accordance with maintaining handsome profitability.

The objective of this study is to enlighten on the comparative liquidity and profitability performance of Islamic banks and to measure the weight of significance of Islamic banks' liquidity on profitability. This study considers five (5) among seven (7) Islamic banks currently incorporating in Bangladesh along with their seven year's data. From that ground the study is rational to meet the need of different users.

LITERATURE REVIEW

Islamic Banking System is defined as those banks that claim to follow Shari'a (Islamic law) in their business transactions, Shari'a requires these transactions to be in lawful (Halal) form and prohibits transactions that involving interest (Riba) (Maali, Casson, and Napier, 2006). The core concept of Islamic banking is to provide services to its customers free from interest and the giving and taking of interest (riba) is prohibited in all transactions (Lewis and Algaoud, 2001). Prohibition of interest (riba) makes Islamic banking system differ from conventional banking system. In other words, the main difference between Islamic and conventional banks is the use of money. In conventional banks, money is used as a commodity that is bought and sold through the interest's usage according to Alkassim (2005).

Rejection of interest's usage raises the question of the alternatives of interest mechanism adopted in Islamic system. If dealing with interest rate is prohibited, how Islamic banking works? Here Profit-Loss Sharing System (PLS) takes the place as a method of resource allocation; it will be explained deeply in the following section. Beside the absence of interest in all financial transactions, there are religious rules or principles should each Islamic financial institution applies in investment behavior to achieve Islamic norms. There are four main areas where the Islamic banks find it difficult to finance under profit-loss sharing (PLS) scheme: a) participating in long-term low yield projects, b) financing the small businessman, c) granting non-participating loans to running businesses and , d) financing government borrowing (Ali and Howlader, 2005).

A study by Haron (2004) found that liquidity, total expenditures, funds invested in Islamic securities, and the percentage of the profit-sharing ratio between the bank and the borrower of funds are highly correlated with the level of total income received by the Islamic banks. Similar effects are also found for external factors such as interest rates, market share and size of the banks. Other determinants such as funds deposited into current accounts, total capital

and reserves, the percentage of profit sharing between bank and depositors, and money supply also play a major role in influencing the profitability of Islamic banks.

While making significant progress in return on assets (ROA) and return on equity (ROE), the liquidity performance of Bank Islam Malaysia (BIMB, the single full-fledged Islamic bank in Malaysia) between 1984-89 and 1990-97 in various measures such as cash deposit ratio, loan-deposit ratio and current ratio showed neither deterioration nor improvement (Samad and Hassan, 1999). Chowdhury and Ahmed (2009) investigated that total deposits of Islamic Bank Bangladesh Ltd. was higher in comparison to some non-Islamic banks during 2002 to 2006 period. Saifullah (2010) argued that Islamic banks in Bangladesh are superior to Conventional banks after an overall assessment of financial performance including liquidity and profitability position.

Sudin Haron (1996), while discussing external determinants of the profitability of Islamic Banks, argued that conventional banking theory postulates that the bigger the market, the more profit the banks earn, this theory is not necessarily true for Islamic banks. Islamic banks perform well due to efficient use of capital in short-term financing. Similarly, Islamic banks in a competitive market are better managed than those in the monopolistic markets. This finding is also in line with general assumption. Those businesses which operate in a competitive environment must be alert to the changes and produce innovative strategies and policies, if they wish to remain in the market. In contrast, conventional banks perform better in monopolistic environment as competitive environment involve them in moral hazard and adverse selection, causing high rate of default and less profitability.

Bashir and Hassan (2004) research study is a comprehensive piece of literature covering every aspect of examining profitability of Islamic banks. Similar to Bashir (2000), Bashir and Hassan (2004) studied the determinants of Islamic banking profitability between 1994 and 2001 for 21 countries. Their findings show that Islamic banks have a better capital asset ratio as compared to commercial banks which means that Islamic banks are well capitalized. Also, their paper used internal and external banks characteristics to determine profitability as well as economic measures, financial structure variables, and country variables. Bashir and Hassan also found total assets to have a negative relationship with profitability which amazingly means that smaller banks are more profitable. In addition, during an economic boom, banks profitability seems to improve because there are fewer non-performing loans. Inflation, on the other hand, does not have any effect on Islamic bank profitability. The results also indicate that overhead expenses for Islamic banks have a positive relation with profitability which means if expenses increase; profitability also increases.

The essence of liquidity management problem arises from the fact that there is a trade-off between liquidity and profitability and mismatch between demand and supply (Khan and Ahmed, 2001). While the bank has no control over the sources of fund (deposits), it can control the use of funds. Most banks now keep protective reserves on top of planned reserves. Excess liquidity is reported in nearly all Islamic banks (Ali and Howlader, 2005). Due to unavailability of local capital market, Islamic banking sectors have been suffering from investing idle fund in liquid venture (Rashid and Nishat, 2009). Surplus liquidity with Islamic banks cannot be easily transferred to conventional banks since the Islamic banks do not accept interest; however there is room for exchange of surplus funds among the Islamic banks on a Mudarabah / Musharakah basis. The greater the number of Islamic banks and wider their activities, the greater will be the scope of cooperation in this field. When making comparisons across firms (or over time), it is useful to control for differences in their resource base (Foster, 2002). At the same time liquidity of those resources/ assets is of paramount significance for banks (Maheshwari and Maheshwari,

2002). Akhtar, Ali and Sadaqat (2011) found positive but insignificant relationship of size of the bank and net-working capital to net assets with liquidity risk in Islamic banks. In addition return on assets (ROE) in Islamic banks is found to be positive and significant with liquidity risk at 10% significance level. While there are lots of works being done on performance comparison between Islamic banks and Conventional banks, to the best of my knowledge, not many works have yet focused on performance evaluation among Islamic banks in Bangladesh in particular. Therefore, the current study emphasizes on liquidity and profitability performance evaluation of Islamic banks in Bangladesh and leaves lots of rooms for upcoming researchers to improve and enrich the current issue in future.

MEASURES OF VARIABLES

The banks are compared in this study based on multiple liquidity and profitability variables. Banks' liquidity position is compared through examining the liquidity reserves kept by the banks, performance of liquidity ratios and the results of net liquidity gap. Profitability of banks is compared through scanning the ability of creating profits from different sectors, as well as through performance of profitability ratios. Coefficient of variation (CV) is defined as the ratio of the standard deviation to the mean. To compare the influence of Islamic bank's liquidity on profitability using multiple regression analysis, variables were assigned into two sections :

Dependent Variables (Profitability Ratios)

- Return on Assets (ROA) = Net Income after Taxes/ Total Assets
- Return on Equity (ROE) = Net Income after Taxes/ Total Equity Capital Account

Independent Variables (Liquidity Ratios)

- Cash & Due from Banks to Total Assets = Cash & Due from Banks/ Total Assets
- Cash & Due from Banks to Deposits = Cash & Due from Banks/ Total Deposits
- Investment (Loans & Advances) to Total Assets = Investment/ Total Assets
- Investment (Loans & Advances) to Deposits = Investment/ Total Deposits

To do the analysis following two hypotheses were designed:

- There is an insignificant relationship between liquidity and profitability; (null hypothesis)
- There is a significant relationship between liquidity and profitability; (alternative hypothesis)

DATA COLLECTION & SAMPLE DESIGN

Among 7 (seven) Islamic banks in Bangladesh, 5 (five) largest Islamic banks have been selected for conducting this research¹. This study basically depends on the secondary data. The data used here are compiled from bank's each year annual report during 2005 to 2011. The selected banks for this study include the following:

Table : List of Selected Banks

No.	Name of the Selected banks	DSE Trading Code**
1.	Islami Bank Bangladesh Limited	ISLAMIBANK
2.	Shahjalal Islami Bank Limited	SHAHJABANK
3.	Al-Arafah Islami Bank Limited	ALARABANK
4.	EXIM Bank Limited	EXIMBANK
5.	Social Islami Bank Limited	SIBL

¹Other two Islamic banks have been excluded from this study as because their history is not that long as the selected banks.

**Throughout this study the banks' names are presented according to their Dhaka Stock Exchange (DSE) Trading Code.

DATA ANALYSIS

Different financial and statistical tools and techniques, namely average, standard deviation, coefficient of variation, Pearson's correlation coefficients (correlation matrix), multiple regressions etc. have been used here to analyze the collected data and make the comparison. In addition descriptive analyses of all statistical findings are also included in this study.

FINDINGS AND ANALYSIS

1. Liquidity Performance Analysis of Islamic Banks

Simply stating, liquidity is the ability to meet any instant need in the form of cash or cash equivalent by selling assets; as we know cash is the most liquid asset by its nature. For bank, liquidity is the ability to meet its financial obligations as they come due. It illustrates that a bank must keep a sufficient amount in reserves to cover any unavoidable circumstance of economy. Islamic bank is not an exception in this regard.

1.1 Liquidity Maintenance Requirement of Islamic Banks in Bangladesh

Each Islamic Bank is required to maintain a minimum amount of their total time and demand deposits with Bangladesh (Central) Bank in two different categories, such as, Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR)². Below, we will see how these requirements were met by all five selected Islamic banks.

Year	Actual Reserve (%)					Required Reserve (%)
	ISLAMI BANK	SHAHJA BANK	ALARA BANK	EXIM BANK	SIBL	
2005	14.65%	5.94%	6.03%	9.51%	6.30%	5.00%
2006	16.13%	5.36%	6.00%	5.91%	6.57%	
2007	6.17%	5.54%	6.56%	7.72%	7.05%	
2008	10.67%	6.09%	6.14%	7.19%	6.80%	
2009	13.23%	5.53%	8.27%	9.54%	6.80%	
Average	12.17%	5.69%	6.60%	7.97%	6.70%	
2010	11.39%	8.08%	5.66%	8.26%	9.81%	6.00%
2011	9.59%	8.22%	7.13%	8.44%	7.38%	
Average	10.49%	8.15%	6.40%	8.35%	8.60%	

Source: Bangladesh Bank Annual Report, 2005-2011

Year	Actual Reserve (%)					Required Reserve (%)
	ISLAMI BANK	SHAHJA BANK	ALARA BANK	EXIM BANK	SIBL	
2005	20.17%	11.57%	12.07%	16.67%	11.57%	10.00%
2006	20.63%	10.59%	12.01%	12.25%	11.14%	
2007	21.27%	12.82%	13.11%	12.84%	10.95%	

² As per section 25 & 33 of the Bank Company Act 1991, the requirement for Islamic banks' CRR is 6.00% and SLR is 11.50% (including 6.00% CRR), dated 15.12.2010. However, till the financial year 2009, the requirement of CRR & SLR was 5.00% and 10.00% respectively.

2008	16.58%	12.45%	12.27%	11.21%	10.64%	
2009	19.40%	11.02%	14.19%	13.26%	11.85%	
Average	19.61%	11.69%	12.73%	13.25%	11.23%	
2010	17.33%	13.98%	11.50%	11.50%	14.90%	11.50%
2011	15.78%	14.50%	12.87%	11.70%	13.86%	
Average	16.56%	14.24%	12.19%	11.60%	14.38%	

Source: Bangladesh Bank Annual Report, 2005-2011

From the above two tables (Table 1.1 & Table 1.2) it is certain that all the banks meet their CRR and SLR requirements quite successfully from the year 2005 to 2011, except that one deficit in CRR by ALARABANK in 2010. Banks' average³ values are telling the similar stories also. By varying CRR, the central bank can either broaden the monetary base or curtail part of the commercial banks' money creating powers. Among all, ISLAMIBANK's CRR tells the best story, except the year 2007, when EXIMBANK has the best performance. Actually, CRR is only a portion of SLR (a prescribed percentage of deposits in eligible securities), which the banks need to maintain in cash with central bank⁴. This is in fact, closely related to short-term liquidity requirements. Because vault cash needs are determined by customer preferences, according to their variation in payment pattern and need of the bank's customers and local businesses. However, there are all surplus results in maintenance of SLR by the banks. Here, also ISLAMIBANK is representing the best performance; for some years, far beyond the requirements.

1.2 Analysis of Liquidity Ratios of Islamic Banks

Liquidity ratios indicate the ability of the firm to meet recurring financial obligations. Actually, through liquidity ratios, we can measure the degree of banks' access to meet the liquidity through a quick response to immediate cash need.

Table 1.3: Year-wise Liquidity Ratio Performance (2005-2011)						
Ratios	Year	ISLAMI BANK	SHAHJA BANK	ALARABANK	EXIM BANK	SIBL
Cash and Due from Banks to Total Assets Ratio						
	2005	16.44%	21.83%	20.15%	13.75%	20.49%
	2006	16.54%	23.24%	13.02%	11.34%	15.01%
	2007	11.02%	21.27%	15.58%	11.47%	25.68%
	2008	16.01%	20.36%	15.46%	12.83%	22.63%
	2009	16.23%	17.82%	15.32%	12.90%	23.48%
	2010	13.83%	16.11%	17.58%	10.14%	21.03%
	2011	14.44%	16.58%	17.74%	15.54%	20.21%
	Average	14.93%	19.60%	16.41%	12.57%	21.22%
	CV	12.51%	13.09%	12.92%	13.13%	14.59%
Cash and Due from Banks to Deposit Ratio						
	2005	18.74%	25.84%	26.54%	16.37%	24.73%

³ Average values have been calculated here, considering two different periods (2005-2009 & 2010-2011), because of the differences of requirements for Islamic bank's CRR & SLR by the Central Bank.

⁴ Dated 01 December, 2010, as per Bangladesh Bank MPD Circular No. 04 & 05, Islamic banks' CRR should not be less than 5.50% in any day. This requirement was 4.00% till 2009.

	2006	18.76%	27.41%	16.58%	13.53%	18.28%
	2007	12.68%	26.66%	20.44%	14.22%	32.08%
	2008	18.45%	25.24%	20.38%	15.25%	27.99%
	2009	18.49%	22.12%	19.38%	14.55%	29.72%
	2010	15.67%	20.16%	24.49%	12.07%	25.87%
	2011	16.44%	21.32%	22.28%	18.71%	25.52%
	Average	17.03%	24.11%	21.44%	14.96%	26.31%
	CV	12.39%	10.97%	14.33%	13.19%	15.44%
Investment (Loans & Advances) to Total Assets Ratio						
	2005	76.21%	73.30%	74.82%	77.25%	74.15%
	2006	75.59%	72.70%	81.54%	78.10%	77.76%
	2007	75.73%	72.73%	75.89%	78.04%	66.98%
	2008	77.99%	72.80%	75.91%	78.36%	66.93%
	2009	77.12%	74.61%	74.48%	82.34%	66.48%
	2010	79.62%	77.97%	71.09%	82.51%	66.49%
	2011	78.58%	75.16%	70.94%	76.77%	63.87%
	Average	77.26%	74.18%	74.95%	79.05%	68.95%
	CV	1.84%	2.42%	4.41%	2.77%	6.73%
Investment (Loans & Advances) to Deposit Ratio						
	2005	86.89%	86.77%	98.55%	91.97%	89.53%
	2006	85.77%	85.77%	103.86%	93.18%	94.70%
	2007	87.13%	91.15%	99.55%	96.75%	83.67%
	2008	89.87%	90.23%	100.11%	93.14%	82.79%
	2009	87.85%	92.62%	94.21%	92.92%	84.15%
	2010	90.17%	97.58%	99.06%	98.26%	81.78%
	2011	89.47%	96.69%	89.07%	92.42%	80.64%
	Average	88.16%	91.54%	97.77%	94.09%	85.32%
	CV	1.78%	4.56%	4.52%	2.37%	5.44%

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

In the above (Table 1.3) four liquidity ratios have been calculated, considering banks' last seven years performance. Here, as per variation in percentages (CV), ISLAMIBANK is showing the best performance in almost all the cases except in their cash and due from banks to total deposits ratio, where SHAHJABANK is representing the best result. Below, we will see another liquidity determinant of Islamic bank, seven year's liquid assets⁵ of the banks in amount (Table 1.4), and the percentage of those liquid assets to total assets.

Table 1.4: Liquid Assets of the Banks During 2005-2011
(Amount in Million Taka)

Year	ISLAMI BANK	SHAHJA BANK	ALARA BANK	EXIM BANK	SIBL
2005	23,730.70	3,353.41	3,090.76	6,135.74	4,670.83
2006	28,382.08	5,459.00	2,781.90	6,738.55	3,456.53

⁵ Liquid assets are defined as cash, interbank deposits and government-issued and insured securities.

2007	41,430.73	6,830.57	5,502.19	8,158.08	6,804.35
2008	44,461.50	10,008.30	7,052.26	11,030.74	7,495.11
2009	56,276.04	11,600.28	8,931.97	12,749.03	10,136.60
2010	57,401.96	14,093.62	15,249.90	14,216.69	12,653.80
2011	70,136.38	19,773.97	20,367.13	22,950.34	19,111.31
Average	45,974.20	10,159.88	8,996.59	11,711.31	9,189.79
CV	0.33	0.51	0.67	0.46	0.54

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

Highest percentage of liquid assets goes for ISLAMIBANK as per their last seven years' performance in comparison to others (Table 1.4). In fact, their coefficient of variation in maintaining those assets also reflects least fluctuation. But, the result instantly changes when we measure the proportion of liquid assets to total assets. Here, SIBL represents the best performance, if we ignore the year 2006. In 2006 SHAHJABANK experiences the best percentage of liquid assets to total assets.

1.3 Analysis of Net Liquidity Gap of Islamic Banks

In this section, we have analyzed the banks' last seven years net liquidity gap⁶ (Table 1.5).

Table 1.5: Year-wise Net Liquidity Gap (NLG) During 2005-2011 (Amount in Million Taka)					
Year	ISLAMI BANK	SHAHJA BANK	ALARA BANK	EXIM BANK	SIBL
2005	8,216	742	1,220	1,912	923
2006	10,007	1,205	1,690	3,112	981
2007	11,220	2,788	2,037	4,043	1,665
2008	14,060	3,605	2,706	4,989	1,867
2009	20,106	4,927	3,565	6,717	3,556
2010	23,494	6,748	7,821	12,475	4,199
2011	27,800	7,917	9,593	14,484	9,412
Average	16,415	3,990	4,090	6,819	3,229
CV	0.42	0.63	0.74	0.65	0.86

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

To overcome volatile liability, ISLAMIBANK generates most excess value in their assets among all the banks (Table 1.5). ISLAMIBANK's NLG experiences little variation in between the selected years, concerning the coefficient of variation. If we take a closer look at the individual banks' growth rate of NLG (year by year), then it is clear that there are lots of ups and downs in performance by all the banks. However, among all, perhaps the best growth rate can be found in the year of 2006-2007 by SHAHJABANK; climbing top up the line leaving all other banks behind them.

2 Profitability Performance Analyses of Islamic Banks

In Islam, profit is simply a reward of taking risk. So, it should be a natural outcome of the fair play of the twin forces of demand and supply in the market. Most probably, this unique feature leads them to do well even in financial crisis. But have they all been maintaining a

⁶ The term Net Liquidity Gap (NLG), often called the net liquid assets of a firm, is the excess value of the firm's liquid assets over its volatile liabilities.

continuous improvement in profit making performance over the last seven years? That we will see in next two sub-sections.

2.1 Analysis of Profit Creation and Allocation from Different Sectors of the Banks

Profit, the decisive goal of Islamic bank, is an important signal, not only to the entrepreneurs or shareholders but also to other providers of finance to a bank. Profits may generate from different sectors of the bank. Bank's return on investment is shown under (Table 2.1).

Table 2.1: Profit Receipt on Investment During 2005-2011
(Amount in Million Taka)

Year	ISLAMI BANK	SHAHJA BANK	ALARABANK	EXIM BANK	SIBL
2005	8,336	1,351	1,118	2,461	1,678
2006	11,158	2,145	1,701	3,808	1,899
2007	14,572	2,973	2,243	4,943	2,093
2008	19,544	4,236	3,502	6,575	2,732
2009	21,371	5,531	4,005	8,147	3,079
2010	24,766	6,417	4,244	9,606	3,886
2011	32,020	10,108	8,975	13,123	6,922
Average	18,824	4,680	3,684	6,952	3,184
CV	0.40	0.59	0.66	0.49	0.53

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

ISLAMIBANK has most receipt and least variation on investment over the seven years' study period, in comparison to other banks. On the other hand, the fluctuation in profit on investment is greater for ALARABANK. Each year, a portion of each Islamic bank's profit must go for deposit amount (Table 2.2).

Table 2.2: Profit Paid on Deposits During 2005-2011
(Amount in Million Taka)

Year	ISLAMI BANK	SHAHJA BANK	ALARABANK	EXIM BANK	SIBL
2005	5,885	944	551	1,822	1,400
2006	8,019	1,491	820	2,954	1,597
2007	9,411	1,960	1,629	3,588	1,705
2008	12,162	2,962	2,220	4,807	2,071
2009	13,077	4,200	2,667	5,943	2,064
2010	14,472	4,658	3,134	6,020	2,435
2011	18,401	7,376	5,543	9,358	4,541
Average	11,632	3,370	2,366	4,927	2,259
CV	0.34	0.61	0.66	0.47	0.44

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

On an average ISLAMIBANK is subject to high payment of profit on deposits, while SIBL is just showing the reverse performance. Profit may also be generated from bank's operating activities, referred to as operating profit (Table 2.3)⁷.

⁷Operating profit is calculated by deducting the total operating expenses from total operating income.

Table 2.3: Operating Profit During 2005-2011
 (Amount in Million Taka)

Year	ISLAMI BANK	SHAHJA BANK	ALARA BANK	EXIM BANK	SIBL
2005	2,869	502	548	1,176	214
2006	3,315	845	970	1,379	296
2007	5,162	1,315	756	1,908	481
2008	7,952	1,810	1,528	2,518	787
2009	7,781	2,041	1,730	3,182	1,064
2010	9,570	3,529	3,161	5,894	1,639
2011	12,732	2,998	3,655	3,956	2,769
Average	7,054	1,863	1,764	2,859	1,036
CV	0.46	0.55	0.63	0.54	0.81

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

Here, SIBL's operating profit fluctuates so much over the years, resulting in the lowest amount on an average among all. In contrast, ISLAMIBANK is indicating the best result on an average, as well as in variation over the years. However, all the earnings of a bank are subject to taxation before calculating the final net profit (Table 2.4).

Table 2.4: Provision for Taxation During 2005-2011
 (Amount in Million Taka)

Year	ISLAMI BANK	SHAHJA BANK	ALARA BANK	EXIM BANK	SIBL
2005	1,037	210	215	508	40
2006	1,508	324	385	549	63
2007	2,353	569	236	688	118
2008	3,673	748	591	893	153
2009	3,114	725	730	1,108	295
2010	3,991	888	870	1,833	494
2011	5,506	1,219	1,520	1,466	818
Average	3,026	669	650	1,006	283
CV	0.47	0.47	0.65	0.46	0.93

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

Tax imposed on Islamic bank is against its philosophy and poses the greatest difficulty. Profit, which is an earned income, are taxed twice, once from seller to bank and then from bank to buyer in trade financing. Here, on an average provision for taxation is highest for ISLAMIBANK and lowest for SIBL. The variation in tax provision among all is lowest for EXIMBANK. Now we will take a look at the net profit after taxation, the amount determines the banks' ultimate value to all partners related to the bank (Table 2.5).

Table 2.5: Net Profit after Taxation During 2005-2011
 (Amount in Million Taka)

Year	ISLAMI BANK	SHAHJA BANK	ALARA BANK	EXIM BANK	SIBL
2005	1,126	256	263	555	14

2006	1,401	463	470	650	58
2007	1,427	647	347	931	150
2008	2,675	818	668	1,097	202
2009	3,404	1,071	859	1,694	432
2010	4,463	2,072	1,920	3,476	643
2011	4,841	1,168	1,772	2,009	1,083
Average	2,762	928	900	1,487	369
CV	0.51	0.60	0.70	0.64	0.97

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

In spite of the controversy regarding tax laws on Islamic banks' profit, all the banks have been maintaining attractive amount, if we disregard some bad performances in early years. It is clear from the above table that ISLAMIBANK generates more profit in all selected years in respect to all other banks. The fluctuation in generating net profit after tax is greater for SIBL, reflecting greater risk for partners of the bank.

2.2 Analysis of Profitability Ratios of Islamic Banks

Profitability ratios are the greater indicators to measure banks' access over controlling expenses and generating profit (Table 2.6).

Table 2.6: Year-wise Profitability Ratio Performance (2005-2011)						
Ratios	Year	ISLAMI BANK	SHAHJA BANK	ALARA BANK	EXIM BANK	SIBL
Net Operating Margin (NOM)⁸						
	2005	2.33%	3.47%	3.57%	3.49%	1.05%
	2006	2.21%	3.96%	4.54%	3.30%	1.50%
	2007	2.70%	4.64%	2.51%	3.71%	1.96%
	2008	3.44%	4.00%	3.90%	3.68%	2.64%
	2009	2.80%	3.46%	3.57%	3.82%	2.66%
	2010	2.89%	4.48%	4.19%	5.21%	2.97%
	2011	3.27%	2.80%	3.53%	3.05%	3.28%
Average	2.81%	3.83%	3.69%	3.75%	2.29%	
CV	14.91%	15.45%	16.13%	17.22%	32.84%	
Net Profit Margin (NPM)⁹						
	2005	23.94%	37.81%	29.15%	34.46%	2.67%
	2006	23.27%	43.20%	34.74%	32.29%	9.12%
	2007	17.22%	39.72%	26.17%	33.00%	16.62%
	2008	22.16%	35.20%	30.84%	30.90%	15.64%
	2009	27.61%	36.70%	32.56%	38.15%	25.12%
	2010	28.51%	42.72%	42.77%	45.12%	24.42%
	2011	24.21%	25.23%	34.58%	31.18%	26.13%
Average	23.85%	37.23%	32.97%	35.01%	17.10%	

⁸ NOM is calculated by using the formula, Total Operating Profit / Total Assets.

⁹ NPM is calculated by using the formula, Net Income after Taxes / Total Operating Income.

	CV	14.45%	15.08%	14.82%	13.46%	48.10%
Return on Deposits (ROD)¹⁰						
	2005	1.04%	2.09%	2.26%	1.96%	0.08%
	2006	1.06%	2.56%	2.80%	1.86%	0.36%
	2007	0.86%	2.86%	1.51%	2.24%	0.76%
	2008	1.34%	2.24%	2.25%	1.90%	0.84%
	2009	1.39%	2.26%	2.24%	2.29%	1.37%
	2010	1.53%	3.29%	3.55%	3.66%	1.43%
	2011	1.42%	1.40%	2.15%	1.86%	1.62%
	Average	1.23%	2.39%	2.39%	2.25%	0.92%
	CV	18.49%	23.31%	24.49%	26.51%	57.96%
Return on Assets (ROA)¹¹						
	2005	0.92%	1.77%	1.71%	1.65%	0.07%
	2006	0.93%	2.17%	2.20%	1.56%	0.29%
	2007	0.75%	2.28%	1.15%	1.81%	0.61%
	2008	1.16%	1.81%	1.71%	1.60%	0.68%
	2009	1.22%	1.82%	1.77%	2.03%	1.08%
	2010	1.35%	2.63%	2.55%	3.07%	1.17%
	2011	1.24%	1.09%	1.71%	1.55%	1.28%
	Average	1.08%	1.94%	1.83%	1.90%	0.74%
	CV	18.72%	23.33%	22.25%	26.76%	57.42%
Return on Equity (ROE)¹²						
	2005	13.70%	34.46%	21.55%	29.04%	1.51%
	2006	14.00%	38.44%	27.81%	20.90%	5.88%
	2007	12.72%	23.21%	17.05%	23.03%	9.01%
	2008	19.02%	22.68%	24.70%	21.98%	10.82%
	2009	16.93%	21.73%	24.10%	25.22%	12.14%
	2010	19.00%	30.71%	24.55%	27.86%	15.31%
	2011	17.42%	14.76%	18.47%	13.87%	11.51%
	Average	16.11%	26.57%	22.60%	23.13%	9.45%
	CV	15.01%	28.79%	15.56%	20.26%	44.47%

Source: Calculating values using Bangladesh Bank Annual Report, 2005-2011

Profitability ratios indicate how much profit is produced in terms of income and capital generated from different sectors of the bank (Table 2.6). Here, on an average, NOM is higher for SHAHJABANK among all, showing highest operating profit against total assets. The smallest fluctuation (CV) exists in ISLAMIBANK's NOM. For NPM, the best performance also goes to SHAHJABANK as per their average performance over seven year's period. But during the same period, EXIMBANK's NPM is showing the lowest variation in percentage over the years. ROD can be a great concern for potential depositors. This ratio shows

¹⁰ ROD is calculated by using the formula, Net Income after Taxes / Total Deposits.

¹¹ ROA is calculated by using the formula, Net Income after Taxes / Total Assets.

¹² ROE is calculated by using the formula, Net Income after Taxes / Total Shareholders' Equity.

percentage return of each taka of customers' deposits. Here, the depositors' choice may either SHAHJABANK or ALARABANK, having the highest percentage return on deposits among all the banks. ISLAMIBANK has least variation in ROD over the study period. Actually ROD indicates how effectively the management of a bank is able to turn deposits into net earnings. Generally, the higher the ROA, the higher should be the ROD and vice versa. That is why as the case in ROD; SHAHJABANK is also showing the best performance on an average in percentage return on assets (ROA). As expected, the slightest rise and fall over the study period reflects in ISLAMIBANK's ROA. A higher positive percentage in ROA proves greater efficiency of financial instructions by the banks' management. Like ROA, ROE is another indicator for managerial efficiency. As in earlier cases, here also SHAHJABANK carries highest average percentage return on equity (ROE), while ISLAMIBANK has little fluctuation in ROE in comparison to other banks.

3. LIQUIDITY AND PROFITABILITY TRADE-OFF IN ISLAMIC BANKS

There is a trade-off between liquidity and profitability; gaining more of one ordinarily means giving up some of the other. However, in this section, we will see this relationship through multiple correlation and regression analysis between liquidity and profitability ratios (shown in Table 1.3 & Table 2.6).

3.1 Correlation Matrix

The correlation coefficients are stated in Table 4.12. This gives information on the degree of correlation between all the liquidity and profitability ratios to each other.

Table 3.1: Correlation Matrix of Financial Ratios used in the Analysis

Islami Bank Bangladesh Limited									
	C&D-TA	C&D-Dep	Invst-TA	Invst-Dep	NOM	NPM	ROD	ROA	ROE
C&D-TA	1								
C&D-Dep	.999**	1							
Invst-TA	-.050	-.057	1						
Invst-Dep	-.154	-.145	.943**	1					
NOM	-.166	-.143	.708	.875**	1				
NPM	.507	.482	.606	.368	.047	1			
ROD	.264	.255	.910**	.806*	.619	.801*	1		
ROA	.267	.256	.909**	.795*	.593	.820*	.999**	1	
ROE	.209	.213	.907**	.899**	.772*	.610	.940**	.930**	1
Shahjalal Islami Bank Limited									
	C&D-TA	C&D-Dep	Invst-TA	Invst-Dep	NOM	NPM	ROD	ROA	ROE
C&D-TA	1								
C&D-Dep	.984**	1							
Invst-TA	-.863*	-.911**	1						
Invst-Dep	-.958**	-.907**	.831*	1					
NOM	.250	.283	.001	-.078	1				
NPM	.433	.362	-.019	-.394	.789*	1			
ROD	.070	.052	.275	.041	.927**	.878**	1		
ROA	.160	.128	.216	-.062	.916**	.926**	.993**	1	
ROE	.597	.466	-.127	-.629	.378	.805*	.493	.588	1
Al-Arafah Islami Bank Limited									
	C&D-TA	C&D-Dep	Invst-TA	Invst-Dep	NOM	NPM	ROD	ROA	ROE
C&D-TA	1								
C&D-Dep	.974**	1							
Invst-TA	-.691	-.687	1						
Invst-Dep	-.422	-.273	.740	1					
NOM	-.233	-.168	.253	.324	1				
NPM	.020	.124	-.357	-.061	.701	1			

ROD	.022	.160	-.124	.255	.826*	.925**	1		
ROA	-.046	.070	-.060	.227	.881**	.923**	.989**	1	
ROE	-.457	-.370	.487	.543	.890**	.485	.686	.736	1
EXIM Bank Limited									
	C&D-TA	C&D-Dep	Invst-TA	Invst-Dep	NOM	NPM	ROD	ROA	ROE
C&D-TA	1								
C&D-Dep	.981**	1							
Invst-TA	-.558	-.678	1						
Invst-Dep	-.778*	-.706	.498	1					
NOM	-.717	-.741	.796*	.805*	1				
NPM	-.572	-.637	.864*	.640	.913**	1			
ROD	-.655	-.666	.768*	.831*	.969**	.941**	1		
ROA	-.634	-.665	.819*	.786*	.969**	.964**	.995**	1	
ROE	-.532	-.587	.511	.315	.619	.631	.506	.524	1
Social Islami Bank Limited									
	C&D-TA	C&D-Dep	Invst-TA	Invst-Dep	NOM	NPM	ROD	ROA	ROE
C&D-TA	1								
C&D-Dep	.996**	1							
Invst-TA	-.697	-.736	1						
Invst-Dep	-.691	-.716	.984**	1					
NOM	.278	.335	-.862*	-.836*	1				
NPM	.356	.422	-.843*	-.781*	.939**	1			
ROD	.300	.363	-.849*	-.802*	.962**	.988**	1		
ROA	.300	.361	-.849*	-.806*	.964**	.987**	1.00**	1	
ROE	.338	.384	-.778*	-.756*	.916**	.927**	.907**	.916**	1

Pearson Correlation Coefficient

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

* Correlation is significant at the 0.05 level (2-tailed).

Source: Calculating values using SPSS V15.0

The correlation matrix above shows there is a strong correlation (positive/negative, somewhere near to 1.00) among many of the liquidity and profitability variables from two different significant level, 0.01 & 0.05 (Table 3.1). However, the matrix not only showing results of correlation between liquidity and profitability ratios but also the correlation in respect to each liquidity and profitability indicators themselves. This opportunity has been tested with the Pearson correlation coefficient test. The figures, stating the relationships are quite well defining the effect of changes in one liquidity variable to another profitability variable. The most significant correlation may be observed in ISLAMIBANK's (1% significance level) liquidity and profitability ratios among all the selected banks.

CONCLUSION

This study dealt with multiple liquidity and profitability indicators of Islamic banks throughout the performance assessment. It also tries to focus on each bank's liquidity strength and its relationship to profitability based on correlation matrix. After overall comparison it is clear that for most cases of liquidity and profitability measurements Islami Bank Bangladesh Ltd.'s performance beats all, as they show least fluctuation in performance over the study period. However, all the Islamic banks selected for this paper, are very much alert of meeting their liquidity reserve with Central Bank as reflected in their CRR and SLR maintenance over the study period.

Depositors are always in favour of higher SLR, which not only improves the risk factor but also provides safety to the depositors' money; facilitate comfort ability when they keep deposits in an Islamic bank. While, discussing about the depositors' need, the short-term

liquidity requirement, banks should not ignore long-term liquidity planning also. A bank's long-term liquidity planning includes forecasting funds needs over the coming year and beyond if necessary. Here, a bank's liquidity performance may be viewed to the extent to which it ensures appropriate use of funds, which illustrates bank's ability to satisfying depositors' demand while accommodating legitimate investment requests. To support their depositors' demand, banks need money, or in other sense the power to create money. That's why Akkas (1982, p.127) suggested that commercial banks should be compelled to keep reserves up to the full amount of their deposits, a reserve of 100 percent. But in doing so, they cannot ignore their potential investment opportunities.

Central bank provides a range to all commercial banks including Islamic banks, in the form of CRR and SLR, which each bank must maintain to meet both short-term and long-term liquidity crisis. Though Islamic banking and its products are totally interest free, aiming to create a non-inflationary economy, the performance on average over the last 7 (seven) years for all selected Islamic banks, reflect their success in liquidity maintenance with Bangladesh (Central) Bank.

A lower profitability may arise due to the lack of control over the expenses (Maheshwari and Maheshwari, 2002, p.38). If we summarise the profitability performance in accordance with the ratios that are evaluated in this study, then the best result goes to Shahjalal Islami Bank. According to multiple regression results overall liquidity variables are found most significant with Return on Assets (ROA) of Islami Bank Bangladesh Ltd. and Return on Equity (ROE) of Shahjalal Islami Bank Ltd. among all. At the mean time none of Al-Arafah Islami Bank Ltd.'s liquidity (independent) variables is found significant to any of the two dependent (ROA/ROE) variables. At 90% confidence level liquidity variable investment to total asset results in only statistically significant independent variable with ROA for Islami Bank Bangladesh Ltd., Shahjalal Islami Bank Ltd. and EXIM Bank Ltd., while with ROE for only Shahjalal Islami Bank Ltd. among all the liquidity variables used in the analysis.

It should be addressed that this paper marks an introductory attempt to empirically make the comparison among Islamic banks in Bangladesh. In interpreting all the results, this study uses a reduced model (liquidity and profitability with only 7 year's data). However, in any affair, current study serves as initial movement, leaving spaces for future researches to enhance and enrich its outlook.

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Strategic Planning and Its Implications on SMEs in Bangladesh: An Empirical Study

Md. Hafij Ullah¹ & Faruk Bhuiyan²

¹Assistant Professor, Department of Business Administration, International Islamic University Chittagong, Bangladesh

²Lecturer, Department of Business Administration, International Islamic University Chittagong, Bangladesh

ABSTRACT

Strategic plan is an important integral part and vital factor for long-term success and sustainable development of any organization and also for SMEs. Without strategic plan an SME may journey towards an imaginary destination. The current study is an endeavor to highlight the present scenario of SMEs in Bangladesh, scope of strategic plan in SMEs, barriers to preparing strategic plan and ways to removal of the barriers and finally implications of strategic plan in SMEs in Bangladesh. The paper found that sustainable development of SMEs highly depends on the preparation and implementation of strategic plan in SMEs in Bangladesh and strategic plan has direct impact on the growth of number of employees, volume of capital and return on sales of SMEs.

Key Words: Strategic Planning, SME, Implications, Implementation, and Bangladesh.

GEL Classification Code: O20; G32; M13

1. INTRODUCTION

Strategic planning refers to the setting of long-term business goals, and the developing and implementing of the formal plans to achieve these goals. Strategic planning is a vital ingredient in small business development, competitiveness and success (Vicere, 1995). For example: small business that strategically plans are more likely to be those that achieve higher sales growth, higher return on assets, higher profit margins and higher employee growth. Small businesses that strategically plan are also more likely to be those that are innovative, those that achieve international growth and those less likely to fail. It improves the business performance, business decisions and enhances employee commitment (Curtis 1983). Peel and Brigade (1998) have highlighted a strong positive correlation between the success of SME's and the degree of long term planning undertaken.

In the survey of 214 German industrial enterprises Esser et. al. (1985) found that instruments of strategic planning are most frequently applied in the long term of a limited and incorporated company. Their results show a positive correlation between a company's workforce size and the uses of strategic planning activities. Berman, Gordon and Sussmann (1997) argue that enterprises that plan strategically obtain the better financial results. For example: Schwek and Shrader (1993) showed in their meta- analysis that the existence of

strategic planning is significantly positively correlated with an enterprise's (financial) success. Given all the evidence on the benefits of strategy and planning, most small businesses don't strategically plan. SMEs' are more likely to have short term plans and a non-financial, non-written type of strategy looks to better suit their needs (Stonehouse and Pembereton 2002). In practice the primary focus of small business operators is short term operational rather than long-term strategic issues, and their decision making is generally reactive and intuitive rather than practical and deliberate.

Research into why small businesses generally don't engage in strategic planning has suggested that operators may be hindered or discouraged by "planning barriers" such as; a lack of time, lack of specialized expertise, inadequate knowledge of the planning processes or a reluctance to share strategic plans with employees and external consultants (Robinson and Pearce 1984). O'Regan and Ghobadian indicated a number of general barriers relating to the constraint of strategic planning implementation, such as; communication was inadequate, implantation took longer than expected, a short fall in employee skills, objectives of a strategy were not clearly understood by the staff, ineffective coordination of implementation, unexpected external problems arose and external factors impacted on implementation. Recently Wang, Walker and Redmond (in press) argued that business ownership motivations are a major reason for why many small businesses do not strategically plan. However, firms with strategic plan are better in position to overcome such implementation barriers. A Wilcoxon test was used to ascertain the difference in the extent to which implementation problems are experienced by both categories of firms with formal plan and firms without formal plan. The results showed that firms with strategic plan are better prepared to overcome the implementation problems than firms without strategic plan. This indicates that formal planning is more likely to enable firms to meet any potential barriers and problems with greater confidence (O'Regan N. and Ghobadian A., 2007).

2. OBJECTIVES OF THE STUDY

The main objective of the study is to evaluate the importance of strategic plan for SMEs in Bangladesh. To fulfill the main objective, the specific objectives are as stated below:

- To justify the importance for strategic plan for SMEs in Bangladesh.
- To identify the barriers in preparing strategic plan in SMEs in Bangladesh.
- To evaluate the impact/implications of strategic plan in SMEs in Bangladesh.
- To identify the ways to overcome the barriers in preparing strategic plan in SMEs in Bangladesh.

3. METHODOLOGY OF THE STUDY

The study is an exploratory research completed basically based on primary data. Some secondary data was used for showing the SME scenario in Bangladesh. A questionnaire survey was conducted among the owners, managers, and officers of 48 SMEs from different parts of Chittagong on the basis of purposive sampling because the working place of the authors is Chittagong. According to the location of the SMEs, the SMEs under study are from New Market 28 (19.44%), Halishahar 18 (12.50%), Chawk Bazar 16 (11.11%), Sitakunda 13 (9.03%), Chandgaon 14 (9.72%), Bahaddar Hat 15 (10.42%), Agrabad 21 (14.58%), Chawmohoni 8 (5.56%), Fawzdarhat 6 (4.17%), Kumira 5 (3.47%).

As per the nature of SME business, the frequencies are Restaurant 29 (20.14%), Poultry, Dairy & Nursery 22 (15.28%), Bakery 23 (15.97%), Ready Made Garments (RMG) 21 (14.58%), Books and Stationary 16 (11.11%), Jewelers 33 (22.92%).

As per the designation, the respondents are Officer 14 (9.72%), Manager 35 (24.31%), and

Owner 95 (65.97%) and the level of education of the respondents is Below SSC 14 (9.72%), Below HSC 23 (15.97%), Graduate 38 (26.39%), and Masters 69 (47.92%).

The age distribution of SMEs having less than 1 year of age is 11 (7.64%), SMEs having 1-3 years of age is 21 (14.58%), SMEs having 3-6 years of age is 34 (23.61%), SMEs having 6-9 years of age is 29 (20.14%) and SMEs having more than 9 years of age is 49 (34.03%).

The data was collected through in depth interview with the respondents based on structured questionnaire during November and December, 2011. After collection, the data were tabulated and analyzed through percentage, frequency distribution, etc.

4. LIMITATIONS OF THE STUDY

The study is a self financed study because of what a small sample size were chosen for the study. Another limitation is 25.69% of the respondents have very few or no idea about strategic plan as they have no study in this regard because of their poor level of education that is less than HSC.

5. SME SCENARIOS IN BANGLADESH

In 2003 the International Consultancy Group (ICG) of the UK, in collaboration with the Micro Industries Development Assistance and Services (MIDAS), conducted the National Private Sector Survey of Enterprises in Bangladesh. The survey results drew the conclusion that there were approximately 6 million Small and Medium Enterprises (SMEs) which included enterprises with up to 100 workers employing a total of 31 million people, equivalent to 40 per cent of the population of the country of age 15 years and above. The survey also found that the industrial structure of SMEs consisted of primarily wholesale and retail trade and repairs (40 per cent), production and sale of agricultural goods (22 percent), services (15 percent), and manufacturing only (14 per cent). Thus the survey brought out the fact that the large untapped potential for expansion in manufacture and production could be exploited (or contributing more significantly to the national economy. Another vital findings of the survey under discussion was that SMEs contributed BDT 741 (\$ 12.5) billion i.e. nearly 25 per cent of the GDP (BDT 2,996 billion) in 2003. It is reflected from this survey that enterprises employing 2-5 workers contribute 51 percent share of the total SME contribution to the economy, followed by 26 percent by those having only one worker and 10 per cent by those having 6-10 workers. For LDCs like Bangladesh, SMEs are a highly cost-effective route for industrial development. It is observed from Table-1 that micro enterprises run by up to 10 workers contribute the most which is 86% of the total contribution from SMEs to GDP of Bangladesh. It is also observed that micro enterprises run by more than 21 workers contribute about 7% of total contribution from SME to GDP of Bangladesh.

Table 1: Contribution of SMEs in the GDP of Bangladesh

Number of Workers	Total Contribution to GDP (Taka)	% of total Contribution
0-1	193996555714	26
2-5	379663897358	51
6-10	73120983681	10
11-20	45183240157	6
21-50	33960498076	5
51-100	15138922373	2
Total	741064097360	100

Source: ICG/MIDAS Survey, 2003. Note: US \$1=BDT 69.0

Table-2 provides the information regarding sector wise contribution of SMEs to GDP. It is reflected from the table that manufacturing sector contributes the highest contribution in GDP i.e., 38%. It is also observed from the table that agriculture contributes 24%, wholesale and retail sector contribute more than 23% in the GDP of Bangladesh.

Table-2 Sector wise contribution of SME in GDP of Bangladesh (Taka)

Sector	Total Contribution to GDP (Taka)	Percentage of Total Contribution
Agriculture	177 729 637 63	24%
Fishing	32872674464	4%
Manufacturing	282 344 700 575	38%
Construction	7 196 460 200	1%
Wholesale and Retail trade and Repairs	171 335 861 390	23%
Hotels and Restaurants	28 599 263 975	3%
Transport, Storage and Communication	8 950 171 356	1%
Real state, Renting and Business activities	13 771 436 794	2%
Education	151 808 506	1%
Health and Social Work	2 743 049 893	1%
Other Service activities	15 632 094 785	2%
Total	741 327 159 609	100%

Source: ICG/MIDAS Survey, 2004, Note: US \$ 1 = BDT 69.00

Small and Medium Scale play an important role in the socioeconomic advancement of a country through decentralization, diversification of industries, innovation of new products and services, creation of new entrepreneurs, employment generation, utilization of natural resources and in overall, raising contribution to the GDP of the country. The contribution of the small and medium scale industries in GDP of Bangladesh are stated below:

Table-3: Contribution of Small scale industries in GDP of Bangladesh (at constant market prices)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
GDP of Small scale Industries (Million Tk.)	124085	135515	148651	159200	170189	180911
Total GDP of Bangladesh (Million Tk.)	2669740	2846726	3029709	3217260	3401968	3600465
% of GDP contribution of SSIs	4.85	4.94	5.08	5.14	5.18	5.20
% of Growth Rate of GDP of SSIs	7.93	9.21	9.69	7.10	6.90	6.30

Source: Statistical Year Book 2010, National Income Section, BBS.

Table-4 shows the growth pattern of SME. It is observed that during 2001-2002 to 2004-2005 in every financial year the growth rate of SME is about 7%. In 2005-2006 the growth rate was 9.21%. The highest growth was in 2006-2007 i.e., 10.28%.

Table-4 Growth Pattern of SMEs in Bangladesh

Year	Growth Percentage of Small Enterprises
2001-02	7.69
2002-03	7.21
2003-04	7.45
2004-05	7.93
2005-06	9.21
2006-07	10.28

Source: Bangladesh Economic Review 2006-2007.

Table-5 shows the growth pattern of manufacturing sector. It is observed that the average growth during 1972 to 2005 was 6.4%. During 2001-2002 to 2006-2007 the highest growth was in year 2006-07 i.e., 11.19%. It is also observed that during 2002-2003 to 2005-2006 in every financial year the growth of manufacturing sector was more than 6%.

Table-5: Growth Pattern of Manufacturing Sector

Year	Growth Percentage of Manufacturing Sector
1972-2000	6.4
2001-02	5.48
2002-03	6.75
2003-04	7.10
2004-05	8.19
2005-06	10.77
2006-07	11.19
2015	Expected Growth 15

Source: *Bangladesh Economic Review 2006-07*.

Table-6 shows that, Total SME loans increased by 35.93 percent at the end of December, 2010 as compared at the end of December, 2009 and 16.64 percent at the end of December, 2011 as compared at the end of December, 2010. Institutional category-wise SME loans increased at the end of December, 2010 in private banks (52.03%), specialized banks (28.09%), foreign banks (19.30%), state owned banks (17.34%) and non-bank financial institutions (27.91%) as compared to December, 2009 and at the end of December, 2011 in private banks (23.91%), specialized banks (12.27%), foreign banks (10.51%), state owned banks (6.43%) and non-bank financial institutions (4.17%) as compared to December, 2010.

Table-6: Outstanding position of SME loans as compare to total loans (Tk. In Crore)

	Types of Loans	State Owned Banks	Private Banks	Foreign Banks	Specialized Banks	Non-Bank FIs	Total
Dec, 2009	Total Loans	54931.53	157471.37	15324.52	16250.25	12948.61	256926.28
	SME Loans	18612.29	25707.55	1582.21	3315.82	1929.71	51147.59
	Percentage	(33.9)	(16.3)	(10.3)	(20.4)	(14.9)	(19.9)
Dec, 2010	Total Loans	68702.48	204442.22	18486.44	20578.15	17741.02	329950.31
	SME Loans	21839.54	39083.85	1887.54	4247.31	2468.34	69526.58
	Percentage	(31.79)	(19.12)	(10.21)	(20.64)	(13.91)	(21.07)
Dec, 2011p	Total Loans	81405.37	244335.67	21165.99	22994.08	20826.99	390728.10
	SME Loans	23244.5	48429.16	2085.89	4768.3	2571.38	81099.23
	Percentage	(28.55)	(19.82)	(9.85)	(20.74)	(12.35)	(20.76)
% change of SME loans at the end of December, 2010 over December, 2009.		17.34	52.03	19.30	28.09	27.91	35.93
% change of SME loans at the end of December, 2011 over December, 2010.		6.43	23.91	10.51	12.27	4.17	16.64

Source: *SME & Special Programs Department, Bangladesh Bank*.

Note: Figures in brackets indicate SME loans as percentage of total loans. P=provisional

Table-7 depicts the credit disbursement strategy being focused by the different categories of financial institutions while disbursing loans to SME sector. NBFIs become the prominent

players in disbursing loan strategy to the much desired SME sector constituting 35.5 percent of their total loan portfolio disbursement. The rest has been followed by SOBs and PCBs consisting of 28.7% and 22.1% respectively of their own loan disbursement portfolio.

Table 7: Loan disbursement to SME as % of total disbursement by Categories of Financial Institutions

SL No.	Category of Financial Institution (FI)	Loan disbursement to SME as %
01	NBFIs	32.5%
02	SOBs	28.7%
03	PCBs	22.1%
04	SBs	13.5%
05	FCBs	7.7%
	Total	100%

Source: SMESP Department, BB, 31st Dec. 2009.

Of the total loan disbursed to SME sector in the last quarter of 2009, around 50% went to Small Enterprises (SE). Table-8 shows the relative contribution of different categories of participating FIs in terms of disbursement to SE (18.1% of loan disbursement portfolio), while SOBs and PCBs were the subsequent successor.

Table-8: Loan disbursement to SE as % of total Disbursement by FIs

Categories of FIs	Loan Disbursement to SE as % of total disbursement
SOBs	17.3%
PCBs	10.2
SBs	7.8
FCBs	3.8
NBFIs	18.1

Source: Computed from data of SMESP Department, BB, 31st Dec. 2009.

6: THE SCOPE OF STRATEGIC PLANNING IN SMEs

For the German-speaking countries, the following picture concerning strategic planning in SMEs emerges: In their survey of 214 German industrial enterprises Esser et al. (1985) found that instruments of strategic planning are most frequently applied in the legal form of a limited (GmbH) and incorporated (AG) company. Additionally, their results show a positive correlation between a company's workforce size and the use of strategic planning activities. Based on an analysis of 1461 German industrial enterprises, Scholz (1991) identified a rate of 73% of SMEs indicating to plan strategically. In contrast, the result from Austria and Switzerland look rather disillusioning. Kropfberger (1986) revealed in a survey of 161 medium sized enterprises in Austria that nearly half of the enterprises under study only plan on a short term basis and that almost one third does not have any sales planning at all. Similarly, Frohlich and Pichler ?(1988) found that almost one quarter of the 107 enterprises they investigated did not apply any planning, about one third only used short term plan and another third long term planning and only 12% used strategic planning. An almost identical picture shows up in Switzerland, where Haake (1987) surveyed 127 SMEs from different industries: 27% of the enterprises applied no written planning, 31.4% only short term planning, 26.9% long-term planning, and finally 13.7% strategic planning.

Hofner, Kirsch and Wieselhuber (1985) surveyed on 214 SMEs with less than 500 employees from Germany. The result showed that 26.9% of SMEs plan strategically. Kupper and

Bronner (1995) conducted a survey on 240 SMEs from German. The result found that almost no long-term plan is prepared. Naffziger and Mueller (1999) surveyed on 71 SMEs with less than 500 employees from US and found that 46.5% of the enterprises do not have written Vision or Mission statement. Litner (2001) conducted a survey on 100 SMEs from Austria and got 62% of the enterprises have a written corporate policy. Gibson and Cassar (2002) surveyed on 3554 SMEs from Australia and found that more than 30% of the enterprises apply documented planning, however, only 50% of those prepare on an annual basis, larger firms plan more than smaller ones. Shane (2003) researched on 211 SMEs from Sweden. The result showed that strategic planning increases the degree of product development, the degree of corporate organization and the probability of survival of new ventures.

A study was conducted by Elbanna (2007) in Egypt and found that 35.8% of the organizations in the sample do not have written strategic plans. A small number of studies of strategic in the Middle East have been undertaken. The picture is less clear in relation to strategic implementation than it is in relation to formulation. Two studies of strategic planning in Egypt have not examined implementation issues (Elbanna, 2007; 2008). In the case of Turkey, there is limited evidence that firms have greater commitment to strategy formulation than strategy implementation or evaluation (Glaister and Flashaw, 1999).

7. FINDINGS OF THE STUDY

We have conducted a survey on the owners, managers, and officers of 48 SMEs from Chittagong, Bangladesh and found that although most of the respondents (89.58%) believe that long-term planning is important for their success but actually 81.2% of SMEs prepare such plan.

Table-9: Opinion of the respondents' importance and preparation of L/T plan

Importance of long-term plan for SMEs:			Prepare long-term plan for SMEs		
Opinion	No. of SMEs	Percentage	Opinion	No. of SMEs	Percentage
Yes	129	89.58%	Yes	117	81.25%
No	15	10.42%	No	27	18.75%
Total	144	100%	Total	144	100%

Source: Own survey on SMEs during November-December, 2011.

From the table-9, it is also seen that only 10.42% of the respondents do not give importance on long-term plan for them but 18.75% of the do not prepare strategic plan for SMEs. Therefore, 8.33% of the SMEs do not prepare long-term plan though they admit the importance of long-term plan because of some barriers to strategic plan.

8. STRATEGIC PLAN AND ITS BENEFITS

Literature review reveals that preparation of strategic plan is important and beneficial for SMEs. The respondents of our survey also identified different benefits of preparing strategic plan in SMEs in Bangladesh. The responses are listed in the following frequency table.

Table-10: Opinion of the respondents on the benefits of Strategic plan in SMEs

Benefits	Frequency	Percentage
Higher sales growth	132	91.67
Higher return on assets	71	49.31
Higher margin or profit	83	57.64
Higher employee growth	52	36.11

Development and implementation of plan	65	45.14
Sustainable development (avoid failure)	87	60.42
Efficient in competition	103	71.53
International growth	57	39.58
Others: Customer Satisfaction	7	4.86

Source: Own survey on SMEs during November-December, 2011.

As per the opinion of the respondents, SMEs with strategic plan can exploit the benefits of Higher sales growth (91.67%), Efficient in competition (71.53%), Sustainable development (avoid failure) (60.42%), Higher margin or profit (57.64%), Higher return on assets (49.31%), Development and implementation of plan (45.14%), International growth (39.58%), Higher employee growth (36.11%), and Customer Satisfaction (4.86%).

9. BARRIERS IN PREPARING STRATEGIC PLAN IN SMEs IN BANGLADESH

Kropfberger (1986) revealed in a survey of 161 medium-sized enterprises in Australia that nearly half of the enterprises under study only plan on a short term basis and that almost one-third does not have any sales planning at all. In Switzerland, Haake (1987) surveyed 127 SMEs from different industries: 27.9% of the enterprises applied no written planning, 31.4% only short term planning, 26.9% long-term planning and finally 13.7% strategic planning. Similarly, Frohlich and Pichler (1988) found that almost one-quarter of the 107 enterprises they investigated, about one-third only used short term and another one third long term planning and only 12% used strategic planning.

Due to the well accepted view that strategies limit an SME's scope of activity too much thereby reducing its flexibility, many SMEs are still lacking written strategic plans (Pleitner, 1986). Scharpe, 1992; Robinson & Pearce, 1984 identified other reasons why SMEs refuse to engage in formal strategic planning, such as insufficient knowledge, distrust, rejection of external assistance, tradition-based thinking, fear of radical change, high cost, and lack of time or management over load. The degree of an entrepreneur's orientation seems to be a key factor for strategic focus of the enterprises (Mazzarol, 2003).

From our survey, it is found that 18.75% of SMEs do not prepare long term plan. As a result we had a question on them to explore the barriers associated with not preparing long term plan. The results of the responses are listed in the following frequency table:

Table-11: Opinion regarding reasons of not preparing strategic plan in SMEs

Reasons	Frequency	Percentage
Lack of specialized expertise	7	25.93
Inadequate knowledge of planning process	8	29.63
Size of business	4	14.81
Environmental uncertainty	3	11.11
Type of industry	5	18.52
Total	27	100

Source: Own survey on SMEs during November-December, 2011.

From the study we can conclude that SMEs do not prepare long term or strategic plan because of lack of specialized expertise (25.93%), inadequate knowledge of planning process (29.63%), type of industry (18.52%) and Size of business (14.81%).

10. REMOVAL OF BARRIERS TO STRATEGIC PLAN

It is not only important to identify the barriers to strategic plan but also important to identify the appropriate way to remove those barriers. As per the opinion of the respondents the following ways may help SMEs in overcoming the barriers to strategic plan:

Table-12: Opinion regarding means of overcoming barriers to strategic plan

Means of overcoming the barriers	Frequency	Percentage
To make realization of its importance	11	40.74
Providing training to existing employees	8	29.63
Employing expert employee	5	18.52
Govt. rules or incentives	3	11.11
Total	27	100

Source: Own survey on SMEs during November-December, 2011.

From the table-12, we can list the means of overcoming the barriers as per priority as to realize the importance of strategic planning (40.74%), ensure proper training facilities to existing employees on planning process (29.63%), ensure the employment of expert employees (18.52%) and finally formulation of Government rules favorable for preparation of long term plan (11.11%).

11. IMPLICATIONS OF STRATEGIC PLANNING IN SMEs IN BANGLADESH

The existence of strategic planning is significantly positively correlated with an enterprise's (financial) success (Robinson & Pearce, 1984; Bracker and Pearson, 1986; Bracker et. al. 1988; Schwerk and Shrader, 1993). Matthews and Scott (1995) found that planning activities can help to reduce the level of uncertainty in the company. Berman, Gordon and Sussmann (1997) argued that enterprises that plan strategically obtain better financial results. Delmar and Shane (2003) found in a longitudinal analysis that new ventures conducting formal strategic planning have higher survival rates.

Armstrong (1982) reviewed 12 strategic planning and performance studies and found that strategic planning was enhancing overall performance. In a review of 26 studies of small business, Schwerk and Shrander (1993) found a positive relationship overall between strategic planning and performance. Fossen et. al. (2006) in a review of 85 studies found that strategic planning had a small but significant relationship with performance.

In this study, it has been tried to explore the impact of strategic planning on the overall performance of organization based on three factors: change in number of employees, change in volume of capital and change in return on sales.

11.1: NO. OF EMPLOYEES AND STRATEGIC PLAN

From the survey of 144 SMEs, it was found that 117 of the SMEs prepare strategic plan out of which number of employees increased in 93 SMEs but not increased in 24 SMEs. On the other hand, 27 SMEs do not prepare strategic plan of which number of employees increased in 13 SMEs but not increased in 14 SMEs. Chi-Square test was used to justify whether there is any significant implications of strategic plan on number of employees of SMEs in Bangladesh.

Table No. 13: No. of employees and Strategic Plan

	Increase No. of Employees	Not Increase No. of Employees	Total
Prepare SP	93	24	117
Don't Prepare SP	13	14	27
Total	106	38	144

Source: Own survey on SMEs during November-December, 2011.

Assuming a null hypothesis that there is no implication of strategic plan on number of employees of SMEs in Bangladesh, the calculated value of Chi-square is 11.10992 and at 5% level of significance and degree of freedom 1, the table value is 3.841. Therefore, the null hypothesis is rejected which signifies that the preparation of strategic plan affect the number of employees of SMEs in Bangladesh. That is, the SMEs which prepare strategic plan can increase the number of employees to increase the overall performance of SMEs.

Table No. 14: Change in No. of employees before and after preparing strategic plan

No. of employees	Before Strategic Plan		After Strategic Plan		Change in percentage
	No. of SMEs	Percentage	No. of SMEs	Percentage	
1-24	97	82.91	61	52.14	-30.77
25-49	17	14.53	26	22.22	7.69
50-74	3	2.56	17	14.53	11.97
75-99	0	0	13	11.11	11.11
Total	117	100	117	100	-

Source: Own survey on SMEs during November-December, 2011.

From the above table it is clear that 82.91% of the SMEs had 1-24 employees before preparing strategic plan but after preparing strategic plan the percentage reduced to only 52.14%, that is, 30.77% of the SMEs could improve their position, and specifically 7.69% SMEs improved number of employees to 25-49, 11.97% SMEs improved number of employees to 50-74, and 11.11% SMEs improved number of employees to 75-99. Therefore, it can be said that SMEs could increase their volume of activities because of preparing long-term plan for which reason SMEs required to increase their number of employees.

11.2: THE VOLUME OF CAPITAL AND STRATEGIC PLAN

From the survey of 144 SMEs, it was found that 117 of the SMEs prepare strategic plan out of which volume of capital increased in 92 SMEs but not increased in 25 SMEs. On the other hand, 27 SMEs do not prepare strategic plan of which volume of capital increased in 16 SMEs but not increased in 11 SMEs. Chi-Square test was used to justify whether there is any significant implications of strategic plan on volume of capital of SMEs in Bangladesh.

Table No. 15: The volume of capital and Strategic Plan

	Increase Volume of Capital	Not Increase Volume of Capital	Total
Prepare SP	92	25	117
Don't Prepare SP	16	11	27
Total	108	36	144

Source: Own survey on SMEs during November-December, 2011.

Assuming a null hypothesis that there is no implication of strategic plan on volume of capital of SMEs in Bangladesh, the calculated value of Chi-square is 4.391263 and at 5% level of significance and degree of freedom 1, the table value is 3.841. Therefore, the null hypothesis is rejected which signifies that the preparation of strategic plan affect the volume of capital of SMEs in Bangladesh. That is, the SMEs which prepare strategic plan can increase the volume of capital through additional investment and earnings profit from operations to expand the business of SMEs.

Table No. 16: Change in volume of capital before and after preparing strategic plan

Volume of capital	Before Strategic Plan		After Strategic Plan		Change in percentage
	No. of SMEs	Percentage	No. of SMEs	Percentage	
Less than 2 Crores	93	79.49	64	54.70	-24.79
2-4 Crores	17	14.53	22	18.80	4.27
4-6 Crores	4	3.42	19	16.24	12.82
6-10 Crores	3	2.56	12	10.26	7.70
Total	117	100	117	100	-

Source: Own survey on SMEs during November-December, 2011.

From table no. 16, it can be observed that 79.49% of the SMEs had capital less than 2 crores before preparing strategic plan but after preparing strategic plan the percentage reduced to only 54.70%, that is, the capital of 24.79% SMEs increases from 2 Crores to the next levels, and specifically 4.27% SMEs increased to 2-4 crores, 12.82% SMEs increased to 4-6 crores and 7.70% SMEs increased to 6-10 crores. Therefore, it can be said that SMEs could increase their volume of activities because of preparing long-term plan for which reason SMEs required to increase their volume of capital.

11.3: RETURN ON SALES AND STRATEGIC PLAN

From the survey of 144 SMEs, it was found that 117 of the SMEs prepare strategic plan out of which return on sales increased in 88 SMEs but not increased in 29 SMEs. On the other hand, 27 SMEs do not prepare strategic plan of which return on sales increased in 10 SMEs but not increased in 17 SMEs. Chi-Square test was used to justify whether there is any significant implications of strategic plan on return on sales of SMEs in Bangladesh.

Table No. 17: Return on sales and Strategic Plan

	Increase Return on Sales	Not Increase Return on Sales	Total
Prepare SP	88	29	117
Don't Prepare SP	10	17	27
Total	98	46	144

Source: Own survey on SMEs during November-December, 2011.

Assuming a null hypothesis that there is no implication of strategic plan on return on sales of SMEs in Bangladesh, the calculated value of Chi-square is 14.71878 and at 5% level of significance and degree of freedom 1, the table value is 3.841. Therefore, the null hypothesis is rejected which signifies that the preparation of strategic plan affect the return on sales of SMEs in Bangladesh. That is, the SMEs which prepare strategic plan can increase return on sales and increase the overall performance of SMEs.

Table No. 18: Change in return on sales % for preparing strategic plan in SMEs

Return on sales %	Before Strategic Plan		After Strategic Plan		Change in percentage
	No. of SMEs	Percentage	No. of SMEs	Percentage	
Below 10%	22	18.80	5	4.27	-14.53
10%-15%	41	35.04	12	10.26	-24.79
15%-20%	34	29.06	27	23.08	-5.98
20%-25%	10	8.55	21	17.95	9.40
25%-30%	4	3.42	22	18.80	15.38
30%-35%	6	5.13	19	16.24	11.11
Above 35%	0	0	11	9.40	9.40
Total	117	100	117	100	-

Source: Own survey on SMEs during November-December, 2011.

From the table no. 18, it can be observed that 18.80% of the SMEs earned return on sales at less than 10% before preparing strategic plan but after preparing strategic plan the percentage reduced to 4.27%, that is, the return on sales of 14.53% SMEs increases from less than 10% to the next levels and 35.04% of the SMEs earned return on sales at 10%-15% before preparing strategic plan but after preparing strategic plan the percentage reduced to 10.26%, that is, the return on sales of 24.79% SMEs increases from 10%-15% to the next levels, and the return on sales of 5.98% SMEs increases from 15%-20% to the next levels, specifically 9.40% SMEs increased to 20%-25%, 15.38% SMEs increased to 25%-30%, 11.11% SMEs increased to 30%-35% and 9.40% SMEs increased to more than 35%. Therefore, it can be said that SMEs could increase their volume of activities because of preparing long-term plan for which reason SMEs could increase their return on sales in percentage.

Hence, based on literature review and our experiment, it may be said that the SMEs having strategic plan own higher amount of capital, more employees and achieve higher returns on sales than before preparation of strategic plan.

12. POLICY IMPLICATIONS

Among others the major policy implications of this research are as follows:

- Owners, managers and executives of the SMEs are expected to get motivation for formulating and implementing strategic plan for their SMEs.
- Government and different regulatory bodies would expect to prepare guidelines to inspire the SMEs in this regard.
- The researchers may get ideas for more comprehensive studies relating strategic planning in SMEs.

13. CONCLUSION

Finally it can be said that the regulatory bodies especially Government should provide support and motivate the SMEs in preparation of strategic plan because it may help the SMEs in getting long-term success and sustainable development.

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Disclosure Practices of Mobile Telecommunication Companies with Special Reference to Grameenphone Ltd.

Taposh Kumar Neogy

Lecturer in Accounting, Department of Business Administration, Institute of Business Administration (Under National University), Rajshahi, Bangladesh

ABSTRACT

This discussion highlights on the measurement and analysis of the nature of disclosure of the Grameenphone Ltd. during the period under study. The annual reports of the Grameenphone Ltd. were analyzed to determine the extent to which contained the items of information included in the disclosure index of the Grameenphone Ltd. during the period under study. An index of disclosure has been constructed to measure the extent of disclosure of Grameenphone Ltd. For analyzing the nature of disclosure of Grameenphone Ltd. researcher have analyzed the different part of disclosure index such as company profile items, accounting policy items, balances sheet assets items, balance sheet liabilities items and income statement items both debit and credit items. This study shows that the disclosure score of the Grameenphone Ltd. is satisfactory and there was significant and not significant difference in disclosure score between the difference years during the period under study of various items of disclosure index.

Key-Words: Financial Disclosure, Mobile Telecommunication Company, Grameenphone Ltd, Bangladesh

GEL Classification Code: M41; M48

INTRODUCTION

The present world is the world of information technology. Mobile telecommunication is the revolutionary invention of science. This mobile has enriched our communication network. It has been possible to communicate from one corner to another by its contribution. There are six mobile telecommunication companies in Bangladesh such as Grameenphone Ltd, Banglalink, Aktel, City cell Ltd, Teletalk Ltd and newly established Airtel. Grameenphone Ltd. is the largest telecommunications service provider company in the Bangladesh. Grameenphone Ltd. has a dual purpose: to receive an economic return on its investments and to contribute to the economic development of Bangladesh where telecommunications can play a critical role. Grameenphone Ltd. believes in service, a service that leads to good business and good development. Grameenphone Ltd. is a private limited company incorporated in Bangladesh in 1996 under the Companies Act, 1994. Grameenphone Ltd. started its various activities on 26th March, 1997 for the customers

through telemarketing and services to face the challenging situation in the competitive global telecommunication services in the context of Bangladesh. GrameenPhone Ltd. was initially registered as a private limited company and subsequently converted into a public limited company on 25 June 2007. During November 2009, GrameenPhone Ltd. listed its shares with both Dhaka and Chittagong stock exchanges.

Disclosure in financial reporting is the presentation of information necessary for the optimum operation of efficient capital market. As we know there are different users of accounting information. The users group needs accounting information to decide in their respective field of interest. The investor group requires information regarding investment feasibility. The creditors group requires information to form judgment regarding the credit worthiness of the borrows. Thus the needs for information of the different groups vary. So, a company has to meet the demand of users but it is a difficult task to meet the demand of all users because there are cost constraints. So, in the light of foregoing discussion disclosure means disseminating relevant financial information about the economic affairs of a business enterprise to the audience of interest. There are three types of disclosure like, full disclosure, fair disclosure, and adequate disclosure. In Bangladesh disclosure practices are mostly guided by the Companies Act, 1994, Securities and Exchange Rules, 1987 and the Accounting Standards adopted by the Institute of Chartered Accountants of Bangladesh. The quality of financial reporting in a country depends on the legal requirements governing disclosure together with professional recommendations which may have a varying degree of effectiveness depending on the influence of the professional bodies concerned (Marston: 1986). Disclosure is a part of revolutionary process. In a democratic setup, the demand for disclosure automatically increases. This is because all of the people directly or indirectly involved with the company in question will want to be able to quantify their risk. (Komatsubara: 1999). In some cases, information items were selected by the researchers for their disclosure indexes from a careful review of other studies of financial disclosure as well as after a review of recent annual reports of listed companies. In addition, the disclosure requirements relating to national accounting standards were considered and taken into account by these researchers in selecting items of information that ought to be disclosed by the companies and as such, where relevant, have been included in the disclosure index.

JUSTIFICATION OF THE STUDY

Economic development depends on some basic elements and telecommunication is one of them. The role of telecommunication in stimulating economic growth and improving the standard of living is beyond description. The contribution of telecommunication sector to economic development is very significant. The importance of telecommunication sector for the development of economy need not be exaggerated. Telecommunication plays a great role in business and commerce by facilitating the exchange of pertinent information. If information is not available then business executives can not take proper decision. So, abundance of telecommunication companies is a must for the development of business and commerce. So, the companies must survive in the economy. Grameenphone Ltd. is the third telecommunication company entering in Bangladesh and has been contributing to the expansion of telecommunication facilities in the country. It has network all over Bangladesh. Grameenphone Ltd. is the most renowned telecommunication service organization in Bangladesh. Grameenphone Ltd. has improved the communication skill in Bangladesh since 1997 and side by side other

mobile phone companies are functioning such as Banglalink, Aktel, City Cell, Tele-Talk and Airtel. In our study an attempt has been made to examine the Disclosure Practices of Grameenphone Ltd. in Bangladesh. The study will be helpful to the customers, traders, businessmen, competitors, suppliers, users, vendors, and decision-makers, policy-makers of the government, shareholders, researcher and others.

OBJECTIVES OF THE STUDY

The main objective of the study is to examine the disclosure practices of Grameenphone Ltd. in Bangladesh. The specific objective of the study is to find out the nature of disclosure score and to find out the affecting factors of disclosures score of Grameenphone Ltd.

HYPOTHESIS OF THE STUDY

Based on the review of related literature, the following hypotheses have been developed:

1. The profitability of the sample company does not affect the disclosure scores.
2. The size of the sample company does not affect disclosure scores.

METHODOLOGY OF THE STUDY

A scientific approach to the research methodology is very much essential to evaluate the research problem systematically. This study has been considered various steps of analysis those are generally adopted by the research in studying research objectives along with logic behind them. Methodology helps to rely on empirical evidence, utilize relevant concepts, committed to only objective considerations, presuppose ethical neutrality that is aims at nothing but making only adequate and correct statement about population objects, results into probabilistic predictions, testing the conclusions through replication and aims at formulating most general axioms or what can be termed as scientific theories. Out of six mobile phone companies in Bangladesh, a sample of one Mobile Phone Company has been selected for the study. The selection of the mobile phone company is based on the convenience in data collection. The study mainly conducted on the basis of secondary sources i.e., journals, reports, economic review, annual reports of the Grameenphone Ltd. The data used in the article for the period from 2005 to 2009. Statistical tools like average, standard deviation, simple regression, multiple regression and T-test methods have been used for analyzing the data.

CONSTRUCTION OF DISCLOSURE INDEX

The un-weighted disclosure index has been constructed which were used in the formulation of items of information. The items of information included in the disclosure index were selected according to the IAS (International Accounting Standard) adopted in Bangladesh Accounting Standard (BAS), Companies Act 1994, SEC (Securities and Exchange Commission) Ordinance-1987 and ICAB. The items of information included in the disclosure index are various heading such as company profile items, accounting policy items, Balance Sheet assets Items, balance sheet liabilities, income statement items both debit and credit and others. In constructing the un-weighted disclosure index dichotomous scoring for each of disclosure = 1 and non-disclosure =0. Then the total of raw score is divided by the total number of items and multiplied by hundred to get the disclosure percentage.

REVIEW OF RELATED LITERATURES

Ali and Haider (2008) wrote an article on Accounting and Disclosure System in Japan. The objective of this study is to give an overview on the accounting and reporting system in Japan. The authors concentrated on Generally Accepted Accounting Principles (GAAP) in Japan, Japanese so called triangular legal system, and the recent changes in Japanese accounting and reporting system. The accounting system in Japan is comprised of three different regulations, which prescribe financial accounting and reporting in Japan. These are the Commercial Code (CC), Securities and Exchange Law (SEL) and Corporate Income Tax Law. The Commercial Code (CC), Securities and Exchange Law (SEL) and Corporate Income Tax Law each have their own accounting requirements to address their peculiar objectives, but the three laws exert influence on each other in various ways. The three components are closely tied and have affected each other. In this sense, the accounting system in Japan is called as Triangular Legal System. The system is generally thought to be inefficient since the legal systems exercise reciprocal influence on each other in terms of offering useful financial reports by flexibly meeting requests for disclosure from the market. It is necessary to deal with this problem in order to achieve more useful financial reporting. Siddique and Raboul (2010) conducted an article on Disclosure Practices of Insurance Companies in Bangladesh: Study on Some Selected Insurance Companies. The main objective of the study is to examine the disclosure practices of Insurance Companies in Bangladesh. The specific objectives of the study are (i) to find out the adequacy of disclosure score and their interrelations with size and age of the selected insurance companies, (ii) to find out the extents of disclosures among the insurance companies and (iii) to provide suggestions for developing disclosure practices of the insurance companies. The disclosure practices have become more comprehensive overtime because of increasing awareness of the stakeholders. The present study evaluates the extent of disclosure practices relating to age and size of the insurance companies in Bangladesh covering a period of five years based on published annual audited reports and relevant reporting requirements. The major finding of the study is that the age and size of the insurance companies mostly affects the disclosure practices by them. Adequate disclosure practices by the small sized companies are desired. Insurance companies should also improve their disclosure practices regardless of their age.

Karim and Chowdhury (1998) wrote an article on A Study of the Association between Corporate Disclosure and Selected Corporate Attributes. The aim of the paper is to analyze the quality of disclosure measured by the disclosure index. This paper deals with the measurement and analysis of the extent of disclosure in annual reports by companies in Bangladesh and examines the association between disclosure levels and a number of corporate attributes. This study discussed some of the results of the annual report survey. The composition of the sample composition of the disclosure index and the weighting method were outline. The annual reports were scored using both the Singhvi index and Parry index to check the degree of consistency between the three indexes. On a crude means test it was found that the subsidiaries of MNCs disclose more than their domestic counterparts, clients of big audit firms of firms with international link disclose more than the clients of smaller audit firms or firms without an international link. The qualification of the company's accountant also appears to have a positive impact on disclosure. This study also showed that thirty three information items in the disclosure index were disclosed by less than 5% of companies and to that only twelve items were disclosed by

more than 95% of companies. A sector-wise disclosure pattern indicates that disclosure levels were relatively higher in the banking, fuel and energy and pharmaceutical sector. Apart from the banking sector which includes only one multinational bank, the higher disclosure levels of the two other sectors could be largely attributed to the existence of MNC subsidiaries in the respective sectors. The final part of the paper was a comparison of the finding with those of Parry and Wallace.

Cooke (1992) wrote an article on The Impact of Size, Stock Market Listing and Industry Type on Disclosure in the Annual Reports of Japanese Listed Corporations. This research study represents a contribution to rigorous testing of Japanese financial reporting and specifically reports on the impact of size, stock market listing and industry type on disclosure both voluntary and mandatory in the annual reports of Japanese listed corporations. It is found that size and listing status are important explanatory variables. In addition, manufacturing corporations were found to disclose significantly more information than other types of Japanese corporations. The interaction between industry type and quotation status was also found to be significant.

Hossain (2008) conducted an article on The Extent of Disclosure in Annual Reports of Banking Companies: The Case of India. This study is an empirical investigation of the extent of both mandatory and voluntary disclosure by listed banking companies in India. It also reports the results of the association between company-specific attributes and total disclosure, i.e., mandatory and voluntary, of the sample companies. A total of 184 items were selected of which 101 and 81 were mandatory and voluntary respectively. The study revealed that in disclosing mandatory items, the average score is 88, whilst the average score for voluntary disclosure is 25. The findings also indicate that size, profitability, board composition, and market discipline variables are significant, and other variables such as age, complexity of business and asset-in-place are insignificant in explaining the level of disclosure. Results also indicate that Indian banks are very compliant with the rules regarding mandatory disclosure. In contrast, they are far behind in disclosing voluntary items. This paper has contributed to the academic literature, showing that the existence of a close monitoring system by regulatory authorities brings the potential for high compliance regarding disclosure and transparency, at least in mandatory cases. This study would be a good example for other developing countries, wanting to learn how Indian banks achieved this high level of compliance in mandatory disclosure.

Ahmed (1997) wrote an article on An Empirical Study of Disclosure Regulations in Emerging Countries. The purpose of this study is to assess empirically whether internal environmental variable have any impact on accounting disclosure regulations in developing countries. The environmental variables are type of economy, as measured by the relative contribution of the agriculture sector to the national GDP, equity market size and activity level, as measured by the proportion of market capitalization to the GDP; and total market turnover of shares traded; and two cultural variables, namely Uncertainty Avoidance and Individualism and multivariate approach was adopted to determine the degree of association between these indexes and the environmental variables. A number of economic variables such as per capita gross national product (GNP), level of government expenditures, net balance of trade, private sector consumption to relative to gross product, relative contribution of agriculture, relative capital formation, growth rate of GN, change in the foreign exchange rate and change in consumer price index have been identified to assess their impact on accounting practices. The research argues that since the accounting systems in developing countries are

predominantly imposed by or imported from developed countries, rather than evolved within these countries, no significant relationships are expected to be found between disclosure regulations and internal environmental factors. The results are consistent with the hypothesis and the multiple regressions showed no significant association between disclosure regulations and the type of economy, equity market size and activity, and cultural factors. The findings provide further insights into the impact of the environments on accounting disclosure regulations in developing countries and support arguments that the accounting systems in these countries are not relevant to their environments.

CONCEPTUAL FRAMEWORK

Disclosure is crucial to the efficient allocation of scarce resources. In particular, disclosure of information is a major determinant of the allocation of investment funds to its most productive uses. The purpose of disclosure is to provide relevant information which help to decision making process of various users for the particular needs. The regulating forces behind the financial reporting and disclosure are the Companies Act of 1994, the rules of the Securities and Exchange and the recommendations of the Institute of Chartered Accountants of Bangladesh. By disclosure, we refer to the effective communication of meaningful information. Providing information is the main task of disclosure the information which is useful for making business and economic decisions by the audience of interest and the rightful receivers or parties. The financial reporting process gets completion by the financial disclosure which is the end output of the whole process. The basic financial disclosure is consisted of the balance sheet, profit and loss account and the cash flow statement along with the supporting notes. Actually, accounting itself is an information system that needs financial statements as the end result. The summarized and classified reports of financial events are called financial statements. Actually, in a broader sense, a large number of integrated accounting processes providing periodic income, financial position and cash flow statements are the direct output of the financial statements (Mueller and Kelly: 1991). In making a decision, all financial statements contribute in varying degrees. The need for disclosure to audience of interest is essential because decisions related with investment, credit and similar things are based on it and these are the underlying objectives of financial reporting. The importance of disclosure is reflected in the evaluation of the serving purposes and the objectives of disclosure are truly focused on when one uses the accounting disclosure in decision making. The International Accounting Standards committee (IASC) describes financial statements in its Exposure Draft-28, framework for the preparation and presentation of financial statements, as Financial statements normally include a balance sheet, a profit and loss statement, a statement of changes in financial position, notes and other statements and explanatory material that are integral parts of the financial statements (IASC, 1998).

Information about an enterprise's resources obligation and earnings is reflected in a financial statement. The purposes of financial statements are truly served by giving useful information to users which can help them in making managerial and economic decisions. A definition, given by the Accounting Standard Steering Committee (ASSC, 1975) of UK and Ireland, says that a corporate financial report means the comprehensive package of information of all kinds which describes an organization's economic activity. Information which is useful is given by financial statements but it is corporate financial reports which give us detailed information. Both kinds of information relate directly or indirectly to the

information provided by business enterprises' accounting system. Besides, providing basic financial statements, it provides both narrative and descriptive statements with frequently including illustrative materials. Financial reporting works as a way for providing information to users of all classes and this task completely indicates the economic activity of an organization. It has also been stated that financial reporting by the entities attempts to meet the needs of the external users of financial reports who lack authority to prescribe the financial information they want from entities (FASB, 1978).

In fact, in a broader sense, financial reporting includes, at the same time, financial statements and other means of communication information which are directly or indirectly related to the information provided by the accounting system. A focus on a precise financial report can show us that these kinds of report typically includes corporate annual reports, various statutory annual information full with regulatory commissions and registration statements for new security to be sold publicly (Mueller and Kelly, 1991). The management may exchange idea or communicate information to the outsiders of an enterprise by different means except the financial statements. The reasons may be of two kinds either the information required to be disclosed by authoritative pronouncement, regulatory rule of custom or the management considers it useful to these outsiders and discloses it voluntarily. Haniffa and Cook (2002) argued that the extent of disclosure is significantly influenced by structural complexity. And a firm is required for such complexities to have effective management information systems for monitoring purposes (Courtis, 1978; Cooke, 1989a). It is believed that the availability of such a system reduces the cost of information per unit which in turn arises the expectation of higher disclosure.

ANALYSIS AND FINDINGS

Table No. - 1

Table showing the year wise disclosure score of Grameenphone Ltd. during the study period

Financial Year	2005	2006	2007	2008	2009	Average	SD
Grameenphone Ltd.	62.06	63.64	60.89	61.02	61.66	61.85	1.11

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009

Table -1 show the year-wise disclosure score of the Grameenphone Ltd. during the period under study. Researcher observes that the mean disclosure score of the GrameenPhone Ltd. is 61.85. The standard deviation of disclosure score of Grameenphone Ltd. is 1.11. In order to see whether there is no significant difference between the disclosure score in different years and researcher has conducted one sample t test using SPSS. The result shows that t value is 125.03 which is significant at 0.000 level. This indicates that there is significant difference between the disclosure score of the GrameenPhone Ltd. in different years. Researcher observes from the table that the disclosure score of the GrameenPhone Ltd. is satisfactory during the period under study.

Table No. - 2

Table showing the year wise disclosure score of Grameenphone Ltd. regarding company profile items

Financial Year	2005	2006	2007	2008	2009	Average	SD
Grameenphone Ltd.	75.00	91.67	91.67	91.67	91.67	88.34	7.46

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009

Table -2 shows the year-wise disclosure score regarding company profile items of the Grameenphone Ltd. during the period under study. Researcher observes that the mean disclosure of company profile items of the Grameenphone Ltd. is 88.34. The standard deviation of company profile items of Grameenphone Ltd. is 7.46. In order to see whether there is no significant difference between the company profile items in different years and researcher has conducted one sample t test using SPSS. The result shows that t value is 26.50 which are significant at 0.000 levels. This indicates that there is significant difference between the disclosures of company profile items of the GrameenPhone Ltd. in different years. Researcher observes from the table that the disclosure of company profile items of the GrameenPhone Ltd. is highly satisfactory.

Table No. - 3

Table showing the year-wise disclosure score of Grameenphone Ltd. regarding accounting policy items

Financial Year	2005	2006	2007	2008	2009	Average	SD
Grameenphone Ltd.	54.76	52.38	52.38	54.76	54.76	53.81	1.30

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table -3 shows the year-wise disclosure score of the Grameenphone Ltd. regarding accounting policy items during the period under study. Researcher observes that the mean disclosure of accounting policy items of the Grameenphone Ltd. is 53.81 during the period under study. The standard deviation of accounting policy items is 1.30. This means that variance in disclosure of accounting policy items of Grameenphone Ltd. over the years under study is satisfactory. In order to see whether there is no significant difference between the accounting policy items in different years of Grameenphone Ltd. and researcher has conducted one sample t test using SPSS. The result shows that t value is 92.30 which is significant at 0.000 levels. This indicates that there is significant difference between the disclosures of accounting policy items of the Grameenphone Ltd. during the period under study.

Table No. - 4

Table showing the year wise disclosure score of Grameenphone Ltd. regarding balance sheet Assets items

Financial Year	2005	2006	2007	2008	2009	Average	SD
Grameenphone Ltd.	67.38	67.38	67.86	67.38	68.48	67.70	0.49

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table -4 we observe the year-wise disclosure score of the Grameenphone Ltd. regarding balance sheet asset items during the period under study. Researcher observes that the mean disclosure of balance sheet assets items of the Grameenphone Ltd. is 67.70. Thus researcher observes that Grameenphone Ltd. disclosed more on assets items during the period under study. The standard deviation of the Grameenphone Ltd. is 0.49. In order to see whether there is no significant difference between the balance sheet assets items in different years and researcher has conducted one sample t test using SPSS. The result shows that t value is 312.073 which is significant at 0.000 level. This indicates that there is significant difference between the disclosures of assets items of the GrameenPhone Ltd. in different years. Researcher observes from the table that the disclosure of balance sheet assets items of the Grameenphone Ltd. is satisfactory during the study period.

Table No. - 5

Table showing the year-wise disclosure score of Grameenphone Ltd. regarding balance sheet Liabilities items

Financial Year	2005	2006	2007	2008	2009	Average	SD
Grameenphone Ltd.	45.91	46.82	46.36	46.36	46.96	46.48	0.42

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

Table -5 shows the year-wise disclosure score of the Grameenphone Ltd. regarding balance sheet liabilities during the period under study. Researcher observes that the mean disclosure of liabilities items of the Grameenphone Ltd. is 46.48. The standard deviation of balance sheet liabilities items is 0.42 during the period under study. In order to see whether there is no significant difference between the balance sheet liabilities items of Grameenphone Ltd. in different years and researcher has conducted one sample t test using SPSS. The result shows that t value is 248.51 which is significant at 0.000 levels. This indicates that there is significant difference between the disclosures of balance sheet liabilities items of the Grameenphone Ltd. in different years. Researcher observes from the table that the disclosure of balance sheet liabilities items of the Grameenphone Ltd. is not satisfactory during the period under study.

Table No. - 6

Table showing the year-wise disclosure score of Grameenphone Ltd. regarding Income Statement Items (Both Debit and Credit)

Financial Year	2005	2006	2007	2008	2009	Average	SD
Grameenphone Ltd.	58.18	58.18	58.76	58.76	59.16	58.61	0.42

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table -6 highlights the year-wise disclosure score of the Grameenphone Ltd. regarding income statement items- (both debit and credit) during the period under study. Researcher observes that the mean disclosures of income statement items- (both debit and credit) of the Grameenphone Ltd. is 58.61 during the study period. The standard deviations of the income statement items- (both debit and credit) of the Grameenphone Ltd. is 0.42 during the period under study. In order to see whether there is no significant difference between the income statement items- (both debit and credit) of the Grameenphone Ltd. in different years and researcher has conducted one sample t test using SPSS. The result shows that t value is 309.48 which is significant at 0.000 levels. This indicates that there is significant difference between the disclosures of income statement items- (both debit and credit) of the Grameenphone Ltd. in different years. Researcher observes from the table that the disclosure of income statement items- (both debit and credit) of the Grameenphone Ltd. is satisfactory during the study period.

Profitability: Profitability was used by a number of researchers as an independent variable for fluctuations in disclosure level. Among these researchers Ahmed (2009), Inchausti (1997), Raffournier (1995), Wallace and Naser (1995) and Wallace (1987) found a positive association between profitability and the extent of disclosure whereas Belkaoui and Kahl (1978) found a negative association between the variables. In the present study gross profit, net profit, return on investment and return on equity as the measures of profitability. The following specific hypotheses have been tested regarding profitability:

H₀_{1 (a)}: The Gross Profit does not affect the Disclosure Scores

Table No. - 7

Disclosure Scores Vs Gross profit

Sample	R ²	F ratios	Significance Level
Grameenphone Ltd.	0.082	0.268	0.640

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 7 we see that R² is 0.082, F ratio is 0.268 and its significance level is 0.640 of the sample company. So, the null hypothesis is accepted the sample company. Thus, the study shows that the gross profit does not affect the disclosure scores of the sample company during the period under study.

H₀_{1 (b)}: The net profit does not affect the Disclosure Scores

Table No. - 8

Disclosure Scores Vs Net profit

Sample #	R ²	F ratios	Significance Level
Grameenphone Ltd.	0.089	0.293	0.626

(Source: Annual reports of Grameenphone Ltd. from 2005 to 2009)

From Table 8 we see that R² is 0.089, F ratio is 0.293 and its significance level is 0.626 of the sample company. So, the null hypothesis is accepted the sample company. Thus, the study shows that the net profit does not affect the disclosure scores of the sample company during the period under study

H₀_{1 (c)}: The Return on Investment does not affect the Disclosure Scores

Table No. - 9

Disclosure Scores Vs Return on Investment

Sample #	R ²	F ratios	Significance Level
Grameenphone Ltd.	0.373	1.785	0.274

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 9 we see that R² is 0.373, F ratio is 1.785 and its significance level is 0.274 of the sample company. So, the null hypothesis is accepted of the sample company. Thus, the study shows that the return on investment does not affect the disclosure scores of the sample company during the period under study.

H₀_{1 (d)}: The Return on Equity does not affect the Disclosure Scores

Table No. - 10

Disclosure Scores Vs Return on Equity

Sample #	R ²	F ratios	Significance Level
GrameenPhone Ltd.	0.373	1.785	0.274

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 10 we see that R² is 0.403, F ratio is 1.028 and its significance level is 0.250 of the sample company. So, the null hypothesis is accepted of the sample company. Thus, the study shows that the return on equity does not affect the disclosure scores of the sample company during the period under study

Size of Company: There are several studies which have been found a significant association between the size of the company and the extent of disclosure in the corporate

annual report in both developed and developing countries such as Singhvi and Deai (1971), Buzby (1974), Chowm and Wong-Boren (1987), Cooke (1989), Wallace (1987), Ahmed and Nicholls (1994), Wallace and Naser (1995) and Inchausti (1997). In this study sales revenue, capital stock, current assets, fixed assets, total assets and shareholders' funds (Cooke, 1992) is used as the measures of size of company. The following specific hypotheses have been tested regarding size of the company:

$H_02(a)$: Sales Revenue does not affect Disclosure scores

Table No. - 11

Disclosure Scores Vs Sales Revenue

Sample Company	R ²	F ratios	Significance Level
Grameenphone Ltd.	0.415	4.957	0.061

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table - 11 we see that R² is 0.415, F ratio is 0.4.957 and its significance level is 0.061 of the sample company. So, the null hypothesis is accepted of the sample company and the study shows that the sales revenue does not affect the disclosure scores of the sample company during the period under study.

$H_02(b)$: The Capital Stock does not affect the Disclosure Scores

Table No. - 12

Disclosure Scores Vs Capital Stock

Sample Company	R ²	F ratios	Significance Level
GrameenPhone Ltd.	0.165	0.591	0.498

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 12 we observe that R² is 0.165, F ratio is 0.591 and its significance level is 0.498 of the sample company. So, the null hypothesis is accepted of the sample company and the study shows that the capital stock does not affect the disclosure scores of the sample company during the period under study.

$H_02(c)$: The Current Assets does not affect the Disclosure Scores

Table No. - 13

Disclosure Scores Vs Current Assets

Sample Company	R ²	F ratios	Significance Level
Grameenphone Ltd.	0.315	1.380	0.325

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 13 we observe that R² is 0.315, F ratio is 1.380 and its significance level is 0.325 of the sample company. So, the null hypothesis is accepted of the sample company and the study shows that the current assets do not affect the disclosure scores of the sample company during the period under study.

$H_02(d)$: The Fixed Assets does not affect the Disclosure Scores

Table No. - 14

Disclosure Scores Vs Fixed Assets

Sample Company	R ²	F ratios	Significance Level
GrameenPhone Ltd.	0.878	21.625	0.019

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 14 we observe that R2 is 0.878, F ratio is 21.625 and its significance level is 0.019 of the sample company. So, the null hypothesis is rejected of the sample company and the study shows that the fixed assets affect the disclosure scores of the sample company during the period under study.

H₀₂ (e): The Total Assets does not affect the Disclosure Scores

Table No. - 15

Disclosure Scores Vs Total Assets

Sample Company	R ²	F ratios	Significance Level
Grameenphone Ltd.	0.339	1.542	0.303

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 15 we see that R2 is 0.339, F ratio is 1.542 and its significance level is 0.303 of the sample company. So, the null hypothesis is accepted of the sample company. Thus, the study shows that the total asset does not affect the disclosure scores of the sample company during the period under study.

H₂ (f): Shareholders' equity fund does not affect the disclosure score

Table No. - 16

Disclosure Scores Vs Shareholders Equity Fund

Sample Company	R ²	F ratios	Significance Level
Grameenphone Ltd.	0.037	0.116	0.756

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 16 we see that R2 is 0.037, F ratio is 0.116 and its significance level is 0.756 of the sample company. So, the null hypothesis is accepted of the sample company. Thus, the study shows that the shareholders equity does not affect the disclosure scores of the sample company during the period under study.

MULTIPLE REGRESSION MODELS

Multiple linear regression techniques are used to test two alternative versions of each hypothesis. The model is created using UDI as the dependent variable.

$$UDI = \alpha + \beta_1 TA + \beta_2 GR + \beta_3 NOB + \beta_4 EPS + \beta_5 ROA + \beta_6 ROI + \beta_7 NPM + \beta_8 CDR + \beta_9 CAR + \beta_{10} DER + \beta_{11} SRR + \varepsilon$$

Where UDI = total score received by each sample bank under un-weighted disclosure index;

α = the constant, and

ε = the error term.

Regressional Studies of Disclosure Score vs. all Independent Variables

H₀₁ (e): The gross profit, net profit, return on investment and return on equity do not affect the Disclosure Scores

Table No. - 17

Disclosure Scores Vs All Independent Variables

Sample Company	R ²	F ratios	Significance Level
Grameenphone Ltd.	1.000	0	0

(Source: Annual Reports of Grameenhone Ltd. from 2005 to 2009)

From Table 17 we observe that R² is 1.000, F ratio is 0 and its significance level is 0 of the sample company. So, the null hypothesis is rejected of the sample company and the study shows that the gross profit, net profit, return on investment and return on equity do not affect the disclosure scores of the sample company during the period under study.

H₀₂ (g): The sales revenue, capital stock, current assets, fixed assets, total assets and shareholders' funds do not affect the Disclosure Scores

Table No. - 18

Disclosure Scores Vs All Independent Variables

Sample Company	R ²	F ratios	Significance Level
Grameenphone Ltd.	1.000	0	0

(Source: Annual Reports of Grameenphone Ltd. from 2005 to 2009)

From Table 18 we see that R² is 1.000, F ratio is 0 and its significance level is 0. So, R² is significant which means that our null hypothesis is rejected of the sample company. So, we can comment that the sales revenue, capital stock, current assets, fixed assets, total assets and shareholders' funds do not affect the Disclosure Scores of the sample company during the period under study.

CONCLUSION AND RECOMMENDATIONS

The present study evaluates the nature of disclosure practices and identifies the factors affecting of disclosure score of Grameenphone Ltd. Research has analyzed the different parts of disclosure index and results of this discussion, the average disclosure of company profile items is 88.34 percentage, the average disclosure of accounting policy items is 53.81 percentage, the average disclosure of balance sheet assets items is 67.70 percent, the average disclosure of balance sheet liabilities items is 46.48 percentage and the average income statement items both debit and credit is 58.61 percentage during the period under study. Research has selected some independent variables for analyzing the affecting factors of disclosure scores such as profitability and firm size. The surrogates of profitability are net profit, return on equity and return on investment. The surrogates of firm size are operating revenue, total assets and shareholders fund and debt equity ratio. The regressive result of our study is that gross profit does not affect the disclosure score, net profit does not affect the disclosure scores, return on investment does not affect the disclosure scores, return on equity does not affect the disclosure scores, sales revenue does not affect the disclosure scores, capital stock does not affect the disclosure scores, current assets do not affect the disclosure scores, fixed assets affect the disclosure scores, total assets does not affect the disclosure score, shareholders fund does not affect the disclosure scores and debt ratio does not affect the disclosure scores during the period under study. A company should develop a sound financial reporting system for its own interest. Financial performance and position of Grameenphone Ltd. is measured on the basis of financial information which is used in the financial reporting system. Disclosure of accounting information is a necessity for better financial reporting of the Grameenphone Ltd. An attempt has been made in this study to measure the extent of disclosure practices by the Grameenphone Ltd. The disclosure scores of Grameenphone Ltd. is satisfactory. This study highlights that the disclosure score of company profile items, accounting policy items, balance sheet assets items and income statement items both debit and credit is higher than balance sheet liabilities items of the Grameenphone

Ltd. during the period under study. Disclosure practices of various information Grameenpone Ltd. follows accounting standard adopted by ICAB, The Companies Act, Security and Exchange rules and others applicable laws. Management attribute is very much important to disclose the available information in the financial statement such as if the attribute is conservative the financial disclosure will be poor. However, it is the demand of time to disclose more information to satisfy the various kinds of users. Only a sound financial reporting system with good governance can bring or maintained the confidence of the investors. It is evident from the findings of our study that a disclosure practice of Grameenphone Ltd. is satisfactory during the study period.

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