

THE ROLE OF FINANCIAL INITIATIVE ON FINANCIAL PERFORMANCE

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Financial initiative, government policy related to taxation and public spending. Fiscal policy and monetary policy, which is concerned with money supply, are the two most important components of a government's overall economic policy, and governments use them in an attempt to maintain economic growth, high employment, and low inflation. J. Nogueira Martins (2009)

Financial policy can be either expansionary or contractionary. It is expansionary or loose when taxation is reduced or public spending is increased with the aim of stimulating total spending in the economy, known as aggregate demand. Expansionary policy might occur when a government feels its economy is not growing fast enough or unemployment is too high. By increasing spending or cutting taxes, the government leaves individuals and businesses with more money to purchase goods or invest in new equipment. When individuals or firms increase their purchases, they raise demand, which requires additional production, creating jobs and generating more spending. The result is higher employment and a growing economy.

On the other hand, fiscal policy is contractionary or tight when taxation is increased or public spending is reduced in order to restrict demand and slow down the economy. A tight fiscal policy is more likely when inflation is high. A contractionary fiscal policy reduces the amount of money in the economy available for purchasing goods, thus decreasing spending, demand, and, ultimately, pressure on prices. J. Nogueira Martins (2009)

To determine its financial policy, a government must make judgments about a number of factors, including the level of economic growth or unemployment likely in the future. These factors will affect the amount of revenue raised through taxes and the amount of money required for government programs. Once these determinations are made, the government can decide how to raise revenue and how to allocate it. Revenue is generated through a combination of different taxes—for example income tax, sales tax, or customs duties—and can be allocated to build new roads, fund government programs, or to pay expenses such as government employees' salaries.

Another important decision a government must make regarding fiscal policy is whether or not to run a budget deficit by spending more money than the government raises. Deficits can be financed in two ways—borrowing or printing more money. If the government borrows money, it will decrease the supply of money available in the economy for lending, and the cost of borrowing money, the interest rate, may rise. If the government prints more money, it will increase the supply of money in the economy; without a corresponding increase in available goods, prices—and inflation—are likely to rise. Decisions on fiscal policy are inevitably influenced by political considerations, such as beliefs about the size of the role that governments should play in the economy, or the likely public reaction to a particular course of action. Few governments will find it easy to raise taxes or to decrease funding for programs that have strong support from the public, such as social security or defense. Fiscal policy decisions can be influenced by other, outside factors as well. In today's global economy, a government also needs to consider the fiscal policies of other countries, which may tempt companies to relocate by offering them generous tax programs or other government-controlled benefits. Some countries may find their fiscal policy decisions constrained by the requirements of the International Monetary Fund (IMF), which often grants aid packages subject to conditions relating to fiscal policy. Microsoft Corporation, 2008.

• Economic Growth

Economic growth is the increase in the inflation-adjusted [market value](#) of the goods and services produced by an [economy](#) over time. It is conventionally measured as the percent rate of increase in real [gross domestic product](#), or real GDP. Growth is usually calculated in real terms - i.e., [inflation-adjusted](#) terms - to eliminate the distorting effect of [inflation](#) on the price of goods produced. [Measurement of economic growth](#) uses [national income accounting](#). Since economic growth is measured as the annual percent change of gross domestic product (GDP), it has all the advantages and drawbacks of that measure. The economic growth rates of nations is commonly compared using the ratio of the GDP to population or per-capita income.

The "rate of economic growth" refers to the geometric annual rate of growth in GDP between the first and the last year over a period of time. Implicitly, this growth rate is the trend in the average level of GDP over the period, which implicitly ignores the fluctuations in the GDP around this trend. An increase in economic growth caused by more efficient use of inputs is referred to as intensive growth. GDP growth caused only by increases in the amount of inputs available for use is called [extensive growth](#). Bjork, Gordon J. (1999).

• Unemployment

Unemployment, enforced idleness of wage earners who are able and willing to work but cannot find jobs. In societies in which most people can earn a living only by working for others, being unable to find a job is a serious problem. Because of its human costs in deprivation and a feeling of rejection and personal failure, the extent of unemployment is widely used as a measure of workers' welfare. The proportion of workers unemployed also shows how well a nation's human resources are used and serves as an index of economic activity.

As a result of this depression, the U.S. government took steps to alleviate unemployment. In the mid-1930s millions of jobs were provided by public works and other special programs. Notable among the federal agencies established to carry out these programs were the Civilian Conservation Corps and the National Youth Administration, which employed young workers on a wide variety of projects; and the Work Projects Administration, which embarked on a broad program involving both public-works construction and cultural and recreational activities

Another New Deal measure was the Social Security Act of 1935, which set up the first comprehensive social-insurance system in the U.S. (*see* Social Security). It introduced unemployment insurance, providing workers who lose their jobs with a weekly compensation payment. By maintaining the workers' purchasing power, unemployment insurance reduces cyclical swings in demand, thus helping trade and industry.

The enactment of various laws aimed at reviving business and industrial activity resulted in a substantial improvement in U.S. economic conditions and a decline in unemployment. Soon after the outbreak of World War II in September 1939, the U.S. government launched a program for expanding and modernizing the national defense system. The program provided industry with a powerful stimulus, and unemployment rapidly declined. After the U.S. entered the war in December 1941, not only was the goal of full employment attained, but a shortage of labor replaced the previous shortage of jobs.

• Revenue

Receipts of a government or a business. In the United Kingdom it is not (technically) the same as *income*, the term used to refer to the receipts of a private individual and often to the receipts of non-profit-making enterprises. In the United States the term *income* is widely used instead of *profit*.

Governments raise revenue, mainly through taxation, in order to pay for government expenditure on, for example, the salaries of teachers. In the United Kingdom the body responsible for collecting taxes is known as the Inland Revenue. If government revenue is more than government expenditure, a country is said to be running a budget surplus. If government expenditure is more than government revenue, a country is running a budget deficit, which has to be financed through borrowing or printing money. Companies must have revenues to survive. The difference between their revenues and their *expenses* (money spent on production processes, interest payments on loans, and so on) determines their profit or loss. A company whose expenses are consistently more than its revenues will not be allowed by its creditors (who have financed the gap between revenues and costs) to continue in its present form.

In accounting, there are several ways in which the term *revenue* is used. A revenue account is the equivalent of the profit and loss account. Revenue expenditure (as distinct from capital expenditure) is expenditure that is deemed to affect only the current accounting period and is therefore written off to the revenue account during that period. Judgments also have to be made on when a company should or can recognize revenue. In general, it depends more on when contractual obligations are fulfilled than when the money is received; for example, revenue is normally recognized when delivery has been made and the goods have been invoiced even though the payment may not be received for another month.

2.1.1 Service Delivery

KonyoKonyo business community delivers a broad range of services that have a direct impact on the well-being of individuals and organizations across the country and abroad. The services for individuals are varied, including those that might be received regularly and for an extended period, such as social benefit payments.

Service providers want to know what customers (internal or external) care about. Service quality is a good guess. Price, and to a minor degree product quality, also count. But for service providers, customers care most about service quality. Check the research. Statistically valid research. Of course, providers can always ask customers. But lacking the money, time and skills, why not look to the leading research for that understanding?

• Quality

The public wants and cares about high-quality service from their government. At the same time, government organizations must balance cost and quality, while weighing the interests of individual **clients** against broader public interests, policy requirements, and resource limitations. In some cases, how a federal organization delivers a program is defined in its legislation. Service also matters to parliamentarians and public servants, and efforts to improve public sector service delivery have been going on since the 1970s. The Treasury Board of Canada, through its Secretariat, has led and coordinated several initiatives aimed at making the government's service delivery more client-focused; recent examples are the 1995 Quality Services Initiative and a five-year Service Improvement Initiative that began in 2000.

The main principles contained in the Policy Framework for Service Improvement—a key part of the 2000 initiative—are a results-based approach to achieving high-quality service. With this approach, organizations engage in public consultation to determine their clients' service priorities, develop **service standards and targets** and use these to measure and report on performance, and improve service as part of a continuous cycle. The Treasury Board's Management Accountability Framework sets out similar expectations for well-managed government service delivery. In order to achieve and maintain high-quality service, it is important for organizations to establish service standards, monitor service performance, and take action to improve service when issues are identified.

The measurement of subjective aspects of customer service depends on the conformity of the expected benefit with the perceived result. This in turn depends upon the customer's expectation in terms of service, they might receive and the service provider's ability and talent to present this expected service. Successful companies add benefits to their offering that not only satisfy the customers but also surprise and [delight](#) them. Delighting customers is a matter of exceeding their expectations. Pre-defined objective criteria may be unattainable in practice, in which case, the best possible achievable result becomes the ideal. The objective ideal may still be poor, in subjective terms. Service quality can be related to service potential (for example, worker's qualifications); service process (for example, the quickness of service) and service result (customer satisfaction).

A customer's expectation of a particular service is determined by factors such as recommendations, personal needs and past experiences. The expected service and the perceived service sometimes may not be equal, thus leaving a gap. The service quality model or the 'GAP model' developed in 1985, highlights the main requirements for delivering high service quality. It identifies five 'gaps' that cause unsuccessful delivery. Customers generally have a tendency to compare the service they 'experience' with the service they 'expect'. If the experience does not match the expectation, there arises a gap. Ten determinants that may influence the appearance of a gap were described by Parasuraman, Zeithaml and Berry. in the SERVQUAL model: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding the customer and tangibles.

• **Communication**

OC during the late 1980s early 1990s also saw emphasis on similar issues such as determinants of OC (beliefs, attitudes, and social norms; Lane et al., 1988), communication within the organisation (Mohr and Nevin, 1990), career orientation of the employees (Igbaria et al., 1991), and specific goals and performance feedback (Tziner and Latham, 1989). In the subsequent years, research on OC has been studied with respect to organisation's performance where OC has been found to have positive correlation with service delivery (*Pitt et al., 1995*), internal service quality (Boshnoff and Mels, 1995), general performance (higher productivity and lower wastage; Arthur, 1994), and performance of the sales unit in a major insurance company based out of the USA (Posdakoff and Mackenzie, 1994).

• **Reliability**

Customers want to count on their providers. They value that reliability. Don't providers yearn to find out what customers value? This is it. It's three times more important to be reliable than have shiny new equipment or flashy uniforms.

Doesn't mean you can have ragged uniforms and only be reliable. Service providers have to do both. But providers first and best efforts are better spent making service reliable. Whether it's periodicals on schedule, on-site response within Service Level Agreements (SLAs), or Work Orders completed on time. [Chris Arlen](#) on October 24, 2008

• **Responsiveness**

Respond quickly, promptly, rapidly, immediately, instantly. Waiting a day to return a call or email doesn't make it. Even if customers are chronically slow in getting back to providers, responsiveness is more than 1/5th of their service quality assessment.

Service providers benefit by establishing internal SLAs for things like returning phone calls, emails and responding on-site. Whether it's 30 minutes, 4 hours, or 24 hours, it's important customers feel providers are responsive to their requests. Not just emergencies, but everyday responses too. Call centers typically track caller wait times. Service providers can track response times. And their attainment of SLAs or other Key Performance Indicators (KPIs) of responsiveness. This is great performance data to present to customers in Departmental Performance Reviews.

• **Accountability**

Making quality social services such as education, health, water and sanitation available to the people remains one of the most daunting challenges facing developing countries. This is particularly so for Sub-Saharan Africa where still many poor people are excluded from accessing these vital services. Even when they access the services, in most cases those services are only of poor quality. Yet quality services are core to overall human development because they improve the capabilities of the people that enable them to fully participate in the development process of their countries. Today, many of the people in Africa only receive very poor quality education and health services and many do not have access to clean water or improved sanitation. Even when children are enrolled in schools, the quality of learning is extremely poor while attending clinics and other health facilities for treatment is often a frustrating experience: medical

providers who are absent or rude, long waiting lines, and often essential drugs are missing. MWANGI S. KIMENYI 2013

The critical importance of social services has been recognized by African governments and has received priority in their development plans and budget allocations. Significant amount of resources have therefore been devoted to the provision of these services. In fact, education is for example one of the sectors that receives the highest budgetary allocations. The flow of resources to the social sectors accelerated since the enactment of the Millennium Development Goals (MDGs) as development partners increased their support toward meeting the MDGs. However, the huge investment in social services has not been matched by improved service delivery outcomes. In part, the poor service delivery outcomes are the result of resource constraints. To deliver quality education and health services, facilities that have some minimum level of equipment and supplies are necessary. Classrooms and schoolbooks are essential for effective teaching and learning. Likewise, to provide even basic services, health facilities should have essential drugs, and diagnosis equipment should be available. In addition, at the core of service delivery are trained personnel that have the capacity to deliver the services all which require substantial investment of resources. Unfortunately, for many poor countries, the infrastructure for delivering social services and also the human resources are poor in quality and low in quantity. Thus, it is indeed the case that, the poor service delivery outcomes are to some extent the result of resource constraints. However, resources are just part of the reason for the poor service delivery outcomes and probably not the most important factor. Evidence suggests that increasing expenditures devoted to the delivery of services does not always result in improved access and quality of those services. Even when additional resources translate into better outcomes, the gains are relatively small compared to the magnitude of the additional resources. In essence, there is a weak link between resources and quality and quantity of services provided. This is because often resources flows are characterized by leakages so that resources reaching facilities are only a fraction of what is intended. Thus, although a government may be allocating large amount of funds to health and education facilities, often only a small share of the resources reaches the intended facilities. In addition, although teachers and nurses are recruited to provide services to clients, they may be absent from work often and even when present, they may not deliver the service as expected. Mwangi S. Kimenyi 2013.

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