# European Journal of Contemporary Economics and Management

# European Journal of Contemporary Economics and Management
# (EJE)

## *2015/ December*

# European Scientific Institute
# (ESI)

Reviewed by the "European Journal of Contemporary Economics and Management" editorial board 2015

***December 2014 edition vol. 2, no. 2***

# *About The Journal*

The European Journal of Contemporary Economics and Management is a peer - reviewed international journal which accepts high quality research articles. It is a biannual journal published each May and December and is available to all researchers who are interested in publishing their scientific achievements. We welcome submissions focusing on theories, methods and applications in economics and management sciences, both articles and book reviews.

Authors can publish their articles after a review by our editorial board. Our mission is to provide greater and faster flow of the newest scientific thought. EJE's role is to be a kind of a bridge between the researchers around the world. "EJE" is opened to any researchers, regardless of their geographical origin, race, nationality, religion or gender as long as they have an adequate scientific paper in the economics sciences field.

*Sincerely,*

***EJE, Team***

# Table Of Contents:

European Journal of Contemporary Economics and Management
December 2015 Edition Vol.2 No.2

# 'COUNTING BLACK AND WHITE BEANS': WHY WE NEED A CRITICAL RACE THEORY OF ACCOUNTING

***Anton M. Lewis, PhD***
Saint Xavier University - Graham School of Management
Chicago, IL, USA

Doi: 10.19044/elp.v2no2a1 URL:http://dx.doi.org/10.19044/elp.v2no2a1

**Abstract**

This article calls for accountancy in academia and industry to examine the role of racialized processes in the field using the perspective of Critical Race Theory (CRT). In the United States few Black CPAs exist in proportion to their white peers and only a handful ever reach the level of partner in large accounting firms. A problem that has been left largely unproblematized. Instead assumptions of racial neutrality and an unshakable faith in accountancy as a value free technocracy, untouched by social reality abound. A core belief in accountants exists that sees issues of equality as the work of human resource professionals and sociologists rather than addressing it as a central structural force in the field. This leaves the area of race in accountancy under-theorized and under-researched. A CRT critical framework (re) problematizes poor Black entry and progression, seeking the formation of new strategies to challenge the stratified reality of a gendered and raced profession.

**Keywords:** Racism, Accountancy, Colorblindness, Neutrality, Technocracy

## Introduction

This paper argues that a theory of race in accountancy is needed to explain the low numbers of Black accountants in the profession. Race and racism represent key factors that are difficult to explore because the very idea that racism exists in the accounting profession is treated as taboo. Accountancy treats race as a nonsensical idea, a problem for other professions such as sociology and psychology. Too often assumed to be the sole purview of human resource management not accountancy. The profession deals with numbers and is therefore portrayed as essentially unbiased. A dull boring space where the typical accountant is viewed as a bespectacled bureaucrat. However a number of other disciplines including the law have examined racial disparities in their own fields: the question is why? Why do so few Black professionals exist in comparison to white ones? Could it be possible that race and racism does in fact structure many professional fields – including accounting? If so, then an explicit race-based framework would be ideal to explore how institutional and individual racism impacts the profession. Where institutional racism indicates pervasive unseen racial animosity found within organizations and individual racism signifies that aspect of personal prejudice that defines the racialized Other as unbearable.

Critical Race Theory (CRT) is one such framework originally conceived in the field of Law and now used in multiple disciplines to examine how race and oppression impact professions, particularly racial ethnic minorities. Essentially a CRT standpoint centralizes race and racism in society. This view has been applied to diverse areas such as education (Gillborn, 2005; Ladson-Billings & Tate, 2006), Sport (Hylton, 2009), and Social Studies (Ladson-Billings, 2003) enriching policy and debate in the process. This is not to say that race has been wholly ignored. Certainly Theresa Hammond's seminal work *'A White Collar Profession'* provides an excellent historical analysis of exclusion in the African American accounting experience. Hammond et al. continue to examine race in the context of Chartered accountancy in South Africa, while Sian similarly examines processes of racialization in the Kenyan accounting profession. Both Uche's analysis of Nigerian accountancy and Annisette's exploration of the process of imperialism in the formation of the profession in Trinidad and Tobago also add a rich narrative when exploring proto-inclusion and exclusionary race based practice in post-colonial environments. Bakre unpacks similar themes in the context of the failed attempt to create a specifically Jamaican (and therefore predominantly Black) accounting industry. Yet how specific racialized processes interact to create long-term structural exclusion and subordination has not been fully problematized, because specific theories of race and racism are seldom applied to such analysis (Annisette, 2000; Bakre, 2006; Hammond, 2002; Hammond et al., 2007; Hammond, 2002; Sian, 2007; Uche, 2002).

This article engages in such a race specific inquiry by outlining areas of discussion and research agendas that place race at the heart of analysis, to begin to again examine the question of low Black representation in the profession from a differing theoretical perspective. The first section looks at the current paucity of Black accountants, while section two defines CRT and its value in unpacking issues of race and racism in the field. Section three explores the nature of racism that is a daily occurrence in the workplace and section four examines what identity might mean for the Black accountant in a racialized professional environment.

**Race and Accountancy**

For many in the profession the very of notion of racism seems antithetical, the following question is often thought but seldom said *'but how can racism be prevalent in our field?*' To begin to answer this we must look at the data. Unfortunately, little exists either quantitative or qualitative which comprehensively examines racism or the reason behind the low number of Black accountants as a whole (Lewis, 2012). But despite the general dearth of data available historic 1995 racial statistics from the American Institute of CPA's (AICPA) suggested that 2% of professional staff at Certified Public Accounting (CPA) firms were Black. Only 1% of Blacks were partners or owners of CPA firms. The picture painted is a worrying portrait of Black accountancy (Malone, 2001; Ross & Traub, 2010). Two years later only 0.75% to 0.99 % of African Americans in 1997 as a whole were counted as licensed Certified Public Accountants (CPAs) (Hammond, 2002).

However, the 2013 Bureau of Labor Statistics has reported that even though 77.8% of accountants and auditors employed were white, 8.6% were Black or African American (Bureau of Labor Statistics, 2014). While these numbers indicate a marked improvement a distinct gap between Black and white participation in the profession still exists that is wide and still largely unexplained. Perhaps of more concern is the static nature of a problem that has not changed in well over 20 years. This is reflected in the fact that the National Association of Black accountants (NABA) only have 23% of their own membership qualified as licensed CPAs. Again, pointing to the difficulty of certification for African American accountants (Ross & Traub, 2008).

Figures from the Center For Accounting Education (CAE) at Howard University further suggest that only 1% of public accounting partners are Black and only 3% of fortune 500 CEO's are from ethnic minorities (meaning less than 1% will be Black). More worrying still, the AICPA highlights in its 2011 *Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits* report that minorities consist of only 20% of professional staff positions of 348 firms that took part. A mere 5% reported that minorities were partners at those firms (Tysiac, 2012). A CAE symposium attended by Big 4 and mid-tier stakeholders, elaborated on the nature of retention and upward mobility of African American accountants where the subject of taboo areas was addressed:

> *"…Topics such as subtle racism can be uncomfortable and we are less likely to raise them – especially when the room includes people of different racial backgrounds. Putting these topics off limits means we sidestep some significant challenges"* (Ross & Traub, 2010, p. 15).

Why are such discussions uncomfortable? Recently accountancy organizations have been at the forefront of raising the importance of diversity in professional settings through their adherence to diversity and inclusion policies, but largely impotent at actually increasing the number of Black accountants in the field. Why is it so difficult to have honest talks about race and racism in the accounting workspace? Conceivably it is because when we do address taboo topics difficult assumptions of racial difference must be addressed. For example why are Black accountants from historical Black Colleges commonly regarded as substandard? Why does the idea exist that the best Black students go to other professions such as the law or medicine, leaving only a mediocre talent pool of Black accounting candidates? An assumption not made of white candidates. In addition, infrequently mentioned issues of ebonics and dress converge to position the Black professional as *too ethnic* and therefore *too inauthentic* to be considered a real accountant. Isolation from mentoring opportunities by Black seniors heightens seclusion, hindering the careers of Black accountants. Neither is race the sole arbiter of subjugation. While white women have shown significant progress Black women have not shared in this reward, receiving little help or proportional benefits such as career advancement gained by white peers.

The value of the CRT standpoint is its ability to directly address the uncomfortable reality of racial disparity, seeking to mainstream discourse on race rather than avoid the topic. If meaningful diversity and inclusion policy is to be attained and actual numbers of Black professionals to increase to parity with that of whites then CRT in accountancy becomes an emancipatory agenda to promote success and liberty for all, the details of which I now turn.

## Critical Race Theory

CRT was originally formulated from a lack of acknowledgement of the significance of race and racism in discussions in and around Critical Legal Studies in the 1980s. In a very basic sense CRT centralizes race and racism in discourse. As Solórzano and Yosso (2009) argue in relation to the field of education:

> *"Critical Race Theory advances a strategy to foreground and account for the role of race and racism in education and works toward the elimination of racism as part of a larger goal of opposing or eliminating other forms of subordination based on gender, class, sexual orientation, language and national origin"* (p. 132).

This article applies the same rationale to the field of accountancy utilizing a number of core canons of CRT lore as a critical lens to reveal processes of subordination. Firstly, race and racism are viewed as predominant organizing features of society (including the profession) that are permanent in essence. Secondly, race is considered as one inequality amongst a multitude of many; major ones being those of gender and class but to name a few. CRT recognizes that no one disadvantage is privileged greater than any other and that race is just a lens to view a nexus of other inequalities. Thirdly, CRT is oppositional to ideologies of racial objectivity and colorblindness. Ideas of the inherent pluralism of society are challenged, instead it is argued that notions of meritocracy are self- serving; advantaging only those in power. Fourthly, commitment to advancing social justice is a strategic element in the eventual removal of racism, sexism and classism. A focus is made on empowering the subordinated with numerous types of resistance. Fifthly, the ahistoricim of society toward racism is rejected. Past wrongs can and do inform present ones, if history is ignored we are doomed to repeat past mistakes. Sixthly, experiential knowledge is valued as vital to understanding oppression in its many forms. Finally, the combination of a number of theoretical frameworks (for example Feminism and Marxism) are key to examining the underlying root of inequality across race, gender and class. An adaptable critical lens must match the fluidity of oppression. CRT does not privilege one epistemological approach over another but in fact uses all available disciplines to better understand the major inequities of subordination. In the next section a number of the approaches outlined above are used to explore the daily experience of racialized processes framing accountancy.

## Everyday Racism

As mentioned earlier the CAE symposium noted the importance of subtle racism as an important but forbidden subject, seldom addressed, but recognized as an underlying disadvantage for Black accountants. This indirect racism is structural in nature, representing the shared inability of an institution to give suitable professional service to those racialized as Other (Pilkington, 2004). As individual racism it hides in plain sight, where policies of an organization often work against the interests of minority groups unintentionally, promoting a shadow culture of domination that is exclusionary in nature.

This all-pervasive aspect of a racism that is institutional and understated is well documented by Philomena Assed who reveals the damage of workaday racist practice to Black workers. The daily racist joke or comment concerning inappropriate ethnic attire serves as a paper cut to the professional self-worth of the Black worker (Essed, 1991). By itself it is inconsequential but over time a thousand such cuts mark professional life as intolerable, leading to a ‘death of the soul’ in the workplace. Day by day, hour by hour one's self worth is significantly diminished, in acts of slight racism defined as Microaggressions. They are daily conversational, non-conversational insults or jibes, either deliberate or accidental, communicating aggressive, disparaging, or pejorative messages (Sue et al., 2007; Sue, 2010). Everyday snubs demean and spotlight negative difference at a personal or group level, continually reminding the stigmatized that they do not belong.

Microaggressions can be separated into three variants. Firstly, microassualts are often conscious verbal or non-verbal deliberate harmful attitudes and opinions conveyed to subordinated groups. It marks an intended hurtful attack, old-fashioned direct racism upon group identity by name-calling, evasive behavior and direct prejudiced action. For example, in a study of Black British accountancy by Lewis (2012) a Muslim accountant is jokingly offered pork sandwiches or chips that is forbidden in Islamic teaching. Secondly, unconscious microinvalidations are announcements that reject and invalidate the lived experience of the subordinated. The perpetrator suggests that the racialized Other is a foreigner, an alien in their own land. Yet simultaneously proffer that they are themselves raceless, denying their own individual racism (Lewis, 2012). Sian notes that in the white dominated Kenyan accounting profession:

> *"The colonial accounting firms had refused to hire non-white trainees arguing that clients would not accept them"* (Sian, 2007, p. 858).

The above microinvalidation expressed by the client forms the business case for the exclusion of native Black accountants from white Kenyan accountancy, the accountancy firm is simply engaging in business. It makes natural business sense to reject Blacks (or lose the client) thus allowing the firm to rationalize its own institutionally racist exclusionary practice. Thirdly, microinsults declare offensive and thoughtless behavior with the aim of degrading a person's heritage. Negative racial tropes define the intelligence of the Black worker, along with a belief in their inherent second-class status and inherent criminality.

Often for the Black accountant racial battle fatigue is the result of a continual war of resistance against ingrained racist structures representing a draining daily fight to retain a positive sense of self. White speak engaged in the office, the forever suit wearing Black professional, all become characteristic features of the conflict against microaggressions. Only ones cultural community acts as reprieve, where use of ebonics or showing ones true ethnic face will not harm ones shot at the C-suite. It is a safe space of belonging that is needed, where the self can heal. A space not currently represented by the accountancy profession, a troubling thought indeed.

These are the 'ties that bind' many Black accountants, preventing access into the profession or successful career progression through it. The sheer volume of white accountants is itself an environmental microagression, a non-verbal cue that Blacks are not welcome without a single syllable being uttered. It is simply understood that accountancy is no place for Black folk. But why is this the case? Why should this be the way of things?

Next we turn to the idea of the Whiteworld of accounting, one that is seldom perceived, to examine how ingrained white cultural norms saturate the profession; perpetuate microaggressions and make discourse on race or racism all but invisible and inconsequential to the majority of whites within it.

**The Whiteworld of Bean Counting**

So, what exactly is Whiteworld? It seems so pejorative. It represents white normativity, that is to say the way western society defines standards of objectivity, of merit, of worth, that are saturated by white cultural mores. Universal standards of female beauty adhere to a white European template of long straight hair, small buttocks, straight nose etc. The powerful older white male is a euphemism for security, trust and success. He embodies the taken for granted invisible cultural assumption that the *white way is the right way; it's the way it's always been.*

Within accountancy codes of practice demand women wear appropriate suits, keep hair in an expected eurocentric manner, speak professionally at all times to be taken seriously in the work environment or pay the ultimate price, being positioned as inauthentic. Blacks must conform to white cultural practice, fit with white expectations. This is a whiteness of things, pervading all as the only authentic measure of society and the only benchmark to be met. This is the very definition of modern socially acceptable, but imperceptible white supremacy; total hegemonic domination over ones own ontology, as opposed to that of rough, uneducated, barbaric racism associated with Nazi skinheads. To be white is to be given the benefit of doubt in all things. It is the essence of privilege seldom seen by those who possess it, found in the majority of spaces of power, wealth and success, the true supremacy that exists everywhere and nowhere.

For accountancy, supremacy is the institutional whiteness of organizations. A chronicle by Barbara Flagg telling the tale of the poor progress of a Black female accountant accurately unpacks how whiteness in the workplace diminishes Black career chances. She outlines that 'racelessness' is fundamental to whiteness, referred to as the *transparency phenomenon,* where most whites in fact externalize race and therefore do not consider themselves as a distinct race. When race is considered it is to speak about people of color not themselves, the very essence of Othering. Therefore, whiteness is transparent in interactions with other whites, invisible, becoming opaque in the imaginary only when compared to the color of non-whites. The assumption of whiteness as racelessness hides decision-making, behavior and cultural norms that are specifically pro white, enabling them instead to be misrecognized as racially neutral (Flagg, 1997).

This is how whiteness becomes foundational but invisible in accountancy, able to suppress the needed conversation around race and poor Black representation. Whiteness confirms the rhetoric of meritocracy. It demands that equal racial representation must require a business case since race and racism is not a central problematic for the institution. Since it is people of color that have race then a fiduciary argument must be made for the special consideration of race in neural business matters. Does having greater racial representation favor the bottom line? If not then why bother seriously with diversity and inclusion agendas?

In a globalized world firms who do not include difference will lose market share and clients. At the very least the accountancy profession must be seen to fight the moniker of being 'Pale and male' but diversity and inclusion policy is undermined by superficial analysis of endemic racism. To increase diversity firms seek institutionally acceptable Blacks who are not culturally therefore *authentically* Black. This can be seen in the hiring of many African and Caribbean accountants for director and senior level positions in preference to U.S Blacks. African American Blackness is authentic Blackness and therefore particularly unpalatable to the conventions of the Whiteworld of accountancy. Whiteness devalues African American culture through specific microinvalidations found in social space, for example around the water fountain where jokes of the nappy haired accountant can be heard. Accent and cultural practice of non-African American Blacks circumvents this, the institution now has Blackness (a Black face) that is not really Black, allowing for career progression of an acceptable Blackness that becomes tangible proof of inclusion and diversity at the highest level. Further, because these good Blacks do succeed it reinforces microaggressive assertions of the inherent incompetence of African Americans, proving their unsuitability to the field. This keeps Black representation at the highest positions low but allows for some accounting institutions to prove that their policies work, they are trying hard, they will get proportional representation one day, but not yet. Implicitly it is suggested that it is the natural deficit of African American Black culture that explains low historic numbers in the industry.

Self-described attributes of the profession such as neutrality and technocracy lend themselves to being seen as characteristics of whiteness. White males embody the very image of disinterested neutrality, inherently fair and unbiased. Contrastingly, Blacks tend to bring cultural bias to the decision-making process making their decisions consistently suspect. Trust cannot easily be ascribed to the Black professional and can easily be revoked. The white male is the arch technocrat, while the Black male the arch suspect in the lineup. Since the Black male does not have the privilege of being assumed to be competent his work it must be checked, surveillance of his activity engaged in. He is very far removed from the image of the autonomous disinterested bureaucrat vital to bringing new clients to the business. Yet for career progression to occur (and a number of successful African American accountants do exist), the deficit of Black professional identity must be managed and reworked into valuable capital, which we will explore in detail later in the next section.

**Fitting in For the Black Accountant – Working Your Identity**

If success for Black accountants is so difficult then the question must be asked how do some succeed and reach the partnership level? To foster career success within the confines of an institutionally racist environment one must be chameleon like in nature, to be able to mold oneself to ever changing requirements of acceptance. This requires identity work.

As alluded to earlier the archetype of the professional accountant is the white middle class male, whiteness affords him neutrality and assumed competence making him the benchmark to be met in all matters. Identity work for the Black professional is a project to whiten, raise one's class, and if required masculinize to fit to the ascribed benchmark of the field. In a practical sense this does not necessarily mean selling out, Blackness is too hypervisible to ever be erased. Identity work is the labor of comfort management. When doubt is automatically assumed about Black identity then this suspicion must be reduced, which is a matter of deflecting racial tropes away and accentuate positive actions where possible. For example the Black female accountant at a meal celebrating a difficult audit may pay for the meal and over tip to debunk the stereotype that Black women are cheap and do not tip. The Black male professional who never displays open anger in any form in the workplace does so to debunk the myth that Black men are all emotionally volatile and physically violent. In essence special pleading is made to whiteness that these particular Blacks are not like all the rest. These Blacks are special. Of course a tight rope is walked that can revoke this temporary privilege at anytime should codes of accepted racial and gender behavior be contravened. This is very much a basic outline of identity work that must be engaged in for professional Black success. Carbado and Gulati provide further excellent in-depth exploration of the various strategies and techniques employed by the gendered and raced professional involved in working their identity (Carbado & Gulati, 2013).

So to be a Black professional in accountancy is to be hypervisble within a white environment. It is to be mistrusted no matter how slightly most of the time. It is not to inherently possess privilege but to be required to earn it, time after time. Skepticism about competency and commitment is naturally ascribed to the Black male professional while trust; proficiency and success are naturally expected of his white counterpart. Professional norms, company culture and deportment are in fact codes of whiteness that the Black other physically contravenes through not being an in-group member. Microagressions are symptomatic of this reality. Microaggressive jokes are banter; ethnic dress is regarded as unprofessional attire, making successful navigation of the corporate ladder difficult and entrance into the profession harder still. The fight for workplace acceptance is a daily battle. Specific processes of how Black accounting identity is worked in the field are still very much a mystery, requiring much research not undertaken. The CRT approach begins to suggest potentially how success might be fostered, pitfalls avoided and C-suite doors opened.

## Conclusion

Historically, the academy and industry have superficially chronicled Black accounting exclusion in the United States and elsewhere, leaving the core mechanics of institutional racism unproblematized. The deficit of Black accountants is unaccounted for in any great detail, as we seem happy to count the white beans, while ignoring the Black. This paper identifies the very real need for a Critical Race Theory agenda concerning the accountancy profession to address this issue, to shine light on the imperceptible regions of subordination limiting present and future Black entry into and progression through the field. I argue that whiteness is an organizing feature of the accountancy profession, providing a fertile ground for a myriad of microaggressions against Black professionals, reducing career success and self-worth in equal measure. To minimize institutional racism the Black accountant often engages in identity work to position their professional self closer to the white institutional ideal demanded by the Whiteworld of accountancy, yet at what psychological cost?

It is against this backdrop that we must chart a pragmatic framework for greater Black representation in the field, focusing on the success of Black accountants in particular. The rhetoric of meritocracy must be placed in within a critique of the whiteness of accountancy. Although this assessment may seem overly negative of the profession and be vulnerable to accusations of reverse racism (privileging Blacks over whites is just as unfair), it is instead a realistic assessment of the parlous state of Black representation in the field. Change can occur and has done so before. As others have shown, gender representation in accountancy was once dire but significant progress to increase female accountants has been made over the last one hundred years. Yet even here current institutional sexism hinders the career opportunities of many female accounting professionals particularly as they strive for partnership (Kirkham, 1992).

Accounting academics have a vital role to play; researchers must increase the amount of both quantitative and qualitative work in the area. Research must become the bedrock of fundamental change within the industry. The basis for this race-based focus must not be that of the business case that alludes only to the bottom line. Accountancy is more than a mere technocracy of neutral numbers and value free economic information; like other professions it is sociological in practice. The values of society both good and bad inculcate the field, defining the very nature of the profession. Therefore to focus on race and racism is to examine the very nature of accountancy, its function, its purpose, its future. It is to make sure that no black or white bean is left unaccounted for. It is to locate the profession as a positive and active agent of social justice within society rather than as a passive observer. A role accountancy must rise to meet.

**References:**

Annisette, M. (2000). Imperialism and the professions: The education and certification of accountants in Trinidad and Tobago. *Accounting Organisations and Society*, 25, 631-659.

Bakre, O.M. (2006). Second attempt at localising imperial accountancy: The case of the Institute of Chartered Accountants of Jamaica (ICAJ) (1970's-1980s). *Critical Perspectives on Accounting*, 17, 1-28.

Bureau of Labor Statistics. (2014). Labor force characteristics by race and ethnicity, 2013, pp. 1-59. U.S. Bureau of Labor Statistics.

Carbado, D.W., & Gulati, M. (2013). *Acting white: Rethinking race in "post-racial" America.* New York: Oxford University Press.

Essed, P. (1991). *Understanding everyday racism: An interdisciplinary theory.* London: Sage Publications.

Flagg, B. J. (1997). Transparently white subjective decisionmaking: Fashioning a legal remedy. In R. Delgado and K. Stefancic (Eds.). *Critical White Studies: Looking Behind the Mirror,* Philadelphia: Temple University Press.

Gillborn, D. (2005). Education policy as an act of white supremacy: Whiteness, critical race theory and education reform. *Journal of Educational Policy,* 20, 485-505.

Hammond, T.A. (2002). *A white-collar profession*. University of North Carolina Press.

Hammond, T.A., Arnold, P.J., & Clayton, B. (2007). Recounting a difficult past: A South African accounting firm's experiences in transformation. *Accounting History,* 12, p. 253.

Hylton, K. (2009). *'Race' and sport: Critical race theory.* Oxford:Routledge.

Kirkham, L.M. (1992). Integrating herstory and history in accountancy. *Accounting Organisations and Society*, 17, 287-297.
Ladson-Billings, G. (2003). Lies my teacher still tells: Developing a critical race perspective toward the social studies. In G. Ladson-Billings (Ed.), *Critical race theory perspectives on social studies: The profession, policies, and curriculum.* Connecticut: Information Age Publishing, Inc.
Ladson-Billings, G. J., & Tate, W.F. (2006). Toward a critical race theory of education. In A.D. Dixon and C.K. Rousseau (Eds.), *Critical race theory in education: All God's children got a song.* Abingdon: Routledge.
Lewis, A.M. (2012). *A critical analysis of the black accounting experience in the U.K.: Tales of success and failure in the British professional workplace.* Saarbrucken: Lambert Academic Publishing.
Malone, F.L. (2001). *Perception of professional acceptance and commitment of black accountants* [Online]. New York: New York Society of State CPAs. (http://www.nysscpa.org/cpajournal/2001/1100/dept/d116801.htm [Accessed 11/17 2012]).
Pilkington, A. (2004). Institutional racism in the academy? Comparing the police and university in Midshire." In D.I. Law (Ed.). *Institutional Racsim In Higher Education.*
Phillips, D., & Turney, L. (2004). *Institutional racism in higher education.* Stoke on Trent: Trentham Books.
Ross, F., & Traub, L. (2008). Expanding the ranks of African-American CPAs: A report on the CPA examination summit. *Journal of Accountancy* [Online]. (http://www.journalofaccountancy.com/issues/2008/feb/expandingtheranksofafricanamericancpas.htm [Accessed 10/20/2014]).
Ross, F.K., & Traub, L. (2010). *Retaining African Americans in the accounting profession: A success model.* Howard University School of Business.
Sian, S. (2007). Reversing exclusion: The Africanisation of accountancy in Kenya, 1963-1970. *Critical Perspectives on Accounting*, *18*(7), 831-872.
Solórzano, D.G., & Yosso, T.J. (2009). Critical race methodology: Counter-storytelling as an analytical framework for educational research. In E. Taylor, D. Gillborn, and G. Ladson-Billings (Eds.), *Foundations of critical race theory*, pp. 131-147. London: Routledge.
Sue, D.W. (2010). *Microaggressions and marginality: Manifestation, dynamics, and impact.* New Jersey: John Wiley & Sons.
Sue, D.W., Capodilupo, C.M., Torino, G.C., Bucceri, J.M., Holder, A.M.B, Nadal, K.L., & Esquilin, M. (2007). Racial microaggressions in everyday practice. *American Psychologist*, 62, 271-286.
Tysiac, K. (2012). In pursuit of inclusion. *Journal of Accountancy,* June, 84-90.

Uche, C.U. (2002). Professional accounting development in Nigeria: Threats from the inside and outside. *Accounting Organisations and Society,* 27, 471-496.

# SHOULD WE UNDO THE FLAT ORGANIZATION: ACCOMMODATING NEEDY MILLENNIAL GENERATION WORKERS

***Dr. Joe Spencer, DBA***
Anderson University, USA
***Dr. Marc Muchnick, PhD***
Capella University , USA

Doi: 10.19044/elp.v2no2a2 URL:http://dx.doi.org/10.19044/elp.v2no2a2

**Abstract**

The late 1980s and the 1990s brought major flattening to corporations to facilitate higher per employee profitability and to bring about a new modern and more effective organization structure. However the entry of the largest generation of managerial workers (generation Y) solicits a rethinking of the flat organization. Entry of the Millennial Generation into the corporate world has created problems. In response to these problems firms are seeking to redesign how managers manage, encourage, critique, appraise and motivate the new worker to reduce employee job dissatisfaction, absenteeism and turnover. We propose that not only do interpersonal managerial techniques need to change but organizational structure could be redesigned to help increase employee morale, loyalty and help reduce employee turnover. We conducted a study on millennial students to understand their expectations for promotions and how they view promotions as a satisfier. Findings indicate that a flat organizational structure may not facilitate the needs of the millennial worker. Millennials want promotions and project they would leave flat organizations where they do not receive promotions.

**Keywords:** Flat organization, millennial worker, workplace promotions

## Introduction

The Millennial Generation (Generation Y, Gen Y, M Generation, Echo Generation, Echo Boomers, The Internet Generation, or Nexters), at least 76 million strong (Walker, T, 2007), are job hoppers (Eisner, 2005; Green, 2008). Hutton (2003) reports upwards of one half of all Millennial workers leave UK firms within two years and Thesiss (2007) finds 46% of

US workers leaving their jobs. Given the high firm cost of handling turnover (Simmons & Hinkin 2001), it is important to reduce the high turnover of the generation entering the job market. We submit that one factor driving the high turnover rate of Millennials is the flattening of corporations which has led to few promotional steps for new hires. Eisner's (2005) work calls for firms to change their internal management strategies to adjust to the millennial employee. Changing the work environment is important because, an employee's perception of their work place impacts their performance (Ripley, Hudson, Turner and Osman-Gani, 2006). If an employee perceives that promotional rewards are not obtainable, this employee will tend to leave the organization. Eisner (2005) notes, that Millennials want immediate rewards and acknowledgement for their work. The flat organization tends to make unavailable the amount of promotions as are available in a more hierarchical organization. We submit that organization redesign towards a system at the lower organizational levels with more promotional steps sets forth as a reward system for Millennials that accommodates the character traits of the Millennial.

This paper sets forth how the needs and motivates of Millennials call for promotions as a reward and acknowledgement of success and how a promotional hierarchy provides motivation for Millennials to remain at their current firm. This paper portends that the entry of the largest generation of managerial workers (Generation Y) solicits a rethinking of the flat organization. Entry of the Millennial Generation into the corporate world has created problems. In response to these problems firms are seeking to redesign how managers manage, encourage, critique, appraise and motivate the new worker to reduce employee turnover. We propose that not only do managerial techniques need to change but organizational structure could be redesigned to help increase employee morale, loyalty and help reduce employee turnover.

Others have examined related issues to this paper. Cable & Judge (1994) studied new job entrants and salary expectations. They examined dispositional characteristics in job seekers related to pay and benefits. Judge & Bretz (1992) and Turban & Keon, (1993) found job entrants seek to match their dispositions with the organizational culture of the selected firm. Behling (1998) reviewed employee selection from the firm perspective, looking at criteria for selecting employees including intelligence conscientiousness and job skills. Assertions of self-selection based on disposition fill all of these works and review different aspects of selection criteria and presumed job/organizational/employee fit. These studies have however not reviewed the impact of organization structure in the equation of self-selection, organizational culture or employee dispositions. Nor did they examine the intersection of dispositions and generational cohort. This paper seeks to fill that hole in the literature.

**Millennial Graduates**

While teaching millennial students we found, as many others, that the current generation was different than our generation. Thinking back to our days in industry and in the classroom and reading of the problems the current generation was having acclimating to corporate life we began to wonder if the flattening of the organization which occurred in the late 80s and 90s (continuing on today) was partly responsible for the extreme job hopping of millennial graduates. So we undertook to review the character traits associated to Generation Now and study the impacts of a thin corporate ladder upon this group of job-hopping graduates. If organizational structure contributes to Millennial Generation turnover than some of the “flatting of the organization” needs to be reversed. Westerman, & Yamamura (2007) assert that employee retention may be impacted by firms understanding and addressing generational differences. Likewise, they propose that if corporations do not adjust to the Millennial Generation they will continue to have high turnover. We suggest changing the flat organization to accommodate this generation is an appropriate technique to foster firm profits through lower turnover.

**Key characteristics of the newest generation of workers**

Much study has been done on the millennial generation but translating the understanding of the generation into managerial techniques has been difficult. As a result job hopping is high among Generation Y (Trunk, 2007; Tulgan, 2004; Twenge, & Campbell, 2008; Fields, Wilder, Bunch, Newbold, 2007) and corporate expense related to employee acquisition is on an upward spiral. Techniques aimed at managing Generation Y has to date neglected the impact of organizational structure upon Generation Y motivation, satisfaction and retention.

Descriptions of the Millennial Generations remain consistent from study to study. We believe these studies have found a number of character traits of the Millennial Generation which support the thesis that this generation could be helped by a system of promotional rewards. Howe and Strauss (2000) introduced the first general research on the Millennials finding seven core traits of the millennial generation: Special, Sheltered, Confident, Team-Oriented, Conventional, Pressured, Achieving. Research following has confirmed these general traits and found more detail within these core traits.

We offer a select composite of findings from several studies that found characteristics of the Millennial Generation that we believe support the need for changes in organizational structure to aid firms in better fitting internal structure with the needs of the Millennial employee. We categorize these findings in four areas: need for praise, expectation for rewards, desire to succeed, and require instant feedback. This categorization was based on the similar areas focused found in the works of the authors found in the table. Fundamentally, each study finds praise, drive, expectations for rewards and instant reward systems vital to Generation Y's set of mental expectations and satisfaction system. Thus, we classified the findings of the authors in this manner within the table.

**Composite Study Analysis**

| | *Need for Praise* | *Expectation for Rewards* | *Desire to succeed* | *Require Instant Rewards* |
|---|---|---|---|---|
| Eisner (2004) | - Grew up being told they are special and should receive immediate achievement<br>- Require high maintenance<br>- Want a feeling of belonging<br>- Value respect and want to earn it | -Have been told they can do anything<br>-Measure personal success<br>-Want to meet personal goals<br>-Have high expectations of personal success<br>-Have respect for accomplishment | -Need to succeed<br>-Seek those who can further professional development<br>-Have respect for accomplishment<br>-Work best when their abilities are identified and challenged<br>-Work best when pushed by challenging work<br>- Have results driven personalities<br>- Work best when pushed by challenging work | -Look for instant gratification<br>- Demand immediate rewards<br>- Want a valuable payoff for good work<br>- Have low confidence in long term payoffs and expect shorter term rewards<br>- Seek immediate payoffs vs long term job security<br>- Open to leaving for something that looks better<br>- Are open to leaving for something that looks better<br>- Find current managers lacking in ability to provide incentives to achieve |
| Francis-Smith (2004) | | | | - Call for immediate feedback regarding performance |
| Sweeney (2006) | - Want to feel special and successful<br>- Prone to doubt and worry | | - Prefer merit system | - Impatient, require constant feedback and want to know how they are progressing<br>- No tolerance for delay |
| | - Have been catered to and feel special | - Create mental images of places that are sacred to them | | |
| Haserot (2005) | | | | - Desire to achieve now<br>- Want instant gratification for any work effort they |

| | | | | |
|---|---|---|---|---|
| | | | | provide<br>- Want instant promotions |
| Beard, Schwiegger, & Surendran (2007) | | - Millennials expect customization | | |
| Lyons, Duxbury, & Higgins (2005) | - Desire prestige | - Higher expectations to succeed than does Generation X | - Desire status<br>- Define success in materialistic ways | - Believe change is good and staying the same is bad |
| Stafford & Griffis (2008) | - Believe their lives are important | - Confident | - Pressured to achieve | |

In sum, the character traits of the Millennial Generation do not call for a person to graduate college and then wait seven to eight years until they are promoted. Indeed the desire for praise and recognition, the desire for instant rewards, the desire to achieve, and the requirement to have instant rewards push against the flat organizational structure where promotions are rare and workers are skilled: having multiple lateral jobs. Eisner (2004) expects Gen Y to become more and more "assertive" with employers about getting short-term rewards. Our personal observation from working at several major companies, prior to academic life, is that people want to be promoted and feel frustrated if they cannot be promoted. Now that the Millennial Generation has entered the workforce the findings of Crampton and Hodge (2007) are worrisome: after 10 years of study little is known about how to change things to make a real difference. We assert one way is structural changes inside the organization.

## The Flat Organization

During the period 1945-1988 firms focused on hierarchical structure in order to effectively manage large corporations (Hammer and Champy, 2001). However, the advent of information technology and systems which made managing information more efficient allowed control without such hierarchies. The ability to manipulate data and the advent of organizations which had “knowledge workers” who needed little oversight, helped lead to major downsizings of middle management and delayering of management during the late 1980s and 1990s. This delayered organizational structure (the flat organization) continues to flatten and is a given in today’s environment (Rajen & Wulf, 2006; Guadalupe & Wolf, 2007). Drucker (1988) pushed the concept of the flat organization denoting that “information-based” organizations will enable businesses to work without the overhead organizational structure.  Drucker’s message only quickened the pace of flattening. Organizations had for several years, by this time, noted the lessened need for middle management and had been delayering for years. Flattening the organization was actually studied as early as 1969 when Carzo and Yanouzas (1969) found flat organizations were better at processing decisions but took more time to handle conflict and coordinate the work of groups within the company.

There is evidence that the implementation of the flat organization has helped corporations. Firms, when they flatten, tend to reduce the number of positions (lowering employee expense and shortening the communication path from CEO to lowest level workers). Tsui, Pearse, Porter and Tripoli (1997) denote a number of studies which found positive impacts include: heightened employee performance on core tasks and more corporate loyalty. In 2003, Ellis denotes that perceptions have changed such that the general worker believes that flattening is justified and that the amount of layers between CEO and first-level managers has decreased twenty-five percent. Further, she found evidence that lower level workers take more responsibility, feel empowered, and that higher level managers take more responsibility for results. Hannan, Rankin, and Towry (2006) found that flattened organizations lead to managers who reject more projects where there is excessive slack yielding more profit per subordinate for accepted projects. They hold that this results in a more effective budgeting process. Guadalupe & Wolf (2007) found flattening increases with increased international competition.

Of course there are problems with flattening the organization. Normally, such flattening is abrupt and disruptive. Such disruption causes morale issues as well as harming efficiency while the organization recovers from the disruption and fully develops processes to maximize the lack of layers (Brousseau, et al., 1996; Evans, Gunz & Jallard, 1977; Nutt & Backoff, 1977; Ebadan & Winstanley, 1997). Beyond this, problems found by researchers include: the quickness with which one's career dead-ends (Applebaum & Santiago, 1997), increased outsourcing of work to replace the lost middle management jobs (Seppala, 2003), a lack of training and lowered employee morale may derail the benefits of delayering (Grimshaw, Beynon, Rubery and Ward, 2006), and employee polarization into specific expert groups vs nonexpert employees. Delayering forces organizations to be more diligent and invest more resources in developing the leadership capacity among the remaining managers or teamwork effectiveness is reduced (Klagge, 1997).

Hierarchies are generally looked at as organizational means to either distribute or process information or authority (Guadalupe & Wolf, 2007). However, limiting the view of structure to these facilitating functions limits the possibilities of what structure can provide. Indeed Guadalupe & Wolf

(2007) also note that research demonstrates that changing organizational structure impacts firm performance in a broad array of consequences. In this regard, we believe that structure impacts employee motivation, loyalty, optimism, and focal belief in future potential. Likewise, Nelson (1997) asserts that reengineering and rethinking organizations must consider the employee, using what we know of psychology to fit the organization with the employee.

We agree that many mature knowledge workers do not need the layers of organization and that added red tape from hierarchies slows down immediate action on key issues. But, to assume that a college graduate with little expertise and no experience can operate without supervision is a faulty concept. Likewise, the characteristics of this generation calls for a system of rewards in the form of promotions that encourage individuals and as a result encourages and employees longevity with a firm.

In light of the entrance of the new generation, we wish to challenge the notion that flattening is the panacea for business. Indeed it may cause business major problems in terms of higher employee turnover, and higher costs of business. We believe that unique study needs to be done on new managerial entrants and especially with regard to the Millennial Generation. Some work has been done tangentially to this proposed focus. Grimshaw, et al. (2006) find that the flattened workplace means that there is a large gap in the organizational ladder. This gaps has made it a challenge for an employee to know what it takes to get promoted. It means that fewer employees get promotions and thus creates a “winner take all” attitude. They also find that this situation makes it hard to create employee loyalty, increases employee training costs, and may harm “on-the job” training, since such is seen not to aid in one’s chances for promotion.

**The Millennial Employee in a Flat Environment**

Westerman, and Yamamura (2007) propose that if firms do not modify themselves to account for the differences associated with the Millennial Generation they will experience high turnover. We believe this proposition true in relationship to the flat structure of the organization. The number of levels within organizations has declined significantly since the late 1980s. This flattened structure causes three general problems for the Generation Y worker as they enter the first few years of working life. They stagnate quickly and do not perceive desired recognition for their work results. They do not sense a potential reward for staying with their current firm. They do not develop loyalty to the firm since they do not believe they will attain the status they desire.

The flat organization ignores several important factors that are consistent in millennial workers. Generation Y wants: praise, instant gratification, and promotions which recognize task accomplishment and provide a sense of attainment. We submit that the lack of these wants being met are: poor employee morale, job instability, turnover and resultant firm inefficiency and ineffectiveness. Providing the Generation Y worker promotional steps, which advance their career, would facilitate their needs for praise, gratification, more immediate payoff, prestige, and most of the attributes listed in the above description of the generation. A review of the needs described by the Millennial Generation descriptions above seem to have some direct beneficial fulfillment that can come with the promotional step ladders which were eliminated during the rush to flatten the organization.

Promotions provide for the Millennial Generation worker improvement in morale because they are proud of themselves, have a feeling of accomplishment and satisfaction with the firm who has recognized their attainments and has given them positive feedback. Promotions also promote more responsible behavior, in that, as one moves up they have a greater sense of self-respect and seek further promotions (De Souza, 2002). Thus, having a corporate ladder can reduce turnover. Eisner (2005) found that the Millennial worker believes management is ineffective in providing incentives that motivate and that they want to work at a company where they feel appreciated. Perhaps the lack of promotions as an incentive contributes to this Generation Y viewpoint.

Several researchers have found the relationship between promotions and turnover. Munasingh (2006) notes that expectations for promotion are strongly determent for turnover, and that workers who believe promotions are obtainable will stay. Lyness & Judiesch (2001) found promoted managers were less likely to leave their company if the promotion had occurred within the past 11 months. The Mercer Human Resource Center found commitment to a firm and work motivation are both impacted more from promotional opportunities than base pay (Accounting Office management & Administration Report, 2003). Smola and Sutton (2002) found that employees will have no greater commitment to the company than they believe the company has toward them. Eisner and Harvey (2009) report studies noting that 50% of Generation Y workers expect to be promoted within 2 years and that most Gen Y men would leave their job for greater advancement opportunity. Christen, Iyer, and Soberman (2006) Found direct relationships between worker satisfaction and promotional opportunities.

## Methodology/Results

As an initial test of our hypothesis we surveyed the millennial students at one of our colleges. We sent an email to 1287 students and received 213 responses for a 16.55% response rate. An offer of a $25 Visa card to one of the participants drove responses. Questions were oriented on the expectations of the generation toward their future careers and how they would respond in situations given different possible future organizations. Respondents were queried as to their preferred work environment. Our hypothesis was that students when projecting their possible future organizational environments would prefer to work in hierarchical organizations which would facilitate promotional stepping stones. We also hypothesized that students would project themselves in the future to believe that they were more successful if they had promotions.

Two possible work environments were described:

> In a hierarchical organization the company has established a large number of management levels, perhaps 28 levels. A new manager who is a very good worker can expect a promotion to a higher level every 6 to 12 months. The higher the person goes in the company the longer it takes to be promoted to the next level. But in the early days, promotions came at a quicker rate. Salary increases each promotion level from 3% to 8%.
>
> In a flat organization there may only be 4 levels of management and getting a promotion would only happen once every 6 to 10 years. In this type of organization you would receive the same pay raises in the same time frame as a hierarchical organization, and you would have different jobs with increasing responsibility while working but with no "promotions". Everyone works as a team and at the same organizational level.

Respondents were then asked. “If you made the same amount of money working for either of the companies, which one would you rather work for: hierarchical organization or flat organization?” 59% of all students desired the hierarchical organization with 64% of the business students favoring the hierarchical organization. When asked how they would like working in a hierarchical organization (rating 1-10) 68% of all students and 75% of business students rated approval at 6 or better (5 or better 96% of business students). When asked if they would like working in a flat organization respondent scores (business and total population) dropped to 50% (6 or better). These results demonstrated strong significance. A significantly higher number of respondents ($n$ = 170) preferred the hierarchical organization over the flat organization ($n$ = 117), $\chi^2$ (1, $N$ = 287) = 9.79, $p$ = .002). There was no difference between males and females regarding the preference for a flat or hierarchical organization, $\chi^2$ (1, $N$ = 287) = 1.13, $p$ = .288. Similarly, after eliminating majors with fewer than 10 respondents, there was no association between one’s major and the preference for a flat or hierarchical organization, $\chi^2$ (7, $N$ = 234) = 7.24, $p$ = .404.

We felt a more telling appraisal of their projection of liking one organizational verses another was to discover if they viewed promotions as a measure of personal success. On a scale of 1-10 students reported that they would see promotions as a sign of personal success (6 or better – 82% total population and 89% business students) (5 or better – 89% total population and 98% business students).

To ascertain if promotions might help the millennial graduate reduce their job hopping tendencies, we asked students to project their likelihood to stay at an organization where they were promoted. Students reported they would be more likely to stay at an organization where they were promoted (6 or better – 84% total population and 89% business students) (5 or better – 93% total population and 100% business students). To focus this in the opposite direction we asked if students would be likely to leave an organization which had not promoted them within 3 years (6 or better – 35% total population and 57% business students) (5 or better – 65% total population and 75% business students). These questions demonstrated that the lack of promotions would increase both their readiness to leave and an intent to leave (although intent is weaker then readiness). Thus, lack of promotions open a person to opportunities that become available and increase the focal attention to find another job (although focal attention has a weaker intensity than openness).

Respondents preferring the hierarchical organization had significantly more positive attitudes toward promotion, $F(1, 285) = 28.23$, $p < .001$, $\eta^2 = .09$. Moreover, respondents who preferred the hierarchical organization reported that they expected more frequent promotions, $F(1, 283) = 5.25$, $p = .023$, $\eta^2 = .02$. There were generally no gender differences in attitudes toward promotion. Males, however, did expect more frequent promotions than did females, $F(1, 283) = 11.04$, $p < .001$, $\eta^2 = .04$. Different majors expected promotions at different rates, $F(7, 224) = 2.76$, $p = .009$, $\eta^2 = .08$. Business majors expected the most frequent promotions. Post hoc analyses using the Fisher LSD criterion indicated that business majors expected significantly faster promotions than did education and psychology majors ($p < .05$). 71% of the total population (80% when education and Christian ministries majors are redacted) and 92% of business students expect to be promoted within 2 years. We find this response telling beyond the others. Even when students put themselves in flat organizations as their preference, they still expect to be promoted within 2 years.

We were surprised at the weak response to our projecting question asking if the respondent would feel bad about their personal success if their friends were in hierarchical organization and had experience promotions, while they were in a flat organization. The question provided that the respondent had salary increases equal to their friends but without promotions. Only 23% of the total population and 37% business students rated 6 or better that they would feel bad about themselves. However the numbers jumped to 56% total population and 71% business students on a 5 or better scale. We had expected higher numbers here but we still find significant alarm to businesses if millennial employees devalue themselves when they compare themselves to peers in other organizations. Because the survey items were intercorrelated, the items associated with promotion (the importance of promotion, the motivating value of promotions, how likely the respondent was to leave if not promoted, and how good or bad a respondent would feel if he or she were in a flat organization and his or her friends were promoted) were combined into a single scale called "Attitude toward Promotion." This 4-item scale had acceptable internal consistency, $\alpha = .69$.

Due to the low frequencies in some majors, these were combined into the following categories: business, communication, education, psychology, art, interior design, kinesiology, biology, and other. The students with other majors were removed from the analysis, and a one-way ANOVA indicated that there was a significant effect of college major on one's attitude toward promotion, $F(7, 226) = 2{,}23$, $p = .033$, $\eta^2 = .07$ . Business and interior design majors had the most positive attitudes toward promotion, and education majors the least positive attitudes toward promotion. A Tukey HSD post hoc comparison showed that the business majors' attitudes toward promotion were significantly higher than those of education students.

There was a significant association between one's choice of a flat or hierarchical organization and one's intention to design such an organization if starting his or her own business, $\chi^2$ $(1, N = 286) = 124.93$, $p < .001$.

## Discussion

The implications of this research should drive corporations to rethink the flat organization at the entry level. New managerial entrants need to develop firm loyalty and need progressively enhanced positions within the company. This kind of a structure would serve the Generation Y employee by understanding their penchants and characteristics and would be molding the organization to enable better acclimation into the corporation.

We are not suggesting that firms completely reverse course and reinstate all the layers of management that existed prior to 1988. Rather, we are suggesting that developing a new structure geared toward Generation Y can support firm goals. This ladder could be devised in such a way as to divide the first management layer into a series of stepping stones toward movement to a higher corporate level

This structure would provide the Now Generation worker with appropriate feedback, encouragement, and prospects for career growth. This type structure could better fulfill this generation's desire for feedback, acknowledgement of attainment and symbols of success. It would support them in meeting personal goals, having a payoff for work, and a multitude of the other character needs of this generation.

This structure would also help businesses minimize the job-hopping nature of the Millennial Generation worker. The firm would thus have less expense recruiting replacement workers, less reduced performance as attention is spent by current workers seeking a new place of employment, and the cost of undone work while seeking to fill open positions. It could also impact morale and thus work effort, absenteeism, and performance.

**Limitations**

This survey was conducted during the recession of 2009. This could have reduced the results in intention to leave as students contemplate the difficulty of obtaining and retaining jobs in the current economic environment. This would have impacted the results by lessening the expectations for promotions. Thus, the survey, if done prior to the recession, could have had a greater demonstrated need for corporate hierarchy for the millennial worker.

**Future Research**

This survey could be conducted at other colleges to validate the projected feeling of millennial students. Future studies could survey millennial graduates who are in both flat and hierarchical orgs for differences in satisfaction, turnover, etc. These studies could ascertain how graduates of college react to the work structure and environments they found themselves in and their feelings with regard to their work structure environments.

**References:**

Anonymous (2003). What you need to know to work well with ‘Millennial Generation’. *Accounting Office management & Administration Report 03(10) 4-6.*

Applebaum, S. & Santiago, V. (1997). Career Development in the plateaued organization. *Career Development International, 2(1)*, 11-20.

Beard, D., Schwiegger, D., and Surendran, K. (2007) Bridging the academic: Industrial chasm for the millennial generation. *Informational Systems Educational Journal 5(33)*, 3-15.

Behling, O. (1998). Employee selection: will intelligence and Conscientiousness do the job? *Academy of Management Executive, 12(1),* 77.

Brousseau, K., Driver, M., Eneroth, K. and Larsson, R. (1996). Career pandemonium: realigning organizations and individuals. Acade*my of Management Executive*, 10(4), 52-66.

Cable, D. & Judge, T. (1994). Pay preferences and job search decisions: a person-organization fit perspective. Personal Psychology, 47(2) 317-348.

Carzo, R. & Yanouzas, J. (1969). Effects of flat and tall organization structure. *Administrative Science Quarterly 14(2), 178-191.*

Christen, M., Iyer, G., and Soberman, D. (2006). Job Satisfaction, Job Performance, and Effort: A Reexamination Using Agency Theory. *Journal of Marketing,70*137-150.

Crampton, S. and Hodge, J. (2007). Generations in the workpalace: Understanding Diversity. *The Business Review*, 9(1), 16-23.

De Souza, G. (2002) A study of the influence of promotions on promotion satisfaction and expectations of future promotions among managers. *Human Resource Development Quarterly, 13(3)*, 325-340.

Drucker, P. (1988) The coming of the new organization. *Harvard Business Review,66(1).*45-53.

Brousseau, K., Driver, M., Eneroth, K. and Larsson, R. (1996). Career pandemonium: realigning organizations and individuals. Acade*my of Management Executive*, 10(4), 52-66.

Eisner, S. (2005). Managing Generation Y. *S.A.M. Advanced Management Journal, 70*(4), 4-15.

Eisner, S., & Harvey, M.(2009) C-Change? Generation Y and the glass ceiling. *S.A.M. Advanced Management Journal,74*(1), 13-28.

Ellis, C. (2003) The flattening Corporation. *MIT Sloan Management Review, 44(4)*, 5-ff.

Evans, M., Gunz, H. and Jallard, M. (1997). Implications of organizational downsizing for managerial careers. *Canadian Journal of Administrative Sciences*, 14(4), 359-371.

Francis-Smith (2004). Surviving and thriving in the multigenerational workforce. *Journal Record*, 1.

Fields, B., Wilder, S., Bunch,J., Newbold, R. (2007) Millennial Leaders: Success Stories from Today's Most Brilliant Generation Y Leaders. Morgan James Publishing.

Green, D. (2008) Knowledge Management for a post-modern workforce: Rethinking leadership styles in the pubic sector. *Journal of Strategic Leadership, 1(1), 16-24.*

Grimshaw, D., Beynon, H., Rubery, J. & Ward, K. (2006). The restructuring of career paths in large service sector organizations: delayering, upskillings and polarization. *Sociological Review, 50(1)*, 89-115.

Guadalupe, M. and Wulf, J. (2007) The flattening firm and product market \competition:
The effect of trade costs and liberalization. Columbia University. Retrieved June 21, 2009 from http://client.norc.org/jole/SOLEweb/855.pdf.

Hammer, J. & Champy, M. (2001). Reengineering the Corporation: A Manifesto for Business Revolution. Harper-Collins. NY.
Haserot , P.W. (2005). A Recipe for solving generational conflict at professional service firms. *Of Counsel, 23(11),* 11-13.
Howe, N., and Strauss (2000). Millennials arising – The next great generation. Random House, NY.
Judge T. & Bretz R. (1992). Effects of work values on job choice decisions. *Journal of Applied Psychology, 77,* 261-271.
Klagge, J. (1997) Leadership development needs of today's organizational managers. *Leadership and Organizational Development Journal, 18*(7), 355-362.
Hannan, R., Rankin, F., and Towry, K, (2006). Flattening the organization: The effect of organizational reporting structure on budgeting effectiveness. Available at SSRN. Retrieved from http://ssrn.come\abstract=734723.
Hutton, W. (2003). Wear kid gloves when tackling Generation Y. *Personnel Today*, pg 17
Lyness, K. & Judiesch, M. (2001). Are female managers quitters? The relationship of gender, promotions and family leaves of absence to voluntary turnover. *Journal of Applied Psychology, 86*(6), 1167-1178.
Lyons, S., Duxbury, L., and Higgins, C. (2005). An empirical assessment of generational differences in work-related values. *ASAC Proceedings*, 62-71.
Morgan and Ribbens (2006). Generational Differences in the workplace. *Midwestern Academy of Management Conference: Proceedings. Retrieved June 18, 2009, from http://www.midwestacademy.org/Proceedings/2006/papers/paper14.pdf,*
Munasingh, L. (2006). Expectations matter: Job prospects and turnover dynamics. *Labor Economics* 13(5), 589-609.
Nelson, J. B. (1997). The boundryless organization: implications for job analysis, recruitment and selection. *Human Resource Planning, 20,* 39-49
Nutt, P. and Backoff, R. (1997). Facilitating transformational change. *Journal of Applied Behavior*, 33(4), 490-508.
Rajen, R. & Wulf, J. (2006). The flattening firm: Evidence from panel data on the changing nature of corporate hierarchies. *The Review of Economics and Statistics, 88(4),* 759-773.
Ripley, Hudson, Turner and Osman-Gani, (2006). Exploring employee perception of the work environment along generational lines. *Performance Improvement, 47*(9), 35-45.
Seppala, P. (2003). Flat Organizations and the role of white-collar employees in production. *International Journal of Industrial Engineers, 33(1),* 15-27.
Simmons, T. and Hinkin, T, (2001). The effect of employee turnover on hotel profits: a test across multiple hotels. *Cornell Hotel and Restaurant Quarterly*, 42(4), 65-69.

Stafford, D., and Griffis, H. (2008). A review of millennial generation characteristics and military workforce implications. CAN Alexanderia, VA.
Sweeny, R. (2006). Millennial Behaviors and Demographics. *New Jersy MIT Retrieved from:* http://library1.njit.edu/staff-folders/sweeney/Millennials/Millennial-Summary-Handout.doc. June 18, 2009.
Thesis, S. (2007). The dynamic change in workforce motivation: How did we get here? *Employee Benefit Plan Review,* 61(8), 14-16.
Tsui, A., Pearce, J., Porter, L., & Tripoli, A. (1997). Alternative approaches to the employee-organization relationship. Does investment in employees pay off? *The academy of Management, 40(5)*, 1089-1121.
Trunk, P. (2007) What Gen Y really wants. *Retrieved from:* http://www.natemcguire.com/wp-content/uploads/2010/02/What-Gen-Y-Really-Wants-TIME.pdf
Tulgan, B. (2004). Trends point to a dramatic generational shift in the future workforce. *Employment Relations Today, 30(4), 22-31.*
Turban D. & Keon T. (1993). Organization attractiveness: An interactionist perspective.
*Journal of Applied Psychology, 78,*184-193.
Twenge, J. & Campbell, S. (2008). Generational differences in psychological traits and their impact on the workplace. *Journal of Managerial Psychology,* 23(8), 862 – 877
Walker, K. (2007) How socially responsible organization can attract millennials and obtain a competitive advantage. University of Manitoba. Retrieved on 6/15, 2009 from http://luxor.acadiau.ca/library/ASAC/v28/29/29.pdf#page=103
Westerman, J. and Yamamura, J. (2007). Generational preferences for work environment fit: effects on employee outcomes. *Career Development International, 12(2),*150-163.

# PERSONAL FINANCIAL MANAGEMENT CAPABILITY AMONG EMPLOYEES IN JIMMA TOWN, SOUTHWEST ETHIOPIA: *A PILOT STUDY*

***Matewos Kebede Refera***
Lecturer, Department of Accounting and Finance,
Jimma University, Ethiopia
***Abiy Getahun Kolech,***
Assistant Professor,
Department of Accounting and Finance,
College of Business and Economics, Jimma University,
Jimma, Oromia, Ethiopia

Doi: 10.19044/elp.v2no2a3 URL:http://dx.doi.org/10.19044/elp.v2no2a3

**Abstract**

Personal financial management involves the use of one's financial knowledge and skills in making financial and economic decisions. Various studies suggest the need for providing formal and informal personal financial education and practice in developing nations like Ethiopia. The current study has conducted a pilot study of personal financial management practice among employees in the formal sector in Jimma Town, Ethiopia. The objective of the study is to explore the relationship between education and personal financial management capability of employed adults in the town. This exploratory study is conducted using primary data collected via a self-administered questionnaire from employed people in the town. Descriptive statistics were employed in addition to other variables both parametric and non-parametric bivariate statistics. The result of the study implies that financial education should be given to employees across all organization for the level of financial management ability is low. In conclusion, government policy makers and academics must follow the global practice of improving personal financial literacy and personal financial management practice in Ethiopia in order to help individuals, which also have implications to improve the operation of the financial system and overall economic performance by considering work place financial education, in addition to in school financial education offered in the country.

**Keywords:** Education, Employees, Ethiopia, Financial Literacy, Jimma, Personal Financial Management Practices

## Introduction

Personal financial management becomes important academic and policy issue both in developed and developing countries (Xu & Zia, 2012). According to Elzabith & et.al (2009) who quoted Deacon & Firebaugh (1988), "*Financial management is a continual processing of information as circumstances change*" (p.5) and the expected outcome of financial management is to meet demands (whether long-term goals, short-term goals, or events) by effective use of the resources available to each managerial unit (Donald H & et. al, 1986).

Personal financial management involves using financial knowledge and skills in making financial and economic decisions including financial savings, credits, insurance, investments, and others. Mounting number of studies on personal finance underscore the need for enhancing personal financial literacy of citizens for the fact that complexity of the financial system, increasing access to credit as well as surging cost of life demand individuals to employ personal financial management practices. Despite a complex knowledge in finance may not be required from every one, basic financial knowledge related to management of money, transactions, selection and usages of financial products are essential to lead a healthy financial life. However, surveys conducted in most countries, including few developing countries showed a low level of personal financial literacy. (Xu & Zia, 2012)

Literatures (Holzman, 2010; Xu & Zia, 2012) showed that financial literacy and personal financial management has got policy makers and academic attention in the developed countries, but the effort in developing countries where Ethiopia is included is not that much. However, few of existing empirical studies (Kontze and Smith, 2008; Raja & et. al, 2011; Nyamty & Nyana, 2011; Kummar and Annes, 2013) showed that the prevalence of financial illiteracy have been hindering individuals and the economy of various developing and emerging economies for the fact suboptimal financial and economic decisions by individuals do have macroeconomic implications. These studies suggest the need for providing formal and informal personal financial education and practice in developing countries. Nevertheless, we could not come across organized, except the in school financial education currently offered to school children and youth, in the context of Ethiopia.

The current pilot study of personal financial management practice among employees in the formal sector in Jimma Town in Southwest Ethiopia help to identify whether informal financial education such as work place financial education are required to enhance financial capability of Ethiopians. The study is hoped to contribute by showing the personal financial management practice among employed people which could help in shading light whether education and employment contributes to personal financial management ability. Moreover, the study could be used as a base for further and comprehensive studies which can inform policy makers, academics and stakeholders on personal finance. Furthermore, it will contribute to personal finance literature in developing countries.

**The problem statement**

Financial literacy and personal financial management has become a growing academic and public policy debate in most advanced countries; however, the effort in least developed countries remained limited. Some of the studies showed that people in emerging and developing countries are also suffering from low level of financial literacy which demands policy intervention. Government and other concerned organizations including the private sector in financial service need to consider personal financial education for the fact that it enhances economic decision making ability among the community which will contribute to the development of the financial system and sustainable economic growth. In the context of a developing country, financially literate individuals can contribute to better financial inclusion and development of financial markets. It is also possible to enhance the personal and gross national savings and investments which are grave problems in most developing countries.

Ethiopia, a developing nation, is located in Sub-Saharan Africa and is a home for about 83 million people. The country has been striving to eradicate poverty and ensure sustainable economic development. Among the multi-facet challenges of economic objective of a nation, low level of personal saving and investment which according to studies in financial literacy in developing countries this problem may partly associated with low financial literacy and financial inclusion, can be tackled by enhancing financial literacy and financial inclusion in the country. None of the various studies, conducted in this respect, considered the effect of personal financial literacy as part of the solution albeit it is well documented that low level of financial literacy affected financial sector development and hindered economic growth and development in developing countries (Kefela (2011).

The current study is, hence, aimed at conducting exploratory study on personal financial management capability of educated adults employed in the formal sector in Jimma, Ethiopia. The target population is selected not only because of convenience of data collection but also there existed low level of personal financial literacy among employed in different part of the world. For example; as cited in Kefela (2011), Bernheim (1998) surveyed several studies showed that workers display little financial literacy. The current study is, then, helpful in showing the effect of education on personal financial management capability of employed people which could trigger further comprehensive studies, on one hand, and highlight the need for workplace financial education to employees.

**Objectives of the study**

The objective of the study is to explore into the relationship between education and personal financial management capability of employed adults in Jimma town, south western Ethiopia. The specific objectives include the following:

- To measure and describe personal financial management capability index among respondents,
- To examine the relationship between education attainment and personal financial management capability,
- To examine whether higher education in business and economics improves personal financial management, and
- To examine whether job position and number of years in paid job improves the personal financial management capability.

**Review of related literature**

This section provides review of literatures on the concepts of personal financial management and determinants of personal financial management practice which laid out the study's theoretical framework.

**Personal financial management capability**

Personal financial literacy and personal financial management capabilities are the most common terms used in relation to personal financial management practices to be recommended to ensure sustainable financial and economic life of an individuals and the whole economy. Holzeman cited Kempson (2008) to provide a working definition of personal financial capability that shows the domains of financial capability and outcomes of using recommended personal financial management practices, reads as follows:

> *"A financially capable person is one who has the knowledge, skills and confidence to be aware of the opportunities, to know where to go for help, to make informed choices, and to take effective action to improve his or her financial well-being while an enabling environment for financial capability building would promote the acquisition of those skills"*(Holzeman, 2010)

The comprehensive meaning provides a foundation on designing education and training programs as well as conducting study on personal financial management capabilities as it makes clear the financially capable person requires having the knowledge skill in personal finance as well as need to develop behavior to realize the importance of using recommended practices.

The concept of personal financial management has been used in various studies, such as the 2009 Canadian Financial Capability Survey (Kewon, 2011), the 2005 UK financial Capability survey (Holzeman, 2010) and other successive studies cited in this paper. The contents of personal financial management practice used in most studies are categorized into a five broad factors, namely: *keeping track, making ends meet, planning ahead, choosing products, and staying informed.* According to Holzman (2010), the recommended financial management practices could somewhat vary from country to country in response to individual and socio economic factors having a bearing on the financial management practices to be followed though the ultimate goal is similar in all the contexts. Hence, the recommended practices may further include:

- *Having a place within the home where all financial documents are kept*
- *Setting short and long term financial goals*
- *Having a budget*
- *Keeping records of household inventories, credit cards, etc.*
- *Risk management techniques and insurance polices*
- *The practices are to be done in writing (Goodwin & Carllon, 1986)*

Practice recommended by Lawrance, Carter and Verman (1987) also suggests that preparation of a net worth statement. Net worth, as explained on accounting literatures, refers to net asset or the difference between what one owns and owes. Thus, it seems that individuals need to have personal accounting record and personal balance sheet, which could be difficult to many and less practical. In general, for better use of personal and/or family finance, an effective financial management needs some sort of personal financial records.

According to Elizabeth & et.al (2009) who quoted Deacon and Firebaugh (1988), "Financial management is a continual processing of information as circumstances change"(p.5) and the expected outcome of financial management is to meet demands (whether long-term goals, short-term goals, or events) by effective use of the resources available to each managerial unit (Donald H & et. al, 1986).

Elizabeth & et.al (2009) cited a number of studies "DeVaney, Gorham, Bechman & Haldeman, 1995, 1996; Jeries & Allen, 1991; Titus, Fanslow & Hira, 1989; Varcoe & Wright, 1989, [who] showed the positive effects of using selected financial management practices." Elizabeth and colleagues argued that, though studies showed the positive effects of using effective personal financial management techniques, individuals usually decline to use either some or all the recommended practices. Thus, it requires effort to teach the practices and convince the importance of personal financial management towards individuals and the whole economy.

Although there are other factors affecting individual's ability and willingness to apply the recommended personal financial management practices in the management of their personal finance, personal financial management education proponents argue that consumers need to acquire knowledge, skill and attitude in personal financial management that can be acquired through formal and informal education programs and experience. The importance of personal financial management education has got popularity for the fact that lack of knowledge or low level of financial literacy was found among the dominant causes of poor personal financial management in both developing and developed countries (Xu & Zia, 2012).

**Importance of personal financial management**

The recent trend in finance and economics in the world made financial knowledge not just a convenience, but essential survival tool (Katy & et.al, 2000). Consistent with the surging literatures in personal finance, Katy & et.al (2000) pointed out that lack of financial knowledge leads to poor financial choice and decisions which could harm individuals and community. McCray (2011) also explained importance of personal financial management by showing that poor financial literacy leads to financial distress and bankruptcy. Personal finance education is, hence, relevant to empower the society in management of personal finance and made informed financial and economic decisions. As empirically proved by Elizabeth & et.al (2009), individuals participated on personal financial literacy programs increasingly appreciated personal financial management techniques and start using either some or all recommended practices. They could also start to enjoy the outcomes in the form of increased saving, improved credit history and ability to meet ends with one's income. Funfgeld and Wang (2009) mentioned personal financial management capabilities do have implications on financial situations in that those with good personal financial management capabilities found to be satisfied with their money management and level of their net worth. In general, optimal personal financial management not only contributes for the betterment of individuals and family socio economic status, but also is essential to a well-functioning financial system and economy (Pelline & et.al, 2011).

**Personal financial capability in developing countries**

Enhancing financial literacy of low income households is paramount for the fact succinctly mentioned by Katy & colleagues that:

> "Low-income families that lack basic financial skills become more vulnerable to sudden economic shocks such as health emergencies or unexpected job losses. Decreased family stability, increased foreclosure risks, and disinvestment in homes and local businesses challenge already disadvantaged lower-income communities." (Katy & et.al, 2000: p.3)

The above argument which is in line with M. Cohen & J. Sebstad (2003) and Holzman (2010) implies that financial literacy in developing countries can contribute to poverty reduction and economic growth.

In the context of least developed countries (LDCs), where the majority of the population living below poverty-line, under low personal and national savings, improved personal financial capability will enhance socio-economic status of citizens. As mentioned by M. Cohen & J. Sebstad (2003), financial education can play an important role in reducing poverty in developing countries by building people's knowledge and skills in optimal usage of resource and making optimal financial and economic decisions related, but not limited to: savings, investments, and wealth accumulation which essentially facilitate economic growth and development in a nation.

Albeit literatures underscored the need for enhancing financial literacy of poor people, the current effort of doing the same in developing countries remained scant when one compared the case with the developing countries (Holzman, 2010; Xu & Zia, 2012). The short and long term life goals of people both in developing and developed nations are alike, which indicate the need to impart personal financial management wisdom existed in developed countries to LDCs. Further, rampant poverty, lack of saving and inability to meet ends with available meager resource in developing countries justify the need for enhancing personal financial capability of individuals in developing countries (Holzman, 2010). Besides, the growing literature on financial inclusion in developing countries have been arguing that financial illiteracy is one of the major demand side problem to financial inclusion in developing countries for the fact that access to financial service without efficient and effective usage of poor customer could not serve the purpose of poverty eradication through access to finance as have been hoped by development policy makers and academics. For example, Shanka (2013) in the study of financial inclusion in India indicated that sustainable financial inclusion through *microfinance* approach is hampered for the fact that clients may drop out the service for various reasons, including improper use of service and over indebtedness which is partly the result of low financial literacy. In line with this, Custors (2011) who empirically examined the effect of financial literacy programs in the context of Indian microfinance argued on the significance of such studies in various developing countries to develop a model of measuring client financial literacy which help to design training programs as well as microfinance service that can enhance client financial knowledge and application of the same in personal financial decision. Tustin (2010) and Cole et al (2014) in the context of South Africa documented the effect of client financial education in enhancing financial management capability of clients. The need to invest in client financial education by financial institutions also contributes to performance of financial institutions and stability of financial sector (Kebed et al (forthcoming), Mundey and Masok; 201).

**Factors affecting financial management capability**

Studies identified different factors affecting the use of recommended personal financial management practices. Most of the researches done in the context of high income and developed countries are alike in pointing out that level of financial literacy, demographic, socioeconomic and behavioral factors explains the level of adopting personal financial management practice by individuals (Eltahbet,2009; Donald H. 1986 ). The exploratory study by Holzman (2010) that aimed at bringing wisdoms of personal financial capability from high income and developed countries to low and middle income countries pointed out that other variables such as low level of access to and usage of financial services, level of poverty, informality of the economy, existence of risk, but lack risk management techniques, living in rural area could affect the possibility of adopting personal financial management tools in the context of low income and developing countries.

Elizabeth et al (2009) studied which kinds of financial management education and training programs enhances individual's tendency in adopting recommended personal financial management practices in women financial training programs in three different states in the USA. And, the finding of their study revealed that the number of financial management practices used by individuals passed through the training depends on demographic characteristics. For instance, increase in age showed a significant positive correlation with the number of financial management practice. Being married with a large family size has been found to have negative relationship with the tendency to adopt budgeting practices.

Kewon (2011), on the study of the Financial Knowledge of Canadian, an article that consumes data from the national financial capability survey of Canadian that considered individual demographic characteristics such as age, income, and sex; and the financial behavior indicators such as having budget and investment and other objective-type question quizzes on financial knowledge related with inflation and interest rates, credit reports and credit ratings, stocks and risk, insurance, taxation, debts and loans, and banking fees provided showed that:

- *Level of financial knowledge is related with income. In the study, those with higher income scored high in financial knowledge quizzes. The justification given on the study includes the positive correlation between high income and education, participation in investments. Moreover, as compared to people in low income group, the higher income group seeks various types of financial services which are presumed to enhance their financial knowledge.*
- *Increase in age especially in the higher income group is associated with higher financial knowledge.*
- *Home owners in the low income group score higher than renters.*
- *Those who live alone scores higher than those who live with family. The justification for this is that those who live alone have a sole responsibility of fulfilling their needs.*
- *Self-employed and retired people also scored higher result on financial knowledge quizzes compared to others in the working class.*

In addition to demographic, socio-economic factors' practical applicability of personal financial management tolls depends on psychological factors. Elizabeth & et al. (2009) indicated the importance of incorporating psychological factors while designing and/or evaluating financial literacy programs because favorable perception to personal financial literacy and personal financial management practices leads to number of techniques to be adopted. Similarly, McCarthy (2011) also revealed that behavioral factors like self-control, planning, and patience, affect ability to manage personal finance and stay out of financial trouble. McCarthy (2011) and Roa Garcia (2011) suggested that the impact of behavior considered in order reducing the negative effect of behavioral influencers of personal finical decision making. In support of this recent empirical evidence (for example: Ali & et al (2013), Juen et al. (2013) showing the effect of some behavioral factors on personal financial management.

**The effect of financial management capability**

Hilgert et al (2003) argued that financial literacy and financial management behavior are related albeit there are studies contending conclusiveness of empirical evidences. Their finding also shows the positive relationship between financial literacy and household financial management behavior. Rooij & et.al (2011) on financial literacy, retirement planning and household wealth also showed a causal relationship between financial literacy and wealth holdings after controlling other determinants of wealth such as income, age, educations, family composition, risk tolerance, patience, and attitude towards saving. Behrman & et.al (2012) also showed that the financial literacy and education have a positive relationship with household wealth accumulation. It is also indicated that the schooling effect only becomes positive when interacted with financial literacy. An impact assessment of personal financial management training by Elizabeth & et.al (2006) also indicated that trainings have brought impact; however, the extent at which trainees implement training in life depends on demographic, socioeconomic and other factors. In line with this, Caskey (2006) argued that financial literacy education can help low income households to accumulate assets and improve credit history. The literature suggested that improvement in personal financial capability lead to better management of one's financial affair and improved socio economic wellbeing. The study of Sekita (2013) on relationship between financial literacy and wealth accumulation in the context of Japan confirmed previous studies of Behrman, et al (2010) and Rooij et al. (2012) that showed a positive contribution of financial literacy on wealth accumulation. The findings of recent empirical studies justified the ever increasing concern of governments and other institutions to enhance personal financial literacy of citizenry. Despite the fact that publicly funded financial education programs aimed at enhancing financial capability of individuals proliferating and availability of favorable empirical evidences as to the effect, the overall findings not yet conclusive for the fact there are studies showing low or no effect of financial education on enhancing financial management behavior and ultimate outcomes such as improved network (Xu & Zia, 2012). Yet, recent experimental studies (Custors, 2011), Gin et al (2014), Cole et al (2014)) emerging from developing countries are underpinning the need for furthering a well-designed and targeted financial education in developing countries.

**Why employers are concerned about financial literacy of their employees?**

Apart from personal wellbeing financial literacy of employee can contribute to organizational performance. In explaining the point, Marican & et al. (2012) argued that individual with low level of personal financial capability are prone to financial stress that can affect their physical and mental health. In their study of financially distressed employees at workplace in Malaysia, Marican & et al (2012) concluded that job performance and work productivity has strong association with financial stress faced by the employees. According to this study, financially distressed employees fail to pay their bills and usually wary about their financial health which in turn could negatively affect their performance at work for the fact that employees could spent working hours by talking about their financial problems and thinking about ways to overcome. Moreover, as their mental and physical health can be affected they may become absent from the job, the medical insurance and expense of the employer can also be increased. As the problem can have devastating implication on individual and family as well as their work place performance, employers need to design various strategies to overcome the problem at least as part of their corporate social responsibility effort.

**The need for personal financial management studies**

The study of personal finance remains the subject of interest in various disciplines such as home economics/consumer economics, behavioral finance. Funfgeld and Wang (2009) revealed individuals attitude and behavior to daily financial matters as well as their personal management practice can be modified through formal and informal learning experiences they have about financial literacy and financial capability. According to Funfgeld and Wang (2009), to initiate and take various actions aimed at enhancing personal financial management capability, the first step should be studying the attitude, behavior and currently used practices. Consistent with this argument Glen and May (2004), also pointed out that making campaigns to improve personal financial management on the basis of what currently people practicing and the result they obtained enables to get the desired attitudinal change.

The need for studying personal finance has shown growth only in the last ten years. The concern and involvement of local and international financial authorities on financial literacy has been cited as a justification for the importance of the issue. For instance, Pelline & et.al (2010) mentioned Financial Service Authority (FSA), 2005, 2006a in UK; and the OECD, 2005 as national and international effort to assess financial capabilities of consumers. Holzman (2010) also indicated how governments and various local and international organizations including financial institutions have been working towards the promotion of personal financial education. Holzman offered a list of efforts of stock taking on personal financial capability that can serve in designing and implementing intervention programs to enhance personal financial capability. His list includes: OECD initiative of promoting personal financial management education in the member countries, and agencies created in New Zealand (Retirement Commission, 1995), United Kingdom (Financial Service Authority, 2000), Canada (Financial Consumer Agency, 2001), USA (Financial Literacy and Education Commission, 2003), and Australia (Financial Literacy Foundation, 2005, and since transferred to the Australian Securities and Investments Commission) (Holzeman, 2010).

Holzman (2010) pointed out that the last 10 years provided lesson on the importance of consumer personal financial capability to enhancing individual’s wellbeing and building national economy. In developing countries, like Ethiopia, the issue of personal financial management has not given attention by academia and policy makers. The recent financial education policy adoption in developing countries (Xu & Zia, 2012; Kebede et al (forthcoming) should be supported the need for survey of financial literacy and capability level of people to inform better financial education policy and programs.

## Materials and methods

This exploratory study is conducted using primary data gathered as part of research on personal financial management capability and net worth of employed people in the formal organization in Jimma town, funded by Jimma University. The data were collected using a questionnaire from a convenient sample of 56 employees from different organizations operating in Jimma town. For the purpose of addressing the research objective a descriptive statistics were employed to describe the profile of respondents and the mean score of their personal financial management capability under education and job related variables. To examine the relationship between personal financial management capability and other variables both parametric and non-parametric bivariate statistics were employed.

## Results and discussions

### Profile of respondents

Out of 56 usable questionnaires 22 respondents were females and 34 males. The average age in the sample was 39. Of total respondent about 86% have a diploma and above academic qualification out of which 67% were trained in business and economics related fields which exposed them with basic knowledge of financial management and economics. Though the curriculums are designed in the context of corporate entities, extension to personal financial management could be possible.

The target population of the study was employees in the formal organizations in Jimma town. For the purpose of the study formal organizations are operationally defined as government organizations, large private businesses and not-for-profit non-governmental organizations (NGOs). Of the participants 28(50%) were government employees and the remaining 8(14.3%) and 20(35.7%) were employed in NGOs and private business organizations, respectively.

Majority of respondents (71.4%) were working in non-managerial posts, whereas the remaining assumed managerial posts. Employees considered as having managerial position include those who currently assumed coordinator, first level, middle level and top level management posts. The job related characteristics also include number of years in paid jobs and in current position. The number of years in paid jobs affects the personal management capability for the fact that the more individuals in formal job assignment, the more will be the ability of planning and executing responsibilities including proper management of owns income. The descriptive statistics of these variables showed that on average respondents had been in a paid job for 8 years (St.Dev = 6.81) and remained in their current post for an average of 3.21 years (St.Dev = 3.46). Respondents in management position accounted 28.6% of the sample and the mean years in the post were 3.3 (St.Dev = 1.75). Having a majority in non-managerial position and few years of management experience in those who assumed managerial responsibility, it could be possible to get lower level of personal financial capability and resulting outcomes.

**Personal financial management practices**

Personal financial management refers to using financial and economic concepts in the management of one’s financial resources and daily use of money. Based on the review of literature, common personal financial management practices and indicators of personal financial capabilities such as: “keeping track of financial matters, making ends meet, planning ahead, choosing products, and staying informed” were measured using 13 five-point Likert-Scale type questions where “1” refers to the respondent not at all used the suggested financial management practice, “2” refers to rarely used, “3” sometimes used, “4” frequently used, and “5” always used. The statements, measuring personal financial literacy, were developed based on the literature review. The reliability of data collected, under this section, was tested using Cronbach's Alpha with a value of 0.775 for all items. A composite index of personal financial management capability (CPFMCI) was also calculated by combining the self-reported measures of personal financial management practices used by respondents. The smallest possible score is 13 ($1 \times 13$) and the maximum possible composite index, in a case where the respondent used all suggested tolls always, is 65 ($5 \times 13$).

The mean value of overall CPFMCI among the sample was 31.7308 (St.Dev = 8.99916). The result is not remarkable for the fact that it is lower than 50 percent of the maximum expected value of the index. This suggests that personal financial management practices are not widely used by employed people in Jimma town. The finding is consistent with the existing literature in other developing countries. For instance, Nyamute & Maina (2011) who studied the context of employees in financial sector of Kenya, and Rajna et.al (2011) who studied the context of medical workers in Malaysia also obtained similar results in that personal financial management practices used by employees in these countries suggested that personal financial management capability of employees in developing countries is found at lower level.

The overall index, in the foregoing paragraph, was constructed out of response to 13 Likert-Scale items. The mean and standard deviation to each of suggested tools of personal financial management are given on table 1 below and the results are discussed under five sub-headings, namely: keeping track of financial matters, making ends meet, planning ahead, choosing products, and staying informed.

Table 1: Reliability Statistics of Items Used to Measure Personal Financial Management

| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
|---|---|---|
| .775 | .742 | 13 |

**Source:** *Questionnaire Survey 2012*

Table 2: Descriptive Statistics on Suggested Personal Financial Management

| | Mean | Std. Deviation | N |
|---|---|---|---|
| 1. Budgeting monthly income and expenditure | 3.2800 | 1.44335 | 50 |
| 2. I spending money according to my plan | 3.2000 | 1.48461 | 50 |
| 3. I keep records of income and expenditure | 2.8000 | 1.53862 | 50 |
| 4. Have a regular saving account in bank | 2.6000 | 1.61624 | 50 |
| 5. Saving other than in bank | 1.7600 | 1.25454 | 50 |
| 6. Received loan from bank | 1.4800 | .86284 | 50 |
| 7. Received loan from Microfinance Institution (MFI) | 1.6400 | .89807 | 50 |
| 8. Received loan from other sources | 2.0800 | 1.17526 | 50 |
| 9. Participate in 'Edir' (an indigenous informal insurance for accidents and death) | 2.6800 | 1.95292 | 50 |
| 10. Buy insurance coverage of any kind | 1.1600 | .54810 | 50 |
| 11. Exercise comparative buying | 2.9200 | 1.27520 | 50 |
| 12. Follow business news | 3.1600 | 1.39035 | 50 |
| 13. Considered economic trends in financial decisions | 3.3600 | 1.17387 | 50 |

**Source:** *Questionnaire Survey 2012*

## Personal financial planning practice

As shown on Table 2, the mean value of items used to measure budgeting, spending as per the budget were both around 3.2 with standard deviation of about 1.5. Though with high variability, the average response showed that respondents had some experience of budgeting monthly income and expenditures as well as making their payment as per the budget.

## Recording income and expenditure

The average response for the item measuring this question (item 3) was in between 2 and 3 showing that financial recording habit is not satisfactory. Though majority used budget unless there is records of actual income and spending it is less likely to control spending patterns. Moreover, evaluation of personal/or family financial performance on regular basis can be made if one has both budget and actual income and expenditure records.

**Financial service usage**

Appropriate usage of services from financial institutions indicates financial capability of individuals. A good personal financial management requires proper identification of financial service that ensures optimal use of money and other advantages. As Ethiopia is a developing country with significant portion of the population neither have access to nor knowledge to financial service, both formal and informal financial services usage were considered as measure of financial capability.

The mean response of using bank saving and loan service were 2.6(St.Dev=1.6) and 1.48(St.Dev = 0.86), showing that most respondents are not using basic banking services. An MFI has become important service provider for many people both in urban and rural Ethiopia, but the level of usage among employed people in Jimma town seems very low for the mean response to use services of MFIs was about 1.6, which is between not at all and rarely response categories.

Concerning informal saving and credit services, the mean responses were 1.76 and 2.08(item 5 & 8) showing that most respondents were not beneficiaries of informal financial services as well. Of course, the frequency of respondents with no saving is high among the sample. Those using non formal credit sources were also similarly high which might suggest that financial services are not popular among employed people.

**Choosing products and staying informed**

Individuals need to have prior market assessment to purchase goods and services. At least, one needs to compare prices of goods and services among suppliers, to have information about the business and economic trends before making major financial and economic decisions such as buying property, saving, taking loan and others. To measure such type of practices among the sample, three items were included in the questionnaire (item 11, 12 & 13) and the result showed that the mean value of comparative buying was 2.92, which means most respondents exercise comparative buying either rarely or sometimes. With regard to following business news and taking into account economic trends in major financial and economic decisions, most respondents fall in between sometimes and frequently response categories implying that uninformed financial and economic decisions could challenge financial and economic health of employees in the town.

**Educational and personal financial management practice**

**Education in general and cpfmci**

As learned from description of sample characteristics, educational qualification in the sample ranges from high school to advanced university degrees. The mean values of composite personal financial management index (CPFMCI) across level of educational qualification are given in table below.

Table 3: Composite Personal Financial Management Capability Index (CPFMCI) by Maximum Educational Qualification

| Current Level of Educational Qualification | Mean | N | Std. Deviation |
|---|---|---|---|
| Completed High School | 31.1429 | 7 | 5.20988 |
| College Diploma | 36.5556 | 18 | 9.51916 |
| First Degree | 27.8947 | 19 | 9.54460 |
| Second Degree and Above | 30.5000 | 8 | 3.25137 |
| **Total** | **31.7308** | **52** | **8.99916** |

**Source:** *Questionnaire Survey 2012*

As can be seen from Table 3, the mean value of CPFMCI varies across the level of education. Respondents with college diploma and high school graduates scored the first and second highest average composite personal financial management capability index respectively. The average indices for that university degree and above were below sample mean. It seems that higher education attainment above diploma level contributes less to personal financial management capability. To examine the association between educational qualification, a nominal scale variable, and CPFMCI, a ratio scale variable, eta statistic was computed and presented in Table 4 below.

Table 4: Association between Composite Personal Financial Management Capability Index (CPFMCI) and Maximum Educational Qualification

| | Eta | Eta Squared |
|---|---|---|
| CPFMCI * Educational Qualification | .416 | .173 |

**Source:** *Questionnaire Survey 2012*

The eta statistic was used to measure the strength of association between educational qualification and personal financial management capability index showed a moderate positive association (Eta = 0.416). The result indicates that educational qualification had a direct implication on personal financial management capability. The result, in this respect, to some extent confirmed Xu & Xia (2012) & Kummer & Annes (2013) who argued that educational attainment determines personal financial management capability. Despite the apparent association between education and better personal financial management capability in the study is intuitive and supported existing literature, the overall finding is not impressive. As shown on Table 1 above, the average index of the sample is below 50 percent of the highest possible index which showed that employees in Jimma, Ethiopia do not used most personal financial tolls albeit majority of the sample are educated.

## Education in business and economics and cpfmci

Education in business and economics disciplines familiarizes graduates with basic financial knowledge and skills that can be applied in the management of personal finance. It was also empirically proven by Nyamty & Nyana (2011) in their study of personal financial management practice among employees in Kenya found that employees having business and economics background are better in personal financial management than those with non-business and economics background. The current study also tried to figure out whether education in business and economics improves personal financial management capability. And, the results are summarized in Table 5 below.

Table 5: Composite Personal Financial Management Capability Index (CPFMCI) by Field of Education

| **Field of Specialization** | **Mean** | **N** | **Std. Deviation** |
|---|---|---|---|
| Business and Economics Related | 33.13 | 35 | 9.019 |
| Non Business Related | 28.56 | 17 | 8.36 |
| Total | 31.63 | 52 | 8.99 |

**Source:** *Questionnaire Survey Data, 2012*

Table 6: Measures of Association

| | **Eta** | **Eta Squared** |
|---|---|---|
| SMEAN (CPFMCI) * Field of Specialization | .241 | .058 |

**Source:** *Questionnaire Survey 2012*

The result on Table 5 revealed that average personal financial management capability index of employees with business and economics background is better than the average index of those with non-business and economics related background. But, the association between field of specialization and CPFMCI measured by eta value on Table 6, was found to be week (eta =0.241). Though the association seems weak the result suggested that college education in business and economics area contributes to better personal financial management capability evidenced by the fact that average index of the sample category with business and economics background is higher than the sample mean index. The result in this respect is supported by previous study in other developing country, Kenya (Nyamty & Nyana, 2011) which enables to surmise that financial education to some extent improves personal financial management capability.

## Relationship between job-related characteristics & cpfmci

The job specific characteristics considered in the study includes the type of organizations, number of years in a paid jobs, position and number of years served in the current position.

Table 7: Composite Index of Personal Financial Management (CPFMCI) by Type of Organization

| **Type of Organization where Employees Working** | **Mean** | **N** | **Std. Deviation** |
|---|---|---|---|
| Civil Servant | 28.3333 | 18 | 6.36165 |
| Government Development Enterprises | 35.3333 | 6 | 6.59293 |
| Local NGO | 25.6667 | 6 | 8.45380 |
| International NGO | 27.0000 | 2 | .00000 |
| Private Business Organization | 36.0000 | 20 | 10.13592 |
| Total | 31.7308 | 52 | 8.99916 |

**Source:** *Questionnaire Survey Data, 2012*

Employees in large private business organizations and government development enterprise (GDEs), both of which are profit oriented, scored the first and second highest mean composite index of personal financial management capability. The third highest mean is among civil servants followed by international and local NGOs employees. To measure the strength of association between personal financial capability and type of organization where respondents had been working eta statistics were computed (eta = 0 .471). This shows a modest association between type of organization where employees had been working and their personal financial management capability index. The measure of association is nearer to 0.5 and the eta squared (0.222) implying that the variables shared about 22% of their variation.

Total number of years in paid jobs is the other variable considered with an assumption that the more employees at paid job, the better exposure they could have to management of personal and organizational resources; which in turn contribute to personal financial management capability. For the purpose, the mean and standard deviation and Pearson correlation coefficient were calculated

Table 8: Composite Index of Personal Financial Management (CPFMCI) and Years in Paid Jobs

| | Mean | Std. Deviation | N |
|---|---|---|---|
| Total number of years in a paid jobs | 8.0000 | 6.80374 | 56 |

**Source:** *Questionnaire Survey Data, 2012*

The mean number of years at paid jobs in the sample is 8 years with standard deviation of 8.67. To examine the relationship between personal financial capability and number of years in paid job, Pearson correlation coefficient was used for both variables as measured at a ratio level.

Table 9: Correlations between CPFMCI and Total Number of Years in Paid Jobs

| | | Composite Index of Personal Financial Management | Total Number of Years in a Paid Job |
|---|---|---|---|
| CPFMCI | Pearson Correlation | 1 | .240 |
| | Sig. (2-tailed) | | .075 |
| | N | 56 | 56 |
| Total Number of Years in a Paid Job | Pearson Correlation | .240 | 1 |
| | Sig. (2-tailed) | .075 | |
| | N | 56 | 56 |

**Source:** *Computed from Questionnaire Survey Data, 2012*

The result on Table 9 indicated a low, but statistically significant correlation ($r = 0.24$; $p < 0.1$); implying that being employed is not related to personal financial management ability. The finding in this respect is similar with Raja & et.al (2011), who concluded that employees in Malaysian health sector lacks personal financial capability, though they are interested to manage their personal finance. The other job specific characteristic was position at the job.

Table 10: Composite Index of Personal Financial Capabilities (CPFMCI) by Position at Work

| Position in Their Job | Mean | N | Std. Deviation |
|---|---|---|---|
| Managerial | 31.1429 | 14 | 12.45828 |
| Non managerial | 31.9474 | 38 | 7.54427 |
| Total | 31.7308 | 52 | 8.99916 |

**Source:** *Questionnaire Survey Data, 2012*

The result in Table 10 showed that the mean personal financial management capability index of employees in managerial and non-managerial posts appeared similar. The standard deviations also showed that an index for non-managerial employee seemed less variable than employees in managerial tasks. To examine the association between position at the job and personal financial capability a Pearson correlation coefficient was employed using number of years at the current post and CPFMCI, which are both scale variables.

Table 11: Correlations between CPFMCI and Number of Years at the Current Position

| | | CPFMCI | Number of Years Served in the Current Position |
|---|---|---|---|
| Composite Index of Personal Financial Capability (CPFMCI) | Pearson Correlation | 1 | .075 |
| | Sig. (2-tailed) | | .596 |
| | N | 52 | 52 |
| Number of Years Served in the Current Position | Pearson Correlation | .075 | 1 |
| | Sig. (2-tailed) | .596 | |
| | N | 52 | 56 |

**Source:** *Computed from Questionnaire Survey*

Consistent with the result of mean difference analysis on Table 8, the Pearson correlation on Table 11 indicates position at work and personal financial management capability index are uncorrelated. This implied that the prevailing low level of personal financial management capability among employees in Jimma, Ethiopia is alike for both managerial and non-managers.

## Conclusion and suggestions

The results of the study indicate that employed persons in Jimma, Ethiopia are not using suggested best practices in personal financial management. The overall average personal financial management capability index computed from the survey responses to the 13 Likert-Scale questions is below 50%. Though previous studies indicated that educational attainment in general and exposure to business and economics courses in particular improves personal financial management ability, this pilot study did not show a major difference between different levels of education for the fact that the mean differences is slightly between various categories. Moreover, the study could not establish a strong positive relationship between educational attainment and personal financial management as both the general education and education in business and economics are found with weak association with the personal financial management practice used by employees. The study also reveals that financial management practice did not vary across employees in different organization both at managerial and non-managerial posts.

Findings of the study, in general, lead to suggest that personal finance education should be given to employees at all level in order to improve personal financial management ability of employees who are responsible not only to optimally utilize their income to meet their personal needs, but also supports significant number of their dependent family members. Moreover, the relationship between negative outcomes of poor personal financial management such as financial distress and employee performance as well as productivity is empirically proved on the literature. Hence, personal financial literacy should be considered relevant by employers as well. Workplace financial education through formal and informal ways, therefore, can be considered as one way of intervention to improve basic financial knowledge, skills and attitude of employees on personal financial management (Garman, 1999; Delafrooz & Paim, 2011). It is also suggested on Yadollahi & Paim in their study of family financial management that, *"To solve the economic problems we need to improve the economic status of families who fail to manage their budget, which results in high debt levels and a lack of personal savings."(*Yadollahi *&* Paim, 2011: *p.1)* Besides, government policy makers and academics must follow the global practice of improving personal financial literacy (Holzman, 2010) and personal financial management practice in Ethiopia which can contribute towards enhancing the development of financial system and the overall economy. When we look at the effort at the national level the Federal Government of Ethiopia is appreciated for its effort to include financial literacy in school curriculums under Civics and Ethical Education from grade 4 to grade 12. Nevertheless, most of the sample in this survey that completed school prior to the adoption of this financial literacy policy demands some form of special programs to be effected at work place or in other alternative channels.

**References:**

Ali, A., Rahman, Mohd S. A., & Bakar, A. (2013): "Financial Literacy and Satisfaction in Malaysia: A Pilot Study," International Journal of Trade, Economics and Finance, Vol. 4, No. 5, PP. 319-324

Behrman, J.R., Olivia S. Mitchell,S., Cindy, S. & David, B.2010. Financial Literacy, Schooling, and Wealth Accumulation. *PARC Working Paper Series, WPS 10-06,* Available at Scholarly Commons [online] http://repository.upenn.edu/parc_working_pa, [Accessed September 201]

Behrman. J.R, Mitchell, S., & David, B. 2012. How Financial Literacy Affects Household Wealth Accumulation, *Am Econ Rev.*,102(3), pp. 300–304, available at http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3554245/pdf/nihms-400812.pdf [Accessed September 2014]

Caskey, J., 2006. Can Personal Financial Management Education Promote Asset Accumulation by the Poor? *Networks Financial Institute Policy Brief No. 2006-PB-06*. Available at SSRN: http://ssrn.com/abstract=923565 [Accessed June 2012]

Cole, S., Zia,B., Abel, M., Crowley, L., Pauliac, C.S., & Postal, V. (2014): "Evaluation of Old Mutual's on The Money Program: Financial Literacy in South Africa," Edited By Mattias Lundberg And Florentina Mulaj, Enhancing Financial Capability And Behavior In Low And Middle-Income Countries, Pp.151-494, , The World Bank, Washington D.C

Custors, A. 2011.Furthering Financial Literacy: Experimental Evidence from Financial Literacy Programs for Microfinance Clients in Bohapal, India, *Working Paper Series No 11-113*, Development Studies Institute, London School of Economics, London, [online] available at www.lse.ac,uk/depts/destin

Custors, A., (2011): “Furthering Financial Literacy: Experimental Evidence from Financial Literacy Programs for Microfinance Clients in Bohapal, India,” Working Paper Series No 11-113,Development Studies Institute, London School of Economics, London, [online] at www.lse.ac,uk/depts/destin [Accessed on June 2014]

Delafrooz, N. & Paim,H. L. 2011. Determinants of Financial Wellness among Malaysia Workers, *African Journal of Business Management* [e-journal], 5(24), pp. 10092-10100, Available at http://www.academicjournals.org/AJBM, [Accessed September 2014]

Donald, H., Granbois, Dennis L., Rosen, & Franklin A. 1986. A Developmental Study of Family Financial Management Practices", *in NA - Advances in Consumer Research* Volume 13, eds. Richard J. Lutz, Provo, UT: Association for Consumer Research, Pages: 170-174.

Elizabeth. E, G, Sharon A. D, Janet C. B. 2009. Adoption of Financial Management Practices: A Program Assessment, *Journal of Extension [e-journal] available at* http://www.joe.org/joe/1998april/a5.php [Accessed June 2011]

Gine, X., Karlan, D., & Ngatia, M. (2014): “Social Network, Financial Literacy and Index Insurance: Evidences from a Randomized Experiment in Kenya,” Edited By Mattias Lundberg and Florentina Mulaj, Enhancing Financial Capability and Behavior in Low and Middle-Income Countries, PP.196-208, , The World Bank, Washington D.C

Hilgert, Marianne A., Hogarth, Jeanne M. and Beverly, Sondra G. (2013): “Household Financial Management: The Connection between Knowledge and Behavior,” Federal Reserve Bulletin, July 2003, pp.310-322

Holzmann, R. (2010): “Bringing Financial Literacy and Education to Low and Middle Income Countries: The Need to Review, Adjust, and Extend Current Wisdom,” World Bank, IZA and CES, [online] at http://erepository.uonbi.ac.ke:8080/xmlui/handle/123456789/9897. [Accessed June 2012]

Holzmann, R. 2010. Bringing Financial Literacy and Education to Low and Middle Income Countries: The Need to Review, Adjust, and Extend Current Wisdom, *World Bank, IZA and CES*, available [online] at http://erepository.uonbi.ac.ke:8080/xmlui/handle/123456789/9897, [Accessed June 2012]

Juen, Teo T., Sabri, Mohamad F. Abd Rahim, H., Othman, Mohd A., & Muhammad Arif, Afida M. (2013): “The Influence of Financial Knowledge, Financial Practices and Self-Esteem on Money Management Skills of Young Adults,” Malaysian Journal of Youth Studies, PP.24-37, Institut Penyelidikan Pembangunan Belia Malaysia

Katy J., Sharyl H. and Malcolm B., (2000).Tools for Survival: An Analysis of Financial Literacy Programs For Lower-Income Families, *Woodstock Institute*, 407 S. Dearborn, Chicago, IL 60605, (312) 427-8070, available [online] at www.nonprofit.net/woodstock, last [Accessed on June 2012]

Kebede, R. M., Navkiranjit Kaur D. & Jasmindeep, Kaur. (2015): “Financial literacy for developing countries in Africa: A review of concept, significance and research opportunities,” Journal of African Studies and Development (forthcoming)

Kefela. G, 2011. Implications of Financial Literacy in Developing Countries, *African Journal of Business Management*, [e-journal] 5 (9), pp. 3699-3705, Available at http://www.academicjournals.org/AJBM,[Accessed March 2014]

Keown, L. 2011. The financial knowledge of Canadians, *Canadian Social Trends; 9* abstract only) Spring2011, Issue 91, preceding p30, available at http://connection.ebscohost.com/c/articles/62826281/financial-knowledge-canadians [Accessed September 014]

Keown, L. 2011. The Financial Knowledge of Canadians, *Component of Statistics Canada* Catalogue no. 11-008-X, Canadian Social Trends, pp.30-39

Kotzè, M. & Smit A. 2008. Personal Financial Literacy and Personal Debt Management: the Potential Relationship with New Venture Creation: *SAJESBM NS*, 1 (1), pp.35-50

Kumar,S. & Anees. 2013. Financial Literacy & Education: Present Scenario in India. *International Journal of Engineering and Management Research* [e-journal], 3(6), PP. 83-87, available at www.ijemr.net, [Accessed June 2014]

Lewis, S. and F. Messy. 2012. Financial Education, Savings and Investments: An Overview, *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 22, OECD Publishing. Available at http://dx.doi.org/10.1787/5k94gxrw760v-en [Accessed June 2013]

M. Cohen & J. Sebstad. 2003. Financial Education For The Poor, *Working Paper#*, Microfinance Opportunities, Washington, DC , available [online] at www.microfinanceopportunities.org,[Accessed May 2013]

Marican, S. Bte zakaria, R. & Abdulrahman, A. (2012), Stressed Employees at Workplace: A Malaysian Perspective, *International Journal of Research in Social Sciences*,[e-journal] Vol.2 (2) available at < http://www.ijmra.us> [Acceded June 2013]

McCarthy. 2011. Behavioral Characteristics and Financial Distress, *European Central Bank Working Paper Series*, No 1303 / F February 2011 [Online] available at <the Social Science Research Network electronic library at http://ssrn.com/abstract_id=1761570> [Accessed July 2013]

Mundey and Masok (Kindly Provide initials) (2011). “Towards an Effective Framework for Financial Literacy and Financial Consumer Protection in Uganda

Nayebzadeh,S., Taft,M & Mohammadi. 2013. The Study of University Professors' Financial Literacy. *International Journal of Academic Research in Accounting, Finance and Management Sciences* [e-journal] 3 (3), pp. 111–117 available at www.hrmars.com, [Accessed May 2014]

Nyamute, W. & Maina, M. 2011. Effect of Financial Literacy on Personal Financial Management Practices: A Case Study of Employees of Finance and Banking Institution, *University of Nairobi Electronic Repository*

Osteen, S., Muske G., & Jones, J. (2007): “Financial Management Education: Its Role in Changing Behaviors,” Journal of Extension, Vol.45 (3), [online] www.joe.org/joe/2007/jue/rb2.php [Accessed on February, 2014]

Rajna, E., Junid & Moshiri, H. 2011. Financial Management Attitude and Practice among the Medical Practitioners in Public and Private Medical Service in Malaysia, *International Journal of Business and Management* [e-journal] 6 (8), available at www.ccsenet.org/ijbm, [Accessed March, 2014]

Roa Garcia, J.M. (2011): “Financial Education and Behavioral Finance: New Insights into The Role of Information in Financial Decisions,” Journal of Economic Surveys (2011) Vol. 00, No. 0, pp. 1–24, <doi: 10.1111/j.1467-6419.2011.00705.x>, Blackwell Publishing Ltd, 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA.

Robb,A. & Wodyard A., 2011. Financial Knowledge and Best Practice Behaviors, *Journal of Financial Counseling and Planning*, 22 (1), PP. 60-70

Rooij,M.V., Lusardi,A. & Alessie,R.J. 2011. Financial Literacy, Retirement Planning, and Household Wealth, *NBER Working Paper* No. 17339, JEL No. D12, D91, J26, [online] at http://www.nber.org/papers/w17339 [Accessed May 2012]

Sekita, S. 2013. Financial Literacy and Wealth Accumulation: Evidence from Japan, *Discussion paper series, No.2013-01*, Graduate School of Economics, Kyoto Sangyo University, Motoyama-Kamigamo, Kita-ku, Kyoto, Japan,[online] available at https://www.kyoto-su.ac.jp/department/ec/pdf/2013-1.pdf, [Accessed September 2014]

Shankar, S. 2013. Financial Inclusion in India: Do Microfinance Institutions Address Access Barriers?. ACRN Journal of Entrepreneurship Perspectives, 2 (1), p. 60-74

Suriya Murithi, B.Narayanan & M.Arivazhagan,. 2012. Investors Behavior in Various Investment Avenues – A Study, International Journal of Marketing and Technology, [online] available at http://www.ijmra.us, [Accessed January, 2012]
Tustin, Harold, D. (2010). "An Impact Assessment of A Prototype Financial Literacy Flagship Programme In A Rural South African Setting", African Journal of Business Management Vol. 4(9), pp. 1894-1902, 4 August 2010, Available online <at http://www.academicjournals.org/AJBM, [Accessed on January 15, 2015]
Xu, L. & Zia, B. (2012). 'Financial Literacy Around The World: an overview of the evidence with practical suggestions for the way forward', Policy Research Working Paper 6107, The World Bank Development Research Group, Finance and Private Sector Development Team, June 2012
Yadollahi, M. & Paim, L.H. 2011. A Theoretical Study of Family Resource Management. Journal of American Science, 2011; 7(2) [online] available athttp://www.americanscience.org, [Accessed September 2014]

European Journal of Contemporary Economics and Management
December 2015 Edition Vol.2 No.2

# DOES MICROFINANCE OPERATION HAVE EFFECT ON POVERTY ALLEVIATION IN NIGERIA?

***Taofeek Aremu Kasali,***
PhD Candidate, Department of Economics and Agribusiness
School of Economics, Finance and Banking
College of Business, University Utara Malaysia
***Siti Aznor Ahmad***
Senior Lecturer and Deputy Dean, School of Economics, Finance and Banking, College of Business, University Utara Malaysia
***Lim Hock Ean***
Associate Professor, Department of Economics and Agribusiness
School of Economics, Finance and Banking
College of Business, University Utara Malaysia

Doi: 10.19044/elp.v2no2a4 URL:http://dx.doi.org/10.19044/elp.v2no2a4

**Abstract**

It is an established fact that if Development Finance Institutions like Microfinance Institutions are accessible to the poor, they would enhance their productivity and capability to procure assets and necessary facilities that can encourage productive investment. This will therefore reduce poverty as it is clear that the poor does not lack initiative but only constrained by finance. One of the economic measures embarked upon by the governments in most part of the world to combat poverty is the microcredit through microfinance banks. Microfinance has been used on several occasions to reduce poverty, in rural areas in particular which are believed to harbour the poorest people in the world. It is an important aid that can improve the economic performance of the poor. In Nigeria, government had made concerted efforts to alleviate poverty, but poverty still remains pervasive and widespread especially in the rural communities. This paper examines the policies and programmes of poverty alleviation in Nigeria with respect to the effect of microfinance. Exploratory method was used to review the relevant literature in order to discover the extent of the impact of these programmes on the targeted poor masses. The authors conclude that in order to make Microfinance achieve the poverty alleviation objective in Nigeria, the Government would have to provide basic infrastructural and social facilities

that could encourage the Microfinance Institutions to establish branches in the rural areas and function effectively.

**Keywords**: Development Finance, Poverty, Microfinance Institutions, Exploratory, Nigeria

## Introduction

Poverty is deprivation of the poor of the basic necessities of life. Poverty connotes being unable to afford food, inability to afford hospital bills when sick, inability to send children to school because of school fees and not having job to earn a living. Poverty is a global disease that manifests in nearly all the countries over the world. Hence, countries worldwide always proffer measures to combat the menace. One of the popular measures is for government to embark on growth oriented programmes to alleviate poverty. Research has shown that countries recording high growth rate do not necessarily attain low level of poverty incidence. Suffice to say that increase in country's Gross Domestic Product (GDP) is not a sufficient condition for poverty reduction. To reduce poverty, Governments therefore need to develop strategies that would involve multiple programmes and policies that would be development oriented and minimize inequality and inflation (Akoum, 2008).

Poverty is multidimensional. Hence, the problem of poverty cannot be solved with only one programme. It has to be policy measures that will cut across the sectors of the economy. Some of the dimensions of poverty are explained as follows:

Inequality serves as an indicator of poverty. It connotes wide differences in income, in employment opportunities; inequality between urban and rural population and inequality in assets ownership. This occurs as a result of misappropriation and improper distribution of human and capital resources. It shows that majority of the resources are skewed into the hands of the few while the wider population lingers in abject poverty. The poverty ridden majority have little income that would not guarantee good food, quality education, adequate health treatment and basic necessities of life (Abdel-Baki, 2012; Cuong, Truong, & Van der Weide, 2010; Kalirajan & Singh, 2009; Smith, 2010)

Education is regarded as one of the important pillars of economic development. It assists the poor to be aware of the opportunities that can be explored for good entrepreneurship. In fact, studies have shown that literacy serves as a vital requirement for microcredit consideration (Abdel-Baki, 2012; Odhiambo, 2010; Smith, 2010) The literate people are more competent in skill acquisition and management of the business entities (Bhatt & Tang, 2002). Education therefore serves as the major ingredient for human capacity building that can enhance entrepreneurship to reduce poverty (Goel & Rishi, 2012). Education also serves as aid to loan repayment and assists the job seekers to get job of their choice (Orso, 2011). Lack of proper education therefore manifests poverty.

Health is an important factor that enhances wealth. This means that without good health, one will not be able to work for a living. For instance, ill-health can prevent the head of household to earn his living thereby causing unending hardship for the entire family with other concomitant multiplier effects (Jha & Dang, 2010).

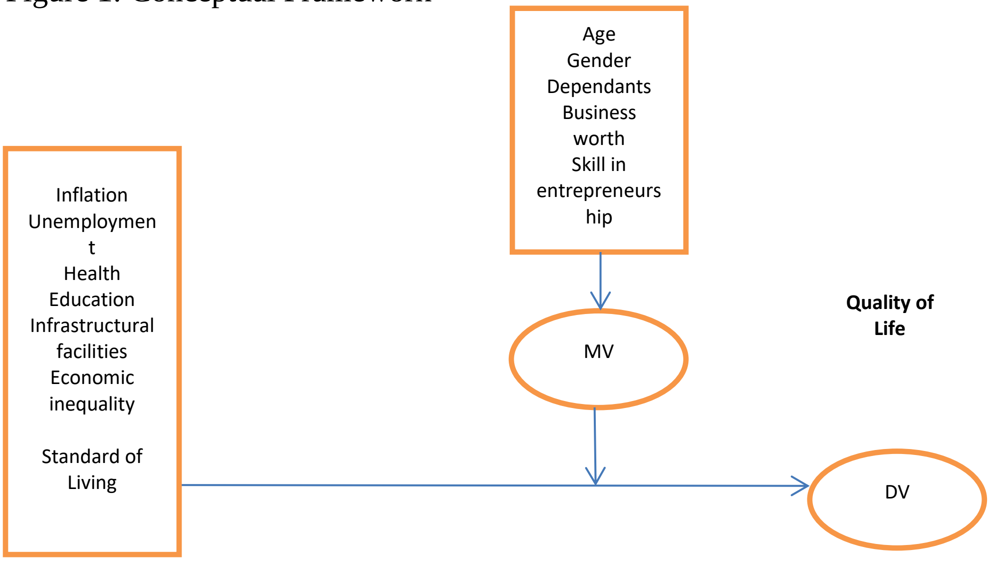
Microfinance programmes have been considered by the development economists as effective and powerful tool for poverty reduction. However, little efforts have been made to critically analyse the impact of these programmes on the poverty reduction particularly in the rural areas of the developing countries.

It is against this background that this paper examines the contributions of microfinance towards the poverty reduction with the objective of making contributions to literature. In particular, the paper enumerates the effect of finance as a tool for the enhancement of economic growth. Following this segment is the conceptual issues. Section 3 examines the concept of using microfinance to alleviate poverty followed by the discussion on the evaluation of the effect of microfinance in section 4. In section 5, poverty incidence in Nigeria is enumerated while the Nigerian experience in Microfinance and poverty are reviewed in section 6. Section 7 concludes the discussion.

**Conceptual Framework**

Adapting the Multidimensional Poverty Index (MPI) of Alkire and Santos (2010), the underpinning concept for this paper is depicted in figure 1 below:

Figure 1: Conceptual Framework




Poverty is a multi-faceted fabric which involves economic, social, cultural and psychological dimensions. It is a world wide phenomenon whose consequences are dehumanizing, devastating and traumatic. Hence, in September 2000, the United Nations declared Millennium Development Goals (MDGs). The major thrust of this policy is to make life more meaningful to the poor and downtrodden. By implication, reduction of poverty and hunger is adjudged to be the basic root of all other problem issues focused on MDGs (Kalirajan & Singh, 2009) . In essence, a person who has a much lower income than that of the rest of the population and who is deprived of any real access to basic services (health, adequate accommodation and education) is regarded as living in poverty. In a given population, the poor are those whose incomes are lowest and who therefore consume least. In fact, according to the world classification, people that live below $1 per day are poor. They are those who have the worst quality of life. Poverty reduction can therefore be seen as enabling or empowering individuals to get them out of poverty; not only to increase the income and assets of households or individuals but also to increase the social services and security of the people. Poverty reduction will therefore involve development of human capital and the availability of infrastructural facilities that will support the efficiency of the poor (Fay et al., 2005, Aigbokhan 1999, Calderon & Serve, 2010) cited in Sackey (2011).

It has been asserted that poverty is one of the greatest challenges facing the world today. According to James D. Wolfensohn, former World Bank President, "Poverty amidst plenty is the world's greatest challenge".

This implies that the poor countries do not necessarily lack adequate resources but they are not efficiently managed and distributed thereby causing poverty and inequalities.

No meaningful economic development can be achieved without adequate policies and programmes that will empower the poor to have their means of livelihood.Alleviating poverty therefore constitutes political, ethical, social and economic imperative of mankind (United Nations General Assembly, 1996). Suffice to say that only one scheme cannot solve the problem of poverty but has to be policy measures that will cut across the sectors like education and well remunerated labour option (Smith, 2010). Provision of basic commodities and services is another measure that can alleviate poverty. This can be used in particular to avoid social discontent (Abdel-Baki, 2012).

**Microfinance and Poverty Alleviation**

Microfinance has its antecedent in Bangladesh and the first world acclaimed MFI is the Grameen Bank. In 1976, Mohammed Yunus established the first Grameen Bank in Bangladesh. With the latter's success, several developed and developing countries adopted the concept of micro financing. For instance, on September 17 1987, Amanah Ikhtiar Malaysia (AIM) was inaugurated with the main aim of reducing poverty and increasing income of Bumiputera and Malays in particular, through microcredit called Ikhtiar financing scheme for poor households in rural areas.

Microfinance involves the rendering of financial services to the poor and low income earners together with their micro businesses. It is widely acclaimed that Microfinance can serve as an effective tool to solve poverty problem worldwide. It is an essential aid for increase in productivity of the poor and essential ingredient for economic development (Comim 2007, Dowla & Barna 2006, Wright 2000, Islam 2007) cited in (El-Komi, 2010).

It was asserted that 1.7 billion people from the world population live in acute poverty of between \$1.25 per day and \$2 per day poverty rates. Out of this, rural areas record higher incidence of poverty than their urban counterparts (Alkire & Santos, 2010). Furthermore, empirical investigations have revealed that microfinance, being mostly a rural phenomenon, can serve as an impetus to increase the income of the households and lift them above the poverty level. Hence, most of the world nations use microcredit through the Microfinance institutions (MFIs) as strategy to reduce poverty.

Countries with well organized and efficient financial intermediaries tend to recover faster from poverty and inequality than their counterpart with moribund financial development and uncoordinated microfinance services (Kalirajan & Singh, 2009; Yang, Jialali, & Wei, 2011). It is also on record that the Microcredit Summit launched in 1997 the global campaign to expand the coverage of microfinance to 100 million of the world's poorest micro entrepreneurs by 2005. Hence, the United Nations declared year 2005 as the International Year of Microcredit (El-Komi, 2010).

## Review of Past Literature on the Effect of Microfinance on Poverty Alleviation

Most of studies conducted to evaluate the operations of MFIs revealed that microcredit can really assist in alleviating poverty. Few of the studies are summarized in the table below:-

Table 1: Measuring the Effect of Microfinance

| Author/Date | Title | Country | Sample size | Methodology | Findings |
|---|---|---|---|---|---|
| Pitt and Khandker (1998) | The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter? | Bangladesh | 1,798 Microfinance household members and non members through data collected by World Bank and the Bangladesh Rural Development Board in 1991-92. | Quasi-experimental survey design. Using Weighted Exogenous sampling maximum likelihood-limited information, maximum likelihood-fixed effects and Instrumental variables regression. | Grameen microfinance loan, obtained by women in particular, increase the household expenditure, family's level of education and good nutrition among others. |
| J. Morduch (1998) | Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh. | Bangladesh | About 1,800 microfinance clients and non client households in Bangladesh taken from 1991-92 Cross-sectional survey. | Difference-in-differences methods. | Microfinance loans encourage mild increase in consumption and less vulnerability of the clients to poverty. |
| Khandker(2005) | Microfinance and Poverty: Evidence Using Panel Data from Bangladesh. | Bangladesh | 1,638 participants and eligible non participants panel households. | Panel Data analysis using alternative estimation technique. | There is always 20 percent increase on microcredit given to women. Impact of microfinance is always greater on the extreme poverty than the moderate poverty. And, microfinance accounted for 40 percent of the entire reduction of moderate poverty in rural |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | Bangladesh. |
| B. Coleman (2002) | Microfinance in Northeast Thailand: Who Benefits and How much? | Thailand | Survey of 444 households in 14 villages in Northeast Thailand | Weighted t-tests and weighted logit estimates were used to analyse the data. | The wealthy people do participate in microfinance loan and become wealthier |
| E. Edgcomb & C.Garber (1998) | Practitioner-led Impact Assessment: A Test in Honduras | Honduras | 144 respondents of loan participants and non-participants. | Survey method of comparing cross- sectional data of banks clients and non clients. It also include interview of village bank members and loan applicants. Simple statistical package and simple content analysis were used to analyse the data. | Increase of 75 percent on profits of microfinance loan participants over non-participants. |
| B. MkNelly & K. Lippold (1998) | Practitioners-led Impact Assessment: A Test in Mali (1998) | Mali | Sample size of 94 one year, two-year and incoming clients. | Interview survey was conducted. EpiInfo, a simple statistical package was used to analyse the survey study. | The more the circles/rounds of participation in micro financing, the more the income. |
| D. Karlan (2001) | Microfinance Impact Assessment: The Perils of Using New Members as a Control Group. | Not applicable | Not applicable | Conceptual paper based on the critique of cross-sectional data on treated and control groups for microfinance impact assessment. | Participants' skill in entrepreneurship always enhances prompt loan repayment and business profit. |
| G. Alenxander (2001) as cited in (Goldberg, 2005) | An Empirical Analysis of Microfinance: Who are the Clients? | Peru | | Longitudinal data from Assessing the Impacts of Microenterprise Services(AIMS) project. | Confirms that microcredit assists the poor. |

(Adapted from Grameen Foundation USA Publication Series)

In the same vein, further studies of the clients of microfinance institutions like SEWA Bank, India; Zambuko Trust, Zimbabwe and Mibanco, Peru; testify to the fact that microfinance improves the well-being of the participants. Other relevant researches that justify the positive impact of microfinance are ASHI Philippines, FINCA Uganda, FOCCAS and PRIDE Uganda, ICMC Bosnia and Harzegovina, BRAC Bangladesh, SHARE India, Kashf Pakistan, CARD Philippines, Moris Rasik, Timor Leste, Local Initiatives Projects Bosnia and Herzegovina; and Sinapi Aba Trust Ghana (Goldberg, 2005).

Also in his study of an area in Pakistan on the impact of microfinance on poverty alleviation Ayuub, (2013) concludes that microfinance contributes tremendously in the reduction of poverty, increase of standard of living and income, adequate empowerment, and it also revives the economy. This was agreed upon by Kashif, Durrani, Malik, Scholar, & Ahmad, (2011) who added that microfinance can contribute to the improvement of the business performance of the beneficiary. In the same vein, Shane,(2004) confirms that microfinance can enhance the increase in well-being of the borrower with increase in children education and consumption of health services. Assessing the impact of microfinance on the Millennium Development Goals in a district in Pakistan (Setboonsarng & Parpiev, 2008) affirm that microfinance has positive impact on production capacity, consumption, assets and Income.

The above discussions confirm that microfinance activities play a vital role in poverty reduction.

## Poverty Incidence in Nigeria

Nigeria became independent country on October 1, 1960 and became a republic in 1963. With the coverage space of 923,768 square kilometers, Nigeria can be regarded as a large country. The country shares its border in the South by approximately 800 kilometers of the Atlantic Ocean, in the West by the Republic of Benin, in the North by the Republic of Niger and in the East by the Republic of Cameroon. Nigeria has been categorized as the most populous country in Africa and also in the black nation of the world with a population of 140 million people, based on the 2006 National population Census and 163 million based on National Population Commission's estimates (National Bureau of Statistics, 2012). Nigeria is a Federal republic with thirty six states and the Federal Capital Territory (FCT) Abuja. The States form the second tier of government and are further sub-divided into 774 local government areas (LGAs). The latter constitute the third tier of government (The Government of the Federal Republic of Nigeria, 2007) .About 48 percent of the Nigerian population lives in the urban areas while 52 percent is in rural areas. Inflation rate stood at 12.0% in December, 2012 (NBS, Feb. 2013).

Nigeria's economic freedom score is 55.1, making its economy the 120th freest in the 2013 Index. The country is ranked 21st out of 46 countries in the Sub-Saharan African region, and its overall score is adjudged to be below the world average. Nigeria is the leading oil producer in Africa. Its Oil and Gas account for about 90 percent of export earnings and 80 percent of government revenue. The country has an extensive informal sector and the majority of the population works in agriculture (2013 Index of Economic Freedom).

According to Bertelsmann Stiftung's Tranformation Index (BTI) 2012 which evaluated 128 transformation and developing countries' state of democracy, market economy and political management; Nigeria's Human Poverty Index (HPI) is 0.368. By implication, Nigeria ranks 114 out of 135 countries. The country's environmental problem ranges from air, water and industrial pollution. This has resulted in Nigeria's score of 40.2 in the Environment Performance Index. This index ranks Nigeria to be the 153rd out of 163 sampled countries.

In Nigeria, the main thrust of poverty alleviation as government strategy is to create economic opportunities in various forms and empower the poor through education, health and financial resources.

The Nigerian government, under the leadership of different regimes (Civilian and Military), had established several programmes to alleviate poverty. In 1972, the National Accelerated Food Production Programme was inaugurated to boost the food production through an on lending fund from the Nigeria Agricultural and Cooperative Bank. In 1976, Operation Feed the Nation was established to provide extension services to farmers in the rural areas. While The Green revolution programme of 1979 was to put an end to food importation and encourage the production of more crops and fiber. Others are: The Directorate of Food Road and Rural Infrastructure (DFFRI) in 1986, The Peoples Bank of Nigeria (1989), The Community Banks of Nigeria (1990), The Family Economic Advancement Programme (1997), The Mass Mobilization for Self-Reliance (MAMSER), the Better Life Programme (BLP), The Family Support Programme (FSP) in 1993, The National Directorate of Employment (1986), The Petroleum Special Trust Fund (PTF), The Mass Transit Programme (MTP) ,National Poverty Eradication Programme (2001),The Agency for Mass Literacy, National Economic Empowerment and Development Strategy (2004) and the Microfinance Banks.

Recognizing the need to improve the standard of living of the poor masses, the government initiated and launched the Poverty Alleviation Programme (PAP) within the framework of Budget 2000. The programme was designed to provide employment for 200,000 people and the sum of N10 billion was set aside for it. The programme was implemented in every state of the Federation and it provided jobs for 214,367 people who were paid stipends of N3, 500 per month. In January, 2001, the Poverty Alleviation Programme was phased out and replaced with the National Poverty Eradication Programme (NAPEP), which has the responsibility for coordinating and monitoring the activities of the core Poverty Eradication Ministries and Agencies.

The major policy thrust of the National Poverty Eradication Programme (NAPEP) is to eradicate absolute poverty in Nigeria by the year 2010. This is based on the premise that about 70 percent of Nigerians live below the poverty line.

NAPEP has provided strategies for the eradication of absolute poverty through the streamlining and rationalization of existing poverty alleviation institutions and coordinated implementation and monitoring of relevant schemes. Among such schemes is the Credit Delivery Programme (CDP) through the Micro-Finance Banks.

Despite the aforementioned efforts, the scourge of poverty is still rampant in Nigeria. Giving the breakdown of the trend of poverty rates in the country, the National Bureau of Statistics laments that the magnitude of the people below the poverty line has increased tremendously despite the fact that Nigerian economy is ironically growing. For instance in 1980, the proportion of Nigerians living below the poverty line increased from 17.1m (27.2% of 65m total population) to 34.7m in 1985 (46.3 % of the total population of 75m). The people living in poverty in 1992 were 39.2m (42.7% of the total population of 91.5m). This figure increased to 67.1m in 1996 (65.6% of the total population of 102.3m). In 2004, the people in poverty were 68.7m (54.4% of the total population of 126.3m), the proportion of people living below property line rose sharply in 2010 to 112.47m (69% of the estimated population of 163m). Table 2 below further clarifies this analysis.

Table 2: Relative Poverty Head count from 1980 - 2010

| Year | Poverty Incidence (%) | Estimated Population (Million) | Population in poverty (Million) |
|---|---|---|---|
| 1980 | 27.2 | 65 | 17.1 |
| 1985 | 46.3 | 75 | 34.7 |
| 1992 | 42.7 | 91.5 | 39.2 |
| 1996 | 65.6 | 102.3 | 67.1 |
| 2004 | 54.4 | 126.3 | 68.7 |
| 2010 | 69.0 | 163 | 112.47 |

(Source: National Bureau of Statistics. HNLSS 2010)

In line with the above assertions, it was claimed that about 92% of the Nigerian population survive on less than $2 on daily bases while 71% live with less than $1 daily (UNESCO, 2010).

Consequently, it was advised that Nigeria and other African countries must take drastic measures to improve the conditions of living in their countries; otherwise, they will not be able to meet the 2015 target goals for MDGs (UNDP).

Despite all the government efforts, there was no substantial reduction in poverty level particularly in the rural communities. Nigeria is yet to ensure national food security. Most of the communities still lack steady source of income that can accommodate basic health care facilities, good quality education, good standard housing units, cheap and affordable consumer products; and enabling environment for production and trade.

**Microfinance and Poverty: The Nigeria's Experience**

In Nigeria, it is on record that the formal financial system renders services to about 35% of the economically active population whereas the remaining 65% is left to the hands of informal financial sector like Non-Governmental Organisations (NGOs), money lenders, friends, relatives and Cooperative and Thrift societies. It is therefore important for developing country like Nigeria to enact a formidable finance policy that would integrate the activities of the existing informal financial institutions. And bring them within the umbrella of the apex regulator -Central Bank of Nigeria. This would ensure monetary stability that will be capable to engender sound economic growth and development through the adequate finance of micro, small and medium scale enterprises.

The doctrine of alleviating poverty and elevating the economic active but underprivileged people through microcredit assistance was prominent in the last two decades. Hitherto, microfinance functions in Nigeria with the provision of micro-credit to rural and urban low-income earners. They operate in form of self-help groups that rotate the savings and credits among the group members. There are other informal providers of microfinance services like cooperative societies; and savings collectors usually called "Baba Alajo". However, the major impediment of these informal microfinance institutions is the fact that they serve few people as a result of insufficient funds available to finance their customers' projects and extend the financial services to rural areas. In order to improve this situation, Nigerian governments in the past had established series of financed micro/rural credit programmes that would assist the poor to fund his micro-business. Such programmes include the Rural Banking Programme, sectoral allocation of credits, a concessionary interest rate, and the Agricultural

Credit Guarantee Scheme (ACGS). Others were the Nigerian Agriculture and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs), the Family Economic Advancement Programme (FEAP) and in year 2001 it created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty.

Some Non-Governmental Organisations (NGOs) also participate in microfinance activities as a result of the lack of adequate funds from the formal financial sector to provide the services needed by the low income earners and the poor; and also with the declining support from development partners among others. Prominent among them are: Lift Above Poverty Organization (LAPO), Youth Empowerment Scheme (YES) in Minna, Country Women's Association of Nigeria (COWAN), The African Diaspora Foundation, Farmers' Development Association, Grassroots Women Foundation, People to People International and Women's Consortium of Nigeria. The NGOs are only membership based institutions that engage in charity, capital lending and credit. They shifted from supply-led technique to a demand driven strategy. Moreover, they could not reach out as expected because of the non-sustainability of the sources of their fund.

From the private sector, about eight hundred and seventy Microfinance Institutions are owned by the private organizations all over the country. While appraising these institutions' activities in its December 2005 report, the Central Bank of Nigeria (apex regulator of Banks) affirms that most of the microfinance banks have weak institutional capacity, inadequate capital base and there has been a huge supply gap of unsatisfied demand in the market.(Central Bank of Nigeria,2005)

In its report at the 3rd Annual General Meeting held in June, 2013, the National Association of Microfinance Banks (NAMB) in Nigeria claimed that its members had invested more than N222 billion into Nigeria’s economy and provided jobs for 22,000 people from its activities nationwide with the total client of six million. The report further solicits assistance for more funds so that microfinance would be more effective with expected responsibilities in the Nigerian economy (Microfinance Africa, June 24, 2013).

The Nigeria Deposit Insurance Corporation (NDIC), the government agency saddled with the responsibility of insuring deposit liabilities of licensed banks and other deposit taking institutions, also claimed that there exists a lot of untapped potential for financial services at the micro level of the Nigerian economy particularly in the rural areas where 76.8 percent of the residents are unbanked (Microfinance Africa, June 18, 2013).

From the above illustrations, one can infer that if pragmatic actions are not urgently taken, the poverty in Nigeria would be deepened and this will slow down the economic growth and development.

## Conclusion

The illustrations so far have really portrayed the role of Microfinance as catalyst for poverty alleviation. However for any poverty reduction or alleviation programme to achieve its objectives, there is need for the establishment of appropriate structure for effective implementation. Hence, we notice the efficiency of microfinance in some countries save Nigeria. Furthermore, as earlier noted, poverty is multidimensional; likewise, its solution should also be multiple programmes. Government should therefore wage unending wars against poverty. It is not just enough to reduce poverty but concerted efforts should be made to prevent it. This can only be achieved through proactive and multiple programmes, projects and policies that are compatible with the development of the economy.

Efficient implementation of poverty alleviation programmes requires disciplined and transparent government that will shun corruption and encourage proper accountability. For government to achieve its objectives of such programmes, it should encourage the beneficiaries of the programme to be fully involved and support its success.

Development occurs when the economy is able to improve and sustain the standard of living of the people. Suffice to say that economic growth does not connote economic development. That is, there can be growth without development. It is therefore pertinent to state that development in a country means reduction in the level of poverty, inequality and unemployment without prejudice to economic growth (Seers, 1969) cited in Anger (2010).

Considering the success made by microfinance programmes to reduce poverty in other parts of the world, Nigerian Government needs to create enabling environment for the smooth operations of Microfinance Institutions.

## References:

Abdel-Baki, M. (2012). A community-based framework for poverty alleviation: the case of post-revolution Egypt. *International Journal of Social Economics*, *39*(1/2), 81–96. doi:10.1108/03068291211188884

Akoum, I. F. (2008). Globalization, growth, and poverty: the missing link. *International Journal of Social Economics*, *35*(4), 226–238. doi:10.1108/03068290810854529

Alkire, S & Santos, M.E (2010). Acute Multidimensional Poverty: A New Index for Developing Countries. OPHI Working Paper No. 38.

Anger, B. (2010). Poverty Eradication , Millennium Development Goals and Sustainable Development in Nigeria. *Journal of Sustainable Development*, *3*(4), 138–144.
Ayuub, S. (2013). Impact of Microfinance on Poverty Alleviation : A Case Study of NRSP in Bahawalpur of Pakistan, International Journal of Academic Research in Accounting, Finance and Management Sciences, *3*(1), 119–135.
Bhatt, N. & Tang, S. (2002). Determinants of Repayment in Microcredit : Evidence from Programs in the United States *, International Journal of Urban and Regional Research, *26*(2), 360–376.
Central Bank of Nigeria. (2005). *Microfinance Policy, Regulatory and supervisory Framework For Nigeria* (pp. 1–27).
Coleman,B. (2002). Microfinance in Northeast Thailand: Who Benefits and How Much?, Economics and Research Development (ERD) Working Paper Series No 9, Asian Development Bank, Manila.
Cuong, N. V., Truong, T. N., & Van der Weide, R. (2010). Poverty and Inequality Maps in Rural Vietnam: An Application of Small Area Estimation. *Asian Economic Journal*, *24*(4), 355–390. doi:10.1111/j.1467-8381.2010.02043.x
Edgcomb, Elaine, and Garber, Carter, (1998) “Practitioner-Led Impact Assessment: A Test in Honduras.” Washington, D.C.: AIMS,.
El-Komi, M. S. (2010). P*overty: Alleviation Through Microfinance and Implications on Education, UMI Dissertation Publishing, ProQuest.*
Goel, G., & Rishi, M. (2012). Promoting Entrepreneurship to Alleviate Poverty in India : An Overview of Government Schemes , Private-Sector Programs , and Initiatives in the Citizens ’ Sector. *Thunderbird International Business Review*, *5*(1), 45–57. doi:10.1002/tie
Goldberg, N.(2005) Measuring the Impact of Microfinance: Taking Stock of What We Know. Grameen Foundation USA Publication Series.
Jha, R., & Dang, T. (2010). Vulnerability to Poverty in Papua New Guinea in 1996. *Asian Economic Journal*, *24*(3), 235–251. doi:10.1111/j.1467-8381.2010.02038.x
Kalirajan, K., & Singh, K. (2009). The pace of poverty reduction across the globe: an exploratory analysis. *International Journal of Social Economics*, *36*(6), 692–705. doi:10.1108/03068290910956921

Karlan, Dean**,** (2001) Microfinance Impact Assessments: The Perils of Using New Members as a Control Group, *Journal of Microfinance*, 3 (2) 76-85.
Kashif, M., Durrani, K., Malik, M.I., Scholar, P.D. and Ahmad, S. (2011). Role of MicroFinance in Reducing Poverty: A Look at Social and Economic Factors, Sarhad University of Science and Information Technology Peshawar, 2(21):138-144.

Khandker, S. R. (2005). Microfinance and Poverty: Evidence Using Panel Data from Bangladesh. *The World Bank Economic Review*, *19*(2), 263–286. doi:10.1093/wber/lhi008

MkNelly, Barbara, and Karen Lippold, (1998).“Practitioner-Led Impact Assessment: A Test in Mali.” Washington, D.C.: AIMS.

Morduch, Jonathan (1998). Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh, Princeton University working paper.

National Bureau of Statistics. (2012). Nigeria Poverty Profile 2010, Available [on line] at: http://reliefweb.int/report/nigeria/nigeria-poverty-profile-2010-report

National Planning Commission. (2010). *2010 Performance Monitoring & Evaluation Report* (pp. 1–161).

Odhiambo, N. M. (2010). Is financial development a spur to poverty reduction? Kenya’s experience. *Journal of Economic Studies*, *37*(3), 343–353. doi:10.1108/01443581011061311

Orso, C. E. (2011). Microcredit and Poverty ;An overview of the principal statistical methods used to measure the program net impacts. *POLIS* Working Papers No180.

Pitt, Mark and Khandker, Shahidur (1998)**,**“The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?” *Journal of Political Economy* 106 No. 5: 958-996.

Sackey, J. A. (2011). Towards Accelerated Growth and Transformation of the Nigeria Economy: Missed Opportunities, Existing Prospects and the Way Forward. *African Institute For Applied Economics*, *7*, 1–49.

Setboonsarng,S. and Parpiev, Z. (2008). “Microfinance and the Millennium Development Goals
in Pakistan: Impact Assessment using Propensity Score Matching”, Discussion Papers, No. 104. ADB Institute.

Shane, N.(2004). “A Case Study Analysis of the Impacts of Microfinance upon the lives of the
Roor in Rural China”, Melbourne, Australia: RMIT University (January).

Smith, N. (2010). Economic inequality and poverty: where do we go from here? *International Journal of Sociology and Social Policy*, *30*(3/4), 127–139. doi:10.1108/01443331011033328

The Government of the Federal Republic of Nigeria. (2007). *Mid-Point Assessment of the Millennium Development Goals in Nigeria, 2000-2007* (pp. 1–71).

Yang, B., Jialali, P., & Wei, X. (2011). Microfinance in China’s Poor Area and Its Impact to Loan Type - Evidence from Xinjiang Uygur Autonomous

Region. *2011 Fourth International Conference on Business Intelligence and Financial Engineering*, 486–490. doi:10.1109/BIFE.2011.82
www.microfinanceafrica.com.