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Hasnain, S. S. (2016). A Few Good Knowledge Transfer Mechanisms: Keys to Successful Miltiary Operatoins. *Archives of Business Research, 3*(4), 1-8.

A Few Good Knowledge Transfer Mechanisms: Keys to Successful Military Operations

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Abstract

This paper aims to conceptualise the knowledge management mechanisms used in the military organisations during the peace and war times. Knowledge management could achieve a vital position in the disciple of Management. Its waves could touch the shores of military forces now. Military units and formations could realise the significance of knowledge management. Knowledge transfer is an indispensable element of knowledge management process. The successful transfer of knowledge ensures victory in the battle, while successful knowledge transfer demands selection and utilisation of appropriate knowledge transfer mechanisms. The paper analyzes and discusses the roles and importance of a few knowledge transfer mechanisms as the vehicles/medias of knowledge transfer in the military forces during peace and war times. The exhibited knowledge transfer mechanisms show how military forces use various techniques and mechanisms to transfer knowledge between the commanders at different levels and the soldiers, and vice versa. These could be further explored during empirical investigations in the military context. The paper will help the business organisations to borrow the military knowledge transfer mechanisms. The transfer mechanisms used in military forces presented here provide a deeper understanding of characteristics and nature of the mechanisms; many of them are different and unique from those of the corporate /business world. The paper is of value to business organisations because it develops a view of new knowledge transfer mechanisms. Further, previous literature fails to address the knowledge transfer mechanisms in the military context, thus this paper reinforces the theories on knowledge transfer mechanisms.

Key Words: Knowledge Management, Knowledge Transfer Mechanisms, Military Organisations

INTRODUCTION

Knowledge Management could achieve huge attention by the academic, corporate and military worlds. After 1995, its popularity has significantly enhanced (Edvardsson, 2006). It has occupied a popular position in the dictionary of Management (Nan, 2008). It has become a crucial strategic tool ((Hasnain, 2016; Debowski, 2006) for the military organisations as well. "Justified True Believe in Context" is identified as knowledge by Gettier (1963). Researchers (Blackler, 1995; Hasnain, 2012) have classified knowledge in different ways. Nonaka and Takeuchi (1995) classified knowledge as tacit and explicit. Tacit knowledge resides inside the human brains and when it is articulated, it becomes explicit knowledge. "How to fire a Semi-automatic Gun?" or "How to drive a car?" are the techniques known by the firers and the drivers respectively? These are the tacit knowledge residing inside the brains of the firers and the drivers. When they present these knowledge in any forms (words, written documents, sound, verbal or any other forms) the knowledge turns into explicit forms. It is imperative for the military and business organisations to manage and transfer this invaluable asset.

Knowledge acquisition, knowledge storage, knowledge transfer and utilisation of knowledge are the main elements of the knowledge management process. Among them, knowledge transfer could achieve huge attention (Argote et al., 2000; Hasnain, 2016). King (2006) finds " knowledge transfer is the focused, objective seeking communication of knowledge between the individuals, groups, or organisations such that the recipient of knowledge (a) has cognitive understanding (b) has the ability to apply the knowledge, or (c) applies the knowledge" (p. 498). For smooth transfer of knowledge between the actors (sender and the recipient), selection and application of proper knowledge transfer mechanisms is paramount. Knowledge transfer mechanisms are the vehicles through which knowledge is transferred between the actors. In the military, the selection and utilisation of proper knowledge transfer mechanisms is absolutely crucial both during peace and war times. In appropriate selection and utilisation of knowledge transfer mechanisms may be dangerous for the military units and formations.

FACE-TO-FACE MEETINGS AND DURBAR

Military units and formations have their own techniques of transferring knowledge to the subordinates. Certain mechanisms are formal and certain mechanisms are informal in nature. Some formal and informal mechanisms of knowledge transfer are appended below.

Face-to-Face Meetings

Tacit knowledge is valuable. It is not found in the military journals, manuals, instructions or in military appreciations/operational plans. It is orally generated and shared around water cooler or over coffee break (Ngah & Jusoff, 2009). Davenport & Prusak (2000) and Jasimuddin's (2007) empirical findings on knowledge transfer mechanisms clearly report that face-to-face conversation is a commonly used mechanism of knowledge transfer. In the military, face-to-face meeting may take in various manners. Brown bag lunches, when the unit members informally meet and talk on any official matter/procedure(s) in the unit tea/coffee bars during the lunch or coffee break times. Morning briefings may take place in the office of the unit Commanding Officer. In such meetings, generally, the officers talk on the progress of previous day's activities and also the next day's plan. These meetings last for a very short duration, say maximum 30-minuties. All ranks daily briefing/meeting, before the starting of the morning physical training period, may take place for a length of 10/15 minutes. Roll Calls, usually a parade where the attendance of the JCO (Junior Commissioned Officer), NGO (Non-Commissioned Officer) and Private is counted after the last light, are used as a good vehicle for knowledge transfer by many military units/formations. A specialised person/officer may talk on any constructive subject/procedure in such parades.

Durbar

Durbar is one of the media of knowledge transfer. "Durbar" is originally a Persian word. Now-a-days, it is frequently used in Urdu, Hindi, Bengali and English literature. In the military unit level durbar is presided over by the Commanding Officer where all members of the unit remain present. Any JCO, NGO, or Private of the unit may put forward his/her point (s) before the Commanding Officer. Durbar is a routine monthly military activity in the units. The points are collected before the scheduled date of the durbar in the unit so that the Commanding Officer gets enough time to prepare the answers/decisions. However, impromptu points are also welcomed by the Commanding Officers in the durbar. Usually the officers do not put forward any point before the Commanding Officer in Durbar. The Commanding Officer may advise the members of the unit in the Durbar. British National Army Museum (2015) informs about the Colonel James Skinner's Regimental Durbar in 1827. Drawing the reference of a watercolour painting of Golam Ali Khan published in 1827, British National Army Museum (2015) continues by informing "Skinner... presiding over a durbar (council) of his regiment, an occasion when any soldier was at liberty to raise with his commanding officer anything that concerned him. The holding of a durbar, when Skinner mixed freely with his soldiers and men, was a conscious re-creation of Afghan and Mughal military and ceremonial traditions, which gave his soldiers a corporate sense of their 'upward mobility' in the Company's service".

MILITARY EXERCISES, MODEL DISCUSSIONS, EXERCISE DEBRIEFINGS AND DEMONSTRATIONS

Military organisations organise various types of training events. These training events are the vehicles of knowledge transfer. These events may have different objectives. Such mechanisms help the military units and formations enrich knowledge.

Military Exercises and Training

Military exercises are the well-known and interesting training events in the defence services. Many countries organise military exercises jointly with their friendly countries. Joint military exercises may have political causes. For example, "Estonia stages biggest military exercise [mobilised 13,000 soldiers] in country's history amid fears of Russian 'aggression'. NATO tries to reassure one of its most exposed members by sending 1,000 troops from US, UK [and] to the war games" (Farmer, Lasna & Blair, 2015, p.1). However, joint military exercises, do not keep them confined only within the political orbit, they are also the excellent mechanisms for knowledge transfer between the knowledge haves and the knowledge have-nots, and thus help the militarily weak countries develop their military efficiencies. Training members of the recipient organisation, planned social activities, providing documents, blueprints, or hardware that embody knowledge to the recipient organisations (Easterby-Smith, et al., 2008) are the easy and simple mechanisms of knowledge transfer in the military organisations. Every year US defence forces impart training to the military forces of friendly countries. Military exercises, as if representing the real battle situation, are the artificial war games between the friendly forces and the set enemy forces based on proper pre-planned tactical planning.

Model Discussions

Almost all the military forces in the world, model discussions are widely used both during peace and war times. The battle field exact landscape is constructed with terracotta/clay or other materials in miniature forms in a room/open space. Own and enemy battle field dispositions are shown with symbols in the miniature model. The battle situation and courses of action is analysed by the discussants.

Military Exercises without Troops

Military exercises without troops are the mechanisms of knowledge transfer between the leaders. The military leaders, mainly the officers, participate in this exercise and no JCO/NCO or soldier is allowed to attend the same unless it is essential. The imaginary battle scenario/situation is created on papers keeping a particular landscape in mind. The participants can see the location on the military maps and they need to study those before attending the discussion physically at that particular location. On the scheduled date the leaders (officers) are divided into small groups (called syndicates) in the location where the exercise is carried out. Each syndicate is headed by a moderator/syndicate leader, who possesses huge knowledge on military tactics and strategy. Every member (officer) needs to provide their views and opinions on the subject under discussion. All ideas are welcomed by the moderator/syndicate leader. No idea/opinion is criticised. Each idea is carefully discussed and analysed. Finally, based on the discussion, the syndicate comes to a conclusion.

Military Logistics Exercises

Military logistics units, the lifeblood for the fighting elements, carry out logistics exercises with a view to ensuring undisrupted supply chain in the battle/war situation. Exercises, both fighting forces and logistics, may work as mechanisms of knowledge transfer for each other.

Exercise Debriefings

Military exercises conclude with the debriefing sessions. These are high-quality knowledge transfer vehicles. Bartone and Adler (1995) clarify, "the Event-Oriented after Action Debriefing is a factual review of events, and individual and unit reactions to those events. It is an opportunity to sit down with fellow soldiers, reconsider what occurred, and draw lessons for the future" (p. 2). Further, they continue by analytically explaining it as a knowledge transfer media "in the process of reviewing events, feelings may be expressed and problems may be defused. The main point of the Debriefing is to review the chronology of events, to give soldiers an opportunity to clear up any confusion, and to facilitate a healthy cognitive reframing and integration of their experiences" (p. 2) .

Demonstrations

In military, demonstrations are frequently arranged for all ranks. Demonstrations give the opportunities to see how the operations are carried out and the military personnel may have the clear idea on the individual roles during the war time. In addition to operational demonstrations like, attacks, raids, ambushes, anti-terrorism operations, units and formations also arrange administrative demonstration like, fire fighting, fire alarms etc. Drama may be compared with demonstration. Drama is used as a knowledge transfer vehicle to exhibit the social folios. This mechanism of transferring knowledge is not new (Garaventa, 1998). From ancient Greek and Roman philosophers to contemporary play wrights dramas have been used as the way to mirror and explore the human condition (George, et al., 1998). Further, George et al. (1998) classify drama based training into low-impact training (e.g., focus on the topic for a wide audience that is not much familiar with the subject), moderate-impact training (audience members are more involved and they are invited to ask question to the actors after the performance) and in high-impact training is staged by the trainees and it is contextual (flight simulator where the trainee is the actor). Low impact training may be compared with the demonstrations in military. All exercises without troops are nearer to medium impact, while exercises with troops followed by debriefings may be treated as high-impact training.

CONCLUSION AND FUTURE RESEARCH

The functions of the military organisations are strategically and operationally different than those of the business organisations. Here the game is not with the profit and losses rather it is a game of live and death. The military units use numerous mechanisms of knowledge transfer. These mechanisms are the vehicles through which knowledge is transferred between the units/formations. A good knowledge transfer mechanism would ensure a smooth transfer of knowledge both in peace and war times, while a faulty mechanism is suicidal during the time of crisis. Face-to-face mechanism of knowledge transfer is one of the vital mechanisms of knowledge transfer where the chances of misunderstanding between the commanders and the Privates are less. Durbar can be an excellent tool of knowledge transfer and also morale boosting event for a unit/formation. Military training exercises are the training events and mechanisms of knowledge transfer where all ranks, units and formations have the opportunity of knowledge transfer. Model discussions help to plan early for any forthcoming or imaginary battle situation. Exercise debriefings are the mechanisms where the participating members have the opportunity to learn out of the mistakes and avoid such mistake in the real war situations. Demonstrations may be compared with dramas where the battle-field mistakes may be exhibited before the unit/formation members.

Future researchers may empirically investigate the issues in the context of any military setting.

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Human Capital, Entrepreneurial Capital and SME's Performance of traditional herbal industries in Central Java, Indonesia: The Mediating Effect of Competitive Advantage

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Abstract

This study provides new insights by examining effects of human capital and entrepreneurial capital on competitive advantage and performance. The samples of this study were owners of SME's traditional herbal industries in Central Java, Indonesia. Thirty-five questionnaires were distributed, and they made 32 (91.43%) response rate. The data was analyzed using Generalized Structured Component Analysis (GSCA). The results reveal that: a) human capital and entrepreneurial capital have a positive effect on competitive advantage; b) human capital and entrepreneurial capital do not directly affect SMEs' performance; c). Competitive Advantage fully mediates between human capital and entrepreneurial capital on SMEs' performance. The findings offer an insight for the SMEs in traditional herbal industries: to increase their performance the human and entrepreneurial capital need to be developed. Limitations of this study, first, only small tradtional herbal industries were investigated. The small industries which are more specific in nature, such as the batik, toys, and craft SMEs, may result in different relations between the constructs of the models; second, the data was collected in a single central area of traditional herbal industry. There was no evidence of sampling bias, but future studies would benefit from inclusion of a wider geography scope; third the findings of this study also underscore the need for researchers to examine other factors which may also be antecedents of the SMEs' performance and competitive advantage.

Keyword: Human Capital, Entrepreneurial Capital, Competitive Advantage, Performance.

INTRODUCTION

In recent years entrepreneurship policies that aim at encouraging entrepreneurial activities have been implemented in many industrial economies. Small and Medium Enterprises (SMEs) have played an important role in developed and developing economies. SMEs are the engines of global economic growth. Kušar, Duhovnik, Grum, & Starbek, 2004, argue that if SMEs can fulfill customers' demands according to the features and quality of the products, they can successfully enter the universal market.

The role of SMEs in Indonesia's economy is very significant. According to Indonesian Central Bureau of Statistics (2013), there were 57.9 million SMEs in Indonesia and they accounted for 99.9% of total enterprises. The SMEs in Indonesia employ 114.144.082 people, the figure of which is equal to 97.3% of the total Indonesian workforce. Moreover, the SMEs' contribution to gross domestic product (GDP), excluding oil and gas, is 57.12%. Herbal industries have displayed encouraging figures. Ten medium-large scale herbal medicine industries were recorded, and one thousand SMEs-scale herbal medicine industries are scattered in various regions in Indonesia, especially in Java. The herbal industries can absorb hundreds of thousands of workers. Herbal medicine sales over the turn of this year are targeted to reach $150 billion. This figure increased to $ 5.0 billion compared to last year which reached $145 billion. Besides that, the SMEs have proved to be resistant to a wide range of economic crisis shocks. Thus, the SMEs have become significant to strengthen micro, small and medium enterprises which involve many stakeholders.

To survive the era of global technology, Indonesian government need to think about strengthening people's economy. In the era, the people's economy is expected to have a reliable system in order to improve the people's welfare. To achieve an adequate level of people's welfare, economic growth needs to be underpinned by strengthening SMEs and cooperatives. Yet, this effort has not been able to optimally increase productivity, so the SMEs are highly susceptible to the effects of global competition. In addition, there are still inequalities and underdevelopment between the SMEs and large enterprises (LEs). For that reason, the Indonesian government need to work to improve the potential of the SMEs in order to be competitive, so they can keep up with the other economic activities as well as to keep up with SMEs and Les in other countries.

Successful enterprise creation normally requires substantial tangible and/or intangible resources. The tangible resources can be physical or financial capital. However, the challenge for emerging enterprises is to be able to demonstrate the intangible resources embedded in the venture, such as the entrepreneurial capital and human capital, to venture capitalists and other prospective stakeholders. It is inevitable that the quality of the institutions in SMEs is averagely weak in management, so it is necessary to get attention from researchers. In so doing it is necessary to study the competitiveness of traditional herb SMEs in Sukoharjo, Central Java, and what factors which affect the performance of the SMEs.

This paper focuses on the traditional herb SMEs because they represent the hallmark of productivity, and the traditional herb SMEs can contribute significantly to GDP growth. Furthermore, the traditional herb SMEs employ approximately 5-6 million people. This paper aims to suggest a conceptual framework for a potential relation of entrepreneurial capital, human capital, competitive advantage and performance of traditional herb SMEs in Sukoharjo, Central Java, Indonesia. With reference to the underlying theory and empirical research, a conceptual framework is proposed. The last section discusses implications for policy makers, SMEs owner-managers and researchers.

STATEMENT OF THE PROBLEM

Research interest in SMEs has been predicated on its recognisable economic contributions and benefits, particularly in generating employment and alleviating poverty. Scholars have postulated that the SMEs are the panacea for the economic problems of the less developed and developing countries. In Indonesia today, a lot of attention is being directed to the SMEs because of the expected contribution they could make in providing training grounds for the development of indigenous entrepreneurs. However, most SMEs die within their first five years of existence, another smaller percentage goes into extinction between the sixth and tenth year. Thus, only about five to ten percent of young SMEs survive, thrive and grow to maturity. The implication of this is that the survival rate of SMEs in Indonesia is less than 10% in the first five years of existence. This also suggests that the SMEs in Indonesia have not been able to contribute significantly to economic development as much as it is expected. A general observation on efforts to boost the SMEs' growth and performance has shown that such efforts have mostly been targeted at the aspect of financing and providing infrastructure. The situation is against this background which this study set out to examine the effects of entrepreneurial capital, human capital and competitive advatage on SME's traditional herbal industries Performance, in Sukoharjo, Central Java, Indonesia..

LITERATURE REVIEW AND HYPOTHESES.

Firm Performance

Firm performance has been actively investigated from both practitioners and academicians in the measurement of recent reports and articles on the topics which appear at a rate of one every five hours on every working day since 1994 (Pont & Shaw, 2003). The firm performance is a relevant construct in strategic management research, and it is frequently used as a dependent variable. Despite its relevance, there is a scarce consensus about its definition, dimension, and measurement; accordingly, the scarcity limits advances in research and understanding of the construct.

The concept of firm performance is generally centered on either efficiency or effectiveness. Since business enterprises need to eventually be profitable to survive, financial efficiency in several forms (e.g., gross margins, net margins, ROI, relative profitability) is typically used as an ultimate outcome when the performance is included in research. The outcome particularly utilizes self-reports on financial and non-financial measure, and each measure is one of the most commonly used definitions of firm performance in the research. The financial measure is focused on overall profit level, profit margin, and return on investment in finance; whereas the non-financial measure is related to customer and employee satisfaction.

Researchers usually distinguish subjective and objective measures. The objective measures are usually market-based indicators, accounting-based measures, revenues, ROI and profit as well as growth measures; the measures consider employee and sales growth, and survival. The subjective measures can be described as perceptual in nature and they refer to subjective assessments of performance which is dependent upon a manager's expectation. The level of the assessment of performance is in comparison with competitors. In this research, four concepts are employed to tap both efficiency and effectiveness in rural credit bank performance.

Direct Effects of Human Capital on SMEs Performance

The birth of human capital theory was announced in 1960 by Theodore Schultz (Mark Blaug, 1976). In the past, the human capital means of production which constitutes a major share of an organization's tangible assets. Today, human talent is considered as a capital; talented people carry within them, in their knowledge and expertise, important aspects of the means of production. Firms' capacity to compete is imbedded in its founder's capability, education, and experience. The main focus of the human capital theory is on the outcome of investment in education and work experience (Becker, 1993). The human capital encompasses abilities which are influenced in part by genetic factors (e.g., intelligence, health, personality, attractiveness) and those which are acquired as skills, such as education, job training, tenure, work experience, and interpersonal relationships (Shanahan & Tuma, 1994 cited by Markman, & Baron 2003). The human capital theory is concerned with decisions with respect to investments in education and work experience (Becker, 1993). Since 1990s, many researchers in the fields of economics, human resource management, social sciences, and entrepreneurship have applied the human capital theory in different perspectives. With respect to entrepreneurship, the theory focuses on the business founder's acquired human capital attributes (Isaksen, 2006). Because of that, several researchers focus their research attention on human capital perspectives as one of the determinants of the business success. This section describes a degree of relation between the human capital and small businesses success.

Previous studies on effects of human capital on SMEs performance have been inconclusive. Empirical findings show that there is a positive relation between human capital and business success. However, there is a contradictory view upon operationalization of human capital; the effect of human capital on the business success, and determination of human capital attributes (Rauch & Frese. M., 2000). For instance, Lussiers & Pfeifer (2001) find that human capital of individual entrepreneurs play a role in contributing the success of the entrepreneurs. Their study find that an entrepreneur with industrial experience, motivation and business start up, has a greater chance of succeeding than those with minimal industrial experience and little motivation. The finding of Bosma et al. (2004) is also consistent with the other researchers, stating that human capital development has a positive relation to SMEs' performance. Datta et al., (2005) also affirm that human capital scheme have been found, within a number of different establishments, to positively affect organizational performance. Oforegbunam & Okorafor, (2010) show that increased human capital development by sampled SMEs leads to significant improvements in the SME's performance. Moreover, on the-job training has been identified as the most significant option for developing the human capital of SMEs for enhanced performance. Fatoki (2011) also shows that there is a significant positive relation between human capital and SMEs performance. Ojokuku, R.M. & Sajuyigbe, A.S, (2015) find that levels on- the- job training, levels of formal education, levels of participation in trade fairs and exhibitions are related to each other. Based on this rationale, as shown in Figure. 1, the following hypothesis is proposed:

H1: Human Capital is positively and significantly related to SMEs' performance

Direct effect of Entrepreneurial Capital on SMEs Performance

The concept of 'entrepreneurial capital' has emerged recently in recognition that business ownership is predicated on the availability of and access to financial and non-financial resources (Morris, 1998; Erikson, 2002; Firkin, 2003). Successful enterprise creation normally requires substantial tangible or intangible resources. The tangible resources can be physical or financial capital. However, the challenge for emerging enterprises is to be able to demonstrate the intangible resources embedded in the venture, such as the entrepreneurial capital and human capital, to venture capitalists and other prospective stakeholders. It is the quality of the entrepreneurial capability, that is, its ability to generate future income services, which actually accounts for its efficiency. Therefore, informal venture capitalists exercise common sense when they do not invest in venturing individuals or emerging ventures if satisfactory competence and commitment are not evident.

Previous research has typologized capital into three categories, that is, physical (Hofer & Schendel, 1978), financial (Bygrave, 1989), and human (Becker, 1964). Others have extended the capital reasoning and developed the phenomena to include social capital (Bordieu, 1983; Leibenstein, 1968; Glade, 1967; Johannisson, 1988; Nahapiet & Ghoshal, 1998) and organizational capital (Dollinger, 1995; Tomer, 1987; Hofer & Schendel, 1978).

However, none of the above dimensions reflect the important role of the nascent entrepreneur who first developed the possibilities of the new venture (Brush et al., 1997; Shaver & Scott, 1991). The dimensions are not useful either in indicating the possible outcomes when a competent but visionary, nascent entrepreneur sees a venture through to fruition. The potential stakeholders need to be at a minimum trust in the individual or the team they are investing in, and invest only when they are convinced there is a potential for sustained, competent, future entrepreneurial behavior.

The entrepreneurial capital may also be regarded as an extension of human capital theory, which holds that human capital is a rather homogenous resource. Moreover, Schultz (1970) suggests that quality improvements in inputs are fundamental for the understanding of value creation in societies. According to him, it is the quality of capital, or its ability to generate future income services, that is the cornerstone of wealth creation. Schultz (1970, 300) states ''If we were unable to observe these (capital) inequalities, we would have to invent them because they are the mainspring of economic growth.'' Accordingly, entrepreneurial capital is treated as a heterogeneous resource, consisting of a set of complementary human capacities.

The concept of entrepreneurial behavior can be used in the way that the entrepreneurial capital can also be considered as a present value of the resulting entrepreneurial behavior in the future. As Gartner & Carter (2003) state, "Entrepreneurial behavior involves the activities of individuals who are associated with creating new organizations rather than the activities of individuals who are involved with maintaining or changing the operations of on-going established organizations." This view is also in accordance with another capital terminology, like social capital, which has been conceptualized as the amount of available resources (Glade, 1967; Leibenstein, 1968; Granovetter, 1983; Bourdieu, 1983; Nahapiet & Ghoshal, 1998). Entrepreneurship is conceptualized as a process by which individuals pursue opportunities without regard to resources which are currently under their control (Stevenson & Jarillo, 1990). Koch & McGrath (1996) state that the potential latent of entrepreneurial capital can be conceptualized as the present value of the several options available.

Ulrich (1998) defines intellectual capital as a function of multiplication of competence and commitment. Multiplication function is extended to include entrepreneurial competencies and entrepreneurial commitment, and the extension will make the idea of entrepreneurial capital. Entrepreneurial competence may then be understood as a combined capacity to identify and pursue opportunities, and to acquire and coordinate resources. By the same token, entrepreneurial commitment reflects the ability to see through the effort to fruition. The most important function is the commitment of competent individuals who are most likely to find a new road or a window of opportunity. In addition, the relation between entrepreneurial competence and commitment argued multiplication is not an additive: each component needs to be strong and present for the long-term viability.

The variety and amount of capital possessed and available to entrepreneurs can significantly affect both their experiences of business ownership and the performance of their firms (Davidsson & Honig, 2003; Firkin, 2003). Based on this rationale, as shown in Figure. 1, the following hypothesis is proposed:

H2: Entrepreneurial Capital is positively and significantly related to SMEs performance

Effect of Competitive Advantage on SMEs' Performance

Competitive advantage and firms' performance are two different constructs and their relations seems to be complex (Ma, 2000). Studies have shown that there is a significant relation between the competitive advantage and the performance (Ma, 2000; Fahy, 2000; Gimenez & Ventura, 2002; Wang & Lo, 2003; Wiklund & Shepherd, 2003; Bowen & Ostroff, 2004; Morgan et. al., 2004; Ray et. al., 2004;). Fahy (2000) argues that the attainment of a sustainable competitive advantage position can be expected to lead to superior performance which is usually measured in conventional terms, such as market-share and profitability, that is, the financial performance measurement approach. In other words, anchoring on the view that competitive advantage and performance are two different concepts and dimensions, firms should focus their managerial strategy on attaining and sustaining competitive advantage position over their rivals. Subsequently, such a competitive advantage position will lead to superior firms' performance. Nonetheless, it should be born in mind that the existence of potentially different relations between competitive advantage and performance. Ma (2000) projected that competitive advantage does not always lead to superior performance. The notion that competitive advantage is a relational concept and it is also context-specific means that there are possibilities that competitive advantage does not result in superior firms' performance, and there are also possibilities that superior firms' performance being achieved without attaining and/or sustaining competitive advantage position. Based on this rationale, as shown in Figure. 1, the following hypothesis is proposed:

H3: Competitive advantage is positively related to SMEs performance

Effects of Human and Entrepreneurial Capital on Competitive Advantage

There are several indications that human capital is an important resource to gain competitive advantage. Habar & Reichel (2007) studied the role of physical, human, and organizational capital in the performance of small tourism ventures, and they found that the human capital (HC) of entrepreneurs, particularly managerial skills, was the greatest contributing factor. The human capital is a source of competitive advantage since it helps to build core competencies which position the company above its competitors. HC in SMEs is different from that in LEs; the difference is due to constrains which affect smaller organizations (Hayton, 2003). HC is more important as a source of competitive advantage for SMEs than it is for LEs because HC is specific and SMEs can use it to differentiate from their competitors. Human capital has been recognized as an important resource which organizations need to develop to gain sustained competitive advantages (Bramhandkar; Erickson & Applebee 2007). Unger et. al. (2011) also suggest that HC must be applied to specific tasks required by an organization. Boselie, Dietz, & Boon (2005) suggest that the impact of human resources management (HRM) on internal performance indicators is what generates better financial performance. However, other empirical studies, such as Shiu (2006), Appuhami (2007), and Chan (2009), found insignificant relations between human capital development and SMEs' performance. Based on this rationale, as shown in Figure. 1, the following hypothesis is proposed:

H4: Human Capital is positively related to Competitive Advantage.

Entrepreneurial capital is also a resource and capability which present a lasting competitive advantage and superior performance to the firms. According to a resource-based theory of the firms, competitive advantage only arises from the use of scarce, intangible and firm-specific assets (Spender, 1996). Tovstiga & Tulugurova (2009) affirmed that the firms' internal resource base is a determining factor of competitive advantage in SMEs. The literature further affirmed that the firms' competitive advantage and performance are largely influenced by the entrepreneurial behavior of the firms (Wiklund & Shepherd, 2003; Zahra & Covin, 1995). Based on this rationale, as shown in Figure. 1, the following hypothesis is proposed:

H5: Entrepreneurial Capital is positively related to Competitive Advantage.

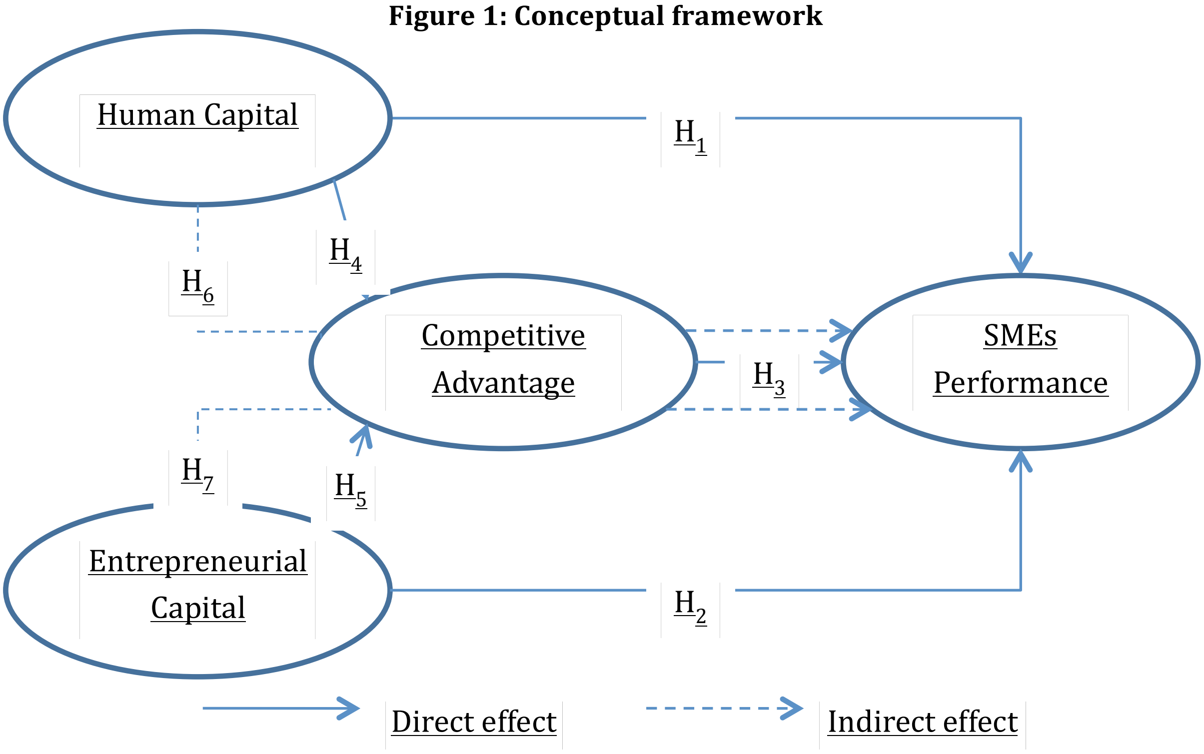
Mediation Effect of Competitive Advantage on SMEs' Performance

Several authors suggest that the impact of HC on performance is not direct (Hayton, 2003; Jin et. al., 2010; Unger et. al., 2011). Therefore, there must be a hidden mediator between HC and performance. Many empirical studies, such as Shiu (2006), Appuhami (2007), and Chan (2009), found insignificant relations between human capital development and SMEs' performance. Most of previous literature addressing intellectual capital has ignored the significance of competitive advantage on the relations between intellectual capital and organizational performance (Chang & Lee, 2008; Ho, 2009; Bontis, 2002; Stewart, 1997, 1998). Thus, a mediating effect of competitive advantage on the association between human and entrepreneurial capital and SMEs' performance is still a litigious matter which calls for redress in the literature. However, there is still limited empirical research which investigate the mediating effect of competitive advantage on the human and entrepreneurial capital-business performance relations. Based on this paucity, the following hypothesis is posited:

H6: Competitive advantage mediates the relation between human capital and SMEs performance.

H7: Competitive advantage mediates the relation between entrepreneurial capital and SMEs performance.

Figure 1: Conceptual framework



RESEARCH METHOD.

In this study, a generalized structured component analysis (GSCA) method was chosen over covariance-based methods, such as AMOS, because it supports both exploratory and confirmatory research (Chwelos, Benbasat, & Dexter, 2001). GSCA is a component-based SEM method which can be used to calculate scores, and which is allowed for small samples (Hwang & Takane, 2004; Hwang et. al., 2010). This method was chosen because of the following considerations: (1) the model in a conceptual framework consists of hierarchical causal relations; (2) GSCA is suitable for confirming the undimensionality of various latent variable indicators, both reflexive and formative; (3) GSCA is a powerful method of analysis that does not require many assumptions and can be performed on a series of latent variables simultaneously, so it is an efficient statistical tool; (4) Based on Monte Carlo simulation, SEM model with GSCA has very good performance to small size samples.

Data collection.

The present study employs a questionnaire survey approach to collect data, and all independent, mediating and dependent variables require five-point Likert-style responses ranged from 1 = "strongly disagree", through 3 = "neutral" to 5 = "strongly agree". Variables in the questionnaire include background information, entrepreneurial capital, human capital, competitive advantage and performance. The population was the traditional herb SMEs which were located in the industrial zone of traditional herb in Sukoharjo, Central Java, Indonesia in 2015. There were two clusters of the traditional herb SMEs: 10 producers and 25 traders. The authors distributed 35 questionnaires and requested the questionnaires to be completed by top executives (owners and marketing managers) who are familiar with the topic of this study. Of the 35 questionnaires distributed, 32 responses were received. The remaining 32 valid, and the completed questionnaires were used for the quantitative analysis.

Measurement.

This study employs five main variables: perceived entrepreneurial competence, goal commitment, human capital, competitive advantage and SMEs performance. Operational definition of the research variables: (1) perceived entrepreneurial competence has been operationalized with Kolvereid's (1996) items. This construct is process-orientated and formulated towards entrepreneurship. The measure reflects perceived opportunity, capability, and control. The six items are employed. (2) Goal commitment, Boyd & Vozikis (1994) argue that people with strong beliefs about their capabilities will be more persistent with their efforts, and they will exert greater effort to master challenges. In the present study, goal commitment is measured with two items which address commitments to professional and entrepreneurial goals. (3) Human capital in this study was measured by six items, adopted from Mahmood, et. al., (2012). (4) Competitive advantage was measured by two dimensions of differentiation innovation and market differentiation (Porter, 1985) and adopts the measurement of Kevin Zheng Zhou, 2009 with two items of differentiation innovation and four items of market differentiation. (5) SMEs performance. Subjective approach was adopted in this study where the performance of the firms was measured by the perception of the owners/managers who provide responses to the survey. They were asked to state their firms' performance on such criteria as profitability and market share. The SMEs performance measurement is referred to Mahmood, et. al., (2012), with five items.

Measurement result, construct reliability was assessed using Cronbach's alpha. In Table 1, alpha values range from 0.697 to 0.944. In general, a Cronbach's alpha at least 0.7 is the criterion used to establish an acceptable level of reliability. However, the recommended minimum Cronbach's alpha for exploratory studies is 0.6 (Nunnally, 1978; Robinson, Shaver, & Wrightsman, 1991). To assess convergent validity, Fornell & Larcker (1981) proposed to examine: (1) item reliability of each construct; (2) the composite reliability (CR) of each construct; and (3) the average variance extract (AVE) of each construct. The item reliability was assessed through a principal component analysis as it was recommended by Straub (1989). Table 1 shows the results of the principle component analysis with varimax rotation for the constructs. Hair, Black, Babin, Anderson, and Tatham (2006) suggest the factor loadings of all individual items exceed 0.5. Fornell & Larcker (1981) suggest that CR value should be over 0.6 and AVE value should be greater than 0.5 in each dimension. The constructs in this survey demonstrate convergent validity in Table 1. On the basis of Fornell & Larcker's (1981) work, the discriminant validity of the constructs was tested by examining whether the square root of the AVE of each construct was greater than the highest correlation between the latent variable which involves the focal constructs (shown above the diagonal in Table 2), and the examination affirms the discriminant validity.

Table 1: Measurement model.

VARIABLES		Loading			AVE	Alpha
		Estimate	SE	CR		
COMMITMENT					**0.772**	**0.697**
Commitment-1	I am very committed to my professional goals	0.879	0.045	19.72*		
Commitment-2	I am very committed to my entrepreneurial goals	0.879	0.045	19.72*		
COMPETENCE					**0.549**	**0.834**
Competence-1	For me, self-employment would be (very easy–very difficult)	0.729	0.141	5.16*		
Competence-2	If I wanted to, I could easily pursue a career as a self-employed person (disagree–agree).	0.785	0.161	4.86*		
Competence-3	As a self-employed person, how much control would you have over the situation? (absolutely no control–complete control).	0.717	0.330	2.18*		
Competence-4	The number of events outside my control which could prevent me from being selfemployed are (very few– numerous).	0.732	0.328	2.23*		
Competence-5	If I become self-employed, the chances of success would be (very low–very high).	0.770	0.112	6.91*		
Competence-6	If I pursue a career as a self-employed person, the chances of failure would be (very low–very high).	0.711	0.149	4.76*		
COMPETITIVE ADVANTAGE					**0.786**	**0.944**
Competitive -1	We are constantly investing in generating new capabilities that give us an advantage compared to our competitors.	0.815	0.055	14.92*		
Competitive -2	If ever there was a new way of serving customers, our company would be able to offer that	0.878	0.028	31.51*		
Competitive -3	It is difficult for our competitors to imitate us	0.941	0.021	44.68*		
Competitive -4	It took us several years to build our brand name reputation — nobody can easily copy that	0.915	0.016	58.65*		
Competitive -5	Our advantages are embodied in the company and not in individuals — nobody can copy us by stealing our employees away from us	0.850	0.039	21.97*		
Competitive -6	Nobody can copy our corporate routines, processes and culture	0.735	0.060	12.32*		
HUMAN CAPITAL					**0.578**	**0.830**
Human capital-1	My employees identify themselves with company values and vision.	0.758	0.067	11.27*		
Human capital-2	My employees exert their best efforts to achieve organizational goals and objectives.	0.737	0.072	10.18*		
Human capital-3	My employees are better than those of competitors at innovation and R&D.	0.786	0.083	9.44*		

Human capital-4	My employees are better than those of competitors at reducing the company's operating costs.	0.790	0.129	6.11*		
Human capital-5	My employees are better than those of competitors at responding to customer demands.	0.773	0.055	13.93*		
Human capital-6	My employees outperform those of competitors.	0.716	0.097	7.38*		
PERFORMANCE					**0.750**	**0.916**
Performance-1	The company has higher growth prospect in sales than its competitors.	0.869	0.038	22.67*		
Performance-2	The company's employees have higher job satisfaction than those of competitors.	0.854	0.034	25.45*		
Performance-3	The company's employees have higher productivity than those of competitors.	0.893	0.037	24.33*		
Performance-4	The company has better goodwill than its competitors.	0.838	0.056	15.09*		
Performance-5	The company has better quality products or services than its competitors.	0.875	0.023	38.38*		

Significant at 5% (.05)

Factor analyses were conducted to check the structure of the various scales. Due to the size of the samples, a separate analysis was conducted for the human capital, commitment, competence, competitive advantage, and performance scales. All items of latent variables are significant at 0.05 or CR>1.96. These results indicate that all of items indicate good convergence validity. The value of AVE (Average Variance Extracted) for all latent variables is greater than 0.50. (Hwang et. al., 2010). Correlations of latent variables are smaller than than the square root of the AVE, therefore the latent variables have adequate discriminate validity (table 2). The internal reliability of the items was verified by computing the Cronbach's alpha. Nunnally (1978) suggested that a minimum alpha of 0.6 sufficed for early stage of research. The Cronbach alpha estimated for human capital, commitment, competence, competitive advantage, and performance was more than 0.6. Therefore, the constructs were deemed to have adequate reliability.

Table 2: Correlations of Latent Variables

Correlations of Latent Variables (SE)					
	Human capital	Commitment	Competence	Competitive advantage	Performance
Human capital	1	0.113 (0.151)	0.198 (0.129)	0.509 (0.108)*	0.573 (0.094)*
Commitment	0.113 (0.151)	1	0.667 (0.169)*	0.484 (0.133)*	0.512 (0.138)*
Competence	0.198 (0.129)	0.667 (0.169)*	1	0.569 (0.118)*	0.601 (0.142)*
Competitive advantage	0.509 (0.108)*	0.484 (0.133)*	0.569 (0.118)*	1	0.839 (0.056)*
Performance	0.573 (0.094)*	0.512 (0.138)*	0.601 (0.142)*	0.839 (0.056)*	1

Significant at .05 level

RESULTS AND DISCUSSION.

This procedure involves the use of three multiple regression analyses: (i) the mediator (Competitive Advantage) is regressed on the independent variable (human capital and entrepreneurial capital); (ii) the dependent variable (firms' performance) is regressed on the independent variable (human capital and entrepreneurial capital; (iii) the dependent variable (firms' performance) is regressed on the independent variable (human capital, entrepreneurial capital and competitive advantage), The findings from these analyses are presented in Table 3.

DIRECT EFFECTS

First the direct effects of human capital and entrepreneurial capital on competitive advantage were tested. The run GeSCA are shown on MODEL 1 in Table 3: (1) human capital has a significant positive effect on competitive advantage (b = 0.434; CR=4.35>1.96) – Hypothesis 4 (H4) is thus supported. The findings show that a positive human capital has a positive and significant impact on competitive advantage. This also reinforces the belief of: Habar & Reichel, 2007; Bramhandkar, Erickson & Applebee, 2007; Unger ET. al., 2011; Boselie, Dietz, & Boon, 2005 about human capital being seen as a driving factor for competitive advantage. (2) Entrepreneurial capital has a positive effect on competitive advantage (b = 0.503; CR=3.61>1.96) – Hypothesis 5 (H5) is thus supported. The entrepreneurial capital shows larger coefficient than human capital in competitive advantage.

Second the direct effects of human capital and entrepreneurial capital on performance. The results in MODEL 2 and 3 show: (1) human capital has a significant positive effect on SMEs performance (see MODEL 2, b = 0.505; CR=3.75>1.96). These results are in line with the opinion of previous researchers (Bosma et al. 2004; Datta et al., 2005; Oforegbunam & Okorafor, 2010; Ojokuku & Sajuyigbe, 2015). In the other hand, MODEL 3 shows human capital has a insignificant positive effect on SMEs performance (b = 0.232; CR=1.80<1.96). Hypothesis 1 (H1) is thus not supported. This results is in line with the opinion of Hayton, 2003; Jin et. al., 2010; and Unger ET. al., 2011. Therefore, there must be a hidden mediator between HC and performance. This also reinforces the belief of Shiu (2006), Appuhami (2007), and Chan (2009) about human capital being seen as a indirect driving factor for performance. (2) Entrepreneurial capital has a significant positive effect on SMEs' performance (in Table 2, b = 0.498; CR=3.70>1.96). This also reinforces the belief of Davidsson & Honig (2003) and Firkin (2003) about entrepreneurial capital being seen as a driving factor for performance. In the other hand MODEL 3 shows that entrepreneurial capital has a insignificant positive effect on SMEs' performance (b = 0.183; CR=1.34<1.96) – Hypothesis 2 (H2) is thus not supported. This result is in line with the opinion of Chang & Lee, 2008; Ho, 2009; Bontis, 2002; Stewart, 1997, 1998).

TABLE 3: STRUCTURAL MODEL.

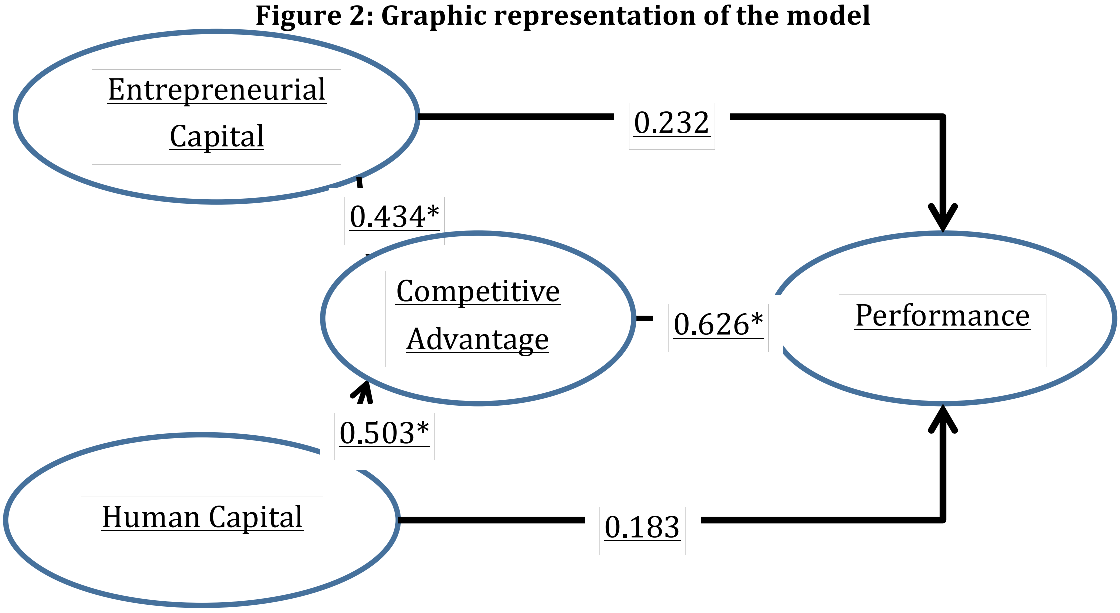
	Mediator (Competitive Advantage)		Dependent Variable (Performance)	
	Estimate	CR	Estimate	CR
MODEL 1				
Human Capital	0.434	4.35*		
Entrepreneurial Capital (Commitment*Competence)	0.503	3.61*		
FIT	0.606			
AFIT	0.578			
GFI	0.993			
MODEL 2				
Human Capital			0.505	3.75*
Entrepreneurial Capital (Commitment*Competence)			0.498	3.70*
FIT			0.587	
AFIT			0.557	
GFI			0.992	
MODEL 3				
Human Capital			0.232	1.80
Entrepreneurial Capital (Commitment*Competence)			0.183	1.34
Competitive Advantage			0.626	4.75*
FIT			0.623	
AFIT			0.595	
GFI			0.977	

CR* = significant at .05 level

Indirect Effects of Competitive Advantage

The three-step regression procedure which Baron & Kenny (1986) recommended in examining the mediating effect of competitive advantage was followed. As it is shown previously, the human capital and the entrepreneurial capital have positive and significant effects on competitive advantage. In addition, the human capital and the entrepreneurial capital have positive and significant effects on the SMEs performance. When the competitive advantage is included in MODEL 3 (Table 3), it reveals a positive and significant effect on the SMEs' performance, in support of H3 (b = 0.626; CR=4.75>1.96). The inclusion of competitive advantage leads to a hard decrease in the effect human capital and entrepreneurial capital (from 0.505 to 0.232 and from 0.498 to 0.183) and insignificant (CR=1.80<1,96 and CR=1.34<1.96), suggesting complete mediation. It means that the human capital and the entrepreneurial capital influence the SMEs performance through competitive advantage. Model comparisons based on the FIT and AFIT difference test indicate that MODEL 3 performs better than both MODEL 1 and MODEL 2. Therefore, overall, the model fit is superior when competitive advantage is included. Hypothesis 6 (H6) and 7 (H7) are thus supported. This result is in line with the opinion of several authors that the impact of HC on performance is not direct (Hayton, 2003; Jin et. al., 2010; Unger et. al., 2011). Many empirical studies, such as Shiu (2006), Appuhami (2007), and Chan (2009), found insignificant relations between human capital development and SMEs' performance. Beside that, most of previous literature addressing intellectual capital has ignored the significance of competitive advantage on the relations between intellectual capital and organizational performance (Chang & Lee, 2008; Ho, 2009; Bontis, 2002; Stewart, 1997, 1998).

Figure 2: Graphic representation of the model



CR* = significant at 0.05 level

Theoretical contributions

This study contributes to SMEs performance in two main ways. First, the study shows that competitive advantage plays an important role in the SMEs performance by fully mediating the effects of the human capital and the entrepreneurial capital on the SMEs performance. In other words, the human capital and the entrepreneurial capital are intrinsically valuable; their value on SMEs performance is realized through competitive advantage. This is an important finding as it indicates that competitive advantage is an important mediator in the relation between the human capital and the entrepreneurial capital and the SMEs' performance. Second, the human capital and the entrepreneurial capital have the same effects on SMEs' performance. The full mediating role of competitive advantage on the SMEs' performance indicates that the human capital and the entrepreneurial capital are completely through competitive advantage.

Managerial implications

This study calls on managers to consider the human capital and the entrepreneurial capital which they use in the SMEs' performance and in properly designing competitive advantage. The human capital and the entrepreneurial capital appear to influence the design of competitive advantage, which in turn affect the SMEs' performance. Thus, the new insight for managers is that the human capital and the entrepreneurial capital are inherently valuable for the SMEs' performance, but emphasizing the competitive advantage may be detrimental to the SMEs' performance. In this respect, the measures of the human capital and the entrepreneurial capital could serve as guides for managers who want to collect and use utilitarian and hedonic benefits in line with these attributes. From a practitioner's perspective, the objective of this study has been to provide practical insights into ways of enhancing the SMEs' performance in the traditional herbal industries.

This study also provides new insights into the relative importance of the human capital and the entrepreneurial capital in enhancing competitive advantage and performance. Specifically, the entrepreneurial capital is more important than the human capital in determining competitive advantage (as shown in MODEL 1). In contrast, when the direct effects of the human capital and the entrepreneurial capital on performance (see MODEL 2) is to be considered, the human capital appear to be more salient than the entrepreneurial capital.

Limitations and future research directions

This study has several limitations that should be considered in the interpretations of the findings. First, only small tradtional herbal industries were investigated. The small industries which are more specific in nature, such as the batik, toys, and craft SMEs, may result in different relations between the constructs of the models. Second, the data was collected in a single central area of traditional herbal industry. There was no evidence of sampling bias, but future studies would benefit from inclusion of a wider geography scope. The findings of this study also underscore the need for researchers to examine other factors which may also be antecedents of the SMEs' performance and competitive advantage.

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The Socio-Economic Impact of Fascioliasis Disease in Nandi Central District, Kenya

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Abstract

The study was carried out in Nandi Central in Nandi County to evaluate the economic impact of fascioloasis disease and it's prevalence amongst cattle, sheep and goats in three divisions namely Kapsabet, Kosirai and Kilibwoni. The named divisions have a sizeable coverage by papyrus a swab which is home to the snail species lymnae trancatum and lymnae trancatula which are vectors of the disease as the intermediate host.The research design was a survey and sampling technique used was purposeful sampling. Secondary data was collected from Kapsabet District Veterinary Office on the number of condemned liver from the cattle, keep and goats and financial losses were computed based in the price of the respective livers of each species and data analysis was done using SPSS Version 16. Mean separation was done using L.S.D (P< 0.05). A total of 1106 livers were condemned comprising of 721 (Bovine Spp); 342 (Ovine Spp) and 43 (Caprine Spp), which translated to arrival financial losses of 823,060.There was significant difference of fascioliasis between Kosirai and both Kilibwoni and Kapsabet. Bovine Spp had the highest incidence followed by Ovines Spp and finally Caprine Spp. It was also found that there was a positive correlation between the incidents rate and livers condemned and the usually high rainfall seasons of around March-October.

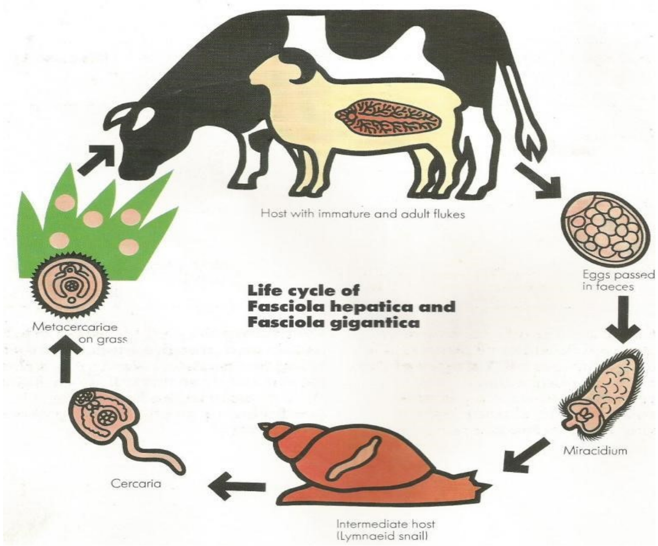
Keywords: Fascioliasis, Economic impact, Nandi District

INTRODUCTION

Fascioliasis is an endemic parasitic infection of the liver of wild domestic ruminant's i.e cattle, sheep and goats, and caused by trematodes of the genus Fasciola (liver flukes) (Gracey et al., 1992). It is carried by two species namely Fasciola hepatica and Fasciola gigantic and transmitted by the snail vectors of family the Lymnae trancatum and Lymnae trancatula which inhabit swampy areas (Torgerson et al.,1999).This habitat is very expansive in swampy areas of Nandi District of Nandi County in Western Kenya. This disease causes huge economic loses in livestock due to mortalities, abortions, retarded growth, reduced meat and milk production, condemnation of infected livers, emaciation and cost of animal treatment (Gracey & Collins

,1992). Nandi District is well endowed with good climate that favours livestock production but the realization of optimal livestock productivity is confounded by the prevalence of this fatal disease (MoA, 2010). Theory and practice have shown that the most effective way to break the Fasciola life cycle is by eliminations both the flukes present in grazing animals and the source of infection on the pasture.

Figure 1: Life cycle of Fasciola hepatica



Source: (Amor & Bogan, 1982)

With respect to Figure 1 above, the infective cysts (metacercariae) on the pasture come from the intermediate host (snail) which is always associated with wet or marshy areas. Amor et al., 1982 outlined measures to reduce the exposure of livestock to snail invested areas including drainage, fencing, and use of molluscides will help in control of fluke disease in marshy areas. However the key to successful control of fluke disease is elimination of both immature and mature flukes already present in the animals (Amor & Bogan, 1982).

This research aimed at bringing to light the huge financial losses due to liver condemnation and to recommend effective control measures based on work already done in terms of effective drugs for the control of fascioliasis.

Problem statement

Nandi Central District is a major contributor to the livestock production in Nandi County. However, the presence of vast swampy areas in the area predisposes cattle sheep and goats to fascioliasis disease, due to the presence of the snail habitat .The snail in the swamps transmits the fatal disease and farmers incur financial losses due to the presence of the disease. Affected livers from the cattle sheep and goats are contaminant and latent production, reproductive and mortality loses confounds the adverse economic effects due to this disease.

Justification

Globally losses in animal productivity due to fascioliasis disease were conservatively estimated to be over US$ 3.2 billion per annum (Spithil et al., 1999). Farmers in Nandi Central District by virtue of the presence of the expansive snail habitat swamps are definitely incurring huge financial losses due to this disease and there is need to investigate the extend of the economic losses and the prevalence of the disease and recommend effective, efficient and sustainable control measure against the disease so as to make livestock productivity in the area profitable and improve the standard of living of the farmers. Beside financial loses there are also latent production, and reproductive loses, notwithstanding the pre-disposition to fatal secondary infectious necrotic hepatitis in sheep and liver cirrhosis in cattle.

General objective

To investigate the socioeconomic impact of fascioliasis disease in Nandi District, Nandi County.

Specific objectives:-

1. To establish the actual financial losses due to fascioliasis in cattle, sheep and goats in Nandi Central District.
2. To determine the prevalence rate of fascioliasis among species affected in Nandi District.

Research Hypothesis

H0: There are no fascioloasis cases among Bovine spp, Caprine spp. and Ovine spp. in Nandi District.

H0: There are no financial losses incurred by livestock farmers to fasciolisis in Nandi District.

MATERIAL AND METHOD

Study sites

The survey was carried out in Kapsabet, Kosirai, and Kilibwoni Divisions of Nandi Central District, Nandi County in Kenya. This area is bound by the Equator to the South and extends Northwards to latitude 0034'N. The Western boundary extends to Longitude 34045'E, while the Eastern boundary extends to Longitude 35025'E. The district covers an area of 2,884.22 Km2 with temperatures ranging from 15°C to 26°C and rainfall of between 1,200mm and 2,000mm per annum.

Sample Size and Sampling technique

A total of 1160 livers were condemned from July, 2012 to July 2013.These livers were obtained from 721 Bovines Spp., 342 Ovines Spp. And 43 Caprine Spp. slaughtered at Kapsabet Slaughter Slab. The data was extracted from the District Veterinary office – Kapsabet records. The data was obtained through purposive sampling from a list of condemned livers; only condemned livers from the endemic areas were targeted.

Data Analysis

The data set obtained from the secondary data was analyzed using Statistical Package for Social Science(SPSS) Version 16 and mean separation done by Least Significant Difference (LSD) at $P<0.05$.

RESULTS

The prevalence of fascioliasis

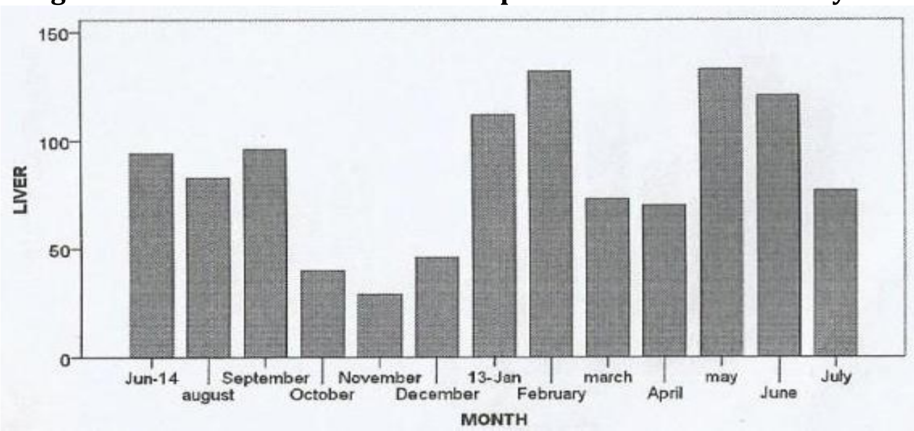
The bovines had the highest cases of liver condemned while the Caprine Spp had the lowest number. A great variation of condemned liver 16.87 was reported Bovine Spp while lowest variation 1.14 was in Caprine spp as shown in Table 1

Table 1: A summary of liver condemned by species

SPECIES	LIVER CONDEMNED		
	Sum	Mean	Std. Deviation
Bovine	721.00	18.4872	16.87083
Caprine	43.00	1.1026	1.14236
Ovine	342.00	8.7692	6.68644
TOTAL	1106.00	9.4530	12.62352

The highest number of livers were condemned (120) in February and May and the least (30) in November as indicated in Figure 1

Figure 1: Sum of livers Condemned per Month for the whole year



The highest number of livers condemned was in Kosirai while the lowest was reported in Kilibwoni as indicated in Figure 2

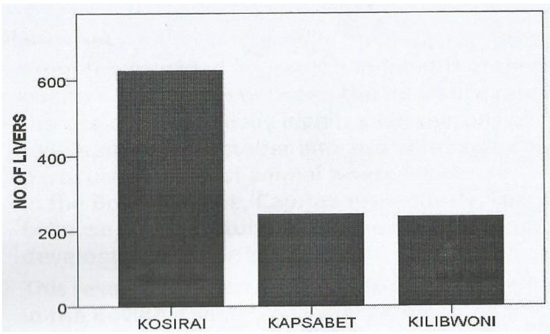


Figure 2: The number of livers condemned in Nandi District over one year

Financial Losses

The financial losses incurred in from caprine were negligible while over KSh. 600,000 were experienced from Bovine spp as indicated in Figure 3.

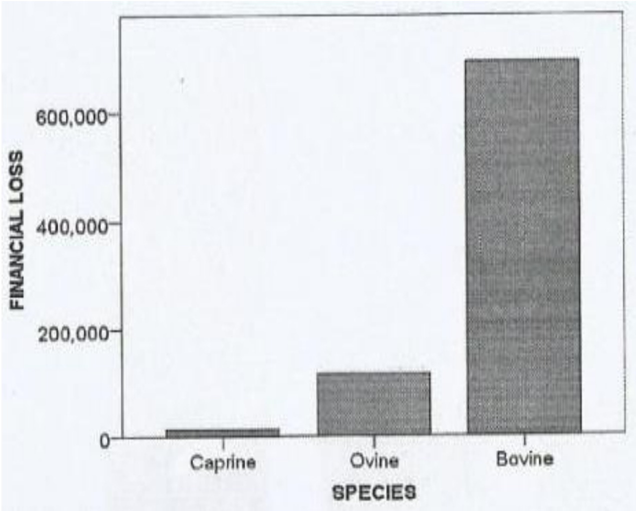


Figure 3: Sum of financial losses due to condemned livers per species for the whole year.

The highest number of losses was recorded in Kosirai Division but the variation between Kilibwoni and Kapsabet divisions was negligible as shown in Figure 4

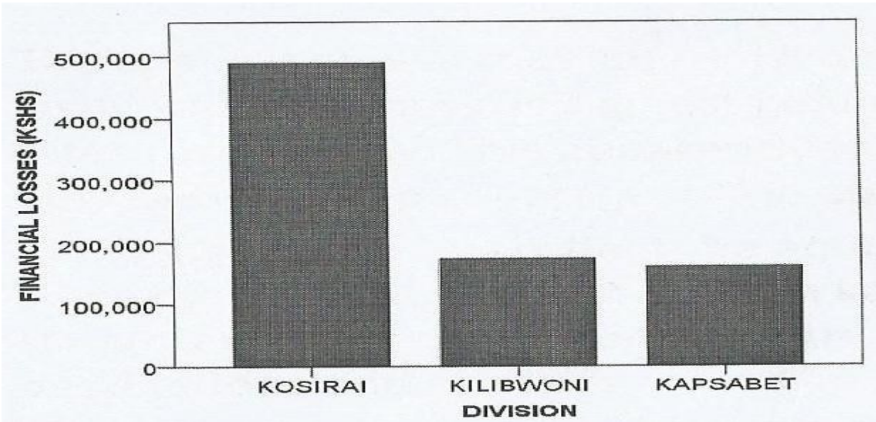


Figure 4: Comparison of financial losses between different divisions

There was no significant difference between Kapsabet and Kilibwoni P>0.05 while Kosirai was significantly different P<0.05 from both Kilibwoni and Kapsabet as shown in Table 2

Table 2: Comparison of financial losses between different divisions using Least significant different at 0.05 level of significant

Multiple Comparisons

Dependent Variable: FINANCIAL LOSSES
LSD

(I) DIVISION	(J) DIVISION	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	Upper Bound
KAPSABET	KOSIRAI	-8465.1282*	2617.09897	.002	-13649.5811	-3280.6753
	KILIBWONI	-343.5897	2617.09897	.896	-5528.0427	4840.8632
KOSIRAI	KAPSABET	8465.1282*	2617.09897	.002	3280.6753	13649.5811
	KILIBWONI	8121.5385*	2617.09897	.002	2937.0856	13305.9914
KILIBWONI	KAPSABET	343.5897	2617.09897	.896	-4840.8632	5528.0427
	KOSIRAI	-8121.5385*	2617.09897	.002	-13305.9914	-2937.0856

DISCUSSION

According to the data analysis results indicates that faming in the area incur annual financial loses to the tune of KSh 823,060.00 for all the three species. The Bovines Spp contributes KSh. 692,160.00; Ovines Spp KSh 116,280.00, Caprine Spp Kshs.14, 620. This figure also indicates that farmers in the area prefer to keep cattle, sheep and prevalence follows similar trend. Also the data indicates a positive correlation between the incidence rates of the disease and the usually, high rainfall seasons of April-October in the area. This is because high moisture favours the breeding and the development of the intermediate host (snail).

The disease is also evidently persistent even during dry season of January – March and November -December since the livestock farmers usually graze the animals along the expansive swamp as a tactical grazing management during dry season to alleviate the effect of drought but only to expose their livestock to the disease. The result indicates that Kosirai had the highest financial and prevalence rate followed by Kilibwoni and Kapsabet division respectively, and it correspond to the degree of swamp coverage in the division, There is a significant difference ($P>0.05$) among the species in-terms of liver condemnation because Bovines Spp are most reared by farmers.

CONCLUSIONS

It is evident that Bovines Spp, Ovines Spp. and Caprine Spp. in Nandi District are affected by fascioliasis. Livestock farmers in this district are incurring huge financial loses annually due to prevalence of fascioliasis disease. This loses are confounded by the latent loses in production of milk and meat and the reproductive loses.

RECOMMENDATION

The district veterinary office Nandi County and the district livestock production office should liase and formulate effective, efficient and sustainable control in measure to reduce the enormous economic losses due to the disease.

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The Relationship between Dividend Payout and Firm Financial Performance: A Study of Botswana Listed Companies

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Abstract

The association between dividend payout and the financial performance of a firm has been a subject of debate among scholars for decades. This debate has been particularly fueled and prolonged by the ambiguity of the results of prior research on the association between the two variables and the broadness in perspective of the extant literature on the subject matter. This research seeks to further explore this subject matter specifically by testing the relationship between dividend payout and firm financial performance within the context of Botswana listed firms. The model used in the paper incorporates net profits, systematic risk and total assets as the main variables. The regression analysis results found a positive correlation between dividend payout and firm profitability. The association of the variables of systematic risk and total assets to dividend payout was not supported statistically. To the extent that the paper found a statistically significant relationship between dividend payout and NOPAT, the relevance of dividend policy was affirmed, a matter that has implications on companies' financial and operational strategies.

Keywords: Dividend payout; financial performance; Systematic risk; Total assets; Net Operating Profit after Tax (NOPAT)

INTRODUCTION

Dividends are regarded as benefits that accrue to shareholders in return for investing and taking a risk in a business venture [1]. A firm's dividend policy provides the necessary parameters, restraints and guidelines on how a firm ought to divide its net earnings between retained earnings and dividend payouts in order to optimize its value. The literature identifies a myriad of factors that are taken into account in determining a dividend policy, among them: firm's financial limitations (e.g. liquidity constraints), available investment opportunities, financing opportunities, quantities of required funds, expectations of stakeholders, firm size, and provisions of the law [1, 2]. Evidently, dividend policy is core to a strand of financial and managerial strategies that would effectively determine firms' long term sustainability as going concerns.

It is a widely held view that the primary objective of a firm is to maximize shareholders' wealth principally by optimizing a firm's share price. Investment decisions, financing decisions and dividend decisions have been singled out as three types of decisions that have the potential to have a sizeable impact on the value of a firm. The decision on the ratio used to allocate net earnings between dividend payout and retained earnings has far reaching implications on the firm's financial standing and, hence, operational capacity, e.g. capital structure; the weighted average cost of capital (WACC); liquidity; internal rate of return (IRR) and; financial risk. The ripple-effect of all of these elements cascades to literally most of the operational centres of any organization, and such is the importance of dividend policy.

Several other explanations for the existence and importance of dividend policy have been suggested over the decades. For example, while some scholars have viewed dividends as the source of cash flow to the shareholders, others have suggested that dividends are an intricate component of signalling information relating to firm's current and future performance, as posited by the signalling hypothesis [2]. Stacescu [3] alluded that empirical studies have generally found that an increase in dividend payouts by a firm is considered good news by investors, while a decrease leads to a negative market reaction. Based on the premise that the primary objective of a firm is to maximise shareholders' wealth, it would be reasonable to presuppose that management would be keen on a positive, rather than negative, market reaction [4].

While the arguments for the importance and pivotal role of dividend policy on a firm's wellbeing as a going concern are coherent and sound, the true nature of the relationship between dividend policy and a firm's financial performance is less obvious. This subject matter has remained contentious for decades. While vast literature exists on the relationship between dividend policy and financial performance, empirical results have largely been inconclusive.

Arguably, the most influential work on the relationship between dividend policy and firm's financial performance was the seminal paper by Miller and Modigliani [5] which argued that the payout decision is irrelevant to a firm's financial performance because it neither creates nor destroys value for shareholders. In this regard, dividend policy was rendered both irrelevant and inconsequential. Under the presumed conditions of perfect markets, it was advanced that the value of any asset is derived from real economic considerations (earnings and investments) and not the manner in which the returns from assets are packaged between dividends and capital gains. While, from a practical perspective, the arguments of the Dividend Irrelevance Theory are fraught with limitations, they formed the backbone of the modern dividend theories, e.g.; bird-in-hand theory, clientele effect; signalling hypothesis; agency theory.

In a quest to test the myriad of hypotheses suggested by these theories, a number of variables have been used to proxy financial performance (i.e. earnings, stock repurchases, revenue and firm size) in establishing its relationship with dividend payout. Systematic risk, as a control variable, has generally not been a variable for consideration in many of the previous studies. Grullon, Michaely [6] opined that the alternative investors' interpretation of a firm's dividend increase as good cash flow prospects is favourable systematic risk. Intuitively, and therefore, systematic risk is an integral part of dividend policy determination and firm's financial performance.

It is on the backdrop of the importance of dividend policy to firms' financial performance, the ambiguity of empirical evidence on the subject matter and the general disregard for systemic risk in prior studies that forms the premise for this research. The objective of the paper is to explore the relationship between dividend payout and firms' profitability (hypothesized to proxy financial performance) in Botswana publicly listed companies. The proposed theoretical framework accounts for systematic risk, as suggested by Grullon, Michaely [6].

LITERATURE OVERVIEW

Numerous studies have been conducted on the relationship between dividend payout and firms' financial performance across different countries, different continents and on economies at different developmental levels. The literature that is replete with studies on this phenomenon is in concert on the importance of the subject matter and its potential impact on the long term financial well-being of any business entity. However, empirical evidence on the true nature of the relationship between dividend policy and a firms' financial performance remains conflicted and ambiguous, a matter which always throws the dividend relevance hypothesis into the spotlight.

Uwuigbe, Jafaru [4] conducted a study on the relationship between dividend payout and firm financial performance in the Nairobi Securities Exchange. The study used regression analysis to test for this relationship, where dividend payout was measured by the actual dividends paid and firm financial performance measured by the net operating profit after tax (NOPAT). Other variables incorporated into the theoretical framework were firm size (measured by total assets) and revenue. The results showed dividend payout, firm size and revenue to have a positive relationship with net earnings (firms' financial performance). In conclusion, the paper did support the dividend relevance hypothesis and suggested that managers should devote much time to design a dividend policy that will enhance firms' performance in this context. The approach used in this study, and other similar studies, has drawn some criticism. The criticism stems from the viewpoint that these studies did not incorporate future revenues in the function, and thereby ignoring the signalling theory notion that dividends can be used as a costly means to signal future profitability [3]. Grullon, Michaely [6] asserted that rather than an increase in profitability, dividend increases could reflect a decrease in risk in accordance to the 'maturity hypotheses. A similar study was done to determine the relationship between dividends payout and firm's performance in Nigeria using a sample of 50 companies listed in the Nigerian Stock Exchange [7]. Using regression analysis, the results showed a positive association between the financial performance of firms and dividend payout. Other independent variables like firm size, ownership structure and return on equity where taken as affecting the overall profitability of firms. In this study, firm size was incorporated as a variable affecting dividends payout.

A study by Ajanthan [2] underpinned the dividend relevance hypothesis. The study was conducted on hotels and restaurant companies listed in the Colombo Stock Exchange. Using regression and correlation analysis, the results indicated a positive relationship between firm's profitability and dividends payout. The theoretical framework adopted also incorporated firms' total assets and revenues as independent variables impacting profitability. The study concluded that dividend policy was relevant to optimising profitability levels and hence managers should consciously and accordingly craft dividend policies. However, as with Uwuigbe, Jafaru [4], the paper used current earnings rather than forecasted earnings. Nissim and Ziv [1] argued that to effectively investigate whether dividend changes convey new information about future profitability, one has to estimate expected profitability.

There are a host of studies that have conjectured and empirically supported the dividend relevance hypothesis, for example [2, 7, and 8]. Skinne [9], however, argued from a slightly different dimension of the substitution effect of dividends payout by stock repurchases. The study examined the extent to which the relationship between earnings and corporate payout policy has changed over the last 50 years. The study found a trend of two corporate payout emerging in the 1980s: firms that both paid dividends and made stock repurchases and firms that only made stock repurchases. For firms that both paid dividends and made repurchases, managers were found to increasingly coordinate dividend and repurchase decisions in a way that maps total payouts of earnings. In the study, there was an observed increase in managers' use of stock repurchases to payout earnings that was accompanied by a tendency towards curtailment of cash dividend payouts. If the two observations are not read in tandem, they would give the false conclusion of a conservative dividend policy approach. This dimension serves to demonstrate on the complexities and intricacies of dividend policy, a matter that has implications on the interpretation of the results on many past and present studies in the subject matter.

Nissim and Ziv [1] conducted one of the most extensive and robust studies on the relationship between dividend payout and expected firm's profitability. Supporting the informational content hypothesis of dividends, the study found that changes in dividend payouts transimitted some information about profitability performamce in subsequent years. The study projected that changes in dividend payouts are positively related to changes in earnings in each of the two years subsequent to the change in dividend payout. The study adopted a modified regression model with relation to the estimation of unexpected earnings, measurement error and omitted correlated variables. Nissim and Ziv [1] argued that previous studies failed to uncover the true relation between dividends and future earnings because researchers used the wrong model to control for the expected changes in earnings. Specifically, it was argued that when using regression analysis that controls for a particular (linear) form of mean reversion in earnings, dividend changes are positively correlated with future earnings changes. With the modified model, it was demonstrated that current dividend changes are positively associated with future prospective earnings, a novel concept. Grullon, Michaely [6] also conducted a research on changes of dividends payout, but as an indicator of firms' maturity. The objective was to use the findings to understand the informational content of changes in dividend payouts. The study postulated that firms which decrease dividends payouts would experience significant growth in future earnings. The study also examined the relationship between changes in dividends and changes in systematic risk of a firm, wherein systematic risk was measured using the Fama and French [10] three-factor model. It was found that dividend-increasing firms had an average market beta that was slightly above one (1.09), and dividend-decreasing firms had an average market beta that was slightly below one (0.93). In this regard, the study empirically demonstrated the relation between dividend payout and firms' systematic risk.

Finally, and contrary to studies discussed thus far, there are many other strands of the literature that have empirically supported variations of the notion of the relevance of dividends to firms' financial performance and the dividend irrelevance hypothesis. Mozes, Donna [11] conducted a study of 681 firms on the relationship between dividends payout and corporations' earnings. Using a regressional model, the results indicated that large dividend increases are associated with a decline in the firms' future performance, and the reverse held true with small increase in dividends. In a different study, Robert, Arnott [12] used the free cash-flow theory to test for how low dividend payouts impact firms' growth. The study concluded that growth that is associated with low dividend payouts could be a direct result of suboptimal investment decisions and less than ideal projects engagements by managers with excess free cash flows at their disposal. In contrast, Farsio, Geary [13] found no significant relationship between dividends payout and firm's performance in the long-run and concluded that studies that support the relevance theory are based on short-term periods and hence misleading to investors. There are other studies that have empirically supported the dividend irrelevance hypothesis, for example, [5, 11, 13, and 14].

The complexities of dividend policy research are apparent and the inconclusiveness of the results from prior studies has only deepened the debate. Notwithstanding the above, the importance of dividend policy in the corporate world is undisputed. Truly, dividend policy shall remain "…a puzzle, with pieces that just do not fit together" [15]. Noteworthy is that prior studies have not been without limitations, and particularly criticised for not accounting for the mean reversion of earnings [16] and also for generally ignoring the systematic risk effect on dividend payout [14]. It is the objective of this study to address these concerns. The secondary objective of the paper is to examine the relationship between dividend payout and firm's financial performance as it prevails in the Botswana capital market.

Cognisant of the weight, both theoretically and empirically, of the dividend relevance paradigm, and informed by the significance of the strides that firms take in establishing firms' dividend policies, this paper posits that dividend policy impacts on a firms financial performance and hence the prospective to influence firms' value. Specifically, and from the premise of the signalling hypothesis, a positive relationship between dividends payout and future profits is posited. Basically, changes in dividend payouts are construed to transmit information about prospective future profitability levels of a firm. Also, the literature posits a negative relationship between dividend payout and systematic risk [1, 2, 6, 10, 14, 17]. It is thus hypothesised that:

H1 Dividend payout is positively related to financial performance of a firm
H2 Dividend payout is negatively related to systematic risk of a firm
H3 Dividend payout is positively related to firm size

DATA ANALYSIS AND RESULTS

Measures used in the paper were predominantly adopted from the extant literature and adapted to the study. Dividend Payout was measured by the actual dividends paid and firm financial performance was measured by Net Operating Profit after Tax (NOPAT) [2, 4]. Total assets were used as a proxy for firm Size [7]. The data used covered a five-year span.

The research targeted firms listed in the Botswana Stock Exchange (BSE) that had an uninterrupted listing in the material period. The readily availability of their full financial statements over the material period was another factor for consideration. Further, a company should have paid some ordinary share dividends in the course of the targeted period. After the necessary screening process of all companies listed in the BSE, a sample size of twelve firms was obtained out of a total of 24 listed domestic companies. Sample consisted of firms from diverse industries and sectors including financial services, retail, property development and management. Annual financial reports of these firms were either accessed online from the respective firm websites or hardcopies directly obtained from the firms' offices or the BSE. These reports were duly audited and available in the public domain.

Correlation and multiple regression analytical techniques were used to analyse the data, in line with most of the prior studies conducted in this field of research. The multiple regression function used is given below and the key variables provided in Table 1.

$$DIVP = \alpha 0 + \alpha 1 NOPAT + \alpha 2 \beta i + \alpha 3 TA$$

Table 1: Key Variables

Dependent Variable	
Dividend Payout (DIVP)	= Total Dividends Paid during the Period
Independent Variable	
Profits (NOPAT)	= Net Operating Profit After Tax
Control Variables	
Stock Beta (βi)	= The stock's Total Risk
Total Assets (TA)	= Amount of Total Assets

As a caveat and owing to the small number of firms listed in the BSE, the sample size was small by default. Admittedly, the achieved sample size is not ideal for the correlation and regression analysis, a matter that impacts the results. In this regard, and for all intents and purposes, the study should be considered exploratory and the findings interpreted in this light. The descriptive statistics for the key variables are presented in Table 2.

Table 2: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Skewness	Kurtosis
DIVP (P'000)	74194.24	30127.69	589651	0	2.6	10.62
TA (P'000)	4095798.71	480390.22	30167813	352.218	1.95	3.09
NOPAT (P'000)	129695.62	84382.5	572918	-3467.94	1.46	1.85
βI (100 b.p)	1700.17	1565.5	6789	15	1.35	3.23

Measurers of variability and central tendency are presented in table 2 above, the findings as shown above present a mean dividend pay-out of about P74 million (US$7.05m) for the firms under consideration. On the other hand; total assets and profits averaged P4 billion (US$380m) and P129 million (US$12.29m) respectively. The table also shows that dividend payout, total assets and systematic have a Leptokurtic distribution given by Kurtosis > 3, which defines the probability distribution as sharper than a normal distribution, with values concentrated around the mean and this means high probability for extreme values, this is with an exception to NOPAT as they show a Platykurtic distribution of Kurtosis < 3.

Regression analysis of the data was performed and the results are presented in Table 3. The dependent variable for the regression equation was the Dividend Payout, while the independent variables were NOPAT, Systematic Risk and Total Asset, and the resulting regression model to estimate Dividend Payout was:

DIVP = -2932.11 + 0.57NOPAT + 0.34βi + 0.00TA

Table 3: Results Summary

	Coefficients	*P-value*	*Adjusted R Square*
Intercept	-2932.11	0.86	
TA	0	0.85	0.6
NOPAT	0.57	0	
βi	0.34	0.72	

It was the objective of this paper to explore the relationship between dividend payout and firm's profitability hypothesized to proxy financial performance, with total assets and systematic risk as control variables to the regression model. The regression model yielded an adjusted R square value of 60%. A summary of the test results and the research findings are next discussed.

Hypothesis 1 proposed that dividend payout is positively related to financial performance of a firm as measured by its profitability (NOPAT). The results indicated a standardised regression path coefficient of 0.57 with a p-value of 0.00 that was statistically significant at $p < 0.05$. The hypothesis was therefore supported.

The findings support the classical school of thought which postulates that dividend payout is relevant to a firm's financial performance. Thus, the findings suggested that managers should devote much time to design a dividend policy that will enhance firm's performance [4]. Hence changes in dividend pay-outs are construed to transmit information about prospective future profitability levels of a firm.

Hypothesis 2 proposed that dividend payout is negatively related to systematic risk of a firm. The results indicated a standardised regression path coefficient of 0.34 with a p-value of 0.72 that was not statistically significant at $p > 0.05$. The hypothesis was therefore not supported.

The findings contradict such other studies as Grullon, Michaely [6] which found negative correlation association between the two variables. Essentially, this an area for future research, particularly considering the pivotal role that systematic risk plays in signaling theory.

Hypothesis 3 proposed that dividend payout is positively related to firm size as measured by firms' total assets. The results indicated a standardised regression path coefficient with an associated p-value of 0.85 that was not statistically significant at $p > 0.05$. The hypothesis was therefore not supported.

The findings are suggestive that firm size is not a factor to reckon with in dividend payout policy. Other studies have used different proxies to measure firm size, i.e. Uwuigbe, Jafaru [7] used the number of directors and found a significant relationship between firm size and dividend payout of listed firms in Nigeria.

CONCLUSION

The study delved into the relationship between dividend payout and firm financial performance in Botswana Stock Exchange listed companies. The study was particularly motivated by the importance of the subject matter, the ambiguity of empirical evidence presented in previous studies and the general disregard for systemic risk in prior studies. The BSE is a relatively small stock exchange and the sample size will always be small by default. These are less than ideal conditions for correlation or regression analysis, a matter that may have impacted the study results. In general, the results were suggestive of a positive relationship between NOPAT and dividend payout. These findings affirm the relevance of dividend policy, an issue that has implications on companies' financial and operational strategies. Evidently, managers should devote much time to design a dividend policy that will maximise shareholders wealth. The intricacies of dividend policy are not easy to disentangle. To the extent that there are other extensions to dividend policy, such as stock repurchases, complicates exacerbate the already complex subject matter. The study concluded that dividend policy was relevant to optimising profitability levels and hence managers should consciously and accordingly craft dividend policies.

Beyond the complexities of the subject matter is also the myriad of other factors identified by the literature as key. Total assets, size, systematic risk, ownership structure, tax policies, financial leverage and capital structure are some of the examples of factors that impact dividend payout. While this study did not find statistical significant relationships as relating to these other factors (total assets and systematic risk), it does not discount their importance. It is only through increased understanding through further research that the illusive consensus can be reached among scholars and between scholars and practitioners.

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A Comparative Study of the Saudi Insurance Legal Environment with the International Insurance Environment – An Empirical Study

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Abstract

This paper will provide an overview of the insurance industry in Saudi Arabia and the regulatory instruments that operate under the Saudi Arabian Monetary Agency (SAMA), with a brief on the situations of the licensed insurance companies in the Kingdom. The current paper will also provide information and data on the Saudi insurance market growth rate and financial performance. Importantly, this paper compares the Saudi insurance regulatory laws and directives with the international insurance one and takaful standards and policies with participants' perceptions. No studies have been conducted to systematically compare SAMA's regulations and standards for insurance with an international one. Such comparisons provide an efficient framework for better protections for policyholders. This paper attempts to fill the gap. Distributing survey questioners among takaful participants is another vital approach for this paper. The paper reports results on the perceptions of 420 participants of takaful companies in Saudi Arabia. They were asked in away to figure out if the current directives imposed by SAMA have enough protections towards participants. Protections might occur by enhancing participants' knowledge, perceptions and satisfaction through obligatory disclosure rules of the TOs (takaful operators). A conclusion can be made that SAMA, does not have any directives and laws towards the takaful business, nor does it issue directives that address any Shari'ah concerns. Accordingly, it is highly recommended that SAMA assigns separate directive laws that address the takaful insurance, and the principles of the Shari'ah laws. It is also recommended that SAMA enhances their employees' knowledge about the principles and products of the takaful model. SAMA should also rely on the already-established standards as per AAOIFI, IFSB and similar standards as per IAIS to regulate the takaful insurance in Saudi Arabia.

Keywords: SAMA, Regulations, Takaful, Saudi Arabia.

INTRODUCTION

The insurance industry in Saudi Arabia was unregulated prior to the passing of the Control of Cooperative Insurance Companies Law, which came into force on 20 November 2003 along with its implementing regulations published on 23 April 2004, together with the Cooperative Insurance Regulations (Hodgins and Beswetherick, 2009). However, the implementation of regulations was delayed to April 2008, until the unlicensed entities operating in Saudi Arabia brought their operations into accordance with the requirements of the new law and regulations that have been imposed by SAMA (Wilson, 2007). Prior to the implementations of the insurance regulations, the only options for individuals or businesses operating in Saudi Arabia seeking insurance were between taking out a conventional insurance either overseas or with an unlicensed provider in the Saudi Arabia or taking out cooperative insurance with Saudi Arabia’s former state monopoly provider, the National Company for Cooperative Insurance (NCCI), now known as (Tawuniya) (Hodgins and Beswetherick, 2009). Shortly after implementation of insurance laws, SAMA established an independent team of insurance supervisors to operate in its banking inspection department (SAMA, 2010a). The team has developed from a small internal department of 9 employees to an independent supervisory authority with a team of 44 employees (Hodgins and Beswetherick, 2009). The regulatory body has four main objectives: (i) Protect the rights of policyholders and shareholders’, (ii) provide better insurance services for fair and effective competition, (iii) foster stability of the insurance market, and (iv) establish a developed insurance industry by providing training and employment opportunities (SAMA, 2010a).

SAMA is mandated as the regulator for all licensed insurance companies including insurance brokers, insurance agents, insurance consultants, surveyors, loss adjusters and actuaries. In other words, SAMA is responsible for licensing and authorization, supervision, rule-making, supervision of investment of assets and monitoring compliance with capital and reserve requirements (SAMA, 2010a). Such extensive control by SAMA is due to the regulations that accompanied comprehensive laws that have been represented by a number of Articles. These Articles define different types of insurance, the conditions for licenses being granted, corporate governance and regulatory and supervisory procedures (Wilson, 2007). The implementation of the new regulations and laws has made the kingdom to be the largest insurance market in the GCC and one that has developed substantially since insurance business was first permitted in the 1990s (E & Y, 2011). Driven by strong macroeconomic performance due to the global rise in oil prices, rising income levels and positive demographic trends, the Saudi insurance market has grown by double digits for the past 5 years (OBG, 2011).

In order to enhance the supervision and control and application of insurance international standards and practices, SAMA has become a member of the International Association of Insurance Supervisors (IAIS), and it participates in all its main committees and sub-committees. In addition, SAMA is a member of the Arab Forum of Insurance Supervision and Control Authorities (SAMA, 2010b). Accordingly, SAMA is considered one of the strongest insurance regulatory authorities in the GCC, which was obvious by their reactions to the adverse competitive trends by restricting new licenses; and players wishing to enter the market are being advised to buy existing licenses (E & Y, 2011).

In such, this paper will provide an overview of the insurance industry in Saudi Arabia and the regulatory instruments that operates under the Saudi Arabian Monetary Agency (SAMA), with a brief on the situations of the licensed insurance companies in the Kingdom. This paper will also compare SAMA's regulations and standards for insurance with international ones for better protections for policyholders. Such comparisons been consolidated with the empirical findings of four papers that aims to overview the opinion of policyholders who participate in the takaful funds of several TOs in Saudi Arabia. Hence, the current paper will also provide information and data on the Saudi insurance market growth rate and financial performance. Hence, this paper is organized as follows: section 2 highlights the Saudi Insurance Market behaviours. Section 3 reflects some important regulations that been imposed by SAMA. Section 4 presents SAMA's Market conduct and disclosure reforms. Section 5 reflects the research design. Section 6 contextualizes the research findings. Section 7 draws conclusion.

SAUDI INSURANCE MARKET BEHAVIOURS

Saudi Arabia hosts a number of prominent multinational firms in addition to several domestic players that rival them in size. By April 2009 there were 29 Saudi insurers in the country including 20 that had completed SAMA's licensing process and were publicly listed; 5 were publicly listed but awaiting a license and 4 were neither publicly listed nor licensed. By the end of the first quarter of 2010, SAMA has approved 33 insurance and reinsurance companies, of which 27 were finally licensed to practice insurance and/or reinsurance (SAMA, 2010a). In addition, one insurance company was listed on the Saudi Stock Exchange but it had not obtained a final license yet to offer insurance services. The Council of Ministers also approved the establishment of five other insurance companies, and two more insurance companies were recommended by SAMA to be approved initially, and their license procedures reached advanced stages (SAMA, 2010b). By July, 2011 SAMA has given operation licenses to seven takaful insurance providers to operate in Saudi Arabia (Al Ahli Takaful, SABB Takaful, Wiqaya Takaful Insurance & Reinsurance, Solidarity Saudi Takaful, AlJazira Takaful Ta'awuni, Saudi Takaful insurance, Watani Takaful) (OBG, 2011).

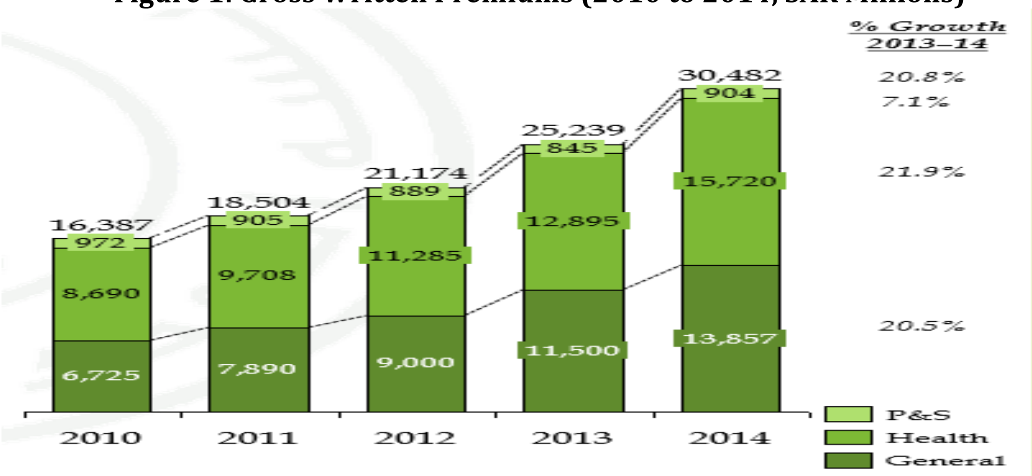
It is vital to highlight the performance of different insurance lines of business, insurance market penetration rate, and the market claim ratio as follows:

Performance of Saudi Arabian Insurance Market

Saudi Arabia's insurance sector has been able to weather the worldwide financial crisis well, outperforming a number of other business segments to post consistent year-on-year growth throughout the duration of the global economic downturn (OBG, 2011). The country's insurance sector is now able to play a more significant role in the national economy and enjoys a greater capital position as more local businesses and individuals become aware of and recognize the value of having adequate insurance coverage.

Figure 1: represents the overall insurance business performance, which has been classified by business line. In 2014, the insurance market witnessed a substantial growth rate of 20.8%, with gross written premium (GWP) reaching SAR 30.48 billion compared to a total of SAR 25.24 billion in 2013 (SAMA, 2014). The increases was due mainly to the growing awareness of the importance of insurance and the favorable economic conditions during the year, as well as the compulsory of motor insurance and cooperative health insurance (SAMA, 2010b, SAMA, 2014).

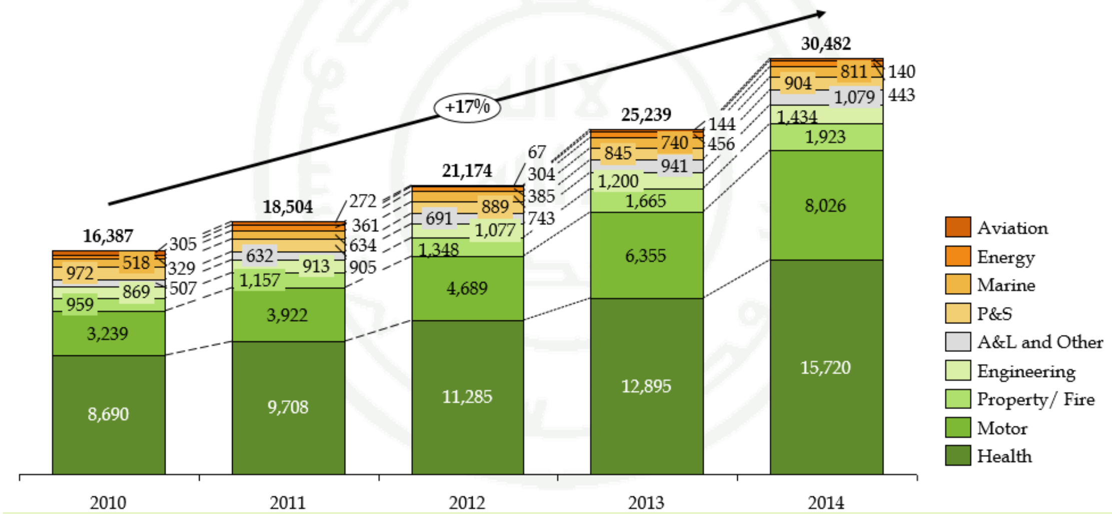
Figure 1: Gross Written Premiums (2010 to 2014, SAR Millions)



Health insurance remained the biggest line of business in 2014. Its contribution to total GWP slightly increased from 51% in 2013 to 52% in 2014, followed by general insurance with a contribution to total business volume decreased to 45% in 2014. Protection and Savings insurance remained the smallest line of business accounting for 3% of total GWP, with an increase in its written premiums by 7% in 2014.

The Health insurance became the most demanded line of business in Saudi Arabia, which accounted for SR 2.8 Billion of the SR 5.24 Billion increase, which represents a 53% contribution to the market's GWP increase. Protection and Savings insurance remained the smallest line of business accounting for 3% of total GWP, with an increase in its written premiums by 7% in 2014 (SAMA, 2014). More information on specific insurance line of business growth rates can be found in Figure 2.

Figure 2: Gross Written Premiums by Line of Business (2010 to 2014, SAR Millions)

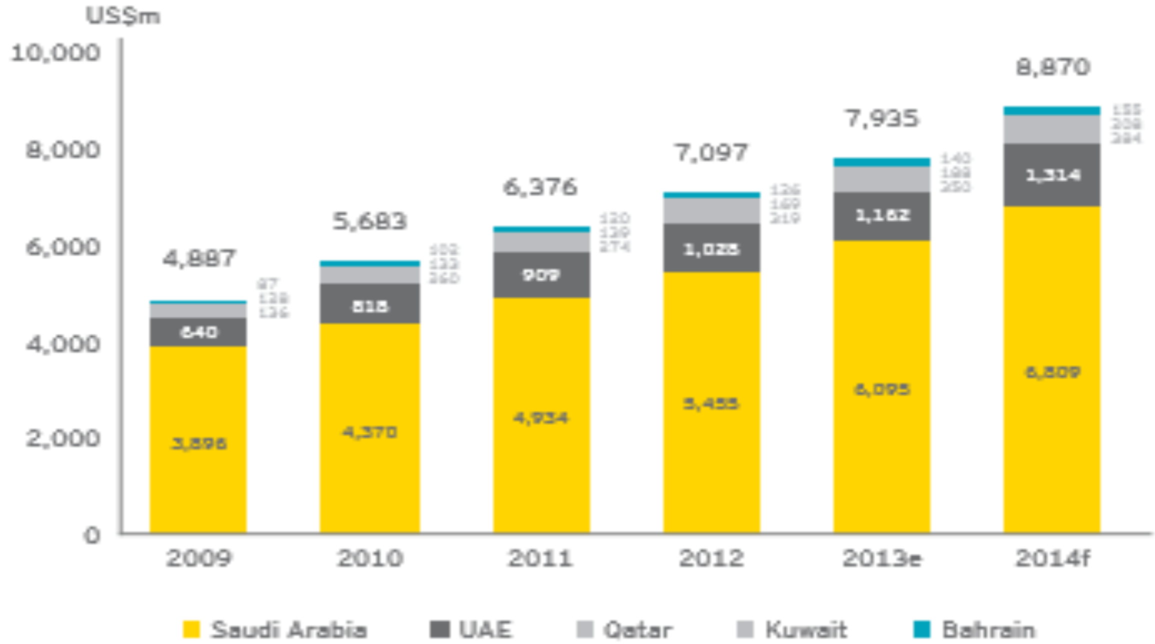


1. Motor and Health insurance accounted for around 77.9 % of total GWP in 2014.
2. Health insurance (compulsory and non-compulsory) accounted for 51.6 % of total GWP in 2014.
3. Motor insurance (compulsory and non-compulsory) accounted for 26.3 % of total GWP in 2014.
4. Aviation insurance GWP reported a decrease by 2.6 % in 2014.
5. Motor Insurance was the fastest growing line of business with growth rate of 26.3 %, followed by health insurance of 21.9 % in 2014.
6. P&S underwritten premiums decreased by 0.3% in 2014.

The impressive rate of growth seen in 2014 looked poised to continue, with Saudi Arabia's insurance sector believed to be one of the regional industry's prime movers. OBG (2011) referred to the report released in late August 2010 by the Investment bank Alpen Capital, which indicated that the premium growth across the GCC region would increase by some 20% a year between 2011 and 2015, lifting total premium values from the current SAR 67.5 billion to SAR 138.75 billion. Of this total growth, 75% would be concentrated in Saudi Arabia and the United Arab Emirates.

The report also expected that the Saudi Arabian life insurance sector will have a compounded annual growth rate (CAGR) of 48%, while the non-life sector will grow at a steadier CAGR of 14%. Overall, the Saudi insurance sector is forecasted to expand by a CAGR of 18% by the middle of the decade, reaching a total value of SAR 34.62 billion. Insurance is expected to grow due to the forecasted increase in the country's construction industry. This is a result of the government's massive infrastructure investment programme over the next decade, with billions being ploughed into transport, housing, health and education developments. A raft of insurance opportunities will arise from the developments since hundreds of projects will need comprehensive coverage (OBG, 2011). As has been mentioned previously, the Saudi market is dominated by health and motor insurance business lines, which currently account for around 77.9 % of the market's gross written premiums. The protection and savings products, have shown an increase in the GWP from 845 Million in 2013 to 904 Million in 2014, posting a 7 % annual growth, which largely attributed to the introduction of Islamic insurance (takaful) products (SAMA, 2014). Accordingly, while most of the GCC markets have witnessed a slowdown in takaful growth, the exception is the Saudi market which remains strong. Figure 3, shows the gross takaful contributions for the GCC region. Saudi Arabia accounts for the majority of the total gross takaful contribution at 77% with $ 6.8 Billion, followed by UAE, which accounts for 15% with $ 1.3 Billion (E & Y, 2014). The rest of the Gulf countries account for just 8% of gross takaful contributions (E & Y, 2014).

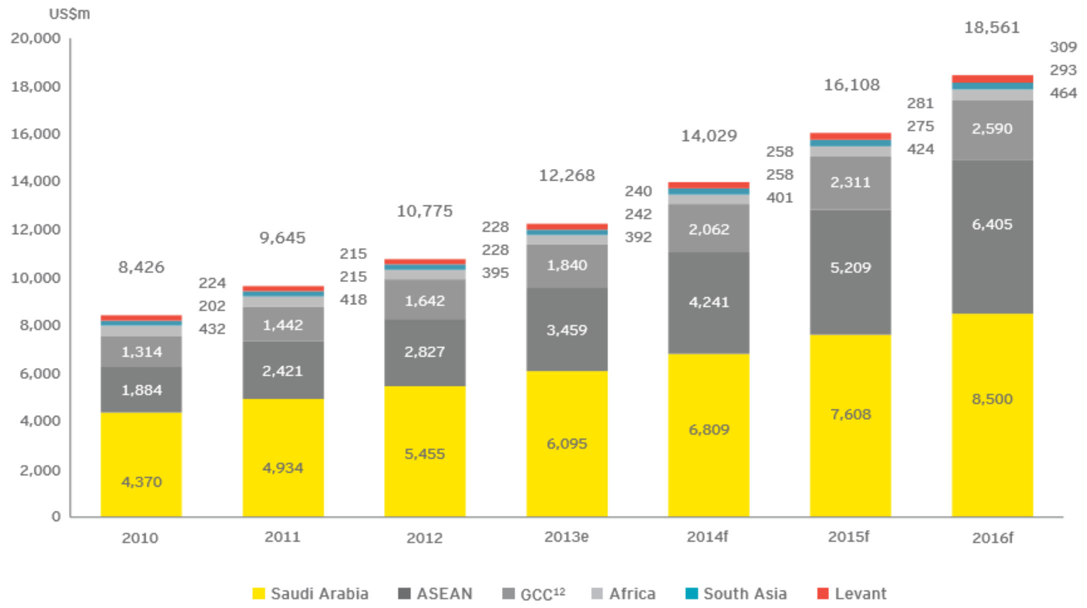
Fig 3: Gross Takaful Contributions in the GCC (US$ million)



Source (E & Y, 2014).

Globally, over the recent decade, the double-digit growth of Islamic banking assets has been accompanied by a similar growth of gross takaful contributions across key Muslim developing markets, including Saudi Arabia, UAE and Malaysia. Overall, Saudi Arabia is likely to be the core market for Islamic insurance business, commanding half (50%) of the global contributions as shown in Fig 4. Among the Gulf countries, UAE, Qatar and more recently, Oman, will continue to set the pace for the development of takaful products for the Middle-East and West Asian markets (E & Y, 2014).

Fig 4: Global Takaful Contributions Forecast 2010 – 2016f (US$ million)

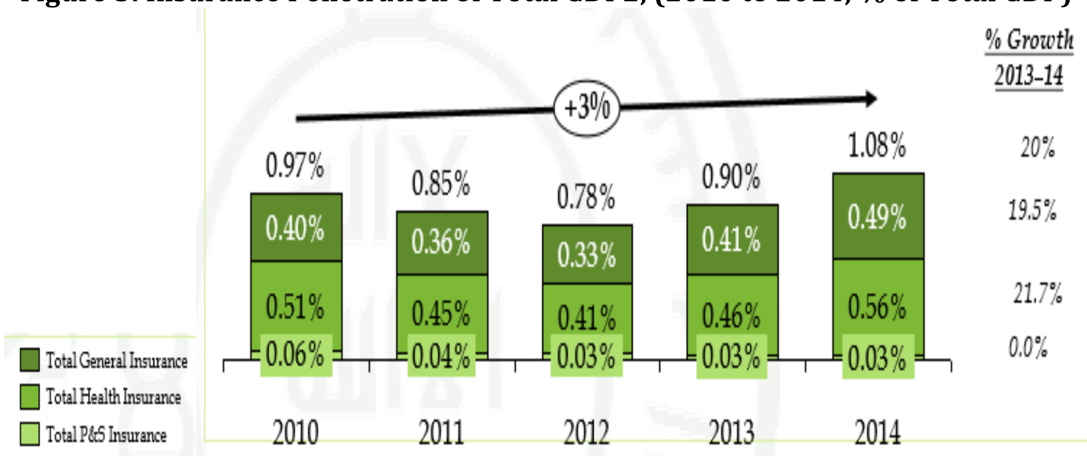


Source (E & Y, 2014).

Insurance Penetration in the Saudi Arabian Market

Insurance penetration (GWP/GDP) has been growing at a CAGR of 3 % in Saudi Arabia. Over the past five years the increase in the insurance market penetration was attributable to the growing demand for all types of insurance (SAMA, 2014). However, in 2012, insurance penetration decreased to 0.78%, down from 0.85 % in 2011, mainly due to low penetration rate of all kind on insurance (SAMA, 2014).

Figure 5: Insurance Penetration of Total GDP2, (2010 to 2014, % of Total GDP)

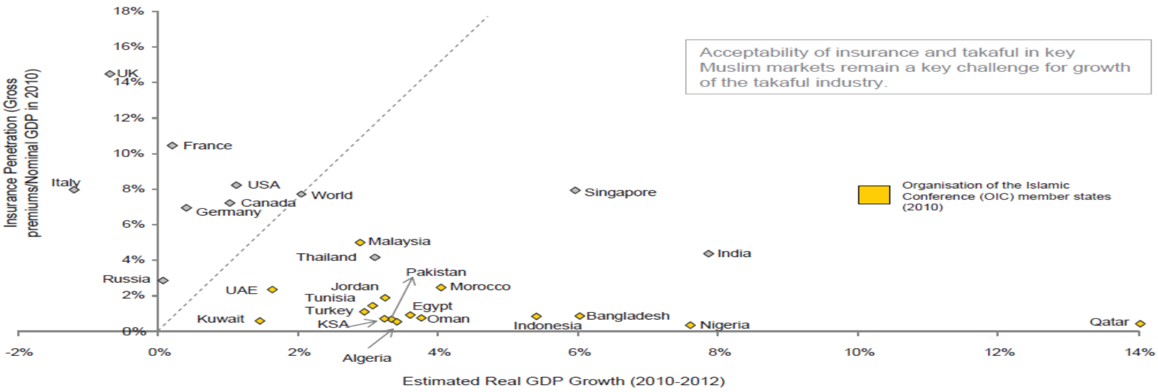


Source (SAMA, 2014).

Total GDP of SR 1,690 SR 2,163 SR 2,727 SR 2,795 and SR 2,821Billion in 2010, 2011, 2012, 2013 and 2014, respectively (SAMA, 2014).

Despite these impressive penetration figures shown in Fig 5, however, Saudi Arabia remains one of the world's most underinsured countries. Penetration rates will need to improve considerably if the Kingdom is to reach the levels of more developed markets, both in the region and internationally. Saudi Arabia's insurance sector still has a long way to go before matching levels in many Western countries. Whereas the Kingdom's insurance sector is now valued at 1% of GDP, the ratio of premiums to domestic product is well over 10% in France and around 13% in the UK, as shown in Figure 6 (E & Y, 2011). In the longer term, given the demographics and economic structures, rapid-growth markets such as Turkey and Indonesia offer wider upside potential. In the near to medium term, takaful operators in markets with stable domestic economies, good macro management and sizeable young Muslim demographics such as Malaysia, UAE, Indonesia and Turkey can look toward capturing profitable opportunities in niche segments (E & Y, 2014).

Fig 6: Insurance Penetration and Real GDP Growth for Select Countries



Source (E & Y, 2011).

Saudi Arabia, however, remains the largest takaful market in the GCC with contributions of US$ 1.7 billion in 2007 and US$ 2.9 billion in 2008 (E & Y, 2009; 2010). Takaful penetration in Saudi Arabia is very low compared to commercial insurance as shown in the table 1 below.

Table 1: Saudi Arabian Insurance and Takaful Fact Book

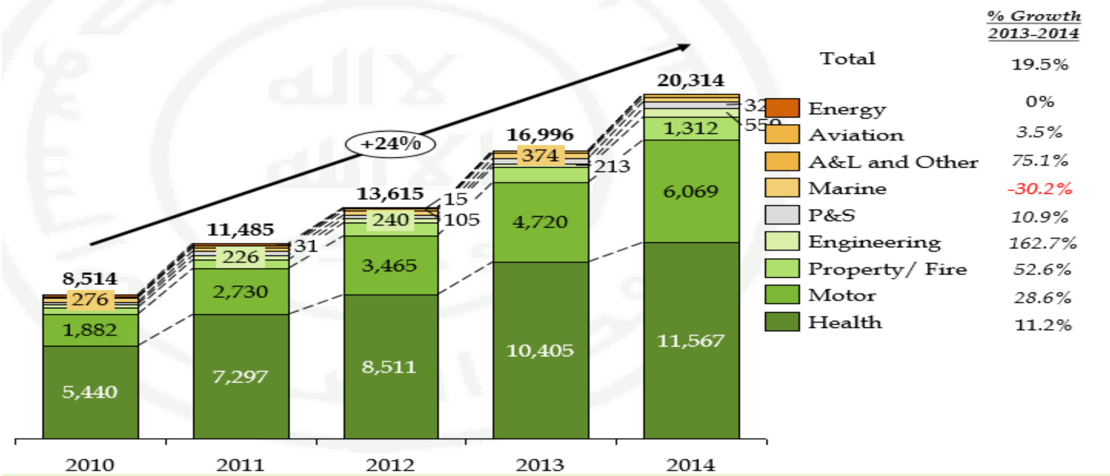
Category	2007	2008
GDP (US$b)	553.5	577.9
Population (M)	27,537,313	28,190,243
GDP / Capita ($)	20,100	20,500
Insurance Premiums ($b)	8.6	10.9
Takaful Premiums ($b)	1.7	2.9
Insurance Premiums / Capita ($)	312	386
Takaful Premiums / Capita ($)	61	102
Insurance Penetration Rate (%)	0.01554	0.0188
Takaful Penetration Rate (%)	0.003072	0.005018

Source: Economic Figures have been taken from Ernst & Young, 2008, 2009; World Development Bank, 2009; insurance and takaful penetration figures calculated by the researcher.

Claim Ratio

Total claims paid by line of business in the Saudi Arabian insurance market has reported a straight increase as shown in Figure 7, which increases from SAR 17 billion to SAR 20.3 billion with a growth rate of 19.5 % between 2013 and 2014. Health and Motor gross claims paid grew by 11.2% and 28.6%, respectively compared to 2013 figures. In 2014, Engineering insurance recorded the highest growth rate in gross claims paid, after increasing by 162.7% from SR 213 Million to SR 559 Million (SAMA, 2014). This can be due to the increase number of constructed projects accomplished in the country. Projects such as the new railway connected between the two holy mosques with the rest of the Saudi cities, new airports in Jeddah and Riyadh, economic cities all over the kingdom, etc. establishing such projects comes in parallel with the kingdom vision of building innovative and smart generation.

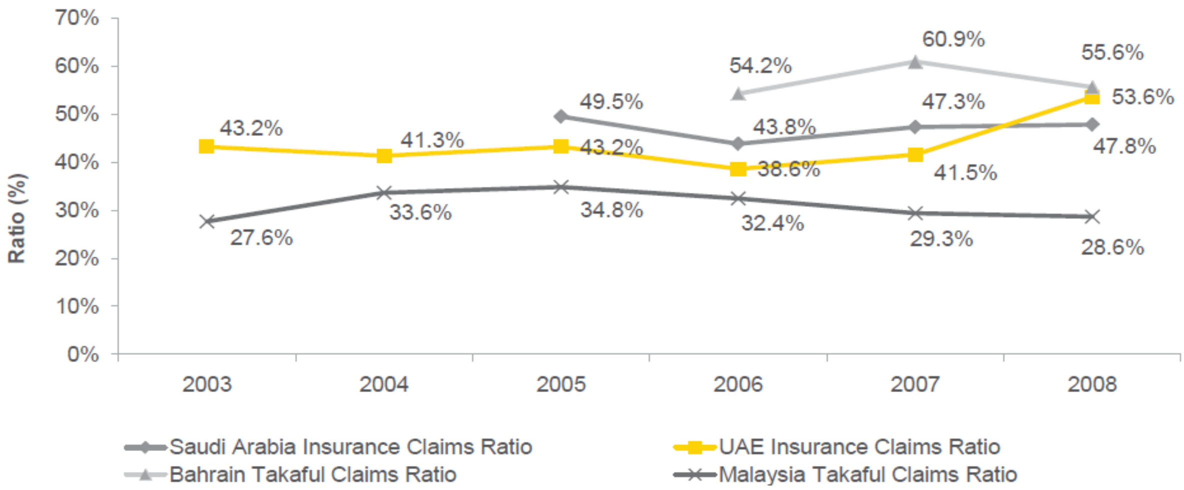
Figure 7 Gross Claims Paid by Line of Business (2010 to 2014, SAR Millions)



Source (SAMA, 2010a).

In 2014, Protection and Savings, which includes takaful insurance, recorded a growth rate in gross claims paid, after increasing by 10.9 % from SAR 297.2 million to SAR 329.4 million. These high-growth percentages in gross claims reflected the relatively high ratios of these lines of business of the total market premiums (SAMA, 2014). Such figures reflect a good awareness among citizens of the importance of family insurance in our daily life. However, takaful claims ratios in Saudi Arabia remains high compared to other countries as shown in Figure 8, due to structured underwriting practice (E & Y, 2010).

Figure 8: Claims Ratios for Different Jurisdictions



Source (E & Y, 2010)

SAMA REGULATIONS

SAMA has issued a number of laws and regulations that aimed to regulate and standardized the Saudi insurance industry. In August 2005, SAMA issued the Cooperative Insurance Companies Control Law, which contains 25 articles. The main headings for insurance companies operating laws include licensing procedures and conditions, the required capital, key personnel responsibilities, auditing and annual reports, the role of the Ministry of Commerce and the role of SAMA in dealing with insurance companies, etc. In the same year SAMA has issued the controlling law that contains 84 articles, which gives an extensive illustration of the previous control laws.

SAMA has also issued a number of specific regulations that address certain issues in the Saudi insurance industry, with the aim of strengthening transparency and accountability and to enable SAMA to enforce better business practices in the Saudi insurance market, some of these regulations are:

- Insurance Market Code of conduct Regulations.
- Insurance Corporate Governance Regulation.
- Risk Management Regulation.
- The Regulation of Reinsurance Activities.
- Insurance Intermediaries Regulation.
- Investment Regulation for Insurance & Reinsurance Companies.
- Actuarial Work Regulation for Insurance & Re-Insurance Companies.
- Audit Committee Regulation in Insurance and/or Reinsurance Companies.
- Outsourcing Regulation for Insurance, Reinsurance & Insurance Service Providers.

Complying with these regulations is mandatory, as the beginning of each regulation document states that non-compliance with the requirements set forth in these codes will be deemed a breach of the Law on Supervision of Cooperative Insurance Companies and its Implementing Regulations and licensing conditions and may subject companies to enforcement action.

SAMA also stipulates at the beginning of every regulation that it is the responsibility of the insurance companies to follow internationally accepted best practices, if it is found that SAMA's regulations have not been fully codified,. SAMA also asserts in each regulation document that insurance companies must establish appropriate internal controls and procedures to ensure and monitor compliance with this code. SAMA has also continued to work on the link project with insurance companies through an electronic system which enables SAMA to monitor the solvency of insurance companies, the volume of written premiums, the quality of assets and obligations and other financial and non-financial data. SAMA has conducted a supervision and control process over insurance companies which include off-site supervision and on-site examinations. These examinations will ensure the companies' prudential procedures, by conducting regular visits to insurance companies that are expected to be granted licenses and those that have already been licensed (SAMA, 2010b, SAMA, 2005a).

The main objectives of SAMA's directives, laws and regulations, and their restricted approach to comply with their regulations and the international regulations is to provide a protection to policyholders and shareholders, encouraging fair and effective competition, and enhancing the stability of the insurance market in Saudi Arabia (SAMA, 2005b).

Sama Corporate Governance Regulations

The Saudi Arabian insurance industry is following the neo-corporatism philosophy, which is based on the stakeholder theory. This approach requires the government to play a central role in regulating and organizing the social and economic interests of society and to protect the policyholders' rights which was one of the main objectives announced by SAMA. To resolve the issue of agency problems and asymmetry of information, SAMA has issued several regulations: the audit committee regulation, the actuarial work regulation, insurance intermediary's regulation, insurance investment regulation, etc. SAMA has also defined the responsibilities of the key governance personnel, and requires proper insurance information transparency among all the company staff. SAMA also stresses on the importance of education of the employees to bring qualified knowledgeable personnel to bring the service level of the Saudi insurance market in line with a similar level of the more developed international insurance industry.

In 2016a, SAMA has issued an insurance corporate governance regulation, which addresses the rules and the discretion power of shareholders and stakeholders through a relevant internal systems and policies. The regulation also addresses board of director's rules. Such as imposing the required policies and procedures for disclosure, the items that suppose to be disclosed to public, the risk exposures and risk management. It also highlighted the level of transparency and timely and adequate disclosure of material events relating to the company's financial situation and performance. It's important for the board to provide a comprehensive report that includes the objective assessment of the company's situation and performance. Independency, the company structure shall independent decision making throughout the organization between the board and the management (SAMA, 2016a). The regulation highlight the conflict of interest, so that board and senior management shall not have any interest, directly or indirectly, in the Company's business and contracts, without a prior authorization from the general assembly. The general assembly also responsible for any remuneration modifications might incur for the chairman's and board for their services.

Sama Educational Efforts

Given the importance of education among insurance employees, SAMA identifies minimum educational requirements related to the licensing and examination of a person providing insurance and reinsurance services in Saudi Arabia. SAMA also states that it is the duty of each company to keep their employees' skills and knowledge of the insurance business up-to-date and be informed of the products and services offered by the company, or companies, they represent and the intended use of these products and services (SAMA, 2008).

In an effort to educate the financial and insurance sectors, SAMA has launched the Institute of Banking (IOB), which was established in 1965 as the Institute of Banking Training. At that time, the institute provided conventional academic education to banking sector employees, who achieved a diploma in banking and financial studies after they had successfully passed the courses. However, with the development of the banking business and the introduction of advanced technologies in the banking sector, the IOB has continued its march by offering cognitive solutions to the financial services sector, including banks, insurance and investment companies.

Within the framework of SAMA's efforts to regulate the insurance sector and motivate companies and their employees to adhere to professionalism and practice insurance activity on a scientific and methodological basis pursuant to rules, regulations and instructions in force, SAMA has prescribed the Insurance Fundamentals Certificate Exam (IFCE) as a mandatory certificate for employees at insurance and insurance-related companies. It has to be completed over three years in accordance with a timetable which determines the period during which each category of employees must pass the exam. The exams cover rules and regulations of insurance, code of conduct and the basics of insurance operations. These ensure that any employee handling and making decisions affecting customers business has a minimum level of knowledge and competence in the area of insurance.

Power and Activities of Key Stakeholders

To overcome the asymmetric information problem, SAMA has implemented several regulations and introduced article laws that can control the discretionary powers of the companies' key personnel. SAMA has implemented the fit and proper programme which requires the insurance and reinsurance services provider's chairman, board members, directors, and senior managers to go through certain procedures to be accepted in the nominated positions. Accordingly, SAMA may object to the appointment of some specific insurance companies Board Members and executive managers. SAMA is putting more restrictions conditions on the nomination of Board of Directors (BoDs).SAMA's permission is required when the insurance company is about to nominate a new member onto the BoDs who previously held a similar position in a company that had been liquidated, or if he was dismissed from a similar position in another company (SAMA, 2005b).

SAMA also restricts BoDs and/or executive officers to hold other sensitive position in the company. For example, SAMA prohibits insurance companies BoDs and/or executive officers from being members of the insurance company audit committee; they are also prohibited to act as responsible actuary, independent actuary, work for any actuarial service company. BoDs are also not allowed to hold similar position in other insurance companies (SAMA, 2005b).

SAMA (2005a: 4) states that, the "chairman, managing director, board member and the general manager of insurance and re-insurance companies shall be each in his respective capacity, responsible for any violation of the provisions of this Law or it's Implementing Regulations".

These rules put the burden on the key personnel of the company to act in an honest manner to protect and respect the policyholders' financial benefits. Violating these rules and regulations can result in the suspension or dismissal of any board member or employee held responsible for such violations (SAMA, 2005b). Accordingly, SAMA requires insurance companies to give a report within 45 days from the end of each year and provide the Agency with the names of members of the BoDs, managing directors, general managers, senior managers in all branches and affiliates and foreign representative offices, including the names and current positions and dates of appointment and the number of years of service in the company. The report also includes their compensation rates in the company (SAMA, 2005b). In terms of shareholders' power and activities, SAMA has limited the concentration of ownership in the insurance companies. SAMA requested companies to notify them of the ownership of any shareholder who owns 5% or more of the company shares through a quarterly report (SAMA, 2005b).

The Audit Committee Regulation

SAMA has issued a draft of its audit committee regulations for insurance and reinsurance companies. Among key reforms in the new regulation is the creation of audit committees by all insurers and reinsurers operating in Saudi Arabia. The newly established audit committees will be required to submit reports and recommendations directly to SAMA and to the company BoDs. Companies must maintain adequate records to demonstrate regulation compliance (SAMA, 2011a). On the other hand, the audit committee must have a degree of independence and should consist of at least 3 and no more than 5 members. However, there are certain conditions applicable to being member of the committee (SAMA, 2011a):

i. The committee member should not be an executive director or manager of the company, with a majority of non-board members.
ii. The committee member should not be a member of the BoDs or Audit Committee of any other company operating in the insurance sector and he is not entitled to be a founder of any similar companies.
iii. The committee member should be familiar with financial issues, accounting, financial reporting and insurance companies' audits.
iv. The company chairman of the BoDs should not be a member or president of the Audit Committee.

The term of the committee is for three years, and the BoDs is entitled to renew the term of the committee or one of its members, after obtaining SAMA's permission in writing for another three-year term and for one time. However, SAMA is entitled to dismiss a member or members of the Audit Committee in case of any violation of this Regulation or violation in the law on supervision and it's Implementing Regulation (SAMA, 2011a).

The Audit Committee has certain tasks which include monitoring the performance and implementation of the internal control systems of the company. It should also ensure the effectiveness and efficiency of those systems, verify the implementation of internal control decisions and actions, and verify compliance with SAMA's regulations and its implementations, other applicable laws, regulations, and instructions in addition to the requirements set forth in this regulation (SAMA, 2016c). The committee has the task of reviewing the actuary and the external auditor's reports and suggestions and then submitting a recommendations report to the BoDs and to follow up with the BoDs recommendations. The committee has been given an authority to directly contact all employees, committees, and legal consultants, internal and external auditors in the company's head office and/or branches, in addition to the other stakeholders. It also has the right without the BoD's approval to check all registers and documents (private and confidential) and regulations to perform its activities (SAMA, 2011a: 8).

To have an effective Audit Committee, SAMA requires insurance companies to structure two departments with one main purpose, which is to provide the committee with the required information they need. The first department is the Compliance Department and is considered as an independent department that reports to the Audit Committee on technical matters and to the Chairman of the BoDs administratively. Its mandate is to report any violations of the laws, by verifying the company's compliance with the laws, regulations, and instructions imposed by SAMA (SAMA, 2011a). The Internal Audit Department is the second independent department that reports to the Audit Committee on technical matters and to the Chairman of the BoDs administratively. Its mandate is to set the audit action plan for the company, to monitor the company's performance through evaluating and verifying the operations to ensure that there are no financial or non-financial violations of the company's internal systems, particularly to the policies and procedures related to the company's different activities (SAMA, 2011a). Appointment of the managers of the two above-mentioned departments is conducted by the company BoDs after referring to the recommendations raised by the committee after obtaining SAMA's approval. The committee is also responsible for recommending a proper actuary and external auditor to the BoDs after obtaining SAMA's approval.

The Actuarial Work Regulation

SAMA has issued the Actuarial Working Regulation to establish procedures for appointing two important kinds of actuaries, the Responsible and the Independent actuaries, and define their roles and responsibilities. The regulation will promote high standards of actuarial practices within the Saudi insurance market, since the insurance company shall ensure compliance with the required actuarial duties and reports. Otherwise, SAMA will appoint an actuary at the company's expense to undertake the actuarial duties (SAMA, 2005b, and 2011b).

To give more accuracy to the actuarial works in the Saudi insurance market, SAMA has assigned a role to the Independent Actuary to review the work of the Responsible Actuary to ensure it complies with the statutory requirements and the professional standards (SAMA, 2011b). The Appointed Actuary shall submit an annual report to the Company's Management, Board of Directors and SAMA by the end of the second month of the following financial year.

The Appointed Actuary shall follow the detailed guidelines that SAMA issues from time to time regarding the contents of the annual report (SAMA, 2016b). The external auditor, the company Audit Committee, and the BoDs shall review the independent actuary report to identify any future risks that the company might face. SAMA has to be provided with copies of these reports in a timely manner (SAMA, 2005b). The Responsible and Independent actuaries should hold a designation of a Fellow, have a prior experience to act as an actuary, have no disciplinary action, suspension or cancellation of membership at any time by the Actuarial Organization of which he/she is a member and should not have been convicted of a felony. Thus, the company shall provide full details of the responsible actuary experience and educational certificates along with the proper and fit form to SAMA. Accordingly, SAMA will notify the company to either keep or replace the Responsible and Independent actuary in case he/she is unqualified to perform the required job (SAMA, 2011b).

Furthermore, the company shall notify SAMA in case of the actuary's termination from the post and the company shall employ or contract another actuary within a period not exceeding 45 days from the date of termination (SAMA, 2011b). Accordingly, SAMA has stated that no one can exercise the duties of actuaries in the Saudi insurance market without obtaining SAMA's prior written approval, in accordance with the requirements of laws and regulations, since the actuary shall be professionally liable for his/her advice and technical services provided to the company (SAMA, 2011b). The Responsible and Independent actuaries have the right of access at all times to the accounting books, other records and documents of the company and be entitled to require from the BoDs and senior management of the company the information and explanations deemed necessary for the carrying out of their duties and the company should provide it to them (SAMA, 2011b). The Responsible and Independent actuaries shall, in the presence of immediate or future risks facing the company, and/or if the company breached the provisions and laws of SAMA or other international insurance laws and regulations and/or if the company has not allowed them to perform their duties, submit a report on an urgent basis directly to the company's BoDs. The BoDs shall examine the report and recommend corrective actions, and forward all related information to SAMA within ten working days after receiving the actuary report (SAMA, 2011b). Furthermore, if the Insurance Company writes Medical Expenses products and Motor products, then the Appointed Actuary shall submit an annual Pricing Report to the Company's Management, Board of Directors and SAMA by the end of the fifth and sixth month respectively of the following financial year. The Appointed Actuary shall follow the detailed guidelines that SAMA issues from time to time regarding the contents of the pricing report (SAMA, 2016b).

Sama Claims and Indemnities Handling Procedures

As an effort to satisfy policyholders' losses, SAMA identifies certain procedures for proper claims and indemnities. Insurance companies in Saudi Arabia should set up a claims department with procedures for accepting policyholders' claims, claims evaluation and processing (SAMA, 2005b; SAMA, 2008). The claims department must respond to the policyholders' claims in a prompt manner. Thus, the insurance company should provide adequate guidance to the insured customer by filling in an information form which will include the claims of the beneficiary under a protection and savings policy. Upon filling the right form the company shall notify the policyholder of the receipt of the claim, and informing the policyholder of any missing information and documents within 7 days from receiving the claimant's application form. The insurance company shall also update the policyholder about the progress of the claim request at least every 15 days (SAMA, 2008). When necessary the insurance company shall appoint a loss adjuster to conduct a reasonable investigation of the claim within a time period not exceeding 10 days, and the insurance company shall notify the customer of such an appointment within 3 working days. Accordingly, the insurance company shall notify the policyholder in writing of the claim acceptance or refusal promptly after completing the investigation with the reasons for that (SAMA, 2008).

In case of disputes about the claim, the insurance company shall explain to the policyholder how to fill a dispute form; by filling the dispute form the complaint will be escalated to the claims committee (SAMA, 2008). The requirement for a claims committee was established by the Edict of the Council of Ministers on a recommendation of the Minister of Commerce, with an objective to resolve disputes arising between insurance companies and their customers or between the company and other companies when they subrogate the policyholders and settle violations of supervisory instructions issued to insurance companies. The committee consists of three specialized members, one of whom, at least, must be a legal consultant (SAMA, 2005a).

Policy Cancellation

An important issue that can create difficulty to policyholders is the lack of proper ways to cancel an insurance contract or not having proper channels to leave the company whenever policyholders no longer like the service or the products presented by the insurance company. To tackle this problem SAMA indicates that the insurance company should include cancellation terms that are fair and reasonable to customers and are appropriate with regard to the product. The cancellation conditions must be clearly stated in the policy contract, with a description of the premium refund due to the policyholder's cancellation of the policy and when it would be payable (SAMA, 2008). The insurance companies shall not cancel a valid insurance policy except for conditions stated in the policy cancellation clauses, and the company shall provide credible reasons for denying, cancelling, and not renewing the policyholder's insurance policy (SAMA, 2005b). However, when a cancellation occurs the company shall refund the premium on a pro-rata basis (SAMA, 2005b: 17). The insurance company shall notify the policyholder in writing with cancellation notice requirements and period, where the period shall be afforded to the policyholders with a minimum of 30 days (SAMA, 2008). However, the policyholder may cancel the insurance policy and recover part of the paid premium, provided there are no unpaid or outstanding claims (SAMA, 2005b).

On the other hand, SAMA has identified a certain timing period for policyholders to test the suitability of the insurance contract to suit his needs. The insurance company shall provide at least 21 days from the date of delivery of the insurance contract for the policyholder to review the contract to assess its suitability and whether it provides the benefits described (SAMA, 2008).

Brokerages and Intermediaries

SAMA has issued the Insurance Intermediaries Regulations in (2011c) which states that non-compliance with this regulation may subject intermediaries to enforcement actions (SAMA, 2011c: 5). SAMA stresses that the intermediaries shall act in an honest, transparent and fair manner to fulfill their obligations towards policyholders and the insurance company, and where these obligations have not been fully codified intermediaries should abide by internationally accepted best practice. SAMA also stresses that the intermediaries shall have proper knowledge, training and enough experience (SAMA, 2011c).

SAMA also identifies the duties of intermediaries which are to communicate all relevant information including coverage details, conditions, exceptions and restrictions of the insurance policy to the customers in a timely manner, and to ensure that customers are aware of the commitment they are about to make to enable them to make a suitable decision. Hence, intermediaries will have the burden to take all the necessary measures to ensure that the customer fully understands the type of service being offered and to ensure that the policy proposed is suitable for the customer's needs. Intermediaries shall advise on the matters within their field of expertise and seek or recommend specialists if necessary, to identify and address conflict of interest to ensure fair treatment to all clients (SAMA, 2011c). In another regulatory document, SAMA (2005b) identified the duties of intermediaries to provide customers with comparisons in terms of price among several products, premiums paying mechanism, services fees charged and additional fees that might be encountered, guidance of the claim and proper handling process.

Investment and Surplus Distribution Disclosure
In an effort to regulate the investment technicalities and administrations of the Saudi insurance industry and to protect stakeholders' financial benefits, SAMA (2011d) has issued the investments regulation. In this regulation SAMA has stressed the importance of the insurance company to adopt an investment policy that complies with the SAMA regulations. All insurance companies operating in Saudi Arabia shall establish an investment policy and submit the policy to SAMA on a quarterly and yearly basis for approval. The investment policy shall include the company's investment strategy, rationale for asset allocation and values, investment management and governance structure, segregation of investment assets with described details of assets classes, policyholders' and shareholders' funds segregation, asset portfolio testing and valuation analysis, investment performance measurements, audit and internal procedures to control investments procedures and encountered investments risk. SAMA stresses the importance of communicating the investment policy to all company departments and staff members for transparency and easiness of information transference among the whole of the employees. SAMA also requires that the insurance company assign a qualified and expert employee who will be responsible for implementing, conducting, monitoring, controlling and reporting investment activities.

SAMA regulation maintains that the insurance company shall have an effective disclosure system to reflect investment qualitative information to the public in general and to policyholders in specific. The company disclosure system shall reflect investment performance management, assets historical cost, methods used to monitor performance, investments assets classes' criteria, expected future return and cash flow, and expected expenses. Insurance companies are also required to disclose specific information about each assets class, for example if the investments portfolio includes sukuk or bond security assets, properties assets, equities/securities assets, etc. The company shall also break these assets down into small classes. In the case of bond security assets, the company shall break it down by government, semi-government and corporate securities with its rating percentage and maturity date. SAMA has also classified the percentage of the investments portfolio assets class, in accordance to the type of insurance activities, general, protection and savings (which includes family takaful) as per Table 2:

Table 2 Assets classes' percentages in the investments portfolio: General Insurance and Protection and Savings Insurance.

Investment Type	Percentage for General Insurance	Percentage for Protection and Savings Insurance
Saudi Authorized Banks	20% minimum	10% minimum
Saudi Government Bonds	20% minimum	10% minimum
Saudi Riyals Denominated Investment Funds	10% maximum	15% maximum
Foreign Currency Denominated Investment Funds	10% maximum	10% maximum
Foreign Government's Bonds (Zone A)	5% maximum	5% maximum
Bonds Issued By Domestic Companies	5% maximum	5% maximum
Bonds Issued By Foreign Companies	5% maximum	5% maximum
Equities	15% maximum	15% maximum
Real Estate in Saudi Arabia	0%	5% maximum
Loans Secured by Real estate Mortgages	0%	5% maximum
Loans Secured by Policies Issued by the Insurer	0%	5% maximum
Other Investments	15% maximum	15% maximum

Source: SAMA (2005b)

SAMA prohibits investments activities in certain assets classes without its permission i.e. in derivatives, structured products, hedge funds, deposits with foreign banks, private equity investments and any off-balance-sheet instrument. Furthermore, SAMA enforces the role of specialists involved in running the company investments activities. A number of key investments personnel are identified by SAMA that have a direct and/or indirect relationship with the company investments activities, such as BoDs, investments managers, investments committee, actuary, audit committee, the role of BoDs, investment committee and senior management in overseeing, and being accountable for, investment activities. The financial statements that are presented to SAMA include a determination of the earned premiums and other insurance operations revenues with the determination of the incurred indemnification. The company presents the obtained surplus distribution by making a difference between the total incurred premiums and indemnification, less the marketing, administrative, technical provisions, and other general operational expenses (SAMA, 2005b).

The insurance company shall also indicate the net surplus figures, by adding the investment return of the policyholder's invested funds, and subtracting the general expenses related to the policyholder's portion of the investment activities, where 10% of the net surplus shall be distributed to the policyholders directly, or in the form of reduction in premiums for the next year, the remaining 90% of the net surplus shall be transferred to the shareholders' income statement (SAMA, 2005a, 2015). Furthermore, 20% out of the 90 % of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts reaches 100% of the paid capital. Hence, SAMA is stressing the importance of documenting and disclosing the mentioned surplus distribution mechanism to the public, and SAMA's written approval of the company surplus distribution mechanism will be based on the accuracy of the insurance company in achieving the required percentage for policyholders' net surplus distribution and timing (SAMA, 2005b, 2015). Thus, the company should inform policyholders who are not entitled to the distribution of surplus (SAMA, 2015). As SAMA (2015) has indicated that the insurance company should calculate the ratio of the gross claims incurred over the gross earned premiums. The company should excluded policies with ratio of 70% or above from surplus distribution.

SAMA'S MARKET CONDUCT AND DISCLOSURE REFORMS

Market conduct as a term refers primarily to the way insurers deal with policyholders whether directly or through intermediaries; it also covers other market players such as investments managers (Casey, 2009). SAMA pays a lot of attention to market conduct as is apparent in its regulations which state the following at the beginning of each issued regulation:

Insurance companies operating in Saudi Arabia shall act in an honest, transparent and fair manner, and fulfil all of their obligations to customers, which they have under the laws, regulations, and SAMA guidelines. Insurance companies should not unfairly discriminate between customers; treatment should not differ based on customer race or gender and insurance companies shall take a reasonable measure to identify and address conflicts of interest to ensure fair treatment to all customers.

An example of good market conducted by SAMA is fair pricing of an insurance policy, which states that insurance companies shall provide SAMA with the justifications and the basis used in setting the insurance policies prices. The insurance policy prices shall be fair and reasonable in accordance with the company's underwriting guidelines and appropriateness to the risks undertaken by the company (SAMA, 2005b).

Disclosure of Information to Customers

One of the IAIS (2011), core principles is ICP 20 that deals with Information, Public Disclosure and Transparency towards the market. In line with ICP 20 principles of IAIS, SAMA has affirmed that the insurance company shall communicate all relevant information to customers in a timely manner to enable them to make informed decisions, hence, companies must take reasonable measures to ensure the accuracy and clarity of the information provided to customers and make such information available in writing (SAMA, 2008).

The wording of the document shall use simple language and sentences, and printed in clear, readable text, with no fine print. The policy shall include a disclosure statement indicating that the policy contract is the entire contract. The policy should reflect the coverage period, and coverage descriptions and limits, deductibles and retentions, insurance rates and premium amounts, basis of premium calculation and the amount of commission paid under the policy (SAMA, 2008). The policy shall also give a description of the insured's duties after a loss has been incurred, and description of the claims and dispute handling procedures (SAMA, 2008). Furthermore, the insurance company shall also notify customers promptly of any changes in the disclosures or conditions made to the customers at the time of entering into the insurance contract. This includes changes in the company's' contact details and changes in the claims filing procedure (SAMA, 2008).

The annual statements are considered vital pieces of information to policyholders. Accordingly, the insurance company should provide an annual statement to their policyholders to include the projected amount received at the policy period, with the current sum insured, total premiums paid in the previous year, while the insurance investments policy should show the value of the units in each fund (SAMA, 2008).

Another important disclosure issue is policyholders' rights whenever an insurance company is planning to cease their operation in Saudi Arabia. Accordingly, SAMA has requested insurance companies to provide evidence that they have fully discharged their obligation to the policyholders, and they shall provide evidence that they kept aside an adequate reserve to meet their obligations toward the policyholders. The insurance company shall also transfer all policyholders' policies in force to another company. Insurance companies shall also announce their intention to cease their insurance services in two local newspapers, and policyholders shall file their objections to SAMA within a period not exceeding three months from the publishing date of the notice (SAMA, 2005b).

RESEARCH DESIGN

Takaful participants are considered the main source of accumulating surplus in the takaful fund as they are the main stakeholders and their equity consists of ownership of the underwriting activities and the investment funds. As such, they have a claim on assets of these funds in case of liquidation and they are entitled to have their claim paid if there are enough underwriting funds to finance payout. They are also entitled to share in the distribution of any investment and underwriting surplus. However, the only right that participants can exert on the takaful scheme is to vote with their feet by discontinuing their contractual relationship with the company in case of dissatisfactions. Accordingly, as Saudi Arabia remains the largest takaful market in the GCC, takaful participants in Saudi Arabia were identified to be the main research population for this study. A comparisons had been made in this paper between SAMA's regulations and standards for insurance with international ones for better protections for policyholders. Such comparisons been consolidated with the empirical findings of four papers that aims to overview the opinion of policyholders who participate in the takaful funds of several TOs in Saudi Arabia. The targeted participant's populations were clients of all TOs in Jeddah, Saudi Arabia, since a number of large TOs have their headquarters in Jeddah. The researcher, with the support of an 8-survey distributer team, has managed to distribute the questionnaires among 9 branches of 3 TOs in Jeddah. The targeted participants are those with a family takaful policy. Thus policyholders are expected to have a long-term contract with the TOs and expected to have periodic financial returns (Underwriting Surplus & Investment Return). The participants should not possess takaful contracts that belong to corporations, i.e. the takaful contracts are between the TOs and the participants' directly. Therefore, questionnaire was chosen as the method by which the survey was completed. Questionnaires are a useful tool for investigating patterns and trends in data and are frequently used with success in management, marketing and consumer research (Easterby-Smith et al., 1991). Most of the survey questionnaire was designed with close-ended type questions. The closed-ended or forced-choice type of question is preferable in this research because it will increase the response rate, since it is easier and faster to be answered by the prospective respondents, especially when using a phone-call approach. A drop-off of a self-administered survey questionnaire and telephone calls techniques were used to collect participants' responses. Accordingly, a total of 500 questionnaires were distributed, of which 420 completed questionnaires were received, where 120 questionnaires were rejected, leaving 300 completed and usable questionnaires for the research, yielding a usable response rate of 60 %. The responses yielding a usable rate reflected the success of using these types of questionnaires to attain the aims and objectives of the study. The survey were based on the researcher's readings of comprehensive topics, which address several researchers suggestions and findings and are based on the imposed polices and standards by the international takaful and insurance regulators such as AAOIFI, IFSB, IAIS, OECD, etc. These policies and standards have one main goal which is to provide proper protection to insurance policyholders, whether the insurance contract is Islamic or conventional. These policies and standards are aimed towards participant protection which will be achieved by satisfying customer perceptions, needs, wants and preferences which in a way enhance customer satisfaction levels. In terms of policies and regulations, great emphasis was noticed towards satisfying participants' desires to gain financial return and to strictly comply with the Shari'ah rules.

CONTEXTUALISATION OF RESEARCH FINDINGS

This section compares the Saudi insurance laws and regulations as assigned by SAMA with the international insurance regulatory standards. Comparisons will be supported by reflecting the results of four different papers that been published under the author name previously. These papers were focuses on participants' perceptions, knowledge, preferences and satisfaction. Such approach will be used to consolidate the findings' conclusions with one main objective, to protect the rights of participants who contributed to the takaful fund. This is to be used to encourage SAMA to establish special takaful directives devoted for takaful companies operating in Saudi Arabia. Accordingly, this section will be sequenced into subsections according to some issues that considered necessary for the protection of insurance participants.

Corporate Governance

An important issue to mention here is that SAMA has never addressed takaful insurance or addresses a Shari'ah Governance issue in any of its directives; they often refer to cooperative insurance companies. Accordingly, the following discussion will address some important points which might affect participants' rights in receiving financial and social benefits.

SAMA has issued a number of corporate governance regulations to strengthen the Saudi insurance market, some of which were directed towards the stakeholders. SAMA has identified the role of BoDs, actuaries, auditors and intermediaries, to provide the required protections to the policyholders. However, SAMA has not put in place any obligatory rules to guide the insurance companies to structure a corporate governance framework that specifies the strategic, operational roles, responsibilities, functions of all organs of the firms including but not limited to the BoD's and its committees.

It is preferable if SAMA develops its own insurance corporate governance system in accordance with the economical and political situations surrounding the Saudi financial market. Each organization should develop its own corporate governance model that caters for its specific needs and objectives (OECD, 2004; IAIS, 2004; IFSB, 2008, 2009a). The model should put in place a balance of governance mechanisms that satisfies all stakeholder parties i.e. shareholders and participants. Such a balanced environment will create a good and strong culture of governance that enhances homogeneity and effective information flow among all stakeholders (IFSB, 2008). Hence, the results of Alnemer (2015a) had shown that TOs operated in Saudi Arabia has no effective disclosure mechanisms. Since, participants' were asked to clarify whether the company has a disclosure mechanism to disclose participants fund benefits, such as investment return and underwriting surplus. Participants would be eager to monitor their fund's financial performance because their expected profit will be directly or indirectly influenced by the company's investment activities which rely on company effort towards managing their assets. Surprisingly, 276 (92%) participants answered 'No' which means that takaful operators are not making them aware of a framework which would enable them to monitor their fund performance. Furthermore, 191 (63.7 %) participants, answered with 'No' when they were asked to clarify whether takaful operators disclose an approach to distribute investment returns among them. Participants were also asked to clarify whether the company updates them on different fatwas that have been made by the Shari'ah board. The participants responses were quite similar, such that 35.0 % and 10 %, respectively of the total participants stated that they 'agree' and 'strongly agree' with the notion, while 40.7 % and 1.7 % stated that they 'disagree' and 'strongly disagree' respectively with it.

A sound corporate governance system should establish a connection between directors, managers, employees, shareholders, customers, creditors, and suppliers (Kaplan and Norton, 2000). By establishing such healthy relationships between insurance company stakeholders, the problem of culture manipulation and information concealment will be minimized if not eliminated. It is recommended that SAMA identify a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Accordingly, on Alnemer (2015a) participants were asked to clarify if the company had disclosed the percentage amount of investing some of the participants fund into the shareholders equities; accordingly, 178 (59.3 %) of participants, responded in negative. Participants were also asked to identify whether the takaful company had disclosed shareholders' activities on participants' underwriting surplus and a large number of 289 (96.3 %) participants responded 'no'. Participants were also required to clarify if the TOs had disclosed the BoDs decisions regarding the participants' fund and 266 (88.7 %) participants replied 'no'.

Shari'ah Corporate Governance System

SAMA in its first article on the supervision of the cooperative of insurance company's laws' has stated that the insurance business shall be operated in accordance with the principles of Islamic Shari'ah (SAMA, 2005a: p. 1).

SAMA is also a "full member" of the Islamic Financial Services Board (IFSB) organization, which entitled SAMA to receive several benefits including, (i) technical assistance, (ii) participate in the IFSB awareness programme, (iii) participate in the development of the IFSB prudential standards, (iv) receive complimentary first-hand copies of the IFSB exposure drafts and be invited to comment on them, (v) receive complimentary printed copies of the IFSB publications such as standards, guidelines, surveys etc.

Despite the membership of SAMA in IFSB and the fact that SAMA insurance law is in faith adhering to the Islamic principles, there is no single directive devoted to Takaful insurance, nor restrictions on certain assets portfolio that go against Shari'ah principles, nor directive on the rules of the Shari'ah supervisory board (SSB) and/or the insurance internal Shari'ah departments. Accordingly, it is preferable if SAMA identifies for insurance and takaful companies the methods of conducting activities in accordance with Shari'ah principles. It is also recommended that SAMA identifies the formation of the in-house religious advisers (SSB) with their roles and responsibilities as well as the roles and responsibilities of the Internal Shari'ah Review Audit (ISRA) and the Internal Shari'ah compliance unit/department (ISCU) and their relationships with the SSB members. Accordingly, the results of Alnemer (2015a) clarifies whether TOs had fulfilled their desires for Shari'ah compliance in all transactions. In the first question participants were asked whether the company had presented an annual Shari'ah compliance report to them and 246 (82 %) of participants answered 'no'. Secondly, participants were asked if the company disclosed the method and basis of the Shari'ah method used to allocate underwriting surplus to which 290 (96.7 %) of participants answered 'no'. The third question participants were asked was whether the company disclosed the criteria used to scrutinize investment portfolio and 278 (92.7 %) of participants answered 'no'. Participants were also asked if the company disclosed the purifications technique used on the participants fund investment assets and 239 (79.7 %) of participants answered in negative. However, participants answered this question differently to the others. When asked to clarify if the company had disclosed their commitment to Shari'ah compliance when dealing with the participants fund, 257 (85.7 %) of participants answered 'yes' which is not considered surprising given that every financial institution that offers Islamic financial products is supposed to clearly announce their Shari'ah compliance commitments to the public.

Another vital issue is the successful efforts exerted by SAMA in simulating the international advanced insurance market by formulating the actuaries work. However, SAMA has ignored vital rules of the actuaries work, that the actuary and the Shari'ah Board should be in charge of finding proper investments contracts to run participants' funds (either by mudaraba, wakala), setting wakala fees for investments management or any other combination, and they should set and advise of the fee structure and the profit-sharing ratio on the investment management between participants and the operator. The actuary is also responsible for allocating and approving the takaful benefits to participants in the family takaful business such as distribution of underwriting and/or investment profit. The collaboration between non-executive directors, Shari'ah scholars, actuary and/or participant's representative should provide adequate protection for takaful participants by monitoring the reserve and distribution of underwriting and/or investment profit (IFSB, 2009a). Accordingly, it is vital for SAMA to link the actuaries work with the principles of Islamic laws to satisfy takaful participants' goal of contributing to the takaful fund. It is recommended that SAMA conduct a research study among participants to find out their preferences to have a representative on the TOs' management as it has been suggested by IFSB.

Underwriting Surplus Distributions

As mentioned earlier in this paper, SAMA in its directive called the "Implemented regulations" Article 70, mentions that the surplus distribution should be conducted as 10% of the net surplus distributed to the policyholders, the remaining 90% of the net surplus should be transferred to the shareholders' income statement. Furthermore, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital (SAMA, 2005b). While AAOIFI Shari'ah standard No. 26 (5/5) of 2007 states clearly that takaful surplus belongs to participants only. Therefore, surplus can only be distributed to the participants based on the participants' donation percentage share. In Saudi Arabia, where the majority of the TOs are using the wakalah model to operate the takaful scheme (AlJazira, 2008; SAAB, 2009; AlAhli, 2010), contradiction arises with SAMA instructions as the TO in the wakalah operational mechanisms is considered an agent to run the underwriting and investments activities. The TO should not share underwriting surplus with participants and they have only four sources of income and surplus is not one of these sources. Accordingly, on Alnemer (2015a) participants were asked to clarify whether the company discloses their policy and procedures for handling participants' surplus from underwriting activities. Surprisingly, 204 (68 %) participants answered 'no' to the question. Participants then asked, whether the company discloses the conditions that allow them to receive underwriting surplus to which 290 (96.7 %) of participants responded 'no'. Participants were also asked whether the company disclosed the uncollected underwriting surplus and again 290 (96.7 %) of participants answered with 'no'.

Furthermore, SAMA seems in favour of implementing the net underwriting surplus instead of the gross underwriting surplus (SAMA, 2005b) which implies that the investment income is ploughed back into the takaful fund and the takaful company shares with the participant the surplus from the takaful fund (Ali and Odierno, 2008; Asaria, 2009). Following SAMA's surplus distribution instructions, therefore, reduces both underwriting surplus and investment return for participants, while shareholders get the ultimate benefits as per SAMA instructions. Therefore, it is preferable that SAMA states the operational scheme of the wakalah model, in accordance with the standards set by international organizations such as IFSB or AAOIFI, since the above-mentioned TOs are claiming that they are running their takaful scheme with the wakalah model. However, the TOs in their public reports or websites never highlight any specific percentage of surplus distribution. In other words, to be fair to participants TOs should distribute underwriting surpluses to participants as per AAOIFI. Hence, on Alnemer (2015a) participants were asked whether the company discloses the methods used to calculate underwriting surplus; accordingly 269 (89.7 %) participants answered 'no'.

The contradiction of SAMA's rule of limiting surplus distribution to 10% only with the international insurance bodies can create confusion among participants as the results of Alnemer (2015b) had shown that 226 (75 %) participants do not know the difference between net and gross underwriting surplus. Accordingly, it will be recommended that SAMA identifies the best approach to allocate underwriting surplus among participants. The allocation can take place by of the following three ways: pro-rata mode, selective mode, or offsetting mode. This will help the participants as 280 (93 %) of them do not know the conditions of sharing in the underwriting surplus (Alnemer, 2015b).

Shareholders' Power and the Availability of Qard Hassan

In some jurisdictions, such as in Malaysia, TOs are obligated to give an undertaking to the regulator to provide a qard facility to be drawn upon in the event of a deficit of a takaful fund (Hussain, 2009). One way to cover a deficit is by deducting the reserve amount from the takaful fund namely, claims contingency reserve (CCR). Hence, participants may be asked to pay regularly more than what is needed for the anticipated compensations in a given period and use the extra amount to build up a reserve as back-up capital for extraordinary damages (Archer, Ahmed and Volker, 2009). Alternatively, deducting from the past underwriting surplus can be used to build up a reserve (AAOIFI, 2010). In case the reserve is not enough to cover the deficit then TOs will ask shareholders to provide qard hasan facility to cover the deficit (Tobias, 2009). However, as Shari'ah standards of AAOIFI (2010) state that insurance accounts shall bear all the expenses and fees that relate to insurance activities. Therefore, the higher the expenses paid out from the takaful fund, the lower the surplus will be (Archer et al, 2009).

According, clear instruction should be given by SAMA on the proper procedure that the TOs should follow to recover the shareholders loan facilities used to overcome a deficit in the takaful fund. As mentioned in SAMA's Implemented Regulations directive, 20% of the net shareholders' income should be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital. However, SAMA does not clarify the sequences associated with the shareholders' obligations to cover any deficits in the fund. In other words, it is preferable that SAMA identifies possible scenarios to pay back the shareholders' loan which can be done either by increasing participants' future contributions to the fund or by preventing participants getting any future underwriting surplus or investment return.

Hence, participants were asked on Alnemer (2015a) to clarify whether TOs disclosed the incentives structure and different expenses excluded from the fund. The first question asked about disclosure of incentive structure, to which 278 (92.7 %) of participants answered 'no'. The second question asked participants to clarify, whether TOs had disclosed direct and indirect expenses against the participants' fund and 284 (94.7 %) of participants answered 'no' to the question. Subsequently, participants were asked to clarify whether TOs had disclosed enough information that guaranteed their rights to receiving qard hasan. The question asked whether the company disclosed their eligibility to provide qard hasan to the participants' fund to which 260 (86.7 %) of participants replied 'no'.

SAMA might assert in its regulations and laws that the TOs should identify different types of expenses and management fees that are going to be deducted from the participants' fund, as these might cause future deficits in the participants' fund and prevent participants receiving underwriting surplus. The results of Alnemer (2015b) show that 298 (99%) participants have no idea about different fees that have been charged by the TOs and 281 (94%) participants have no idea about the situations that causes them to pay additional contributions to the company. It is recommended that SAMA follows AAOIFI standards No. 13, which require disclosure of the basis applied by the company in calculating expenses affecting policyholders' funds such as pre-operating expenditures, reserves, costs of assets used in operations, claims and compensations, etc. On the other hand, there are several acceptable practices that can be exerted by the shareholders to use the takaful fund underwriting surplus and the investment return. However, SAMA did not specify the extent of shareholders' power and limitations on the participants' fund. This can open the door for the TOs to exert more discretion on the participants' fund which might cause dissatisfaction among participants. This is supported by the findings of Alnemer (2015b) which show that 300 (100%) participants do not know if the shareholders are sharing in participants' underwriting surplus and investments returns. Which showed that 167 (56 %) participants have a weak satisfaction level with the participants fund charged fees, encountered deficits and availability of qard (SFDQ) (Alnemer, 2015d). Hence, the findings of Alnemer (2015c) have showed that 205 (68%) participants agree to have the right to refuse shareholders activities on the participants' fund. Accordingly, it's recommended that SAMA follows AAOIFI standards No. 13 which requires disclosure of the bases governing the contractual relationship between policyholders and shareholders.

Clear Segregation between Shareholders' and Participants' Funds

SAMA has clearly stated in the laws on the cooperative insurance directives Article 2, the Implemented Regulations Article 70, and the investment regulations, that the investment policy shall segregate policyholders' funds from shareholders' funds. This is because each type of asset is classified by different objectives and targets, which will require different financial statements. The main objectives are protecting policyholders' and shareholders' interests in terms of ability to meet liabilities and to ensure the business meets the minimum level of capital requirement (SAMA, 2005a; 2005b; 2011a). Despite the fact that SAMA asserts the importance of a clear segregation between policyholders' and shareholders' fund', SAMA did not announce any directives to guide TOs with the proper instructions to separate the two funds.

As one of the main challenges encountered in the takaful business is the hybrid structural scheme with the combination of mutual and proprietary, simultaneously following the principles of Taawun, Tabarru and the prohibition of Riba can raise a conflict of interest. TOs are considered custodians of a takaful fund and they might exert a good amount of discretion to determine the range of products, pricing, terms and conditions of contracts. Additionally conflict can arise due to an agency problem; the separation between the TO and the participants' funds will create asymmetric information and insufficient power for the participants to monitor the TO as a result of lack of representation (Hussain, 2009). Accordingly, it is recommended that SAMA assigns a directive to address the separation instructions in takaful insurance; the directive should clearly give an instruction to separate the assets in the family takaful between Participant Risk Fund (PRF) and those of the Participant Investment Fund (PIF), as well as between the assets of the takaful fund and those of the shareholders' funds.

Asset-Liability Matching Framework

Assets-liability matching management is an important process in protecting policyholders' rights in receiving financial benefits out of their contributions in the takaful fund. As IAIS (2002) asserts that the insurance companies should structure a framework to explain the used type of assets instruments, as well as contingent or intangible assets to reflect the suitability of the assets to gain profit in the short-term and a long-term time horizon and to reflect the suitability of the assets to work as a strong capital. The framework should explain how quickly the insurance company will be able to liquidate its investments if necessary without substantial loss in value. It should also identify the sensitivities of these investments to fluctuations in key types of market variables such as exchange rate, and equity price indices and credit risks.

SAMA (2008b; 2005b) addresses the importance of assets-liabilities matching management to avoid liquidity risk. However, SAMA did not specify the required assets-liabilities matching procedures, nor identify suitable assets that fit with the takaful principles and model structures which mainly rely on the principles of Islamic laws since investments portfolio assets classes' percentage includes types of assets that contradicts Islamic laws e.g. foreign bonds (SAMA, 2005b). Accordingly, it is recommended that SAMA issues a directive which identifies and classifies the type and percentage weights of the assets that can support the TOs operations.

Intermediaries as a Channel for Success Market Conduct & Disclosure

Market conduct and disclosure matters that, when not implemented, can cause a negative impact on participants' financial and social benefits. Although SAMA has stressed that the intermediaries should have proper knowledge, training and enough experience (SAMA, 2011a), it did not specify the required knowledge and skills needed for the intermediaries - knowledge related to the economic and political situation of the Saudi market. The intermediaries should possess the necessary knowledge about different aspects on Shari'ah to sell a takaful policy. Researchers have a common complaint regarding the lack of training of life insurance salesmen (Gower, 1984).

One of the IAIS (2011) requirements is for the intermediaries to be licensed. Similarly, it is recommended that SAMA enforces the intermediaries to be licensed or at least to possess the Insurance Fundamentals Certificate Exam (IFCE), which has been assigned by SAMA to all insurance employees working in Saudi Arabia and to comply with the UK Financial Services Act 1986, which made it mandatory for intermediaries to comply with the code of conduct. Indeed, the findings of Alnemer (2015b) showed 96 (74 %) out of 129 participants state that the intermediaries who sold them the takaful policy have insufficient knowledge about different issues of takaful principles and insufficient knowledge about the associated Shari'ah knowledge.

SAMA has identified the duties of intermediaries to provide sufficient information to customers in terms of price comparisons, premiums payments, payable fees and expenses, claims required documents. However, SAMA did not touch on the element of human action/intervention when delivering the service. This element is important as it was the first four elements of Parasuraman et al. (1988) five dimensions of service quality.

Finally, researcher are critical about the conflicts of interest that can arise from the commission payments structure by which intermediaries remunerated and the cultural environment in which they work (Mercantile & General Reinsurance, 1993; Gower 1984). Accordingly, it is preferable that SAMA becomes involved in setting up fair amounts of commissions and remunerations for intermediaries by comparing the domestic commission rates with the international advanced insurance market. It is expected that by setting fair intermediaries commission, a good service quality will be delivered to the perspective policyholders.

Disputes Settlement Procedures

SAMA has made a noticeable effort to instruct the insurance companies to fairly treat policyholders' claims and disputes, by structuring a claims department within the company which should settle all policyholders' claims situations by appointing a specialized adjuster. The claim departments should also support policyholders to fill out the dispute form for further compliant investigation by the claim committee.

Despite SAMA's efforts to settle policyholders' claim situations, it has not addressed the importance of disclosing options that policyholders can undertake to resolve the dispute issue with the insurance company. For example, policyholders might have the option to resolve the dispute with the insurance companies with the support of the adjuster. However, if the policyholder is not satisfied with the adjuster's opinions then arbitration might be another option. If still unhappy with the arbitrator decision then the case can be escalated to the Grievances Court for final dispute resolution. The disputes settlement procedures should be available and disclosed to policyholders at all times for fair treatment. The importance of disclosing such information was clearly obvious in the conclusions of the research conducted by Wells and Stafford (1995). They have concluded that a consumer tends to rate service quality higher if they are aware of their right to complain to the regulator. The awareness that a consumer advocate exists may reduce feelings of helplessness, dissatisfaction, or resentment.

Indeed, the findings of Alnemer (2015b) showed that 215 (72 %) participants replied that they do not know which parties they should refer to when a dispute is encountered with the insurance companies. Therefore, it is recommended that SAMA asserts the importance of disclosing the dispute resolution procedures along with the legal bodies to which participants should rely on to resolve their disputes with the company.

SAMA, with the cooperation of the Saudi jurisdiction, should relieve the controlling power of the Board of Grievances on the arbitrations committee. In other words, the arbitration organization should be treated as a separate entity from the Board of Grievances for better judgment diversifications and for policyholders to get the ultimate benefits of using arbitration services as it has wide feature functions. Since the arbitral tribunal cannot execute their judgment on a commercial matter until the Board of Grievances approves an arbitration instrument, the Board of Grievances can at any time be involved in any commercial case is that within the custody of the arbitration board (Ghazzawi et al., 2011). This will eventually limit arbitrators to do their work as has been identified by some of the advanced insurance markets such as in the UK. It is also recommended that SAMA introduce the Ombudsman Service as an important alternative option to resolve policyholders' insurance disputes. The ombudsman service should possess professional expertise in the insurance field to provide a free service to resolve disputes in insurance or other financial services.

Disclosure Mechanisms

SAMA, in its Insurance Market Code of Conduct Regulation, 2008 directive, clarifies that companies should communicate all relevant information with the customer and ensures that such information is provided to customers in writing. SAMA also points out that the company, upon customer request, should provide the customer with the key terms and conditions of the product and service purchased including benefits, claims and complaint procedures, restriction conditions, fund past performance, etc. The above disclosure instructions seem devoted to current customers or customers who are about to buy an insurance policy which is quite beneficial. However, this information should be available for all the general public (and not only on request of current/potential customers) as per IAIS (2011) public disclosure directive which asserts that information should be properly disseminated according to the international standards and designed in adequate methods and assumptions to bring the attention of policyholders and the public to the relevant information; it also states that the best channels to disclose information to the public is by using the internet.

New customers would like to view different information about the company such as, financial performance, profit and loss statement, fund expenses and fees, policyholders' financial benefits, assets portfolio, assets-liabilities matching process, Shari'ah board and Shari'ah compliance mechanisms, claim and complaint procedures, stakeholders obligations, company market position, board, management and shareholders structure, corporate culture, etc. The current policyholders would also like to review their benefits at the fund, which requires the TOs to provide an effective IT system to serve their desires.

Gow (2000) asserts that some insurers are still stuck in paper documentation, hampering faster communications with clients. This will prevent insurers from making the most from existing customer relationships. Gow (2000) ascertains was quite obvious, as the results findings of Alnemer (2015a) showed that 276 (92%) participants indicated that the company did not disclose ways to let them review their benefits; 287 (96 %) participants indicated that the company did not use the internet to communicate with them; 206 (69 %) participants indicated that the company is communicating with them by letter and 287 (96 %) participants indicated that the company did not communicate with them at all. Accordingly, it is recommended that SAMA encourages insurance companies to let go of the old fashioned paper handling approaches and to establish an active disclosure mechanism that uses the best available IT system to properly disseminate information to the public and to the current customers.

Code of Ethics

SAMA Market Code of Conduct Regulation, 2008 requires insurance key stakeholders to act with integrity, honesty and fair dealing. However, SAMA has not put in place an adequate observation system that can periodically be conducted to monitor the compliance with this code and to effectively address any dishonourable behaviour.

As SAMA demanded (in its first Article on the supervision of cooperative insurance laws) that insurance companies operating in Saudi Arabia should adhere to the Islamic principles, it is recommended that SAMA imposes a social ethical framework for implementation by takaful and insurance companies operating in Saudi Arabia.

The framework should encourage and monitor correct and positive ethical behaviour, such as ihsan (goodness), tawakkal (trust in God), amanah (honesty), infaq (spending to meet social obligation), sabr (patience) and istislah (public interest) (Lewis, 2005). The framework should also mandate that any decision involving more than one party should access and consult on the basis of principles of Shura (consultation). Thus directors and senior managers would be expected to listen to the opinions of other executives before making a decision and shura members would include, as far as possible, representatives of shareholders, employees, suppliers, customers. Other stakeholders including the community should also play a role in providing mutual cooperation to protect interests as a whole and to stimulate the social wellbeing function for social welfare (Choudhury and Hoque, 2004).

It is recommended that SAMA ensure that the code of ethics is properly implemented by whoever promotes or advertises the insurance and takaful products, such as a conventional bank with a takaful window, brokers, agents, actuaries, representatives, etc. In terms of investment activities TOs should strictly adhere to Islamic ethical codes.

The framework should ensure that, for the long-term takaful contracts especially family takaful plans where long-term relationships are established between takaful participants and the TO's, an adequate code of ethics and conduct should be observed by the representatives of the TOs' before and after the finalization of the contract; such contracts should contain clear illustrations for better understanding and appreciation by takaful participants who may not be familiar with takaful terminology (IFSB, 2008).

Another ethical practice that can be suggested by SAMA to be implemented by the takaful and insurance companies is to find a way that can improve participants' financial return in long-term contract such as participants who contributed to the family takaful scheme. SAMA can impose the methods used by the Islamic banking to attract participants such as, (i) minimizing shareholders equity to mobilize more benefits to participants, (ii) Profit Equalization Reserve (PER), by matching participants' financial return with other operators in the same industry by setting aside both participants' and shareholders' funds before allocation, (iii) displaced commercial risk, encouraging shareholders to give up part or their entire mudarib share to the participants to motivate them into continuing to place their funds with the bank, in other words TOs' should not ask for a refund for the amount of qard provided to recover a deficit in the takaful fund (Archer, Karim, and Nienhaus, 2009).

Service Quality

Bad practice, callous treatment and poor service design and delivery, have contributed to widespread customer dissatisfaction in the insurance industry (Wells and Stafford, 1995; Friedman, 2001a, 2001b; Cooper and Frank, 2001). Customers are demanding a lot more than the industry has been willing to give, leaving clients frustrated with their services (Robert, 2000). Such malpractices have created a growing distrust of the insurance industry among almost all stakeholder level customers, employees, regulators, shareholders and the public (Darcy, 1996).

Wells and Stafford (1995) call for regulators to seek more sophisticated and accurate diagnostic models for assessing insurer service quality in the insurance industry. Accordingly, it is important for SAMA to adopt a suitable service quality model to measure customer satisfaction levels, by assessing how well customers' needs, expectations and perceptions are being met or exceeding the company's offering. Indeed, the findings of Alnemer (2015c) reflects that the majority of participants have a high level of preferences in that 179 (60 %) participants agrees to be given an opportunity to select the Shari'ah supervisory board, 205 (68 %) participants agree to be given an opportunity to refuse shareholders' activities on the participants' fund, and 224 (75 %) participants want to share with other participants the underwriting surplus whether they made claims or not. It is also recommended that SAMA encourages insurance companies to adhere to customers' expectations and perceptions by implementing a means of scoring satisfaction as a way of improving service quality in the Saudi insurance industry; it will be quite beneficial if SAMA has access to insurance companies' policyholders' satisfaction scoring card, for quick and adequate intrusions timing. The research findings of Alnemer (2015d) report that 152 (51 %) participants have a weak satisfaction level with the participants fund investment return (SIR), and 167 (56 %) participants have a weak satisfaction level with the participants fund charged fees, encountered deficits and availability of qard (SFDQ).

Lesson from the Advanced International Insurance Industry

The FSA in the United Kingdom has worked hard to develop and control their insurance market to provide the required protections to policyholders, especially (with-profits policyholders'), since they have the rights to share in the bonuses generated from the investment activities (similar to participants in the family takaful scheme). One of the FSA reform approach is to educate insurance customers of their rights and obligations, especially after the failure of Equitable Life insurance. Accordingly, the FSA has launched the Financial Capability Steering Group which will examine the approach to consumer education to achieve better public awareness and better policyholder protection (FSA, 2003). Accordingly, regulators should have the burden and the responsibility to inform and educate consumers about the nature of the financial system (Dewing and Russell, 2001). It is recommended that SAMA simulates the FSA programme to educate and enhance policyholders' awareness and knowledge about their rights and obligations in the fund, especially with those participants who possess a life family takaful policy as they have a long-term contractual agreement with the insurance company, which entitles them to receive periodic financial benefits.

The importance of implementing an educational programme among takaful and insurance participants in the Saudi insurance market is supported by participants' responses of the findings of Alnemer (2015b) i.e. 226 (75 %) participants have an overall weak knowledge about the takaful fund underwriting surplus distributions, 262 (87 %) participants have an overall weak knowledge about the takaful fund Shari'ah compliance system, 272 (91 %) participants have an overall weak knowledge about the takaful fund charged fees, encountered deficits and availability of qard, and 237 (79%) participants have an overall weak knowledge about the proper dissatisfaction channels when they are dissatisfied with the TOs' services and products.

Furthermore, it is preferable that SAMA simulate the FSA rules and guidance in relation to treating with-profits policyholders fairly according to the FSA's Conduct of Business Handbook (COBS 20) and the associated Principle 6 (Customers' interests), Principle 7 (Communications with clients), and Principle 8 (Conflicts of interest) (FSA, 2010).

Knowledge of Supervisory Authority

Sound market conduct policies and procedures will not be carried out without having effective supervisors who can encourage insurers to make effective disclosure, by maintaining efficient, fair, safe, and stable insurance markets for the benefit and protection of policyholders (IAIS, 2002). The supervisors will need to have sufficient knowledge about takaful to be able to understand the products with which they are dealing and the significant differences between takaful contracts and conventional ones. The takaful contracts should cover the contractual relationships between TOs and participants, including circumstances of any additional contributions that may be sought and the basis for the distribution of any surplus (Casey, 2009).

It is very important that SAMA enhances their employees' knowledge about the principles and products of takaful insurance according to the different used takaful models. SAMA employees should understand different implications between conventional and takaful insurance. It is preferable that SAMA relies on the already-established standards by organizations such as AAOIFI, IFSB and similar standards as per IAIS to regulate takaful insurance in Saudi Arabia and it will be quite beneficial if SAMA separates the takaful laws and regulations from the cooperative insurance ones as takaful consists of a hybrid structure, with the combination of mutual and proprietary scheme.

SUMMARY AND CONCLUSION

This paper reflected the ideal policies and regulations and aims to ascertain a proper benchmark that should be used by the TOs in Saudi Arabia to provide the required protection to policyholders. By doing so, this paper has addressed the laws and reforms polices that have been imposed by the main financial regulatory body, SAMA. This paper has shown the development process of the insurance industry in Saudi Arabia and how it has been recently (end of 2003) shifted from an unregulated insurance market that issued no licenses to insurance companies, to an organized and well- controlled insurance market that oversees and licenses all insurance-related business, with certain objectives to protect stakeholders and bring stability to the insurance industry in Saudi Arabia. This paper also presents the recent status of the number of insurance companies operating in Saudi Arabia. A reflection on the Saudi insurance market's current behaviours, in terms of market performance, gross written premium and compounded annual growth rate, claim ratio and the Saudi TOs claims ratio among international takaful markets, has also been provided in this paper.

To consolidate SAMA's role in the controlling and supervising process, the agency has become a member of the International Association of Insurance Supervisors (IAIS). SAMA has also established a project to be electronically linked with the insurance companies operating in Saudi Arabia to enable SAMA to monitor insurance solvency situations. It has also been stressed that a certain qualification level or exam, the Insurance Fundamentals Certificate Exam (IFCE) should be obtained by most of the employees who are working in the Saudi insurance industry, for better market conduct approach. SAMA has also issued a number of reforms regulation and polices that simulate the international insurance organizations standards. Adherence to these regulations is considered mandatory and any breach found may cause SAMA to seize the operation of that company. Regulations are such as Market Conduct Regulations, Intermediaries Regulation, Investment Regulation, Actuarial Regulation, and Audit Committee Regulation. SAMA has made it mandatory for any insurance company operating in Saudi Arabia to establish an internal audit department and to establish an audit committee, to ensure the effectiveness and efficiency of the company performance and verify compliance with SAMA's regulations and its implementations. Insurance companies shall also establish an investments policy to be submitted to SAMA on a quarterly and yearly basis. The policy shall include statements of investments performance, assets segregation of policyholders and shareholders, measurement methods to assess investment performance, measurement of investments risk, etc.

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The Predictive Impact of Cultural Values and Ideology on Employer-Employees Relations in Contemporary Nigeria

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Abstract

This study investigated the predictive impact of cultural values and ideology on employer-employees relations in contemporary Nigeria. Using a descriptive survey research design, simple random sampling technique was used to select four hundred employer-employees from ten manufacturing organisations in Ibadan, Nigeria. A self-constructed questionnaire (0.84) was used to collect relevant data for the study. Two research questions were answered and two hypotheses tested at 0.05 level of significance. Data were analysed using Multiple Regression and Pearson Product Moment Correlation statistical tool. There was significant relationship between the independent variables and the dependent variable. Also, the independent variables accounted for 45.5% of the total variance on the predictive impact of cultural values and ideology on employer-employees relations in contemporary Nigeria. In order of magnitude, of the contribution: ideology has more influence on employer-employees relations (β =0.373, t = 2.246, P < 0.05) followed by cultural values (β = 0. 156, t = 1.668, P < 0.05). Therefore, Management should ensure appropriate work orientation is given to workers so that they will be conscious of their organizations cultural values and ideological philosophy as to support the growth of the organization.

Key Words: Cultural values, Ideology, Employer-Employee Relations, Organisation, Ibadan.

INTRODUCTION

The condition of service, terms of engagement, quality of life and work relationship pattern that exists in an organisations environment is paramount to the realisation of high productivity, sustainability and harmony. This influences the performance of any organisation in all ramifications. However, attaining harmonious employer-employee relationship that is conflict free is often a challenge to organisation(s). This makes possible factors such as cultural values and ideology that can affect employer-employee relationship an important issue of discuss in this contemporary time considering the fact that employer-employees synergy is central to attaining an effective operational process and actualisation of organisational goals and objectives.

According to Hsieh (2008) the imprecise nature of the inter-play of organisations cultural values and ideology that exists between employer and employee has spurred interest in field of organisational management. The terms refer to the perceptions of employer and employee about what their mutual obligations are towards each other. Their effect focuses on what drives day-to-day behaviour – the unwritten rules and expectations that govern employer-employees interaction, the ‘way things are done in an organisation. These implicit signals can prove much more important in the management of the employment relationship than any piece of paper as the moral bargain of work revolves around understandings of obligations, expectations and promises.

According to Penna research report (2007) organisations cultural value and ideology could make the work environment and experience meaningful to employer and employees. Meaning at work has the potential of bringing employers and employees closer together to the benefit of both where employees experience a sense of community, the space to be themselves and the opportunity to make a contribution. Employees want to work in the organizations in which they find meaning at work. Thus, White (2006) study found that almost two third's (60%) of the surveyed employees want more opportunities to grow forward to remain satisfied in their jobs. Also, White (2006) reports that strong employer-employee relationship is a crucial ingredient in the employee engagement and retention formula.

REVIEW OF LITERATURE

Employment relationship refers to the relationships that exist between employers and employees in their working environment, these relationships may be formal as in contracts of employment and procedural agreements (Gallie, 1998). These relationships could also be informal as in psychological contract, which states 'certain assumptions and expectations about what managers and employer have to offer and are willing to deliver' (Armstrong, 2005). Employees are a significant part of the employment relationship but they are not to be seen as commodities or just another factor of production as it is assumed under the traditional orthodox theories of supply and demand (Budd & Bhave, 2006).

Employer-employees relationship is a dynamic synergy in human resources management with the collaborative aim of gaining competitive advantage over competitors through the strategic development of a highly committed and capable workforce using an integrated array of cultural, ideological, structural and personnel techniques (Storey, 2001). Armstrong (2005) contends that understanding and appraising the efficacy of cultural values and ideological principles in human resources management is strategic to effective functioning of an organisation's human potentials in which every aspect of its operations. Thus, the knowledge of the factors that impact on harmonious employer-employee relationship in Nigeria is becoming increasingly critical to the way businesses are done in Nigeria and ultimately their success. Hence, the way to get things done cannot be divorced from local values, customs, and the overall external cultural environment. Nigeria according to Fajana (2009) is one of the African countries troubled by abundant labour and scare talent. Attracting, developing, deploying and retaining best talents had become a challenge. That is why Fajana and Ige (2009) argued that the desire for top performance has driven the need for effective employer-employee relationship.

Adigun (2013) reports that employer-employees relationship is a complex experience in which many individuals, other variables or elements in an organisation have a role to play and the role of any one party in organization is affected by the role of the other. This suggests the fact that employer-employees relationship in organisation(s) involves a range of complex patterns of interactions between different work-related groups such as trade unions and employers at organisational level, and the state and its agencies in the regional as well as the national levels (Rose, 2004). Also, Blyton and Turnbull (2004) posited that employer-employees relationship portrays the distinctive characteristics of all employment relationships either individual relationships or collective relationships. However, they contend that understanding employer-employees relationships involves locating it within the broader nature of the economic activity involved and also taking into consideration the structural basis of the probable conflict and accommodation between employee and employer; the persuasion as well as the manipulation of the larger society on employment relations is also important. In essence, “the nature of employment relations in any organisation should be seen in relation to wider socio-economic, political and legal structure” (Debrah & Mmieh, 2009).

Organisations globally, Nigeria inclusive operates based on specified cultural norms that guides their everyday operational activities. Such organisations culture has values attached to it and it helps propel organisations ability to attain their goals and objectives. The values attach to culture that exist in an organisation help determines mode of operation, devolution of power, authority, communication, relationship, conflict management, manner of bargaining, among others. This implies that organisational culture are basically behaviour and expressed ways of life that guides valued relationship that exist in an organisation to enhance its functionality and productivity.

The value attached to efficacy of cultural norms in organisation makes the understanding of organisations cultural values an important issue of discuss in both management and management practices literature (Denison, 1990; Lau & Ngo, 1996). It has also been variously defined as the history of an organisation or what allows employees to understand their workplace, it also makes the employees to make sense of work activities and to relate them to daily events (Porter, 1990). It also forms one of the basis for competitive advantage (Deal & Kennedy, 1988); it helps in determining the effectiveness of a company (Denison, 1990); it is important in developing high performance amongst staff (O‟ Reilly, 1989) and also helps in increase loyalty of staff to the organisation (Porter, 1990). Also, Olusoji, Adediji and Owoyemi (2012) contended that culture is the acquired knowledge that people use to interpret experience and to generate social behaviour, they further suggest that culture is shared by members of a community, organisation or a group and that through culture, values and attitudes are formed which invariably shape individuals as well as group behaviour. Culture to them is learned through education, socialisation and experience and it is passed from one generation to another; therefore it can be said to be enduring.

Beal and Begin (1982) remark that every human society and culture creates some kind of an industrial relations system or system of relations between the people who head organizations and direct its activities and those who do the work. Put in another way, the relationship between workers and those they work for is as old as human society itself. But this relationship has changed in accordance with prevailing socio-political and economic settings. The relationship has variously manifested in history as that between slave and master, between the serf and the baron of feudal societies, between the master and the workman of the industrial revolution era, and between the employee and employer of the present day.

The writings of Karl Marx (1818-1883), were very critical to the development of labour movement. His writings elevated labour by arguing that the capitalist’s wealth is created by exploitation of surplus labour of the workman. Marx advocated that for the exploitation of labour to cease, the workers must seize and own the means of production. Marx’s thesis and the theoretical and practical commitment of his followers, led to the great socialist revolution and labour union movements that dominated the politics and economic thinking of the greater part of 20th century. The outcome was the bipolar ideological world in which countries aligned along the two blocs of capitalism and socialism. The presence of labour unions was felt not only in countries that professed socialism but also in core capitalist ones.

The following research questions and hypothesis were answered in the study:

Research Questions

1. To what extent does organisations cultural values and ideology impact on employer-employees relationship
2. What is the relative impact of organisations cultural values and ideology on employer-employees relationship?

Research Hypothesis

There is no significant relationship between organisations cultural values and employer-employees relationship

There is no significant relationship between organisations ideology and employer-employees relationship

METHODOLOGY

Design and Participants

This study adopted a descriptive survey research design of ex-post facto type. The population comprised of employer-employees of manufacturing organisations in Ibadan, Nigeria.

Sample and Sampling Technique

The samples for the study consist of 400 employer and employees randomly selected through the simple random sampling technique from ten randomly selected manufacturing industries in Ibadan Nigeria.

Instrumentation

A self constructed questionnaire was used for data collection for this study. The questionnaire is divided into four sections comprising (A, B, C, & D) Section A has items on personal demographic variables; Section B has ten items on employer-employees relationship: For example it has items such as; Worker work as a team; workers are giving feedback on why they are promoted or not promoted; workers welfare is taken serious etc; Section C is on organisations cultural value and it has six items. For example it has items such as; Workers are expected to report direct to their supervisor; Information is passed from management through supervisors to subordinates etc, Section D has six items on organisations ideology for example it has items such as; Discussions are made based on the principle of collective bargaining, productivity is enhanced through training etc. The questionnaire is structured on a likert scale format and it has internal reliability coefficient of 0.82 obtained through a test-re-test procedure.

Procedure

The researchers obtained permission from the management of the manufacturing industries used for the study. The consent of the participants were equally sought and obtained. After the consent of the participants was obtained, the researcher administered copies of the instrument with explanation on how to complete them and the purpose of the research.

Method of Data analysis

Data were analysed with multiple regression and Pearson Product Moment Correlation statistical tools at 0.05 level of significance.

Result

To what extent does organisations cultural values and ideology impact on employer-employees relationship

Table 1: Regression summary table showing the extent to which organisations cultural values and ideology impact on employer-employees relationship

R= .591
$R^{2=}$ .473
Adj $R^{2=}$ .455
Std Error= 11.516

Source	Df	Sum squares (ss)	Mean square	F-Ratio	Sig
Regression	2	38681.126	19340.563	362.971	.000
Residual	397	21153.861	53.284		
Total	399	59834.987			

The result on Table 1 revealed that organisations cultural values and ideology impact on employer-employees relationship with a joint contributing impact of 45.5%. The composite effect of the independent variables as jointly contributive on employer-employees relationship are revealed as thus, R= .591, R2 =. 473, Adj. R2 = .455 and Std. error of estimate 11.516. The result of the multiple regression analysis produced an F-Ratio (2/397) = 362.971 which was significant at p<0.05 alpha level.

What is the relative impact of organisations cultural values and ideology on employer-employees relationship?

Table 2: Showing the relative impact of organisations cultural values and ideology on employer-employees relationship

Variables	B	Std. Error	Beta	t	Sig
	43.264	4.421		8.136	.000
Cultural Values	.325	.174	.156	1.668	.341
Ideology	.438	.191	.373	2.246	.004

Table 2 highlights the level of contribution of cultural values and ideology on employer-employees relationship. The table revealed the magnitude of each independent variable contribution on the dependent variable. Thus, Table 2 showed that ideology had more impact on employer-employees relationship. The t-observed for each of the variables attests to this fact.

Ho1: There is no significant relationship between organisations cultural values and employer-employees relationship

Table 3: PPMC summary table showing significant relationship between organisations cultural values and employer-employees relationship

Variables	N	Mean	SD	R	df	p
Employer-Employee Relationship	400	33.26	7.066	0.294	398	sig
Cultural Values	400	22.06	4.681			

Table 3 shows that the variable cultural value correlates significantly with employer-employees relationship, r (398) = 0.294, p<.05. The mean and standard deviation for cultural value was 22.06 and 4.681 respectively. With this result, the Ho: is thus, rejected.

Ho2: There is no significant relationship between organisations ideology and employer-employees relationship

Table 4. PPMC summary table showing significant relationship between organisations ideology and employer-employees relationship

Variables	N	Mean	SD	R	df	p
Employer-Employees Relationship	400	33.26	7.066	0.325	398	sig
Organisations Ideology	400	30.10	8.106			

Table 4 shows that the variable organisations ideology correlates positively with employer-employees relationship, r (398) = 0.325, $p<.05$. The mean and standard deviation for organisations ideology was 30.10 and 8.106 respectively. With this result, the Ho: is thus, rejected.

DISCUSSION OF THE FINDINGS

Research Question One seeks to find out what extent organisations cultural values and ideology impact on employer-employees relationship. The result of the study revealed that organisations cultural values and ideology impact on employer-employees relationship with a joint contributing impact of 45.5% and the result of the multiple regression analysis produced an F-Ratio (2/397) = 362.971 which was significant at $p<0.05$ alpha level. This development is an indication that organisations thrive better if they have well established culture and ideological principles that ensures equity, collective responsibility and management by objective. This influences the performance of any organisation in all ramifications. This is consistent with Penna research report (2007) indicating that organisations cultural value and ideology could make the work environment and experience meaningful to employer and employees. Meaning at work has the potential of bringing employers and employees closer together to the benefit of both where employees experience a sense of community, the space to be themselves and the opportunity to make a contribution. Employees want to work in the organizations in which they find meaning at work. Thus, White (2006) study found that almost two third's (60%) of the surveyed employees want more opportunities to grow forward to remain satisfied in their jobs. Also, White (2006) reports that strong employer-employee relationship is a crucial ingredient in the employee engagement and retention formula.

Research Question Two seek to find out the relative impact of organisations cultural values and ideology on employer-employees relationship? The findings of the study showed that ideology had more impact on employer-employees relationship. The t-observed for each of the variables attests to this fact. Ideology is a strong factor that often influences people's behaviour positively or negatively. For example the ideological principle of, capitalism, collective bargaining, management by objective, principles of division of labour, etc is often used to the advantage of either the employer or the employee. This implies that ideology gives employer or employees a directional path to follow in dispensing of their daily operational activities. This corroborates Hsieh (2008) affirmation that a well appraised ideological philosophy is much more important in the management of employment relationship than any piece of paper as the moral bargain of work revolves around understandings of obligations, expectations and promises. Also, this finding is in line with Armstrong (2005) report of the fact that understanding and appraising the efficacy of organisations ideological principles in human resources management is strategic to effective functioning of an organisation's human potentials in every aspect of its operations.

Hypothesis one states that there is no significant relationship between organisations cultural values and employer-employees relationship. The result of the study revealed that cultural values correlates significantly with employer-employees relationship, r (398) = 0.294, $p<.05$. With this result, the Ho: is thus, rejected. The reason for this could be appraised from the point of view that culture is the way of life of an organisation thus, the value attached to the efficacy of cultural norms in organisation is fundamental to their operations (Denison, 1990; Lau & Ngo, 1996). It also forms one of the basis for competitive advantage (Deal & Kennedy, 1988); it helps in determining the effectiveness of a company (Denison, 1990); it is important in developing high performance amongst staff (O" Reilly, 1989) and also helps in increase loyalty of staff to the organisation (Porter, 1990). Also, Olusoji, Adediji and Owoyemi (2012) contended that culture is the acquired knowledge that people use to interpret experience and to generate social behaviour, they further suggest that culture is shared by members of a community, organisation or a group and that through culture, values and attitudes are formed which invariably shape individuals as well as group behaviour.

Hypothesis Two states that there is no significant relationship between organisations ideology and employer-employees relationship. The findings of the study indicated that organisations ideology correlates positively with employer-employees relationship, $r(398) = 0.325$, $p<.05$. With this result, the Ho: is thus, rejected. This indicates that organisations ideology is pertinent to operational interaction and employer-employees commitment to ensuring that they work as a team to attain organisational goals, objectives and sustainability. Thus, Adigun (2013) reports that employer-employees relationship is a complex experience in which many individuals, other variables or elements in an organisation have a role to play and the role of any one party in organization is affected by the role of the other. This suggests the fact that employer-employees relationship in organisation(s) involves a range of complex patterns of interactions between different work-related groups such as trade unions and employers at organisational level, and the state and its agencies in the regional as well as the national levels (Rose, 2004). Also, Blyton and Turnbull (2004) posited that employer-employees relationship portrays the distinctive characteristics of all employment relationships either individual relationships or collective relationships. However, they contend that understanding employer-employees relationships involves locating it within the broader nature of the economic activity involved and also taking into consideration the structural basis of the probable conflict and accommodation between employee and employer (Debrah & Mmieh, 2009).

IMPLICATION OF STUDY

The findings of this research provide reasonable information that can be applied in organisational practice, human resources management and the understanding of employer-employee relationship. Thus, this study has brought to limelight the fact that attaining harmonious employer-employee relationship that is conflict free is often a challenge to organisation(s). This makes possible factors such as cultural values and ideology that can affect employer-employee relationship an important issue of discuss in this contemporary time considering the fact that employer-employees synergy is central to attaining an effective operational process and actualisation of organisational goals and objectives. Thus, employer-employees relationship is a dynamic synergy in human resources management with the collaborative aim of gaining competitive advantage over competitors through the strategic development of a highly committed and capable workforce using an integrated array of cultural, ideological, structural and personnel techniques (Storey, 2001).

CONCLUSION

Cultural values and ideology are two important factors that could impact on organisations ability to be functionally productive and sustainable. It therefore implies that industrial harmony is attainable when positive employer-employee relationships exist. Thus, employer-employee should work as a team and give every individual a sense of belongingness. This would further help organisations attain their goals and objectives.

RECOMMENDATIONS

Based on the findings of this study, the researcher wishes to make the following recommendations:

Management should ensure appropriate work orientation is given to workers so that they will be conscious of their organizations cultural values and ideological philosophy as to support the growth of the organization.

Management should expose workers to training that would enable them develop the required skills that would make them functional and efficient

The line of communication should be made in such a way that individuals will be aware of developments in the organization and not kept in the dark as to prevent gossip that is injurious to organizational growth and development.

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