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*Sincerely,*

***ELP, Team***

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# **Not Too Negative: How Framing Political Attack Advertising Influences Economic Attitudes**

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## **Abstract**

This study examines the effectiveness of lexical word choices, which frame an American political attack advertisement in terms of economic gain or loss. Additionally, the attack ad is framed as affecting one's own pocketbook versus societal financial well-being.

Couched within a professionally produced political attack advertisement about a financial scandal, this experiment found the gain condition to negatively influence perceptions of national economic well-being. Additionally, framing of the attack advertisement as affecting one's own personal finances increased perceptions of bankruptcy in the nation more than when it was framed as a societal issue.

The experiment broadens the usage of gain and loss framing in design while examining financial perceptions of both self and society. Findings contend that these different framing devices influence economic evaluations, which have potential to alter political attitudes in response to the political attack advertisement. The study highlights the implications of effective attack advertising on attitudes of voting citizens.

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**Keywords:** Political communication, public relations, framing, attack advertising, attitude.

## **Introduction: Not Too Negative: How Framing Political Attack Advertising Influences Economic Attitudes**

The complexity of message transference is a divisive issue in framing research due to its many applications to societal institutions such as public relations. That the framing of messages can have influences on audiences, when applied under the right circumstances is largely without contention. Much of the American public is aware of this broad definition. The study of framing has even been made public in political strategy articles such as "The Framing Wars" by *New York Times* columnist Matt Bai (2006).

However, the distinct applicability, conceptualization, and operationalization of framing have bemused researchers for decades. The enigma of framing can be traced back to Walter Lippmann's theory of "pictures in our heads" (Lippmann, 1922) and the prevalence of propaganda during the World Wars (Lasswell, 1971). Framing extends beyond informative and persuasive communications: it transcends societal communication and our psyches.

Today, studies emulating Tversky and Kahneman's (1981, 1987) seminal gain and loss experiment continue to produce wildly varying results due to different contexts, styles of message manipulation, and approaches to measurement (Kuhberger, 1998). The original 1981 experiment questioned participants about choices for curing a diseased population. This topic spurred medical communication studies finding best approaches to cancer recommendations, that gain-based messages increase use of sunscreen for beach goers, and myriad other medical field applications (Detweiler et al., 1999). In journalism and mass communication fields, gain versus loss framing has been applied to both news and politics, but with inconsistent findings, perhaps in part due to different theoretical traditions.

### **Framing Traditions in Communication**

Framing research has long traditions in the fields of journalism and mass communication, public relations, sociology, and psychology, as well as attention from other fields such as political science. For public relations research, Hallahan (1999) explicates seven distinct types of framing that are applicable to strategic communications such as issue framing, for which the issue of this study is the economy. With each field staking a claim in this quintessential paradigm, approaches to its study vary with great debate. The resulting fault lines stem from the major traditions of framing study, different conceptualizations of the theory, and myriad operationalizations of the research.

### **The Sociological View**

Complicating the picture further, there are psychological and sociological approaches to framing research designs. The diverse applications of framing inherently rely on different conceptualizations of the theory, largely in the traditions of sociology and psychology. Goffman referred to frames as a strip of narrative or a story line, later conceptualized as a picture frame. The picture frame both emphasizes what is included in the picture and what is excluded. The frame has also been characterized as having qualities itself (Gitlin, 1980).

Extending the picture frame metaphor, a frame can be elaborately gilded or simple, modern or traditional. Frames can influence the perception

of the picture inside it. Finally, frames have more recently been symbolized in housing structures. Here, a foundation is laid for the house and some beams are stronger and larger than others, which support the frame. Windows are placed in certain areas to provide certain views (Tankard, 2008).

Sociological, typically more macro-level, approaches to framing originate with Goffman's conception of "strips of doing" (1974), which is a way of understanding the world in which humans live. This original idea of narratives used for organizing information was further defined by Gamson and Modigliani (1987) as a frame, which involves a "central organizing idea or story line."

More recent scholars have furthered the definition to more fully integrate society. Reese (2008) has called frames "principles," which are produced by culture and guide society. Hertog and McLeod (2008) argue that frames, however, are larger than finite principles, and rather similar to a societal schema with a concentrated core and a dispersion of related cultural symbols. These frames are often persistent over time, but can also change with societal norms.

This view of frames is ecologically valid in its account for media production roles in society, such as by strategic communicators or professional journalists. Both societal norms such as deference to authority and the professionalization of news producers guide the cycle of frames in society. Various studies such as those of environmental protest coverage find repeated conflict frames of economic versus moral viewpoints. In the nuclear power debate Gamson and Modigliani (1987) found frames supported by interest groups of science and economic progress versus runaway technology or peace/destruction frames.

The professional values of news producers also play an important role in interpreting these viewpoints for the public. Hertog and McLeod (2008) emphasize that frames often portray a societal value guided by norms of the journalistic profession. Thus, certain stories are deemed newsworthy and certain aspects of a story may be emphasized for informative or entertainment purposes. Several studies have found that journalists seek out public officials and experts in society as sources for news, termed indexing, which often results in news favoring those in power or supporting the status quo (Bennett, 1990).

These professional limitations have been emphasized by sociological scholars such as Gaye Tuchman (1978). Gamson and Modigliani (1987) contribute to this definition of framing as the production of "frame packages," which are especially adoptable by journalists to make issues salient for the public. These packages include cultural symbols, pictures,

metaphors and catch-phrases, which are organized around a core, central organizing idea. They often show a range of positions on a societal issue.

Scholars such as Iyengar (1991), have found that these frames can also attach causal and treatment responsibility in their depiction of issues. They can provide solutions and different viewpoints through episodic frames and thematic frames. Master frames such as episodic frames emphasize the micro-level viewpoint of an issue, which often makes good pictures, is easy to understand, and makes a good, succinct story. Thematic frames, conversely, provide a bigger picture viewpoint and emphasize broader trends in society related to the issue.

Whether an event frame like protest circus (Hertog & McLeod, 1995), issue frame like nuclear progress (Gamson & Modigliani, 1987), or a master thematic frame (Iyengar, 1991), the role of society plays an integral part in its conceptualization. Power structures, societal institutions, professional norms, and culture are foundational pieces to constructing/deciphering an effective frame. Thus, these frames are so essential to our society that most people often do not even realize their existence.

### **The Psychological View**

At the micro-level of framing analysis lies a conceptualization that emphasizes not the message level of framing, but the psychological level of audience interpretation of information and its applicability to political attitudes. In this internally valid view, frames are not only impactful in their structure and meaning, but also in their effect on individual and popular opinion (Nelson, Clawson, & Oxley, 1997). In Robert Entman's "Clarification of a Fractured Paradigm" he emphasizes that while frames often guide thinking, the audience and individuals can produce different conclusions despite the intent of the communicator (1993).

Entman's contribution to framing is the idea of emphasis on particular aspects of society, which delineate certain considerations and solutions in response to a problem. Psychographic variables are important to the understanding and effectiveness of information, which are emphasized by Nelson, Clawson, & Oxley (1997). In looking at various studies that hinge on psychological components, as well as their own research, the scholars contend that certain publics with particular psychographic characteristics are more susceptible to the influence of frames and are thus more likely to act in accordance.

### **Gain and Loss Framing**

Important to the psychological perspective is also the idea of specific selection and emphasis of information. In Kahneman & Tversky's (1979)



landmark study utilizing different percentages of likelihood for gambling, different emphases on economics affected the psychology of participants and ultimately the decision-making process in the selection of choices. This study was replicated in an even more severe context involving the deaths of citizens related to an outbreak, where participants were more likely to choose an option that emphasized the saving of a larger percentage of lives over a confirmed number of deaths.

Our study is unique in its attempt to distinguish effects of framing stimuli in strategic communication content of gain and loss frames. Attack advertisements that are framed in terms of gain emphasize the potential upside if a congressman is removed from government. In contrast, a loss-framed attack advertisement about the same proposal emphasizes the potential loss if the congressman remains in government and continues to waste taxpayer money.

Choices framed in terms of gains lead to risk-averse decisions whereas choice framed in terms of losses tend to produce greater risk taking, according to Tversky and Kahneman (1981). However, when these same frames were examined within the context of a radio news report, no direct effects of gain and loss framing were found. Instead, most observed effects of gain and loss framing were moderated by other textual features (Shah, Kwak, Schmierbach & Zubric, 2004). This may be due to the fact that the topic of that study, the development of suburban areas, was of low consequence to study participants. When considering matters of money and human life on the other hand, humans tend to be risk-averse creatures (Tversky & Kahneman, 1981, p.457). As such, the framing of politicized economic issues is especially important when considering effects.

In regard to economic affects due to choices made by a politician, potential financial gains or losses as a taxpayer sets up an appropriate context to investigate the nature of framing. The state of the economy is an issue of national concern, especially for our adult sample. The study also further heightened the salience of the economy issue for our college student participants by couching the potential gains and losses of the policy in the context of bankruptcy and unemployment after the recession of the early 2000s. This issue is one that many people care about, yet they feel relatively uninformed about the various complex proposals surrounding the economy.

In this context, strategic framing may be particularly important in attitude formation. Gain and loss framing is a good match for the study of economic attitudes. Political campaigns provide salient considerations regarding economic evaluations. Financial loss is one such economic consideration often cited in attack advertisements against ineffective leadership. Loss frames were associated with risk taking and gain frames were associated with being risk averse (Kahneman & Tversky, 1981, p.453).

The context of the choice in this study is in regard to action about unseating a risky congressional official being accused of abusing financial policies. Given the findings referenced above, we expect to see that gain frames will increase perceptions of a bad economy in this study.

### **Strategic Communications in Public Relations**

The aforementioned studies about experimental framing effects illuminate strategic framing due to the increased intent of the message to persuade rather than only inform an audience. Persuasive political messages are manifested in diverse mediums and formats because they need to reach a wide range of publics. From teachers to business people, we are all affected by political issues. It is therefore important that political messages utilize both the central and peripheral routes of the elaboration likelihood model to target publics, activate and orient each route to the topic of politics, and emphasize specific factors that will increase favorability so that attitudes will persist and increase the likelihood of desired behaviors.

The elaboration likelihood model theory (ELM) holds that persuasion can occur when thinking is high, utilizing a central processing route, or when thinking is low, utilizing a peripheral processing route (Petty, Cacioppo, & Schumann, 1983). This is a more detailed theory than early propaganda studies about mass persuasion (Lasswell, 1971) or cognitive response theory studies, which focused only on high levels of thinking (Greenwald, 1968). It emphasizes the importance of attitude as a mediating variable between the exposure to new information and a resulting change in behavior.

The central route to persuasion requires more concentrated cognitive activity about the media message. Here a person draws on both their personal experience and their prior knowledge to scrutinize the information and determine an opinion regarding the message's claims (Berger & Mitchell, 1989). Personal experience may bring in certain considerations about the message making the framing more or less relevant.

Prior information held regarding the message may increase one's ability to process the message, accept the frame, and evaluate possible behaviors (Iyengar & Kinder, 1987). Individuals with high amounts of knowledge, however, could also be more resistant to persuasive framing when they are evaluated. In general, attitudes changed through the central route are clearer and more securely cemented in one's cognitive structure. These attitudes are more easily accessible from memory over time and are more highly predictive of behavior (Petty & Krosnick, 1995).

Unlike the central route, the peripheral route of cognitive processing requires less effort in evaluating the media message. Here one's motivation or ability to process the information is low, so persuasive framing must

instead utilize simple cues to change attitudes and promote behavior (Fazio & Williams, 1986).

As “cognitive misers” in a bloated media world, we must filter out information that is not important or relevant (Lang, 2000). This low motivation for information processing means that acceptance of a persuasive frame will be passive. If one does not have the ability to process the message due to its fleeting format or one’s lack of knowledge, simple cues might at least promote a positive association with the message.

Peripheral cues are typically most effective in only the short-term, however still can have powerful, temporary effects (Petty, Cacioppo, & Schumann, 1983). They can be effective for time-specific promotions, targeting of low motivation populations, and those without the ability to process more detailed information. These attitudes dissipate over time, however, and are not stable fixtures in memory.

In relation to political messages, each route therefore requires activation of attitudes utilizing different techniques. For those populations with more interest or knowledge regarding political issues, a central route supported by rational and relevant frames is most effective.

These publics will also draw upon personal experience in their evaluations, which means messages also have to articulate why this specific individual should care about the political issue. For example, how this issue might impact one’s taxes. This type of pocketbook approach would focus on effects of the individual rather than on society as a whole.

A peripheral route would best suit those populations who are not motivated or do not have the ability to process energy-related information in an effortful manner. For those with low motivation, often simple cues can form impressions that everyone is participating in this political campaign. For example, the bandwagon effect, can subtly pressure individuals to feel that they are missing out on something or going against society (O’Gorman, 1973).

For those with low knowledge levels or a low need for cognition, simple emotions or judgments can still be elicited. Certain politicized cues can enhance the frame and increase message acceptance. These simple cues can still impact attitudes and support desired behaviors.

Some specific factors that are likely to increase such desired behaviors are valence, repetition, and confidence. Valence refers to the degree of favorability in respect to the message. In general, the more favorable a response to a message, the higher the likelihood that persuasion will take place. The more unfavorable a response is to a message, the lesser the chance of influence and even potential change in the opposite direction (Ahluwalia, Burnkrant, Unnava, 2000). Favorability can be increased by tactics such as making associations with previously held beliefs or

ideologies, activating self-perceptions congruent with the message (self concept), or establishing a relationship with the individual (Fournier, 1998).

Repetition is also a factor, which relates to the extent of thinking in regard to the message. If a message is repeated, the individual has more exposure to the persuasive components. They therefore have the opportunity to elaborate more on the message and are more likely to be persuaded (Andrews & Shrimp, 1990). This is often tested in studies by having participants make lists of thoughts regarding a particular persuasive message. The more thoughts listed indicates a larger extent of thinking (Petty, Brinol, Priester, 2009).

Explicating the two unique routes of persuasion in the elaboration likelihood model in regard to political attack advertising shows how different publics can indeed be persuaded when messages are constructed under the right circumstances. While some citizens may have more knowledge or motivation to process political messages, those with lower motivation or ability can still be targeted in persuasive campaigns and moved to action.

### **Economic Attitudes**

Potential effects from gain and loss framing, as well as pocketbook and sociotropic framing are analyzed in this study for effects on political and economic attitudes. Economic attitudes are an especially relevant topic on the national agenda in light of banking scandals, housing crashes, and the overall recession. Jobs and the economy have been major political issues in state and national elections. For citizens, economic attitudes are important for personal psychological well-being, whether in regard to one's pocketbook or the economic health of the nation.

Voting literature provides a thorough investigation of economic evaluations by citizens. Voters rely on evaluations about the nation's economic state when they make decisions about who to vote for in the election booth. This utilizes a societal, or sociotropic, viewpoint for making voting decisions. Several studies have predicted the success of incumbents on the health of the economy (Kinder & Kiewiet 1981, Lewis-Beck, 1988). Citizens use these sociotropic evaluations, instead of their own economic situation.

Voting based off of one's own financial well-being, or pocketbook, is less common. People think with their pocketbook in everyday situations that directly affect them, but not typically in situations related to society at large (Popkin, Gorman, Phillips & Smith, 1976). This form of pocketbook voting would avoid information received from political advertisements and media about societal welfare. It instead accounts for only one's personal well-being as affected by a politician, making voting a highly personalized experience for those with this outlook.

## Hypotheses

This study posits that pocketbook frames have potential to personalize political advertisements, affecting economic and political attitudes. Making an economically-based attack advertisement more personal would increase effects in citizens through both central and peripheral processing routes because it would activate relevant schemas about past personal economic experiences. A pocketbook frame would increase the perceived importance of the economy and government more than a frame including others in the risk scenario. Hoping for a more positive personal future, viewers are more likely to have more confidence in politicians and the economy. A sociotropic frame would instead invoke negative schemas about the vast financial problems and political scandals around the country, lowering confidence. While a viewer likely has no personal experience with these, the sociotropic condition would activate information about these events.

A gain frame would also increase confidence in the economy and in politicians, while the loss frame would lower confidence. Gain frames make people risk averse, so viewers of the political advertisement would have more confidence in the economy and politicians, which would lower their perceived risk. Conversely, the loss frame would lower confidence in the economy and politicians while increasing the risk- the perception of an unstable, risky economy and political environment.

H1: Pocketbook frames will increase confidence in the economy more than sociotropic frames.

H2: Pocketbook frames will increase political confidence more than sociotropic frames.

H3: Gain frames will increase confidence in the economy more than loss frames.

H4: Gain frames will increase political confidence more than sociotropic frames.

## Methods

The data in this study were collected using an experiment embedded in a web-based survey of respondents enrolled in undergraduate courses at a large Midwestern university. Their instructors offered extra credit for participating in the study. All potential participants were contacted by e-mail in the spring of 2013 and given the Website of the online survey. The survey was completed by 183 students over a two week period in February 2013.

The same survey was then administered by Survey Sampling International to an adult population. Participants received \$1.00 for their participation. The survey was provided in an online survey through an email and was completed by 177 adults over a two week period in June 2013.

## Experimental Design

Our experiment was designed in a fully-crossed 2x2 structure. The goal of this design was to allow us to examine an internally valid frame manipulation, adhering to the strict operationalization of framing offered by Kahneman and Tversky (1979, 1984) and an ecologically valid manipulation that more closely conforms to the reality of how political advertisements are constructed (Edelman, 1993; Price & Tewksbury, 1997). In the context of a financial scandal of a congressman, gain and loss frames were used in the first experimental factor, which focused on the gains from expelling the congressman, or the possible losses if he is not removed. In the second factor, the political advertisements were framed as pocketbook or sociotropic effects from removing or keeping the congressman in government.

## Experimental Treatments

The manipulated political advertisements were created with audio/video editing software to a level of professional quality. The advertisement focused on the issue of a corrupt congressman misusing tax dollars while Americans are struggling in a poor economy. Specifically, it encouraged viewers to visit the website of a political action committee and sign a petition to remove the congressman.

Respondents saw an advertisement very similar to contemporary political attack ads. The advertisement included pictures of money and houses to cite the mortgage and financial crises, as well as the congressman's transgressions. Pictures of luxurious spending habits by the congressman were depicted with his image in black and white. The voice over for the advertisement spoke in a foreboding voice to condemn the congressman's behavior.

The manipulations were constructed from a psychological framing standpoint in that only specific words and phrases were altered in each condition to ensure that any affect was caused by those strict changes. The changes, however, were carried out throughout the entire advertisement, creating a consistent message and adding to the ecological validity of an attack advertisement attempting to persuade the public. The advertisement was created to mimic contemporary attack ads. An example of the strict wording manipulations and use of the frames can be seen in the following bolded text (see all treatments in Appendix):

### **email prompt for pocketbook gain frame.**

Please read the following email and watch the advertisement produced by Taxpayers For Accountability. Your opinions are important to us so please pay close attention and be prepared to answer a few questions.

Dear Taxpaying Citizen,

Have **you** heard about the financial scandal involving Congressman James Smith? Instead of putting **your** tax dollars to work he's been lining the pockets of his big mortgage company campaign donors. Is that the kind of representation **you** want in Congress? Protect **your wallet** by signing the online petition to **clean up Congress**. **You** can help **clean up** Smith's act in Congress and **restore integrity** to politics by visiting **www.CleanUpCongress.com**.

Sincerely,

Taxpayers for Accountability

### **political advertisement for pocketbook gain frame.**

While **you've** been working hard to pay the bills during this tough economy, Congressman James Smith has been living like a king on the campaign trail. First-class flights. Suites in plush resorts. Gourmet meals at five star restaurants. All courtesy of campaign donors with ties to big mortgage companies who gave him more than \$250,000. In return? Smith funneled 300 million of **your** taxpayer dollars to his big mortgage industry donors. Is that how **you** want **your** money spent? It's no wonder mortgage industry lobbyists presented him their "2012 Friend of Real Estate Award." James Smith. A friend of big mortgage companies. **No friend of yours.**

**Protect your wallet. You can help restore integrity to congress** by visiting **CleanUpCongress.com** now and signing the petition to **clean up Congress**. Paid for by Taxpayers for Accountability 501 c3. (Text on screen: Visit CleanUpCongress.com now to sign the petition. Paid for by Taxpayers for Accountability 501 c3)

### **email prompt for sociotropic loss frame.**

Please read the following email and watch the advertisement produced by Taxpayers For Accountability. Your opinions are important to us so please pay close attention and be prepared to answer a few questions.

Dear Taxpaying **Citizens**,

Have **you all** heard about the financial scandal involving Congressman James Smith? Instead of putting **our** tax dollars to work he's been lining the pockets of his big mortgage company campaign donors. Is that the kind of representation **we** want in Congress? **Let's** protect **our tax dollars** by signing the online petition to **cut our**



**losses. We can help cut Congress's losses in Smith and remove this shame from** politics by visiting **www.CutOurLosses.com**.

Sincerely,

Taxpayers for Accountability

### **political advertisement for sociotropic loss frame.**

While **we've** been working hard to pay the bills during this tough economy, Congressman James Smith has been living like a king on the campaign trail. First-class flights. Suites in plush resorts. Gourmet meals at five star restaurants. All courtesy of campaign donors with ties to big mortgage companies who gave him more than \$250,000. In return? Smith funneled 300 million of **our** taxpayer dollars to his big mortgage industry donors. Is that how **we** want **our** money spent? It's no wonder mortgage industry lobbyists presented him their "2012 Friend of Real Estate Award." James Smith. A friend of big mortgage companies. **No friend of ours.**

**Let's protect our tax dollars. We can remove this shame from** congress by visiting **CutOurLosses.com** now and signing the petition to **cut Congress's losses**. Paid for by Taxpayers for Accountability 501 c3. (Text on screen: Visit CutOurLosses.com now to sign the petition. Paid for by Taxpayers for Accountability 501 c3)

In these different textual versions of the attack advertisement, pocketbook frames utilize words such as "you've," "you," and "your," while the sociotropic manipulation uses words such as "we've," "we," and "our." Similarly, the gain frame emphasizes the positive aspect of removing the congressman with phrases such as "restore integrity," "clean up Congress," and the website name "CleanUpCongress.com." The loss frame emphasizes the negative aspect of the congressman with phrases such as "remove this shame," "cut Congress's losses," and the website name "CutOurLosses.com." The visual images in each advertisement remained constant for each condition and were not altered for each type of frame employed.

### **Stimuli**

Pocketbook	Gain	Frame	Attack	Advertisement:
<a href="http://youtu.be/NH4szR523P0">http://youtu.be/NH4szR523P0</a>				
Sociotropic	Loss	Frame	Attack	Advertisement:
<a href="http://youtu.be/NW_sN5Pg6cw">http://youtu.be/NW_sN5Pg6cw</a>				
Pocketbook	Loss	Frame	Attack	Advertisement:
<a href="http://youtu.be/4AkrBa8FJr8">http://youtu.be/4AkrBa8FJr8</a>				
Sociotropic	Gain	Frame	Attack	Advertisement: <a href="http://youtu.be/Ormj-_9h1SI">http://youtu.be/Ormj-_9h1SI</a>



Of the 183 student respondents, 46 were exposed to the loss/pocketbook condition, 45 were exposed to the gain/pocketbook condition, 47 were exposed to the loss/sociotropic condition, and 45 were exposed to the gain/sociotropic condition. For the 177 adults in the sample, 45 viewed the loss/pocketbook condition, 43 viewed the gain/pocketbook condition, 47 viewed the loss/sociotropic condition, and 42 viewed the gain/sociotropic condition.

### Measures

**Outcome Measures.** The dependent variables for measuring confidence about the American economy include *Budget* and *Bankruptcy*. All dependent variables were created using a mean of responses on a 5-point scale about how much the participant agreed with statements about the economy. The variable *Budget* asked how much the participant agreed with the statement, “The national budget could be balanced in 2016.” ( $M = 2.86$ ,  $S.D. = 1.62$ ). See Table 1 for descriptive statistics. *Bankruptcy* asked how much participants agreed with the statement “Bankruptcy is prevalent in the United States” ( $M = 2.32$ ,  $S.D. = 1.35$ ).

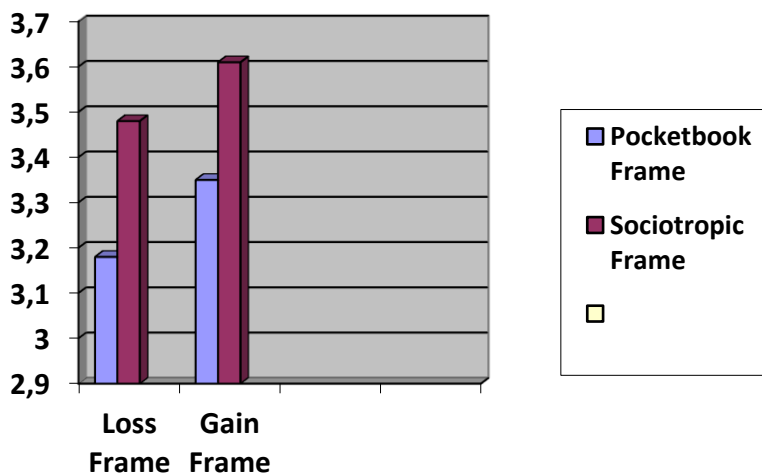
**Political Confidence** was created by the level of agreement with the statements “Taxes are supporting responsible policies,” “Earmarked special spending projects are legitimate,” and “Congress puts citizen needs before corporate interests” ( $M = 2.32$ ,  $S.D. = 1.93$ ).

## Results

### Student Sample

For the students, a main effect was found for confidence in the national budget being balanced by 2016 ( $F(128) = 4.38$ ,  $p = 0.012$ ), this was such that participants who viewed the pocketbook frame to have increased confidence in the economy and in politics.

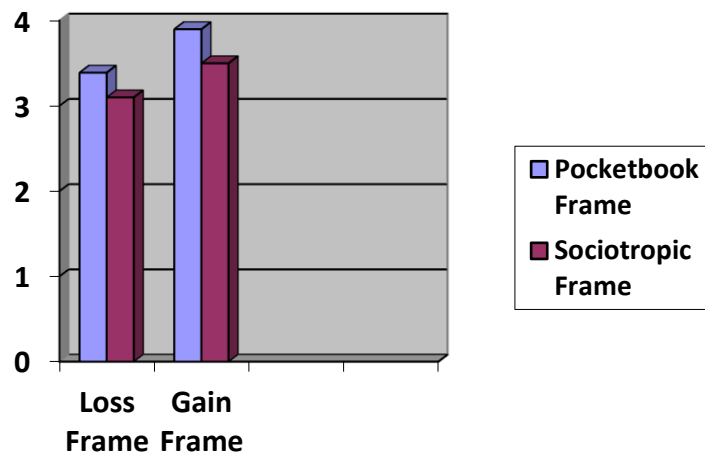
**Table 1. Student Sample Main Effect of Sociotropic-Pocketbook Framing**



Regarding the prevalence of bankruptcy in the United States, we found a main effect ( $F(128) =$

3.652,  $p = 0.046$ ) (see table 2). No significant results were found regarding political confidence.

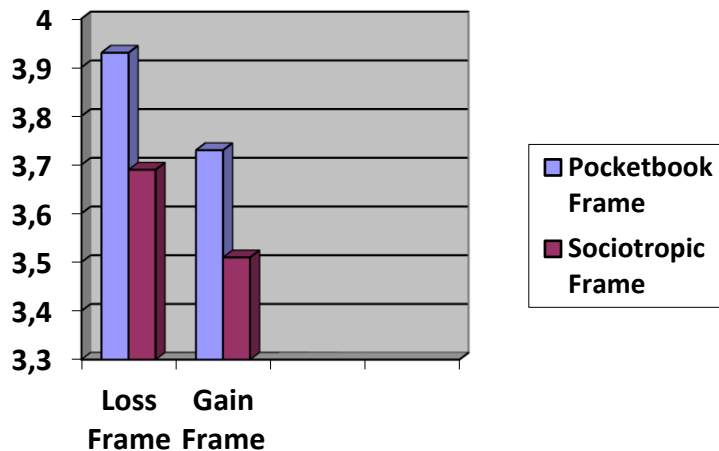
**Table 2.**



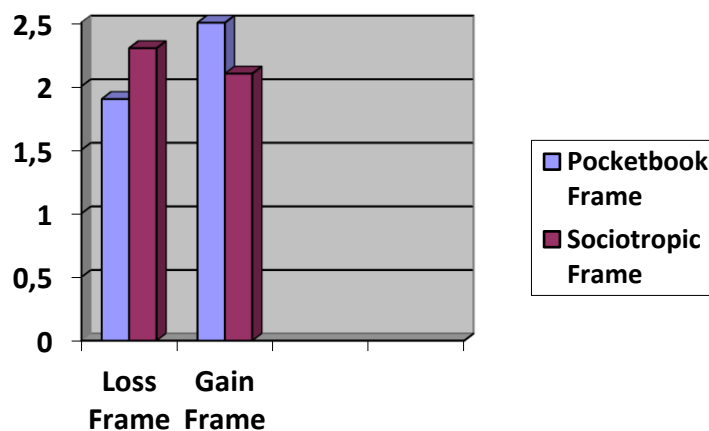
### **Student Sample Perceptions of Prevalence of Bankruptcy**

#### **Adult Sample**

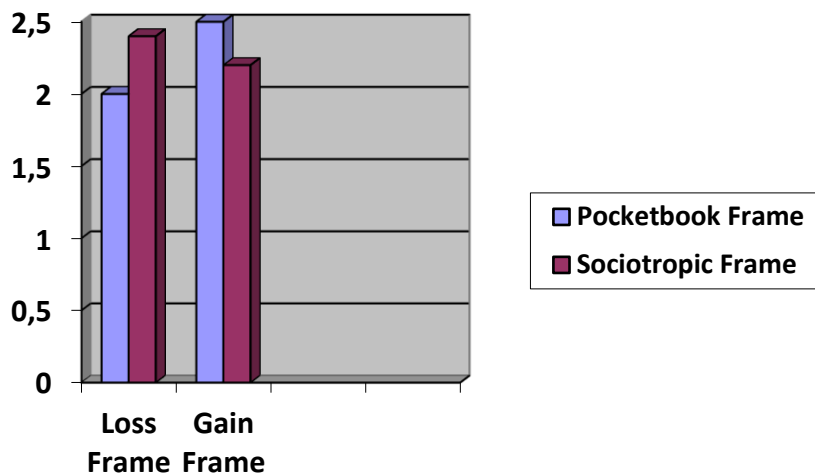
For the adult sample, a transverse interaction was between gain/loss and pocketbook/sociotropic on perceptions of bankruptcy in the United States ( $F(128)=3.9$ ,  $p=0.05$ ). This was such that the role of gain and loss framing was reversed. In the pocketbook condition perceptions were higher in the gain framing than the loss framing. In the sociotropic condition perceptions were higher in the loss framing than in the gain framing.

**Table 3. Adult****Sample Prevalence of Bankruptcy**

For economic confidence, pocketbook frames were found to increase confidence in the balancing of the national budget in 2016 ( $F(128)=3.9$ ,  $p=0.05$ ). This revealed another transverse interaction of higher confidence in the gain frame than the loss frame in the pocketbook condition, which was reversed in the sociotropic condition.

**Table 4. Adult****Sample Transverse Interaction for Balancing the National Budget**

In terms of political confidence, the pocketbook frame increased perceptions of taxes used properly ( $F(128)= 7.726$ ,  $p= 0.02$ ), appropriate earmarked projects ( $F(128)= 4.803$ ,  $p=0.03$ ), and citizen needs as priorities over corporate interests ( $F(128)=3.42$ ,  $p=0.01$ ). This showed another transverse interaction where gain framing was higher than loss framing in the pocketbook condition. In the sociotropic condition loss framing was higher than the gain framing.



**Table 5. Adult Sample Transverse Interaction for Political Trust**

### Discussion

This study sought to explore the experimental application and conceptual extension of gain versus loss framing. While results have varied widely in past studies, this survey found that the gain frame did align with risk averse attitudes by respondents. Viewers of the political attack advertisements subsequently shared increased hope in their politicians and the economy.

This effect was found in an advertisement, a form of strategic communication not previously studied in a gain versus loss framing context. Our study utilized both strict internal and external validity to mimic a contemporary political attack advertisement and still isolate the cause for effects. This leads us to wonder if there is such a fractured paradigm. Journalists and public relations professionals both have audiences in mind when crafting messages, as well as sociological influences from their professions. Cannot both internally and externally valid experiments be produced for both informative and strategic communications?

In terms of audience psychology, this study also expands potential effects from political advertising. Our survey found evidence that pocketbook framing can effectively increase confidence in the economy and politics, while still implementing a negative effect on the victim of the attack advertisement. Both the student (57.2%) and adult sample (66.6%) stated they were likely or very likely to vote for a different candidate in an upcoming election.

This shows potential for a new type of attack advertisement that doesn't go completely negative. The combination of a gain frame and a pocketbook frame allowed viewers to personalize the issue and exhibit their risk averse instincts. This advertisement attacked the congressman, but was done in such a way that respondents did not show the resulting effects of cynicism so often found in political studies (Cappella & Jamieson, 1997).

Future scholarship should continue these avenues of research to explore if a bridge can be made between the sociological and psychological traditions of framing for not only informative, but also strategic communication in public relations. Additionally, pocketbook and sociotropic framing should be further explored in political contexts that are not only economically based, but broader in terms of personal and societal framing. Such research could improve experimental design for scientists and message construction for strategic communicators.

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## **Appendix**

### **Pocketbook Gain Frame**

#### **Email Prompt:**

Please read the following email and watch the advertisement produced by Taxpayers For Accountability. Your opinions are important to us so please pay close attention and be prepared to answer a few questions.

Dear Taxpaying **Citizen**,

Have **you** heard about the financial scandal involving Congressman James Smith? Instead of putting **your** tax dollars to work he's been lining the pockets of his big mortgage company campaign donors. Is that the kind of representation **you** want in Congress? Protect **your wallet** by signing the online petition to **clean up Congress**. **You** can help **clean up** Smith's act in Congress and **restore integrity** to politics by visiting **www.CleanUpCongress.com**.

Sincerely,

Taxpayers for Accountability

#### **Political Advertisement:**

While **you've** been working hard to pay the bills during this tough economy, Congressman James Smith has been living like a king on the campaign trail. First-class flights. Suites in plush resorts. Gourmet meals at five star restaurants. All courtesy of campaign donors with ties to big mortgage companies who gave him more than \$250,000. In return? Smith funneled 300 million of **your** taxpayer dollars to his big mortgage industry donors. Is that how **you** want **your** money spent? It's no wonder mortgage industry lobbyists presented him their "2012 Friend of Real Estate Award." James Smith. A friend of big mortgage companies. **No friend of yours.**

**Protect your wallet. You can help restore integrity to congress** by visiting **CleanUpCongress.com** now and signing the petition to **clean up Congress**. Paid for by Taxpayers for Accountability 501 c3. (Text on screen: Visit **CleanUpCongress.com** now to sign the petition. Paid for by Taxpayers for Accountability 501 c3)

### **Pocketbook Loss Frame**

#### **Email Prompt:**

Please read the following email and watch the advertisement produced by Taxpayers For Accountability. Your opinions are important to us so please pay close attention and be prepared to answer a few questions.

Dear Taxpaying **Citizen**,

Have **you** heard about the financial scandal involving Congressman James Smith? Instead of putting **your** tax dollars to work he's been lining the



pockets of his big mortgage company campaign donors. Is that the kind of representation **you** want in Congress? Protect **your wallet** by signing the online petition to **cut your losses**. **You** can help **cut Congress's losses in Smith** and **remove this shame from politics** by visiting **www.CutYourLosses.com**.

Sincerely,

Taxpayers for Accountability

### **Political Advertisement:**

While **you've** been working hard to pay the bills during this tough economy, Congressman James Smith has been living like a king on the campaign trail. First-class flights. Suites in plush resorts. Gourmet meals at five star restaurants. All courtesy of campaign donors with ties to big mortgage companies who gave him more than \$250,000. In return? Smith funneled 300 million of **your** taxpayer dollars to his big mortgage industry donors. Is that how **you** want **your** money spent? It's no wonder mortgage industry lobbyists presented him their "2012 Friend of Real Estate Award." James Smith. A friend of big mortgage companies. **No friend of yours.**

**Protect your wallet. You can remove this shame from congress** by visiting **CutYourLosses.com** now and signing the petition to **cut Congress's losses**. Paid for by Taxpayers for Accountability 501 c3. . (Text on screen: Visit CutOurLosses.com now to sign the petition. Paid for by Taxpayers for Accountability 501 c3)

### **Sociotropic Gain Frame**

#### **Email Prompt:**

Please read the following email and watch the advertisement produced by Taxpayers For Accountability. Your opinions are important to us so please pay close attention and be prepared to answer a few questions.

Dear Taxpaying **Citizens**,

Have **you all** heard about the financial scandal involving Congressman James Smith? Instead of putting **our** tax dollars to work he's been lining the pockets of his big mortgage company campaign donors. Is that the kind of representation **we** want in Congress? **Let's** protect **our taxpayer dollars** by signing the online petition to **clean up Congress**. **We** can help **clean up** Smith's act in Congress and **restore integrity** to politics by visiting **www.CleanUpCongress.com**.

Sincerely,

Taxpayers for Accountability

### **Political Advertisement:**

While **we've** been working hard to pay the bills during this tough economy, Congressman James Smith has been living like a king on the campaign trail. First-class flights. Suites in plush resorts. Gourmet meals at five star restaurants. All courtesy of campaign donors with ties to big mortgage companies who gave him more than \$250,000. In return? Smith funneled 300 million of **our** taxpayer dollars to his big mortgage industry donors. Is that how **we** want **our** money spent? It's no wonder mortgage industry lobbyists presented him their "2012 Friend of Real Estate Award." James Smith. A friend of big mortgage companies. **No friend of ours.**

**Let's protect our tax dollars. We can restore integrity to congress** by visiting **CleanUpCongress.com** now and signing the petition to **clean up Congress**. Paid for by Taxpayers for Accountability 501 c3. (Text on screen: Visit **CleanUpCongress.com** now to sign the petition. Paid for by Taxpayers for Accountability 501 c3)

### **Sociotropic Loss Frame**

#### **Email Prompt:**

Please read the following email and watch the advertisement produced by Taxpayers For Accountability. Your opinions are important to us so please pay close attention and be prepared to answer a few questions.

Dear Taxpaying **Citizens**,

Have **you all** heard about the financial scandal involving Congressman James Smith? Instead of putting **our** tax dollars to work he's been lining the pockets of his big mortgage company campaign donors. Is that the kind of representation **we** want in Congress? **Let's protect our tax dollars** by signing the online petition to **cut our losses**. **We** can help **cut Congress's losses in Smith** and **remove this shame from politics** by visiting **www.CutOurLosses.com**.

Sincerely,

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**Let's protect our tax dollars. We can remove this shame from congress by visiting [CutOurLosses.com](http://CutOurLosses.com) now and signing the petition to cut Congress's losses.** Paid for by Taxpayers for Accountability 501 c3. (Text on screen: Visit [CutOurLosses.com](http://CutOurLosses.com) now to sign the petition. Paid for by Taxpayers for Accountability 501 c3)

# **Tax Effort and Determinants of Tax Ratios in Kenya**

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## **Abstract**

The study analyzes the tax effort and the factors which influence tax ratios in Kenya. Tax revenue collected from 1980 to 2015 has been less than the government expenditure forcing the government to borrow from domestic banks and foreign financial institutions. Identification of the factors that influence tax ratio to GDP in Kenya is important as it will inform policy regarding the taxation system. Many studies have investigated the determinants of the tax ratio to GDP and tax effort indices using majorly panel data research method on developing and developed countries, but a few have been conducted in Kenya. This study sought to add to the literature and carried out an in-depth investigation of tax ratio to GDP and tax effort in Kenya by taking into account relevant explanatory variables and time series research methodology. To achieve study objective, time series data running from 1980 to 2015 was analyzed by use of ordinary least squares regression. The explanatory variables considered in the study were per capita GDP, share of service sector in GDP, share of external debt in GDP, share of agriculture in GDP, share of exports in GDP and share of imports in GDP. The findings revealed that the coefficients of per capita GDP, share of service sector in GDP and share of agriculture in GDP to be positive but significant. On the other hand the coefficients of the share of external debt in GDP and share of export in GDP were negative but insignificant. The coefficient of the share of import in GDP was positive but insignificant. The study further found Kenya's tax effort to be less than unity meaning the country is not utilizing its tax capacity fully. This therefore implies that the country has potential of raising more tax to reduce the imbalance in its budget. The study recommends the need for political will, efficient legal system and consistency in the implementation of tax policy. Achievement of this will attract investment that will lead to increased per capita income and job opportunities which eventually translate to increased

taxes.

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**Keywords:** Tax effort, ratio, Kenya

### **Introduction:**

Kenya's economy has remained resilient and has registered a relatively strong economic growth amidst the world economic slowdown. This remarkable growth is attributed to the ongoing investment in infrastructure, improvement in agricultural output, consumer confidence and investor confidence. In 2015, the country registered an economic growth of 5.6 percent which was above the Sub-Saharan region average growth of 3.5 percent. However, despite this impressive growth, Kenya's budget deficit stands at 9.2 percent of GDP which is much above the internationally acceptable level of 4 percent of GDP. This increase in budget deficit is attributed to increased expenditure on internal security, infrastructure and debt servicing (National Treasury, 2016).

The continued increase in the Kenya's budget deficit indicates that the country's tax system is not doing well in terms of revenue production. According to Wilford & Wilford (1978), emerging economies ought to increase their tax mobilization in order to realize economic growth. The most important tool to achieve this is the adoption of an effective tax policy.

Kenya has witnessed an increase in its tax revenue from 14187 million shillings in 1980 to 1 288 870.13 million shillings in 2015 (KNBS, 2015). The increase in revenue is attributed to implementation of various tax reforms that took place from early 1970s. For instance, in 1973 there was shift of tax burden to consumer through the introduction of sales tax. The sales tax was later replaced with value added tax (VAT) in 1990. VAT was seen to be much effective than sales tax due to its wide coverage and flexibility. The other tax reforms that were implemented include the revision of tariffs and tax rates, expansion of tax base (Wawire, 2000). According to Cheeseman & Griffiths (2005), establishment of KRA in 1995 also contributed to the increase in tax revenue as a result of improved tax administration and efficient implementation of organizational reforms.

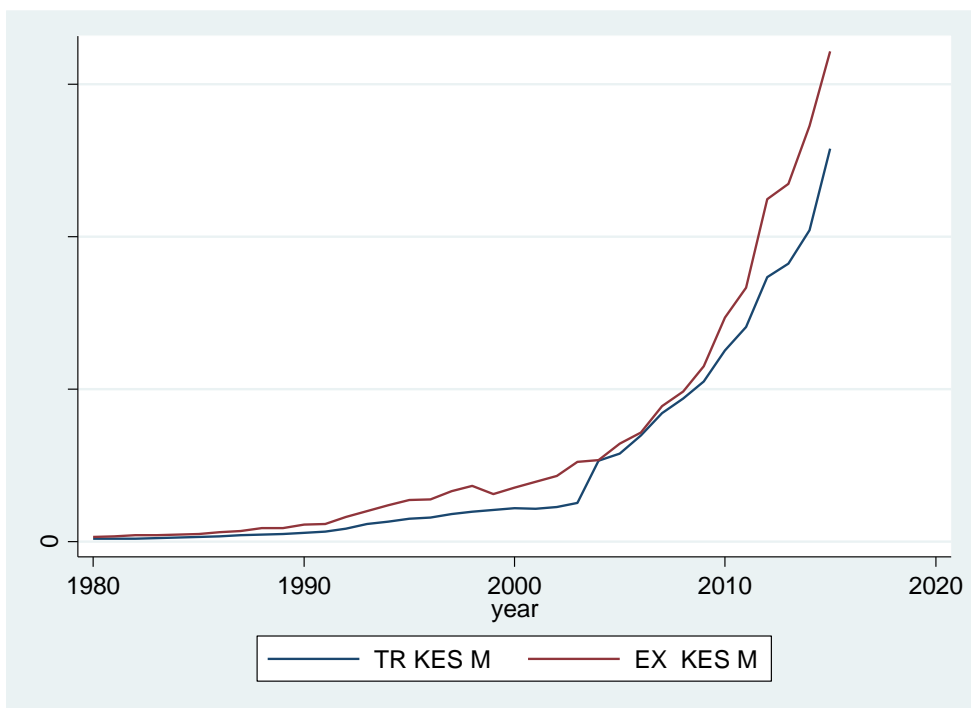
The income tax structure in Kenya has also undergone various reforms. These reforms include the removal of double taxation where investors income was taxed at corporate level and individual level. The Kenyan tax system has also introduced personal identification number (PIN) to help in the assessment of for purposes of tax compliance. The PIN was introduced with an objective of improving tax information. The PIN helps Kenya Revenue Authority to identify all transactions made by all taxable citizens in the country hence capturing the appropriate tax (Muriithi & Moyi, 2003).

Tax capacity is the maximum tax which a country can raise given its economic, institutional, social and demographic arrangement (Pessino and Fenochietto, 2010). Tax ratio shows how tax is performing in terms of using the taxable capacity at a particular time (Islam, 1979).

The Kenyan tax system is mainly a two tier system. It is based on the central government and the county governments. The Kenyan constitution empowers the government to levy tax on given individuals and organizations. Article 209 of the Kenyan constitution, distributes legislative authority which includes taxation between the national assembly and the county parliaments (Constitution of Kenya, 2010)

### Problem Statement

Kenya has adopted various tax reforms since 1980 but country's expenditure has remained higher than its revenue. Figure 1 below shows the trends in Kenya's fiscal expenditure and revenue. The vertical axis shows total tax revenue and total expenditure in millions Kenyan shillings (KES M). The horizontal axis shows the years running from 1980 to 2015.



**Figure 1: Kenya's Fiscal Operation**

From figure 1, it is evident that revenue collected from 1980 to 2015 has been less than the government expenditure indicating that the government was not able to meet its obligation of providing public goods and services using its own resources. The inability to raise the required revenue made the government to incur large deficits in the overall government budget forcing it to borrow from domestic banks and foreign financial institutions. Since borrowing has serious ramifications in the medium and long run, the government must ensure strong tax ratio to GDP enable it generate adequate tax revenue.

Many studies have investigated the determinants of the tax ratio to GDP and tax effort indices using majorly panel data research method, but a few have been conducted in Kenya. For instance, Wawire (2000) investigated tax effort indices for Kenya using aggregated data. The findings showed that Kenya's tax system had failed to mobilize necessary revenues. Current study bridges the gap in the literature and seeks to carry out an in-depth investigation of tax ratio to GDP and tax effort in Kenya by taking into account relevant explanatory variables and time series research methodology. Based on this, the paper therefore seeks to respond to the following questions;

- What are the factors influencing tax ratio to GDP in Kenya?
- What is the trend of tax effort indices in Kenya from 1980 to 2015?
- Do the trends indicate over-taxation of the economic agents?
- What policy recommendations can be drawn from the study findings?

### **Objective of the Study**

The objective of this study is to determine the factors that influence tax ratio to GDP in Kenya and also identify the trend of tax effort indices in Kenya from 1980 to 2015.

### **Literature Review**

Lutfunnahar (2007) investigated the determinants of the share of tax revenue in GDP for Bangladesh and other 10 developing countries using panel research methodology. The study showed that share of broad money in GDP, share of international trade in GDP, share of external debt in GDP are significant determinants of the share of tax revenue in GDP. The study made a conclusion that Bangladesh and other 10 developing countries were not making maximum use of their capacity in raising tax revenue. This was because the study obtained tax effort indices of less than unity an implication that these countries had the potential of mobilizing more tax revenue to finance their budgets.

Mahdavi (2008) investigated the determinants of share of tax revenue in GDP for 43 developing countries using panel research methodology. The

study findings showed that share of trade sector in GDP and share of agriculture in GDP positively influence share of tax revenue in GDP.

Ahsan and Wu (2005) investigated the determinants of the share of tax revenue in GDP for developing and developed countries using panel research method. The study findings showed that the coefficients of population growth rate, share of agriculture in GDP and per capita GDP share of trade sector in GDP were positive and significant. On the other hand the coefficient of the share of trade sector in GDP was positive and significant. The coefficient of corruption was negative but insignificant.

Alm et al. (2004) studied determinants of the share of tax revenue in GDP for developed and developing countries using panel research methodology. The study findings showed that the coefficient of the share of mining in GDP was positive and significant. On the other hand, the coefficient of per capita GDP was negative but significant. The coefficients of the share of agriculture in GDP and share of international trade in GDP were negative but insignificant.

Stotsky and WoldeMariam (1997) and Leuhold (1991) investigated determinants of the share of tax revenue in GDP for African countries using panel research methodology. The results showed that the share of agriculture in GDP negatively influence the share of tax revenue in GDP. On the other hand, the share of mining in GDP and share of foreign trade in GDP and share of foreign grants and loans in GDP positively influence the share of tax revenue in GDP.

Pessino and Fenochietto (2013) studied the determinants of tax effort for 113 countries using panel regression model. Their findings showed that level of development measured by per capita GNP, share of exports and imports in GNP positively affect tax effort. On the hand, corruption and Gini coefficient which is used to measure the extent inequality negatively affect the tax ratio.

Botlhole (2010) studied the determinants of countries' tax effort in Sub-Saharan Africa using panel research method. The study findings indicated that resource incomes and corruption are important determinants of tax effort.

Islam (1979) investigated the factors that influence tax effort in Bangladesh using ordinary least square regression model. The author found that share of agriculture in GDP, per capita GNP and share of expenditure on tax collection in GDP influence tax effort. However, the coefficient of the share of imports and exports in GDP was seen to be the most significant.

Gupta (2007) investigated the major factors that explain why there is variation in tax revenue supply among the developing economies using panel research method. In his findings, coefficients of country's openness, share of



agriculture in GDP, per capita GDP, corruption and political stability were observed to be statistically significant.

Tanzi (1992) studied the relationship between tax revenue and structural factors among the developing countries using panel research method. The study findings showed that the share of import in GDP, per capita GDP, share of agriculture in GDP and share of foreign debt in GDP were determinants of the share of tax revenue in GDP.

Teera (2002) studied the factors that influence share of tax revenue in GDP in Uganda using time series data running from 1970 to 2000. In his findings, coefficients of tax evasion, economic development, openness index of the economy, fiscal deficits and share of manufacturing in GDP were statistically significant.

From the reviewed literature, the factors that influence tax revenue in GDP are;

- National income,
- openness to trade,
- manufacturing share in GDP,
- budget deficit,
- import share in GDP,
- export share in GDP,
- external debt share in GDP,
- corruption,
- Gini coefficient,
- agriculture share in GDP,
- industry share in GDP,
- political stability,
- tax evasion

## Methodology and Estimation

### Theoretical Framework

An approach to measuring taxable capacity is regressing tax to GDP ratio of a particular country on various tax handles as the explanatory variables. These explanatory variables are used as proxies for probable tax bases and any other factors which may influence a country's ability to mobilise tax revenues. This approach has been used by various scholars for instance Lotz & Morss (1967), Tanzi (1992) and Chelliah (1971). The predicted tax ratio to GDP from this approach shows the taxable capacity while the coefficients of the regression are considered as the average effective rates on the given tax bases. Equation 1 shows the general form equation for estimating taxable capacity.

$$y_t = \beta x_t + \mu_t \dots \dots \dots 1$$

Where  $y_t$  shows tax revenue ratio to GDP at time  $t$ ,  $x_t$  is a vector of tax handles at time  $t$ ,  $\beta$  is a vector of coefficients of the variables that are expected to influence tax revenue to GDP ratio and  $\mu_t$  is an error term at time  $t$  satisfying the usual OLS assumptions.

### Empirical Model

The theoretical framework translates into an operational estimation framework by incorporating explanatory variables as suggested by the reviewed literature as shown.

$$\text{tax} = \beta_0 + \beta_1 \text{pgdp} + \beta_2 \text{service} + \beta_3 \text{debt} + \beta_4 \text{agric} + \beta_5 \text{exports} + \beta_6 \text{import} + \mu \dots 2$$

Where, *tax* is tax ratio to GDP, *pgdp* is per capita GDP, *service* is share of service sector in GDP, *debt* is share of external debt in GDP, *agric* is share of agriculture in GDP, *exports* is share of exports in GDP, *import* is share of imports in GDP. The coefficients  $\beta_0$ ,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$ ,  $\beta_5$  and  $\beta_6$  are parameters to be estimated while  $\mu$  is the error term with usual OLS assumptions.

### Results

The data used in the study was obtained from World Bank world development indicators.

### Descriptive Statistics

Summary statistics of tax revenue ratio in GDP and the explanatory variables are as shown in table 1.

**Table 1: Summary Statistics**

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
tax	36	16.404	3.672037	5	20.494
pgdp	36	70605.54	6058.73	64898.74	87965.72
service	36	50.83125	2.398367	46.4088	54.96807
debt	36	53.78391	26.63139	21.24461	131.8993
Agric	36	30.13855	2.791013	23.15672	34.21953
exports	36	24.52185	4.933735	15.76902	38.90363
import	36	31.86646	3.10595	26.39755	39.15404

Table 1 shows that the total observations considered in this study were 36 with seven variables (one dependent and six independent variables). Range is obtained from the difference between the maximum value and minimum value. For example the maximum value of service share in GDP is 54.96807% while the minimum is 46.4088% giving a range of 8.55927%. The standard deviation shows the spread of the values from the mean and is

important for comparison purposes. The data shows that per capita GDP has a larger spread as compared to other variables. The share of service in GDP has a standard deviation of 26.63139, debt has 26.63139, agriculture has 2.791013, exports has 4.933735 and imports has 3.10595.

### Stationarity Check

The Augmented Dickey Fuller test was used to test for stationarity of the variables. The test results are as shown in Table 2.

**Table 2: Test for Stationarity in Levels**

Variables	Test statistic	1% critical level	5% critical level	10% critical level
tax	-2.356	-3.682	-2.972	-2.618
pgdp	2.125	-3.682	-2.972	-2.618
service	-1.799	-3.682	-2.972	-2.618
debt	-1.110	-3.682	-2.972	-2.618
agric	-1.484	-3.682	-2.972	-2.618
exports	-1.754	-3.682	-2.972	-2.618
import	-3.716	-3.682	-2.618	-2.618

Table 2 shows that all the variables had at least a unit root at levels except the share of import in GDP. All the variables that were non stationary were differenced and the results are as shown in the Table 3.

**Table 3: Test for Stationarity (First Difference)**

Variables	Test statistic	1% critical level	5% critical level	10% critical level
D1tax	-5.115	-3.689	-2.975	-2.619
D1service	-5.614	-3.689	-2.975	-2.619
D1debt	-5.925	-3.689	-2.975	-2.619
D1agric	-3.782	-3.689	-2.975	-2.619
D1exports	-5.341	-3.689	-2.975	-2.619
D1pgdp	-6.550	-3.696	-2.978	-2.620

Table 3 shows that all the variables became stationary after first difference. The data was further subjected to other diagnostic tests. Heteroscedasticity and serial correlation which were detected and corrected through robust regression. Based on the unit root test result, cointegration test was not necessary. This is because the variables were integrated of different orders.

### Estimation Results

To establish the determinants of tax ratio to GDP, the study conducted linear regression model as indicated in Table 4.

**Table 4: Regression Results**

Dependent Variable: D1tax				
Method: OLS				
Sample: 35				
Variable	Coefficient	Standard error	t-statistic	Prob
Constant	4.876608	4.958934	0.98	0.334
D1pgdp	0.0005716	0.0002568	2.23	0.034**
D1service	1.91218	0.5304933	3.60	0.001***
D1debt	-0.1089213	0.0701105	-1.55	0.132
D1agric	1.336064	0.4485293	2.98	0.006**
D1exports	0.1801705	0.2393999	0.75	0.458
imports	-0.1575857	0.1547142	-1.02	0.317
R <sup>2</sup>	0.3130			
F statistic	0.0023			
Normality- Shapiro wilk			0.97950	(0.72859)
Heteroscedasticity - Breusch-pagan-Godfrey			17.44	(0.0000)
Autocorrelation - Breusch-Godfrey			11.801	(0.0006)
Stability Ramsey Reset			6.46	(0.0021)

Where \*\*\*, \*\* indicates significance at 1% and 5% levels respectively.

The regression performed well in terms of overall significance since the F statistic is significant at 5% level. This implies that variables in the model were jointly significant in explaining tax ratio to GDP. Further, the results showed an R-squared of 31.3% an implication that 31.3% of variability in determining tax ratio to GDP. Diagnostic tests were conducted and indicated that the errors were normally distributed. The Ramsey Reset test showed omission of the variables in the model. This is true since there are more other variables which explain tax ratio to GDP as reviewed in the literature. They may not have been considered due to lack of data. However, their effect was captured in the stochastic model used.

### Discussion of Results

The results indicate that per capita GDP, share of service sector in GDP, share of agriculture in GDP and export share in GDP positively affect tax ratio to GDP. Share of external debt in GDP and share of imports in GDP negatively affect tax ratio to GDP. The results further shows that per capita GDP, share of service in GDP and share of agriculture in GDP as important determinants of tax ratio to GDP.

The coefficient of per capita GDP is positive and statistically significant. Kenya's per capita GDP has been increasing since 1980 to 2015. The increase in per capita GDP depicts increased economic activities which translates into increased capacity to pay and mobilise taxes. These findings are in line with earlier study by Ahsan and Wu (2005) who found per capita GDP to be positive and important in determining tax ratio to GDP.

The coefficient of service sector in GDP is positive and significant. This is contrary to many earlier researchers who show that most of the service sector in developing countries is practised in the informal sector making it difficult to tax it. These findings are however, in line with earlier study by Chaudhry and Munir (2010).

The coefficient of share of agriculture in GDP is positive and statistically significant which is contrary to economic theory. According to economic theory, agriculture is a difficult sector to tax in developing country like Kenya since most lands are communally owned. However, its positive contribution to Kenya's tax revenue is due to the heavy indirect taxation of the sector through overvaluation of the exchange rates, import quotas and tariffs. These findings are in line with earlier study by Mahdavi (2008). However, the results contradict earlier studies by Leuhold (1991) and Stotsky and WoldeMariam (1997) who found share of agriculture in GDP to negatively influence tax ratio to GDP.

### Kenya's Tax Effort

To obtain Kenya's tax effort indices, the study used estimates obtained in Table 4 to obtain predicted tax ratio to GDP for each year under the study. Tax effort index for each year was eventually obtained by dividing actual tax ratio to GDP by the predicted tax ratio to GDP. The results are shown in table 5.

**Table 5: Tax Effort Indices**

<b>Year</b>	<b>Tax Efforts Indices</b>	<b>Year</b>	<b>Tax Efforts Indices</b>
1980	0.294	1998	0.394
1981	0.367	1999	0.423
1982	0.383	2000	0.449
1983	0.404	2001	0.471
1984	0.371	2002	0.466
1985	0.145	2003	0.423
1986	0.130	2004	0.445
1987	0.264	2005	0.474
1988	0.371	2006	0.426
1989	0.499	2007	0.419
1990	0.483	2008	0.454
1991	0.436	2009	0.452
1992	0.474	2010	0.444
1993	0.396	2011	0.438
1994	0.397	2012	0.425
1995	0.537	2013	0.414
1996	0.409	2014	0.404
1997	0.423	2015	0.396

The results indicate that minimum tax effort index was 0.130 for the year 1986 whereas the maximum was 0.537 for the year 1995. All the period under study had indices less than unity an implication that there was under taxation. For instance, in 1995 there was under-taxation of about 46 percent. The average tax effort index was 0.417, which shows under taxation of 58.3 percent.

### **Conclusion and Recommendations**

For Kenya to be self-sufficient, adequate tax revenue should be raised. This study has made an attempt of identifying the determinants of tax ratio to GDP and tax effort in Kenya using time series data running from 1980 to 2015.

The variables considered in the econometric analysis include per capita GDP, share of service sector in GDP, share of external debt in GDP, share of agriculture in GDP, share of exports in GDP and share of imports in GDP.

The findings obtained show that the coefficients of per capita GDP, share of service sector in GDP and share of agriculture in GDP are positive and significant. On the other hand, coefficient of the share of external debt in GDP, share of import in GDP are negative but insignificant. The coefficient of the share of export in GDP is positive but insignificant. The sign of the per capita GDP is line with the expectation but that of the share of agriculture and service sector share in GDP deviates form the expectation.

Further, tax effort indices for Kenya shows that there was under taxation during the study period. This is because the tax effort indices are less than unity. This clearly shows that Kenya is not making maximum use of its tax capapcity. This therefore implies that the country has the potential to mobilise more tax revenue and reduce its budget imbalances.

The results indicate that the determinants of low tax ratio to GDP in Kenya is due to much reliance on the agricultural and service sector as sources of tax revenue. It is an uphill task for Kenyan government to come up with a suitable tax design that will get maximum tax revenue from these sectors. This is because most of the agricultural sector and service sector in Kenya is practised informally. A large proportion of Kenya's service sector is made up of small businesses making it difficult to bring them into the tax net.

High per capita GDP has the potential of realizing higher tax revenues. This is becasue high per capita income implies country's population purchasing power is increased making them to pay tax with ease. To ensure increase in per capita income, there is need for political will, efficient legal system and consistency in the implimentation of tax policy. If this is achieved then country will attract investment that will lead to job opportunities which eventually translates into increased taxes.

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# Human Resource Management in Social Enterprises: A Study on BRAC

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## Abstract

The recent world is experiencing financial crisis and Social Enterprises (SEs) expands its operation across the globe with its social mission. Results on, marginalized communities are getting benefit. Thus Social Enterprises have contributed to build strong tie in the society. Therefore, success of Social Enterprises is expecting to the mass people especially poor region in the world. The Human Resources Division can help SEs to get their success. In this research, a case study has been chosen named BRAC Human Resources Division, which is recognized as the largest SE's Human Resources Division in Bangladesh.

The main focus of this research is on the role of Human Resources Division of Social Enterprises (SEs). This study is qualitative in nature and case study method has been adopted for collecting data through interview. The paper selects BRAC Human Resources Division (BRAC HRD) as a case study which is playing an important role to achieve its mission and vision. For ensuring the alignment of Human Resources (HR) Strategy with BRAC's Strategy, BRAC HRD uses some theoretical frameworks and styles such as SWOT Analysis, authentic leadership and situational leadership. By applying all these, BRAC HRD tries to do strategic human resources activities that lead BRAC HRD to align BRAC's strategy for achieving BRAC's social mission and vision. In this study Authentic Leadership Theory, Douglas McGregor's Theory X-Y and SWOT Analysis have been chosen to analyze the role of Human Resources Division of BRAC. The study also tries to find out some problems of social enterprises in performing their activities. Some recommendations also identified here carefully. This study will be helpful for the people engaged in the social enterprises, policy makers, students and

all other general people.

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**Keywords:** Human Resources Management (HRM), Human Resources Division (HRD), Social Enterprises (SEs), Bangladesh Rural Advancement Committee (BRAC), Authentic Leadership, Theory X-Y, SWOT Analysis.

## Introduction

The recent growth of social enterprise has been observed in the developed industrialized countries (Deforuney and Borzaga, 2001, p. 2-21). Salamon et al. (2003, p.3-19) mention that growth of social enterprise has been spread in USA, Western Europe, Central and Eastern Europe and many developed countries. Social Enterprises are now working in multifarious sectors like as health, social care, housing, children's services, vehicles, food and farming, sustainable environment, human rights and leisure (Westall and Chalkley, 2007).

DTI (2002) stresses that social enterprises are driven by social mission. A social Enterprise is simply a business entity with primarily social objectives whose surpluses are generally reinvested for the purpose of business or in the community rather than maximization of profit for shareholders (Doherty et al., 2014, p.26).

The OECD (2006) has identified some features including social and economical aspect that define SEs in all the different countries as off (Doherty et al, 2014, p. 30).

- Direct involvement of goods and services
- Voluntarily created
- Preserve stakeholders' participation right
- Exists in significant level of economic risk
- Avail a least percent of paid employees
- Decision making power is not biased by the number of shares and every stakeholders have power to make decision
- Participatory oriented
- Averse of maximization of profit and distribute a limited portion of profit
- Mission is to make the betterment of a specific group of people

Torrington et al. mentions that Human Resource Management (HRM) is the foundation of all managerial activity rather than solely the foundation of all business activity. The basis of management is honing to get the right people in right place in time for making things happen in a productive way, so that organization achieves success and the people thrive. There was a time when organization recruited mostly raw labor, those had little skill, experience, or merit and they could able to do their assigned job.

But after industrialization, the situation was opposite. In industrialized countries, most of the job requires dexterous candidates for doing the job well. Besides the changing workforce pattern and congenial improved method of HRM has led to the evolution of a more complex HRM function. (Torrington et al.2011, p.4-12).

Leopold et al. (2005, p.11-14) describe that HRM considers people as resources for the organization and can utilize them strategically for achieving organizational goal. Besides, HRM deals in preparing planning, organizational policies and procedures, align HR strategy with business strategy and handle organizational change with careful motion. Borzaga and Solari (2004) express their view that HRM is needed in the SEs because of existing internal challenges of management. Story (2007) defines that people can be managed by two approaches. One is hard approach that reflects employees as being a cost to the organization and is primarily concerned with minimizing cost. The other one is soft approach that views the employees as being assets who will produce positive margin for the organization. As SEs hold business mission and social mission together so that they could apply the mixed approach of HRM i.e., soft and hard. Beere et al. (1984, p- 9) suggests that soft strategic approach is appropriate for SEs. They also argue that SEs HRM Model focuses on the betterment of individual as well as society.

It has been observed that the SEs HRM that focuses good practices protect the organization form catastrophe due to the lack of funding, short fall and unpredictable commercial contract. Thus, all these things lead the SEs best fit (Doherty et al 2014, p.93). The HRM of SEs handling the issue of diversity with care. Besides, the issue of equality is strongly focused in practice of SEs' HRM (ibid,p.102).

Additionally, development of talent management process can lead to increase the level of performance both in individual as well as organizational level and the environment, organizational structure and systems together play mentionable role for the improved performance in the organization. Above all, HRD facilitate employees for being future leader in organization (ibid, p.103).

Moreover, Human Resources Division (HRD) is a strategic partner of any organization. Human Resources Division (HRD) of BRAC also plays strategic leadership role in BRAC by aligning Human Resources Strategy with BRAC's strategy. Procedural justice, transparent recruitment and selection, equal employment opportunity and cultural diversity acknowledge BRAC Human Resources Division (BRAC HRD) as a driver of BRAC (hrd.brac.net).

## 2.0. Problem Area:

Doherty et al. tells that managing people is undoubtedly a complex deal in any organization. The big challenges come forward to HRD while focused on social objectives. Traditional HRD does not significantly consider about hiring volunteer staff but HRD of SEs have to keep consideration on hiring and retaining a significant percentages of volunteer staff, which leads SEs HRD to stiff position. SEs HRD has similarity with traditional HRD considering the need to establish clarity about staffing levels and patterns of work. SEs HRD concentrates on culture-fair recruitment and selection processes. Besides, they have to handle the big challenge with care such as staff motivational performance and reward options. For retaining the potential as well as volunteer staff, SEs HRD has to focus on energizing working relationship and introducing progressive development policies (Doherty et al., 2014, p.92).

Manimala (2011) stats that leadership practice could be challenging in the field of social enterprises because social enterprises perennially struggle with various critical human resource issues such as getting employees at low rates of compensation, providing growth opportunities for employees only within the organization not for globally, retaining the negligent percentage of talent resource pool in the middle management, blurred job description etc, leading to high attrition and increasing the cost of acquiring and training newly recruited employees again and again.

Researchers maintain that the significant objective of HRD is not only to recruit potential employees but also to retain employees in the organization as well. (Lynn, 2003), (Vigoda & Cohen, 2003). It has been added that value and goal congruence positively affect employee's morale and performance, motivation, job satisfaction, tenure, and career success. Generally, social enterprises are unable to ensure such congruence. That's why, sometimes, social enterprises cannot discover the latent skills of employees, and many cases, SEs HRD leads to meet the organization of being politically discriminative and inequitable. In order to avoid such a potentially destructive situation, leader of HRD of social enterprise has to be a continuous assessment of the interface between the workforce and the working atmosphere and their work atmosphere, and the development of advanced Human Resources strategies for recruitment and retention (Vigoda & Cohen, 2003).

BRAC is a kind of social enterprise that also faces more or less in the above-mentioned problems. Though BRAC has a long success story from its inception, BRAC started its first journey in 1972 through the relief operation across Bangladesh. Now BRAC is the largest non-government organization in the world that is dedicated to elevate poverty, remove eradication and malnutrition and empower the deprived people in the poor region in the

world ([www.brac.net](http://www.brac.net)).

### **3.0. Objectives of the study**

The main objective of the study is **“The role of Human Resources Division/Department to support management in achieving Social Enterprises’ (SEs) mission and vision.”** There are some other specific objectives. Such as:

1. To examine the practices of leadership roles done by the Human Resources Division/Department of Social Enterprises’ (SEs).
2. To analyze the role of Human Resources Division/Department of Social Enterprises’ (SEs) in case of recruitment and motivation of the potential employees.

### **4.0. Delimitations and Imitations**

The research is based on the role of Human Resources Department of Social Enterprises (SEs) for achieving Social Enterprises (SEs) mission and vision and how can Human Resources Division plays and practices leadership roles and the way of recruitment and development of employees of Human Resources Division in Social Enterprises? The case study in this research is BRAC-Human Resources Division as BRAC is social enterprise. In this research, we have conducted two interviews that provide us a lot of information that is relevant to our research. They mentioned some of the leadership theories and frameworks, which help us to use the concept of those theories in this research. Besides, they have focused some component of Human Resources Division, which are being used to align Human Resources Strategy with Organization’s Strategy. Thus, the research project is delimited to show the role of Human Resources Division in achieving SEs’ mission and vision.

During the research, we also have faced few challenges such as limited time, limited respondents and delays from respondents. Finally the respondents have allotted their time for us. As mentioned before, case study is considered as a useful tool in research as it capacitates researchers to examine data at the micro level and present in real life situation. Moreover, case study has a high degree of validity with the findings, which is close to the reality (Yin, 2003). The above can be perceived as advantages of the case study, but the inability to generalize the results is the main disadvantage of them (Zaidah, 2007). Therefore, the findings of the BRAC HRD could not be generalized because it is based on single case.

### **5.0 Research Methodology:**

There are some steps of research methodology which are followed here. These are as follows:

### **5.1 Research strategy:**

Saunders (2007) argues that the research strategy is the planning designed by the researchers to answer the research question. He introduces different sorts of research strategies such as experiment, survey or case study. The case study has been chosen in this research. Case study is considered as a useful tool in research as case study capacitates researchers to examine Data at micro level and focus in real life situation

In this research, the aim is to find out the leadership role of Human Resources Division of SEs that can help to align Human Resources Strategy with organization's strategy for attaining mission and vision. Furthermore, in this research, secondary data such as online resources, census data, statistical abstracts, journals and other similar periodicals and primary data have been used through the conducting semi- structured interviews.

### **5.2 Research paradigm:**

In the context of social research, it might be convenient to consider research paradigm. Paradigm is way of describing social phenomena (Saunders, et al 2009). The main objective of this study is 'The role of Human Resources Division to support management in achieving social enterprises' mission and vision' our problem formulation is going to describe the objective of human resource regarding to social enterprise. It is more than analysis and sometimes it is descriptive as well. We are not going to measure rather we are going to describe our own and interviewees' viewpoint through this research. Denscombe phenomenology includes people's attitudes, belief, perception, emotion, feelings etc. Experience is also an important term of phenomenology (Denscombe, 2010). In this research we are trying to convey few of human resource managers' experience with their feelings, emotion, belief etc. Here phenomenological viewpoint is close to appropriate because our interviewees specifies that they use situational leadership, authentic leadership, synergistic leadership and theory of X-Y and they also share their own experiences which are related to their environment (Simon and Francis, 2001) cited in (angles, 2007). I choose this paradigm because phenomenological approach helps us for conducting small-scale research. On the other hand, Denscombe phenomenological view has some disadvantages such as, it is more descriptive rather than the analytics of data (Denscombe, 2010).

### **5.3 Research Design:**

Research design is important for both quantitative and qualitative method. Research design takes human psychology into control and gives a basic shape into the researcher's research (Roller, 1997). Here to give a proper descriptive shape I prefer to do my research in a qualitative method.

We took two interviews of BRACK enterprise human resource manager and going to describe in a descriptive way. The descriptive research may describe the element or incident in a more proper way than any other way into a research (Robson, 2009 cited in (Saunders et al 2009)

#### **5.4 Data collection and research method:**

Usually, the way of data collection is bit monotonous and complex. Sometimes it's not an easy to collect and produce relevant data for the research (Martin, 2000). In this study, the research question is: How can Human Resources Division of Social Enterprises (SEs) effectively support management in achieving social enterprises' mission and vision? So we organize two interview sessions with Brack's Human Resources Managers. Here they describe their personal experiences and thoughts basing on our questionnaire. In this research, we have used qualitative data, which is also cost effective because we have communicated to the interviewees through skype, mobile phone and by meeting in their office that do not make lots expense for us. We do think the data they have provided me through the interview is effective for our research.

Our research method is qualitative because we have taken two depth interviews. Ekanem notes that qualitative method emphasizes in depth interviews with semi structured or unstructured question, which really draw actual facts of the research. Moreover it can be applied anywhere in research in general (Ekanem, 2007). In addition to, qualitative research is important to investigate in management research and question. It could change the managerial phenomena. This approach helps to reveal new organizational change (Garcia et al 2013) that Human Resources Department introduces in the organization. We are going to find or reveal new organizational phenomenological link about human resource management and social enterprise. Our topic, research questions and environment tend us to conduct qualitative research though it has few difficulties.

#### **5.5 Interview:**

Two of Human Resources Managers' interviews have been conducted for the purpose of this project. The interviews have been conducted through Skype, mobile and face to face. The interviewees live in Bangladesh and they have tried to response lively. Both of them hold the designation of Manager, Human Resources Division of BRAC. They confess that they involve in strategic leadership activities in BRAC. The interview question was open ended semi-structured.

#### **6.0. Theories:**

In BRAC the managers use several theories and models to attain the



mission and vision of the organization. We here used three theories to serve the purpose of the study. These are as follows:

### **6.1 Authentic Leadership Theory:**

George, B. describes that authentic leaders' tendency is to help others through their leadership. They have confidence on themselves and they are used to help others from their core values. They are keen to empowering the people and employees' in the organizational aspect and they lead to make a difference in working place rather than gaining money, fame and achieving power. They focus five characteristics: Clear about their purpose, doing right thing through their strong core values, create trustworthy blessing relationship with others, consistent and self-disciplined and lead with purpose from their gut. George, B. (2003) identifies that authentic leaders should have purpose. They are well informed about their purpose. They know about their background, strength, weakness and their future destination. Basically, they are inspired to do something from their heart.

Authentic leaders are well informed about their values and behave and treat others in the same way. Authentic leaders have the ability to open up themselves and create a sound relationship with others. Thus, trust and closeness develop between leaders and followers. The reward of authentic leadership is both tangible and intangible that last for long. Self-discipline establishes authentic leader in supreme position. Simply, self-discipline helps leaders to motivate employees or followers and able to energize employees' potentiality. Lastly, compassion and hearts are important characters for authentic leaders and they are sensitive to employees or followers due to their compassion. Walumbwa et al. (2008) mentions that there are four fundamental components make a person to become authentic leader.

#### **Leader self-awareness:**

As Kernis (2003, p.13) describes that self-awareness helps authentic leaders to build trust in one's motives, emotions, willingness and self-relevant cognitions. Self-awareness directly reflects leaders' core values, feelings, goals and helps to realize the leaders' capability (Gardner, W. L. et al., 2005, p.349).

#### **Leader self-regulation:**

Stajkovic & Luthans (1998) describes that leaders can regulate their self the self-regulation through their internal standards. Leaders can also use their internal moral standards and values to guide their behavior. With the help of self-regulation, authentic leaders can control over the extent by which they can motivate others very easily. Beside, employees or followers can rely on authentic leaders' due to their consistency, strong belief and morality



(Gardner, W. L. et al., 2005, p.354).

### **Balanced Processing:**

Balanced processing helps leaders to analyze the actual situation and conclude the meaning (Kernis, 2003, p.13-15). To the frank, balanced processing is a self-constraint attitude by which leaders can analyze information objectively and followers' opinions prior to make decision. Authentic leaders can take decision without biasness through their balanced processing quality. Leaders can take their decisions by considering the mutual interest of themselves and their followers (Gardner, W. L. et al., 2005, p.356).

### **Relational transparency:**

Kernis (2003, p. 15) describes the relational transparency relates to honesty for presenting in one's real face to others. It is also called self-regulatory process because leader's transparency can attract and regulate their followers. Relational transparency involves trustworthiness for helping close others. In short, relational transparency acts as a network, which creates bonding basing on intimacy and trustworthy. That's why employers or followers feel interest to do the same what leaders do (Gardner, W. L. et al., 2005, p.357-358).

There are factors such as positive psychological capacities, moral reasoning and critical life events that influence authentic leaders to take challenge. Positive psychological capacities have four attributes such as confidence, hope, optimism and resilience (Luthans & Avolio, 2003, p.241). Confidence refers to having self-efficacy that helps leaders to do the work accurately (Bandura, 1997; Luthans & Avolio, 2003). Hope is other kind of positive trait of leaders that encourages leaders to do work hard for filling their will (Luthans & Avolio, 2003, p. 241). Reliance is the leaders' one of the most rare qualities that makes leaders able to recover from and adjust to inverse situations.

#### **6.1.1. The logic behind the choice of Authentic Leadership:**

As, the management of psychological contracts is vital task for organization that attempt to shape an organization as employee friendly rather than employee using organization (Schalk and Rousseau, 2001) that also followed by SEs (Doherty et al, 2014,p. 30). We have chosen our research based on the practice of leadership role in Human Resource Department of Social Enterprises that tries to robust employees morality, friendly working environment (Guest and Conway, 2002, p.22-38). It has been appeared that the practicing working culture in our case reflects to the nature of authentic leadership because authentic leadership draws upon and

develops employees' positive psychological capacities, create environment friendly ethical climate, assist to arise employees self-awareness, nurture employees positive morality and try to establish a good path of relational transparency (Walumbwa et al., 2008, p. 94) that is also the practice of management of BRAC Human Resources Division.

## **6.2 Douglas McGregor's Theory of X-Y:**

Theory of X-Y was proposed by Douglas McGregor (1960) in his book 'The Human Side of Enterprise'. His theory is still popular and widely used in the field of management and motivation. The management of Y behavior and attitude towards employees dictates management to practice positive attitude to employees in organization. Organization's cultural development and employee motivation are largely focused on the management of Y behavior and attitude towards employees.

Assumption of the Y the management's attitude and behavior towards employees:

- Employees wish to work.
- Employees are considered as resources so that they have freedom for applying their own knowledge and skills in pursuit of organizational knowledge.
- Employees are endowed to get reward for their outstanding contribution in the organization. Innovations are encouraged for solving emerging organizational problem.

### **6.2.1. Why Douglas McGregor's Theory X-Y fits in my case study?**

We have chosen McGregor's theory X-Y because this theory focuses that employees are capable, self-motivated and focused to accept challenges if the management provides motivational factors for the employees that is linked with the case study as Applebaum et al. (2000) assert that employees' skill enhancing practices, motivational practices and employees' involvement practices as critical for business performances that is also patronized the BRAC Human Resource Department ([hrd.brac.net](http://hrd.brac.net)). Applebaum et al. (2000) also suggest that there is clear relevance and understanding in SEs of above mentioned such practices.

The management of Y behavior and attitude towards employees believes that, ensuring a good working environment will influence employees to work with motivation and increase employees' performance that is also supported by Pfeffer (2001, p. 248-59). He acknowledges that the employees' friendly working environment and flexible organizational structure and systems play a vital role for employees' outstanding performance that also supports our selected case study so that we have

chosen this theory with some other theories.

McGregor simply opines that significant employees' relationship can help organization to retain potential employees that is also supported by Doherty et al. (2014, p. 105). Doherty et al. argues that friendly employees' relationship has significant impact on their retention in the organization, especially SEs have to ensure the good employees' relationship inside the organization because they also rely on volunteers employees. Our case study is also SE so that the management of Y behavior and attitude towards employees supports the case study as well.

### 6.3. SWOT Analysis:

Mark A. Thomas describes that SWOT analyses are widely used in the business aspects. Notwithstanding, HR Department can use SWOT that examines overall situation of HR Department. HR Department can identify its internal factors such as strength and weakness and external factors such as opportunities and threats by using SWOT Analysis. SWOT Analysis is a method, which contribute to redefine the functions and mission statement and to put a quantitative and qualitative human resource input to the strategic planning process. SWOT Analysis is very plain to understand and easy to apply and convert into positive action. HR Department can analysis its internal strength and weakness and external threat and opportunities by applying SWOT. SWOT Analysis helps line managers by informing emerging issues regarding human resources and so on. By this way line managers become proactive and contribute best effort for the betterment of organization ( Mark A. Thomas,1990, p. 12-16).

## SWOT Analysis



*Source:* <http://dev.deltapartners.ca/blog/re-visiting-the-swot-analysis> and [rpihub.org-960X720](http://rpihub.org-960X720)

### **6.3.1. Why SWOT Analysis:**

The resource-based model of SHRM can be explained with the help of SWOT Analysis that reflects the strategic value of the human resources and the issues of human resources learning. Thus it seems to embrace a 'soft' view of strategic human resource management. Selznick (1957) describes about the resource-based model 'distinctive competence' that enables them to outperform their competitors, and Penrose (1959) acknowledges the firm as a 'collection of productive resources'. She sequesters between 'physical' and 'human resources', and focuses to issues of learning including knowledge and experience of the management team.

### **7.0. About BRAC Bangladesh:**

BRAC is a development lead organization that has success story, spreading solutions born in Bangladesh as well as around the world – a global leader in creating opportunity for sustainable solution for alleviating poverty from the globe. BRAC started in its operation at first in 1971 through the distribution of relief in a remote village of Bangladesh and now it has turned into the largest development organization in the world. BRAC catalyzes lasting change in the marginalized community through the creation of ecosystem in which marginalized people have the right to seize control of their own lives. BRAC is doing those activities through the holistic approach by using some tools like microfinance, community education, healthcare facility, legal services, community empowerment, social enterprises and BRAC University. Now BRAC touches the lives of an estimated 135 million people along with its staff over the world and it has already set a landmark of positive change to 11 countries in Asia, Africa and the Caribbean. BRAC believes in the empowerment of women and marginalized people in the society. Therefore, BRAC focuses on the social and financial freedom of women. BRAC's gender and justice program identifies the causes of exploitation of women in the poor community and tries to provide sustainable solution for the better condition ([www.brac.net/](http://www.brac.net/)).

### **7.1. Background of BRAC Human Resources Division:**

BRAC Human Resources Division is trying to achieve its operational excellence through assisting the overall organization by aligning its HR Strategy with organization's strategy. Besides, HRD is also functioning for maximizing employee's motivation, designing effective job description and job specification, enhancing transparency and creating equal employment opportunity for all employees of BRAC. As BRAC is one of the largest development organizations in the world, BRAC is operating a wide variety of multifaceted development programs. For operating these programs, a significant number of potential employees are needed to attain the

organization's goal. HRD is doing that significant task on behalf of BRAC for attaining BRAC's objectives'. Besides, BRAC-HRD provides significant effort to appraise BRAC's employees, which helps to motivate and retain employees in BRAC. Moreover, HRD is trying to ensure an environment where employees feel free to flourish. Finally, HRD is trying to develop the right people in the right skills for BRAC in right time.

#### **7.1.1. Goal of BRAC Human Resources Division**

As HRD is a strategic partner of BRAC so that it works for BRAC through the alignment of HR strategy with BRAC's strategy. Considering BRAC's strategy, HRD is trying to ensure procedural justice, intensify transparency along with equality and facilitate for creating such an organizational environment where individual's potentials & competencies will take consideration, introduce innovative culture and make ready all employees for undergoing organizational changes ([hrd.brac.net](http://hrd.brac.net)).

#### **7.1.2. Objectives of BRAC HRD:**

- Recruit the right people in right place in right time for BRAC.
- Embed BRAC's culture and values in the employees' mind to enable an environment of right-based human organization.
- Provide a series of programs for developing staff.
- Train employees for increasing employees' competence to institute gender justice and diversity where employees work for BRAC by giving their best effort irrespective of class, religion, ethnicity, age and sex.
- Develop and implement Performance Appraisal system to identify employees' level of skills.
- Informing management through the preservation and dissemination of employees' recent information.
- Formulating HR Policy, implementing and monitoring through HR Compliance.

#### **8.0 Analysis:**

BRAC's Human Resources Division is a strategic partner of BRAC for attaining its goal ([hrd.brac.net](http://hrd.brac.net)). BRAC Human Resources Division tries to foster employees' morality and friendly working environment and practice in leadership culture and helps to create that environment. While conducting the interview, a manager acknowledges that he has motivation to work in BRAC because he has scope to play leadership role in his working place. For increasing employees' morality, BRAC Human Resources Division introduces an effective Human Resources Policies and Procedures, which

ensure employees' morality and safety (Objective of Policy and Capacity Development Unit). But in some situations, it could be hard for Human Resources Division of Social Enterprises to ensure employees' motivation and improved morality due to the problem of managing membership and lack of balancing of social and financial goal (Roger et al., 2009, p.256-258).

BRAC Human Resources Division is trying to develop employees' psychology through different trainings where employees can develop their self-awareness and leadership capability, which may help employees to be authentic leaders in some contexts. While conducting the interview with another manager, he asserts that he is used to stimulate his peers because he does not want to demoralize his peers. He realizes that giving employees' opportunity to be flourished employees positively that the actual leadership embeds in. He further adds that he always tries to figure out the potentiality of his peers and colleagues and try to retrieve the latent talent from them that might be happened by adopting the trait of authentic leadership.

BRAC Human Resources Division introduces employees' code of conduct ([hrd.brac.net](http://hrd.brac.net)) dictating employees' attitudes and behaviors in such a way that helps for increasing level of productivity, which is also supported by Doherty et al. (2014, p.98). BRAC Human Resources Division is also a certain, relationship inside the organization by giving employees' opportunity to be groomed in many ways. The management of BRAC HRD is dedicated to assist their peers, colleagues and subordinates by providing guidelines which are supported in some ground by the feature of authentic leadership (Northouse, 2010, p.221-222). It can also be conferred that BRAC HRD has scope to patronize authentic leadership because manager mentions that as a leader, he always tries to minimize his peers and colleagues weak sides so that they can come out their points every time. He further adds that BRAC HRD practices in three or four different leadership styles that is synergistic leadership, authentic leadership, situational leadership and motivational theory of X-Y because BRAC is social enterprise so that BRAC HRD gives emphasis on talent recruitment and retention. It is a big challenge for them. Therefore, they try to ensure participative leadership style more widely especially for motivating their employees by which BRAC can grow faster. But ensuring employees' motivation is not so easy for most of the social enterprises because financial capability is important for ensuring employees' motivation. Borzaga and Solari (2001, p.340) mention that most of the social enterprises are facing financial crisis.

Practice of authentic leadership does not always demonstrate the straight direction to how BRAC HRD plays significant leadership role because this leadership is a complex process that always seek for the development of quality that helps leaders to create a trustworthy environment (Northouse, 2010, p.221). Besides, in this research, single case study has



been chosen but single case study does not provide the compelling result as like as multiple case studies (Yin, 2013).

BRAC HRD is trying to create a good culture in the overall BRAC because BRAC is a cross-cultured organization. As well as BRAC's mission is to create women leadership that might allure to use the culture of synergistic leadership. The respondent opines that BRAC is cross-cultural diversified work places. There are significant number of people come from diverse groups. There is significant number of female employees work in BRAC whose percentage is 30%. So BRAC HRD is trying to some diversity in workforce. In the recruitment and promotion process, BRAC HRD is trying to ensure diversity and justice. Through the whole process, BRAC HRD is trying to achieve BRAC's mission and vision.

As BRAC is a social enterprise so that its primacy is to social aim like other social enterprises (Peattie and Morley, 2008, cited in Doherty et al., 2014, p. 26-27) that involves in improving the skills of local community by which society will measure positive impact. BRAC HRD is recruiting 30% female employees and trying to escalate them in the leading position (interview with manager: 17:14-18:57) that helps BRAC to achieve its mission and vision because especially the poor and women in the developing countries are deprived. In this situation, BRAC HRD recruits 30% female staff that aligns with BRAC's strategy by which BRAC empower women in the society and society gets positive impart from that activities. This large giant task is possible for BRAC HRD because it has sound logistic supports ([hrd.brac.net](http://hrd.brac.net)) but there have been some social enterprises those are dependent on donor fund, they are facing trouble to equip their Human Resources Division/Department for aligning Human Resources Strategy with over all organization's strategy.

The respondents asserts that the decision making process of BRAC and HRD is absolutely participating. There is no autocracy and every decision is very much participatory and the people who work in the bottom line can also participate in the decision making process even they can also participate in the strategic decision process. On the other hand, the development of knowledge and skills of employees is the priority of HRD. They are working in two types of skills development. One is soft skill and other is hard skill. So that people are given training on technical skill that is related to their working skill. On the other hand they are providing some value based training and some motivational training and counseling to the staff so that they can perform effectively which is aligned with BRAC value and culture as well.

Employees' motivation is one of the prime objectives and challenges of BRAC HRD. Therefore, BRAC HRD has taken many effective initiatives that can be heard from the respondent's interview. They addresses that the

most priority area of BRAC HRD is to maintain motivational level of BRAC's staff optimally so that employee can perform at their best. Therefore, BRAC HRD launches different programs to motivate employees such as HR management software, databases, transfer software. By this way, they have some impacts on employees' motivation. On the other hand, they have succession planning; they have some different benefits arrangement as well as compensation packages and other things, which are also competitive in the market. By these ways, they are trying to motivate people in the work place. Besides, BRAC HRD is also launching different type of skills development initiatives so that employees can enhance their skills in the organization, which helps their career progression as well. By this way, HRD can create an impact on employee motivation in BRAC. So that strategic initiative can be achieved. But in many cases, social enterprises are failed to motivate employees because of poor career progression and low paid salary (Hynes, B., 2009).

BRAC HRD also practices in employees' participation that matches a bit with the management of Y attitude and behavior towards employees. BRAC HRD practices in three or four different leadership styles that are synergistic leadership, authentic leadership, situational leadership and motivational theory of X-Y because BRAC is a social enterprise so that BRAC HRD gives focusing on talent recruitment and retention. The manager thinks that this is a big challenge for them so that they try to practice participative leadership style more widely especially for motivating their employees by which BRAC can grow faster. He also adds that they are working with communities such as poor people, under privileged people so that they have very informal working environment. Additionally he mentions that creating future leader who will lead BRAC is important to them.

The management of Y attitude and behavior perhaps create believes a good working environment which may influence employees to work with motivation and increase their performance that is also supported by Pfeffer (2001, p. 248-59). He acknowledges that the employees' friendly working environment and flexible organizational structure and system sometimes can play a vital role for employees' outstanding performance.

BRAC HRD always tries to create a significant employees' relationship that can help BRAC HRD to retain and develop potential employees as well as volunteers' employees for achieving BRAC's over all objectives. Doherty et al. (2014, p. 105) asserts that friendly employees' relationship has significant impact on their retention in the organization, especially SEs have to ensure the good employees' relationship inside the organization because they also rely on volunteers' employees. BRAC HRD is trying to recruit retain employees by introducing training and development programs though many of the some of the organizations in developing



countries like Bangladesh are failed to recruit in a smooth way due to political pressure and external inverse environment (Tabassum, A., 2011, p.55-67).

BRAC HRD is recruiting the right people in the place in the right time for achieving BRAC's vision ([hrd.brac.net](http://hrd.brac.net)). The respondents explain the recruitment process of BRAC HRD. They nicely explain that they have a very effective recruitment process and they try to ensure the biased free recruitment by which they can retain potential employees mostly. They further refer that they have specific procedures and guidelines for conducting recruitment. These procedures and code of conduct in some way ensure that BRAC HRD is solely responsible for fair recruitment. Sometimes BRAC HRD arranges written exam and in some situations, only conducts practical test. Most of the cases, BRAC HRD is going to arrange interview for selection process with transparency. The above mentioned task may be possible in the context of BRAC because it has brand image and financial solvency but there have been many social enterprises are facing the lack of brand image and financial insolvency that could be hard to ensure employees' motivation (Doherty et al., 2014).

BRAC has HR programs such as recruitment, selection, training and development and retention that help over all BRAC to achieve its vision. Good HR practices help to align HR strategies with BRAC's strategy. Besides, HR processes help BRAC to avoid uneven situation and lead to BRAC a successful organization. In reality, especially for small organizations' Human Resources Division/Department that are not well equipped is hard to achieve Human Resources Division/ Department's success because HRD's success dependent on the fulfillment of HRD's needs by the organization (Ulrich, 1997).

## **9.0. Conclusion and Recommendation:**

Human Resources Division can play a vital role not only for profit driven organizations but also for Social Enterprises (SEs) by practicing effective leadership role where employees' are considered as being the key to competitive advantage rather than just the implementing the organizational core strategy. In this situation, Human Resources Division/Department emphasizes on increasing employees' strengths. Results on employees can positively affect on organization's strategy for achieving mission and vision. Human Resources Division/Department practices strategic human resources leadership that helps organization to recruit potential employees' and transform them as human capital. Moreover, strategic human resources leadership helps organization to identify and develop the leadership behaviors by which organization can attract skilled employees for joining and retaining them for long term. Through strategic

human resources leadership, organization can get sustainability by unlocking employees' productive potential.

Additionally, Human Resources Division/Department introduces the practices of enhancing employees' skilled, motivation and participation. Applebaum et al. (2000) addresses that employees' increased level of skilled, motivation and participation is now more relevant in social enterprises. Therefore, social enterprises human resources divisions/departments can play a critical leadership role by linking employees and performance in the mission driven social enterprises. Strategic leadership in social enterprises can unlock the employees' potential and may be created a well link with motivation to achieve organizations' mission and vision. Besides, Human Resources Division/Department through the effective leadership insists management to introduce extrinsic and intrinsic factors of motivation that attract employees to join in the organization and stay for a long term. Thus, Human Resources Division/ Department can align its strategy with the help of skilled human resources along with organization's core strategy for attaining mission and vision. The research case BRAC Human Resources Division may be tried to do the same thing for attaining its social goal, mission and vision which can be reflected a bit from the website of BRAC, BRAC HRD and the interviewees' statement.

Not with standing a detailed discussion on the leadership role of BRAC HRD, it might be recommended that BRAC HRD may also practice Ethical Leadership because BRAC is a social enterprise, which is embedded in social mission where justice and fairness considers as core values. Ethical Leaders are caring about justice and fairness and put them at a top priority. Every employee's can enjoy the same level of opportunity that might motivate employees' severely especially the volunteer employees (Northouse, 2010, p. 388-389). Besides, BRAC Human Resources Division may introduce Human Resources Accounting that will help BRAC Human Resources Division to ensure financial transparency. As a result, BRAC HRD can recruit and develop employees effectively that may help BRAC to flourish smoothly.

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