

# Environmental Consideration for Exporting Firms in Shoe and Leather Industry in Nigeria

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## ABSTRACT

This paper examines environmental considerations for shoe/leather exporting firm's performance in Nigeria. The major objective of the paper is to investigate the influence of the environmental factor on (political, economic, socio-cultural, technological environment) on firm performance operating in the international market. A questionnaire was developed to collect information from the respondent's base on a sample of 3 companies with 150 sample size. Data collected were analyzed using multiple regression analysis. The findings of the analysis shows that the Environmental Consideration on (Political, economic, socio-cultural, technological) have impact on firm performance (market share, increase sales, profit and achievement of corporate goal etc). Thus, firm should pay more attentions to their environment by doing periodic scanning particularly when going to international market.

**Key Words:** Environmental consideration, international market, economic environment, political environment, technological environment, socio-cultural environment, performance.

## 1.1 BACKGROUND OF THE STUDY

The modern business operates in a more dynamic environment more especially when operating in foreign market. The change in the environment has been rapid and unpredictable especially in the international market. According to Ekeke (2009:36) "Any marketer who ventures into international marketing is confronted with a Herculean task of having to contend with or adapt to two uncontrollable distinct business environments in addition to the internal environment which is controllable". Economic variables have been complex both in form and impact on the practice of business in Nigeria. The most dramatic change has been that exhibited by competitive pressures. Competitors have been applying one strategy or the other to adapt to the dynamic and unpredictable nature of the business environment.

The most single significant influence on firm policy and strategy is the environment outside and inside the firm. Exporting firms are business organizations deliberately designed to achieve and accomplish certain goals. The activities in these firms are affected by both the situations within organization and also, the situations within the larger society or environment in which the firms operate. Currently exporting business is perceived to have been rarely exceeded in complexity, turbulence and rapid in change, shoe and lather exporting firm operating in Nigeria must pay greater attention to their environments both within (internal) and outsider (external). When, formulating and implementing policies and strategies for exporting in order to survive and grow as cited from the study of (Otokiti and Awodun, 2003). Although study and understanding of these environmental forces and actors in business environments is a sine qua non to the overall achievement of the objective of the entire marketing programme.

In contemporary Nigeria business environment, performance of Nigeria companies is predicted on factors such as low-sales, high cost of production, low capital utilization, lack of foreign exchange to source needed inputs, poor power supply and low quality of goods and services, among others. These issues have lead to lack of proper integration and coordination of corporate subsystems in Nigeria firms, resulting in the failure to achieve the stated goals and objectives. Enterprises are subsumed in the environment with which they interact by importing inputs and exporting outputs. Thus, the vagaries and the extremities of the environment affect the fortunes of organization (Kennerly and Nelly, 2003). In South East, North-East and South West geopolitical region in Nigeria, research have shown the numerous activities of the exporter in shoe and lather industry, although many of the firms are unquoted making it difficult for the researcher to validate available data.

Considering that performance is crucial objective of an organization, it is general accepted that the structure and decision making in an organization is influenced by environmental complexity and volatility (Miles and Snow, 1978; May et al, 2000).

Thus, business organization had perceived the environment as opportune and threats presented by such external environment as variables as Socio-cultural, legal, practical. economic technology and infrastructural factors. This is not to conclude that other factors found in the micro (internal) and intermediate business environment are not important. It shows how important the scanning of the macro (external) environment is, because this in turn affects the other two environments.

Where there is absence of good understanding of the external business environment, the attendance effect of this on organizational performance cannot be over emphasized. After all, it is the good performance (market share, increase sales, profit and achievement of corporate goal etc) that can guarantee the sustainability of the organization, in relation to its corporate goals and objectives.

It must be noted, that amidst the environment scanning and considering the fast changing which deserves the means by which future opportunities and problems can be anticipated by organization the exporting firm management needs adequate attention.

## **1.2 STATEMENT OF THE PROBLEM**

The environment of international marketing affects the performance of firms that are involved in international business. There is therefore need to investigate into various environmental factors considered by Nigerian-based export firms in the shoe and leather industry. More importantly, it is imperative to ascertain how these firms rank or perceive the various environmental factors as this affects their level of performance in the industry.

## **1.3 OBJECTIVE OF THE STUDY**

The specific objective of this paper is to investigate the influence of the environmental factors (political, economic, socio-cultural, technological environment) on the performance of Nigerian-based export firms in the shoe and leather industry.

## **1.4 RESEARCH QUESTION**

What are the influence of the environmental factors (political, economic, socio-cultural, technological environment) on the performance of Nigerian-based export firms in the shoe and leather industry?

## **1.5 RESEARCH HYPOTHESIS**

H<sub>A.1</sub> Environmental factors (political, economic, socio-cultural, technological environment) have influence on the performance of Nigerian-based export firms in the shoe and leather industry.

## **2.0 REVIEW OF LITERATURE**

In the literature, there had been divergent views about the concept of environment through contributions of different authors and scholars, Okoh and Munene (1986) posited two views of perceived environment in the literature. The first is inter-organizational view, which considers the environment as a collection of person, group and other organizations that provides input to or receives output from a local organization. The second consideration is that environment is a set of general, social, economic and technological conditions. Obasan (2001) says environment is the sum total of the physical and social forces and institutions that are relevant to the organizational goal setting and goal attainment which are taken directly into consideration by members of the organization when making business decision and plans. According to Osuagwu (2001) environment has been seen as the totality of the factors that affect, influence, or determine the operations or performance of a business. The environment determines what is possible for the organization to achieve. In summary, environment is the combination of many factors both tangible and non-tangible that provides the lifeblood for the organizations success by providing a market for its products and services and also by serving as a source of resources to others.

According to Ekeke (2009) the total environment of an international marketer (Exporter and Importer) is made up of the marketing controllable variables (the product, price, place and promotion). They are called the marketing mix element or the 4Ps of marketing. The Domestic uncontrollable, which is made up of the home country environmental forces which is capable of having direct impact in the success of a foreign ventures; socio-political forces, competitive, and legal structure, economic forces, foreign market, cultural forces etc. channel/structure of distribution, geography and infrastructure etc.

### **2.2.1 Environmental Factors**

According to Milliken (1987), environmental uncertainty arises from the organization's inability to predict its environment, or in other words, to predict the factors that characterize its environment. These factors are usually classified into two groups (Bourgeosi, 1980) i.e. "general" and "task" external business environmental factors.

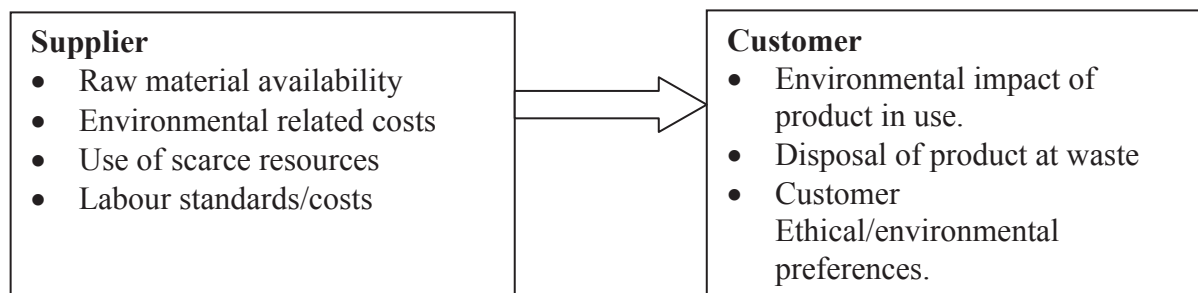
### **2.2.2 Direct and Indirect Environmental Factors**

Environmental and social appraisal normally pay much attention to the direct environmental and social impacts of the business carried out by a potential customer-i.e. the emissions and wastes associated with the site

itself- it is also important to consider the indirect environmental and social risks associated with such operations, which may result in a financial impact on the company itself.

Indirect environment and social risks may arise when environmental and social factors affect the customers or suppliers of a company, resulting in impacts on that company through the supply chain. Indirect environmental and social impacts can be much more serious and harder to predict than direct environmental and social issues.

**Figure 1 : Direct Environmental Factors**



Source: Researcher, (2013).

### 2.2.3 Factors of the General External Business Environment

The general environment is a relatively remote environment and the elements that compose it have an indirect influence on the organization. This environment is typically composed of factors such as social values, educational, political, economic, legal, behavioural, demographic, natural environment, natural resources, and technological (Ashghian & Ebrahimi, 1990; (Iran; 1999).

### 2.2.4. Factors of the Task Environment

Ashghian & Ebrahimi (1990) and Grant (1999) argued further that the task environment is the closest environment of the organization and the elements that made it is influencing the organization directly. This environment is made up of factors such as consumers, competitors, supplier's labour market, industry and financial resources. Daft et al, (1988) and Auster & Choo (1993) opined that factors in the task environment usually create greater and perceived uncertainty to organizations than factors in the general environment. This is because it is believed that the task environment, which is connected with the short-run, is more volatile than the general environment that is connected with the long-run.

### 2.2.5. Types of External Business Environment

Duncan (1972) viewed external business environment as the totality of factors outside an organization that are taken into consideration by an organization in its decision making. These factors depend largely on the complexity and dynamism of the environment (Duncan, 1972; Dess & Beard, 1984). Thus, external business environment has been classified as being stable when it does show any changes, unstable when it shows relative changes, and dynamic when it shows changes continuously (Aguilar, 1967). However, perceptions of the organizations about the type of the external business environment to a large extent depends on their size and industry in which it operates.

### 2.2.6. Economic Environment

Ogundele (2005) says that is vital concern to an organization. He further said that, the economic environment goes a long way to determine and define the opportunities for an organization; this is because an expanding economy provides operational scope for the organizational existence as well as for the establishment of new ones. However, a period of recession can bring about failures and probably liquidation of the organization.

According to Ekeke, (2009) the international economic environment is made up of a set of economic indicators, which influence the cost of all business inputs and the ability of consumers to buy goods and services for consumption. The environment can either affect marketing operations positively or adversely. The close observation and monitoring of this environment is of strategic importance for the survival and growth of the firm to be achieved. It is of paramount importance that the management should be able to distinguish between short-run phenomena and more fundamental changes in its assessment of the overall economy.

### 2.2.7. Political Environment

Marketing programmes of international or global firms are mostly affected by the political environment; whether as an operative in the home market or in the foreign market. This has to do with the government of the day, their policies and attitude towards business concerns. Policies embarked upon by governments are a reflection of their ideological orientations as well as economic structure and development.

The political environment is viewed via the legal framework where the organization operates and this is done through the laws and regulations that guides the operations of the business in question. The political

stability of the environment is also a necessity for effective and efficient operation of the business. The management of the organization must take cognizance of these constraints, actual and potential, and seek out the implications for the business organization from legal advisers (Ogundele, 2005),

An international marketer is expected to pay particular attention to the legal requirements of each country where it operates as there is no uniform international commercial law to adhere to. Of particular interest to the international marketer are competition legislation, consumer protection laws, advertising regulations, legislation concerning monopolies, etc. The legal environment is an embodiment of what human actions or inactions a society prohibits and punishes including the actions to be controlled

#### **2.2.8 The Social Environment**

The social environment provides the framework upon which interpersonal relationships are built and how the structure and functions of each relationships impact on the activities of business organizations. The societal influences which the international marketers is expected to take particular note of are;

- i. Role of the family in purchase decision making
- ii. Class structure
- iii. Reference groups
- iv. Life styles of the target market
- v. Consumer preferences
- vi. Demographic characteristics of the society.

Culture could be defined as the sum total of beliefs, knowledge, morals, art, laws, customs, behavior and habits which are peculiar to a people. The elements of culture which have direct bearing on marketing are Market culture, language, aesthetic, religious beliefs and education.

#### **2.2.9 The Competitive Environment**

One of the environmental nightmares to marketers whether in the domestic or international marketing is the level of competition.

Whether (monopoly, Oligopoly or perfect competition differentiates them, the most important thing to the international marketer is to embark on the follows;

- Attempt to identify any barriers to entry in any given foreign market
- Determine the level of risk involved in the entering the market. In Nigeria, the private refinery initiative of the Obasanjo administration could not attract foreign investors to build and operate refineries in the country owing to the high level of risk inherent in the project.
- Monitor competitive activities through marketing intelligence.
- Craft appropriate winning and competitive marketing strategies aimed at maneuvering competition in the market place.

#### **2.2.10 Technological Environment**

One of the driving forces behind globalization is the continuous advancement in technological development. Technology is the application of scientific principles to industrial problems. The issues here that concern marketing most are the concept of process of innovation which has to do with the development of new technologies.

Hypothesis: Environmental Consideration has no impact on exporting firm performance.

#### **2.2.11. Organizational Performance**

Organizational performance (OP) has been taught with many conflicting definitions and it is not a new phenomenon among the academics and the industrialists as well as public institutions. OP has been a source of influence to the actions taking by companies and the degree to which an organization realizes its goals as well as the stated objectives of the organization through the strategies and policies of the organization (Folan & Browne, 2005; Etzioni, 1964). The idea of OP is hanged on the position or premise that it is a combination of productive assets made up of human, physical, and capital resources for the major reason of fulfilling a dream, vision or accomplishing a shared purpose (Barney, 2002 Carton Sc Hofer, 2006). OP is also viewed as the measure of how a manager utilizes the resources of the organization efficiently and effectively to accomplish the goals of the organization as well as satisfying all the stakeholders (Jones & George, 2009). In their own contribution, Richard et al. (2009) described OP as the real output measured against the intended or expected output. They viewed OP as a term that is made up of three major areas of firm outcomes and these three areas are:

- Financial Performance that is made up of profits, return on assets (ROA), return on investment (ROT) etc.
- Product Market Performance such as sales, market share, etc.
- Shareholders return such as total shareholder return (TSR), economic value added( EVA).

Selden and Sowa (2004) looked at OP as what is designed to assume that organizations are to accomplish certain goals that are both specified intrinsically and implicitly. Perrow (1961) distinguishes between two kinds of organizational goals, official goals which are the general purposes of the organization's founders and leaders, while the operative goals designates the end sought through the actual operating policies, the modifications and

subversions of these ends by personnel in decision making positions and by the forces of pressure from the external environment. Kast and Rosenzweig (1985) argued that performance is a function of ability, effort and opportunity. Ability is dependent upon knowledge and skills and technological capabilities that provide an indication of range of possible performance. Effort is a function of needs, goal-expectation and rewards and it depends on the degree to which individuals and/or groups are motivated to aspirant effort. Opportunity must be provided by the managers for individual's ability and effort to be used in ways that will result in the achievement of goals. OP can be summarized to be an approach used in assessing the progress made toward goals, identifying and adjusting factors that has limit the progress of the organization in a competitive environment.

### 3.0 METHODOLOGY

The survey research method was adopted in this study. A sample of 3 organizations in the Shoe and Lather Industry were randomly selected from the list of unquoted companies in this sector. The sample was obtained by employing the stratified sampling techniques. Each company was divided into strata. The stratification variables are based on homogeneity and relatedness. One hundred and fifty (150) questionnaires were administered to the respondents in these 3 companies. The questionnaire contains five (5) section and twenty (20) items. Measurement were based on a five point Likert scale, the rating range from strongly agree (SA), agree (A), Undecided (UD), Disagree (D), to strongly disagree (SD). The following scoring system were adopted SA = 5, A = 4, U = 3, D = 2 and SD = 1. One hundred and twenty-seven (127) completed questionnaires were returned but three were wrongly filled. The study made use of 124 correctly filled questionnaires. Thus, 83% of the questionnaires were returned successfully.

### 4.0 ANALYSIS

Restatement of the hypotheses:

H<sub>0</sub>.1 Environmental factors (political, economic, socio-cultural, technological environment) have no influences on firm performance operating in the international market in Nigeria.

H<sub>A</sub>.1 Environmental factors (political, economic, socio-cultural, technological environment) have influences on firm performance operating in the international market in Nigeria.

In analyzing the data collected from the respondents, multiple regression analysis was employed. The dependent variable of the study is organization performer (Y), while explanatory variable were economic environment (x<sub>1</sub>), political environment (x<sub>2</sub>), technological environment (x<sub>3</sub>), socio-cultural environment (x<sub>4</sub>) and competitive environment (x<sub>5</sub>). These independent variables were denoted by x<sub>1</sub>, X<sub>2</sub>, x<sub>3</sub>, X<sub>4</sub> and X<sub>5</sub> respectively in the data presentation appendix 1. The variables of the study can be expressed in algebraic form. Thus,

$$OP = F(E, P, T, S, C) \dots \dots \dots (U)$$

Where

OP Y = Organizational performance which include efficiency, effectiveness, increase in sales, achievement of short and long-term goals, and achievement of customer/client satisfaction.

E = X<sub>1</sub> = Economic environment (monetary policies, interest rate, availability of funds).

P = X<sub>2</sub> = Political environment (political terrain in the country, legal framework, authority relationship).

T = X<sub>3</sub> = Technological environment (technological innovation, technological development)

S = X<sub>4</sub> = Socio-cultural environment (values, norms, belief, attitudes, religions)

C = X<sub>5</sub> = Competitive environment (monopoly, oligopoly or perfect competition).

In order to provide an answer to the research question and hypothesis; that the economic, political, technological, socio-cultural and competitive environment has no impact on OP.

Hence, from the regression analysis, the regression line is:

$$Y = 0.61 + 75x_1 + 0.48x_2 + 0.213 + 0.064 - 0.13x_5$$

(4.2) (5.4) (8.1) (3.0) (1.3) (2.6)

From the analysis of multiple regression result above, economic environment, political environment, social cultural and technological environment has positive and significant effects on firm performance on shoe and leather industry in Nigeria.

Meanwhile, competitive environment has a negative impact but significant effects on the firm performance on shoes and leather industries in Nigeria.

Moreover, the value of R<sup>2</sup> at 0.85, shows that, competitive economic, political, social cultural and technological environments has 85% impact on firm performance i.e. they have combined effect on firm performance with shoes and leather industries in Nigeria.

Lastly the fisher ration test (F-test) of 142.3 shows that the null hypothesis of this study is rejected. Hence, the economy, political, technological, social cultural and competitive environments has impact on firm performance of shoe and leather industries in Nigeria.

## 5.0 CONCLUSION

The main aim of this paper was to examine the impact of environmental consideration for exporting firm in shoe and leather industry in Nigeria. Thus, the findings of the study reflect that environmental consideration for exporting firm such as shoe and leather industry has an impact on firm performance. Hence, the exporting firm in Nigeria should critically look into environmental factor that can impinge upon the operations of a business other than the availability of capital and the ability of the manager or businessman himself. The study also revealed that all things being equal, controlling of the external business environment can be done to some extent. This entails and calls for constant monitoring and conducting environmental scanning always.

However, a company that wants to succeed must develop a clear understanding of the trend of factor necessary for export external business environment and forces that shape competition. The understanding will enable an organization to choose the appropriate strategy or strategies that fit the trend in the external business environment. Also, given the dynamic and rapidly changing environment in which most organizations compete, it is important that organizations maintain their performance measurement system so that remains appropriate and provides information that is relevant to the issues that are of current importance.

The conclusion of this study should be considered in the light of its limitations. First, the sample used was rather small; if we consider that the study covers other sectors of the economy. Second, the generalization of the results was rather limited due to the fact that the sample covers only the shoe and leather industry in Nigeria. Thirdly, there might be element of biasness in the information given by the respondents. This however does not rob this study of its generalization. Hence, the frontier of this study could be expanded by using other environmental variables and combining other sectors of the economy.

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## Appendix

### LINEAR REGRESSION RESULT

Dependent variable: Y				
Method: least squares				
Date: 05/30/13 Time: 11:22				
Sample: 127				
Included observations: 124				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-statistic</b>	<b>Prob</b>
C	-0.719619	0.399558	-1801035	0.0743
X1	0.591046	0.116621	5.068094	0.0000
X2	0.377515	0.068790	5.487939	0.0000
X3	0.162247	0.066821	2.428091	0.0167
X4	0.137117	0.046876	2.925112	0.0041
X5	0.128941	0.059830	-2.15514	0.0332
R-squared	0.801147	Mean dependent var		4.701613
<b>Adjusted R-squared</b>	0.792721	S.D. dependent var		0.597826
<b>S.E. of regression</b>	0.272178	Akaike info criterion		0.282455
<b>Sum squared residual</b>	8.741526	Schwarz criterion		0.418920
<b>Log likelihood</b>	11.51218	F- statistic		95.08046
<b>Durbin-Watson stat</b>	0.807815	Prob(F-statistic)		0.0000000

### LOG LINEAR REGRESSION RESULT

Dependent variable: LOG(Y)				
Method: Least Squares				
Date: 05/30/13 Time: 11:27				
Sample: 1 124				
Included observations: 124				
Variable	Coefficient	Std. Error	t-statistic	Prob
C	-0.608916	0.399558	-1801035	0.0000
LOG (X1)	0.753594	0.116621	5.068094	0.0000
LOG(X2)	0.482221	0.068790	5.487939	0.0000
LOG(X3)	0.211410	0.066821	2.428091	0.0032
LOG(X4)	0.056130	0.046876	2.925112	0.1887
LOG(X5)	-0.126281	0.059830	-2.15514	0.0117
R-squared	0.857781	Mean dependent var		1.535083
Adjusted R-squared	0.851755	S.D. dependent var		0.185624
S.E. of regression	0.071470	Akaike info criterion		-2.391899
Sum squared residual	0.602740	Schwarz criterion		-2.255434
Log likelihood	154.2977	F- statistic		142.3412
Durbin-Watson stat	1.265039	Prob(F-statistic)		0.000000



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