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Does failure to distinguish the quality and food safety attributes have effect on willingness to pay for food safety?
Xhevat Sopi

City brand in the eyes of values
Andrej Pompe

Advantages and disadvantages of deploying frequent flyer programs as impact factors affecting airline customer behavior and retention
Mark Wever

Analysing the impact of financial market development on economic growth (Ghana)
Enoch Okomfo Okonah

DOES FAILURE TO DISTINGUISH THE QUALITY AND FOOD SAFETY ATTRIBUTES HAVE EFFECT ON WILLINGNESS TO PAY FOR FOOD SAFETY?

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Abstract

The purpose of this paper is to determine whether the dairy consumers in Kosovo make a clear distinguish between safety and quality attributes, which is the impact of socio-demographic factors, and if the recognition of these attributes has an impact on willingness to pay (WTP) price premium for food safety standards. The observation was conducted with 303 consumers of Viva Fresh Store supermarkets. The results show that 90% of the respondents mix the safety concept with the one of quality. Factors like: education level, incomes and the place of residence have a significant correlation ($p<0.05$) with the variable of concepts clarity. Test Chi Square shows that WTP variations are not dependent in terms of clarity between two concepts ($p>0.05$). The most number of consumers (74.8%) are WTP for premium price on food safety standards. The assessment on food safety, at a certain degree is "high" or "very high" (48.83%).

Key Words

Food safety; willingness to pay; quality attributes; socio-demographic factors.

INTRODUCTION

Food safety concern is increasing every day, and not in developed and developing countries only. Various researchers found that there is confusion among consumers in regard to the perception on food safety, which still remains unclear because of the misinterpretation and interference of quality concept (Jabbar et al., 2010). This confusion makes consumers consider food safety highly important even though they use the same attributes in defining the quality and food safety (Kealesitse & Kabama, 2012).

Depending on the ability of consumers in defining the attributes of the products, Nelson (1970) and Darby & Karni (1973) divide attributes in search, experience and credence. In the explanation they make of this division Caswel & Mojduszka (1996) and Brunsø, Fjord, & Grunert (2002), note that for search attributes consumers can ascertain the quality of the product before buying it, through examination and research, such as the size of an egg or the meat colour. The attributes of experience the consumers can ascertain only after the use of the product, such as the egg or meat taste. In regard to credence attribute the consumer can't ascertain the presence neither before nor after buying or consuming it.

Brunsø et al. (2002), through Total Food Quality Model units these three attribute categories (search, experience and credence) in two quality cues: intrinsic and extrinsic. The first group covers physical attributes of the product which are linked to technical specifications and which also include its physiologic attributes, i.e. the attributes that can be measured in an objective way. The second group (extrinsic cues) represent all other product's attributes, such as brand name, price, distribution method, storage, packaging, etc. (Brunsø et al., 2002).

But the confusion over quality and food safety concepts is more evident in developing countries than in developed ones, because unlike at the latter, in developing countries consumers are less exposed to information and therefore have less knowledge of the hazards and risks in food choice (Zhllima et al., 2015).

When adding these findings to the fact that Kosovo is a new country and at an early stage of consolidating state institutions which have no capacity and desired expertise, and the fact that political topics dominate the public debate and there is so little in media about food safety then, the current state does not promises to be more satisfactory.

However, even in Kosovo there is a certain degree of concern in regard to food safety (Canavari et al, 2014). Based on this study 2/3 of interviewed consumers assert to be quite concerned about food safety.

As noted above, there is a need to understand whether there is confusion in regard to quality and food safety attributes among consumers in Kosovo. According to the authors, such studies are not conducted with any group of costumers in Kosovo.

Therefore the problem of the search can be formulated as: the need to know whether there is confusion among dairy consumers in Kosovo about quality and food safety concepts and whether there is an impact of these

variables on the willingness of consumers to pay premium price for products certified with safety standards.

The findings of this research will be of great interest to the dairy industry in Kosovo but for policy makers and civil society also, to take into account whether there is need to take concrete steps in increasing awareness among consumers about food safety.

METHODS AND PROCEDURES

In order to achieve research objectives the methodological approach is based on post-positivist paradigm, which is based on the quantitative measurement methods of objective reality. Consequently statistical methods will be used such as: descriptive statistics, Chi Square test (χ^2) and correlation analysis.

Data

The data were obtained through survey. A questionnaire was drafted and used to collect data for their testing. The observation was conducted through interviews with customers of Viva Fresh Store markets network.

The survey was conducted within supermarkets premises, at the dairy sector, because: (i) the customer was interviewed immediately after the buying the product; (ii) during the survey the customer had also present other products which helps in providing more accurate answer about his decision by taking into account the alternatives.

In the observation conducted between 1st April – 5th May 2015 were involved 303 consumers over 18 years of age. The selection of costumers was random. In capital Pristine, as a representative of the group of cities with over 100 thousand inhabitants, 153 surveys were conducted; in Gjilan, from the group of towns with 50-100 thousand inhabitants 110 surveys were carried, and in Vitia (which has less than 50 thousand inhabitants) 40 surveys were conducted.

For concrete objectives of the paper, especially if consumers are able to distinct attributes or concepts of quality and food safety, an indirect question was asked, where besides the statement: "When I say food safety I mean:" were put explanations on quality and safety attributes. Therefore, dammy variable was created to understand whether the consumer has clear concepts or not.

RESULTS AND INTERPRETATION

In this first session is initially presented the assessment that consumers have on dairy products' safety. Descriptive statistics on how much the consumers make a clear distinction between the concept of food quality and safety as well as the influence of socio demographic factors on the clarity of

concepts is presented afterwards. Finally the results of Chi Square test on the relation between clarity concepts and WTP will be presented.

Descriptive statistics

Table 1 presents descriptive statistics in terms of consumers' perception of food safety and where this perception is based. For this purpose, the question was submitted by Likert scale. Those that valued it with 4 (high) and 5 (very high) were asked for the reasons of the assessment.

Table 1: Consumers' perception on food safety and the reasons – descriptive statistics

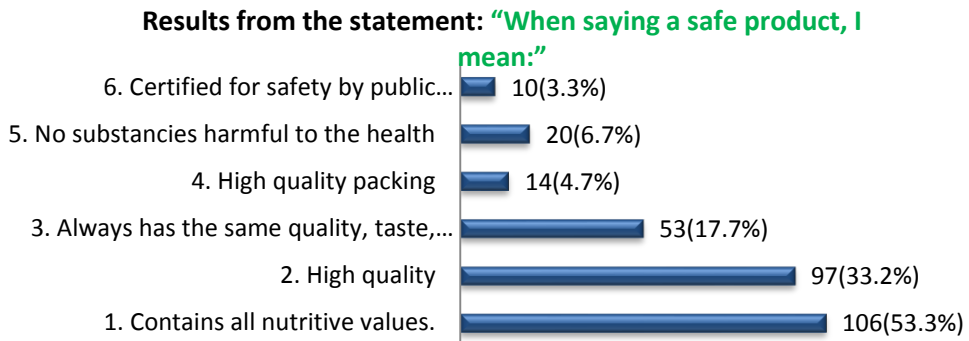| Food safety is "high" and "too high", because:	Milk			Cheese			Yogurt			*Arithmetic average in %
	Fr	%	% in total	Fr	%	% in total	Fr	%	% in total	
1. Consuming this product for a long time	101	65,6	33,3	106	69,3	35,0	93	67,9	30,7	67,6
2. Trust in manufacturer	10	6,5	3,3	8	5,2	2,6	9	6,6	3,0	6,1
3. Believing that the state does not allow unsafe products	1	,6	0,3	3	2,0	1,0	4	2,9	1,3	1,8
Alternatives :1 and 2	27	17,5	8,9	24	15,7	7,9	19	13,9	6,3	15,7
Alternatives: 1 and 3	3	1,9	1,0	3	2,0	1,0	2	1,5	0,7	1,8
Alternatives: 2 and 3	1	,6	0,3	1	0,7	0,3	1	0,7	0,3	0,7
Alternatives: 1, 2 and 3	11	7,1	3,6	8	5,2	2,6	9	6,6	3,0	6,3
Total	154	100	50,8	153	100	50,5	137	100	45,2	(50,8+50,5+45,2) 48,83
The assessment for "average", "low" and "too low" safety	149		49,2	150		49,5	166		54,8	51,17
TOTAL	303		100	303		100	303		100	100

*Results in lines 2-8 are the average from the columns:" %"; while in lines 9 -10 for columns: "% in total".
Source: Field survey – SPSS processing.

Results shows that about 48.83% of consumers assess that dairy products have a high or too high safety degree, while the rest assessed that safety is average, low or very low. From the group of consumers who had a high assessment on the safety, the reason for their assessment is that they were consuming the product for a long time (67.6%), some have trust on manufacturer (6.1%) and a symbolic group (1.8%) has trust on the state. Even to those who have chosen more alternatives the first option generally dominates.

Descriptive statistics about the explanatory variable is presented in Figure 1 in which only options 5 and 6 represent attributes of the food safety concept. It shows that only for 10% (n=30) of customers is what the concept of food security presents.

Figure 1: An assessment whether there is a clarity on food safety concept

Results from the statement: "When saying a safe product, I mean:"

- 6. Certified for safety by public… 10(3.3%)
- 5. No substancies harmful to the health 20(6.7%)
- 4. High quality packing 14(4.7%)
- 3. Always has the same quality, taste,… 53(17.7%)
- 2. High quality 97(33.2%)
- 1. Contains all nutritive values. 106(53.3%)

Source: Field survey.

Results from table 2 show how much correlation exists in the variable between quality and safety concept with socio-demographic factors such as: residence, education and income levels. These variables were used to apply logistic regression model but it did not produce reliable results because of multicollinearity effect from strong correlations between independent variables (for more see Table 2).

Table 2: The correlation matrix

	Is it the food safety concept clear?	Gender	Residence	Age	Education level
Gender	-,072				
Residence	,131*	-,112			
Age	-,104	,285**	-,130*		
Education level	,143*	-,043	,320**	-,091	
Family monthly average income	,135*	-,062	,284**	-,034	,496**

*Correlation is significant at the 0.05 level (2-tailed); **Correlation is significant at the 0.01 level (2-tailed).
Source: Field survey–SPSS processing

As presented above, we are forced to explain the relation between variables only through correlation index. Based on table 2 data it appears that:
- For safety level 0.05, consumers living in a city have higher chances to better understand the difference between two concepts and vice versa;
- For safety level 0.05, consumers with higher education have higher chances to better understand the difference between two concepts and vice versa: and
- For safety level 0.05, consumers with higher income have higher chances to better understand the difference between two concepts and vice versa.

Chi Square test

As presented on table 3, test results χ^2 show that there is no dependency between the clarity of displayed variable concepts of food quality and safety with WTP. The table shows that 226 or 74.8% of the consumers are ready to pay premium price for products if subject to certification with food safety standards, while 76 or 25.2% are not ready to.

Table 3: Chi Square test

			Is the food safety concept clear?		Total
			No	Yes	
Are you WTP extra price for products with food safety attributes?	Jo	Count	69	7	76
		Expected Count	68,2	7,8	76,0
	Po	Count	202	24	226
		Expected Count	202,8	23,2	226,0
Total		Count	271	31	302
		Expected Count	271,0	31,0	302,0
Pearson Chi-Square		**Value**	**df**	**Asymp. Sig. (2-sided)**	
		0,123	1	0,726	

Source: Field survey – SPSS processing

CONCLUSIONS

Based on search results we can conclude that the consumers of Kosovo, generally (90% of respondents) are confused with quality and safety food concept. So even when these customers provide an assessment on food

safety they use the same attributes in defining quality and food safety (Kealesitse & Kabama, 2012).

In the confusion between attributes or the concepts of food quality and safety, socio-economic factors have more significant impact than demographic ones. As presented in the correlation analysis, factors such as age, gender doesn't show any significant correlation connection, while the level of education, level of income and residence showed significant correlation ($p < 0.05$ level). However, the problems with multicollinearity did not allow logistic regression application to measure the level and direction of these factors' impact on the clarity of concepts.

In this situation, the perception of food safety, to a considerable extent is considered high or very high (48.83%), and this is mainly as a result of the fact that a product is consumed for a long period of time, but a small part have trust on manufacturer and a symbolic part on the state.

Chi Square test results showed that variations in WTP are not dependent whether the consumer has or has not clarity on the difference between food quality and safety concept, while the most part of the consumers (74.8%) are WTP premium price if safety food attributes are added to the products.

The findings imply further research as the way confusion over the concept affects consumer behaviour and their assessment of food safety attributes. On the other hand, findings have policy implications which requiring from the institutions that besides their policies on food safety increase to organize awareness campaigns with customers to clarify the differences between quality and safety standards, and the dangers of unsafe food; managerial implications consist in increasing food safety of products by applying food safety standard but also promotional campaigns for safety changes in their products; associations that deal with consumer protection in cooperation with professional institutions to organize customer awareness activities on food safety problems and relevant standards.

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CITY BRAND IN THE EYES OF VALUES

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Abstract

Cities have always been trying to create certain attractions in order to flow together different kinds of capitals like financial, human resource, investment, economics, free time, educational, energetic, cultural, social, and other capitals. Expansion of cities causes the outgrow of their historically known scales. Increasing complexity demanded deeper consideration about the city position in the competitive environment. This is why cities began to use marketing tools and more and more implement praxis of brands and branding while positioning their cities among competitors. One of three most important component of city brand perception is values (besides perceived attributes and personality characteristics) which create perceptual dimensions, meaning shaping city's brand position in the eyes of stakeholders. This paper focuses on values and their impact on the city brand perception. A qualitative research study of five Slovene cities: Ljubljana, Maribor, Celje, Koper, and Nova Gorica, was conducted. Research displayed an immense difference in perceptions among explored city brands and showed a significant impact of values to their competitive position. The existent research can stimulate city managements to explore perceptions of their cities.

Key Words

Perception; city brand; values; city brand position; competition among cities.

INTRODUCTION

Cities have always been a kind of brands although they were not aware of that. (Kavaratzis, 2009). Theoretically, we can discuss city brands from various angles. They can be: a) product brand (city is a product and therefore is sellable), b) destination brand, when city is regarded as an identity that has a geographic position, c) social brand, when it represents a certain community or d) interest brand when it represents specific groups of people with clear interests (Pompe, 2015,). However, city brand is a clearly recognizable phenomenon every city needs if it intends to compete with competitive cities (Kalandides, 2011). It is an indispensable builder of stakeholder's perceptions. Competition among cities developed to a state that branding became vital. Because of a substantial lack of marketing and branding comprehension among city brand management, there is a discrepant usage of brand instruments. The problem is the false understanding that marketing and branding equal with selling (Berglund & Olsson, 2010, p. 2) The focus bases, not on the complexity of the city as a marketing and social corpus but is mostly directed to isolated targets. Therefore, they put efforts in search of new buyers but not having a clear understanding of their need and wishes. The focus on marketing and branding is to optimize the social and economic functioning of a city, always in tune with strategic development goals (Ashworth & Voogd, 1990). The mentioned definition stresses two important aspects why marketing a city: 1) economic goals, social functions and identification and 2) as connection tool for existing and potential users of a destination or city. (Zenker, 2011). The closest comprehension of a city being a brand gained those cities that began to market themselves as a touristic destination. Still, this kind of thinking is too narrow and branding can be very useful in other fields of city functioning. (Ashworth & Kavaratzis, 2009).

THEORY

City marketing and city brand

City marketing could be understood as a process where marketing tools are integrated what is supported by users focused philosophy: its mission is communicating, delivering and exchanging city offers (products) that are valuable for particular city consumers and also for the entire city, a city as a whole. (Braun, 2008). In last decade, in positioning a city, we are recording a shift from marketing to branding. (Kavaratzis, 2008). City brand managers became aware of a better city development, position, and promotion. To achieve that, a creation of as many as possible positive associations in minds of city consumers is required (Zenker, 2011). Positive associations play beside external city consumers, a significant role for internal city consumers for they use the city as their residence, the possibility of survival, a place for different adventures and basis of their development. These includes all specifics of residence, education, recreation and all supporting

services, required for a demanded level of city living. How the city faces all these categories reflects the values that city stands for. Marketing of a city by using a city brand to which certain planned and during development recognized values are related, co-creates an attraction for both, existing and potential stakeholders. We find the following existing and potential city attractions: (a) investment, (b) migrations and (c) living conditions, (d) economic development, (e) tourism and recreation, (f) culture, (g) education, (h) science and (i) others (Pompe, 2012). Regardless in what shape a certain city is, it at a certain moment reflects a specific perceptual feeling. This is just because it has its own pulse and its own self (Savitch, 2010). Cities are entering the competitive market with their own "offer". The city as a complex corpus can satisfy demands of numerous different stakeholders and can therefore, find for each of them a specific meaning and sense. Each of them can get an answer to their demands and can get fulfillment and satisfaction.

The quality of urban space is getting more and more important and its dimensions are multi-layered. Each of these layers functions and communicates in a specific way. The consequence of them is a perception that a city stakeholder holds are also determined by perceived values Urban space, in the cities that are aware of their mission and need of competitive positioning, is designed and shaped in the way that it fits as close as possible to human needs. These are both, material and immaterial. Immaterial adjustments reflect through perceptions of city products. Communicated values strongly affected these perceptions. Immaterial city dimensions encompass immaterial goods that city delivers and are part of city equity – added-value that a city brand delivers. (Merrilees, Miller & Herington, 2011). Adjustment of urban space according to expectations of city stakeholders has an extensive influence on growth and flowering cities. All these has an important impact on city status and market position. Today, cities are getting more and more aware of this fact but the question is whether Slovene cities are aware too.

Soft strategic factors

Cities possess features of the »universe«, they incorporate numerous different elements (Okano & Samson, 2010); their character is cosmopolitan. A more holistic description of a city brand as a competitive corpus was described by Papp-Vary (2011). In defining a city brand, he used Anholt's model City Brand Hexagon (Anholt, 2006), suggesting six key measures:
- city position and its status – general recognition and reputation;
- urban space, delivering living environment, cleanliness and attractions, architectural and urbanism solutions;
- (residents and living necessities – basic city qualities (living conditions, health, education, transport, recreation and sports);
- residents and their behaviors, warmness, kindness, openness and culture;
- (pulse – attractions, new discoveries, novelties, socializing, lifestyles;

- city potentials in the field of business and education.

All listed soft factors reflect the quality of living and working environment, culture and residential supply at the location, safety, visible attractions, moving speed and comfort. The result is achieved city reputation and its uniqueness (Pasquinelli, 2013). The more a city is capable stand put with its perceptive uniqueness the stronger is can beat the competition. The more a city is recognizable by its advantages, the stronger is its brand (Parkerson & Saunders, 2005). The consequence is better image and respect in the eyes of stakeholders – investors, non-governmental organizations, suppliers, designers, merchants and storekeepers, tourists and residents. Different stakeholders have different expectations from the city. The relevance of each of these fields is broad. Multilayered city contents allow inside identification of residents and daily uses of a city. This can reflects in loyalty and expressions of pride and belong and allows a multi-cultured community to personalize with the city.

City perceptional dimensions

Each city has its own perceptual dimensions. With help of perception, people translate sensory impulses and stimulus in a coherent and unique view on the city around them. These perceptions, in fact, define reasons why somebody lives in a city. Perceptual dimensions have an impact on establishing of certain city and its brand position in the eyes of its stakeholders. The more these perceptual dimensions differ and gain the status of uniqueness, the better the position of a city and its brand. The focus of the article is perceptual dimensions of residents and visitors, divided into two distinctive dimensions: a) the one that affects rational perception, and b) the one that has the influence on emotional perception. We can observe a city as a story, as a pattern of relations among groups of people, between production fields, distributional space, and physical shapes. Everything connects to a multitude of decisions and multitude of conflicts. I conducted the research of five Slovene cities on basis of relevant and adequate collection of values. Cities differ to each other on basis of how we perceive them. Because perceptions affect a) values connected to the city, b) attributes that can be ascribed to cities and, c) recognized profiles of personalities that are characteristic of the cities, a unique research method was used (Tuškej, 2015). I studied brands of Ljubljana, Maribor, Celje, Koper and Nova Gorica. For the needs of this paper, we are processing values.

Values study

Value as a concept, characteristic, paradigm or problem has always been a subject of study and interest of all scientific research fields. It is a matter of anthropology and observes the man and his attitudes towards a) other people, b) phenomenon in the environment, c) thinking patterns, d) points of different views towards the world as whole and creations of nature and man. Values are results of perceptions of surroundings, life experiences, upbringing, and education. Emotional perceptions, coming from environment

and experiences, mostly shape values. They are beliefs of goals and phenomena that we respect most. We can consider them as a kind of living guides that direct our interests and in many occasions behavior. We consider them as categories of phenomena that we appreciate or beliefs of what is good or what is bad and for what is worth to strive. (Internet 13). As Jan Musek says, values also influence mental welfare (Musek & Strniša, 2005). Because of theirs, dimensions values are an extensiveness important connector to man's decision making. (Musek, 2002).

Values study bases on a principle where respondents ascribe single values to brands. Only a single value they can ascribe to just one brand, to the brand for which they believe a chosen value is characteristic. For finding out what is the brand core, it is crucial to recognize the density of values, space where most values gather. Our research BPS (brand perception study) has a decade and a half of successful proofs and it has established that already after some dozens of completed questionnaires, the results do not change significantly. This establishment led us to the recognition that there is no need for a big research sample. Similar happened with research of values of city brands of Slovene cities.

METHODS

Brand Perception Study and focus on values

It is a necessary for a city brand that its strengths base on quality of internal perception (Giblin & Amuzo, 1997). Therefore, my focus were internal stakeholders, residents and city visitors. I measured city brand perceptions with Brand Perception Study tool which is the first professional research tool for performing perception studies of brands (Tuškej, 2015). The usage of the integrated platform allows creations of tailor-made research, data collection, results analyzing that enables clear presentation (also by using images) to interested publics. BPS helps and allows discovering of the brand reality in the eyes of stakeholders and defines brands position on the competitive map. The brand position is determined via its core characteristic, values, and personality. The article focuses on values of city brands of researched Slovene cities.

Values linked to city brand

City values have an important impact on perceptive city value. The city is a kind of a story, a pattern in people interrelations, among production and distribution spaces and physical forms. Everything relates to the multitude of decisions and multitude of potential conflicts. Values imprint all these metaphors. A city with a strong brand has clear and positive values approved and lived with by residents and visitors. Values affect all stakeholders and create attractions for everyone, for instance, a private-public partnership for investments or for tourists to visit the city. Every feeling that arouses when facing a certain phenomenon is always connected to

experiences with values. That means that feelings are a consequence of certain values.

**Perception study of five Slovene city brands**

Criteria for establishing competitiveness of brands can differ. We can originate from brands market shares or shares of stakeholders; criteria can also be the congeniality with brands considering their position among users. Brands can compare according to technical characteristics in the assortment of products under a certain brand or according to the average price of products in the category. We link these data and analyze them. Therefore, a logical answer is obtainable for the question: who is the real competitor among all competitors. Study bases on theses that a) researched cities compete, b) that they do not know their competitive advantages and do not know their position in existing competitive environment. I am not observing city brands on basis of comparing them but on considering where and what are their main characteristics, what makes them different, what are their strengths and weaknesses and how do their profiles look like.

Research data

We realized the research by using a web application, developed in marketing agency Formitas d. o. o., Ljubljana, Slovenia. Respondents were coming from all five researched cities, providing necessary research balance via equal shares integrates into researched samples. From each of cities fifteen respondents were selected, plus, fifteen from other areas in Slovenia. In whole, the research integrated ninety respondents what fulfills the conditions of BPS study that in years of several usages and testing proofs no need for larger numerus. The only condition for a limited sample was that respondents were strongly familiar with their brand.

The survey captured five Slovene cities that were in research defined as city brands. For it was impossible for all of them to identify unambiguous and characteristic identity I used their city coat-of-arms. Some of them are a very good base for creating a strong and recognizable iconographic starting point for creating an attractive and convincing visual identity. Respondents were, besides five city brands, also offered the sixth possibility called "none of the discussed cities". The researched city brands embody official coat-of-arm (figure 1):

Figure 1: City brands included in research
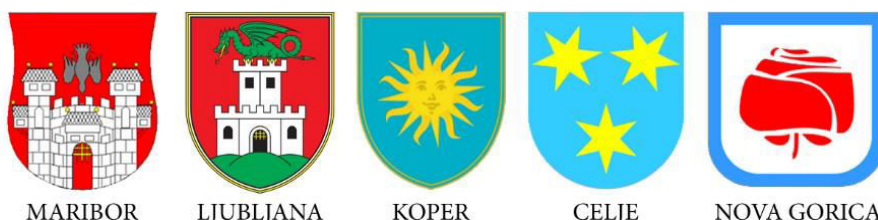
When selecting values we chose: a) intrapersonal (personal) and interpersonal (social) values (Rokeach, cited in Temeljotov Salaj & Zupančič, 2006, p. 38) and b) terminal values (goals) as well as instrumental values (means). All chosen values relate to interactions between city stakeholders and city as uniform but a complex brand. Both, positive and negative values were selected, what enabled polarization of opinions. The following values were included: active, ambitious, no criminal, carefree life, ingenuity, socializing, audacity, equality, harmony, with inspiration, sincere, charisma, conflict, creative, cultural, beauty, tranquility, silence, tension, irresponsibility, danger, modern, admiration, charming, responsible, open, optimism, development, friendship, authentic, rational, entertaining, neat, tidy, old-fashioned, self-sufficient, harmonious, natural, clean, respect, relaxed, happiness, freedom, comfort, dirty, refined, arty, kind, obliging, irrationality, harmonic, loyal, upbeat, exciting, progressive, health, knowledge, science, pessimism, nervousness, noisy, family friendly, and individual (Pompe, 2015).

Position and competitive positioning of city brands

To specify competitive positions of studied brands we used correspondence analysis, described as »multivariate method of data processing, intended to display interconnections of in multidimensional tables«. (Rovan, 2006). In our case, we used two-dimensional contingency tables. »By usage of correspondence analysis tables morphs in graphs that together with belonged numerical indicators mean the basis for content analysis of researched phenomenon. The position of dot in graph reflects connection between two phenomena. Dots in graph, that are positioned close to each other represent combinations that appear more frequently than in situations when between two phenomena is no connectivity.« (Rovan, 2006) Correspondence analysis has shown as an ideal tool to analyse perceptions of brands and ascribed values, attributes and personality features, for it allows graphically clear interconnections of ascribed elements. From created perceptual map, we can discern how individual brands differ according to a single studied variable; or which are those elements that are most characteristic for an individual brand or what is the interconnection among brands and a single studied phenomenon. (Tuškej, 2013).

FINDINGS

Perceived city quality

Perceived city quality is an answer to a question saying: which of the researched cities has most positive, average and negative ascribed values. This is how we obtain a measure to evaluate which of them possesses more or less quality. Research focused on (a) terminal values and (b) instrumental values, and the examination how much they interact between city stakeholders and city itself as a unique but complex brand.

The results were not promising. Poor results are not only a consequence of small percentages of positive ascribes (exception is brand Ljubljana with 30 % positive attributes) but also because of high percentage of ascribed negative attributes and values. Among all brand Celje is considered as worst counting 30 % of negative ascribes, followed by brand Maribor (34 % positive ascribes) and brand Nova Gorica with some less than 25 % of negative ascribes (36 % positive ascribes). Closest to brand Ljubljana is brand Koper that has one fifth of negative.

If we exclude positive ascribes of attributes and values, the picture of researched city brands perception changes and the differences became less specific. The calculation of indexes is based on calculating shares of each city brand positive ascribes divided with the share of all positive ascribes of all city brands together.

Figure 2: Number of ascribed positive values to city brands Ljubljana, Koper, Celje, Nova Gorica and Maribor
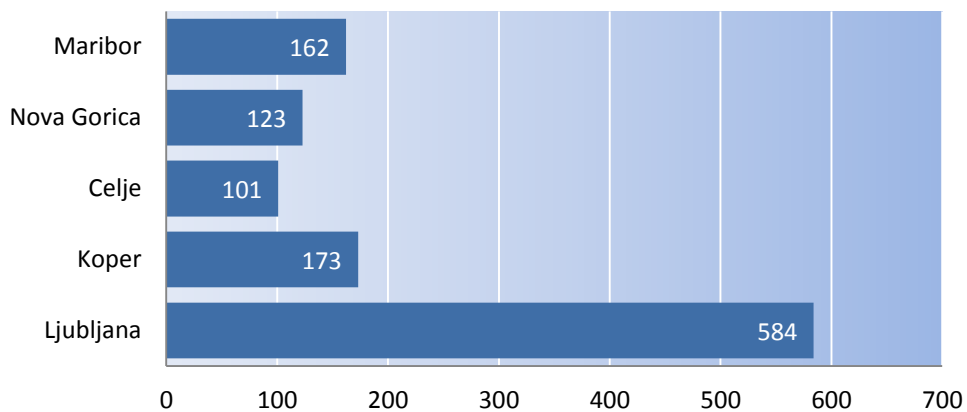
Source: Pompe, 2015.

However, brand Ljubljana is standing out with index 120. According to criteria of quality this positions it over the average rate of positive ascribes. The worst position has brand Celje, close to average rate own Koper (I = 92) and Nova Gorica (I = 88), a bit worse is positioned brand Maribor (I = 85).

Quality level of values ascribed to city brands Ljubljana, Koper, Celje, Nova Gorica and Maribor

One of the three important elements for determining the quality position of brands are values that respondents ascribe to a certain brand. Which of the studied brands possesses more qualities according to ascribed values? According to a number of positive ascribes again brand Ljubljana is superior. With help of communications, urban design solutions, relation to residents and environment, culture and security it has managed to create numerous positive values.

Values, ascribed to individual city brands

Ascribed values are one of the components that define the focus of a researched brand. The results of study introduced a clear picture of how much focus each of the researched city brands has on gaining its desired position. The brand focus bases on the analysis of all three contents of the study: ascribed attributes, values and personality features. This paper focus values.

Brand Ljubljana

Among all, the following five are the most frequently ascribed values:

knowledge and science   91 % ascribes

art   73 % ascribes

active   71 % ascribes

culture   63 % ascribes

fun   63 % ascribes

   Beside mentioned there are also some others positive values, all in the similar percentage zone (55 % to 63 % ascribes). These values are ahead of time, socializing, ambitious and refined.

Brand Maribor

Among first five values, we find next:

conflictive   38 % ascribes

tension   33 % ascribes

pessimism   33 % ascribes

authenticity   28 % ascribes

friendship   23 % ascribes

   In the same percentage zone (from 22 % to 23 % ascribes) we find beside positive also negative values (likewise among first five). These values are devotion, nervousness, old-fashioned and socializing.

Brand Koper

Among first five values, we list the following:

relaxed   31 % ascribes

carefree life   29 % ascribes

cheerfulness   27 % ascribes

optimism   23 % ascribes

harmony   23 % ascribes

In the same percentage zone (from 18 % to 22 %) we find next values: health, daring, freedom, thrill and authenticity.

Brand Celje

Among first five values, that define value focus, are:

old-fashioned   31 % ascribes

boring   28 % ascribes

rational   17 % ascribes

tranquility and silence 14 % ascribes

natural   14 % ascribes

The closest percentage zone includes also values: family, sincerity and close to me.

Brand Nova Gorica

Out of all ascribed the following five stand out:

boring   29 % ascribes

tranquility and silence 28 % ascribes

opened   21 % ascribes

family   21 % ascribes

friendship   18 % ascribes

In the same percentage zone, we find also value clean.

Position and competitive positioning of city brands Ljubljana, Maribor, Koper, Celje in Nova Gorica

Data, analyzed and represented with correspondence analysis, are the basis for conclusions of how strong and of what type is competitiveness between brands. It also gives a great help when preparing brand profiles and theirs core perception. Very important is also the possibility that by using

correspondence analysis we can define the most relevant content that would define the strategy of a certain brand.

Positions of city brands Ljubljana, Maribor, Celje, Koper and Nova Gorica according to ascribed values

Correspondence analysis gave us groups of values that are grouping according to their similarities. From perceptual maps we can see discern density of different types of values.

  In right-upper part of the map group values of »interruptions« that are stressing interrupting social, environmental and managerial elements (dangerous, dirty, xenophobia, irrationality, wastefulness, nervousness, etc). In right-down part gather so called »status quo« values that have no affinity to changes (boring, family, natural, old-fashioned, tranquility and silence, pessimism, friendship, etc). On the other side of map we can find values of »progress« as drivers of overall development (culture, art, knowledge and science, ahead of time, etc), in the middle are values of »optimism« that stress bright look in the future (creative, modern, developing, trilling, upbeat, etc) and finally, middle-right values of »selfness and empathy« find their place (health, respect, harmony, orderliness, etc). Positions of city brands on perceptual map shows their strong and clear connection to certain groups of values. The clearest, focused and unambiguous position has city brand Ljubljana, Celje and Nova Gorica. Brand Ljubljana is surrounded by values of »progress«, while Celje and Nova Gorica are traditional. Brands Koper and Maribor are on crossroads of »optimism« and »selfness and empathy« values. None of the brands has a vivid negative position.

Figure 3: City brands competitive position according to ascribed values
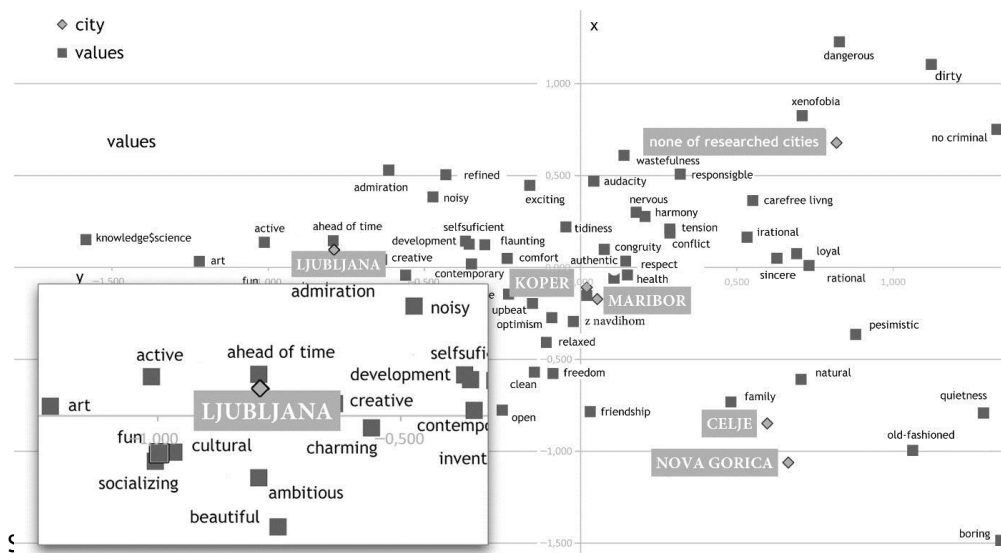
CONCLUSIONS

Generally, cities offer similar conditions for living and are functioning in similar way but differ with their peculiarities, express themselves with city atmospheres, urban and architectural solutions, historic heritage, economic position, culture and education, create possibilities, provide comparable diversity and create potential for creating impressions of uniqueness. Diversity and uniqueness are the conditions and possibility for a city to create their own position in competitive environment. A significant role in this process play values. This is how they can focus towards points, where they will be able to attract investments, high quality human resources and visitors, and on the other hand, play its unique role in long-term development as creators of city brand perception and high quality consumers of city services. These are the basic things on which a city builds or can build its brand.

Qualitative research showed that differences between city values effect on the position of city brand. Differences between city brands in the eyes of residents and other city visitors displayed their different perceptions. These perceptions base on ascribed values. Results showed significant differences between studied cities and their brands. An important conclusion is also that respondents have been answering on basis of their knowledge about researched brands. It showed up that those brands that are more focused and more active in communications gain a higher degree of perception and therefore a more clear position.

Analysis of ascribed values of studied city brands displayed that brand Ljubljana is the first also in this field of research and that the calculated ratio of values is high over average. The clearest position of brand Ljubljana, perceived by stakeholders, witness values of development and two key assembly attributes – diversity and perspective. Brand Maribor surround values of optimism and relations toward self and other people. Brand Koper is characteristic by values of optimism and inter-people relations. Brand Celje is predominated by values of tradition and »nothing going on« while brand Nova Gorica, like Celje, is positioned in the area of traditional values.

RESOLUTION

City brands Maribor, Koper, Celje and Nova Gorica are unsuccessful in competing with Ljubljana for there are not enough positive or authentic values that would reinforce their market position in right manner. City brand managements of studied city brands will have to put much more efforts if they would like to be successful in the competitive battle in Slovenia as well as in Europe or in other parts of the World. There will be a potent need for more interdisciplinary harmony and more clearly defined vision and mission. Only when this completed it will be possible to step to the right development directions. Discovered negative values are an opportunity for all to make changes in their functioning and focusing on values that will be unambiguously recognizable and properly communicated to life and

communication city space. This will be the proper basis for building a strong city brand.

IMPLICATIONS

The more ascribed positive values a city and its brand has the better is its position and competitiveness. Unsuccessful city brands are results of bad management with intellectual city property hidden in city brand. Principally there is insufficient knowledge in city management about what the phenomenon brand, a city brand is. This became clear because most of the studied city brands are unfocused and substantially unclear what offers numerous opportunities for a city brand, with the usage of known and tested procedures of brand management knowledge, to gain an enviable and unique position in the competitive environment.

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ADVANTAGES AND DISADVANTAGES OF DEPLOYING FREQUENT FLYER PROGRAMS AS IMPACT FACTORS AFFECTING AIRLINE CUSTOMER BEHAVIOR AND RETENTION

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Abstract

As findings for the Asian air travel market show, across all market segments frequent flyer programs can have a positive effect on airline loyalty (Chang & Hung, 2013, p. 29). At the same time, while these customer loyalty programs are in wide use in the airline industry, whether these programs can bestow durable competitive advantage remains debatable (Martín et al., 2011, p. 364). Similarly, studies on customer loyalty programs indicate that, despite their popularity, these programs do not have an unequivocal effect on customer behavior, which is likely to limit their effectiveness (Dorotic et al., 2012, p. 217). Therefore, the impact of frequent flyer programs on behavioral and affective customer loyalty, such as in the form of customer retention, and company performance demands further research, due to lacking scholarly consensus on either the positive or the negative influence of these programs on competitive advantage in the airline industry.

Key Words

Airline industry; frequent flyer programs; customer loyalty; customer retention; consumer behavior.

INTRODUCTION

While customer loyalty and airline choice have been amply researched, customer loyalty in the airline industry continues to be insufficiently understood. Whereas acceptable service standards are likely to represent minimum preconditions for airline loyalty, air flight price levels, in-flight services frequency and frequent flyer programs have been found to be the factors that have a significant impact on customer retention (Suzuki, 2007, p. 1). Despite the widely held theoretical assumption that customer loyalty programs significantly affect consumer behavior, the empirical evidence demonstrating the effectiveness of loyalty programs is relatively scarce, contradictory and inconsistent (Bolton et al., 2004, p. 271).

Despite the wide variety of loyalty programs and schemes, they can be generally defined as the programs that reward loyal customer behavior through continuously offered incentives that encourage repeat purchases. These loyalty programs can take the form of frequent flyer, frequent shopper or point card programs that foster attitudinal and behavioral loyalty, increase customer retention rates and augment the client income share that is spent on products and services (Stone et al., 2004, p. 305). Furthermore, given that, to join these loyalty programs, customers are required to provide detailed personal information, these programs provide opportunities for long-term, targeted marketing efforts that affect purchasing behavior through making discounts and benefits conditional on bonus point accumulation (Palmatier et al., 2009, p. 1).

In the airline industry, customer loyalty programs are deployed, primarily due to unequal profitability potential of different customer segments, high competition levels among airlines offering similar services, and the utilization of similar programs by competing carriers (Demoulin & Zidda, 2009, p. 391). The attractiveness of loyalty programs can be expected to be driven by utilitarian, hedonistic and symbolic benefits that they confer, such as economic savings, personalized treatment and social status (Meyer-Waarden, 2007, p. 223). The continued predominance of regular carriers in the consumer market indicates that low cost airlines likely face marketing, adoption and loyalty challenges related to the varied levels of consumer retention that these airlines achieve (Chang & Sun, 2012, p. 15).

Customer loyalty and frequency reward programs have long been recognized as important drivers of customer retention and purchase likelihood, due to their contribution to relationship marketing. Frequent flyer programs offer loyal customers tangible and intangible rewards, such as free flights, after they accumulate a sufficient number of service use points, such as travel miles (Meyer-Waarden, 2008, pp. 87-88). At the same time, in many cases loyalty programs can represent significant liabilities for companies offering related customer rewards, due to their management and benefit costs. It could be advisable to terminate ineffective customer loyalty programs, as some corporations have done to reduce their operations costs (Meyer-Waarden, 2007, p. 223).

Therefore, the influence of frequent flyer programs on customer retention in the airline industry demands a meta-analytical examination that this paper presents from a managerial point of view.

LITERATURE REVIEW

After being first introduced in the early 1980s frequent flyer programs have since been adopted by all major carriers in the airline industry, while enjoying over 90% membership rates among business travelers and with overall membership ranks upwards of 120 million around the world (Hanlon, 2007, p. 86). Within the framework of frequent flyer programs, their members accumulate bonus points related to distances they travel, fare prices they pay and the number of flight bookings they make (Gudmundsson et al., 2002, p. 409).

At the same time, within their frequent flyer programs airlines usually provide higher rewards to business-class customers per mileage traveled, so that business-class flight tickets are likely to earn significantly more bonus points than economy-class ones. Border-crossing alliances between airlines and online reservation systems make it increasingly possible to transfer award points between different frequent flyer programs and to take advantage within their framework of local retail, hotel accommodation and vehicle rental discounts (Gössling & Nilsson, 2010, p. 243).

The associated status points that are used for upgrading one's membership level can usually be earned through travel mileage on selected routes, such as intercontinental flights, and hotel stays at a restricted list of hospitality establishments. Since these customer status upgrades are more accessible to business-class, rather than economy-class, passengers, airline companies reward through these programs high-spending clients, while increasing the frequency of their air travel, especially given that in many cases status points have set expiration dates. This can prompt flight purchases primarily motivated by the consumer desire to maintain membership status or to take advantage of the conditional benefits it affords (Thurlow & Jaworski, 2006, p. 99).

In other words, frequent flyer programs are highly likely to have a significant effect on airline choice among business travelers, due to their mobility-stimulating influence on travel, consumption and route preferences. Thus, traditional airlines with highly developed networks of air travel hubs offering lounge services and connection flights can be expected to derive higher utility from frequent flyer programs, in terms of ticket booking volume and frequency, than low cost carriers that may not necessarily be able to offer comparable membership benefits, due to their limited-service business models. Additionally, the impact of customer loyalty programs is likely to be less pronounced among economy-class travelers, since this passenger group can be expected to either pay more attention to airfare prices or accord less importance to social status connotations than business travelers (Gössling & Nilsson, 2010, p. 250).

The importance of frequent flyer programs for the airline industry primarily derives from its unstable profitability, due to the cyclical nature of the demand for its products and services that can vary on a seasonal, weekly and daily basis. In the airline industry, numerous carriers make efforts to use frequent flyer programs for strengthening their market position. These frequent flyer programs are deployed not only due to their expected effect on customer choices, but also due to the opportunities they provide to retain particular customer groups, such as business class travelers (Taneja, 2003, p. 1).

On the one hand, targeted conditions on the use of frequent flyer benefits can be imposed, which can increase the economic benefit that airlines are likely to derive from loyalty programs, as many customers can be expected not to redeem their frequent flyer miles (Martín et al., 2011, p. 364). On the other hand, due to the association between frequent flyer programs and social status, the behavioral effect of higher customer loyalty levels they are aimed to have, as marketing programs, is likely to be restricted to business travelers, since they are less price-sensitive than other airline passenger groups and have relatively inelastic demand for airline services (Klophaus, 2005, p. 348).

THE ADVANTAGES OF FREQUENT FLYER PROGRAMS

Frequent flyer programs may be expected to affect airline choice, given that these programs enable airlines to establish long-term relations with their customers. In this respect frequent flyer programs are likely to be similar to customer loyalty programs in other market sectors that are deployed by companies as part of customer relations management strategies that are expected to lead to higher levels of brand loyalty, customer retention and purchase intentions (Bolton et al., 2004, p. 271). In other words, loyalty card programs are widely implemented by different company types as means for improving customer satisfaction, affecting consumer choice and developing customer relationships. As firms seek to have more enduring relationships with their clients, customer loyalty programs are, thus, perceived as an effective impact factors able not only to stimulate purchase intentions, but also to encourage repeated service usage or product buying behavior (Oliver, 2010, pp. 442-443).

Moreover, customer loyalty programs introduce economic and psychological switching costs that severing the relationship with the company will entail, since the aim of these programs is to encourage repeat purchase behavior via making customer rewards conditional on buying-related point accumulation. Since customer loyalty program points, such as frequent flyer miles, cannot be transferred to another company, these programs make switching to another service provider or product seller psychologically, economically and socially costly (Kivetz & Simonson, 2003, p. 454). Thus, these loyalty programs contribute to the creation of behavioral loyalty toward companies, since their customers relate loyalty program rewards and discounts to feelings of achievement, special customer status,

and identification with the organization. Therefore, loyalty programs are likely to be particularly beneficial for product or service providers, such as airlines, in competitive industries with interchangeable suppliers (Bhattacharya & Sen, 2003, p. 76).

Customers joining loyalty programs based on their initiative have been found to exhibit higher levels of purchase intentions, consumer expenditure and relationship duration (Datta et al., 2015, p. 217). Furthermore, empirical findings suggest that an automatic enrollment of customers into cost-free loyalty programs may contribute to higher levels of behavioral intentions, since program benefits can reinforce customer relationship with the company by providing relational, psychological rewards. In other words, reducing the threshold for loyalty program enrollment does not necessarily lead to lower effectiveness levels of customer loyalty programs (Dholakia, 2006, p. 109). Customer loyalty programs represent, therefore, marketing systems that companies deploy in an effort to increase their customers' behavioral loyalty by developing long-term, personalized, and customer-oriented relations with existing and prospective clients (Meyer-Waarden, 2007, p. 223).

At the same time, in many cases firms target these programs at customer groups that are most likely to respond to purchase incentives, engage in repeated consumption activities, and value individualized services or products (Meyer-Waarden, 2007, p. 224). In other words, customer loyalty programs serve as extensions of direct marketing and company-client communication, while making possible a differentiated treatment of particular customer groups on the basis of customer behavior information that is accumulated with the help of loyalty cards. However, this augmented ability to discriminate between customers and make individualized marketing offers is likely to depend for its effect on the extent to which companies can customize their products and services and provide premium services (Yi & Jeon, 2003, p. 229).

Furthermore, for frequent flyers the economic switching costs of loyalty programs are not likely to play a significant role, since their ticket purchase volumes allow them to meet reward criteria with relatively little effort. Likewise, for infrequent flyers customer loyalty programs can be expected to be relatively unimportant as factors influencing airline choice, since they rarely accumulate sufficient frequent flyer points to qualify for program rewards. This makes this customer group also insensitive to switching costs (Hartmann & Viard, 2008, p. 109). Thus, loyalty programs are most likely to be effective among moderate and light buyers of airline services both in the short and the long term, especially since frequent flyers tend to already reach their maximum purchasing capacity, which limits their ability to increase their usage levels of air travel services (Bolton et al., 2000, pp. 106-107). This consumer market segmentation has important implications for airline profitability, since frequent flyers with high loyalty levels are more likely not only to respond to ticket price promotions, but also to redeem their card membership rewards than other customer groups. By contrast, airline customers with light to moderate service purchase frequency are most likely to respond to loyalty program incentives with higher sales volumes.

However, these market segments are oftentimes underestimated as potential sources of company profitability (Cortiñas et al., 2008, pp. 52-53).

Given the desire of companies to maintain relationships with both price-conscious and price-insensitive customers, the relationship between frequent flyer programs and customer loyalty is not necessarily likely to be positive. This follows from the challenges that attend the efforts of companies to broaden their customer base without significantly lowering the prices of their goods and services. Emphasizing the psychological gratification value of the rewards that customer loyalty programs offer still demands minimizing the costs that the latter involve. This indicates that frequent flyer programs have both advantages and disadvantages (Meyer-Waarden, 2008, p. 89).

These findings indicate the importance that tailoring frequent flyer programs to different consumer market sector has for airline profitability, especially since in saturated markets the overall impact of loyalty programs on aggregate consumer behavior can be limited (Lacey, 2009, p. 392). In terms of empirical research, studies inquiring into the effectiveness of frequent flyer programs may need to control for the influence of the self-selection bias on consumer behavior by sampling both loyalty program members and customers that are not enrolled into airline card programs, in an effort to ascertain whether significant differences in purchase frequencies and volumes between various customer groups exist (Liu & Yang, 2009, p. 106).

Thus, across different airline customer groups, the positive effect of loyalty program membership can be expected to be relatively limited. However, since previous studies have used a wide range of consumer behavior indicators, such as retention rates, behavioral intentions and customer expenditures, there is a need for additional research into the effectiveness of loyalty programs in view of divergent empirical findings (Verhoef et al., 2007, p. 105). This is closely related to the opportunities for personalized marketing that loyalty programs offer, since their member profiles based on purchasing behavior enable a narrow targeting of promotional offers and communication strategies to specific customer groups. Furthermore, directing preferential customer treatment to particular market segments can increase the effectiveness of loyalty programs as long-term relationship building mechanisms that can be expected to reinforce behavioral loyalty (Melancon et al., 2011, pp. 341-342).

THE DISADVANTAGES OF FREQUENT FLYER PROGRAMS

Some studies have indicated that loyalty programs have no effect or a weak influence on customer behavior (Meyer-Waarden & Benavent, 2006, p. 61). Recent studies indicate that the benefits of loyalty programs lose their direct effect on customer behavior shortly after customer enrollment (Meyer-Waarden & Benavent, 2009, p. 345). The effectiveness of loyalty programs can also suffer from perceived costs they involve, such as the purchase frequency pressure they may introduce or access to personal data they

might require. Likewise, in some cases companies make loyalty program enrollment conditional upon meeting qualifying criteria that can incur additional, retroactive costs for customers, whereas in other cases loyalty programs are openly accessible, which can have a significant effect on their perceived costs (Demoulin & Zidda, 2009, p. 391). At the same time, personalized marketing strategies might entail economic costs if they become perceived as discriminatory or unduly favorable to particular customer groups, such as new program members. Therefore, loyalty program design may significantly affect both the attractiveness of these programs and their influence on customer behavior (McCall & Voorhees, 2010, p. 35).

It cannot, therefore, be ruled out that loyalty programs that demand from their customers a financial commitment in the form of enrollment fees or purchase volume can be unsuccessful in increasing customer retention (Datta et al., 2015, p. 217). Frequent flyer programs penalize their members if they fail to achieve certain travel frequency targets by making their benefits, such as faster check-ins, free tickets and discounted service upgrades, conditional on accumulating particular mileage or bonus point amounts above airline-defined threshold values. Therefore, these practices can also decrease the influence of customer loyalty programs on airline selection, especially if their award points can be used for other consumption choices, such as restaurant dining or daily shopping, and vice versa, and if customer benefits, such as discounts, for retail purchases done with program-associated companies exceed those for air travel reservations (Löfgren & Carlsson, 2004, pp. 1-2).

Prior studies have indicated that in general satisfaction and loyalty levels among airline customers are relatively low (Gilbert, & Wong, 2003, p. 519). Additionally, there is mixed empirical evidence that customer loyalty schemes have a significant impact on consumer behavior. This could be due to the difficulty of changing existing purchase behavior patterns with the help of loyalty program benefits, especially in competitive markets, such as the airline industry, due to a widespread imitation of successful loyalty programs that can increase marketing costs without producing a positive change in buying behavior (Meyer-Waarden & Benavent, 2006, p. 61).

While loyalty programs are theorized to act as behavioral reinforcement factors that reward company patronage, this effect can, however, be conditional on utility-cost calculations that are likely to be dissimilar for different customer groups, while limiting the positive effect of loyalty programs on customer retention rates (Kivetz et al., 2006, p. 39). Whereas holiday and business travelers have been found to be equally influenced in their airline choice by airfare prices and flight time, research findings indicate that for leisure travelers frequent flyer programs are significantly less important than for business travelers (Hess et al., 2007, p. 221). Moreover, new market entrants increasingly compete with traditional airlines in the business travel sector as well, such as on transatlantic flights between London and New York, by offering boutique travel services, such as upscale seating configurations and in-flight offerings (Seo et al., 2015, p. 126).

DISCUSSION

Given the growing presence of low cost carriers in the air flight market, airline customers may increasingly switch their loyalty to these carriers. Given the multiplicity of factors that affect airline customer choice, for both full-service carriers and traditional airlines the disadvantages of offering frequent flyer programs, such as their attendant costs, may not necessarily be offset by their putative advantages related to ensuring customer retention and increasing their purchase frequency and volume. This is corroborated by the mixed empirical evidence on the effectiveness of frequent flyer programs (Bolton et al., 2004, p. 271). For airlines, the primary value of frequent flyer programs appears to lie in the opportunity to provide personalized services based in customer preferences and characteristics the information about which is stored in membership profiles, while imposing psychological switching costs related to the perceived social status these programs provide and economic switching costs related to the foregone bonus points that customer accumulate (Palmatier et al., 2009).

  While the air flight market is likely to be similar to other market sectors, where loyalty programs significantly decrease the likelihood that customer will switch between service providers (Meyer-Waarden, 2008, p. 87), the high and growing competition in the airline industry may limit the contribution of frequent flyer programs to company profitability. Nevertheless, frequent flyer programs can still be important in affecting the selection of airport and in-flight services, since point-related discounts can make particular choices, such as upgrading airplane seating type or using pre-departure lounges, more affordable than otherwise (Thurlow & Jaworski, 2006). As between-airline price competition grows, the psychological switching costs that frequent flyer introduce are likely to be their primary advantage, while their negative economic impact on airline revenues represents their disadvantage for airlines that may not necessarily be able to forgo these programs as potential instruments of customer retention (Meyer-Waarden, 2007; Taneja, 2003).

  Frequent flyer programs can have influence not only on consumer choice between airlines, but also on the range of products and services that individual customers purchase. While the influence of loyalty programs on customer behavior can prove to be limited in its short- and long-term effectiveness among frequent service users, these programs can increase brand patronage levels, especially for low frequency service users (Liu, 2007, p. 19). In other words, despite the limited evidence on the behavioral effectiveness of loyalty programs in terms of customer retention in the airline industry, not offering these programs altogether can represent a disadvantage for airlines, due to the impact these programs have on long-term affective customer loyalty. Likewise, the utility of frequent flyer programs to airlines might be limited, since their lock-in effect on airline customer behavior across different customer groups may be relatively weak (McCaughey & Behrens, 2011, p. 1). Therefore, airlines can be advised to assess the advantages and disadvantages of frequent flyer programs

separately for different customer groups while flexibly adjusting their characteristics to customer profiles (Kivetz et al., 2006).

CONCLUSIONS

The interrelationship between the frequent flyer programs and their either positive or negative effect on customer loyalty and retention in different market segments only begins to receive research attention, especially in the framework of comparative studies that explore the interrelationship between these variables in relation to both traditional, full service airlines and low cost carriers. Therefore, whether strategically targeted frequent flyer programs can provide a significant competitive advantage to legacy carriers in their effort to maintain their market share remains uncertain, as the entry of low cost carriers into the airline industry may reduce the economic costs of switching between airlines that loyalty programs aim to increase (Seo et al., 2015).

Thus, the interrelationship between frequent flyer program membership and airline preference is likely to be insignificant. This may lead airlines to target these customer loyalty programs to market sectors that are most likely to generate revenues, such as medium-frequency flyers, that can compensate for the extra costs that premium services offered to frequent flyer program members involve (Martín et al., 2011, p. 367). However, legacy carriers that have traditionally been pursuing marked differentiation strategy emphasizing frequent flyer programs may need to be alerted both to their advantages and their disadvantages, since they have inflexible cost structures and can offer competitive airfare prices on particular routes only, such as short haul flights (Seo et al., 2015).

Therefore, future studies can be recommended to consider not only the expected benefits of frequent flyer programs, but also their increasingly unsustainable drawbacks, in light of empirical evidence. While this paper relies for its conclusions on secondary sources, its meta-analytical importance lies in the managerial implications that the examination of the state-of-the-art of scholarly literature leads to.

IMPLICATIONS

The managerial implications of this paper are that providing tiered frequent flyer programs that are targeted to different customer groups by offering service-related benefits rather than price discounts could be the most optimal business strategy to deploy by both traditional and low-cost airlines. If the empirical case for the effectiveness of frequent flyer programs cannot be made unequivocally (Bolton et al., 2004), the cost of program-related discounts may not be recouped through higher sales volumes that customer loyalty programs are expected to lead to.

Additionally, frequent flyer programs may be marginally important for both frequently flying high-spending individuals who are likely to accumulate

bonus point relatively fast and rare flyers that may base their decisions on route availability and cost considerations. Thus, frequent flyer programs may need to be primarily targeted at moderate-frequency flyers the airline choice of which may be swayed to a greater degree than that of other customer groups by a combination of social status connotations, point accumulation-related bonuses and service personalization. More prestigious membership ranks, such as gold or platinum frequent flyer cards, can also serve as targeted marketing channels for products and services that high-income individuals may be interested in obtaining (Gössling & Nilsson, 2010).

Furthermore, given the primarily psychological importance of frequent flyer programs for customers, in terms of their relationship with airlines, the economic value of the bonuses that these programs offer can be recommended to be reduced, in favor of providing more customized pre-departure and in-flight experience. As part of that, marginal discounts redeemable for bonus points can be offered, in order to expand per-customer purchase volume, rather than provide loyalty program-related airfare price discounts outright (Meyer-Waarden, 2007).

Thus, airline managers can be advised to increase and emphasize the symbolic value of frequent flyer programs by emphasizing the purchasing behavior of different customer groups, such as additional services for business-class travelers that loyalty programs can make more accessible. Additionally, cost-free membership programs can be expected to be associated with profitability-related advantages, since through these programs customer relationship can be developed with a wide range of customers ranging from infrequent, low-income customers to business-class frequent travelers. This could especially be the case for cost-conscious customers that airlines can be expected to retain to a higher degree if they reduce or eliminate the barriers for frequent flyer program enrollment (Datta et al., 2015; Dholakia, 2006).

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ANALYSING THE IMPACT OF FINANCIAL MARKET DEVELOPMENT ON ECONOMIC GROWTH (GHANA)

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Abstract

The development of capital markets has become very crucial for government officials as a new tool to boost economic growth. Indeed, the desire of every government or any focused entrepreneur is to embark on a massive capital intensive projects which however lack the needed financial muscles thereby shifting attention to the capital market to mobilize funds for such purposes. This paper seeks to explore the impact of capital market development on economic growth using a time series panel data spanning from the period of 1991 - 2014. In the study we used stock market (market capitalization) and venture capital funds to represent the capital market and the Gross Domestic Product (GDP) for the economic growth. In terms of data analysis, only the stock market proxy by market capitalization is used to represent the capital market whiles narration was done on the venture capital.

Key Words

Capital market; economic growth; Ghana stock exchange.

INTRODUCTION

For every economic boom of a country, it is mostly rest on the financial deepening in the country's financial systems. As Kellick and Martin (1990) indicated that raising the pace of development of an economy and its adaptability through conscious approach of savings and investments is a result of efficient financial systems in place. One can clearly point out that the main difference between the rich nations and the poor nations are aligned to the latter absence of adequate financial resources in harnessing the economic resources available. An efficient financial system succinctly provides a base for a country economic take-off. For instance commercial banks institutions being the main repositories of public savings do hold a large amount of term savings in people's retirement and therefore could serve as a conduit in providing financial resources for the embankment on capital intensive projects. The financial sector is generally categorized into the banking sector, the capital market and the non-bank institutions.

The financial market is broadly divided into two groups --- the money market and the capital market. The money market exist to facilitate in trading in short term debt instrument to meet short needs by large users of funds such as banks, government, etc. It is described as a traditional way of funding short term projects and it is operated by major players such as merchant banks, commercial banks, central banks in both private and public. The financial markets help by pooling risks and also optimal allocation of risks and returns. Typical example is the collection of savings from a pool of people and investing them in a large diversified range of projects. A depository institution allows even small savers to take advantage of the law of large numbers and get a reasonable safe of returns.

Capital markets on the other hand mobilize long term debt and equity finance for investment in long term asset. It is the avenues that strengthen corporate financial structure and eventually improve the general solvency of the financial system. By providing risk capital (equity) and loan capital (debt), the capital market create a platform in mobilizing long term savings which serves as capital for investors to finance long-term investment thereby broadening ownership of productive assets. Indeed the result of efficient capital market is expected to promote economic growth and development which will trickle down to the increase of savings rate and the quality and quantity of investment. Without a conscious existence of capital market institutions in place, its efficiency couple with its importance cannot be overemphasized. There must be equitable and functional players in place such as banking institutions, stockbrokers, investment banks, venture capitalist, etc. who would be intermediating between the market and the public; this move would eventually provide a conducive platform or environment for capital market to strive more effectively.

Most scholars have asserted that capital market development spur massive economic growth to the general good of society. However, most managers of the economy –governments and other policy makers have not duly accorded the needed attention to these concerns subject to their own reasons. This project attempt to dig-out relationship that exist between capital market

development and economic growth as has been researched extensively and concluded that an absence effective set of financial institutions in place, productive projects will remain unexploited.

The role of financial market for economic growth, a speech delivered by Willen F. Duisenberg, president of the European Central Bank at the Economic conference in Vienna (on 31st May, 2001) attempted to answer a nagging question; does the financial system matters for economic growth? He emphatically answered YES and indicated that taking into consideration on the cross country comparisons, individual country studies as well as industry and firms level analysis, there exists positive link between the developed financial system and economic growth. Duisenberg therefore entrusted all the European members to make effort consciously in developing their capital market and at large their financial system in order to reap the full benefits the developments bring about.

Dudley and Hubbard (2004) on the topic 'How Capital Market Enhance Economic Performance' elaborated how the capital market enhance economic performance and also facilitate job creation using USA and UK being a model of well-developed capital market compared to that of Germany and Japan which were invariably less developed. The research indicated that the ascendancy of the USA capital market as really improved the allocation of capital and of risk equity throughout the USA market. In overall it has enhanced stability in the USA financial system; and also ability of new companies to raise funds for expansion purposes. In their research, they repeated the same scenario in UK. This initiation translated into the reduction of unemployment rate, facilitated in the revolution of housing finance; reduce the investment volatility in the economy.

THE BACKGROUND OF GHANA CAPITAL MARKET

Prior to the middle of 1990s, Ghana financial system was clouded with repression whereby the government of the day is in total control of financial activities. As Aryeetey, and Nissanke (2001) pointed out that before 1990s the financial system of Ghana was operated under an umbrella of monetary and highly regulated policies all with the aim of supporting the state developmental agendas. In the words of Brownbridge and Gockel (1996) the financial sector policies of Ghana were characterized by several financial repressions which in the end resulted in real interest going negative and sharply with most of the credits channeled to the public sector. These signals prompted the policy makers to change their approach resulting in the financial liberalization which was at that time the new economic and monetary policy brewing in the world financial system.

The concept of financial liberalization became a new paradigm shift to most developing countries as they were strongly attached to succinctly financial repression regime where the administrative framework of financial system was in the whims and caprices of the central government. Due to the undesirable results from the financial repression, various monetary, legal and fiscal policies were promulgated which some include the liberalization of

allocate resources controls on banks, restructuring of insolvent/ distressed banks reforms to prudential supervision and regulations. The following were the acts enacted to provide a smooth take-off of financial buoyancy and independence:
- The Constitution of Ghana (1992)
- The Bank of Ghana Act, 2002 (Act 612)
- The Banking Act, amendment 2007 (Act 378)
- The Non-Bank Financial Institution Act (2008)
- The Security Industry Act, 1993 (Act 333)
- The Central Security and Depository Act, 2007 (Act 733)
- The Insurance Act, 2006 (Act 724)
- The Companies Act 1963, (Act 179)

All these enactments gave room for the private individuals and corporations to fully participate in the financial activities that sprung up in the country.

 The financial liberalization at that time in Ghana coincided with a program adopted by then military government named Provisional National Defense Council (PNDC) in the late 1980s called Financial Sector Adjustment Programme (FINSAP). The aim of the programme was to restructure distressed banks as a result of repression policy and also develop financial and capital markets all in an effort to improve efficiency of financial resources mobilization and credit allocation. As Bawumia, Owusu-Danso, McIntyre,(2008) opined that the financial system of Ghana was profoundly transformed by the help of the joint IMF-World Bank Financial Sector Assessment Programme (FSAP) and its updates in 2003.

  Additionally, the establishment of effective and more proficient capital market in Ghana became more crucial when government concluded that its existence could be the catalyst from economic emancipation or economic development. This foresight led to the promulgation of the Stock Market Act in 1971 with the subsequent of Accra Stock Market. However, the operationalization of Accra Stock Exchange was never materialized due to the unfavorable political and economic environment coupled with lack of political will. Another law was enacted called Security Industry Act 1993 which provided a legal backing to new establishment of Ghana Stock Exchange (GSE) in 1989 as a private company limited by guaranteed under the companies code of 1963. Factually, the Ghana Stock Exchange started trading on 12th November, 1990 and was eventually changed to the public company limited by guaranteed in 1994.

THE STATEMENT OF RESEARCH PROBLEM

Most governments, private sectors and entrepreneurs are always in need of capital (financial resources) to undertake major and long-term projects with long term finances. Additionally, others have access funds in search of business opportunities to invest in. However, the meeting point of these two parties becomes a problem and therefore efficient and effective capital market becomes a fulcrum through which these needs and wants can be turned into opportunities. The problem is how these investors can get the

platform with necessary rules and regulations (liquidity guarantee) to protect their investment and how the entrepreneurs, businessmen and governments also get access to low cost of capital to embark such projects which ultimately contribute to economic growth. To understand the dynamism of this scenario necessitated on this research of how an efficient capital market would contribute to the economic growth of a country.

OBJECTIVE OF THE PROJECT

The objective of the project is to find out if the well-developed capital markets have any significant effect or repercussion on the economic growth using Ghana as a case study. This would invariably open our in-depth knowledge on how developing country like Ghana can maximize the capital market platform for economic take off. In other words, does the well-developed capital market have any trickle effect on the general economic growth?

SIGNIFICANCE OF THE PROJECT

The significance of the project cannot be over-emphasized as a result of its findings and recommendations which would be immersed contributions to the central government, academicians, and players in the financial sector institutions.

  To the governments, the result/recommendations would serve as an eye-opener for policy makers that it is an avenue through which financial resources can be mobilized in undertaking capital intensive projects. Compared to other forms of mobilizing long term financial resources for the prosecution of government projects, capital market becomes the cheapest way of getting such resources.

  One need to satisfy her curiosity about certain assumptions and the result of this project could serve such interest hence the academicians. In fact the project would add to intellectual discourse in academic cycles and also serves as references.

  To the financial institution players, the result of the project would increase knowledge on the need to constantly develop the capital market in order to achieve the desired results.

THEORETICAL PERSPECTIVE OF THE FINANCIAL MARKET IN GHANA

In any buoyant economy, there is an evidence of strong financial resources available which provides as a foundation. A financial resource is accrued from various channels depending on its duration. The capital market provides the best platform for long term financial resources mobilization which eventually translates into economic activities. This chapter attempts to

explain in details the composition of capital market available in Ghana and subsequently relate its impact to the economic growth. Thereafter, reviews of various scholarly articles, journals, publications, etc. Written in this topic area would be provided in order to throw more light on how capital market create avenue for financial resources mobilization in using for long term project financing which invariably contribute to economic growth. In other words, this chapter would provide theoretical framework as well as empirical research findings. Under the theoretical framework, the project would highlight on the various platforms Ghana has so far created in the capital market environment and their usefulness to economic growth. It would deal with each of the capital market elements which include the establishment date, its functions, and how they are contributing to the economics of Ghana. On the empirical literature, the project would delve into the combination of various authors conclusion made and how they arrived in conclusions.

The Ghana capital market

The capital market comes from an umbrella of financial market which in essence plays a critical role in the mobilization of financial resources for long or short term investment through financial intermediation. The financial market composes of money market and capital market. The former facilitate trading in short- term debt instruments to meet short term needs for large users of funds which include governments, commercial banks and other corporate institutions. On the capital markets, it provides long-term debt and equity finance for investment in long-term assets. This helps in strengthening corporate institutions financial structure and also improves the general solvency of the financial system.

The ghana stock exchange

The Ghana Stock Exchange (GSE) was established in July 1989 as a private company limited by guaranteed under the company code of 1963. It was then given a recognition as an authorized stock exchange under the Sock Exchange Act of 1971 (Act 384) in October 1990. The council of the exchange was inaugurated on November 12, 1990 and trading started on the same day. However, in 1994, the exchange was change to public company limited by guaranteed status in April 1994. Celebrating its 25th year of establishment, GSE has created three key markets namely; the Equity Market, Ghana Alternative Market and the Ghana Fixed Income Market. The GSE has facilitated long-term capital for growth and growth with over 2.1 billion Ghana cedis capital raised to the expansion of the Ghanaian economy since its inception in 1990. As in October 2015 GSE has increased its market capitalization to 62.18 million Ghana cedis from 3.05 million Ghana cedis in 1990. In fact, these achievements have indeed created wealth for investors; recording a high returns on their investments as well as wetting appetite for a lot of Ghanaians on the culture of savings. The existence of GSE has also created a lot of professions and professional in the capital market. As in March 2016 forty-two companies were listed on the

GSE. The Ghana stock market composite index (GSE-CI) reached on its all-time high record of 2440.80 in February 2014 and a record low of 940.04 in December 2011.

The Ghana alternative market (GAX)

This is the parallel market operated by the Ghana Stock Exchange (GSE) but with different focus. The GAX is meant for small-medium companies and even accept companies at various stages of their developments including start-ups. As the GSE focus on the already existing large companies, GAX figure out start-ups or small-medium enterprises (SMEs) in providing easier access to long term capital at a relatively lower cost. The Ghana Securities and Exchange Commission require that the total cost of listing should not exceed 5% of the total amount to be raised. The listing fees of GAX is fixed flat amount. This alternative source of investment from GAX improves such enterprises financial positions and also reduce risk and liquidity enhancement. As most SMEs cannot meet the GSE requirements to be listed, a minimum stated capital of 250 000 Ghana cedis is only needed for the application in the GAX market. Other benefits companies enjoy in listing on the GAX are the community enhancement credibility. The general community would become aware of your product and existence thereby boosting business growth.

Economic growth

Economic growth is an increase in a country's productive capacity as measured by comparing the Gross National Product (GNP) in a year with the previous GNP year. It is the increase in the capital stock, advances in technology, massive infrastructure, and improvement in the quality of life and also the high level of literacy. Economic growth of a country is usually indicated by an increase in that country's Gross Domestic Product (GDP). The GDP is an economic model that reflects the value of a country's total output within a specific period of time. It is the country's total value of the goods and services produced by that country over a specific period of time. The cause of economic growth is a multiplicity of factors and the seasons of the country. Economic growth usually occurs when new developments bring about an increased in a country output capacity. For instance, Ghana is known for its quality production of raw cocoa beans. If an investor invest in the economy by setting-up confectionary to add value to the raw cocoa beans for export and also creating employment for the teeming unemployed youth, economic growth has taken place especially when there is an increase in the country's productive capacity within that particular year. In simple terms, economic growth is an increase in real GDP. In other words there is an increase in national output and national income. Economic growth is caused by two main factors:
-   an increased in aggregate demand,
-   an increase in aggregate supply (productivity capacity).

DATA SOURCES, DESCRIPTION AND METHODS OF ANALYSIS

The objective of the project is to analyses the impact capital market development have on the economy of Ghana. It is a quantitative and explanatory in nature. It is quantitative because it would gather all the relevant numerical data so that its examination would be unbiased as much as possible. As Cooper and Schindler (2001) indicated that analyzing the relationship critically among the variables would better explain the needed impact the capital market development has on the growth of Ghana economy. The research employs both descriptive statistical values such as the R square, Adjusted R square, the coefficient and others to test the null hypothesis. In a simple linear regression analysis, the R^2 would determine the correlation between the observed and the predictive values. In other words it would show the proportion of variance in the dependent variable-Market Capitalization (MKC) which can be explained by the independent variable-Gross Domestic Product (GDP). Using this approach would be extremely vital since it would give a clear picture on how the interplay of the capital market functions in total realization of economic growth.

The project employs secondary data collated from the Bank of Ghana (BoG), Ghana Statistical Service bulletins, the Ghana Stock Exchange facts book, Ghana Securities and Exchange Commission database, electronic media and other materials that were deemed necessary. In the sample size, the time-series data were used covering from 1991-2014. As the project seek to uncover the impact or long run relationship of the capital market has on the performance of the economic growth, Ordinary Least Square (OLS) would be applied in obtaining the long run relationship.

The economic growth was proxy as dependent variable by using the constant value of Gross Domestic Product (GDP) while the capital market performance was measured by independent variables to the size of the market being subsumed as market capitalization. The market capitalization is the total dollar market value of all of a company's outstanding shares. It is calculated by multiplying a company's share outstanding by the current market price of one share. The market capitalization is used to figure a company's size as opposed to sales or total asset figures. It is the basic determinant of asset allocation and risk-return parameters for stock and mutual stock funds.

As the composition of the capital market is not only the stock market, other variables would be included in the analysis but not necessarily in the model specification. The project would use solely the stock market data for empirical data analysis while interpreting other elements in the capital market for the general analysis since it is believed that other variables could have greater impact on economic growth.

The tool for analysis is the Excel regression analysis and the E-View as the software programs for the data analysis. First it is important to test the stationary or non-stationary of the data collated so that the parameters for analysis become unbiased. The accuracy of the data would be tested using Augmented Dickey Fuller (ADF) and Phillip Peron (PP). The stationary and

non-stationary of data estimation is extremely important which if not checked; it can be misleading parameter estimating the relationship between the variables. This is done by computing a unit root test which would ensure that the stationary of the data do not change overtime. The unit root test would show at which difference and level would the data become stationary appropriate for analysis. The unit root under the ADF and PP would show the value for the T-statistics with constant C and course and trend; and at various levels: 1%, 5%, 10%.

The project would dig-out if there is any casual linkage or relationship between the capital market development and economic growth. In finding this relationship, Granger Causality test would be computed from the E-View software to examine the direction of the causality. In Granger causality there are two directions for which the research data would give and these are unidirectional and bi-directional. The unidirectional causality occurs when the relationship between the two variables is in one direction while the bidirectional is on both.

In showing how the capital market development impact the economic growth in Ghana on the long-run, the Ordinary Least Square (OLS) regression test would be applied. This would show how the market capitalization has affected the GDP of Ghana. This would inform us the level of significance impact the capital market has on the economic growth. Thus the higher the co-efficient value the better significant impact the capital market has on the economic growth (GDP) of Ghana short run.

MODEL SPECIFICATION

Most researchers have asserted the linkage between the capital market and the economic growth, different methodologies were adopted. This project share the same hypothesis but with different approach. Indeed their studies concluded that capital market significantly influenced the economic growth. If we denote gross domestic product by GDP and market capitalization of Ghana stock exchange, then

$$GDP = \beta_0 + \beta_1(MKC) + \varepsilon \; ,$$

where β_0 is the intercept of relationship or contribution in the model, β_1 is the coefficient of the independent variable MKC and ε is the stochastic or error terms.

RESULTS AND FINDINGS

The project seek to find-out if there is an impact the capital market in Ghana contribute to the economic growth over a period of time. In the performance of this, time series data was used and therefore becomes vital that the variables are made to be stationary. The stationarity of the variables is extremely important because if not it may result the data to have bias

estimates. The Augmented Dickey Fuller (ADF) Test and Philip Peron (PP) Test in the E-view software were employed in checking the stationarity and non-stationarity of the data. The unit root test was conducted to get the stationarity of the data under the 2nd Difference with constant: intercept and trend.

   The table 1 amd 2 below show the stationarity of the data on the second differences under the unit root test by ADF and PP. Under the ADF, the constant value of the T-STAT for GDPR and MKC are -5.7963, -14.1256 with their p-values 0.001 and 0.000 respectively. Additionally, under the PP the values of the T-stat GDP and MKC are -6.7051 and -41.7215 with 0.001 and 0.0010 as their p-values, respectively. The values for the t-statistics on both constant and intercept or trends for ADF and PP are all negative suggesting that the data collated or computed do not proper fit to the model though from the right source. However such outcomes do not rubbish the data since the linear regression model would be tested by the use of coefficient and the R-square. The table indicate the level at which the data is significant is at level 10%. This is to explain that the data were significantly stationed at level 10% for which it was used to run the regression.

Table 1: Results of ADF test

Variables				
	D(1)		D(2)	
	C	C & T	C	C & T
MKC	-14.1554	-13.8124	-2.6461***	-3.2614***
GDP	-5.8310	-6.1241	-2.6461***	-3.3103***

***,**, and * are significant level at 10%, 5% and 1% levels respectively.
Source: Own survey

Table 2: Results of Philip Peron

Variables				
	D (1)		D (2)	
	C	C & T	C	C & T
MKC	-4.7880	-5.4678	-2.6461***	-3.2614***
GDP	-3.0173	-3.6449	-2.6461***	-3.2614***

***, ** and * are significant level at 10%, 5% and 1% levels respectively.
Source: Own survey

Table 3: The Ordinary Least Square of Regression Statistics

Dependent Variable: GDP
Method: Least Squares
Date: 06/20/16   Time: 21:53
Sample: 1991 2014
Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1538.771	2782.042	-0.553109	0.5858
MKC	9.690278	1.232360	7.863187	0.0000

R-squared	0.737563	Mean dependent var		16805.83
Adjusted R-squared	0.725634	S.D. dependent var		14174.93
S.E. of regression	7424.817	Akaike info criterion		20.74270
Sum squared resid	1.21E+09	Schwarz criterion		20.84087
Log likelihood	-246.9124	Hannan-Quinn criter.		20.76874
F-statistic	61.82971	Durbin-Watson stat		1.006486
Prob(F-statistic)	0.000000			

Source: Own survey

The R-square explains the ratio of change in the dependent variable explained by the independent variable. In the regression analysis, 73% of the variations in the GDP can be explain by changes in the MKC under the period of consideration from 1991-2014. The econometric interpretation is that MKC in Ghana has a strong positive impact on the economic growth. Notwithstanding with the high level of R-square value, the Adjusted R square recorded 72% indicating significant level for the model accuracy measured by this linear model. In other words the adjusted R-square optimistically estimated the accuracy in the linear regression. As Adjusted R-square is always less than or equal to R-square, the values from the above table show a predictive value for each of the variables-the dependent and the independent variables.

Another variable to check how the two variables are correlated is the value of the coefficient. It measures in the short-run the strength and direction of a linear regression between two variables. The probability was put under 5% with confidence level of 95% as been the best practices. However, the analyzed data in the above show 0.585766 of p-value under the intercept which raises a serious concern.

Based on the above regressions statistics, the null hypothesis that capital market in Ghana has a strong impact on the economic growth can be accepted. The 72% of the regression indicate a strong impact between the variables-dependent and independent variables. However, the error term could not be explained since it is above the accepted percentage.

Granger Causality Test

The Granger causality test was carried-out to estimate the causal linkage between the capital (MKC) and the GDP. The table below is the test for pair wise granger causality being computed by the E-view.

Table 4: Pairwise Granger Causality Tests

Date: 05/12/16   Time: 19:05
Sample: 1991 2014
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
GDP does not Granger Cause MKC	24	0.72479	0.5006
MKC does not Granger Cause GDP		0.02274	0.9775

Source: Own survey

The above table shows that there is no causality effect between the GDP and the MKC. In other words, there exists no relationship between them since the probability is high which is above 50% between the variables. In terms of causal linkage direction, the table above show no causal direction being it unidirectional or bidirectional. This means neither capital market development (MKC) nor does economic growth (GDP) have any causal linkages. The two variables do not have correlation or interdependence at any given level.

CONCLUSION

To stimulate economic growth, it requires long-term funding; far more than the duration for which average savers are motivated to commit their financial resources. This requirement has become a big challenge to the managers of the economy who desire economic buoyancy, however the platform for such undertakings are limited. Indeed capital market has become a panacea and preferred alternative center for exchanging long run funding by which the savers and borrowers meet to exchange their resources hence enjoy mutual benefits.

It is an undisputable fact that capital market development has a significant and integral impact on the economic growth in Ghana, taking from the premises in the findings of econometric indicators. As the project seek to find out if there exist any impact or effect between the capital market development and economic growth using Ghana as a case study, the project finally accepted the null hypothesis. The study established a positive

significant impact of Ghana capital market using the market capitalization on GDP growth rate.

The findings of the project support most of the literatures reviewed which state that capital market development spur economic growth. It is therefore imperative that conscious effort must be made all in an attempt to involve professional players and citizenry as a whole to participate in the capital market activities. As Acquah-Sam and Salami (2014) pointed out in their research that capital market has a positive significant effect on the GDP growth rate. Their research espionage that market capitalization been proxy as capital market has a strong positive effect on the economic growth in Ghana; compared with other variables like Foreign Direct Investment (FDI), Inflation, Treasury Bills (T-Bills) which do not have. Furthermore, the causality test by their research showed that market capitalization and FDI in Ghana are relevant predicators of GDP growth using Structural Equation Modeling (SEM) through Path Analysis. However this project used Granger Causality Test by E-View proved otherwise. In fact there was no causal linkage either unidirectional or bidirectional between the GDP and the market capitalization.

On the Nigeria capital market, Kalapo and Adaramola (2012) posited that capital market development has positive impact on the economic growth. Using the Johansen co-integration to test the long- run relationship, the research concluded that such relationship exist between two: market capitalization and GDP but no other variables. They indicated that the development of capital market has potency to impact or spur the Nigerian economy significantly but has not achieved its purpose yet due to low market capitalization, small market, etc. Ouandlous (2010) also in his research findings supports the assertion that capital market development plays a critical role to the growth of an economy. His research indicated the development of capital markets require time and more importantly cooperation between government authorities and the private sector which ultimately lead to economic growth.

Though the hypothesis of the project has been accepted, there are some observations that must not overlook. In testing the data for analysis, the t-statistics under the constant and course& trends were all negative meaning that the data for the model was not fit enough for the null hypothesis. This is one of the weaknesses of using R-square regression for analysis. The case of Afolabi (2015) can be used to the argument that the high figure of the R-square do not necessary confirm or wholly accept the hypothesis. The R-square value was 0.89 but eventually rejected the hypothesis when all the t-statistics figures were showing negative. Afolabi made a genuine case of some of the reason why the Nigeria capital market is not making the necessary impact it supposed have as some include macroeconomics instability, political instability, and high taxes associated with listing companies on the stock exchange and generally lack of investors' confidence in the economy.

In the case of Ghana, the project accepts the hypothesis that economic growth has been experienced as a result of rigorous capital market developments in recent times. Though there are few reservations which has

stampede the level of pace that the capital market should have progress and these include: the unwillingness of government to off-load some of its share in the para-statal corporations, high taxes and cost of listing an entity on the stock exchange, the unwillingness of private sector to participate, the inefficiency and lack of effectiveness in the operations of the stock exchange.

RECOMMENDATIONS

In view of the conclusion, enumerated from the project that the capital market developments in a long-run contribute immensely to the economic growth in Ghana; it is extremely important to recommend few policy directions for policy makers, academician and financial enthusiasts on how the capital market can be developed. This would further increase their knowledge on the modalities and approaches the capital market development impact positively on the economy. The subsequent paragraphs provide some of the recommendations:

- *Active Participation by the State:* The Public Private Partnership (PPP) can be more viable on the platform of capital market (Stock Exchange). As Tutu Agyare (CEO, NabekeInvestments), accused the government of Ghana of having no interest in supporting the growth of GSE. He indicated that many State Owned Enterprises (SOEs) was placed on the divestiture rather than the GSE which could have revived by the private sector but never materialized. In fact the listing of these SOEs on the GSE in the end would have promote accountability, high reporting standard and transparency which is the requirement of the GSE also a prerequisite for efficiency and profitability. This move could also have increase the market capitalization value for the GSE which eventually would have trickle effect on the economy in general and there would be no need for the regular issuance of Eurobond by the state.
- *Creation of Incentives for Companies and Investors:* Creating more incentives for companies and individual investors to participate on the capital market would go a long way to derail the GSE progress. Charges such as capital gains tax, transactions cost and operational expenses should be removed in order to lure more companies and investors to participate in the stock market from the current 38 listed companies to an average of two new listings every year.
- *Creating Effective Supervisory Role by the Security and Exchange Commission (SEC)*. The SEC should be more proactive in its supervisory role in order to check unethical practices which could undermine the capital market integrity and sharply crash investors' confidence. Competition is healthy for company's efficiency and effectiveness; however it must be played on a level playing field-the market players.

- ***Adequate Information on the Ghana's Capital Market:*** the managers and players in the capital market should endeavor to provide adequate information to stir investors and savers thirst on the need to actively participate fully in the market. Periodic financial literacy for the general public becomes salient and therefore businessmen, investors and the government in general benefit in the form of economic growth. When companies become fully aware that financial market could be the cheapest platform to raise long-term capital, they would be quick to resort to such move and that would eventually cause expansion or to liquidation for companies hence economic growth.

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