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Editorial Perspective

One of the essential characteristics of a research culture is its quest for reality. What gives it a distinguishing feature is its fidelity to truth. We, the teachers and research scholars, will not be true to our calling if we were not sentimentally attached to the enduring truth and reality. Such an attitude is an abiding attribute of a genuine research methodology. It deepens our longing for the truth and inculcates in our mind the creative discontent with what is taken for granted and believed to be the reality. Research methodology aspires for the essential knowledge. Mystics, saints and philosophers, like Imam Ghazali, define this knowledge as the “taste” i.e., the lingering affect of knowing. According to him, “he who has tasted, knows”. Philosophy, ethics, virtue, wisdom, education and research aspire for the ‘apodictic knowledge’, i.e., the knowledge we cannot doubt or even think to be other than what it is.

Analytically, epistemology refers to the quest for such knowledge. It is based upon an indomitable courage to question the underlying assumptions of our knowledge. As this tendency develops into a cultural attitude the endemic passion reaches a point where research becomes revolution. It then becomes incumbent upon a student of research to recognize clearly and distinctly, not only the truth but also our erroneous beliefs and uncritically accepted assumptions so that we may evolve and grow beyond them. The ideal here is to arrive at the absolutely certain knowledge which is what it is simply because it cannot be other than what it is. Motivated by such a passion and inspired by the purity of the heart to will the truth, research becomes iconoclastic. It then engages in demolishing what Bacon called the idols of the mind to seek freedom from their petrifying bondage.

Seekers and lovers are by temperament patient people, willing to wait eagerly for the reality to manifest itself from behind the veil of appearance. Greeks defined philosophy as the love of wisdom and the search for truth. However, tradition notwithstanding, it is not true that we are all philosophers. But it ought to be.

These are basic methodological requirements for the beginning of serious research. All serious research is motivated by an intense desire for truth and reality, deep and profound personal humility, an all consuming passion for excellence and, above all, professional will to reach out beyond the taken for granted attitude. Philosophically, it signifies cognitive dissonance and creative rage against “thus it is and cannot be otherwise”. Dogmatic and forbidding knowledge claims are, by definition, antithetical to the passionate quest of a research scholar and his unassailable desire to know: why? A research scholar, by nature, is a curious mixture of discontent with the unexamined finality of “thus it is”. He is possessed by the creative will to establish the reign of “thus it ought to be”. Nietzsche, an enigmatic and sadly misunderstood thinker, spoke of the “will to power”, meaning the will to truth. According to him, a will that does not will the truth is a will that wills nothing; it is a hopelessly powerless will.

To be a research scholar means to be humble and open minded, to be intelligent and to be persistently experimental and willing to believe that “over each possessor of knowledge there is one more learned” (Al-Qur’an). Such men grow by out-growing themselves; they live in order to outlive. They celebrate becoming and strive to become what they are capable of becoming. They do not fear change and they are not afraid to test their knowledge in a constantly changing environment. They are the ones destined to survive by exercising their will to creatively meet the challenges of their environment.

In his *Muqadima*, Ibn Khaldun firmly established the empirical truth of survival with the help of his theory of “challenge and response”. Survival, according to him, is contingent upon our response-ability, i.e., our ability to creatively respond to the challenges of our circumstances and vicissitudes of life. A. J. Toynbee, in his *A Study of History*, attested to the hypothesis formulated by Khaldun. Darwin is known for the devastating Machiavellian application of his theory of “survival of the fittest”. But he was a victim of misunderstanding by association in the field of moral and political action. A critical appreciation of Darwin’s *Origin of Species* reveals that he was very much in sympathy with the views formulated by Toynbee and Khaldun. According to Darwin, “it is not the strongest of the species that survive, nor the most intelligent, but the most responsive to change”.

But man himself cannot be understood apart from his being-in-the-world. The hyphenated relationship between man and the world is the total context which defines the sense and the meaning of human situation. What is important about man’s situated existence is not what the existing relationship between man and the world is but how the existing relationship is perceived and experienced by man. The meaning of the “worldliness” of the world depends upon the way man inhabits and circumstances the world.

This general observation about man’s being-in-the-world is true of all the worlds, including the corporate world. Copernican revolution changed the place of man’s world in the universe. The revolution initiated by Einstein who turned the universe inside out altered the meaning of human experience and radically changed the relative significance of man’s relationship to the world. Marx made Hegel stand on his head, he turned him and his dialectical idealism upside down and called it the right side up. These are illustrative examples of how man’s place in his world and the place of his world in the universe changes when a paradigm is radically changed. Immanuel Kant, with his *Critiques*, changed the concept of human mind in relation to the world. Like Marx, he made man see not a different world but the same world differently. Such is the mystique and the magic of research and discovery.

Life and research teaches us that wisdom is not attained by sudden flights. It is not given to us as a perfect deposit. Transcendence, the movement towards the ‘yet to be’, and the principle of change, flux and becoming are the essential components of life, nature and dynamic culture. Their application in research, especially in the field of education, shows that life is imbued with a dynamic principle, pulsating with creative

movement towards the “yet to be”. This transcendental advance and internal movement beyond the “thus it is” towards the vision of “thus it ought to be” is the *élan* and the creative impulse behind all genuine research. We need to integrate this insight into our philosophy of life and education to create a dynamic and future oriented research culture. No philosophy of life, no world-view, including the corporate world view, can afford to dispense with such an essential insight without corrupting the purity of moral vision and without arresting the onward movement of the creative process. If we fail to appreciate the awful consequences of this insight we sadly deny to ourselves an understanding of the social and existential implication of the principle of transcendence. Denial and gradual loss of transcendence results in the atrophy of creative will, failure of nerves, deepening shadows of fatalism and thickening gloom of despair and hopelessness.

Corporate philosophy, when it is pursued with such a bias, can help us overcome our morbid obsessions and abnormal compulsions, more so our fixations on unexamined motivations, particularly with regard to education. Money, profit and economic motivation in education are very dubious and insidious sentiments. Education is not a commodity; it is a virtue. Good education, both as an end in itself and as a means to an end, should be grounded in the passion for truth and value. It ought to beautify the mind and ennoble the character. Such value added education is not an expense; it is an asset. We must, nevertheless, be able to put some economic evaluation on education, not in terms of money, which is a nominal value, but a value in terms of moral refinement, social responsibility, creative passion, cultural vision, transcendental outlook, religious and humanistic sentiment. These are, among others, essential components of the life of an educated man and the necessary first elements of a corporate world-view. They are also the irrevocable conditions for all theoretical achievements and practical accomplishments in a corporate society.

In *The World According to Drucker*, Jack Beatty has so aptly pointed out that:

“Drucker discusses economic life in terms of values, integrity, character, knowledge, vision, responsibility, self-control, social integration, teamwork, community, competence, social responsibility, the quality of life, self-fulfillment, leadership, duty, purpose, dignity, meaning – but rarely money. He defends profit, but as if it were broccoli: a distasteful obligation of managers who would rather be reading Kierkegaard.”

Discussing *The 7 Habits of Highly Effective People*, Covey makes a compelling distinction between “character ethics” and “personality ethics” and their relative managerial effectiveness in a corporate society. Today, more and more, corporate business rests on rectitude, honour, good moral judgment, authentic self-hood and strength of character. In contrast to the Sophistic proclivities, which have always contaminated the world of business and of morals, ethical orientation implies that the man of character lives and acts as a particular universal. He embodies the Kantian imperative: “act in such a way that by your will your action becomes law universal”. The ramifications of such a thought make the corporate life a “trial by existence”; its implications in a corporate society are vast and deep.

Jim Collins describes the features of a personality oriented ethics as a function of personality structure, socio-cultural habits and attitudes, presentation of self in society and its contribution to the social, public and human relations. In his *Good to Great*, a book inspired by the quest for the essence of excellence, Collins offers the profile of an executive who builds enduring greatness, lives and acts according to the dictates and imperatives of character ethics. "Compared to high profile leaders with big personalities who make headlines and become celebrities, the good to great leaders seem to have come from Mars. Self-effacing, quiet, reserved, even shy – these leaders are a paradoxical blend of personal humility and professional will."

When we think about corporate world, we realize that not just the market forces but nearly all the forces, ethical, religious, moral, social, political, cultural, philosophical, economic etc., define the distinctive features of its worldliness. The plurality of its perspectival variations and their *gestaltan* unity implies the richest and the most diversified concept of the "world". Here, if anywhere, 'reality' has many faces and the 'truth' about it is given to us in and through our lived-experience. Because, through what else could it be given? Therefore, corporate research ought to restore and strengthen our faith in the veracity of truth and value; it should deepen and enlarge the sphere of our corporate world-view. Today, our corporate cares and concerns are becoming more and more sharply defined in terms of their relevance and consequences. They intrusively extend into the domain of research, adding to our admiration for the intrinsic greatness of human character and its pristine simplicity. They also deepen our understanding of the frailties, deadly sins and ghastly temptations of human nature. In their very compelling ways, our corporate cares and concerns pertain to:

- our morbid fear of change and denial of the process of becoming,
- the untested belief that our creative will does not make any difference in our human condition,
- the impoverished and debilitating notion that having reached a certain level of growth and development we have already become what we are capable of becoming and
- our inability to wonder if *what is*, is necessarily *what ought to be*?

Observations such as these tend to become serious research questions. Pursued with the passion of the seeker of truth, they save us from the grief of *hubris* and the sorrow of a life based on idolatrous assumptions and hypotheses. Research celebrates the vision and the joy of freedom from the world as it is, edifying it creatively into a world as it ought to be.

MOTIF

Japan Pakistan Economic Relations Challenges and Opportunities from Japan's New Economy *

Seiji Kojima

Japanese Ambassador Extraordinary and Plenipotentiary

INTRODUCTION

I want to express my heartfelt gratitude to the Institute of Business Administration (IBA) for giving me a chance to speak about the economic relations between Japan and Pakistan. This Institute has history of 50 years, and is the oldest business school outside North America. I am very happy to learn that although this highly renowned institute was established with the financial support from USAID, it has also developed strong connections with Japan. Prof. Danishmand, Dean and Director of the Institute of Business Administration, has worked for the Atlas Group and Suzuki Motorcycles Pakistan. Prof. Fujita, a senior volunteer from JICA, is already teaching at the IBA the theory and practice of the Japanese concept of Management.

JAPAN PAKISTAN ECONOMIC RELATIONS AS TODAY'S SUBJECT

I have various reasons to discuss the economic relations between Japan and Pakistan today. First, one of the most important and urgent tasks that the Pakistani Government faces is of course to achieve a robust and stable economic growth, thereby enabling to eradicate poverty from this country. As the largest bilateral donor and a major trade partner of Pakistan, it would be quite natural for Japan to place importance on the economic aspect of the relations with Pakistan. Second, this is an institute of business administration, and I imagine that the audience will show interest in the economic side of the bilateral relations, although our relations have been increasingly becoming multi-faceted. Third, Karachi is the commercial center of Pakistan, producing 65 % of GDP of the country, and would be the right place for me to discuss economics. Fourth, almost every day articles on Japan's economy and the relations between Japan and Pakistan appear in major newspapers in Pakistan, they are not often discussed in a comprehensively manner and in an analytical way. But, I have to hastily add that my speech today may not fully satisfy you in terms of its coverage and analytical depth of the subject. This may prove to be a reckless attempt by an amateur.

Although today's subject is the economic relations between Japan and Pakistan, my discussion will not be confined to the bilateral relations *per se*. I also discuss political and economic surroundings of the two countries and the collaborative moves in South Asia and East Asia, which may influence the future of our relations. Today's argument is, in fact, based upon the premise that the fundamental changes in the Japanese economy will play a key role in shaping the future relations.

** Text of the speech delivered by H.E. Ambassador of Japan at the Institute of Business Administration on November 25, 2006.*

THE LOST DECADE IN JAPAN

I would like to start my presentation by sketching what happened in the Japanese economy since the late '80s. The '90s is, as many of you know, often termed in Japan as well as overseas, as "a lost decade". In 1990, asset prices collapsed dramatically in Japan. In the '90s, Japan's annual economic growth came down to 1.6% from 3.8% in the '80s. The unemployment rate rose from 2.1% in 1990 to 5.4% in 2002. Before the collapse, the stock price was over 38,000 Japanese yen in 1989 it came down to the level of 16,000 Japanese Yen in 2005. As the result of a series of fiscal measures, Japan is now faced with a huge amount of the public debts.

There are arguments among economists about the causes for the long economic sluggishness. Looking at the supply side of the Japanese economy, some economists point out a decrease in potential growth capacity. Some economists argue that the demand was not strong enough to fully make use of the economic potential in the Japanese economy. This school also points out a delay in the easy monetary policy in the early part of '90s. As a former lawyer of the Asia Development Bank, I would not make any conclusion now, leaving it to the hands of experts of proper disciplines.

A NEW ECONOMY OF JAPAN

As the result of progress in structural reform since the late '90s, especially under the Koizumi Cabinet since 2001, Japan's economic bases have been strengthened. Banks have started lending gingerly. The non-performing loans (NPLs) have dwindled from more than 8% to below 2%, and the "three excesses" in employment, equipment and debts in the corporate sector have almost been eliminated. Current profits of corporation have seen a fourth consecutive annual increase in fiscal year 2005 and business investment continues to grow strongly. For my convenience, let me name the Japanese economy after 2001 as a "New Economy" without any clear definitions.

The employment situation is also improving and the unemployment rate has decreased from 5.5% to just above 4%. The demand-supply gap has been eliminated and the consumer prices have been in the rising trend. The eradication of deflation has come into sight, with the improvement of the GDP deflator from minus 1.2% in the April-June quarter to minus 0.8% in the following quarter this year.

In the July-September quarter of this year, Japan's GDP expanded 0.5% as compared to the previous quarter, and on an annualized basis it grew 2.0% in the July-September quarter. Japan's economy has been in an expansion phase for 58 months. This is Japan's longest postwar recovery. The Japanese economy is expected to continue a moderate recovery led by private demand with the continuing growth of consumption and business investment, although in the July-September quarter, private consumption declined 0.7%.

Of course, there are risks to the outlook of the economy. They are the further surge of oil prices, the slowdown of the US economy and the possible inventory adjustment in the IT sector.

CHALLENGES AND OPPORTUNITIES FOR PAKISTAN

In the era of globalizing economy, Japanese economy can enjoy the economic growth of the world economy, and in turn will contribute, with its openness and vitality, to growth of the world economy, especially the sustainable development of Asian countries. Now, I would like to discuss challenges and opportunities presented to Japan as well as to the world economy by the New Economy.

First, Japan's exports doubled from 275.2 billion dollars in 1989 to 598.2 billion dollars in 2005. In fact, the economic recovery after January 2002 was first led by exports. Despite the economic sluggishness, Japan's imports also recorded a remarkable increase from 210.8 billion dollars in 1989 to 359.1 billion US dollars in 2001, and then 518.6 billion dollars in 2005. In 2005, the major trade partners of Japan are East Asia, the US, EU 25 and the Middle East.

Second, in 2005 Japan's FDI on a balance of payments basis recorded 45.5 billion dollars, the highest level during the last 15 years. It increased by 46.8% over 2004. In the manufacturing sector an amount of 26.1 billion US dollars was invested. Japanese automobile companies invested in the US and Asia for the actual or future expansion of production. Japan's FDI to Asia amounts to 16.2 billion US dollars with an increase of 53.4% over the previous year, and the US enjoyed 12.1 billion US dollars with an increase of 61.1%.

Third, as the manufacturing firms go abroad, so do financial institutions, many of which once rationalized their overseas operations during the post-bubble period. Some financial and insurance companies bought local institutions in order to strengthen their operational bases in Asia.

Fourth, although Japan has struggled out of the long economic recess, it is still suffering from its aftermath. If the debts of the central and local governments are added, the amount will become 775 trillion Japanese yen or 151% of GDP in 2006. The government pledged that it would balance the annual budget before debt payments by 2011. This has posed big challenges not only to Japan, but also to ODA recipient countries including Pakistan. I will discuss this issue later.

Fifth, in East Asia, more than half the total trade for the region is conducted within the region itself, demonstrating how tightly-knit the region truly is. Japan has already concluded or is currently negotiating economic partnership agreements (EPAs) with the ASEAN countries and with the Republic of Korea. By the way, while a FTA traditionally focuses on trade of goods, an EPA also includes trade in services, intellectual property and cooperation. We are also promoting joint studies with India and with Australia. In addition, with regards to the economic tie-ups among Japan, China, and the Republic of Korea, academic research by specialists has already been launched. Japan believes that the East Asia Free Trade Area and the East Asia Investment Area will also contribute to promoting regional economic integration. Looking nearer at South Asia, the countries have not yet made full use of regional arrangements, known as SAFTA. I will come back to this issue later.

Sixth, Japan is increasingly becoming an aging society and the population has started to shrink with the peak year of 2004. The population of 65 years old or older now represents more than 20% of the total population, and the fertility rate has gone down to 1.25. These demographic changes require a major transformation in the Japanese economy. In the future, Japan has to rely more upon trade. New technologies, innovations and growth of productivity also hold the key for Japan to cope with the problems caused by the aging population. In other words, the Japanese economy should be more knowledge-based, relying increasingly on less sophisticated industries abroad. Japan may have to consider the acceptance of more professional or technical workers.

The aging society will produce more people who are retired but are still active and who enjoy travelling. They have already travelled abroad extensively, and are not satisfied with the ready made, less adventurous travel schedules. Pakistan, with its natural beauties, historic sites and exotic handicrafts, can be a good destination for these people.

IS PAKISTAN READY TO MEET CHALLENGES AND TO GRASP OPPORTUNITIES?

(Japan's Exports to Pakistan)

As an export destination for Japan, Pakistan has been more or less successful. With the exports of 2001 as the bottom of Japan's exports to Pakistan, Japan's exports to Pakistan increased and reached the level of 1.51 billion US dollars in 2005, representing 0.3% of the total exports of Japan. Through the exports of such items as machinery, automobiles and auto parts, Japan can, I am sure, contribute to strengthening and widening the industrial base of Pakistan so that Pakistan will export a wider variety of industrial goods in the future.

(Pakistan's Exports to Japan)

Pakistan's exports to Japan are in a really miserable situation. The amount has kept on decreasing since 1996, and in 2005 it became a quarter of the amount in 1995. Now, Japan's imports from Pakistan are a negligible amount of 143.7 million US dollars. Why did this happen? What should we do? First and foremost, the corporate sector of Pakistan must strive towards improving its competitiveness and increase its economic competitiveness and increase its economic value added.

The exports of textiles and clothing occupy about 60% of the total exports from Pakistan to Japan. Without a recovery of competitiveness of that sector, you cannot expect a dramatic increase in Pakistan's exports to Japan. I know that Pakistan's textile industry is at a crucial juncture with a fierce competition in the international market, especially after the Agreement on Textiles and Clothing expired in January 2005. It is said that the industry faces the decision to choose yarns and fabrics on the one hand and made-ups and garments on the other. I am not in a position to advise anything, but before making any decision they have to conduct a thorough research in the foreign markets. The sector also needs to upgrade its technology and to develop human

resources. I hope that through works on drawing up a “Textile Vision 2012”, the Government and industry will find strong solutions.

On our part, JICA, JETRO, the Association for Overseas Technical Scholarship (AOTS) and other Japanese organizations are ready to assist the Pakistani public sector and small and medium enterprises through human resource development and transfer of technology. In Karachi, with the assistance by the Japanese Government, the Plastic Technology Centre (PTC) was upgraded and JICA has started technical assistance to the PTC.

(Pakistan as a Destination of Japan’s FDI)

FDI plays a crucial role to upgrade and modernize Pakistani industries. As often argued, trade and FDI are closely related, and more FDI often means more trade, especially exports from the country of investment destination.

In the last three years, Japanese companies have invested more than 100 million US dollars in Pakistan. I hope that the volume of Japanese investment in Pakistan, particularly in the automobile sector, would increase further in the near future, since this sector in Pakistan is expanding. The number of automobiles produced in 2010 is estimated to be 500,000 with an annual increase of approximately 25%. I am therefore very hopeful that in the coming future the Japanese vendors and suppliers would also invest here. This will certainly improve the production quality of the local vendor industries that are still dependent upon the old production techniques.

In the New Economy the concept of a small government will be pursued further. More infrastructure construction and operation will be transferred to the hands of the private sector in Japan. It may become easier for the Japanese private sector to come to Pakistan. On the Pakistan side, the finalization and approval of projects should be further facilitated.

Despite these welcoming trends, Pakistan has not enjoyed a golden share of Japan’s recovery of FDI after the economic revival in Japan. Japan’s FDI to Pakistan of 45.2 million US dollars in 2004/05 is a modicum of Japan’s total FDI of 45.5 billion dollars in 2005.

In the decision of an investment project, the investor takes into account several factors. First, the macro-economy and policy of the destination country are to be analyzed. Pakistan is currently pursuing a liberal foreign investment policy as part of its economic reform programme and in so doing it has initiated structural reforms as well. On this front, I think that Pakistan has done remarkably well in registering a substantial increase in the net inflow of FDI over the last six years.

Second, the structural reforms and policy changes will remain insufficient if they are not supported by well-collaborated legal, macro-economic and infrastructure framework which is constituted by avoidance of double taxation, establishment of industrial standard for quality control, protection of intellectual property rights and patents, adoption of a long-term consistent policy, provision of roads, railways and ports, access to a reliable power supply, and human capital formation and skills development.

Third, the investment climate in any country can be judged from some basic indicators in doing business, such as its entry regulations, disclosure requirements, bankruptcy procedures and so on. There is no doubt that Pakistan has shown some improvement in these indicators. The improvement is quite encouraging but still further improvement is required in this regard.

Fourth, the security situation is also very important. Nowadays, it would be quite natural for the private sector to assess the safety and security situation including the state of the relations between the destination country and its neighboring countries.

Even if a country improves its investment environment, prospective investors compare the environment of the country with that of other markets. In the case of Pakistan, they compare Pakistan with the countries in East Asia and other South Asian countries. In other words, Pakistan has to compete with these countries.

Here, I would like to introduce to you a case of Japan's FDI to Pakistan. As all of you must know that the automobile industry in Pakistan has been dominated by the Japanese automakers. They started to invest in Pakistan decades ago, when no other foreign automakers showed any interest towards Pakistan. The CEOs of the Japanese automakers have never thought Pakistan as only a market of automobiles. They had a long-term perspective to develop a robust automobile industry in Pakistan, by providing technologies, conduction research and development works, and training managers and engineers, thereby creating a lot of job opportunities in this country. If the Japanese automakers had not invested in this country, there would not have been any automobile industry in this country.

(Pakistan as an Important Partner Country for Japan's ODA)

In order to contribute to the development goals set by the UN, Japan continues its efforts towards the goal of providing ODA equivalent to 0.7% of our gross national income (GNI). We intend to increase our ODA by 10 billion US dollars over a period of 5 years. In order to achieve these goals, ODA in general and ODA to Pakistan in particular should be supported by a wide range of Japanese people. In this regards, Foreign Minister in February 2006 said that:

“Pakistan is a front country in the fight against terrorism. Since ancient times it has been a strategically important transport transit juncture, and many people may not realize this, but it shares a land border with Iran. Helping to build the infrastructure of such country will lead to stability in Afghanistan and central Asia and also has the value of conserving the distribution routes in the surrounding region. As the leading nation in Asia, Japan will suffer if Pakistan is not a calm stabilizing force. You can understand here too the situation in which assistance for Pakistan is also in line with the interest of Japan.”

Then, he concludes by saying that while he was in India and Pakistan in January this year, he thought that Japan's ODA to India and Pakistan would become more and more important in the future.

ODA to Pakistan being justified, in what areas should we give priorities? The Government of Japan formed its long term “Country Assistance Programme” for Pakistan in 2005. In this programme, Japan made the “Construction and development of a sustainable society” the uppermost goal of its ODA to Pakistan, and set forth the following three priority directions for cooperation:

- (1) ensuring human security and human development;
- (2) developing a sound market economy; and
- (3) achieving a balanced regional socio-economic development.

We will apply this programme to our operation in the coming 5 years, respecting fully the Medium-Term Development Framework (MDTF), the Poverty Reduction Strategy Paper (PRSP) and other documents of Pakistan.

After the resumption of the yen loan in 2005, it would take little more time to make the system fully operational, and mainly through yen loans, Japan continues to assist Pakistan in constructing its infrastructure. In addition, Japan will be more active in participating in dialogues on structural reforms and policy issues, and promoting governance, capacity development, devolution, etc. Japan together with other donors actively participates in organizing aid coordinator suitable for Pakistan.

You may have a clearer picture about our ODA, if I take up some future ODA projects in Karachi. Karachi is the heart of Pakistan economy, and an engine for the growth of the whole of Pakistan. Therefore, Japan assists Karachi to vitalize itself through the improvement in the basic industrial infrastructure. Japan has also been assisting to improve the quality of life in Karachi by developing a long-term plan for the establishment of the public transportation network and the elimination of traffic jams to secure smooth movement of workers.

(Regional Cooperation in South Asia)

Traditionally, the south Asian economies are closed ones. The shares of trade to GDP for Pakistan and India are around 30 and 40%, while those of the East Asia economies exceed 100%. Accordingly, the inter-regional trade is still limited. Although there are issues and difficulties in regional trade cooperation in general and SAFTA in particular, I am sure that Pakistan will benefit from regional trade in the long run due to improved competitiveness and access to the large market to South Asia. The integration of South Asian countries with the population of 1.5 billion has become more important, when East Asia has been increasingly integrating itself, and attracting far more FDI. In this regards, it would be gratifying to note that IBA and SAARC Chamber of Commerce & Industry, Islamabad (SCCI) jointly organized in January this year a regional conference on investment and trade.

The economic cooperation among the countries in South Asia will generate a favourable atmosphere for further political dialogues among the members. At the same time, it is also true that the promotion of trade and investment between countries tends to be deterred by the negative moves of the countries. From this point of view, we welcome

the Composite Dialogue process including Confidence Building Measures (CBMs) and hope that Pakistan and India will resolve their differences on various issues including the issue of Jammu and Kashmir.

(Japan's Aging Society and Pakistan)

As I have discussed earlier, Aging Japan again gives Pakistan various opportunities from the promotion of trade and investment to the dispatch of professional and technical workers and also the promotion of tourism. Here, I only discuss tourism and knowledge-based economy.

Pakistan, unfortunately, is not a popular destination for the Japanese tourists with only 13,400 visitors a year, while more than 17 million Japanese go abroad a year. Pakistan is full of tourist resources such as mountains, Buddhist sites, Indus civilization, World Heritage sites, deserts, etc. In Japan, many retired people together with unmarried women and environment-oriented people find interest in Pakistan. Retired people are interested in history, geography and even mountains. Pakistan can easily meet a variety of needs of the Japanese tourists. Challenges here are the quality of various services provided and the safety and security of the region. Our relationship should be developed and supported by grass-root activities. Tourism can contribute in promoting the people to people contacts. So the tasks of accepting more tourists from Japan deserve thoughtful consideration.

According to a recent press report, President Musharraf called for developing knowledge-based economy through the promotion of quality science and technology education in Pakistan. In fact, Japan is one of the countries that Pakistan has asked to assist in setting up a University of Engineering, Science and Technology (UEST). Japanese Academia is now reviewing feasibility and modalities of cooperation. The embassy will make every effort to facilitate this process. I hope that an early conclusion will be made.

CONCLUSION

As I have already discussed, the New Economy in Japan present challenges and opportunities to Japan. Pakistan has also been given challenges and opportunities by the New Economy. If Pakistan is not successful in solving issues and seizing opportunities in a timely manner, our relations will miss a very important chance to be promoted further. Japan is, on its part, always ready to assist Pakistan. In this regard, Pakistan Japan Business Forum (PJBF) has played a very important role since its inception in 2001 and has held dialogues with its Japanese counterpart organization (Japan-Pakistan Business Cooperation Committee). Japan-Pakistan High-Level Economic Policy Dialogue is another forum for strengthening the trade and investment ties and economic cooperation between the two countries. The two forums are closely linked by another forum, the Joint Business-Government Dialogue. I hope that through the dialogues at these forums tangible results will be made.

ARTICLE

On Predictability in South Asian Stock Markets

Khurshid M. Kiani

The University of West Indies, Kingston, Jamaica, West Indies

ABSTRACT

In this research I investigate persistence in monthly excess stock returns over risk free rates in two South Asian stock markets i.e. S&P CNX 500 and KSE 100 stock price indexes using non-Gaussian state space or unobservable component model with stable distributions and volatility persistence.

Results from non-Gaussian state space models show that both markets encompass volatility persistence. KSE 100 has a stable characteristic exponent of α 1.748, but for S&P CNX 500 index the value for the characteristic exponent α is 1.999 which shows normal behavior in this market. Both markets encompass persistent signal in returns at 10% level of significance. The efficiently estimated excess returns for S&P CNX 500 are 0.01% per month (0.12% per annum), and 0.015% per month (0.18% per annum) for KSE 100 index.

Key phrases: stock return predictability; unobserved components; fat tails; stable distributions

JEL Codes: C22, C53, G14

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1. INTRODUCTION

Fama (1991) shows that predictability in stock returns have been explored extensively in the literature. The motive behind exploring stock returns predictability is economic gains that could be attained due to suitable trading strategies (Xu 2004). However, researchers have focused on two aspects of empirical distribution of stock returns which they think are important for accurate predictability. For example, Akgiray and Booth (1986), Jensen (1991), de Vries (1991), Buckel (1995), Mantegna and Stanley (1995), and McCulloch (1997) found evidence of non-normality in stock returns. On the other hand Nelson (1991) Danielsson (1994), Pagan and Schwert (1990), Diebold and Lopez (1995), and Goose and Kroner (1995) found evidence of volatility persistence in stock returns.

Conard and Kaul (1988) employed state space or unobservable component model to predict stock returns considering that shocks in both the observation and state Equations are normal. Similarly, state space models have also been used by Harvey (1985) and Watson (1986) with the assumptions that the underlying errors are normal. However, McCulloch (1996a) and Bidarkota and McCulloch (2004) modeled stock returns to be non-Gaussian with fat tails.

In this study, I investigate possible existence of persistent predictable signal in monthly S&P CNX 500 and KSE 100 indexes excess returns over the respective risk free rates. In order to account for non-Gaussian data, I model returns within the framework of Parisian stable distributions that were also employed by Mantangna and Stanley (1995), Buckel (1995), and McCulloch (1997). Therefore, as in Oh (1994) and Bidarkota and McCulloch (1998), I relax normality assumption in favor of stable distributions because Kalman filter is not operable efficiently with stable distributions. Similarly, to explicitly account for volatility persistence in the return series I employ GARCH-like model. The motive behind this study is to find stock market predictability in KSE 100 index (Pakistani stock market) and compare it with neighboring south Asian stock market (S&P CNX 500: Indian Stock Market). The findings from this study are intended to help policymakers as well as business community in Pakistan.

The remaining paper is organized as follows. Section 2 outlines the most general model used in this paper, and some estimation issues. In section 3, I present data sources, empirical results, and hypotheses tests, and finally section 4 includes conclusions of the study.

2. STATE SPACE MODEL FOR STOCK RETURNS

In this research six versions state space or unobserved time series econometrics models are used. Model 1 is the most general model that encompasses unobservable component in stock returns including non-normal errors and GARCH-like effects which is shown in following three Equation:

$$r_t = x_t + \varepsilon_t \quad \varepsilon_t \sim c_t z_{1t}, \quad z_{1t} \sim iid \ S_\alpha(0,1) \quad (1a)$$

$$(x - \mu) = \phi(x_{t-1} - \mu) + \eta_t \quad \eta_t \sim c_\eta c_t z_{2t} \\ z_{2t} \sim iid \ S_\alpha(0,1) \quad (1b)$$

$$c_t^\alpha = \omega + \beta c_{t-1}^\alpha + \delta |r_{t-1} - E(r_{t-1} | r_1, \dots, r_{t-2})|^\alpha \\ + \gamma d_{t-1} |r_{t-1} - E(r_{t-1} | r_1, \dots, r_{t-2})|^\alpha \quad (1c)$$

Where,

$$d_{t-1} = \begin{cases} 1 & \text{if } r_{t-1} - E(r_{t-1} | r_1, r_2, \dots, r_{t-2}) < 0 \\ 0 & \text{otherwise} \end{cases}$$

Here r_t is the observed one-period excess return, x_t is an unobserved persistence components in the series, and Z_1 and Z_2 are independent white noise processes.

Model 2 is obtained restricting $\alpha = 2$ in model 1 which can be written as:

$$r_t = x_t + \varepsilon_t, \quad \varepsilon_t \sim \sqrt{2}c_t z_{1t}, \quad z_{1t} \sim iid N(0, 1) \quad (2a)$$

$$(x_t - \mu_t) = \phi(x_{t-1} - \mu) + \eta_t, \quad \eta_t \sim \sqrt{2}c_\eta c_t z_{2t}, \quad z_{2t} \sim iid N(0, 1) \quad (2b)$$

$$c_t^2 = \omega + \beta c_{t-1}^2 + \delta |r_{t-1} - E(r_{t-1} | r_1, r_2, \dots, r_{t-2})|^2 + \gamma d_{t-1} - E(r_{t-1} | r_1, r_2, \dots, r_{t-2})|^2 \quad (2c)$$

Setting $\beta = \delta = \gamma = 0$ in model 1 gives model 3, which is shown in Equation 3:

$$r_t = x_t + \varepsilon_t, \quad \varepsilon_t \sim S_\alpha(0, c) \quad (3a)$$

$$(x_t - \mu) = \phi(x_{t-1} - \mu) + \eta_t, \quad \eta_t \sim S_\alpha(0, c_\eta, c) \quad (3b)$$

When restricting $\phi = 0$ in model 1, the shocks ε_t and η_t are not separately identified so c_η is also not identified. The resulting model is model 4 which is shown in Equations 4 :

$$r_t = \mu + \varepsilon_t, \quad \varepsilon_t \sim c_t z_t, \quad z_t \sim iid S_\alpha(0, 1) \quad (4a)$$

$$c_t^\alpha = \omega + \beta c_{t-1}^\alpha + \delta |r_{t-1} - \mu|^\alpha + \gamma d_{t-1} |r_{t-1} - \mu|^\alpha \quad (4b)$$

Where,

$$d_{t-1} = \begin{cases} 1 & \text{if } r_{t-1} - \mu < 0 \\ 0 & \text{otherwise} \end{cases}$$

Model 5 shown in Equation 5 is obtained setting $\alpha = 2$ in model 4 .

$$r_t = \mu + \varepsilon_t, \quad \varepsilon_t \sim \sqrt{2}c_t z_t, \quad z_t \sim iid N(0, 1) \quad (5a)$$

$$c_t^2 = \omega + \beta c_{t-1}^2 + \delta |r_{t-1} - \mu|^2 + \gamma d_{t-1} |r_{t-1} - \mu|^2 \quad (5b)$$

Restricting $\beta = \delta = \gamma = 0$ in model 4 results in model 6 which is presented in Equation 6:

$$r_t = \mu + \varepsilon_t, \quad \varepsilon_t \sim S_\alpha(0, c) \quad (6)$$

A random variable x will have stable distribution $S_\alpha(0, c)$ when its log characteristic function can be represented as:

$$\ln E \exp(ixt) = i\delta t - |c_t|^\alpha \quad (7)$$

The parameter $c > 0$ measures scale whereas the parameter $\delta(-\infty, \infty)$ measures location and $\alpha \in (0, 2]$ is the characteristic exponent that governs the tail behavior. A small value of α indicates thicker tail and normal distribution pertaining to symmetric stable family encompassing $\alpha = 2$ whose variance is equal to $2c^2$.

In the process contained in Equation (1c) we restrict $\omega > 0, \beta \geq 0, \delta \geq 0$, and $\gamma \geq 0$. The theoretical term involving dummy variable d_{t-1} captures leverage effects that are transmitted from negative shock to increase in future volatility more than a positive shock of equal magnitude (Nelson 1991, and Hamilton Susmel 1994). Abstracting from the threshold term, when the errors are normal, the model of volatility persistence reduces to GARCH-normal process.

Any predictable variation in excess return is because of persistent component x_t , which are assumed to follow a simple AR (1) process. When predictable component in Equation 1 becomes significant, then $E(r_t | r_1, \dots, r_{t-1})$ provides a useful forecast of returns. However, when c_η and ϕ or one of these is negligible, the returns are purely random, so these may display spurious predictions.

2.1. Estimation Issues

Non-Gaussianity of the state space model in Equation 1 creates complication in estimation even without the presence of conditional heteroskedasticity. This happens because the Kalman filter is no longer optimal due to the non-Gaussian nature of shocks.

The general recursive-filtering algorithm due to Sorenson and Alspach (1971) provides optimal filtering and predictive densities under any distribution for the errors and the formula for computing the log likelihood function. These formulae are presented in Appendix-A.

The recursive equation that is employed to compute filtering and predicting densities are given in the form of integrals whose close form analytical expressions are generally intractable, especially in very special cases. In this study, I numerically evaluate these integrals.

Stable distribution and density may be evaluated using Zolotrav's (1986) proper integral representation or by taking inverse Fourier transformation of the characteristic function. However, McCulloch (1996b) has developed a fast numerical approximation to stable distribution and density that has an expected relative density of the precision of 10^{-6} for $\alpha \in [0.84, 2]$. I, therefore, restrict α in this range for computational convenience.

Lumsdaine (1996) shows that the effect of initial values in GARCH volatility process on the properties of the parameter estimates in GARCH (1, 1) is asymptotically negligible. Diebold and Lopez (1995) suggests to set the initial conditional variance ($2c_0^2$, where it exists) equal to sample variance at the first iteration and the subsequent

iterations to sample variance from simulated realizations with estimated parameters (from the previous iterations). Engle and Bollerslev (1986) suggests initializing the GARCH process using estimates of c_0 unconditional value obtained from the volatility process in Equation 1c.

3. EMPIRICAL RESULTS

3.1 Data Sources

Monthly excess returns in two South Asian stock markets over relevant risk free rates are employed from March 1991 through February 2004. Monthly stock prices for Pakistani stock market index KSE 100 and Indian stock market index S&P CNX 500 were obtained from Datastream. Pakistan Treasury bill rates and Indian central bank discount rates are the two risk free rates that were obtained from September 2004 version of International Financial Statistic (IFS) CD-ROM. Excess returns are expressed as percent per month throughout the study. Figure 1 plots excess return series for S&P CNX 500 index and Figure 2 plots excess return series for KSE 100 index. The plots shown in these Figures encouraged me to employ models for detecting possible persistence of mean returns using state space or unobserved component model of stock returns.

3.2 Estimation Results

Tables 1 and 2 show the estimation results for S&P CNX 500 and KSE 100 stock price index for different models estimated for this study. These Tables show parameter estimates for characteristic exponent α , volatility persistence parameter β , ARCH parameter δ , leverage parameter γ , signal to noise ratio c_η , and AR coefficient of persistent component of returns ϕ . There is ample difference in two markets that can be characterized by low values of characteristic exponent α , the volatility persistence parameter β , and high values of leverage parameter γ in KSE 100 index compared to S&P CNX 500. The predictable component in KSE 100 stock price index is statistically significant whereas there is less evidence of statistically significant predictable component in S&P CNX 500.

Figures 3 and 4 show filter mean $E(x_t | r_1, r_2, r_3, \dots, r_t)$ for Indian and Pakistani stock markets respectively. These plots show that predictable component appear to be constant which indicates that variation in its parameter estimates might not be component in forecasting excess returns.

3.3 Hypotheses Test

In the following sub-sections the tests for normality, volatility persistence, and persistence in mean returns are elaborated. All tests are based on likelihood ratio test statistics.

3.3.1 Test for Normality

This test is based on the null of $\alpha = 2$ in model 1. The LR test statistics for this test has non-standard distribution because the null hypothesis lies on the boundary of the admissible values for α ; therefore, standard regularity conditions are not satisfied. Inferences are therefore derived from test statistics based on the critical values due to McCulloch (1997).

Based on LR test statistics, the null hypothesis for KSE 100 index can easily be rejected at a significance level of better than 0.005 using critical values from McCulloch (1997). However, using LR test statistics, the null hypotheses of normality, and no volatility persistence for S&P CNX 500 index is not rejected. The study results indicate that even after accounting for GARCH-like behavior, the excess returns are significantly non-normal.

3.3.2 Test for Volatility Persistence

The test for no volatility persistence (homoskedasticity) can be formulated by restricting $\beta = \delta = \gamma = 0$ in model 1. The statistical inferences for this test are based on χ^2_3 distributions.

The LR for the null of no GARCH which is to test $\beta = \delta = \gamma = 0$ reported in Tables 1 and 2 respectively for S&P CNX 500 and KSE 100 indexes. Homoskedasticity in both the markets is strongly rejected with χ^2_3 critical values.

3.3.3 Test for Persistence in Mean Returns

The null hypothesis for this test is obtained from setting $\phi = 2$ in model 1 which assumes that return series are random. In this case the standard likelihood ratio test statistics for this test are not applicable because the two shocks ε_i and η_i are not separately identified so the scale ratio c_η is also not identified. Similarly, the bound for the asymptotic distribution of a standardized likelihood ratio test statistics due to Hansen (1992) which is applicable in such cases may result in under-rejection of the null or a subsequent power loss as noticed by Hansen himself. In addition, the test statistics is computationally very intense especially for this study, so I refrain from using it. Therefore, the inferences reported are based on the critical values obtained from χ^2_1 and χ^2_2 distributions.

Based on the LR test statistics for S&P CNX 500 index, the null hypothesis of no persistence in mean returns ($\phi = c_\eta = 0$) is rejected at 10 percent level of significance using critical values from χ^2_1 distribution. However, the null can not be rejected using critical values from χ^2_2 distribution at 10% level of significance. For KSE 100 stock price index, the null is rejected at 10% level of significance using critical values from χ^2_2 or even χ^2_1 distribution. Therefore, after accounting for normality and volatility persistence there exist statistically significant persistent signals in both the markets.

3.3.4 Additional Tests on Normality and Volatility Persistence

The tests for non-normality and volatility persistence are repeated considering model 4 as an alternative model. In this case model 5 is null model for non-normality and model 6 for homoskedasticity. The intuition behind these additional tests is to find the impact of excluding predictable component (from state space model) on the inferences from our model.

LR test statistics for normality and volatility persistence are reported in last two rows of column 5 in Tables 1 and 2 respectively for S&P CNX 500 index and KSE 100 index. Based on these results we failed to reject hypotheses of normality and no volatility persistence for S&P CNX 500 index. However, we reject both normality and no volatility persistence component in KSE 100 index. Figures 5 and 6 plot scales from model 4 for S&P CNX 500, and KSE 100 index respectively which show the evidence of highly non-constant scales in these markets, however, scales for KSE 100 index shows spikes in different time periods exhibiting a tendency towards stock market crashes.

3.3.5 Test for Leverage Effect

Absence of leverage effect imply that negative shock do not necessarily lead to negative increase in future volatility than positive shocks of the same magnitude. This hypothesis can be tested setting $\gamma = 0$, with $\gamma > 0$ as alternate hypothesis that the leverage effect exists. The results (not reported for brevity) strongly reject the null hypothesis in favor of leverage effects both for S&P CNX 500 and KSE 100 index.

3.4 Discussions on Results

The study results on hypothesis tests reveal that monthly KSE100 index excess returns from March 1991 through February 2004 do posses significant non-normality that is predictable even after accounting for conditional heteroskedasticity. Similarly, volatility persistence is also statistically significant. Leverage effects in volatility is insignificant, however, there is an evidence of statistically significant predictability at 10% level using critical values from χ^2_2 as well as χ^2_1 distribution. Statistically significant evidence of volatility 14 persistence exists in S&P CNX 500 index but there is no evidence of non-normality in this market. The state space models do not show statistically significant persistent signal in return series after taking into account volatility persistence at 10% level of significance using critical values χ^2_2 from distribution, but we are not able to reject the null of no persistent signal in returns using critical values from χ^2_1 distribution for this market at 5% level of significance.

As shown in Figure 6 KSE 100 index show highly non-constant scales and when compared to S&P CNX 500 index (Figure 5), the Figure shows random spikes in the years 1992, 1998, and 2000-2001. The plausible cause of these spikes are the external events during these years e.g. Gulf War, Asian Financial Crises, and crises after

September 11, 2001 respectively that sensitized stock market agents that caused in instability in the stock prices and hence the market. Policymakers might be interested to address underlying policy issues enhance investor's confidence that would strengthen the stock markets in the country and help stabilize the economy.

4. CONCLUSION

In this study non-Gaussian state space or unobserved component models are employed to find possible predictability in two South Asian stock markets (S&P CNX 500 and KSE 100). The state space models fully account for non-normality and volatility persistence that might be present in return series. S&P CNX 500 index demonstrate estimated value of characteristic exponent α which is close to normal behavior, however, the excess return encompass ample evidence of stock return volatility characterized by GARCH-like behavior. KSE 100 excess stock returns demonstrate significant leptokurtosis. The estimated value of characteristic exponent is well away from the value pertaining to normal behavior in this market, and excess stock returns exhibit ample persistence in stock return volatility that can be characterized by a GARCH-like process. There is insignificant leverage effect in the stock return volatility in both the markets (S&P CNX 500, and KSE 100) indicating that the negative shocks do not necessarily lead to greater increases in future volatility than the positive shocks of the equal magnitude. Unlike S&P CNX 500, KSE 100 index exhibits scale spike that shows a tendency towards stock market crashes. Policymakers might be interested to address underlying policy issues that might help improving the major stock market of the country.

The study results on predictability of monthly stock returns are statistically significant in KSE100 index but such results are less significant for S&P CNX 500 index. The efficiently estimated excess returns for S&P CNX 500 are 0.01% per month (0.12% per annum), and 0.015% per month (0.18% per annum) for KSE 100 stock price index.

Appendix A: Sorenson-Alspach Filtering Equations

Let Y_t , $t = 1, \dots, T$, be an observed time series and X_t an unobserved state variable, stochastically determining Y_t . Denote $Y_t = \{y_1, \dots, y_t\}$. The recursive formulae for obtaining one-step ahead prediction and filtering densities, due to Sorenson and Alspach (1971), are as follows:

$$p(x_t | Y_{t-1}) = \int_{-\infty}^{\infty} p(x_t | x_{t-1}) p(x_{t-1} | Y_{t-1}) dx_{t-1}, \quad (A1)$$

$$p(x_t | Y_t) = p(y_t | x_t) p(x_t | Y_{t-1}) / p(y_t | Y_{t-1}), \quad (A2)$$

$$p(y_t | Y_{t-1}) = \int_{-\infty}^{\infty} p(y_t | x_t) p(x_t | Y_{t-1}) dx_t. \quad (A3)$$

Finally, the log-likelihood function is given by:

$$\log p(y_1, \dots, y_T) = \sum_{t=1}^T \log p(y_t | Y_{t-1}). \quad (A4)$$

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Table 1: Model Estimates (for S&P CNX500 Excess Returns) with Leverage Effects

Parameters	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
α	1.999 (9.52e-5)	2 (restricted)	1.826 (0.148)	1.999 (0.000)	2 (restricted)	1.904 (0.133)
μ	0.010 (0.009)	0.009 (0.009)	0.012 (0.008)	0.010 (0.001)	0.010 (0.008)	0.068 (0.005)
ω	0.000 (0.000)	0.000 (0.000)		0.000 (0.001)	0.001 (0.008)	
β	0.843 (0.105)	0.846 (0.102)		0.766 (0.165)	0.766 (0.001)	
δ	0.081 (0.054)	0.081 (0.055)		0.060 (0.033)	0.060 (0.165)	
γ	0.935 (0.625)	0.965 (0.631)		0.000 (0.000)	4.47e-10 (0.033)	
c_η	0.000 (0.000)	3.19e-7 (0.000)	0.004 (0.002)			
c			18.334 (10.143)			0.012 (0.008)
ϕ	0.318 (0.227)	0.310 (0.220)	0.105 (0.085)			
Log L	142.485	142.419	137.806	140.269	140.269	135.906
LR ($\alpha = 2$)	0.132			0.000		
LR ($\beta = \delta = \gamma = 0$)	9.358			4.363		
LR ($\phi = c_\eta = 0$)	4.432	4.300				

Notes on Table 1

1. The following unobserved component or state space model with non-normality (stable model) is employed to estimate the results shown in the table.

$$r_t = x_t + \varepsilon_t, \quad \varepsilon_t \sim c z_{1t}, \quad z_{1t} \sim \text{iid } S_\alpha(0,1) \quad (1a)$$

$$(x_t - \mu) = \phi(x_{t-1} - \mu) + \eta_t, \quad \eta_t \sim c_\eta c z_{2t}, \quad z_{2t} \sim \text{iid } S_\alpha(0,1) \quad (1b)$$

2. All estimates are rounded off to the third decimal place.
3. Hessian-based standard errors for the parameter estimates are reported in parentheses. LR ($\phi = c_\eta = 0$) gives the value of the likelihood ratio test statistic. It is a test for no predictable components in excess returns. Under this null, the distribution of the LR test statistic is non-standard (see section 3.2 in the text for an elaboration).
4. P-values generated by estimating Gaussian versions of Models 1 and 2 with data simulated from the estimated Gaussian Model 2 are reported in parentheses.
5. LR ($\alpha = 2$) gives the value of the likelihood ratio test statistic for the null hypothesis of normality.
6. The small-sample critical value at the 0.01 significance level for a sample size of 300 is reported to be 4.764 from simulations in McCulloch (1997).
7. LR ($\beta = \delta = \gamma = 0$) is the test for no volatility persistence. This test is evaluated at χ^2_3 p-values.

Table 2: Model Estimates (for KSE100 Excess Returns) with Leverage Effects

Parameters	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
α	1.610 (0.110)	2 (restricted)	1.749 (0.131)	1.748 (0.130)	2 (restricted)	1.748 (0.177)
μ	0.013 (0.013)	0.024 (0.016)	0.012 (0.002)	0.015 (0.011)	0.023 (0.011)	0.088 (0.008)
ω	0.000 (0.000)	0.007 (0.007)		0.014 (0.006)	0.010 (0.009)	
β	0.000 (0.000)	0.014 (1.079)		0.031 (0.468)	0.004 (0.946)	
δ	0.002 (0.005)	6.45e-13 (8.46e-10)		2.85e-13 (1.06e-10)	8.58e-13 (2.36e-9)	
γ	18.170 (5.916)	0.541 (0.442)		1.66e-9 (6.34e-7)	3.038e-10 (3.20e-7)	
c_η	6.25e-9 (6.77e-7)	1.25e-10 (1.65e-7)	0.086 (0.007)			
c			0.001 (0.003)			0.016 (0.012)
ϕ	0.191 (0.070)	0.613 (0.313)	0.156 (0.001)			
Log L	88.494	83.738	85.411	82.529	79.792	82.528
LR ($\alpha = 2$)	9.512			5.474		
LR ($\beta = \delta = \gamma = 0$)	6.166			0.002		
LR ($\phi = c_\eta = 0$)	11.930	7.892				

Notes on Table 2.

1. See notes in Table 1.

Figure 1 – Monthly SnP CNX 500 excess stock returns

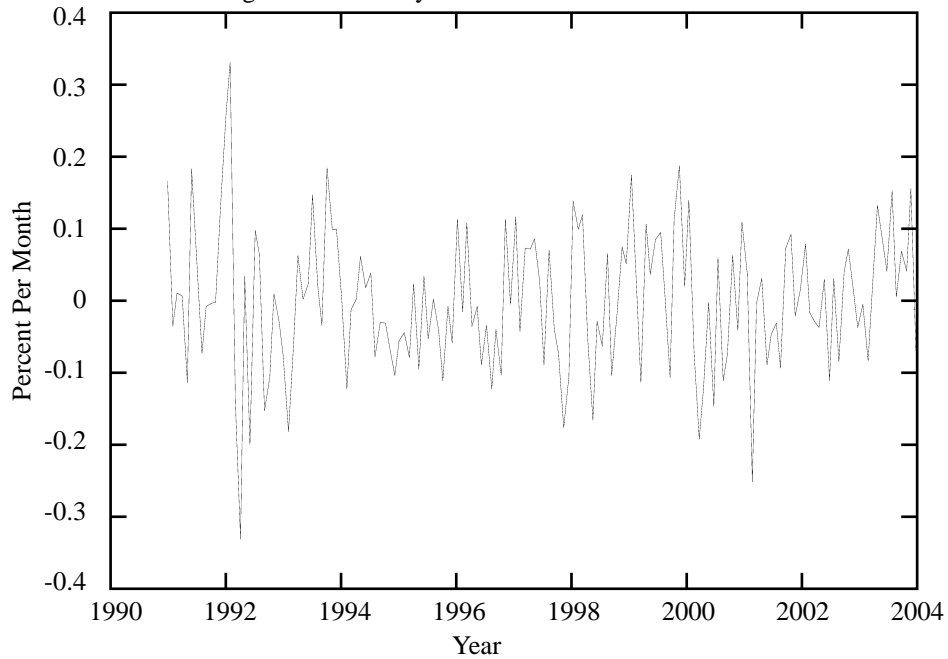


Figure 2 – Monthly KSE 100 excess stock returns

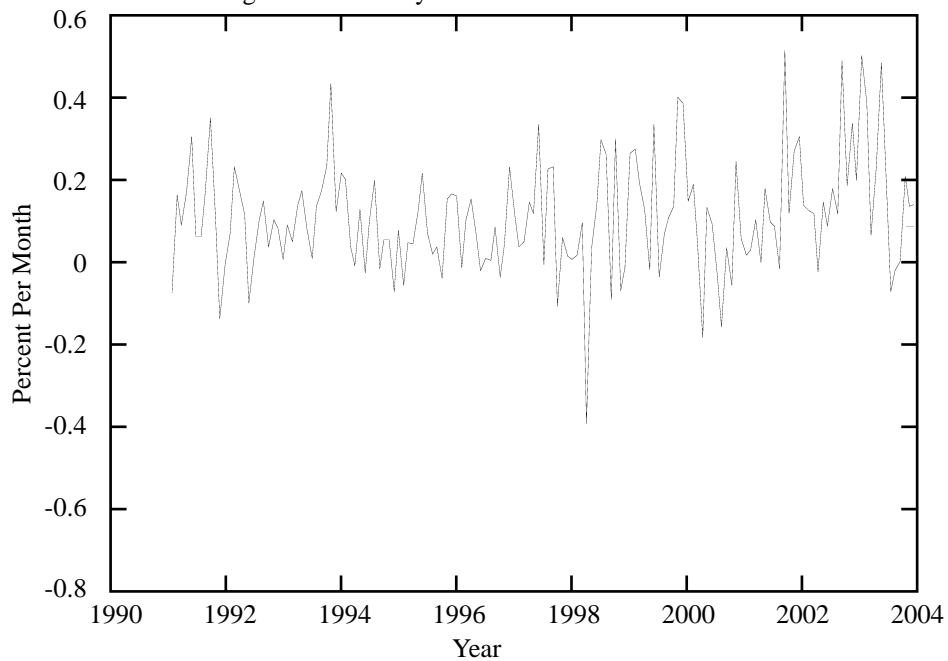


Figure 3 – SnP CNX 500 excess returns and filter estimates

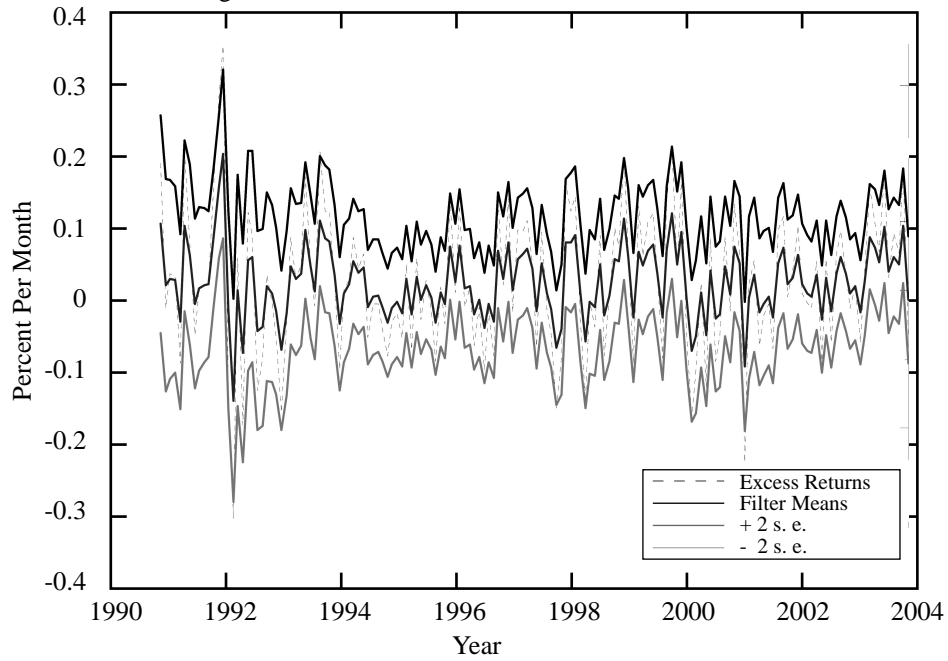


Figure 4 – KSE100 excess returns and filter estimates

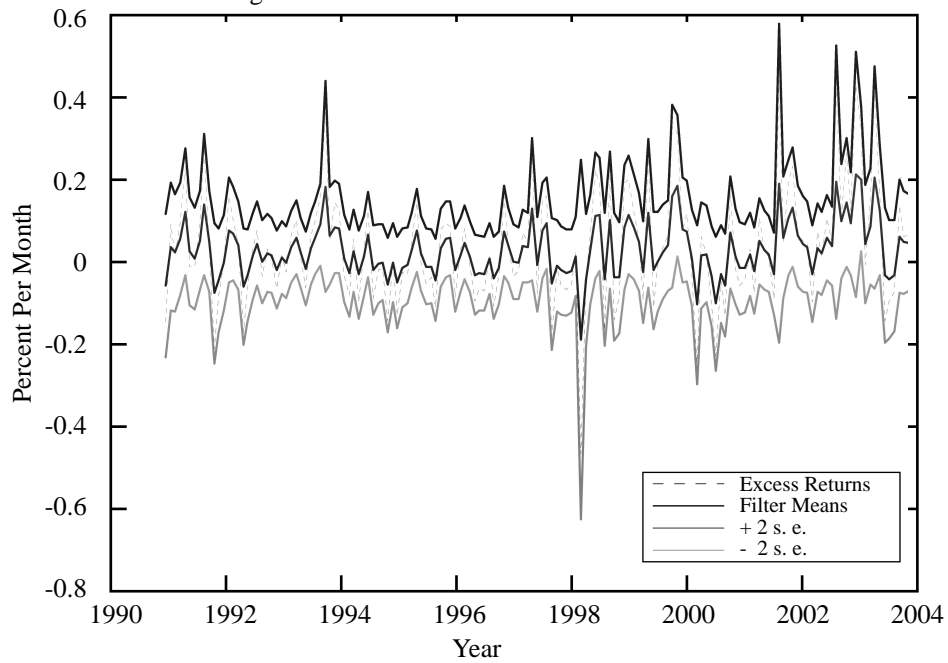


Figure 5 – Stock returns volatility-stable GARCH (1,1) Model 4

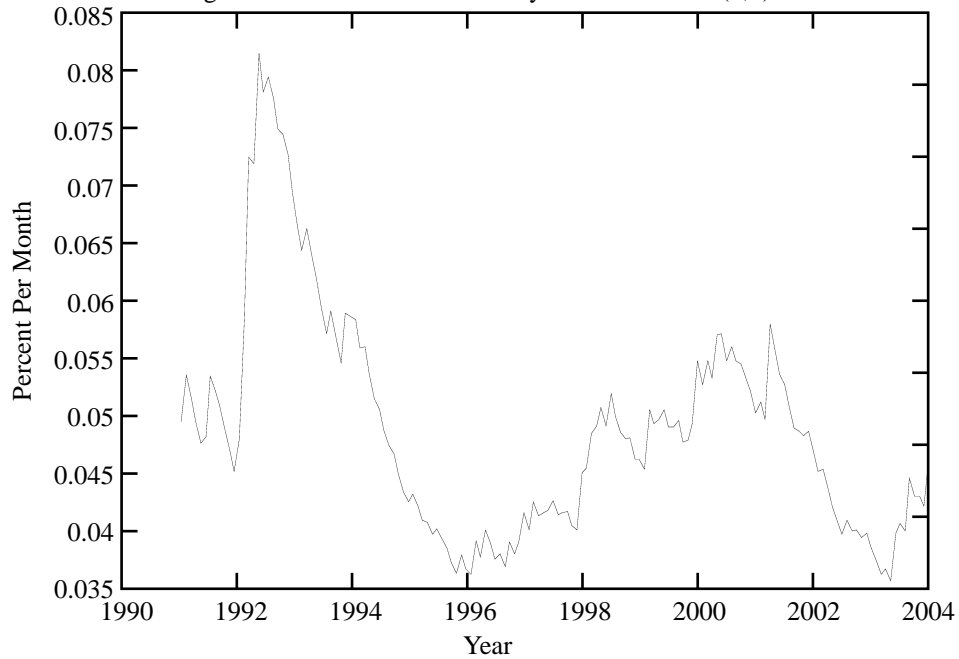
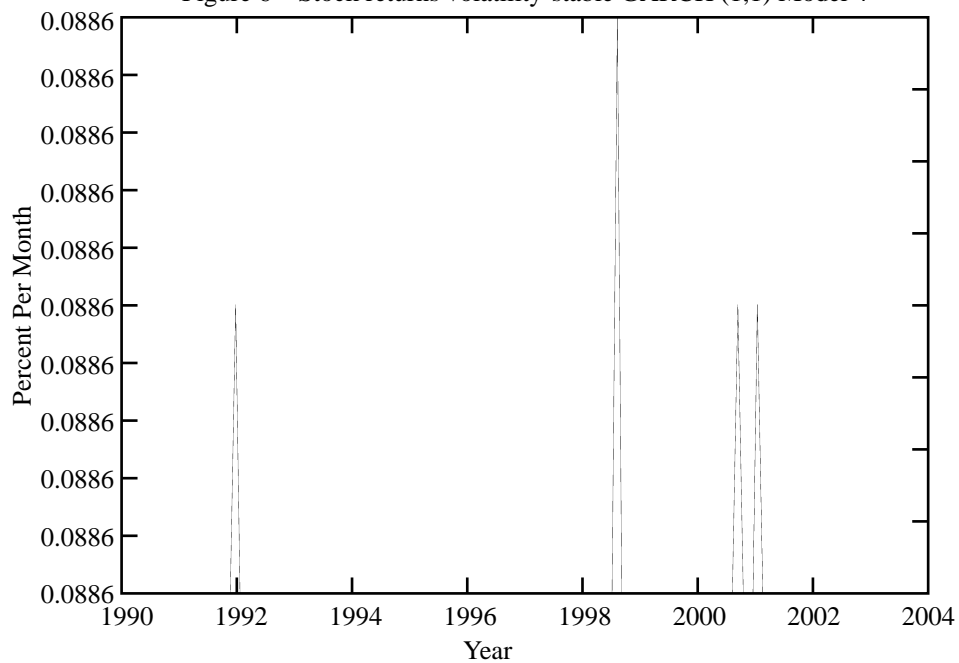


Figure 6 – Stock returns volatility-stable GARCH (1,1) Model 4



ARTICLE

Authentic Leadership Style and its Implications in Project Management

Shamas-ur-Rehman Toor

National University of Singapore, Singapore

George Ofori

National University of Singapore, Singapore

Faisal Manzoor Arain

Institute of Business Administration, Karachi, Pakistan

ABSTRACT

Project leader/manager is vital for project management organization. Project manager should be able to influence the followers positively, manage several activities together, communicate with various stakeholders at the same time, manage conflicts, take difficult and risky decisions, deal with several socio-economic and cultural challenges, handle several deadlines, control the resources, solve disputes, and finally achieve the project objectives. To accomplish these jobs, the project leader must develop an appropriate leadership style which can be employed under such circumstances for effective performance outcomes. Moreover, leadership researchers have argued that current frameworks do not suffice the need to develop future leaders who can face the challenging future with valor. This situation necessitates the need for a new form of leadership. This paper presents a case for changing and more demanding role of project leader for managing the exigent future projects. The authors argue that a new breed and generation of project leaders is required to fight the turbulent business environment. This new leadership can be provided by developing authentic leadership style in project leaders. It is argued that authentic leadership style is unique and best suited to project management practices. The paper also discusses benefits and applications of authentic leadership style in project management. Proposals are made for authentic leadership development in project leaders. The study would be beneficial for management professionals in the business industry in general.

Keywords: Leadership, Management, Project Leader, Organization.

INTRODUCTION

In the traditional organization — the organization of the last one hundred years — the skeleton or internal structure, was a combination of rank and power. In the emerging organization, it has to be mutual understanding and responsibility.

With much emphasis on project management systems, construction firms are now seeking professionals with better management and leadership skills rather than technical skills (Dulaimi, 2005; Arain, 2005). This finding is not limited to construction industry alone. All project-based organizations are looking for personnel who have better

leadership skills to cope with multitude of issues faced on modern project management organizations. Research in project management has also fully recognized the importance of leadership in project-based organizations (Keegan and Hartog, 2004) and effective performance of the project manager is recognized as the single most critical factor affecting successful project outcomes (Powl and Skitmore, 2005). Research has also shown that there is significant relationship between the project leader's professional qualification, his leadership style, team composition (Odusami et al., 2003); and the competencies of project managers as evidenced in terms of key behaviors (Dainty et al., 2006).

However, Turner and Muller (2005) have noted that the literature on project success factors does not typically mention the project manager and his or her leadership style or competence as a success factor on projects. This is in direct contrast to the general management literature, which views effective leadership as a critical success factor in the management of organizations (Turner and Muller, 2005). There has been a debate that the corresponding need for leadership skills development has not been adequately researched (Skipper and Bell, 2006; Toor and Ogunlana, 2006). Evidence in this regard is the observation of Cleland (1995). He mentions the limited description of 'leadership' in the Project Management Body of Knowledge (PMBOK) and notes the subject as "*terra incognita*", the unknown territory. The situation has remained the same after a decade and PMBOK still provides very little discussion on leadership (Toor and Ofori, 2006c).

Despite the scarcity of leadership research in project management, the authors notice that emerging literature in the domain is consistently emphasizing the need for effective leadership in project managers who have been widely acknowledged as one of the important success factors (Odusami, 2002; Long et al., 2004; Toor and Ogunlana, 2005; Toor and Ofori, 2006c). Also, leadership (or the lack of it) has been identified as a key variable for the functioning of teams and one of the main reasons for the success or failure with which team-based work systems are implemented (Katzenbach, 1994). Though people define leadership differently (Bogus and Rounds, 2006), researchers in the field of project management mostly rely on a functional or operational definition of project leadership rather than relying on a broader and vague conceptualization. That is why there has been confusion if project managers are different from project leaders. To overcome this misunderstanding, researchers elaborate that the person in charge of a project may carry one of a variety of titles (e.g. project leader or project manager) and he/she is usually the main focal point of responsibility for the project (Cooke-Davies, 1990; Harrison, 1992).

McCuen (1999) asserts that leadership consists of the knowledge and skills that the individual possesses and employs to persuade others to enthusiastically work toward the completion of the plan of action that the leader has established." According to Goffee and Jones (2000), effective leadership requires "being yourself, with skill". Thamhain (2004) takes a distinct stand and argues that effective team leaders are social architects who recognize the interaction of organizational and behavioral variables and can cultivate a climate of active participation, accountability and result-orientation.

Leadership in organizations requires sophisticated skills in leadership, administration, organization, and technical expertise (Toor and Ogunlana, 2006).

A number of research studies suggest various taxonomies of leadership styles for effective project management. Nonetheless, there is no evidence about universality of certain leadership styles which can be used under all sets of situations and circumstances in different cultures and countries. Another issue regarding the contemporary taxonomies of leadership styles is that most of them are self-centered, task-centered, relationship-centered, or change-centered (Toor and Ofori, 2006c). These styles do not tell if the effort behind the leadership is genuine, authentic, reliable, and truthful. Also, these styles can be pretended like “chameleon” and hence are prone to be used for certain personal purposes. Briefly, leadership style is a big dilemma which business professionals face today. In this paper, the authors make an attempt to answer the intricate question of “what leadership best suits to project professionals under all conditions”. It is argued that the answer lies in developing a natural leadership style which is based on personal values, convictions, aspirations, and motivations. This leadership style is a best possible match of heart and mind with actions of leader. Leadership researchers refer to such leaders as authentic leaders. In the next sections, the authors present a case for changing role of project manager due to abundant business challenges and dilemmas. Discussion has been made on various popular taxonomies of leadership styles to argue that these taxonomies do not fulfill the demands of future leadership. In the end, the authors argue that “authentic leadership” and “authentic leaders” are solution to the so-called leadership crisis of today’s business world.

CHALLENGES IN THE MODERN BUSINESS ENTERPRISES

Describing the challenges of modern business enterprises, George (2003) argues that capitalism has become the victim of its own success. According to his view, measures of business development such as growth, cash flow, and return on investment are fading away and new criterion of success is “meeting the expectations of security analysts”. To reach the earning targets, investments are cut back resulting in the growth potential of company. To achieve the targets of profit maximization and to satisfy shareholders, CEOs go to extreme measures. They have become forgetful of human and social capitals which earn long-term success for the companies. They are anxious about profit maximization at the expense of their employees and organizational values. Businesses of today are undoubtedly going through a tumultuous era and markets are more challenging than ever before.

Swift changes in the business environment, organizational structures, technology, and lifestyles are introducing a considerable rethinking of leadership development (Bowman and Farr, 2004; Arain et al., 2004). Modern businesses face bigger challenges due to rapidly changing world. These challenges comprise socio-cultural, economic, technological, legal and regulatory, environmental, and ethical (Toor and Ofori, 2006d). There are certain industry specific challenges which are pertinent to particular industries but mainly comprise: globalization, rapidly growing markets, growing size of the projects, integration of processes, fast track nature of the projects, multi-project

environment, concept of franchising, larger private sector participation in infrastructure projects, increasing vertical integration in the packaging of construction projects, proliferating trends of strategic alliances such as joint ventures, consortiums, mergers, acquisitions, and partnering relationships. These rapid changes have led to the widespread adoption of flattened organizational structures and empowerment strategies. To improve the organization's operational flexibility, several modern types of organizations have also evolved like: networks, collaborations, federalist structure, shamrock structure, and virtual organizations (Bolman and Deal, 1997).

Among the outside environment challenges, socio-cultural challenges include: spreading wave of terrorism, wars, political upheavals, security problems, increased private participation in the infrastructure projects, and cross cultural issues. Economic challenges include funding difficulties, uncertain economic conditions, threats of high inflation due to increased energy prices, fluctuating stock markets, exchange rates, and cash flow problems. Technological challenges include: increased use of information and communication technology (ICT) resources, e-procurement, large technological differences between developed and developing countries, matters of technology transfer, and technological innovation and advancement. Legal and regulatory challenges include: different legal systems, litigation procedures, and arbitration methods within and across the countries. Environmental and sustainability challenges include: strict environmental regulations, increased awareness and need for sustainable development, and deconstruction of the built infrastructure. Ethical challenges include: prevailing corruption in the developing countries, fraudulent, unethical, and unprofessional practices in professions.

CHANGING ROLE OF PROJECT MANAGERS

Under the effect of vast array of challenges discussed in the preceding section, role of project managers is constantly changing in the organizations. Quality of management largely determines the success of projects completed either in the country of an organization or beyond its borders. Especially with fast pace of globalization and internationalization of projects has resulted in demands and expectations of clients. Quality standards are more stringent and firms are facing huge competition in terms of winning the projects both inside their home country and abroad. Also, increased demand for foreign direct investment (FDI) has forced the governments to relax the regulations for foreign companies. Race of attracting more FDI has widened the boundaries of businesses and local companies are facing bigger challenges to survive in their homelands. Therefore, they are going cross borders to find opportunities which suit their specialties and expertise. Researchers have argued that projects which are carried out beyond national borders create special problems for managers, such as dealing with multiethnic work teams, operating within local laws, regulations, social customs, and importing materials (Enshassi and Burgess, 1990).

Under such circumstances, project leaders are expected to have better comprehension of socio-economic, cultural, and political setup of the countries they are deployed in.

They must also understand the religious and ethnic sensitivities of their team members to create harmony in the teams. Also, it is additionally beneficial if they are conversant with history of socio-cultural development of the country. In today's world, it is hard to imagine a homogenous project team in terms of ethnicity, nationality, religion, and culture. Therefore, project managers must have a broader knowledge of various customs, cultures, countries, religions, and ethnicities to deal with several team members. Any insensitive actions can not only destroy the trust but can also result in ill effects on the project performance.

In addition, project managers now operate with a significant degree of power and autonomy in return for increased responsibility for the operational performance of their projects (Dainty et al., 2006). They handle huge budgets and manage large volumes of all sorts of resources. They deal with several stakeholders of the project and satisfy everyone's distinct demands. They now deal with public and have to answer critical questions regarding their projects. They are liable for everything happening on their projects and are accountable for the outcomes. They resolve disputes among various parties involved in the project and they take critical decisions which have long-term impact on project health. To fulfill a number of roles including those of facilitator, coordinator, motivator and politician (Briner et al., 1996), project managers' demanding and multifaceted job necessitates the development of more sophisticated approaches to managing their development and performance in a way which supports both specific project objectives and the wider business goals of the organization (Dainty et al., 2006).

DIFFERENTIATING LEADERSHIP FROM MANAGEMENT

In several instances, people use the terms "manager" and "leader" in the same context. Therefore, a clear difference should be recognized between leadership and management and more specifically leaders and managers. Mowson (2001) believes that leaders may not excel at management and, what is more often the case, managers do not necessarily make great leaders. Kotter (1990) explains that management is about planning, budgeting, organization, staffing, controlling, and problem-solving. Management mainly comprises planning, scheduling, budgeting, organizing, and executing. It ensures that every project task starts and finishes in time and under allocated resources. In short, management is more task-oriented and objective. On the similar lines, managers are concerned with achievement of certain organizational objectives. They make the best use of available resources to accomplish the job efficiently and effectively. Their focus is on short-term gains and their work surrounds the day-to-day goals.

Leadership, as Kotter (1990) argues, is more about establishing direction, aligning people, and motivating and inspiring others. Leadership is concerned with long-term outcomes and future goals of the organizations. Leadership is more about people and less about tasks. Leaders often put many of the same skills and interests to good use but often to better effect because they focus on areas such as discovering solutions (not problems), managing changing conditions, excelling in spite of organizational structure, and inspiring personnel to achieve their goals.

Leaders achieve objectives through energized and excited subordinates who share their passion, vision, and direction. Good leaders feel comfortable challenging the status quo and finding efficient—as well as long-term—solutions to challenges. Good leaders develop through a never-ending process of self-analysis, and the utilization of education, training, and experience to improve. The best leaders are continually working and studying to improve their leadership skills (Gharehbaghi and Mcmanus, 2003).

Now that the difference between leaders and managers is clear, a simple question that arises is if we need leaders or managers to run the project organizations. Looking at the challenges the managers face today and their increasing role and responsibility in project organizations, it is obvious that only management can not bring the fruits. As Skipper and Bell (2006) propose that there is progressively more a need for engineers in project management positions to also have people oriented skills, i.e. leadership skills, to complement their technical skills. Gil et al. (2005), present a different perspective. They view that both leaders and managers employ a mix of leadership and management behaviors appears much closer to reality so that they must combine the necessary skills to direct day-to-day affairs effectively (a role traditionally associated with management) while at the same time anticipating and managing change (leadership main role). Yukl (2002) argues that rather than seeking to establish distinctions between managers and leaders, the two can be explained jointly using the same processes and models.

This leads to a simple understanding that managers of contemporary and future organization can not just rely on their management and technical skills which are usually referred to as hard skills. They will have to be more conversant with soft or leadership skills. To be successful in the modern business world, managers will have to find a balance between their management and leadership abilities so that they can not only fulfill the performance criteria but also can create a harmony within their team so build successful and futuristic organizations. This debate does not at all aims to prove that managers are not better than leaders or that only leadership qualities are the ultimate solution to modern business challenges. The authors argue that management alone is not an answer. Managers should tie the management with leadership so that they can enjoy the benefits of both worlds.

LEADERSHIP STYLE

Over the last several decades of leadership research, a number of leadership styles have been proposed for organizational leaders such as: transactional, transformational, laissez faire, charismatic, democratic, autocratic, consultative, joint decision making, authoritative, participative, servant, tyrant, task oriented, relationship oriented, production-oriented, employee-oriented, performance or maintenance, directing, coaching, supporting, delegating, authority-compliance, impoverished management, country club management, team management, middle of the road management and so on (Toor and Ofori, 2006c). Yang and Shao (1996) hypothesize a positive relationship between team effectiveness and the balance of the eight supervisory roles which are:

facilitator, mentor, innovator, broker, producer, director, coordinator, and monitor. Findings indicate that managers in the organizations should not only be concerned about the development and balance of the eight roles, but should also change role emphasis during the different stages in the team development (Yang and Shao, 1996). In the following, some research studies are quoted which have been conducted to analyze the most suitable leadership style for certain projects.

Task vs. People oriented style

Plethora of research on task vs. people oriented leadership styles has produced mixed results. Makilouko (2003), in his study of multicultural projects, found three multicultural project leadership styles. Considerable majority of project leaders they studied indicated a solely task oriented leadership style. The same leaders also indicated cultural blindness, ethnocentrism, parochialism, or in-group favoritism. The seven leaders that indicated almost solely relationships- orientation, or both task and relationships-orientation, indicated also cultural sympathy and three leadership strategies to maintain team cohesion and to avoid cross-cultural problems. In another research study, Lee-Kelley and Loong (2003) attempt to explore if the project leader's orientation is related to his situational perception of project control. Their survey has found only partial support for the proposed relationships. In an in-depth empirical analyses of the relationship between IS leadership behavior and BPR outcomes for 30 BPR projects, Sutcliffe (1999) found that found that successful BPR leaders use leadership styles that fit the type of task that needs to be done and the needs of the people that will perform the tasks. Researchers of this investigation also note that successful BPR leaders balance their efforts between meeting the needs of the people doing the work and the needs of the work.

Among one of the earliest studies, Monaghan (1981) observed that the project managers, who were high in task and low in people consideration, produced an acceptable level of commercial performance. Another research described the project managers as "socially independent" though the calculated LPC scores suggested the task-oriented behavior of the subjects (Dulaimi and Langford, 1999). Seymour and Elhaleem (1991) also noted the effectiveness of project managers fairly synonymous with task-oriented leadership. Rowlinson et al. (1993) examined variations of leadership style employed by the same construction managers in different circumstances. They found that project leaders tended to use a supportive style in feasibility study and pre-contract stages of works and a directive style as construction progressed. Dulaimi and Langford (1999) also documented the project managers in their study as socially independent. They noted that the project manager's personal orientation and the situational variables varied independent of one another. Their results show that the personal orientation of the project managers has no influence on their behavior.

In another study of construction site managers (CSMs), Fraser (2000) found that the high scoring CSMs on the effectiveness scale favored team-style leadership; those CSMs following a production style of leadership scored the lowest of all; and CSMs using a compromise leadership style had middle range effectiveness scores. Contrary

to earlier studies, Ogunlana et al. (2002) found that the relationship-oriented leadership style was considered to be more important than the task-oriented style for project managers in Bangkok. Fellows (2003) in a study of the quantity surveyors in Hong Kong observed that quantity surveyors were mostly relationship orientated and tended to adopt the supportive style of leadership. They noticed that the expressed preference for relationship orientation was stronger amongst contractors than consultants.

These case studies illustrate that there is no accurate answer if task-oriented leaders are more effective or people-oriented. The reasons are clear: there is no one best leadership style which can be claimed as all time best (Fiedler, 1967; Vroom and Jago, 1988); context is important when it comes to measuring management knowledge (Chanlat, 1996; Arain and Low, 2005) and leadership style (Fellows et al., 2003) and its effectiveness. Moreover, contingency theories of leadership also advocate the fact that leadership style can not be separated from the prevailing conditions under which leadership is being exercised (Fiedler, 1967; House, 1971; Hersey and Blanchard, 1982). Several other researchers also agree to the fact that leadership style should vary according to the situation and the leader must find a fit between his style, those who are being lead, and situational factors and demands (Gilbert, 1983; Muir and Langford, 1994; Kangis and Lee-Kelley, 2000). These studies do mention that the leadership style should suit the situation but fail to suggest how a leader should shift from one style to another.

Transformational vs. Transactional style

Transformational vs. transactional leadership style has also been studied by a number of researchers in project management field though there is a dearth of both theoretical and empirical research in project-based organizations (Keegan and Hartog, 2004). Thite (2000) conducted an empirical research aimed at identifying successful leadership styles for managers of Information Technology/Systems projects. Their results indicated that a combination of transformational and technical leadership behaviors augment the effectiveness of transactional leadership leading to high project success. Researchers of this study also acknowledge that there is no one leadership style that is effective in all project situations and hence recommend an underlying yet flexible style characterized by organizational catalyst, intellectual stimulation, behavioral charisma, and contingent reward behaviors for enhanced leadership effectiveness.

Keegan and Hartog (2004) report the findings of an empirical study comparing the relationship between transformational leadership style and employee motivation, commitment and stress for employees reporting to either project or line managers. Their results indicate that although project managers are not perceived as less transformational, the relationships between transformational leadership and outcomes is weaker for employees who report to project managers than for those who report to line managers.

In their study of construction project managers, Chan and Chan (2005) observe that all five of the transformational factors and three of the transactional factors are

significantly correlated with leadership outcomes of leader effectiveness, extra effort by employees, and employees' satisfaction. In another study of construction project managers in Turkey, Giritli and Oraz (2004) observed that: (i) female and male managers were similar in terms of their transactional leadership behavior but their transformational practice was significantly different which suggested the task-oriented style of both sexes in a gender-congruent context; (ii) managers in higher positions were stronger in pacesetting style than those in lower management positions which indicated that senior managers led by example, yet exerted tight control over poor performance of their subordinates. In a recent study of construction project managers in Thai construction industry, Toor and Ogunlana (2006) observed that the attributes of transformational leaders were rated high as compared to those of transactional leaders for successful performance on large construction projects. They also noted that use of authority and punishment was rated among the lowest rated leadership behaviors.

These case studies clearly demonstrate that transformation leadership style (based on idealized influence, inspirational motivation, and intellectual stimulation, and individualized consideration) has been proven to be more effective as compared to transactional leadership style (which is based on contingent reward, management by exception (active and passive)). A number of researchers have argued that transactional skills are important for effective management; however, in today's world, organizations are continuously changing and hence expect the leaders to employ a different approach to lead the change (Daft, 2003). Since it has been argued that business world is constantly changing due to globalization and several other factors, transactional leadership is not a solution.

Moreover, there has been criticism on transformational and transactional leadership. Yukl (1999) presents a strong case in this regard and makes several points to illustrate conceptual weaknesses in transformational and transactional leadership. He believes that the underlying influence processes for transformational and transactional leadership are still unclear. He further argues that each transformational behavior includes diverse components, which makes the definition more ambiguous. The partially overlapping content and the high inter-correlation found among the transformational behaviors raise doubts about their construct validity. Moreover, some important transformational behaviors (such as inspiring, developing and empowering) are missing in the Bass (1996) version of the theory and in the MLQ, which was designed to test the theory (Bass & Avolio, 1990). The transformational leadership also fails to identify any situation where it can prove to be detrimental. Extending his critique on transactional leadership, Yukl argues that transactional leadership includes a diverse collection of (mostly ineffective) leader behaviors that lack any clear common denominator. The authors argue that transformational and transactional leaderships lack another important conceptual weakness that is their "fit" with the situation. It is understandable that transformational and transactional leadership styles are not universal may not well match with certain situations.

Charismatic Style

Wang et al. (2005), in a study of three-hundred companies listed in the “Top 500 of The Largest Corporations in Taiwan 2001”, that have implemented ERP (enterprise resource planning) systems, suggest that leaders should demonstrate more charismatic behaviors to establish the ERP project team members cohesiveness and, thus, improve team performance. Cheung et al. (2001) empirical survey conducted in Hong Kong indicated that the charismatic leadership style of design team leader has the most impact on team member satisfaction. More interestingly, same authors note that the charismatic leadership style is often the most dominant style in Asian countries (Cheung et al., 2001) and is often positively related to the effectiveness of the leader. These findings are similar to those presented by presenters of charismatic leadership theory. For example, charismatic leaders have been shown to receive higher performance evaluations (Bass, 1985) and have been rated by superiors as top performers (Hater and Bass, 1988; Wang et al., 2005).

There has been widespread confusion about the meaning of charismatic leadership (Yukl, 1999), partly due to how different theorists define it (Bryman, 1993). Therefore, more clear and consistent definition of charismatic is required to alleviate this confusion. Moreover, creators of charismatic theories also disagree about the relative importance of the underlying influence processes and behaviors in charismatic leadership (Yukl, 1999). He further points towards an important issue that charismatic leadership seems advocate socially acceptable behaviors that increase follower perception of leader expertise and dependence on the leader. However, there can be manipulative behaviors with which leaders exploit their position and authority. These manipulative behaviors are known as negative side of charisma as suggested by Conger and Kanungo (1987) who believe that there are two sides of charisma, positive and negative. Charismatic leadership depends on leader's passion, confidence, and exceptional ability to persuade and sway people. Such leaders enjoy enormous magnitude of position, expert and personal power; and are highly vulnerable to narcissism which may lead to self-serving and self-centered behaviors. Narcissism makes such leaders forgetful of the organizational needs and they start pursuing their personal goals. Overwhelming desire for power and importance lead them to ignore the followers, view point of others, realities and facts, open feedback, need of leadership development in followers, and requirement of coaching and mentoring the subordinates for future (Wart, 2005; Conger, 1989).

LEADERSHIP STYLE DILEMMA

There are many who are living far below their possibilities because they are continually handing over their individualities to others. Do you want to be a power in the world? Then be yourself. Be true to the highest within your soul and then allow yourself to be governed by no customs or conventionalities or arbitrary man-made rules that are not founded on principle.

Naum (2001) states that large capital investment projects coupled with high complexity of decision issues can require different styles of leadership. He acknowledges that ‘a

participative style of leadership with bureaucratic organization is expected to be more appropriate than a directive style'. In contrast, Nicholas (1990) suggests that a less participating, more directive style might be more appropriate when there is less time and high pressure to complete the work. Dulewicz and Higgs (2005) observe that relationship between the approach of leaders (or their leadership style) and the context in which they operate is seen to be important. These contexts can be different set of circumstances such as: cultural environment, project requirements, team members, availability of resources, and organizational support. Though some research studies show the universality of leadership styles (such as supportive, contingent reward, and charismatic), most other styles (such as directive, participative, and contingent punishment) are culturally specific (Dorfman et al., 1997).

Gilbert (1983) argues that no one style of project management is constantly effective, and the manager must continually adapt his approach to match current circumstances. Muir and Langford (1994) also share similar perspective and note in their research findings that the desirable management style is contingent on the task to be undertaken and subordinate's expectations in relation to the task and their relationship with the manager. Considering the life cycle of projects, Odusami and Ameh (2006) argue that different leadership styles are expected to be exhibited in different phases of the project life cycle. During the different phases of the design process, style may need to allow for more debates, fine-tuning and deliberations. Yet, during the construction phases, they may be more structured and dominant. During a concrete pour under adverse conditions for example, they may need to be tough, direct and even dictatorial. In settling disputes, they may need to be creative and conciliatory (Hopper, 1990).

Discussion in the earlier section portrays that different leadership theories suggest different leadership style. Moreover, there is no evidence about universality of certain leadership style which can be used under all sets of situations and circumstances. Contingency leadership theories suggest that leader should adapt to the situation and assume a matching leadership style. For example, Naum (2001) argues that leaders may have to change their leadership from time to time or combine elements of different styles until the right balance between concerns for tasks and concern for people is obtained. However, this doctrine is not only complex but practically difficult to adopt in real life scenarios. Projects are multifaceted and complex jobs where a number of stakeholders are involved. Moreover, in large and multi-project environment, one project manager is responsible for a number of projects which may be at different level of completion and may have varying degree of complexity and other factors. Level of authority and power vested in the project manager may also vary from project to project. In fast track project, where dynamics move faster as compared to ordinary and usual projects, it is expected that project conditions change fast.

Under such complex circumstances, is it really possible for a project manager to alter his leadership style so quickly? Accepting this means that a project manager may have to be task-oriented in the morning, people-oriented in the afternoon, participative in the evening, and delegative on the next morning. At the same time, he has to be democratic within certain project teams and autocratic within the others. Sometimes,

he performs the role of transactional leader and the other times try to exhibit the behaviors of transformational or charismatic leader. In short, he has to become a real-time “chameleon leader” who changes his color ever hour and every day. He must wear different faces in front of different people to get approval of leadership. Contingency theories fail to suggest how a leader will successfully change from one leadership style to another without creating a negative or inconsistent image. Also, the authors argue that every project manager may not have the capability to act in such ways.

This view point is shared by Conger (2004) who argues that “we have been losing an appreciation for the fact that leadership approaches do indeed depend upon the situation”. He further believes that one of the most intriguing issues in leadership studies is whether managers and executives can develop a leadership capacity with a great versatility in style or approach. Simply put, can managers vary their leadership styles significantly given changing circumstances? Or is leadership style such a product of personality and inbuilt personal behaviors that variations in style are limited to incremental changes? (Conger, 2004).

Another issue regarding the contemporary taxonomies of leadership styles is that most of them are self-centered, task-centered, relationship-centered, or change-centered (Toor and Ofori, 2006c). These styles do not tell if the effort behind the leadership is genuine, authentic, reliable, and truthful. Also, these styles can be pretended like “chameleon” for certain personal purposes. Though Conger (2004) opines that the “chameleon leadership capability” is important for leaders to adapt new situations easily, the current authors tend to think differently. An important point which the authors want to emphasize is authenticity of leadership. If leaders change their behavior and style too frequently to adapt to new situations and fit with new circumstances, would that act be considered as genuine? If leaders develop the capability of “chameleon leadership”, how can we guarantee that they are acting in the best interest of their colleagues and organizations even by demonstration of altruistic behaviors? These behaviors can be simply a pretence rather than reality and there is likelihood that leaders use this “chameleon leadership capability” for their personal purposes. Sensing the situation, several leadership researchers have argued that current frameworks are not sufficient for developing leaders of future (Luthans and Avolio, 2003; Avolio, et al., 2004; Avolio, Luthans, and Walumbwa, 2004; Gardner, Avolio, et al., 2005).

These arguments illustrate that leadership style is a big dilemma which business professionals face today. With several leadership styles discussed in the literature, business leaders are at lost to what leadership style suits them the best and can bring them the success in their position. Very often, leadership training programs focus on developing a particular leadership style in the trainees without understanding what sort of organizations they work for and more than that, without any comprehension of their personal motives, convictions, aspirations, self-knowledge, and self-awareness. This leads to a big confusion as the trainees can not find sufficient congruence between their inner-self and the leadership style which is being advocated for successful performance. As a result, they get puzzled and loose both sides of the picture. They can neither get hold of their own leadership style nor do they benefit from leadership

training program. That is why Gardner et al. (2005) ask the leadership training consultants if they have any evidence that they developed even a single leader.

A SOLUTION TO DILEMMA

The answer to the intricate questions mentioned in the earlier sections lies somewhere in a natural leadership style which is based on personal values, convictions, aspirations, and motivations. This natural leadership style is a best fit of leader's personality, behaviors, and actions. If an individual is able to reach this "best fit mode", there would be no need to act like a "chameleon leader" to change the leadership style from one situation to another. Leadership researchers have called this new type of leadership which is based on self awareness and self regulation as authentic leadership and such leaders are known as authentic leaders. George (2003), in his best selling book, argues that to become an authentic leader, every one of us has to have our own leadership style which is consistent with our own personality and character. This is because if we confirm to a style that is not consistent with who we are, we can never become authentic leaders. Adhering to a normative style due to organizational demands can never help achieving the goal of authentic leadership development. Having this unique style, one has to hone his/her style to be effective in different environments to lead different types of people. This does not mean that leaders have to change their style under different situation. They have to develop the capability of working with different people under varying situations. Simply put, they must hone their leadership quotients such as: social, emotional, spiritual, ethical, decision, communication, flexibility, and innovation quotient (Toor and Ofori, 2006a).

The important feature the leader needs to develop in this regard as an intrinsic personality trait is "authenticity" which means "to thine own self be true" in Greek philosophy. Terry (1993) believes that to be authentic is to act, to embody, to engage, and to participate in life. The term authenticity as used here refers to "owning one's personal experiences, be they thoughts, emotions, needs, wants, preferences, or beliefs, processes captured by the injunction to know oneself and further implies that one acts in accord with the true self, expressing oneself in ways that are consistent with inner thoughts and feelings (Harter, 2002). This authenticity of character helps developing the individuals as authentic leaders.

Avolio et al. (2004) define authentic leaders as "those who are deeply aware of how they think and behave and are perceived by others as being aware of their own and others' values/moral perspectives, knowledge, and strengths; aware of the context in which they operate; and who are confident, hopeful, optimistic, resilient, and of high moral character" (Gardner et al., 2004). Shamir and Eilam (2005) believe that authentic leaders have following characteristics: "(1) rather than faking their leadership, authentic leaders are true to themselves (rather than conforming to the expectations of others); (2) authentic leaders are motivated by personal convictions, rather than to attain status, honors, or other personal benefits; (3) authentic leaders are originals, not copies; that is, they lead from their own personal point of view; and (4) the actions of authentic leaders are based on their personal values and convictions."

Presenting their perception of authentic leaders, Shamir and Eilam (2005) believe that: authentic leaders are originals, not copies; they do not fake their leadership; they do not take on a leadership role or engage in leadership activities for status, honor or other personal rewards; their actions are based on their values and convictions; what they say is consistent with what they believe, and their actions are consistent with both their talk and their beliefs. Authentic leaders exhibit a higher moral capacity to judge dilemmas from different angles and are able to take into consideration different stakeholder needs (May et al., 2003). Such leaders are not necessarily transformational, visionary, or charismatic leaders. But they are the leaders take a stand that changes the course of history for others, be they organizations, departments or just other individuals (May et al., 2003). Other researchers posit that authentic leaders, “by expressing their true self in daily life live a good life (in an Aristotelian way), and this process results in self-realization (eudaemonic well-being) on the part of the leaders, and in positive effects on followers’ eudaemonic well-being” (Ilies et al., 2005).

George (2003) believes that leadership is authenticity, not a style. He describes the authentic leaders as individuals who genuinely desire to serve others through their leadership. They take a pleasure in empowering others rather than concentrating power around them. They are guided by qualities of heart and mind together. They are consistent and self-disciplined individuals and never compromise on their principles. In describing the authentic leaders further, George (2003) maintains that the best leaders are autonomous and independent. They are not overly complaint and responsive to unjustified demands of situation and therefore take decisions which are based on principles rather than self-interests. Advocating the benefits of authentic leadership, Avolio and Gardner (2005) argue that “authentic leadership can make a fundamental difference in organizations by helping people find meaning and connection at work through greater self-awareness; by restoring and building optimism, confidence and hope; by promoting transparent relationships and decision making that builds trust and commitment among followers; and by fostering inclusive structures and positive ethical climates.”

HOW AUTHENTIC LEADERSHIP IS DIFFERENT

Cooper et al. (2005) emphasize on discriminant validity of authentic leadership construct to ascertain whether the construct is redundant with other similar constructs. Due to being a new construct, difference between authentic leadership and other forms of leadership makes an important research question. Creators of authentic leadership construct conceptualize it as a “root construct” underlying all positive approaches to leadership (May et al., 2003; Avolio et al., 2004; Gardner et al., 2005). It has been argued earlier that authentic leadership can contain other forms of positive leaderships such as transformational, charismatic, or servant. However, in contrast to transformational leadership in particular, authentic leadership may or may not be charismatic (George, 2003).

Distinguishing between authentic and charismatic leaders, proponents of authentic leadership construct expect that authentic leaders will influence follower self-awareness

of values/moral perspective, more based on their individual character, personal example, and dedication, than on inspirational appeals, dramatic presentations, or other forms of impression management (Gardner and Avolio, 1998; Avolio and Gardner, 2005). Also, authentic leadership theory includes an in-depth focus on leader and follower self-awareness/regulation, positive psychological capital, and the moderating role of a positive organizational climate (Adler and Kown, 2002). This feature is not a prime consideration in other leadership theories.

Avolio and Gardner (2005) argue that to be viewed as transformational by both the definitions of Bass' (1985) and Burns' (1978) necessitate that a leader be authentic; importantly, however, being an authentic leader does not necessarily mean that the leader is transformational. For example, authentic leaders may or may not be actively or proactively focused on developing followers into leaders, even though they have a positive impact on them via role modeling (Avolio and Gardner, 2005). They further argue that the key distinction between authentic and transformational leaders is that authentic leaders have their own deep sense of self and they know where they stand on important issues, values and beliefs. Distinguishing between authentic and charismatic leaders, Avolio and Gardner (2005) note that charismatic leaders employ rhetoric to persuade, influence, and mobilize followers, an authentic leader energizes followers by creating meaning and positively socially constructing reality for themselves and followers.

While differentiating between authentic and other forms of leadership, it is essential to note that authentic leadership is "a process that draws from both positive psychological capacities and a highly developed organizational context, which results in both greater self-awareness and self-regulated positive behaviors on the part of leaders and associates, fostering positive self-development" (Luthans and Avolio, 2003). Authentic leadership goes beyond transformational and charismatic leadership as leaders can be highly authentic but not charismatic at all (Luthans and Avolio, 2003).

AUTHENTIC LEADERSHIP DEVELOPMENT

"Have the courage to say no. Have the courage to face the truth. Do the right thing because it is right. These are the magic keys to living your life with integrity."

--W. Clement Stone

"Wisdom is not a product of schooling but of the life-long attempt to acquire it."

--Albert Einstein

A unique and authentic leadership style is not something which can be developed overnight, through a seminar or workshop, reading books on leadership, watching videos of leaders, joining toastmasters club, taking a leadership course in business school, winning an executive post in the organization, imitating the role models, or memorizing some inspirational clichéd and jargon. It takes several years of personal development, experience, and plain hard work (George, 2003). Developing as an authentic leader is a life-span program as several leadership researchers (Luthans and

Avolio, 2003; Avolio, 2005; Avolio and Luthans, 2006) and practitioners (George, 2003) have proposed. The most important factors which would matter is this “life-span” program is constant ambition for learning and improvement through self-awareness (values, identity, goals and motivations, convictions, and emotions), self-regulation (balanced processing, authentic behavior, relational processing), self-verification, and self-actualization.

According to Luthans and Avolio (2003), authentic leadership development is a dynamic lifespan process and various trigger events during different stages of life help shaping this development over time. These experiences in life lead to development of positive psychological capacities (confidence, hope, optimism and resiliency). Under the influence of positive organizational context, the trigger events and life challenges result in positive self-development which provides self-awareness and self-regulation behaviors. The positive self development eventually results in development of authentic leadership in individuals.

In their antecedent model of authentic leadership development, Toor and Ofori (2006b) argue that the life of a leader comprises various episodes in which significant individuals play their roles in different capacities. These episodes can have both positive and negative influences on the personality of a leader, or leader-self. Outcomes of these episodes eventually profile the actual leader-self. The leader-self characterizes the self-concept, self-knowledge, identity personal values and norms, personality dimensions, nature of social relationships, motives, leadership style, and various other features which are attributed to leaders and leadership. Leadership antecedents can be both positive and negative; however, their impact is significant and can bring major variations in the behaviors of the effected persons. Moreover, this impact can be both short lived and long lived depending on the nature of the significant experiences. Toor and Ofori (2006b) propose that a positive mediation of these antecedents results in development of authentic leadership behavior and style of individuals.

Gardner et al. (2005) present a self-based multi-level model of authentic leader and follower development. The theoretical foundations for their model are provided by the literature on the self and identity. They believe that the developmental processes of leader and follower self-awareness (values, identity, emotions, goals and motives) and self-regulation (balanced processing, authentic behavior, and relational transparency) are vital for authentic leader and follower development. According to this model the influence of the leader's and followers' personal histories and trigger events are considered as antecedents of authentic leadership and follower-ship, as well as the reciprocal effects with an inclusive, ethical, caring and strength-based organizational climate. The proponents of this model view positive modeling as a primary means whereby leaders develop authentic followers. Posited outcomes of authentic leader-follower relationships include heightened levels of follower trust in the leader, engagement, workplace well-being and veritable, sustainable performance.

Ilies et al. (2005) also present their multi-component model of authentic leadership. To explore the specific links between authentic leadership and both leaders' and

followers' eudemonic well-being, Ilies et al. (2005) develop their model starting from the nascent multi-component conceptualization of authenticity. They propose a four-component model of authentic leadership that includes self-awareness, unbiased processing, authentic behavior/acting and authentic relational orientation. Proponents of this model argue that, from a developmental perspective, these dimensions can be roughly mapped onto the six aspects of human wellness proposed by Ryff and Keyes (1995) to reflect human actualization (self-acceptance, environmental mastery, purpose in life, positive relationships, personal growth, and self-determination). Namely, self-awareness and unbiased processing should lead to increased self-acceptance and environmental mastery, and also help one define one's purpose in life; authentic relational orientation should lead to positive relationships; self-awareness and unbiased processing should enhance one's personal growth through self-development; and authentic behaviors and actions are by definition self-determined (Ilies et al., 2005).

According to Shamir and Eilam (2005), authentic leader development has four components: development of a leader identity as a central component of the person's self-concept; development of self-knowledge and self-concept clarity, including clarity about values and convictions; development of goals that are concordant with the self-concept; increasing self-expressive behavior, namely consistency between leader behaviors and the leader's self-concept. They further present a life story approach to leadership development which comprises four themes: leadership development as a natural process; leadership development out of struggle; leadership development as finding a cause; leadership development as learning from experience. This approach suggests that self-knowledge, self-concept clarity, and the internalization of the leader's role into the self-concept are achieved through the construction of life-stories (Shamir and Eilam, 2005).

Michie and Gooty (2005) base their conception of authentic leader and authentic leadership on emotion and positive psychology literatures to present an alternative approach to the role of emotions in leadership. Their approach suggests that frequent experiences of positive other-directed emotions motivate leaders to act on their other regarding values. They introduce an interactive approach to the cognitive and emotional processes that motivate authentic leaders to act in ways that are consistent with their self-transcendent values. They argue that consistency between a leader's self-transcendent values and actions is strengthened by the leader's capacity to experience positive other-directed emotions. In the model presented by Michie and Gooty (2005), self-transcendent values comprise universal values (social justice, equality, and broadminded) and benevolent values (honesty, loyalty, and responsibility). They describe the self-transcendent behaviors of authentic leaders as: treat others fairly, treat others with respect, open to the ideas and opinions of others, transparent, and forego self-interest for the common good. Positive other-directed emotions include gratitude, appreciation, goodwill, and concern for others.

From the perspectives presented above, it is clear that authentic leadership development is entirely dependent on self-discretion of individuals. If someone realizes this fact, rest of the journey to development of authentic leadership style is not difficult, though

it is not that easy too. It needs commitment, perseverance, consistency, and passion. It demands to convince only one person that lives inside the individual to pursue the authentic leadership development program. It is not time specific as well. Individuals can learn to be authentic from day-to-day life and apply their knowledge in their daily matters.

CONCLUDING REMARKS

Importance of leadership in project management is unquestionable. Several studies advocate the leadership and project leader as a critical success factors for projects. However, literature in project managements seems to have given less than deserved attention to project leadership. In this paper, the authors attempt to highlight the need for fresh understanding of project leadership by analyzing the leadership theories and styles mentioned in the literature. It is argued that current taxonomies of leadership styles are not sufficient to develop leaders who can meet the challenges of modern business world. Fast changing economies and businesses demand better and stronger project leaders who are confident, futuristic, flexible, moral, and competent. Leadership literature refers to such leaders as authentic leaders. They do not have to shift from one leadership style to another due to varying situations. They are consistent in their behaviors and lead with a conviction to achieve the project goals. In doing so, they do not compromise on principles, professional and social responsibilities, well-being of followers, and organizational values. The authors argue that such leaders are effective under all circumstances and have the potential to lead under complex conditions. The paper clarifies that these leaders are not perfect human beings; rather, they are true to themselves and illustrate behaviors and actions which are consistent with their character. They lead with both heart and mind. The paper posits that project leaders with authentic leadership style perform better and have greater likelihood of success. In the last section, the paper argues that authentic leadership development is a life-span program and requires personal dedication and commitment to this very mission.

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By "strategic management", we refer to the formulation of company missions, purposes, and objectives; the policies and programs to achieve them; and the methods needed to assure that they are implemented. In the past, strategic management meant essentially adapting to the economic and technical environments. Now it means adapting also to the sociopolitical environment. Indeed, sociopolitical environmental forces are as dominant influences on corporate strategy as traditional market forces.

The concept of strategic management does not imply that managements formulate strategies only in response to current events. Quite the contrary, it means that managers try to anticipate future environmental forces so that they can take proactive measures to deal with them. **Stenier and Steiner: Business, Government and Society: A Managerial Perspective**

ARTICLE

Contemporary Attempts at Overcoming Decadence and Revitalizing Qur'anic Thought

Muhammad 'Ata al-Sid

Bayero University, Kano, Nigeria

Mistaken indeed is the one who thinks that the modern problem of understanding and realizing the Qur'anic ideal is an outcome of recent events. The roots of the problem go far deeper into history. It is one of the peculiarities of understanding that if a misunderstanding passes uncorrected, it results in more misunderstandings and barriers. Misunderstandings quickly generate more misunderstandings and the more they accumulate, the more remote the object of understanding becomes. This is exactly what happened between the Muslims' mind and the Qur'an.

After the Prophet's death, difficult internal problems arose and they needed quick answers. Muslims were killing one another in the struggle for the Caliphate between 'Ali and Mu'awiyah, then between the Umawis and the 'Abbasis, the death of Hasan and Husayn, the massacre of the umawise, the withdrawal of the Khawarji from a community which they regarded as hopelessly involved in sin, the breach between *Sunnis and Shi'is* were all crises which vigorously tested the Muslims' understanding of the word of God. They gave birth to sharp theological and juridical questions to which the text does not give direct answers. Also, after the victories of Islam and the establishment of the Muslim Empire, new needs arose, new problems called for solution, fresh administrative measures forced themselves upon the attention of the expanding community. All had to be faced and met. Meanwhile, sectarian interpretations, theological and philosophical disputes dominated the Muslim world and laid the first barriers to understanding. They also led to that pessimistic phenomenon which had really cut at the roots of genuine Qur'anic understanding viz., the fabrication of reports and falsely attributing them to the Prophet or his famous companions in order to give them a cover of Islamic respectability, having in mind that the way to do that with the Qur'an is totally and forever closed. (1)

At any rate, the time came when the Islamic atmosphere of thoughts was charged with philosophical ideas, techniques of logic and certain concepts of natural theology, political and partisan interpretations of the Qur'an. Neglecting Islam's emphasis on inner devotion, sincerity of intention and correctness of act, as well as upon cultivation of this world and the social life of *ummah*, Sufism deviated into asceticism and renunciation of the world as well as into theories that are foreign to the essence of Islam, thus gravely adding to the developing barriers of understanding. The gap had much widened. Barriers and veils between the Muslim's mind and the purity of the Qur'an assumed ominous proportions.

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The Muslims felt that somewhere something wrong had happened and things were not going as they should. The response came but, unfortunately, with what is worse viz., closing tight the door of *ijtihad*. The conditions put forward, made *ijtihad* or *ijma* absolutely impossible. The two dynamic forces of progress were badly impeded and the mistaken concept of *bid'ah* (undesirable innovation) reigned supreme as a formidable obstacle to creative thinking. The four schools were formulated and every one took sides with the *madhhab* (school of thought) of his fathers or land. Loyalty to one's *madhhab* became as essential point of *jihad* not against the non-believers, but the adherents of other *madhahib*. Everything was said to have been accomplished in the past so much so that any attempt to open the door of *ijtihad*, to think fresh, was condemned as *bid'ah*. Education became strictly a matter of reproduction of what was written before. The art of *hawashi* (explaining and re-explaining what was written before) became the dominant trait of scholarship. The great endeavors for learning and creativity which distinguished the Muslim fathers completely waned down and its lights were fully dimmed. The Qur'an whose mission in this world is to offer man the most authentic existence in a most virtuous civilization was reduced by the masses to some ritualistic hymns and charms to be knitted and worn as protection from evil. Muslims seemed to have lost sight of the face that "the Qur'anic condemnation of *taqlid* touches all kinds of conservatism – including Muslim conservatism; the desideratum being that every faith, and preeminently Islam, should be held by conviction and not by convention, that conviction is always personal and requires constant renewal." (2) The same author says:

They and not the Qur'an, are the strongholds of *taqlid* in the realm of knowledge. Despite all the honor in which their works are held, there were doomed to have no value but that of historical relevance. A great part of them is valuable only to the historian of the period in which they were written, who wishes to consult them as mirrors of the thinking of their day. Fortunately, such works in Islam are not holy, and their refutation by liberal and scientific thoughts has been in progress for over a century and a half. There is hardly a college graduate throughout the Muslim world who does not wish for the hold of these authorities on Muslim minds to break away and disappear. Indeed, each Muslim is enjoined to search his scripture and understand it for himself as Islam has no church and no *magisterium* to pronounce, ex cathedra! on the meaning of scripture. (3)

The author then continues to show how the grip of *taqlid* affected all aspects of the Islamic life. He shows how it extended to the Muslim's understanding of nature; how the nature of saints and miracles inherited from a 1000-year old legacy of Sufism and the instruments of magic from the tradition of essotericism and alchemy which came into Islam in its contact with Near Eastern Traditions, have caused the Muslim to understand the world of nature as a mixture of the workings of nature and super-nature. This, the author concludes, obviates the Muslim's method of research by injecting a non-scientific element into it and makes the scientific basis of research unstable if not impossible. *Taqlid* also extended to the realm of human action and productivity. The notion of *qadar* (predetermined destiny) which is intended to be a dynamic force for action and to counteract hesitation, was misunderstood as passive acquiescence and surrender to the flow of events which is neither knowable nor-predictable. The author then concludes his analysis of *taqlid* by this incisive statement:

Thus, the attitude requisite for technology – that is, for making use of scientific knowledge for subjugating and mastering nature, if such existed or were presented as a gift from the outside – is absent in popular Islam. Instead of the will to translate scientific knowledge into technology and production of goods and services, there is a blind rush to the shortcuts of magical manipulation. In popular Islam, therefore, nothing is remembered of the Islamic ethos, of man voluntarily *assuming* the *amanah* or divine trust first offered by God to heaven and angels and from which they shied away panic and terror; of his surpassing the angels by his involvement in this *amanah* to transform the world within and without into the likeness of the divine *sunnah* or pattern revealed for this purpose; of his inevitable responsibility as a Muslim for Islamic history which began as a will to space-time kneaded and cut after the divine pattern. Nothing has become through the centuries, a truer opposite of Islamic ethics than the practical ethic of the common Muslim. (4)

Ibn Taymiyyah tried his best to open the door of *ijtihad*. He encouraged pure and genuine understanding of the Qur'an by introducing his *fi Usul al Tafsir* (on the fundamentals of interpretation) which is a concise embodiment of the simple rules that are needed for such understanding. He was innovative in his attempt to hierarchize the *sunnah* of the Prophet and to emphasize the hermeneutical importance of certain attributes of the divine. But Ibn Taymiyyah was engulfed by Sufism which he could not fight single handed; and he did not achieve much in actual practice. He died in prison.

After Ibn Taymiyyah and inspired by his teachings, the Wahabiyyah movement was launched in central Arabia. This movement vehemently sought a return to the clarity and purity of religion. One of the basics they raised and which had a strong hermeneutical bearing on their understanding of the Qur'an was the concept of *tawhid* (unization of God). Holding fast to this concept and without the least equivocation, they sought to refashion Muslim life on its basis, and called for a radical and violent overthrow of Sufi institutions. Their staunch conviction and defense of *tawhid* acted like a perfect strainer that refused the least doubt as to the viability or the absolute supremacy of the Qur'an. They combated Sufism. On the theoretical level, they repudiated or re-interpreted every reference on which they relied for the propagation of their teachings. They demolished the Sufi tombs and shrines and anything that bore their philosophy, knowing that nothing is more repugnant to Islam than the worship of graves, tombs and the deification of saintly elders, whether living or dead.

Following in their footsteps, were different movements such as the Sanusiyyah and the Mahdiyyah, all enjoying but limited success. Characteristic of all these movements was their call for a pure and genuine understanding of the Qur'an and the *sunnah*. They denounced *taqlid* and blind attachment to the practices of the forefathers. Their famous motto was "They (forefathers) were men and we are men."

Modern European secularism (5) is not the first major impact on Islam. Before it, there were almost greater impact such as when Islam in its original purity confronted Greek Sciences in Syria and Egypt. Yet, Islam did not receive a rude shock as happened this

time. In the earlier impact, the total vision of the Qur'anic ideal was still there. Coupled with it were the commitment to and practice of the moral and spiritual guidance which the Qur'an provided. For that reason, the Muslims received and assimilated with towering intellectual readiness the giant foreign civilizations and cultures that came their way. They continued the process of consolidation, enlargement, and fruition of the resultant mixed heritage for centuries to come. Had their attitude to those foreign civilizations been one of rejection and hostility, as the Jews did towards Greek culture, the result would have been an exclusive one-sided development, or no development at all. It was their broad-minded understanding of the Qur'an which enabled them to confidently face that critical confrontation and subjecting its outcome to the general good and welfare of humanity.

In the Nineteenth and Twentieth Centuries, the attitude was basically a defeatist one. The religious sentiment was in its lowest ebb. The Muslims were no longer the beacons of guidance and justice in the world. The whole empire, due to the long intellectual stagnation that stifled its life, was deteriorating and falling from within. Rulers were not dedicated to the extent of self-denial as the first rulers were brought up by the Qur'an. Nor were they faithful and confident in their confrontation of Western penetration. Moreover, Sufi interpretations and attitudes towards the temporal life had already succeeded in uprooting the necessary incentives for economical welfare and social justice. The agony of this sorry decline in the Muslim world is typical of a sigh given by Muslim Shaykh, Muhammad al Attar who says in a small booklet entitled *Where is Islam?*:

I searched for Islam in Makkah, the most honorable city, where some of the verses of the Qur'an came down as a revelation to men and a clear guidance. But I saw nothing there save corruption and error and shame and woe.

I searched for Islam in Madinah, the illustrious, but found only miserable people complaining of nakedness and hunger.

I searched for Islam under the government of the Sublime Porte and the Ottoman race, and I found only divisions and parties with names and degrees without number, and no doubt, the names and the degrees are only degrees of vanity and lying. Nor is the Lord ignorant of what they do. By God, if I were not an Arab. I would flee away from your religion to escape from the people whose souls have become inhumane and whose faces have become ugly and knavish.

I sought for Islam in the Azhar University. They make a great show of Islam before the common people, and God knows how much hypocrisy there is in many of them.

I sought of Islam in the mosques, and I saw that most of those who prayed stole the sandals of their co-worshippers, and I said in my heart, where are the Muslims today? Yea, where is Islam? (6)

With such a state of affairs which pleases no human being, the modern Muslims confronted an attractive material civilization which touched their very existence in its advances in medicine, transportation, education etc. and complicated by the unreadiness of the Muslim to resurrect his mind-blinded by centuries of erroneous misconceptions. The way in which those sciences were introduced contribute to further weaken the Muslim's religious sentiment, the essential factor for any hermeneutical regeneration of his understanding of the Qur'an.

As much as the Muslims were existentially glad to receive those sciences, they were told that such an achievement could have never been made were it not for the tremendous victory won over religion and its domain. Curricula of the new sciences took precedence in public schools, while religious teachings were relegated to the background. Even the curriculum of the great Azhar University was impoverished and restricted to the narrower theological interests which it retained during the Nineteenth Century. Without doubt, it was precisely this attitude which proved to be most destructive to the Islamic religious sentiment, and most hindering to an authentic Islamic openness to modernity.

Religious sentiment among the Muslim masses today is stronger and far more intense than among those educated in modern science. It will be a mistake to infer from this that modern science and education are in themselves deadening to the Islamic religious sentiment. Only the point of view from which these subjects were taught is guilty. The medieval Muslim schools taught mathematics, the natural sciences, jurisprudence, philosophy, languages etc., but modern sciences of the same nature are not a continuation to that education. This situation is best expressed by Sayyid Husayn Nasr:

It is true that the modern sciences have borrowed many techniques and ideas from the ancient and medieval sciences, but the point of view in the two cases is completely different. The Muslim sciences breathed in a universe in which God was everywhere. They were based upon certainty and searched after the principle of unity in things which is reached through synthesis and integration. The modern sciences, on the contrary, live in a world in which God is nowhere or, even if there, He is ignored as far as the sciences are concerned. They are based on doubt and having turned their back on the unifying principle of things, seek to analyze and divide the contents of nature in an ever greater degree, moving towards multiplicity and away from unity. That is why studying them causes a dislocation with respect to the Islamic tradition for the majority of Muslim students. Unfortunately, not everyone is able to see the heavens as both the Pedestal of God's Throne and incandescent matter whirling through space. Therefore, the curriculum of the schools and universities in the Muslim countries, by teaching the various modern European arts and sciences which are far the most part alien to the Islamic perspective, has to a large degree injected an element of secularism into the mind of fairly sizeable segment of Islamic society. (7)

Even within the educated class, it resulted in two kinds of men: One possessing much book learning but knowing almost nothing of the very religion they professed for the most part. Such men are alienated from their own people, the Muslim masses. The

second class of men produced by modern education consists of the religiously educated whose training has rendered them increasingly incompetent custodians of Islam and confused them as to the intellectual springs of modern life. Despite their extreme importance for the spiritual and religious enlightenment of their people, this class of men enjoy little respect from the masses and none from their learned colleagues of the first kind.

Both classes as well as all attempts at religious revival in general were tactfully combated by the invader and his internal accomplices. They knew that the unity and strength of the Muslims lie in the Qur'an and the spirit which its authentic understanding generates. Besides these internal and external historical reasons for Muslim stagnation, other factors, hardly ever noticed as potential detractors of religious sentiment went into play with full force. Indeed, every effort was exerted and every subtle ploy resorted to by the enemy of Islam to further weaken and deteriorate the Muslim's religious sentiment, until large numbers among the educated became convinced that it is the necessity to renounce religion in order to regain political independence, pride and honor. Movie houses, magazines, books, etc. with potentially destructive material were encouraged and made easily accessible.

Another detrimental effect of this unguided adoption of Western education and indiscriminating acculturation into secularism and materialism is the large-scale attention to foreign languages and relegation of Arabic to second class status. This was indeed a staggering blow to the attempts at recapturing the pure understanding of the Qur'an. English and French became the symbol of advancement and Arabic the symbol of backwardness.

But no careful scholar can fail to see how genuine and intuitive understanding of the Qur'an by the gifted Muslim forefathers was the root of the glorious state of the *ummah* in the first centuries of Islam. None can miss the fact that Muslim backwardness, weakness, stagnation and deterioration are due to their loss of that intuitive capability. In fact, diligence, vigilance and striving to preserve the strength and purity of the Arabic language throughout the history of Islam, were no less heroic than those spent to preserve and defend the religion itself. Muslims have actually believed that the Arabic language of the Qur'an is a part of its essence. Thus the eternity of the Qur'an conferred eternity on the Arabic language. Henceforth, Islamic culture in the past had always been based on two foundations: the religion and its various sciences; and language with its different branches. The relation between these two pillars has been mutual and interacting even in times of highest pressure, in the sense that the Qur'an without the Arabic language is opaque, dull and obscure, while Arabic without Qur'an shrinks and dies away. For this reason the Islamic tradition always maintained that the Qur'an is not actually the Qur'an unless it is recited in Arabic and Salat is not Salat, unless recited in Arabic. Therefore, excellence in understanding and performance is interdependent with excellence and mastery of the Arabic language. Gigantic efforts were made to write down its different sciences such as grammar, *balaghah*, *bayan*, etc., so as to preserve its original authenticity from change and guard it against the colloquialisms of daily use. In brief, people hastened to study it, to speak it, to defend

it, to be enthusiastic about it and to publish books in and on it, until it had replaced the Persian Language in Iraq, the Greek and Syriac in Syria, the Coptic in Egypt and the Barbarian in North Africa. During the 'Abbasi Period, the golden age of the Arabic language, it became the undisputed language of literature, science, politics administration and civilization. There came the time when the Muslim could travel throughout the vast Islamic Empire without facing any difficulty of communication. There is no equivocation that the Arabic language and its sciences are in the position of the heart with respect to the whole body of religion. Nothing is more true here than the truism that if Arabic is debased, Islam is debased.

Jar Allah Al Zamakhshari in his *Al mufasal*, relentlessly criticized those who ignore or seek to lessen the importance of the Arabic language, or assign to it anything but the primary place. That would be a great sin, he says, towards God and His word. To do that is to hold the people back from the Qur'an. 'Abd al Qadir al jurjani in *Dala'il al I'jaz*, viewed such attempts as rebuffing people from religion, as endeavor to extinguish the light of God (the Qur'an), to put formidable obstacles in fronts of the recapturing of the original and genuine understanding of the text. One may wonder what would such great thinkers in response to the loud cry and the open call of latter day advocates of colloquial Arabic, or of change of the Arabic alphabet. (8)

That call was originally planned by the imperialist and missionary powers. The reason is that the colloquial dialects vary from place to place in the Arab lands to such an extent that each that each dialect could be considered an indigenous and independent language. Therefore, if the classical language, which is the common language, is defeated by any dialect, understanding would be difficult and impossible, the faith would weaken, relationships would be severed, unity would be dissipated and strength would vanish. It would thus make it easy for the imperialists to devour the Muslim lands one by one, without resistance or struggle.

From all these tribulations, the Arabic language, mainly because of its eternal relation to the Qur'an, has emerged safe and unharmed as it did in the face of the most bitter and lethal trial of the Moghul invasion in the second half of the seventh Century A.H.

Muslims can never become Occidentals. In the words of Marshall C. Hogdson, they will never "adopt the Latin masters for their classics, to accept West-European history as their history, to identify with Caesar and Cicero, Charlemagne and Columbus and Leonardo da Vinci as their heroes – still less to become Christians, Catholic or Protestant". (9) Winking an eye at this historically proved fact, some Muslim thinkers wanted to fully affiliate with the West and to relegate Islam to the same position in culture as Christianity occupies in the West. In order to urge his countrymen to modernism, Taha Husayn took an extreme and rather dubious stand. He claimed that the native Egyptian mind is totally Hellenic – and ergo Western – in its orientation; (10) a claim which is openly contested by historical fact. (11) Similar to Taha Husayn is 'Ali 'Abd al Raziq who claimed that Islam has nothing to do with *hukm* (government) and called for separation of Islam from the state. (12) Still, these two men are to be credited for one thing. They vigorously raised the question as to the extent to which

the Muslims are willing to apply the rules of modern historical and rational criticism to their tradition.

Another destructive influence of European origin, has been the wide spread of nationalistic philosophy, as an attempt to meet modern challenges. Arab nationalists sought unity on the basis of race, thus reviving a stand which is severely condemned by the Qur'an as a trait of *Jahiliyyah*, an outcome of ignorance.

On the other extreme were Muslims who rejected all scientific discoveries and methods as the work of the devil. They outrageously condemned such discoveries as anti-religion and a herald of destruction and infatuation. But the successive triumphs of science in the world rendered such a voice weak, remote and now it seems out to existence in the Muslim world. (13)

Even the master guardians of taqlid, namely, the Azhar hierarchy in Cairo, had but to lay their eyes on the libraries, laboratories, chemical and military factories, and workshops which the Napoleonic expedition had brought to Egypt, to desire science in good Islamic conscience – indeed, wishfully to predict that its very success will soon be the Muslims' own, changing the very face of Egypt. (14)

Along these lines are the creditable efforts of Muslims thinkers who while fully realizing the depth of their plight, sought to face the problem most probingly but on no other basis than Islam itself. They sought to revivify the authentic understanding of religion which, they unanimously maintain, is never repugnant to reason or science or limiting to man's material and spiritual advancement. Religious revival is to be achieved without severance of the basic cultural roots of Islam as laid in the Qur'an. They underline the need to reassert and to reinterpret in modern terms the message of the Qur'an as a means of present self-identification without which they can not creatively build the future. They fully realized the most important fact that a strong and sound religious sentiment is an indispensable element for a dynamic and genuine understanding of the Qur'an.

The predominant response in this regard has been a recast of Islam as a philosophy containing, beside its own, all the springs of Western thought which harmonize with itself. Unfortunately, such writings have offered only superficial resistance to Western influence. So far, the mere claim that the religion, properly interpreted and understood, allows for all exigencies of change has proven insufficient stimulation for improvement on the mass level. For it is necessary to get people thinking in terms of this viability as a matter of course.

A modernist calls this trend the "One-Book School" which seeks to assert that;

Islam, and hence the Qur'an, is the fountainhead of all knowledge, human or divine, scientific or religious, of this world or of the next. The scientific knowledge of the world as well as the achievements of technology are all there, in the Qur'an, if not directly expressed, then indirectly through its figures of speech and other

allusions. Whether in his laboratory, in the sky, or under the earth, the scientist, with all his discoveries, is only footnotes to the Holy Book; and the relation of such footnets to the principal text is that of an instance to the general scientific principle in the case of theoretical discovery, and that of a concretization an idea in the case of technological invention. Thus by all kinds of exegetical – nay, esigetical – acrobatics, the followers of the One-Book theory found in the Qur'an the theories of heliocentricity, circulation of the blood, evolution, aviation, microbes, submarine vessels, space travel, and will probably find all the science and technology of the future. (15)

The above statement has beautifully summed up the hermeneutical principle behind this modern attitude to understand the Qur'an and to resent it to the Muslims as inclusive of all scientific discoveries. This is called al tafsir al '*ilmi*. It to the sincere attempt to assure the Muslims, contrary to the allegation of Europeans and their Muslim followers that it is not the Qur'an that kept them lagging behind the advanced West. They wanted to show its miraculousness, its divine authenticity, and its viability for modern life. (16) The first such modern treatment of the Qur'an was by Muhammad Ahmad al Iskandarani, followed by 'Abd al Rahman al Kawakibi whose book *Tabai' al Istibdad wa Masari' al Isti'* bad strongly advocated a new kind of hermeneutical approach to the Qur'an in order to bridge the gap between the Muslim and his Scripture. He explained the scientific implications of:

Neither it is for the sun to overtake the moon, nor can the night outstrip the day.
And all float on in orbit. (17)

By emphasizing the conformity of the Qur'an to the modern scientific principle all celestial bodies are moving in specific orbits. From the verses:

Do not those who disbelieve see that the heavens and the earth were fused together,
so we rent them apart. And we made from water everything living. Will they not
then believe: (18)

He deduced the theory that the sun and the earth were one piece before and then separated. And from another verse, (19) he proves that the moon was part of the earth and the separated. Numerous other verses were so analyzed as to show the compatibility of the Qur'an with modern science.

Following in their footsteps was Mustafa Sadiq al Rafi' in his book *Ijaz al Qur'an* where he adopts the same method. There was also Abd al 'Aziz Isma'il who went to the extent of making a numerical charter of the percentage of proteins in meat, milk, potatoes, etc., in his explanation of the Qur'anic verse:

. . . and sends down rain to bring forth with it fruits for your sustenance; so do not set
up rivals to God while you Know. (20)

The most famous and elaborate exegetical commentary of this kind is Tantawi Jawhari's *Al Jawahir* (The diamonds) which consists of twenty five thick volumes. The author makes it clear that his intention is to prove the scientific originality and orientation of the Qur'an, to stimulate Muslims to achieve leadership in the fields of sciences. He goes through the Qur'an verse by verse explaining them like old commentaries did, but he embarked on about 700 verses which he vastly elaborated as containing valuable scientific theories. With regard to the verse:

And when you said: O Moses. We can not endure one food, so pray to your Lord to bring forth for us out of what the earth grows, of its herbs and its lentils and its onions. He said: Would you exchange that which is better for that which is worse? (21)

He embarked on lengthy discussion of theories of modern medicine, and their encouragement of simple diet. The part of the verse "Would you exchange that which is better for that which is worse?" shows for him the same medically proved scientific views. He wrote long passages on the "chemical secrets" of the opening letters of the chapters. In brief, he left no stone unturned in his attempt to associate the Qur'an with all modern scientific discoveries.

But that hermeneutical approach to the understanding of the Qur'an has been widely denounced as forcing upon the Qur'an meanings never originally intended, and carrying its word far from their natural contexts. This, they rightly argue, jeopardizes faith in the veracity of the Qur'an, for scientific theories are never finished and what is proved true today could turn out to be false tomorrow. To associate the Qur'an with such unstable theories is to pave the way for bigger gaps and crisis of understanding. (22) The best statement in this criticism is that of Mustafa al Maraghi, Shaykh of al Azhar University. He approves of such interpretation only where the verse in question directly communicates or points to an established truth about nature, but not to subject Qur'anic verses or the scientific theories to each other. This is to introduce foreign elements to the essentially religious content of the Qur'an. (23)

A very respectable approach and one more oriented to practicality is Muhammad 'Abduh's solution to the problem. Within the framework of orthodoxy, he tried to bring about acceptance of modern research methods and of their outcomes in the scientific disciplines. The claim is based on the vision of all these as supportive of the Islamic faith. His theory is that without the least harm, Islam should be purged of the misinterpretations that adhered to it throughout the centuries; that any inconsistency between the Qur'an and the modern mind should be rightly removed. It is this sensitive understanding on 'Abduh's part of the importance of religious reinterpretations in any cultural renaissance which gives his approach its strong attractiveness as progress concordant with the Islamic framework; a point frequently overlooked or discarded by many modernists. He firmly believed that the return to the true and unclouded understanding of the Qur'an is the only exit out of stagnation and decay. Any solution which does not give this fact its full consideration is doomed eventually to fail whatever success it might achieve in its early rise.

‘Abduh condemned glorification of the past, any glossing over traditional work or conservatism in the *status quo*. God is to be presented as the most dynamic force in the Muslim’s life. This would make the Muslims religious experience the strongest existential incentive to achieve the best. The highest ideals of the Qur’an are to be exposed clearly and communicated to the masses with all their moving appeal in new forms of religious teaching. (24)

As a hermeneutician, Muhammad ‘Abduh never underestimated the hermeneutical importance of a strong and healthy religious sentiment. He took practical steps towards that goal. He wrote books and articles, introduced new curricula in schools and al Azhar University. He emphasized the dangers of such dichotomy as existed between the intelligentsia and the masses, and he aimed at an indigenous value system in which all could participate. Of all his attempts, what concerns us more is his hermeneutical method.

Muhammad ‘Abduh believed that it is not the Qur’an that presents the problem but the rigidity imposed by the superstitions of *taqlid*, and their resultant apathy. The hermeneutical task is that of stripping away these superstitious accretions through a more rigorous criticism *hadith*. The Qur’an should be interpreted in a way less subservient to the commentaries and more self-reliant. He called for a clearer rationalism giving freer hand in dealing with social questions. He warned against exploiting reason as a mere tool or hand-maid of desire and insisted that harmony with sound constructive reasoning and general coherence of all human knowledge as of the essence of the Qur’an. (25)

With this understanding, he launched a devastating attack on *taqlid*. He described the *muqalid* (imitator) as one who does not listen to the given evidence, who is oblivious to the higher interests of his vocation. He is blind, deaf and his mind is blocked. (26) He makes it his main endeavor to expose all kinds of unfounded understandings and to demolish every barrier or evil that accrued to the Muslim’s minds as a result of barren theological dialectics. (27) He lays the blame on the *ulama* (scholars) who winked their eyes at such obstacles and accepted to live with them. He described them as the *zalimun* (wrong-doers) whom the Muslim is cautioned not to follow. (28) The Sufis, of course, did not escape his attack. He exposed them as concerned with appearances and formalities rather than with the essence of things. They, for example, would exaggerate; in celebrating *mawlid al Nabi* (the birthday of the Prophet) which has no origin in the religion and they would spend a lot of money in that. But if you ask them to donate that money for a humane cause or a very urgent matter, they would be the last to do so. (29)

Muhammad ‘Abduh is famous for his daring reconciliation of Islam with certain tenets of Westerns civilization. One of the striking attempts was his making interest permissible. His method was to argue for that within the Qur’an itself. (30) Noting that the verse in question had prohibited only multiplied interest (*ad’adan muda’fah*), ‘Abduh argued that where such is not the evidence, normal interest would be legitimate. He taught that if some one lends money to a person in need or to start or carry business, he could

rightly ask for a reasonable interest. This opinion triggered a sharp controversy and subjected him to chastisement and denunciation by the conservatives.

Another daring stand is his rejection of polygamy as an established right for every man. Characteristic to Muhammad 'Abduh is his constant recourse to the Qur'anic text for support for his views. (31) In this case, he argued that God permitted polygamy only in cases of dire necessity. Even so, he made it conditional to the individual's capacity to deal between the wives with absolute justice; a matter which the verse itself rules out as hardly ever possible, thus showing that it is the divine will to discourage polygamy. Equally, his modernist spirit caused him to deny sorcery unconditionally including the hadith on which sorcerers usually base their authority. (32)

But Muhammad 'Abduh seems to violate his own rule against speculation about the transcendent realm and in which faith "without how" is a requisite. Hence, angels are interpreted by him as the powers of nature and the intrinsic inclinations of man. He allegorically interprets away the story of Adam, the prostration of the angels etc. (33) Needless to say that in his exegesis, he completely avoided the Israelitisms and Christianisms of his predecessors, and strictly rejected and detail that is of no avail in Qur'anic understanding.

Although there was an intensive resistance to Muhammad 'Abduh's hermeneutical approach, yet, fundamentally, his method came to dominate all hermeneutical approaches in our present time. He was followed by Rahid Rida who adhered to the same method but with noticeable recourse to previous commentaries. Among others who followed in his course are Muhammad Abu Zayd who tries to interpret away all miracles in the Qur'an, Muhammad Qasimi, 'Abd al Karim al Khatib, Mustafa al Maraghi and Muhammad al Mubarak. (34)

A pioneer endowed with total vision of the ideals of the Qur'an and a Muslim who had taken practical steps towards their realization was Hasan al Banna (d'1949), the Supreme Guide to the Muslim Brotherhood Organization. The Qur'an, for him, is not only a spiritual enrichment to the soul but a constitution of life extending to commerce, politics, education – nay, even to health and physical education. His organization entered into politics, gymnastics, business companies, the army, and almost all other departments of human activity in Egypt, with unsurpassed vision of the Qur'anic ideal. He was as opposed to *taqlid* as 'Abduh, and sought reformation with a more enlightened attachment to the sources than 'Abduh. He was consistent in his refusal to be dragged into discussion of the transcendent realm and condemned such discussion as irrational. Besides total vision of Islam and practical bent of mind towards the viability of the Qur'anic message, he was a staunch supporter of the purity of classical Arabic and directed his followers to stick to it in their daily life. His *Risalatan fi al Tafsir*; (35) can be considered as simple but scholarly directions in the process of understanding. In a most valuable advice to one of his followers, he directed that the faithful's heart is the best interpreter of the Qur'an, the faithful, he wrote, should approach the Qur'an humbly and with piety; he should remain continuously in touch with it, understand

its admonitions and act accordingly. He must also study the sunnah as an indispensable aid to understanding and never to resort to the commentaries expect when a certain word is beyond his linguistic comprehension. (36)

The most reputed hermeneutical of our days is 'Aishah 'Abd al Rahman, widely known by her pseudonym Bint al Shati. (37) She has two volumes on Qur'anic interpretation entitled *Al Tasdir al Bayani Lil Qur'an al Karim* which discusses her method and its application on parts of the Qur'an. (38)

Contrary to the dominant seriatim treatment of the Qur'an verse by verse, 'Aishah sought an objective treatment in which all the chapters and verses dealing with a common topic were collected together. Then she put them in the chronological order of their revelation, accepting traditional reports only in so far as they threw light on the contextual circumstances surrounding the historical sitzim-leben of the verse in question. Consistently, she held that the situational contexts, though specific in nature, do not affect the general applicability of the words. The emphasis is no God's intention above and beyond the historical date.

Her method is basically concerned with the literary and stylistic characteristics of the Qur'an. Hence, she strictly concentrates on the given and avoids speculation. The original linguistic meaning of the Arabic word under investigation is to be sought, then the Qur'anic meaning is noted by collecting all forms of the word in the Qur'an and studying their particular usage in the verse or the chapter and their general usage in the whole Qur'an.

Bint al Shati, like all modern expositors of the Qur'an sought to eliminate all extraneous elements from her understanding of the Qur'an. Biblical narratives, unfounded Arab or no-Arab accounts, were totally avoided. The Qur'an, in her opinion, was never intended to give detailed history but refers to great historical events in a usually summary fashion aiming mainly at the moral examples and spiritual lessons derivable therefrom. She opposes the scientific interpretation approach and views it as an extraneous element. Even if the verse deals with a scientific theory, its main intention is the religious lesson which is always clear if the verse is taken in its context. The opinions of past *exegetics* are to be taken only in the manner that assist in that approach and sometimes their opinions are subjected to vigorous analysis and criticism in the light of her findings.

One of the important findings that came out of this method is her dynamic understanding of free will and human responsibility. In her analysis of the word *kabad* (39) which is rendered by all *exegetics* as affliction, she arrives at the understanding that the word refers to man's natural quality for bearing responsibility and the freedom given to him to choose between good and evil. For this reason man is in affliction, i.e. in an everlasting struggle to choose what is best for him. In fact, the immediate verses after the word bear out this understanding. "Have we not assigned unto him two eyes, and a tongue and two lips and clearly demarcated for him the *najdayn* (the two highways of good and evil)" it is, therefore, man's *kabad* or the tribulation of his innate power

of perception to choose one or the other, having seen with his own eyes and thus bearing the full responsibility for his choice. With this basic approach, she throws light on one of the most striking verses of the Qur'an in which the *amanah* (trust) is said to have been offered to the heavens and the earth but they refused to accept it and were afraid of it, but man did. (40) She utilizes that method to analyze the basic words in the verse, *amanah* (trust) and *hamalaha* (carry it), to find out that it is not the material, the religious or even the intellectual that are entrusted to man but it is his free will, his responsibility of choice and accountability which is the main fulfillment of his humanity and what really distinguishes him from all other creatures sublimely expresses in the words "heaven and earth". This free will, the innate power of choice is man's distinction, his superiority to the angels, who do only as they are commanded. (41), She goes on to corroborate her finding by analyzing other frequent Qur'anic words such as *arada* (to will) which occurs in the Qur'an 140 times and in all of them it never appears as an abstract verbal noun, but either as a presents future tense, or the imperative or the past tenses or in any derivative form. Explaining this phenomenon, she says the Qur'an recognizes will only as an act, not as an intellectual abstraction or an attribute, and that the act of willing itself can not be forced on the subject without ceasing to be itself.

Further, she explains that the words *azama* (to resolve) and *raghiba* (to desire) are never predicated to God but no man; thus showing that man's willing is an outcome of prior desire and forethoughts and hence, of his accountability. God's willing is otherwise because He wills by Himself.

Recently, she engaged in a dialogue with Mustafa Mahmud regarding his *Tafsir* 'Asri (42) (modern interpretation). She questioned his very knowledge of Arabic and the different sciences requisite for a public comment on the Qur'an. She called for the observation of a very important Islamic hermeneutical principle that while it is everyone's privilege to understand the Qur'an according to his own mental capacity and knowledge, it is only for those who are well founded in the requisite of knowledge to offer interpretation to the public. Her critics replied that Ibn-i-Abbas, the most reputed expositor of the Qur'an, was not a specialist, his only qualification being a sound natural common sense which Dr. Mustafa Mahmud had. She replied that Ibn and others possessed a sound knowledge of Arabic and were educated in what she calls "the school of prophecy". She staunchly rejected any attempt to make commenting on the Qur'an as a common right while upholding everybody's absolute right to understand the Qur'an according to his own experience.

In addition, her method has been criticized as ignoring or belittling the fact that the Qur'an was revealed in more than twenty years and that its diction and style in the earlier revelations may not necessarily be the same as in later ones. Bint al Shati replied by asserting the unity and consistence of the Arabic language throughout the Qur'an as an evident fact in the Qur'an with which most learned Muslims agree. Therefore, the outcome of her deductive method is trustworthy, especially as it relies on the unity and consistency of the Qur'anic language.

Another attempt to disprove the consistency of the outcome of her method was by arguing that classical authorities did not always agree on the situational contexts of the revelation and that such doubt vitiated her results. She countered that such disagreement is true but would have no effect on her method because she does not consider anyone of them as the cause of the revelation but mostly the external circumstance of it. For as long as the emphasis is on the universality of the meaning and not on the specificity of the circumstance, argument of “variant meanings” falls down.

Another fine point of criticism levelled against her method was that since there are Arabic forms and usage that do not appear in the Qur'an, or which are different from those of the Qur'an, to depend on the sense of feeling for different usages in which the word is used is to introduce extraneous elements in the understanding of the Qur'an. Bint al Shati conceded this but retorted that the difference in usage could be well minded and, in fact, may turn to be very helpful in showing the Qur'anic excellence or its particular usage which may have definite overtone on our understanding. But in all cases of grammar, rhetoric and style particularly the ones developed by later productions, the Qur'an is the adjudicate.

To recapitulate: The process of understanding the Qur'an witnessed its major failures in sectarian understanding as well as in the commentators who sought to embellish their commentaries with Israelitisms and Christianisms but without the least criticality. By the time the claim was made for a deeper meaning that is at variance with the apparent meaning of the Qur'an and 'when Arabic words were completely taken out of their conventional meanings as well as when the foreign doctrines were adopted and Qur'anic passages were twisted to support them, the hermeneutical problem of understanding reached crisis proportion, and the Muslim understanding of the Qur'an suffered serious damage.

These failures had their repercussions on the life of the *ummah* in all its aspects, particularly the notion of *taqlid* which stifled its life. In other words, the religious sentiment which is essential for any authentic understanding of the Qur'an became much weaker and actually impotent.

Being in such unpreparedness, the Muslims recently received a rude shock at the hands of European technology and science. Their response to it varied. The most important of these responses was to seek revival of the *ummah* and to recapture the ideal of the Qur'an. The dominant attitude among modernists is that it is not the Qur'an that presents the problem, but the rigidity imposed by *taqlid*, and their resentment apathy. Consequently, the hermeneutical task is conceived to be one of stripping away these superstitious accretions through a more rigorous criticism of the *hadith*. The highest ideals of the Qur'an are to be exposed clearly and communicated to the masses with all their moving appeal in new forms of religious teaching. In other words, a clearly defined world-view derived from the Qur'an is to be evolved within the context of modern problems and needs. This is the hermeneutical need of the hour for the overwhelming majority of Muslims around the world.

REFERENCES

1. The response to this phenomenon by criticizing circulating reports and codifying the authentic among them in canonical books of *hadith*, is highly praised by some and some are loud in condemning it as a direct cause of stagnation and loss of creativity which characterized the long coming centuries.

Fazlur Rehman is critical of that, particularly of al Shafii's momentous efforts in rejecting *ijma'* after the cannonization of *hadith*. Before al Shafi'i, the living *sunnah* was treated as a general directive in the process of *ijtihad* (free decision) which leads to a wide consensus among the people (*ijma'*). The order was, therefore, the living *sunnah*, the *ijtihad* and the *ijma'*.

For them *ijma'* was not an imposed or manufactured static fact but an ongoing democratic process; it was not a formal state but an informal, natural growth which at each step tolerates and, indeed, demands fresh and new thought and, therefore, must live not only with but also upon a certain amount of disagreement. We must exercise *ijtihad*, they contended and progressively the area of agreement will widen; the remaining questions must be turned over to fresh *ijtihad* or *Qiyas* so that a new *ijma'* can be arrived at. But it is precisely this living and organic relationship between *ijtihad* and *ijma'* that was severed in the successful formulation of al Shafi'i. The place of the living *sunnah-ijtihad-ijma'* he gives to the Prophetic *sunnah* which, for him, does not serve as a general directive but as something absolutely literal and specific and whose only vehicle is the transmission of the *hadith*. The next place he assigns to the *sunnah* of the companions, especially for the first four Caliphs. In the third place he puts *ijma'* and, lastly, he accepts *ijtihad*. Thus by reversing the natural order: *ijtihad-ijma'* into *ijma' - ijtihad*, their organic relationship was severed. *Ijma'*, instead of being a process and something forward-looking-coming at the end of free *ijtihad* - came to be something static and black-ward-looking. It is that which, instead of having to be accomplished, is already accomplished in the past. Al Shafi'i's genius provided a mechanism that gave stability to our medieval socio-religious fabric but at the cost, in the long run, of creativity and originality. There is no doubt that even in later times, Islam did assimilate new currents of spiritual and intellectual life - for, a living society can never stand quite still, but this Islam did not do so much as an active force, master of itself, but rather as a passive entity with whom these currents of life played. An important instance in point is Sufism.

2. Isma'il R. al Faruqi, "Science and Traditional Values in Islamic Society", Vol. II, No. 3, September 1976.
3. *Ibid.*, P. 233 ff.
The terms "doomed" and "refutation" are unfortunate terms, notwithstanding the detriments of *taqlid*. The original works of the imams of thought as well as the *hawashi* that were made on them in the *taqlid* period remain of paramount

importance in the understanding of the Islamic history of thought, in the understanding of the process of understanding itself--nay, in the very understanding of the Qur'an itself. For if we do not mind the success of the past and its pitfalls, progress would be blind. There is no dooming or refutation, therefore, but evaluation and study to find out the points of strength, enhance them and make them more viable to our time; to find out weaknesses in our historical responses to different problems so as to avoid them in our endeavours to hit a successful and happy medium in this world.

4. *Ibid.*, P. 235-36

See Ibn Taymiyyah, *fi Usul al Tafsir*, (Al Qalam Press, Cairo, 1971).

5. The term "Secular" does not have an equivalent in Islamic vocabulary. There are no distinctions in Islam such as religious and secular or sacred and profane as in Christianity. The confession of faith in Islam, *lailaha' illa Allah*, means that there is no reality or existent that enjoys a different order of being than all creatures, except God.

If we may momentarily and for the sake of clarity employ the term "secular" in regard to Islam, religion means the truths revealed in the Qur'an and interpreted by the Prophet Muhammad. This extends to teachings and institutions of divine origin that were taught before Islam. Likewise, secularism implies ideas and institutions that do not descend from an inspired source no matter what that source is. As such we should not view anything that falls within the teachings of Islam as secular nor anything practiced by those who professed Islam as secular nor anything practiced by those who professed Islam as necessarily religious.

The Pythagorean-Platonic wisdom derived from the Orphic mysteries and inherited later by the Muslims can not be called secular and some of the apologetic writings of the Muslim modernists can not be considered as religious although they may be dressed in Islamic terms. (Sayyid Husayn Nasr, "Religion and secularism, their Meaning and Manifestation in Islamic History". *The Islamic Quarterly*, V-VI, No. 3, 4 - July and October 1961, P. 119.) Sir Muhammad Iqbal in *The Reconstruction of Religious Thought in Islam*, (Lahore: Sheikh Muhammad Ashraf, 1958, P. 154) expresses the same viewpoint saying:

In Islam, the spiritual and the temporal are not two distinct domains... In Islam it is the same reality which appears as the Church looked at from one point of view and the state from another... Islam is a single unanalyzable reality which is one or the other as your point of view varies... This ancient mistake arose out of the bifurcation of the unity of man into two distinct and separate realities which somehow have a point of contact, but which are in essence opposed to each other. The truth, however, is that matter is spirit in space-time reference. The unity called man is body when you look at it as acting in regard to what we call the external world; it is mind or soul when you look at it as acting.

6. Translated in *The Muslim World*, Vol. IV, January 1941, No.1, P. 64ff by S.M. Zwemer.
7. Syyid Husayn Nasr, "Religion and Secularism", *The Islamic Quarterly Review*. *The Islamic Quarterly*, V-VI No. 3, 4 - July and October 1961, P. 124-25.
8. As late as 1960, Taha Husayn was writing essays in *Al Risalat* (literary monthly published in Cairo), in which he called for the simplification of the written Arabic language as the only means of combating illiteracy on a mass scale. He proposed mainly phonetic orthography; a radical deviation from classical orthographic rules of grammar and syntax. As a result, a controversy broke wide open in *Al Ahram* and *Al Jamhuriyyah*, both dailies, published in Cairo, between the mouthpieces of the Husayn view on the one hand, and upholders of the classicist view, on the other.
9. Marshall C. Gogdson, "Modernity and Islamic Heritage", *Islamic Studies*, Vol. 1, No. 2, June 1962, P. 116.
10. See his *Mustaqbal al Thaqafah Fi Misr* (Cairo, 1939).
11. See for example I.C. Bell, *Egypt* (Oxford Press, 1948). And Mahaffy, *Progress of Hellenism in Alexander's Empire*, (Chicago, 1905).
12. Ali 'Abd al Raziq, *Al Islam Wa Usul Al Hukm* (Islam and the fundamentals of government).
13. The climax of the death of this attitude is to be seen in the strong desire of the Su'udi kind for modern armaments, hospitals, universities; a matter which was not so popular with his father.
14. Isma'il R. al Faruqi, "Science and Traditional Values in Islamic Society", P. 236.
15. *Ibid.*, P. 238.
16. Muhammad Husayn al Dhahabi, *Al Tafsir wa al Mufasirun*, Vol. 3, P. 163.
17. Qur'an 36: 40.
18. *Ibid.*, 21: 30.
19. *Ibid.*, 54: 1.
20. *Ibid.*, 2: 22.
See Muhammad Husayn al Dhahabi, *Al Tafsir wa al Mufasirun*, Vol. 3, P. 163.
21. Qur'an 2: 61.

22. Muhammad Husayn al Dhahabi mentions the famous modernists who denounced this hermeneutical approach. They are Muhammad Rashid Rida, Mahmoud Shaltout, Mustafa al Maraghi, Muhammad 'Izzat Darwazah and Amin al Khuli. Al Dhahabi does not mention any works of these modernists.
23. Mustafa al Maraghi in his introduction to *Al Islam wa la Tib al Hadith* by Muhammad Isam'il. Se Al Dhahabi, *Al Tafsir wa al Mufasirun*, Vol. II, P. 185.
24. See Abduh's introduction in *Tafsir Juzu 'Umma*. (Al Amiriah Press, Cairo, 1965).
25. M..al Dhahabi, *Al Tafsir wa al Mufarirun*, Vol, III, PP. 214 - 242.
26. *Tafsir al Manar*, Vol. II, P. 17.
27. *Ibid.*, P. 70ff.
28. Qur'an 2: 145.
29. *Tafsir al Manar*, Vol. II, P. 74ff.
30. Quran 2: 275 - 81.
31. *Tafsir al Manar*, Vol. IV, P. 34ff.
32. See his comment in Chapter 113.
33. *Tafsir al Manar*, Vol. 1. P. 281.
34. Abd al Majid al Muhtasib, *Itijibat al Tafsir*, (Cairo: Dar al Fikr, 1973), PP. 213ff.
35. Haasan al Bana, *Risalatan fi al Tafsir*, (Beirut, Manshurat al 'Asr al Hadith, 1972).
36. *Ibid.*, P. 36ff.
37. Bint al Shati was born in Dumyat, Egypt, and was educated at Fuad 1 University in Cairo. She was professor of Arabic language and literature at the University of 'Ayn Shamo in Egypt and presently as visiting professor to many Arab Centers of learning.
38. She dutifully confessed that she acquired her method from her professor of Fuad 1 University in Cairo (later her husband), the late Amin al Khuli as it appears also in his book, *Manabij al Tajidid* (Methods of Revival).
39. Qur'an 90:4.

40. *Ibid.*, 33: 72.

41. Qur'an 66:6.

42. This work does not follow a unique hermeneutical method and did not bring any extraordinary findings. Its author allows himself the liberty to pull some words completely out of their linguistic context, and thus denying his interpretation any weight in the Islamic world of thought. "Shoes" in (20:12), for example are interpreted by him as meaning "spirit and body". Mustafa Mahmud, *Al Qur'an: Muhawalah li Fahm 'Asri*, (Cairo, Rose al Yusif Press, 1070), P. 104.

Cogito, ergo sum.
(I think, therefore I am.)

Descartes

Most men would rather die than think. Many do.

Bertrand Russell

I cannot teach anybody, anything.
But I can make them think.

Socrates

ARTICLE

Investigating Technicist-managerialism in the Values Endorsed in MBA Programmes

Sara Khan

Institute of Business Administration, Karachi, Pakistan

ABSTRACT

This article investigates the incidence of technicist-managerialism in two MBA programmes of Pakistan by inquiring into the values endorsed in them. Findings about values found in the two schools are presented in the form of quotes from interviews and excerpts from official publications of these two business schools. Consequences of such thinking are then discussed in the light of management literature.

1. INTRODUCTION

The MBA degree is among the most popular degrees in the world. Management education was initially introduced in the North American business school of Wharton in 1881, followed by the schools in Harvard in 1908 and Stanford in 1925. Friga et al (2003) point out that internationally undergraduate business degrees have grown from 14% of all undergraduate degrees in 1971 to 19% in 1997. For the Master of Business Administration (MBA), the figures are 11% and 23% respectively. Corporations and educational institutions spend a combined \$2.2 trillion on management education and training worldwide, with nearly \$885 billion in the United States alone. At present there are about 1500 business schools offering MBA courses over the globe (anonymous, 2005).

The MBA degree is among the most popular degrees in Pakistan. Many of the 114 HEC recognized institutes are pure business schools, while many others offer degrees in business administration. In April 2005 the HEC formulated a National Curriculum Revision Committee (NCRC) for Business Administration that revised in consultation with representatives of several public and private business schools the curricula for BBA (Hons.) and MBA programmes of the country. This is perhaps the biggest attempt at standardizing the MBA curriculum in the country. For example, the Committee has decided that the BBA (Hons.) degree will be extended to 4 years and the MBA to 2 years of full-time study in order to provide students a well-rounded education in the field of business administration. A list of subjects to be taught in each of the programmes has been drawn up, along with an approved list of text books for each. A majority of the text books are written by Western, particularly American authors. Those that are by Pakistani authors are usually, but not exclusively, for subjects that talk specifically about Pakistan and Islam, such as Pakistan Studies and Islamiyat¹.

¹ www.hec.gov.pk

2. TECHNICIST-MANAGERIALIST THINKING IN THE MBA CURRICULA: A REVIEW OF LITERATURE

Technicist-managerialist origins of the MBA degree:

According to one theory, management education originated in the military academy at West Point and the Pennsylvania Railroad to solve managerial problems from the point of view of managers. Hence it emphasized techniques and was strategic in nature. Moreover, concerns about the quality of business education in the early 1950s led to the commissioning of two influential reports, the Carnegie Report and the Ford Report, by the US government, which recommended changes to the business education curriculum. The American Assembly of Collegiate Schools for Business (AACSB) implemented the recommendations of these reports in 1961 by introducing 'standards' for business education masters courses, and in these standards the term 'MBA degree' was first used (Currie and Knights, 2003). A reason they had the word Administration, rather than Management in the title was because of the influence of civil or bureaucratic governments in school affairs and because MBAs were needed to run statistical operations in administration (Fox, 2001). Thus technical and managerial thinking, often codified into standards, became a paramount feature of the MBA degree. In the following paragraphs I explain this conception before moving on to how it is fostered in MBA programmes through their pedagogy and by catering to their stakeholders.

Defining technicist-managerialist thinking

Grey and Mitev (1995a: 74) define managerialist thinking as

treating management as a morally and politically neutral activity. Hence, management education becomes primarily concerned with the acquisition of techniques, regardless of the context of their application (also see Perriton, 2000, for further explanation of the concept).

In other words, such a discourse presents management as an 'unproblematic set of techniques and practices' (Grey and Mitev, 1995a : 76). Students too often imply an attitude to learning management as a set of techniques that should be 'useful', 'practical' and 'relevant to the real world.' Techniques here do not only refer to those used in mechanical accounting and operations management, but also include those employed in dealing with people and change management. Such a technicist label, say Grey and Mitev (1995a: 77), 'relates not only to the focus on techniques but also to the fact that the technicist approach is illuminated by commitment to instrumental rationality².'

Since both the providers and seekers of management education concentrate on giving and acquiring a morally and politically neutral set of techniques and practices and

² By instrumental rationality, the authors mean 'a rationality which is concerned only with the adoption of the most appropriate means to achieve a given end, as opposed to reflection upon the rationality and desirability of ends themselves' (Grey and Mitev, 1995a: 88).

because such a thinking perceives management as a technical activity, throughout this article I refer to this kind of thinking as *technicist-managerialist*.

Fostering technicist-managerialist thinking through pedagogy:

This section illustrates how various elements in the current MBA pedagogy, such as courses, concepts, teaching methodology, and the examination system foster a technicist-managerialist mode of thinking that neglects emotional and ethical values and concerns.

Many management scholars, such as Alvesson and Willmott (1996), Grey, Knights and Willmott (1996), and Kallinikos (1996) for example, assert that positivism is the dominant ideology in management circles of today. They believe that *courses* such as economics and psychology usually give students numerical and linear cause-effect models, while marketing and accounting appear deceptively simple. Their concern is profitability. Marketing creates stereotypes and appeals to newness. Computing restricts the moral element in decision-making, seeming to further subordination, rather than emancipation. Gosling and Mintzberg (2004) observe that the subject matter too is divided into sharp categories, not fully in resonance with people's experiences, nor including a study of ethics. Spivak (1993) thus calls business schools 'teaching machines' in their being highly influential in production and dissemination of a certain type of knowledge.

Huczynski (1993), Fineman and Gabriel (1994) and Birnbaum (2000) criticize popular *concepts* and models, such as TQM (Total Quality Management), Excellence, MBO (Management by Objectives) BCG (Boston Consulting Group - a matrix on business strategy), and BPR (Business Process Reengineering) and best practices, taught in the MBA syllabi, for giving an account of a reality that appears easily manageable. Fineman and Gabriel (1999) see the problem of science-like predictability reflected in the definitions and textbook covers as well. 'Definitions semantically fix concepts to what are presumed to be facts in the real world' (p. 381), while Organization Studies textbooks usually have covers decorated with geometric patterns, stylized human figures and jigsaw puzzles – features 'concordant with an organizational world that is predictable, and a philosophy of science that stresses regularity and laws' (p. 380).

Thus Kallinikos (1996) and Thomas and Anthony (1996) observe that, based on utilitarian thinking and, I add, an understanding of reality that is predictable, models in MBA programmes not only neglect deeper understanding of business issues but also disregard or give very little importance to human rights. Lataif et al (1992), Boyatzis et al (1995), Cavanaugh and Prasad (1996) and Clegg and Ross-Smith (2003) conclude that management education is preoccupied with the objective, rational and masculine part of management and marginalizes emotional and ethical concerns.

In addition to sidelining emotional concerns, technicist-managerialist thinking, as some of the above authors have commented, also neglects ethical concerns. Mitroff and Denton (1999) and Roy and Roy (2004) express that in management circles, in comparison to core business concepts, spirituality and ethics are considered airy

concepts, above the realities of everyday practice. Hence students find them irrelevant to business life (Zych, 1999; Baetz and Sharp, 2004). McDonald (2004:372) also lists other reasons that are commonly presented against the teaching of ethics in business education:

- One can not teach moral standards
- Ethics are not part of the domain of business studies
- Ethics do not have analytical foundation of the kind other business subjects have. As such the topic lacks credibility
- If ethics courses are taught, it is primarily for appearance
- Students are not able to transfer ethical skills to work life

Among practical reasons, Baetz and Sharp (2004) observed in their research that some of the reasons why teaching of ethics is a challenge in management studies is curriculum constraints, lack of subject material, and lack of teachers' ability to deal with the subject. In their study of textbooks on various business subjects, they found few textbooks acknowledging the existence of ethical theory; those that dealt with the topic covered it in a variety of different ways, with little consistency in these varied approaches. This makes not only the study of the topic difficult but also hampers training of teachers in the subject.

Regarding *teaching methodology*, case studies – which are frequently used in MBA programmes – reinforce technicist thinking, according to Ehrensall (2002). Coming prepared with answers or solved by the teacher's own understanding of the problem, they give students the idea that they can solve any company's problems after just two hours of desk work, using the theories and analytical skills they have learnt.

In addition, the tightly packed MBA routine creates pressure, not permitting much reflection of the kind that not only means musing, but also wondering, analyzing, and struggling, say Gosling and Mintzberg (2004). Lists, so commonly found in management texts, foster 'routinized learning' rather than argument, providing a 'short-cut to understanding' (Fineman and Gabriel, 1999: 383). Moreover, believing themselves to be customers of business knowledge, business students expect knowledge to come to them in 'a pre-digested and immediately usable form' which the teacher happily imposes on them (Roberts, 1996:56; Currie and Knights, 2000), for example through lectures and handouts, I think. Moreover, according to Currie and Knights (2000:100), use of modern technology, such as OHPs (overhead projectors), Power Point and videos, in teaching further strengthens the technicist thinking by 'remove[ing] the dynamic quality of teaching and thus make[ing] the experience of students more formal and distant.'

Test scores and grades, that are only one measure of student performance (Gosling and Mintzberg, 2004) and MBA ranking lists and accreditations (anonymous, 2005) that are only one measure of school performance, in my opinion, further reinforce the technicist calculative mentality. By encouraging students to compete for higher grades, opt for prestigious schools, pay attention to market rankings and calculate return on investment (ROI) when selecting programmes of study, as a Business report

2.0 (2005) recommends, such measures, I believe, can reduce the due importance of other criteria of learning and selection, such as the opportunity to benefit from professors and colleagues, to develop a spirit of inquiry, and to select courses of interest.

Fostering technicist-managerialist thinking through catering to market requirements:

In addition to its pedagogy, another way I see MBA programmes technicist- managerialist in their outlook is their consideration of education as a product for the market of students and employers, with both providers and seekers of education seeing it as a commercial exchange, defined in terms of specific, definitive requirements. Evidence of this can be found in various aspects, from teaching to distribution, of MBA education. For one, metaphors, such as quality assurance, benchmarks, exporting education or marketing syllabi, standardizing educational products, and students as customers are increasingly heard in business academia and market. Secondly, league tables, target-setting (Cope and I'Anson, 2003), calculating return on investment (ROI), and rankings (Business 2.0, 2005) promote such conceptions. Students' evaluations of teachers further add to the 'teacher as producer' and 'student as consumer' concept (Grey and Mitev, 1995a). Studies have demonstrated that recruiters too do not always give much importance to behavioural coursework in education. Rynes et al's (2003) study, for example, showed that while evaluating resumes, employers gave same employability rating to students who took both functional and behavioural coursework as to those who studied only functional subjects, although 78% of them had indicated in an earlier study that they preferred graduates who supplemented behavioural coursework with functional expertise. Such findings send confusing signals to students and educators who therefore do not consider behavioural coursework as important as functional. Burke et al (2003) had also written that many students find OB (Organizational Behaviour) matters, which deal with people management, 'common sensical, unimportant, irrelevant and of little use to them.'

Auken et al (2005:44) state industry's influence on MBA programmes in these words

Most MBA programs are indeed influenced by their stakeholders. More and more, the student is being treated as a customer, and student and alumni satisfaction have become key metrics along with employer and recruiter satisfaction. At the same time, the student is also a product. Therefore, it may be that narrowing of core curricula in favor of marketable skill building has gone too far.

Pring (1998) also believes that development of the intellect as a goal of education is becoming difficult because of economic reasons: research agendas are set by economic, military and government needs; instead of intrinsic value, usefulness of education is being considered. Kellie (2003) too showed in her 12-15 month research on two company-based management education programmes in the UK that 'what constitutes relevant knowledge is no longer the exclusive domain of the educationalist. It is more closely tied to the perceptions of the organizational stakeholders.'

Critiquing technicist-managerialist thinking:

The following paragraphs present a debate on the advantageous and disadvantageous features of the technicist-managerialist discourse in management education. Some scholars see it as a necessary feature of management education, while others think it is a short-sighted approach.

Growth in technicist-managerialist thinking and metaphors, such as students as customers and business schools as producers continues unabated, even though Grey and Mitev (1995a) remind us that the value of education cannot be determined beforehand. Payment of fee is only a condition of entry, not a guarantee of learning. Among scholars who criticize such a mode of thinking, Thomas and Anthony (1996) believe that reducing management education's educational aspect will make it more like short-term training undertaken to learn a specific technique or course. Seeing education merely as commodity ignores the character building and personality development in education, add Cope and I'Anson (2003). Moreover, as Thomas and Anthony (1996) observe, learning only for earning (utility) is short-term; it does not affect students' being and is boring and destructive to curiosity and imagination. Real management education, on the other hand, engages social, political and conceptual abilities, and not merely techniques that can be learnt on the job and that can change over time.

Among those who view the technical part in management education favourably, Burgoyne (1995) observes 'it would be morally wrong and wasteful to fumble or fail at a morally valuable performance for reasons of technical inefficiency. To fail to teach or learn or apply genuinely useful technical expertise is at least indirectly immoral' (p. 94). He sees technical competence 'as a necessary adjunct to moral development' (p. 91). Besides, King (1995:101) points out that it has never been adequately proven that a technicist-managerialist MBA is not intellectually demanding or that it refrains from illustrating detailed understandings or that a concern for quality is dictated by a 'market conception' that sees students as consumers and teachers as producers.

Taking the debate forward, Grey and Mitev (1995b: 104-5) reply to Burgoyne's (1995) and King's (1995) arguments by acknowledging that 'managers are aware both of moral issues (they are human beings!) and, often, the limits to management techniques... But the question is how management is presented and understood.' The point, according to them, is not whether management education syllabi should or should not teach techniques but whether the discipline of management is presented as a set of techniques to be mastered or an educational discipline that develops students' social and conceptual abilities. Fox (1994) and Jessop (2002) bring in another point about management education not being value-neutral. They point to the managers' role in reproducing and transforming cultures through participation in activities having extended social consequences. As such, management education should contribute to socio-economic development of a country, as against equipping students with a mere set of techniques to carve out their careers with. Such a socially responsible attitude, Jessop (2002) says, will give them not only techniques, but also values, ethical reasoning and ability to link with people.

Though I believe that a professional degree like MBA needs to take account of market needs, it must pay significant attention to the 'nurturing side of education' – development of a sense of responsibility through inculcation of moral values. Education which fails to clarify our central convictions is mere training or indulgence (Schumacher, 1973). If education cannot teach non-material values that give meaning to life, how can it create a fair society, questions Gatto³.

3. METHODOLOGY OF THE RESEARCH

In order to investigate the incidence of technicist-managerialism in the values of MBA programmes, intensive research was conducted in two business schools of Pakistan. These two schools were chosen because of their leading positions in the business academia of the country. One school belonged to the private sector and the other to the public sector. Respecting their confidentiality, the two schools are represented as Leaders Academy and Pioneer Academy in this paper.

Since I wanted my respondents' uninhibited comments on the values found in their schools or in their colleagues, I conducted open-ended interviews with students, school teachers and administrative staff from these two schools. Some managers in industry were also approached to collect their comments on MBA students they employed or worked with. These interviews were either in-depth interviews with individuals, joint interviews with two participants or focus group interviews with larger groups of students. As respondents' uninhibited views on their MBA programmes and/or with MBA students were required, interviews were conducted in a way of inviting participants to freely air their views and opinions, with order of questions, length of answers, the language of the interview and other such practicalities largely at their consideration (see Gubrium and Holstein, 2003a and b; Henerson et al, 1988; Arksey and Knight, 1999). The following research questions were asked to elicit participants' views on the kinds of values endorsed in their business schools or found in the MBA graduates they worked with:

What are the main values encouraged in your business school? Or
How would you comment on the values about work MBA graduates come endowed with when they enter practical (work) life?

What kinds of careers are you (or your students) looking forward to after completing your (their) MBA degree?

How would comment on the curriculum of your business school? Please include in your answer your comments on the teaching of ethics and social responsibility in your programme.

A total of 21 respondents were interviewed from the corporate sector and 22 from the academia, of which 14 were teachers and 8 were students. In addition, three joint (two

³ www.spinninglobe.net/gattopage.htm

in one school and one in another) and two focus group (one of each school) interviews with also arranged with the students of these schools.

In addition to interviews, official publications and web-sites of these two business schools were also referred to shed more light on the interview comments relatively researcher-unobtrusive manner (Hodder, 1998).

Analysis of interviews was then carried out using a modification of Hycner's (1985) framework for qualitative data analysis. After developing value themes from interview quotes, relevant excerpts from school publications were added to complete the themes that are presented in the next section.

4. TECHNICIST-MANAGERIALISM IN THE PAKISTANI MBA: RESEARCH FINDINGS

Section 2.0 described some elements of technicist-managerialist thinking, the values emanating from such an approach towards education and the consequences ensuing from it. In this section I will take a look at the Pakistani MBA programmes to see how technicist-managerialism was visible in the values and the curricula of my chosen business schools.

Technicist-managerialist thinking in the values endorsed in the two business schools:

In the following paragraphs I present some of the values endorsed in MBA programmes I researched. I do not imply that these MBA programmes are the source of these values (although they could be) but that they are being encouraged or at least not discouraged in these programmes. Whether these values are learnt from society and/or find their way into management academe from management practice is beyond the scope of this paper. This paper only highlights those values that find support or at least no opposition in the two MBA programmes I looked into. I have presented these values as quotes (given in italics) from respondents' interviews and excerpts from the schools' publications. (Respondents' names have been altered for reasons of confidentiality). In the next section I will discuss how I see these values coming from a technicist-managerialist stance.

Hard work versus favouritism and flattery:

Hard work was listed among the core values the schools promoted (Leaders' Alumni Annual, 2003:35; Leaders' general booklet; Pioneer Program Announcement, 2004-5). One student, Qaiser, found hard work an essential ingredient of a successful work life

Tomorrow you go to an organization... Nobody's gonna say 'You know what, you work so hard, I'll make you manager tomorrow.' No, you have to do the work. As long as you do the work, God himself will show you the way. As long as you do the work, rewards will come.

Many students, however, confessed of taking of 'short cuts' and currying favours in order to avoid hard work. Instead they flattered teachers in order to get their way through. One student from a Pioneer focus group remarked, "*It may be a very bad value but it is working for people.*" Some managers in industry also commented on graduates' aversion to hard work when the latter entered practical life.

Merit and professionalism versus an all goes attitude

Pioneer had an "almost callous attitude" towards merit, Dawood from the administration reported. No kind of requests whatsoever were entertained for admitting or upgrading any unmeritorious candidate for admission. Karim from Leaders' administration also proudly asserted, "*The bedrock of Leaders, how we define ourselves, is one word – merit.*"

Regarding professionalism, one student from Pioneer appreciated, "*By the time you graduate out of Pioneer, rough edges get smoothened, you get a professional outlook.*" Leaders too stressed professionalism as was seen from their publications. Nasim, from the school's faculty called ability to live and work with people from different socio-cultural values and backgrounds as a "*professional attitude towards life.*"

But managers in industry did not always see professionalism in business graduates. For example, Akram, a manager from a local bank, found the concept of quality missing at Pioneer because of rushing from one assignment to the next. He said

All goes in Pioneer. But in real life you have to finish at a 100%. That concept of quality is lacking over there. You know, you're always running around, just want to fill in the blanks, do the papers or whatever, just to go back to the next course, to the next grade, to the next semester.

Honesty and integrity versus wrong ways

Both schools had honesty and integrity written down in their publications (Leaders' Alumni Annual, 2003:35; Leaders' general booklet; Pioneer Program Announcement, 2004-5) as one of their major work values. Nosheen from Leaders' student body confidently claimed, "*Everywhere you can get away with cheating, but not at Leaders, definitely. That I can say for sure.*" Omar from Pioneer also proclaimed of having seen "*people speak up, whistle-blowing, at least try to do what they can do*" in organizations, even when they were serving only as interns.

On the other hand, "wrong" ways of achieving ends at Pioneer were also mentioned. For example, Farhat, a management trainee in a multinational and a Pioneer graduate, confessed, "*It [Pioneer] taught me there's always a wrong way of getting things done, which usually works [laughs]. It's a reality in Pakistan.*" As such, Pioneer students said they had learnt from their interaction at their business school not to trust one another.

Discipline versus tolerance:

To “survive” in Pioneer students had to discipline themselves. Students, teachers and alumni of Pioneer commented on the rigorous discipline of the place, with many students and alumni listing discipline as the foremost value they had learnt from the institution and which had proven very beneficial in their professional lives. At Leaders too, students were expected not to be late in coming to class or in submitting assignments “by even a minute.” Lateness was penalized by being marked absent for the session and not getting any marks for class participation in that session.

But some faculty and students did not consider Pioneer a very forgiving place. Maqsood, a faculty member, for example, expressed dismay at the school’s not accommodating for genuine excuses and not forgiving students’ mistakes. What worried him was the social effect of such intolerant policies. Sounding concerned, he said

Young people spend 4-5 important years of their lives with you. You tell him we can’t ignore or forgive your mistakes. If he’s not forgiven, how can we expect him to ignore those [meaning mistakes] of others. Society can’t develop on natural path then.

Competition versus cooperation:

Monthly and yearly examinations and quizzes were much emphasized in both schools. These tests, which awarded grades from A+ to F and GPAs from 0.00 to 4.00, appeared to me to be setting students in competition with one another. Thus several students and alumni described competition at Pioneer as “cut-throat”. Some teachers also acknowledged the presence of such competition in the school. Hamid (a Pioneer alumnus, a manager and a visiting faculty at Pioneer), for example, reflected

One of the problems I have with the way we are taught [at Pioneer] is that it is very centred around us. We are supposed to compete individually with others and we are supposed to beat them and win. So it’s all about coming first, second and third. If you’re first, the guy who is second is not first. So it’s always about ‘I have to beat the other guy.’

At Leaders too helping others could mean pulling oneself down in the marking of curve-based class participation. One student described her helplessness at not being able to assist a class fellow in the following words:

I could tell this person would not be able to survive. He’d lost hope. The system is very scary in this sense. Nobody can stop to help anybody else because if you help somebody else that person might cross over you and you might be the person at the bottom.

Despite competition, respondents also expressed care for their colleagues and cooperated with them in various activities. By forming learning groups of students with different talents, Leaders was endeavouring to encourage students to learn together and form bonds with class fellows. Ciran, a faculty member at Pioneer, also pointed out that

despite being in competition, Pioneer students were “*cohesive*,” worked in “*concert*” to deal with teachers, and would “*take him along*” who was “*backward*” in any way.

Networking versus trustworthiness:

As far as their interpersonal relations at work were concerned, Pioneer students underlined the importance of networking as essential to take work from others. For example, Qaiser, a third semester student, underlined the importance of networking for obtaining jobs in the following words:

Look at Harvard. It's renowned to be one of the best schools in the world. Where's the key that makes them so strong? It's the Old Boy network; it's the connections. Big companies would come to your doorstep and say, 'Hey, you did this.' Even if your GPA is not the best, they'll take you in and give you the opportunity.

Many students realized this opportunistic behaviour in their colleagues. For example, one focus group participant observed that she did not always trust friendly moves because “[they] could stab me any day in the back. *They always have an ulterior motive*”

Material versus personal development:

Most students saw success as something that could furnish them with a “good job” – a well paying one with ample growth and learning opportunity, comfortable working environment, and little bureaucracy. Part of this success was earning an elitist status in industry by joining well-known local and multinational organizations and reaching managerial positions in a short time, which in a manager Khurram's words was such as could enable them to quickly become “a Sahib or Begum Sahibah”. A Leaders' student in a focus group observed

Focus in Leaders for me is towards getting a good job. All the accounts courses we have, in the end what we are trying to do is to generate profits. One core value is that...If someone gets a very good job at Procter and Gamble, he would go for it...I mean that could be one of the goals that we have.

An MBA final year student from Pioneer, Sadaf, not only expressed her choice but also mused on where she and her fellow students could have got such ideas

This is one very good thing - this link with outside world, that we've to go to an MNC, get a good job... Somewhere along the line we think if we get such a GPA⁴, we'll get such a job; if this will happen, that will follow. I don't know where we learn it from. Through teachers? Internships as well because we're getting hands on experience and practical knowledge... as well as elective courses because they've got professional teachers... Pioneer culture?

⁴ Grade Point Average, a scale of academic performance, ranging from 0.00 to 4.00, often used in MBA programmes.

But Omar, another student from the same school, grieved that the narrow-minded pursuit of careers was developing a materialistic mentality in students

Pioneer in your initial semesters makes you very materialistic. For example, studies are more of a materialistic nature than [being] applicable. We lack faculty which can orient us towards that [non-materialism]. Teacher will tell you how to go out and earn salary. But in BBA 6, for the first time, I studied the Development Economics course. There I had the introduction to the idea that there is a lot more besides money in this world.

At the same time school staff, including Ciran and Moeen, regretted availability of a few personal development and extracurricular activities for students at Pioneer. Moeen regretted of students' growing interest in activities, such as picnics and movies that "don't contribute to character-building" and their declining participation in more intellectual ones, such as, debates, poetry competitions, and corporate dinners. Hamid, from industry, also criticized students' 'knowledge-for-job' approach towards education as keeping them away from obtaining the full benefit of education. He assessed the situation, "Over here knowledge is about degree, translate into job." A visiting lecturer at Pioneer, he tried to encourage his students to read more, for "At the end of the day it's the accumulation of all these ideas that will make them the type of people they want to be."

Concern for self versus concern for society:

Moeen, Sikandar and other Pioneer faculty and administrators, regarded Pioneer's students' quick employment in successful companies (local and multinational) as the school's contribution to society. Students also named a few teachers who explicitly reminded them of their social responsibilities but informed me that the subject was not really stressed upon. For example, a student Sadaf said

SI [Statistical Inference] teacher Nadeem used to talk about giving back to community. Lots of people [meaning teachers] do, for example, Entrepreneurship guest speaker, but not much emphasis on this. 'Grab a good job' - I think that's the emphasis in Pioneer.

Ciran from Pioneer faculty testified to Sadaf's remark above. Sounding upset, she said

We really teach students to be selfish – get a good GPA, go to an MNC, improve quality of your life; go abroad. Do everything for yourself; don't do anything for anyone else. Emphasis is always on yourself; emphasis is never on society, on people around you. I mean it's ridiculous. The philosophy of Pioneer, as I see, is always profit-making, always profit-making. But profit can be in spiritual terms also. But we never bother about spiritual terms.

Leaders' publications also recounted entrepreneurial achievements of their graduates as their school's contribution to society but a focus group participant observed in a frustrated tone

Leaders as an educational institute is failing in its non-technical aspect. It's producing excellent computer scientists, excellent managers, we're producing excellent technicians but they don't have social thought as part of their education.

Other students and teachers also felt their schools had not done enough to make students realize the importance of reaching out to the larger society, nor played their own social role effectively as most of their graduates aspired to foreign multinationals.

Concern for profits versus concern for ethical behaviour:

Regarding the proposition of upholding ethical values, students talked about it alongside corporate profits or considered it workable only if it could help them obtain “a good job.” A focus group student remarked that they were often told to work ethically for “there's even positive NPV⁵ attached to ethical behaviour.” Though some other students informed that they were thinking of making careers in Islamic banks or where they would not have to compromise Islamic principles, participants from this focus group expressed doubt as to their upholding ethical values above everything else in their practical lives. A student in a Leaders' focus group explicated the difficulty of identifying with ethical debates

The fact is that in our culture, our society, profit making is the first and foremost objective of any organization. Values would come perhaps very low on the list... In some cases [meaning case studies] this value issue comes up. I don't think students can really associate themselves with what the discussion at that point in time is leading to.

Technicist-managerialist thinking in the pedagogy of the business schools:

Technicist-managerialism in MBA curricula becomes more evident when we take a close look at the pedagogy of the two schools. Pioneer's Program Announcement (2004-5:7) read:

The faculty ensures that the system of education at the Pioneer is a unique blend of the best in classroom instruction, case studies, role-playing, business games, class presentations, research and practical training in business organization.

Some students spoke of class presentations, out-of-class assignments, report writing and internships allowing them to be creative and building their self-confidence. Others, on the other hand, pointed to one-way lecturing, learning by rote, following a few prescribed text books, and obtaining no additional marks for creativity as constraining their freedom of expression. A student Qaiser related a teachers' behaviour in class on an occasion when he pointed out her mistake to her

⁵ Net Present Value: A concept in finance, according to which the feasibility of a project is evaluated on the basis of net profits, in terms of value of money today, it would yield over its life.

Miss, I think, there's a mistake. We looked in the book and it's not the right answer [students pointed out]. [In return the teacher replied], 'Don't tell me how to teach.' The thing is we give an answer that is right and her answer is different, we get marked down.

Ciran, a faculty member of Pioneer, also denied encouraging students to think critically. She said, *"We keep talking at them. There's no dialogue... Zero or negative critical thinking."* To illustrate, she explained how American textbooks and models, that might not be fully workable in Pakistan, were rarely being taught with a critical viewpoint. Rather, they were taught as *"perfect models...challenging Brother Kotler [an internationally renowned American marketing professor][is] just not an option."*

As far as non-technical courses were concerned, both schools had some ethically and socially oriented courses to promote ethical behaviour in business. Pioneer had courses, such as 'Business and Society,' 'Business Ethics,' and 'Audit, Ethics and IS Issues' which were taught to some MBA programmes as compulsory credit courses, to some as non-credit or elective courses and to others not at all. Other courses, such as Advanced Financial Accounting and International Marketing, also talked about social and ethical concerns, for example, about accounting for non-profit organizations. However, prescribed texts for such courses were usually foreign, as I learnt through my interviews, supplemented with articles and news from Pakistan. Other courses, such as 'Philosophy of Islam' and 'Islamic Finance' were Islamically oriented courses. Nevertheless, students claimed that Pioneer's teachers paid only "a passing reference" to the topic of ethics. For example, Omar observed

Usually the discussion is very general. They don't show you any specific direction. You should have integrity. How? No one emphasizes that.

'Islamic Ethics' (IE) was also taught as a compulsory course to second year MBA students at Leaders and ethical issues were dealt with in several business courses as part of management problems. But according to the course teacher, and as students themselves confessed, not many students succeeded in understanding the relevance of the course to their prospective careers. The course teacher, Kabir, complained that students professed *"they already know Islam"* and seemed to regard the course as *"irrelevant to modern, practical requirements of the society at large."* A focus group participant said

Focus in Leaders for me is towards getting a good job. All the accounts courses we have, in the end what we are trying to do is to generate profits... But at the same time we have courses like Islamic Ethics, etc. So for me there's a big contradiction. I personally feel that our focus should be just on profit-making because that is what our real intention is. And those courses are just on the sidelines.

Technicist-managerialist thinking in catering to the market:

Pioneer staff often mentioned the need to cater to the requirements of the industry by sometimes referring to their students as “products” and the corporate sector as their “market.” Dawood, from Pioneer faculty and administration, stated

We are looking to sell Pioneer to potential talented students and their families... And on the other hand we have a market which is out there, where our graduates will go and find jobs, and we must therefore pay attention to what that market is looking for.

Another administrator from the same school believed in keeping the customer in focus if “you’re preparing a product for the market.”

Business education is a job-oriented degree; the objective is to train people. Basically you’re preparing a product for the market. It’s not that what values you are giving them but seeing that your product should be acceptable in the market. Values and philosophies, these are jargons, I am sorry to say. I don’t think anyone seriously believes in it.

Consequences of technicist-managerialist thinking:

In their zeal for competition and hard targets, students were criticized in industry for not being well trained in dealing with people and working in teams. Many managers also implied that they found MBAs graduates’ frequent and unplanned job-switching irresponsible and disloyal on their part and even dishonest, especially when they had shown keen interest in the jobs in their interviews a little while before quitting. Moreover, it was threatening to students’ own careers.

Looking forward to glamorous careers and being in a hurry to move up, fresh graduates, in managers’ and teachers’ words, often faced adjustment problems. Not prepared for modest jobs, they encountered problems when they had to carry out menial work, such as filing, stamping, and sitting on the ground with rolled up sleeves with agricultural clients. They were also considered to be outspoken by their colleagues. Explaining the initial entrance period of business graduates, Mariam from a local chemicals company, related

When they came in the job market they realized that if you’re working in Shell, you’ll have to be there at the port. Roll up your sleeves and be there where the truckers are. You’ll have to sit with them on the ground, soil your clothes because they’re your customers. And they were not ready to do that.

Ikraam, a senior manager at a local pharmaceutical company also observed about Pioneer’s students that

As far as practical application is concerned, usually for the first 2-3 years you find yourself totally disoriented and out of place.

Material and elitist concerns also created problems of balance in practical work life. Hamid, an alumnus of Pioneer and a manager at a famous multinational, noted

Balance is very important in one person's life. I guess initially we are so zesty about lots of things that we lose our balance - of personal life, our family and our commitment to others.

Consequently, not many respondents agreed to their business schools' building of leadership skills in their students, though several teachers and alumni argued to the contrary. Nasim, from Leaders' faculty, who himself taught the subject Leadership, said

We are producing more like managers – very good in analytical skills and good communication skills, they lack really leadership qualities. Even though I teach leadership, I'm not very confident if we're doing a good job.

5. DISCUSSION

The findings presented above show that both kinds of commendable and contemptible values were being endorsed in the two business schools. Students were using values that were helping them achieve results, be they hard work and professionalism or dishonesty and flattery; institutes too enforced discipline but became intolerant at times. Students tried every possible measure to obtain jobs but quit them on finding better ones. This shows that in these schools management was regarded as a set of morally and politically neutral techniques, committed to the idea of instrumental rationality (see section 2.0 for explanation).

Management scholars, such as Bell (1979) and Boje (1996) and Burgess (1996) have questioned even the so-called commendable values that were encouraged in business schools. Bell (1979), for example, believes that too much emphasis on meritocracy, without concern for the less privileged, can tantamount to technicism. Boje (1996), in a postcolonial vein, considers regimental discipline as the gaze of teachers over students. Burgess (1996) is of the opinion that the kind of self-sovereignty encouraged in capitalistic institutions encourages to irresponsible behaviour. Commenting on some of the ills of pursuing careers blindly, Peltonen (2000:412) remarks

Career teaches ruthlessness by neglecting the personal responsibility for consequences of behaviour and highlights instead norms as mere regulative rules of the game.

The concept of competition, especially unhealthy competition, is criticized by scholars for resulting in not only individualistic thinking but also for weakening the degree to which students can serve as others' learning resource. Directed inwards, rather than outwards, exams and grades that several of my respondents talked about, reinforce conformity, yet lead to individualized mentality (also see Leavitt, 2001; Lataif et al, 1992). On a larger scale, if not followed by innovation, competition can lead to problems of instability, inconfidence and less trust in the economic system (O'Hara, 2004).

In their zeal for competition, MBA graduates' lacked the "*take along concept*," according to some managers. Hence, they also did not consider them effective team players. Critics, such as Vince (1996) and Currie and Knights (2000), hold the excessive training in objective issues, such as competitiveness, aggression, and lack of emotions, that technicist-managerialist management education imparts and that prototype management leaders are supposed to be endowed with, responsible for this ineffectiveness. Gatto⁶ criticizes networks that many MBA students thought essential for career advancement. According to him they give temporary solutions and require only part of the person, not the whole. Though they may get some work done, they do not nourish members emotionally, which is necessary for teamwork, cooperation and coordination of human effort (Sanchez and Levine, 1999). This is encouraged in management education, as Marxists and postcolonialists say, by highlighting class differences and not giving equal weight to managers and workers. The emphasis is always on *management*, though the theory promotes the idea of *organizational members* (Leavitt, 2001).

Seeing the varying conceptions of and limited commitment to social responsibility among my research participants, I am reminded of a study of MBA students by Dolan (1997), who found that MBA graduates could not agree on the definition of social responsibility. For them, it ranged from giving charity, to volunteer work, to not working for a tobacco company. Such vague and disparate understanding of social responsibility, I believe, comes from the inadequate importance this topic is granted in technically managerialist management curricula. Scholars, including Epstein (1999) and Verschoor (2003) also feel management education does not concern itself adequately with notions of social responsibility.

Teaching curricula and methods too spoke of a technicist-managerialist ideology. Many students complained of not having enough opportunity to reflect and not being allowed to think freely. Non-technical subjects too were a "*challenge*" for both teachers and students because students either considered such subjects "*irrelevant*" to their careers ahead or did not identify with the discussions in class. According to Sherman (2003), this is so because concepts of personal growth, intellectual development, scholarly community, improving society and liberal education are absent from 'fads' that form a popular part of technicist-managerialist MBA education. Besides, as many students said, generally no more than "*a passing reference*" was given to ethical and religious topics, compared to the main management concepts in the curricula. Some teachers too informed that courses such as Islamic Ethics were taught primarily as administrative requirements and spoke of the lack of material on the topic. This is why they had to resort to American books for teaching (Islamic) ethics. However, they added local illustrations and examples to the texts they used. Nevertheless, I saw an interest in both schools in opting for careers in Islamic banking, alongside those in multinational companies and banks. These views remind me of Baetz and Sharp's (1999) and McDonald's (2004) findings in *section 2.0* as to why human and ethical issues are not given due importance in management curricula: ethics are seen as

⁶ www.spinninglobe.net/gattopage.htm

irrelevant and hard to understand and difficult to translate into practical work life. When ethics are finally mentioned, they are often so alongside material benefits, such as a “*positive NPV*” or a “*good job*.” Roberts (1996) sees such evaluative justification of ethics in terms of opportunities and threats as ‘triggered by greed’.

In *section 4.0* I discussed how the business schools were paying heed to the market in formulating their curricula, in fact so much so as to compromise the value-giving element in them. Such a concept of education as a commodity for sale to the market ignores the nurturing or character-building side of education, say Cope and I’Anson (2003). The use of metaphors, such as *quality assurance*, *benchmarks*, *exporting* education and the like is also at odds with the Islamic concept of education. According to Bilal Philips⁸, a contemporary Islamic scholar of renown, Islam regards education as worship, a process of advancement in both this life and the next. Other religious models, including the Vedic, also consider education as worship. Chinese see teachers as ‘kings,’ in the words of a Chinese colleague. Such models place the teacher on a level above the student. They expect the teacher to share his/her knowledge and experience with the student in return for reverence and obedience. The idea of a material exchange is absent in classical religious texts. But when education is considered a commodity, material exchange becomes important (Business 2.0, 2005; Pring, 1998) and education becomes training (Thomas and Anthony, 1996) provided for a fee.

Such technicist-managerialist mentality trickles down into management practice, says Park (1998), where a manager is supposed to respond ‘objectively, professionally, and dispassionately’ to ‘objective’ factors. He must work as a technician. Poole (1996) considers this an issue of opposing constructs. As familial and emotional relationships are deemed ‘irrational’ in capitalistic and bureaucratic means of production, they are separated from work or public life. Within the public sphere human beings are valued so far as they serve as means towards distinct goals. Thus technicist-managerialist thinking divides management into masculine and feminine, public and private, work and non-work, and religion and non-religion.

6. CONCLUSION

After reviewing the various values endorsed in the two business schools, it can be said that technicist-managerialism indeed influenced the thinking in these institutions. Students and staff displayed a commitment to instrumental rationality by using whatever values benefited them in pursuit of their careers. Teaching curricula and methodology too betrayed a technicist-managerialist stance. Consequently students were seen lacking in people management skills and not highly committed to ethical and/or social responsibility, thus raising the question whether the two leading business schools were really preparing business leaders of future.

⁷ *Net Present Value: A concept in finance, according to which the feasibility of a project is evaluated on the basis of net profits, in terms of value of money today, it would yield over its life.*

⁸ www.bilalphilips.com/abouthim/artic01e.htm

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Leaders Case Research Centre (CRC) pamphlet

Leaders General Pamphlet

Leaders General Booklet

Leaders National Outreach Programme (NOP)

Leaders Alumni Annual 2003

Pioneer Program Announcement, 2004-5

Leaders Student Handbook, 2004-5

Enduring great companies preserve their core values and purpose while their business strategies and operating practices endlessly adapt to a changing world. This is the magical combination of "preserve the core and stimulate progress".

Jim Collins

ARTICLE

The Scale of Operation, Profitability based Productivity and Capacity Utilization in Seaports, The Case Study based on the Colombo Seaport in Sri Lanka, 1980-2005

Sarath W.S.B. Dasanayaka

Institute of Business Administration, Karachi, Pakistan

ABSTRACT

The Sri Lanka (formerly Ceylon), an island nation, is strategically located in the South Asian main sea routes as a gateway to the Far-East, the Middle-East, Europe, Africa and Australia. This supreme strategic hub location created commendable achievements in seaports in different magnitudes over time. More specifically, after 1977 economic policy reforms, the Colombo seaport has earned the reputation as the best managed and the most efficient hub port in the South Asia and the major transshipment center in the Indian Ocean. This success further strengthened by the liberalization of shipping in 1990 which was the land mark of changing the fundamentals of the Sri Lankan shipping and ports related activities. In terms of future prospects of transshipment activities in South Asia, it can be estimated that, with the size of vessels growing in the main routes and economic booms in India and China, there will be a concentration of transshipment activities on a very limited number of strategically located hub ports equipped to cope with future generation of vessels requirements and ensuring excellent operation conditions. Therefore it is obvious that the Colombo's qualifications are deemed fit to become one of these major hub in the South Asia. In this context, the recent growth of the Colombo seaport is analyzed by using production function, profitability and capacity utilization approach to get more insights into the seaport operation and to find the possibilities for further expansion. This new approach may overcome the potential problems of port impact and cost benefits studies. First this study conclude that the analysis based on the Cobb-Douglas production function has shown that the operation of the Colombo seaport is an increasing return to scale during the recent past. The returns to scale depends to a larger extent upon changing demand for seaport services and corresponding development to cope with this demand. In view of the rapidly rising tonnage handled and the other services provided for ships and the related other business activities by the Colombo seaport after the 1977 policy reforms has reasonable evidences to find increasing returns to scale in our estimated models even with some what ambiguous data set. Second the profitability based productivity analysis shows the average profitability measures such as the marginal revenue product of labour (MRPI) is very high compared to the average wage rate paid for labour (W) and the marginal revenue product of capital (MRPk) is very high compared to the interest rate (r%) paid for the port development loans. Furthermore, the small fluctuation of the Lagrange multipliers in the estimated max-min model

indicates the sustainable nature of profitability of operations in the Colombo seaport. Finally the capacity utilization analysis shows that annual rate of increase of tonnage at the Colombo seaport has been positive and, the rate has increased at an increasing rate over time and it shows the high rate of actual to preferred capacity utilization which can be used as a basis to expand seaport facilities without creating the problem of overcapacity. This new approach can be use to any seaports in any parts of the world to see their scale of operation, profitability based on the productivity and capacity utilization aspects before major expansion in capacity.

1. INTRODUCTION

Sri Lanka, by virtue of its mid-way position in the Indian Ocean, has been throughout her history a famous meeting place of foreign merchants and travelers. Arab coasters, Greek and Roman galleys as well as Persian merchants visited the ancient harbours of the Sri Lanka to rendezvous with vessels from the East for trading purposes. Therefore, economic and cultural inter-changes, trade links, colonization, roots of industrialization, urban and commercial centers and most of the imports and exports based modern business activities have emerged through the seaports. At present, Sri Lanka has four major international seaports (Colombo, Galle, Trincomalee and Kankasanturai) however, Colombo (commercial capital city of the island) is the most developed one which handles over 90% of the country's sea-borne trade. After the 1977 economic policy reforms¹, the Colombo seaport has earned the reputation as the best managed and the most efficient hub port in the South Asia and the major transshipment centre in the Indian Ocean. This success further strengthened by the liberalization of shipping in 1990² which was the land mark of changing the fundamentals of the Sri Lankan maritime activities. In terms of future prospects of transshipment activities in South Asia, it can be estimated that, with the size of vessels growing in the main routes, there will be a concentration of transshipment activities on a very limited number of strategically located hub ports equipped to cope with future generation of vessels requirements and ensuring excellent working conditions. UNCTAD (1990) has more frankly emphasized that Colombo's qualifications are deemed fit to become one of these major hub in the South Asia. In this context, the recent growth of the Colombo seaport is analyzed by using production function, profitability and capacity utilization approaches to get more insights into the seaport operation and to find the possibilities for further expansion. This new approach may overcome the potential problems of expensive port impact and cost benefits studies³. First, this paper presents the scale of operation in three major seaports (Colombo, Galle and Trincomalee) and later more exclusively the situation of the Colombo seaport. Second, it presents the productivity based profitability analysis in the Colombo seaport. Third, the actual to preferred capacity utilization analysis in the Colombo seaport is presented. Finally, conclusions, notes and references are followed.

2. SCALE OF OPERATION ANALYSIS

The following conventional Cobb-Douglas production function is the main analytical tool of this section, which generally captures the basic ingredients of seaport operations and it is estimated by using E-views statistical package.

$$Q = A K^a L^b e^{t(T/L)}$$

Where

Q = output (gross port revenue, 1980 prices), K = capital inputs (capital employed book value, 1980 prices), L = labor inputs (wages and salaries paid, 1980 prices), a and b = capital and labor ratios, $e^{t(T/L)}$ = proxy for technological improvement: T = total tonnage handled, L = number of employees, (T/L) = tonnage per unit of labor.

This non-linear relationship can be linearize by using log transformation as follows:

Using properties of the logarithms

$$\ln(AB) = \ln A + \ln B$$

$$\ln(A^k) = k \ln A$$

$$\ln Q = \ln A + a \ln k + b \ln L + (T/L) \ln e^z + U$$

$$\text{Being } \ln e = \log_e e = 1$$

$$\ln Q = \ln A + \ln A + a \ln k + b \ln L + Z(T/L) + U$$

$$\text{where } A^* = \ln A$$

$$\ln Q = A^* + a \ln K + b \ln L + Z(T/L) + U \dots (1) \text{ Model with technology proxy}$$

$$\ln Q = A^* + a \ln K + b \ln L + U \dots \dots \dots (2) \text{ Model without technology proxy}$$

Estimation of the Production Function for Major Sri Lankan Seaports

$$\ln Q = A^* + a \ln K + b \ln L + Z(T/L) + U$$

Let,

$$\ln Q = Q,$$

$$A^* = C,$$

$$\ln K = k,$$

$$\ln L = L,$$

$$\ln T/L = RA$$

Estimation of results for all seaport with technological proxy

Dependent Variable: Q

Method: Least Squares

Date: 01/27/06 Time: 10:52

Sample(adjusted): 1981 2005

Included observations: 25 after adjusting endpoints

Convergence achieved after 6 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.221246	0.448871	-2.720704	0.0132
K	0.635830	0.102831	6.183270	0.0000
T/L	0.320493	0.137391	2.332703	0.0302
R	0.272534	0.085015	3.205699	0.0044
AR(1)	0.106261	0.084635	1.255520	0.2238
R-squared	0.994063	Mean dependent var		8.492891
Adjusted R-squared	0.992875	S.D. dependent var		1.034683
S.E. of regression	0.087335	Akaike info criterion		-1.861275
Sum squared resid	0.152548	Schwarz criterion		-1.617500
Log likelihood	28.26594	F-statistic		837.1502
Durbin-Watson stat	1.731050	Prob(F-statistic)		0.000000
Inverted AR Roots	.11			

$$\begin{aligned}
 \ln Q &= -1.2212 + 0.63583 \ln k + 0.32049 \ln L + 0.272534 (T/L) \\
 \text{Se} &= (0.4488) \quad (0.1028) \quad (0.1374) \quad (0.085) \\
 t &= (-2.721) \quad (6.1832) \quad (2.3327) \quad (3.2057)
 \end{aligned}$$

$n = 1980-2005$ (26), $R^2 = 0.994$, $\text{Adj } R^2 = 0.992$, $DW = 1.731$, $F = 837.1502$

Test the statistical significance

Using t test.

Let us postulate that,

$$\begin{aligned}
 H_0 : A^* &= 0, a = 0, b = 0, Z = 0 \\
 H_i : A^* &\neq 0, a \neq 0, b \neq 0, Z \neq 0
 \end{aligned}$$

For example the null hypothesis (H_0) states that, holding, $A^* = b = z = \text{Constant}$, capital input (k) has no (linear) influence on output (gross port revenue). To test the null hypothesis, we use the "t" test.

$$t = \frac{\hat{A^*}}{\text{se}(A^*)} = \frac{\hat{a}}{\text{se}(a)} = \frac{\hat{b}}{\text{se}(b)} = \frac{\hat{z}}{\text{se}(z)}$$

According to our study calculated t values are **-2.721, 6.1832, 2.3327, 3.2057** for intercept a, b and z respectively.

Our critical t value is

For 5% level 2.080

In these calculations, partial coefficients including the intercept are significant at the 0.05 per cent level for the two-tail test, standard errors are very small.

Goodness of fit (R^2) **$R^2 = 0.994$**

More than 99 per cent of the variation in seaport output is explained by the variation in explanatory variables.

Using F test

$$H_0 : A^* = a = b = Z = 0$$

$$H_i : A^* \neq a \neq b \neq Z \neq 0$$

Here calculated F value is **837.1502**

Critical F value from F table,

$$F_{0.05(3, 21)} = \mathbf{3.05}$$

Because $837.1502 > 4.71$ we can reject H_0 . That is the hypothesis that A^* , a , b , z are jointly different from zero. That is the F statistics is significant at the 0.05 per cent level

DW statistics

DW statistics is significant at 0.05 per cent level which indicates the absence of first order serial correlation

An Economic Interpretation

The partial slope coefficient of 0.63583 indicates the partial elasticity of the output with respect to capital. Specifically, this means that, if labor input are held constant and capital input increase by 1 per cent on average output will increase by 0.64 per cent. Likewise, if capital inputs are held constant, and if labor input increases by 1 per cent on average output increases by 0.32 per cent. If we add together the two output elasticity coefficients of factor input, we obtain an economically important parameter called the returns to scale parameter. Which gives the response of output to proportional change in inputs? The sum of two elasticity coefficient of capital and labor is 0.95632, suggesting that the Sri Lanka major seaports (Colombo Galle and Trincomalee) exhibit decreasing returns to scale doubling the input gives less than double the output. However, this tentative conclusion has been influenced by the technological proxy⁴, which explicitly assumed that all seaports have the same traffic structure and the same capital/labor ratios over time. Therefore this proxy has been dropped, in order to bring to the fore the direct relationship between inputs and outputs in major seaports in Sri Lanka. Dropping the proxy for technological developments gives the following results.

Estimation of results for all seaport without technological proxy

Dependent Variable: Q

Method: Least Squares

Date: 01/27/06 Time: 11:41

Sample(adjusted): 1982 2005

Included observations: 24 after adjusting endpoints
Convergence achieved after 7 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.609457	0.598987	-2.686966	0.0146
K	0.508069	0.143834	3.532334	0.0022
L	0.673986	0.125689	5.362350	0.0000
AR(1)	0.335557	0.221218	1.516860	0.1458
AR(2)	-0.093246	0.110143	-0.846585	0.4078
R-squared	0.990240	Mean dependent var	8.562052	
Adjusted R-squared	0.988185	S.D. dependent var	0.996161	
S.E. of regression	0.108278	Akaike info criterion	-1.425181	
Sum squared resid	0.222758	Schwarz criterion	-1.179753	
Log likelihood	22.10217	F-statistic	481.9344	
Durbin-Watson stat	2.095700	Prob(F-statistic)	0.000000	
Inverted AR Roots	.17+.26i	.17 -.26i		

$$\begin{array}{lcl} \ln Q & = & -1.6095 + 0.5081 \ln k + 0.6740 \ln L \\ \text{Se} & = & (2.6870) \quad (3.5323) \quad (5.3624) \\ t & = & (0.5990) \quad (0.1438) \quad (0.1257) \end{array}$$

$$R^2 = 0.990, \quad \text{Adj } R^2 = 0.988, \quad \text{DW} = 2.0957, \quad F = 481.9344$$

Statistically this result may be interpreted as follows. All partial coefficients, intercept, capital and labor are significant at the 0.05 per cent level. Standard errors are very small, the F statistics is significance at the 0.05 per cent level, and the variation of 99 per cent in seaport output is explained by the variation in explanatory variables. The DW statistics is significance at 0.05 per cent, which indicates the absence of first order serial correlation.

An Economic Interpretation

Economic interpretation of these results is as follows: The partial slope coefficient of 0.5081 indicates the partial elasticity of the output with respect to the capital input (k). This number indicates that, if the labor input is held constant, and capital input increases by 1 percent on average, seaport output will increase by 0.50 per cent. Likewise, if capital input is held constant, while labor inputs increases by 1 per cent on average, output will increase by 0.67 per cent. This interpretation contains an important policy message. That is labor and capital equally responsive to output of seaports in Sri Lanka. This is very much compatible with the factor endowments of the country. In order to further, substantiate an argument the possibilities of substituting labor for capital can be ascertained using the constant elasticity substitution (CES) production function or trans-log production function, which do not assume the unitary elasticity of substitution as does the Cobb-Douglas production function. However, this aspect is beyond the

limits of our analysis. Especially these aspects are suitable for the study, which deals with factor substitution and technical progress of seaports. The sum of the capital and labor elasticity coefficient is 1.182055, suggesting that Sri Lanka major seaport showed increasing returns to scale during the 1980 -2005 period. According to the results of these regressions, the productivity growth in the seaport was quite rapid. This rapid growth indicates that the demand for the seaport services has been increasing during the past two decades. Furthermore it indicates that there are more possibilities to expand seaport facilities and thereby reduce the seaport congestion, which has automatically been created by excess demand. However this rapid growth pertained mainly to the Colombo seaport rather than Galle or Trincomalee. To analyze the situation in Colombo Seaport these two functions only estimated for Colombo seaport.

Estimation of models for the Colombo Seaport

The first model makes estimates for the Colombo seaport using the OLS method. The results are as follows:

Estimation of results for Colombo seaport with technology proxy

Dependent Variable: Q
 Method: Least Squares
 Date: 01/28/06 Time: 10:36
 Sample(adjusted): 1981 2005
 Included observations: 25 after adjusting endpoints
 Convergence achieved after 6 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.543388	0.594548	-0.913951	0.3716
K	0.563286	0.102305	5.505935	0.0000
L	0.292002	0.136377	2.141148	0.0448
RA	0.324115	0.097887	3.311104	0.0035
AR(1)	0.159057	0.116549	1.364725	0.1875
R-squared	0.994295	Mean dependent var		8.457416
Adjusted R-squared	0.993154	S.D. dependent var		1.041651
S.E. of regression	0.086185	Akaike info criterion		-1.887776
Sum squared resid	0.148558	Schwarz criterion		-1.644000
Log likelihood	28.59719	F-statistic		871.4530
Durbin-Watson stat	1.590013	Prob(F-statistic)		0.000000
Inverted AR Roots	.16			

$$\begin{aligned} \ln Q &= -0.54339 + 0.56329 \ln k + 0.2920 \ln L + 0.32411 (T/L) \\ \text{Se} &= (0.5945) \quad (0.1023) \quad (0.1364) \quad (0.0979) \\ t &= (-0.9139) \quad (5.5059) \quad (2.1411) \quad (3.311) \end{aligned}$$

$$n = 1980 - 2005 = 26, \quad R^2 = 0.994, \quad \text{Adj } R^2 = 0.992, \quad DW = 1.59, \quad F = 871.45$$

Statistically these results may be interpreted as follows: The partial coefficients excluding intercept are significant at 0.05 per cent, but intercept is at 0.1 percent significance. Standard errors are very small, more than 99 per cent of the variation in seaport output is explained by the variation in explanatory variables, the F statistics is significant at the 0.05 per cent level and the DW statistic is significant at 0.05 per cent level, which indicates the absence of positive first order serial correlation.

An Economic Interpretation

Economically these results may be interpreted as follows: if labor input are held constant, and if capital input increase by 1 per cent on average output will increase by 0.56 per cent. If capital input is held constant, and if labor input increase by 1 per cent on average, output increases by 0.29 per cent. The sum this capital and labor elasticity coefficient is 0.86 which suggests that the Colombo seaport has had decreasing returns to scale during the 1980-2005 period. However, the government invested heavily in the Colombo seaport, to cope with the increasing traffic, and this caused the rapid changes in the capital output ratios. Therefore, the second model drops the technological proxy, in order to ascertain the direct relationships between input and output in the Colombo seaport.

Estimation of results for Colombo seaport without technology proxy

Dependent Variable: Q
 Method: Least Squares
 Date: 01/28/06 Time: 11:04
 Sample(adjusted): 1982 2005
 Included observations: 24 after adjusting endpoints
 Convergence achieved after 6 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.574528	0.653040	-2.411075	0.0262
K	0.523844	0.149568	3.502370	0.0024
L	0.652038	0.128905	5.058286	0.0001
AR(1)	0.389901	0.218799	1.782002	0.0907
AR(2)	-0.098740	0.114279	-0.864025	0.3984
R-squared	0.990323	Mean dependent var		8.527170
Adjusted R-squared	0.988286	S.D. dependent var		1.002639
S.E. of regression	0.108517	Akaike info criterion		-1.420763
Sum squared resid	0.223744	Schwarz criterion		-1.175335
Log likelihood	22.04916	F-statistic		486.1117
Durbin-Watson stat	2.095957	Prob(F-statistic)		0.000000
Inverted AR Roots	.19+.25i	.19 -.25i		

$$\begin{array}{rclclcl}
 \ln Q & = & -1.5745 & + & 0.5238 \ln k & + & 0.6520 \ln L \\
 t & = & (-2.4111) & & (3.5024) & & (5.0582) \\
 Se & = & (0.6530) & & (0.1496) & & (0.1289)
 \end{array}$$

$$R^2 = 0.990, \quad \text{Adj } R^2 = 0.988, \quad DW = 2.0957, \quad F = 481.9344$$

Statistically these results may be interpreted as follows: Capital and labor partial coefficient is significant at the 0.05 per cent level. However, the intercept has 0.62 per cent probability of significance. Standard errors are very small and the F statistic is significant at the 0.05 per cent level. More than 88 per cent of the variation in output is explained by the variation in explanatory variables. The DW statistic is significant at the 0.05 per cent level, indicating the absence of first order serial correlation.

An Economic Interpretation

Economically these results may be interpreted as follows: If the labor input is held constant, and capital input increases by one per cent on average, output increases by 0.64 per cent. Likewise, if capital input is held constant, and labor input increase by one per cent on average, output increases by 0.41 per cent. The sum of labor and capital coefficient is 1.5, which suggests that Colombo seaport has shown increasing returns to scale in the recent past: doubling inputs more than double the output. Colombo seaport uses the inputs optimally, or operates more or less in the minimum area of the long-run cost curve which may be the minimum efficient scale. That is why any South Asian seaport can not compete with Colombo and it is the most competitive seaport in South Asian region.

3. PRODUCTIVITY BASED PROFITABILITY ANALYSIS IN THE COLOMBO SEAPORT

The following max-min model is used to show the sustainable nature of profitable operation in the Colombo seaport based on the productivity analysis during 1980-2005 period.

$$\text{Maximize: } Q = wL + rK$$

$$\text{Subject to: } Q = AK^aL^b$$

Where, Q = Gross revenue from port activities (1980 price), w = Average annual total earning per employee (1980 prices), K = Net assets (book values, 1980 prices), L = Number of employees, a and b = Capital and labour coefficients, $r\%$ = Rate of return on capital; $(Q-wL)/K$.

Solving this model by using the Lagrange multiplier:

$$w = y_1 (b.Q/L) = y_1 \text{ MPPl in Rupee value}$$

$$r = y_2 (a.Q/K) = y_2 \text{ MPPk in per cent terms}$$

Where y_1 and y_2 = Lagrange multipliers for labour and capital, MPPl = Marginal Physical Productivity of Labour ($APL \cdot b$), MPPk = Marginal Physical Productivity of Capital ($APK \cdot a$), APL = Average Productivity of Labour (Q/L), APK = Average Productivity of Capital (Q/K), MRPl = Marginal Revenue Product of Labour ($MP1 \cdot w$), MRPk = Marginal Revenue Product of Capital ($MPk \cdot r \%$).

Capital coefficient, $a = 0.575347$ and Labor coefficient, $b = 0.574628$ obtained through estimating function through E views which is presented in annexure table 1.

All calculation for this model is shown the following table 1.

Table 1. Profitability analysis for the Colombo seaport 1980-2005

Year	Wage rate (w/L)=w	MRPI = (MPI*w)	Y1 = (w/MRPI)	r% (Q-wL)/k	MPPk = (MPk*r%)	Y2 = (r/MPPk)
1980	16433	131,027	0.12541	2.4197	3.3686	0.71830
1981	16271	253,350	0.06422	2.8164	4.5639	0.61711
1982	16604	105,600	0.15724	2.4382	3.4203	0.71286
1983	16610	117,939	0.14084	8.3722	40.3293	0.20760
1984	16465	198,350	0.08301	9.5892	52.9058	0.18125
1985	16762	105,084	0.15951	6.2649	22.5822	0.27743
1986	16388	132,425	0.12375	5.5856	17.9503	0.31117
1987	16521	119,159	0.13864	3.9648	9.0442	0.43838
1988	17355	265,321	0.06541	3.1853	5.8377	0.54565
1989	18078	188,978	0.09566	2.4305	3.3988	0.71511
1990	18818	366,642	0.05133	2.1026	2.5437	0.82661
1991	19278	137,990	0.13970	1.8131	1.8914	0.95860
1992	19645	105,270	0.18661	2.2766	2.9820	0.76345
1993	20063	287,788	0.06971	7.5643	32.9206	0.22977
1994	20680	95,382	0.21681	6.4340	23.8177	0.27014
1995	21404	444,140	0.04819	6.0000	20.5554	0.29190
1996	20391	327,824	0.06220	9.5692	29.8775	0.32028
1997	18583	122,220	0.15204	4.2148	10.2130	0.41270
1998	18062	205,010	0.08810	2.5260	3.6711	0.68808
1999	18616	143,841	0.12942	2.1775	2.7279	0.79821
2000	18257	53,688	0.34006	3.9054	8.7753	0.44504
2001	18984	168,015	0.11299	9.8209	44.3433	0.22147
2002	19674	152,965	0.12862	1.1855	0.8087	1.46606
2003	26432	623,191	0.04241	3.2169	5.9539	0.54030
2004	26739	155,762	0.17167	4.8342	13.4457	0.35954
2005	26019	172,619	0.15073	3.1287	5.6319	0.55553
Mean	19197	199,215	0.12478	4.5322	14.3677	0.53356
S . D	3041	126,267	0.0637	2.6421	14.7839	0.2939

Source: Calculation is based on the unpublished data obtained from the Financial Division of the Sri Lanka Ports Authority.

Assuming that labor and capital coefficients remained constant during the sample period (1980-2005), the marginal productivities of labor and capital can be obtained by multiplying input coefficients with their respective average productivities. The Lagrange multiplier (y_1, y_2) measures the deviation of returns to input factors from their marginal productivities, which has been derived by dividing returns to input factors by their marginal productivities. An economically important two main profitability measures are well above the acceptable level. That is, the average marginal revenue product of seaport labor is well above the average wage rate paid for seaport labor [$w(19197) < MRPI(199215)$] and the average marginal revenue product of capital is well above the average interest rate paid for the port development loans [$r\%(4.53) < MRPk\% = (14.37)$]. The average interest rate on the government bonds during 1980 - 2004 period was 14.62 per cent well below the MRPk percentage (CBSL: 2004). However, the majority of port development loans was granted by concessionary development cooperation sources and thus did not have real commercial origins. Wages in Colombo seaport are mainly determined by the labor market and by trade unions exogenous to the labor productivity in the seaport, speed-up money collection is widespread among port labors, and this may be an indirect compensation for the low wages. Therefore, capital always yields a high profitability for investment without raising wages. The average Lagrange multiplier for labor (y_1) equals 0.12478 for capital (y_2) it equals 0.53356. This indicates the relative stability of returns to input factors from the marginal productivities over time. In accounting terms however the major share of the gross port profit in the Colombo seaport is paid to the Government as tax revenue and subsidize the losses in other major seaports, which are administered and managed by the Sri Lanka Ports Authority. Therefore, the Colombo seaport does not retain sufficient surplus to reinvest for future development. This may be the main reason that Colombo seaport continues to depend heavily on development co-operation sources. However, if the private sector can be encouraged participating in different areas in seaport operations, this dependency could be lessened.'

4. CAPACITY UTILIZATION ANALYSIS IN THE COLOMBO SEAPORT

Capacity utilization is the ideal measure to show the proportion of seaport productive capacity currently utilized from the available maximum port capacity⁵. This is a good indicator to determine the potential future expansion of seaport facilities without creating over capacity. Often, the excess demand for seaport services leads to an expansion of seaport facilities without prior proper assessment of the utilization of the available capacity. Particularly, in developing countries without proper assessment of the utilization of the existing capacities, development of new capacities are widespread practice due to many factors. These practices might waste scarce resources, which aggravate the existing economic problems by giving priorities for unnecessary expensive infrastructure. Before the expansion of the existing seaport facilities begins, it is preferable to carry out a capacity utilization analysis. The calculation of the ratios of capacity utilization in the Colombo seaport is based on the actual tonnage handled and the preferred tonnage. We assume that the preferred tonnage indicates the preferred level of capacity utilization (capacity output). Thus, the ratios of actual to preferred tonnage in the port of Colombo are derived in the following sequences. First, the port capacity function is specified as follows:

T = f (Time, H)

Where,

T = actual tonnage handle, H = dummy variable for peak tonnage.

After the trend line of the actual tonnage handled has been identified, the following function is specified.

$$T = a + b \text{ time} + c (\text{time})^2 + d H \text{ time}^2$$

Where,

$$\text{TIME}^2 = T^2$$

Has been introduced after the quadric behavior of actual tonnage over time has been identified. First, this function is calculated using the OLS method, and later first order auto-correlation is removed using the first order auto-regression [ar (1)].

Estimation of results of capacity utilization for Colombo seaport.

Dependent Variable: T

Method: Least Squares

Date: 01/28/06 Time: 12:18

Sample(adjusted): 1982 2005

Included observations: 24 after adjusting endpoints

Convergence achieved after 10 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-75385.18	141219.2	-0.533817	0.6000
TIME	50558.32	22851.55	2.212468	0.0401
T2	1410.399	836.8812	1.685303	0.1092
H	153954.2	93235.23	1.651245	0.1160
AR(1)	1.001232	0.221301	4.524308	0.0003
AR(2)	-0.522485	0.212620	-2.457368	0.0244
R-squared	0.989841	Mean dependent var		1073611.
Adjusted R-squared	0.987019	S.D. dependent var		720256.9
S.E. of regression	82060.51	Akaike info criterion		25.68062
Sum squared resid	1.21E+11	Schwarz criterion		25.97513
Log likelihood	-302.1674	F-statistic		350.7759
Durbin-Watson stat	2.328842	Prob(F-statistic)		0.000000
Inverted AR Roots	.50+.52i	.50 -.52i		

$$\begin{array}{lllll}
 T & = & -75385.18 & 50558.32 \text{ time} & 1410.399 (\text{time})^2 & 153954.2 H \\
 t & = & (-0.533817) & (2.212468) & (1.685303) & (1.651245) \\
 Se & = & (141219.2) & (22851.55) & (836.8812) & (93235.23)
 \end{array}$$

$$R^2 = 0.989, \text{ Adj } R^2 = 0.9870, \text{ DW} = 2.328842, \text{ F} = 350.7759, \text{ n} = 1980\text{-}2005 \text{ (26)}$$

In these calculations, partial coefficient of time variable is significant at the 0.05 per cent level, but other variables excluding intercept are significant at 10 per cent level for the two tail test, 98 per cent of the variation in preferred tonnage is explained by the variation in the explanatory variables, the F statistic is significant at 0.05 per cent and the DW statistic is significant at 0.05 per cent level, which indicates the absence of first order auto-correlation. This equation shows that annual rate of increase of tonnage in the port of Colombo has been positive, and that the rate has increased over time at an increasing rate:

$$\frac{dt}{d(\text{time})} = 50558.32 + 2820.798 \text{ time, and} \\ d^2 T/d^2(\text{time}) = 2820.798.$$

Based on the above regression equation, the preferred tonnage (PT) function can be specified as:

$$PT_i = -75385.18 + 50558.32 \text{ time} + 1410.399 (\text{time})^2 + 153954.2 H$$

Where,

i = from 1980 to 2005 and H = 1.

Following this definition, preferred tonnage for the 1980-2005 period is computed using the PT_i equation by plugging the time variable and H = 1 for every period into equation. This shows in the following table.

Table 2. The derived ratios of actual to preferred tonnage in Colombo seaport, 1980-2005

Year	Actual Tonnage(T)	Preferred Tonnage(PT)	Capacity Utilization(T/PT)%
1980	41625	-23416	neglect
1981	59471	31373	190
1982	106120	88983	119
1983	146590	149414	98
1984	187727	212666	88
1985	220207	278739	79
1986	348142	347633	100
1987	435618	419347	104
1988	628485	493882	127
1989	551810	571238	97
1990	595356	651415	91
1991	669488	734412	91
1992	675776	820230	82
1993	858398	908870	94
1994	972642	1000329	97
1995	1049044	1094610	96
1996	1356301	1191712	114

Year	Actual Tonnage(T)	Preferred Tonnage(PT)	Capacity Utilization(T/PT)%
1997	1687184	1445588	117
1998	1714077	1548331	111
1999	1704389	1653895	103
2000	1732855	1762280	98
2001	1726605	1873485	92
2002	1764694	1987511	89
2003	1959336	2104359	93
2004	2220525	2224026	100
2005	2455293	2346515	105
Average	994914	996824	92

Source: Calculation is based on the published data obtained from the Statistical Division of the Sri Lanka Ports Authority.

This table 2 shows that the average rate of capacity utilization was around 92 per cent in the Colombo seaport during 1980-2005. In some years, the capacity utilization was over 100 per cent, which indicates heavy congestion, long waiting queues for ships and avoidance of Colombo by ships, etc. Further, not all the ship calling at the port could be served efficiently, and the by pass rate is very high for the main lines. The main limitation of this capacity utilization analysis is that some peak tonnage marked off, as full capacity utilization peaks when in fact, there may have been considerable under utilization of seaport capacity. According to the latest estimation made by the Sri Lanka Ports Authority in 2006 Oct., the Colombo's container handling (3.3 million TEU) capacity will be saturated in year 2008. Therefore this may be the right time to speed-up the work of Colombo South harbor to accommodate emerging mega ships between two growth engines of the world: China and India. The present harbour basin within the port will not be able to accommodate vessels with a length of 400 metres. Approximately 30 percent of the ships coming on stream are 8000 TEU plus vessels having a draft of 15 to 16 metres which the present port cannot cater to. In the 1980s the average size of a ship was 975 TEUs with the largest being 3,057 TEUs. Today the average size of a ship is 2191 TEUs while the largest in the world fleet is 9200 TEUs. There are designs in place for the construction of Malacca Max with a capacity of 18100 TEUs and Samzung Suez Max with a capacity of 14 000 TEUs. If the Colombo seaport does not develop inline with world maritime development, mega container vessels then have no other option except to opt for modern ports such as Salala-Aiden, Port of Dubai, Tanjung Pelapase of Malaysia or the Port of Singapore. The close Indian ports such Chennai is also developing fast and it would become a hub in the region in the near future, if Colombo do not act promptly to utilize its supreme hub location.

5. CONCLUSIONS AND POLICY REMARKS

The main contents of this analysis may be finalized in the following form of conclusions.

The analysis based on the Cobb-Douglas production function has shown that the operation of the Colombo seaport increasing return to scale during the recent past. The returns to scale depend to a larger extent upon changing demand for seaport services and corresponding development to cope with this demand. In view of the rapidly rising tonnage handled in many types of cargo such as container, bulk, break-bulk and liquid and the other maritime services provided for ships and the related other business activities by the Colombo seaport after the 1977 policy reforms has reasonable evidences to find increasing returns to scale in our estimated models even with some what ambiguous data set.

The analysis of the section 2 is elaborated the profitable operation of the Colombo seaport based on the productivity analysis. The average profitability measures such as $W < MRPI$ and $r\% < MRPk\%$ are well above the acceptable limits. The sustainable nature of profitable operation are well above the acceptable limits. This sustainable nature of profitable operation well elaborates with little fluctuation of Lagrange multipliers over time.

The capacity utilization analysis shows the annual rate of increase of tonnage at the Colombo seaport has been positive and, the rate has increased at an increasing rate over time and finally, it shows the high rate of actual to preferred capacity utilization which can be used as a basis to expand seaport facilities without creating the problem of overcapacity. This expansion can be within Colombo seaport itself or any other new port in Sri Lanka.

Notes

¹ This economic policy reforms mainly included: Liberalization of most of imports and exchange payments. Abolition of most price controls while keeping a system of administered prices for certain products of importance in the society's consumption pattern and grant of greater autonomy to public corporations for more realistic pricing policies in order to help them to achieve commercial viability. Attempts to reduce budgetary expenditure on account of food subsidies by introducing a system of 'food stamps' whereby stamps of a given value were issued to low income families and market forces were allowed generally to determine the prices of commodities purchasable with these stamps (safety net with market forces). Promotion of private enterprises, including direct foreign investment through a wide array of fiscal, infrastructural and other incentives. Restraint in granting wage demands in general and those within the public sector in particular along with repressive measures on the trade union movements. An appearance of restrictiveness in monetary measures marked by unprecedented high interest rates and intermittent credit squeezes imposed on commercial bank lending. Apart from short periods of these credit squeezes, however, private and public sectors do not seem to have encountered much difficulty in obtaining the required bank credit. In that respect, easy money conditions have been maintained. Sharp increases in government capital expenditure, particularly on infrastructure and housing project, despite the fact that this necessitated the running of large budget deficits, even if they had to be bridged through inflationary finance. Search for increasing volumes of

foreign aids, loans and grants. Sharp (Mono) devaluation of currency. Measures to promote economic activities earning foreign exchange (export-oriented industry, export crops, tourism, labour migration for foreign jobs etc.). Hence the claim of the proponents of the 'open economy' that their strategy is one of 'export-led growth'.

² The major changes introduced under the liberalization of shipping are: from Central Freight Bureau (CFB) regulations to liberalization, from a pivot of cargo monopoly to ship owner competition, from national line priority to foreign line precedence, from CFB negotiated rates to free market prices, from a lean sailing regime to prolific service oriented regime, from dominance of the CFB to the resurrection of the Ceylon Association of Steamer Agents (CASA) and shipping Council, from a Central Freight Booking Office to primacy of Colombo hub port, and promotion of private foreign and local investment to different areas in the maritime industry. From 1990 onwards this maritime sector liberalization continued by all the successive political regimes.

³ The theoretical defects and abuse of studies of port impact and cost/benefits are very much controversial issue in seaport literature. For details see Waters (1977); Chang (1978ab), and Peter and Rose (1995). Port impact and cost/benefits studies are different from the studies of port performance and efficiency. Seaport performance and efficiency are mainly related with stevedores (equipments and labour related), shipping lines (turn around time) and port itself (facility utilization and throughput). The most important determinants of the seaport performance and efficiency are explained by Tongzon (1995). However, the most acceptable single seaport performance indicators is shadow price based port throughput per profit unit.

⁴ Generally, technological change measures by introducing time variable to general production function. Our first model is using per-capita tonnage as proxy for the technological changes which in-line with the assumption of the labour-augmenting Harrod's neutral technological progress because capital-output ratio of Sri Lanka's seaports showed a relatively stable picture during 1980-93 periods. In our model, Harrod and Hicks neutral assumptions on technological progress are equivalent because elasticity of substitution is unitary even returns to scale is not unitary. It is generally believed that the Cobb-Douglas production function is embodied with the technological progress therefore a separate proxy is not necessary. For given values of K and L, the magnitude of A (intercept) will proportionately affect the level of Q. Hence A may be considered as an efficiency parameter, i.e., as an indicator of the state of technology. Therefore, included technological proxy has dropped from our model because of this reality.

⁵ Capacity output and capacity utilization are very difficult to measure in seaports. The most popular capacity utilization measures are Wharton school index based on Klien and Preston method (1996) and Tally method (1998, 1994). The Wharton school index is constructed by making off cyclical peaks of production and then computing ratios of actual to the linear trend line fitted through these peaks. This method assumes that cyclical peaks represent the full capacity utilization. Tally method measures full capacity utilization in engineering point of view. Two types of engineering optimum

outputs were introduced. First, the theoretical optimum engineering output which is the maximum (designed) throughput of a port when it is operating at its maximum rate of efficiency. Second, the optimum empirical engineering output which is the estimated maximum throughput based upon actual port data. However, most of the seaport capacity utilization studies were used 'actual' and 'preferred' capacity utilization rather than 'full' capacity utilization.

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Yes, leadership is about vision. But leadership is equally about creating a climate where the truth is heard and the brutal facts confronted. There's a huge difference between the opportunity to "have your say" and the opportunity to be heard. The good-to-great leaders understood this distinction, creating a culture wherein people had a tremendous opportunity to be heard, and ultimately, for the truth to be heard.
Jim Collins

ARTICLE

Financial Reforms and Common Stochastic Trends in International Stock Prices: A Case Study of Pakistan

Mohammed Nishat

Institute of Business Administration, Karachi, Pakistan

Ch. Muhammad Irfan

Risk Analyst, Corporate and Institutional Research
United Bank Limited, Karachi, Pakistan

ABSTRACT

This study uses the co-integration and error-correction techniques to examine the linkages between Pakistan and other capital markets of developed economies (US, UK, Japan, Australia and Canada); regional markets in South Asia (India, Sri Lanka), East Asia (Indonesia, South Korea, Singapore, Malaysia, Taiwan, Philippines) and EU (Austria, Belgium, Denmark, Germany, Italy and Czech) countries. The results indicate a long-run relationship between Pakistani stock market and most of the international markets during the sample period (1997 to 2004). However, the long-run linkages were comparatively stronger with developed and EU markets. The direction of linkages in most cases, are from other regional markets to Pakistan. The data depicted a long-run relationship both in the initial period of reforms (1997-2000) and in the later period of reforms (2001-2004). However, a market group based analysis indicated that the South Asian markets indicated comparatively stronger long run relationship with Pakistan.

JEL classification: G18, G15

Keywords: Reforms, International Financial Markets Integration

1. INTRODUCTION

Institutional development and reforms in the financial sector of Pakistan during 1980's mainly focused to attract and channel capital investment through the equity market. These reforms include phasing out of interest rate controls, establishment of an Industrial Policy and Procedure Committee and national deregulation commission and issuance of new Companies Ordinance 1984. To strengthen the investment environment and encourage the participation of private investors various policies were announced including divestments of the public sector, loosening the restriction on investment in stock and shares of listed companies or companies owned by government, and incentives and concessions to foreign private investors. In addition, provision of an adequate legal framework and security against expropriation was also provided to foreign investors. Foreigners were allowed to remit profits and capital along with giving relief from double taxation in the case of specific countries. Also, rules regarding

listing, approval of prospectus, issues and allotments, letters, bonus shares, holding of annual general meetings and dispatch of dividend warrants were revised.

Bulk of reforms followed the regime change in 1990. Among major reforms undertaken during the period includes the permission to issue Participation Term Certificates (PTCs) and Term Finance Certificates (TFCs) and Development Financial Institutions (DFIs) were allowed to float part of their capital in the stock market and reserve quota of institutional investors to purchase the share at par value was curtailed. Investment banks were allowed to operate in the private sector, and major privatisation drive was initiated resulting in handing over nationalized banks to private sector. During this period the government started borrowing funds from the open market under an auctioning system of Treasury Bills (TBs) and Federal Investment Bonds (FIBs) and later through Pakistan Investment Bonds (PIBs) of different maturity periods. Amendments in the Prudential Regulations, abolition of Foreign exchange controls, allowing financing against shares, investment of provident and gratuity funds in the equity market followed in the later years.

The regulatory changes in the stock market continued to support and match the required role of the stock market to facilitate capital inflow in Pakistan. The process of restructuring the Corporate Law Authority was initiated in 1997 under the Capital Market Development Plan of the Asian Development Bank (ADB) and Securities and Exchange Commission of Pakistan (SECP), with autonomous status, became operational in January 1999. The establishment of the SECP was an important milestone in the evolution of the regulatory framework for the capital market in Pakistan. Since its formation it has taken effective measures to ensure transparency in capital markets and safeguard the interest of the small investors. The establishment of Central Depository Company (CDC), steps to improve corporate governance and efforts toward further deepening of the market has made market more resilient and competitive. The institutional development and financial reforms undertaken during the last decade suggest that a common single stochastic trend between Pakistan and other international markets may exist as observed among Asian and North American markets (Siklos and Ng, 2001).

The objective of this paper is to see the level of integration between Pakistani and other equity markets of the world using two sub periods of institutional development and financial reforms in Pakistan. The hypothesis addressed is that due to regulatory policies and financial reforms, the KSE has integrated with international stock markets. The study also distinguishes the pattern of common stochastic trend between Pakistani market and other international markets during earlier (1997 to 2000) and later (2001 to 2004) period of financial reforms. In rest of the paper, section two describes the literature review followed by Econometric Technique and Data description in section three. Results are discussed in section four followed by summary and concluding remarks in section five.

2. LITERATURE REVIEW

International financial market integration is the most dazzling feature of the financial globalisation that has increased the opportunity set of investors and their ability to diversify the risk. Login and Solnik, (1995), Solnik, (1974); and Lessard, (1976) have found that lifting the barriers to investment in most developed markets expand the individual's investment opportunity set, and permits the pooling of risks by investing in assets that are less than perfectly correlated with each other.

Lifting the barriers, however, require a number of short-term and long-term measures and policy changes. The increased flow of international investment has been attributed to different factors. The important measures include the relaxation of controls on capital movements and foreign exchange transactions, improvements in information technology; expansion in the multinational operations of major corporations and developments occurring simultaneously in several financial markets (Roll, 1988; King and Wadhwani, 1988; Goodhart, 1988).

Several studies¹ on international stock market linkages suggest that most developed stock markets are related. Kasa's (1992) investigation of five major international stock markets resulted in a single common stochastic trend in the developed markets of the United States, Japan, England, Germany and Canada. Corhay et al. (1993), in their analysis of the price indices of five European markets, found that these markets displayed a common long-run trending behavior over the period of 1975-1991. Divecha et al. (1992) investigated ten emerging Asian stock markets and found that they were homogenous with a dominating strong market force and less correlated with each other and with the developed markets. Cheung and Lee (1993) examined inter-temporal pattern of the correlation coefficients among stock markets in developed markets and eleven emerging markets in Asia. They concluded that the correlation between the emerging Asian stock markets group and the developed markets group was smaller than among the developed markets, though these studies found that the correlation coefficients are not stable overtime. Corhay et al. (1995) also investigated the Asian markets and found no evidence of a single common stochastic trend in their examination of the stock markets of Australia, Japan, Hong Kong, New Zealand and Singapore for the period February 1972 through February 1992. Christofi and Pericli (1999) explored the short-run dynamics between five major Latin American stock markets, and found evidence of first and second moment interactions among these markets.

For developing and emerging markets the results revealed greater serial dependence than the developed markets (Errunza and Rosenberry, 1982; Errunza, 1983; Solnik, 1973). However, risk reduction among developing countries has persisted through time (Drummen and Zimmermann, 1992), and despite increasing integration of emerging markets into the world economy, by and large the correlation of emerging

¹ Dwyer and Hafer, 1988; Lessard, 1976; Hilliard, 1979; Jaffe and Westerfield, 1989; Schollhammer and Sand, 1985; Eun and Shim, 1989; Taylor and Tonks, 1989; Kanas, 1998; Roca, 1999.

market indices with global portfolios has remained very low, and at times negative. Maldonado and Saunders (1981) showed that the intertemporal relationships between correlation coefficients of various markets are unstable. On the other hand Philippatos et. al. (1983) support the existence of intertemporal stability of international stock markets. They suggest that national market indices are interrelated over time through a common factor. Meric and Meric (1989) show that the longer the time period, the greater the degree of stability in relationship among the international stock markets. Testing for cointegration as a mean to measuring the degree of integration (or segmentation) among markets in the same country or across countries and regions has become quite popular in recent applied economics and finance literature. Examples include Kasa (1992), Cheung and Lee (1993), Corhay et al. (1995), Kwan et al. (1995), Chan et al. (1997), Bowe and Mylanidis (1999), Ghosh et al. (1999) and Darrat and Zhong (2002), to name just a few. Most of the studies to date on stock market interdependence relate to the European, US, Japan, Asia Pacific and Latin American markets. However, emerging stock markets in the South Asian region, particularly Karachi Stock Exchange is a good case for understanding the integration of financial markets.

3. ECONOMETRIC TECHNIQUE AND DATA

The standard Johnson Cointegration and Error-correction techniques are used to determine the linkages between Pakistani and various international and regional markets. The data used in this study are the stock indices of major developed and emerging markets, chosen to represent the largest stock exchanges, emerging markets and those countries' stock markets, which contributed large inflows of capital into Pakistan in recent years. The weekly stock price indices for Pakistan, Indonesia, Malaysia, Philippines, South Korea, Thailand, Singapore, Taiwan, Australia, Canada, United Kingdom, Japan, USA, France, Austria, Belgium, Denmark, Germany, Italy, Czech Republic, Sri Lanka and India are taken. The sample consists of 377 observations starting from July 1997 to September 2004.

The data is obtained from the Web site of Yahoo Finance. Since we have weekly data, the timing of trading and the overlapping problems are not considered here. The data collected was the closing index values for the respective countries. The data is from July 1, 1997 to September 20, 2004. The Cointegration analysis was done for the entire period from July 1, 1997 to September 20, 2004 as well as for the period July 1, 1997 to December 31, 2000 when stock market reforms took shape in Pakistani market. During this period, major institutional reforms like effective formation of SECP, electronic settlements, shortening of settlement time and similar stock market reforms were undertaken (Financial Sector Analysis, State Bank of Pakistan, 2002).

The descriptive statistics of stock returns of south Asian, East Asian, Developed markets and EU markets are presented in table 1 through table 3 for the overall period (July 1997 to September 2004), period I (July 1997 to December 2000) and Period II (January 2001 to September 2004). The cross correlation of KSE stock returns and other international and regional market returns are presented in table 4.

4. EMPIRICAL RESULTS AND DISCUSSION

For determining the common stochastic trend through Cointegration techniques the time series properties of the data need to be studied first such as presence of unit roots. Unit root tests were run for each series. The order of ADF was ascertained on minimum AIC criteria. The results are given in tables 5 to 7. Test results indicate that stock indices from all regional markets are unable to reject the unit root hypothesis. Thus ADF test results show that all regional stock series are non-stationary in levels, but stationary at first difference (I_1).

Having satisfied with the results of ADF test we now employ Johansen Cointegration test for the variables. The lags are chosen on minimum AIC criteria. The results are presented in table 8 to 10. As presented in table 8 for overall period we observe one co-integrating factor for South Asian and East Asian markets whereas for developed markets we observe two co-integrating factors. However, for EU markets we observe three co-integrating factors. These results employ that Pakistan has more long run linkages with EU and developed markets particularly due to trade relations with these countries.

As presented in table 9 the Pakistani market showed stronger relationship with South Asian and East Asian regional markets then developed and EU markets during early period of reforms. This infers that during this period all these markets were volatile due to several global events and hence resulted in presence of common stochastic trends. During period II (table 10), all regional markets have indicated one co-integrating factor except South Asian markets which indicated comparatively stronger long run relationship (two co-integrating factors) as compared to other markets. Error correction results are presented in table 11 to 13. For overall sample period, the error correction term is statistically significant for India only. Moreover the coefficients are very small which implies that equilibrium error from cross exchange relationship is not that important to change in next period in Pakistani market. The results indicate that even though the Pakistani and the Indian market indices are tied to each other in long run, the small value of coefficient indicate that it can not be used to made significant price change in Pakistan. It further suggests that in India or Pakistan market innovations may be exogenous even though the two markets are co-integrated.

For East Asian countries only South Korea indicated a significant error correction term, which suggests that this disequilibria error term could be used to predict the corrections in Pakistani market in future (Granger, 1986). Among developed markets the error correction term for Japan is significant at lag 3. However, the coefficient is very small which implies that the disequilibria error terms from the Japanese to the Pakistani market is not that important and cannot be used to predict the price changes in Pakistan.

Among European markets, only Czech market indicated a very high and significant error term, which could be used to predict the future prices in Pakistani market. The results for period I indicated similar pattern for India, Korea in Asian region (table 12).

Among developed markets only UK indicated a significant error correction term. However, the coefficient is again not very high, implying that the cross relation is not that important factor to predict next period's change in Pakistani stock market index. In period II, we observe a little different pattern. In Asian region Pakistan observe significant and high error term from the Asian tigers like Malaysia and Singapore. Large values of error term imply that disequilibria error from East Asian countries is important factor to predict the corrections in future stock price levels in Pakistan.

Interestingly among developed markets the error correction term are statistically significant for Japan and US, which infers that during this period Pakistan is not only co-integrated in long run and these error terms could be used to predict the correction in Pakistani market. It is important to mention that during later period of reforms Pakistan has attracted substantial amount of foreign capital inflow from these countries and they are also the key trade partners of Pakistan.

5. SUMMARY AND CONCLUDING REMARKS

This paper uses the theory of co-integration to test the hypothesis that regulatory policies and institutional development in Pakistan observed during 1990s has linked the Pakistan stock market with international markets particularly during late 1990s and early 2000. We determine the number of common stochastic trends and examine the linkages between Pakistan stock exchange and leading developed markets such as United States, Australia and Japan. Other set of emerging and developing markets considered are India, Korea, Philippines, Sri Lanka, Indonesia and Malaysia. The results indicated a long run relationship between Pakistan and most of markets during overall study period. However, the long run linkages were comparatively stronger with developed and EU markets. The direction of linkages in most cases, are from other regional markets to Pakistan. The linkages of Pakistani market during initial period of reforms (Period I) indicated strong long run relationship between East Asian and European countries only. During later period of reforms (Period II) we observed strong long run relationship with all regional markets. However, South Asian markets indicated stronger long run relationship with Pakistan. The results indicated that Pakistani market follow an error-correction from developed markets like US, Japan and leading Asian markets like Malaysia and Singapore.

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Table 1**Summary Statistics of Stock Returns (Overall period)****1 a. Summary Statistics of Stock Returns of South Asian Markets**

	PAKISTAN	SRI LANKA	INDIA
Mean	0.003	0.002	0.001
Median	0.005	(0.001)	0.002
Maximum	0.128	0.180	0.121
Minimum	(0.168)	(0.104)	(0.134)
Std. Dev.	0.041	0.031	0.037
Skewness	(0.620)	0.827	(0.213)
Kurtosis	5.166	8.266	4.436

1 b. Summary Statistics of Stock Returns of East Asian Markets

	INDONESIA	MALAYSIA	PHILIPPINES	S. KOREA	THAILAND	SINGAPORE	TAIWAN
Mean	0.000	-0.001	-0.001	0.000	0.000	0.000	-0.001
Median	0.000	-0.001	-0.002	0.001	0.003	-0.001	0.000
Maximum	0.188	0.265	0.162	0.174	0.158	0.199	0.183
Minimum	-0.178	-0.190	-0.220	-0.213	-0.172	-0.255	-0.143
Std. Dev.	0.048	0.041	0.040	0.054	0.045	0.038	0.041
Skewness	0.052	0.430	-0.229	-0.289	-0.014	-0.339	0.063
Kurtosis	5.758	9.846	7.688	4.679	4.143	10.265	4.619

1 c. Summary Statistics of Stock Returns of Developed Markets

	AUSTRALIA	CANADA	UK	JAPAN	US	FRANCE
Mean	0.001	0.001	0.000	-0.002	0.001	0.001
Median	0.002	0.003	0.002	0.000	0.002	0.001
Maximum	0.050	0.093	0.101	0.103	0.075	0.110
Minimum	-0.053	-0.118	-0.089	-0.113	-0.117	-0.121
Std. Dev.	0.016	0.025	0.025	0.031	0.026	0.032
Skewness	-0.203	-0.576	-0.104	-0.019	-0.428	-0.064
Kurtosis	3.486	5.727	4.066	3.361	4.834	3.699

1 d. Summary Statistics of Stock Returns of EU Markets

	AUSTRIA	BELGIUM	DENMARK	FRANCE	GERMANY	ITALY	CZECH
Mean	0.001	0.000	0.001	0.001	0.000	0.001	0.001
Median	0.003	0.003	0.002	0.001	0.003	0.002	0.003
Maximum	0.060	0.129	0.081	0.110	0.129	0.178	0.116
Minimum	-0.104	-0.103	-0.133	-0.121	-0.141	-0.268	-0.140
Std. Dev.	0.024	0.029	0.026	0.032	0.038	0.032	0.030
Skewness	-0.565	-0.139	-0.528	-0.064	-0.151	-1.013	-0.243
Kurtosis	4.149	5.194	4.780	3.699	3.877	17.487	4.656

Table 2**Summary Statistics of Stock Returns (period I)****2 a. Summary Statistics of Stock Returns of South Asian Markets**

	PAKISTAN	SRI LANKA	INDIA
Mean	0.000	-0.003	0.000
Median	0.001	-0.003	0.002
Maximum	0.128	0.072	0.121
Minimum	-0.168	-0.089	-0.134
Std. Dev.	0.050	0.025	0.042
Skewness	-0.487	-0.056	-0.013
Kurtosis	4.190	3.910	3.713

2 b. Summary Statistics of Stock Returns of South Asian Markets

	INDONESIA	MALAYSIA	PHILIPPINES	S. KOREA	THAILAND	SINGAPORE	TAIWAN
Mean	-0.003	-0.003	-0.003	-0.002	-0.005	0.000	-0.003
Median	-0.005	-0.005	-0.003	0.000	-0.010	-0.004	-0.001
Maximum	0.188	0.265	0.145	0.174	0.158	0.199	0.111
Minimum	-0.178	-0.190	-0.220	-0.213	-0.137	-0.255	-0.143
Std. Dev.	0.060	0.055	0.048	0.065	0.055	0.047	0.042
Skewness	0.182	0.516	-0.401	-0.229	0.334	-0.277	-0.103
Kurtosis	4.480	6.447	6.407	3.925	3.132	8.754	3.507

2 c. Summary Statistics of Stock Returns of South Asian Markets

	AUSTRALIA	CANADA	UK	JAPAN	US	FRANCE
Mean	0.001	0.002	0.001	-0.002	0.002	0.004
Median	0.001	0.003	0.003	-0.004	0.002	0.002
Maximum	0.050	0.093	0.064	0.103	0.071	0.092
Minimum	-0.046	-0.118	-0.063	-0.113	-0.111	-0.086
Std. Dev.	0.018	0.030	0.025	0.031	0.027	0.031
Skewness	-0.099	-0.610	-0.142	-0.099	-0.331	0.161
Kurtosis	3.054	5.205	2.978	4.048	4.059	3.133

2 d. Summary Statistics of Stock Returns of South Asian Markets

	AUSTRIA	BELGIUM	DENMARK	FRANCE	GERMANY	ITALY	CZECH
Mean	-0.001	0.001	0.003	0.004	0.003	0.004	0.000
Median	0.000	0.003	0.004	0.002	0.004	0.004	0.000
Maximum	0.060	0.098	0.055	0.092	0.119	0.141	0.116
Minimum	-0.104	-0.090	-0.066	-0.086	-0.141	-0.081	-0.140
Std. Dev.	0.028	0.027	0.026	0.031	0.035	0.032	0.034
Skewness	-0.455	-0.042	-0.171	0.161	-0.246	0.184	-0.104
Kurtosis	3.632	3.990	2.685	3.133	3.982	4.092	4.510

Table 3**Summary Statistics of Stock Returns (period II)****3 a. Summary Statistics of Stock Returns of South Asian Markets**

	PAKISTAN	SRI LANKA	INDIA
Mean	0.006	0.006	0.002
Median	0.007	0.002	0.002
Maximum	0.102	0.179	0.118
Minimum	-0.124	-0.109	-0.122
Std. Dev.	0.031	0.034	0.032
Skewness	-0.500	0.933	-0.577
Kurtosis	4.971	8.177	5.296

3 b. Summary Statistics of Stock Returns of South Asian Markets

	INDONESIA	MALAYSIA	PHILIPPINES	S. KOREA	THAILAND	SINGAPORE	TAIWAN
Mean	0.003	0.0012	0.001	0.002	0.004	0.0001	0.001
Median	0.002	-0.0007	-0.002	0.003	0.008	-0.0005	0.002
Maximum	0.094	0.065	0.161	0.135	0.081	0.0968	0.183
Minimum	-0.092	-0.114	-0.067	-0.141	-0.172	-0.1205	-0.130
Std. Dev.	0.032	0.021	0.030	0.040	0.033	0.0282	0.040
Skewness	-0.046	-0.642	0.799	-0.225	-0.842	-0.472	0.326
Kurtosis	3.366	7.386	6.379	3.532	6.351	5.8133	5.763

3 c. Summary Statistics of Stock Returns of South Asian Markets

	AUSTRALIA	CANADA	UK	JAPAN	US	FRANCE
Mean	0.0007	-0.0002	-0.0015	-0.0012	-0.0008	-0.002
Median	0.002	0.0023	-0.0006	0.0005	0.0007	0.0001
Maximum	0.0414	0.0564	0.1006	0.0946	0.0748	0.110
Minimum	-0.0527	-0.0670	-0.0886	-0.0772	-0.1171	-0.1212
Std. Dev.	0.0148	0.0200	0.024	0.0302	0.0251	0.0324
Skewness	-0.3725	-0.4754	-0.0778	0.0619	-0.5583	-0.2268
Kurtosis	3.9469	4.1401	5.3011	2.6412	5.734	4.0303

3 d. Summary Statistics of Stock Returns of South Asian Markets

	AUSTRIA	BELGIUM	DENMARK	FRANCE	GERMANY	ITALY	CZECH
Mean	0.003	-0.000664	-0.0006	-0.0024	-0.0025	-0.0018	0.0029
Median	0.0051	0.001	0.0006	0.0001	0.0008	0.0012	0.0063
Maximum	0.0503	0.1290	0.0810	0.1101	0.1288	0.1779	0.0647
Minimum	-0.0582	-0.1032	-0.1325	-0.1212	-0.1391	-0.2678	-0.080
Std. Dev.	0.0194	0.0301	0.0266	0.0324	0.0397	0.0327	0.0248
Skewness	-0.4388	-0.1904	-0.8240	-0.2268	-0.0463	-2.0172	-0.4047
Kurtosis	3.5744	5.9027	6.2764	4.0303	3.7954	28.010	3.3721

Table 4**Cross Correlation of Stock Returns (Overall Period)****4 a. Cross Correlation of Stock Returns of South Asian Markets with Pakistani Market**

	Overall	Period I	Period II
SRI LANKA	0.15	0.289	0.012
INDIA	0.12	0.077	0.208

4 b. Cross Correlation of Stock Returns of East Asian Markets with Pakistani Market

	Overall	Period I	Period II
INDONESIA	-0.013	-0.058	0.091
MALAYSIA	0.120	0.131	0.075
PHILIPPINES	0.013	0.007	0.014
S. KOREA	0.020	-0.044	0.166
THAILAND	0.073	0.069	0.055
SINGAPORE	0.118	0.099	0.164
TAIWAN	0.094	0.048	0.159

4 c. Cross Correlation of Stock Returns of Developed Markets with Pakistani Market

	Overall	Period I	Period II
AUSTRALIA	0.077	0.037	0.149
CANADA	0.107	0.093	0.147
UK	0.002	-0.068	0.121
JAPAN	0.047	0.068	0.014
US	0.092	0.050	0.177
FRANCE	0.013	-0.066	0.146

4 d. Cross correlation of stock Returns of EU Markets with Pakistani Market

	Overall	Period I	Period II
AUSTRIA	0.012	-0.025	0.069
BELGIUM	-0.029	-0.119	0.096
DENMARK	0.043	0.005	0.114
FRANCE	0.013	-0.066	0.146
GERMANY	0.054	-0.008	0.156
ITALY	0.050	-0.029	0.186
CZECH	0.153	0.137	0.176

Table 5**Unit Root Test Results (ADF) (Overall Period)****5 a. ADF Tests Results for South Asian Countries**

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Pakistan	3	Level	0.626	-1.642
	2	First Difference	-8.742	-8.922
Sri Lanka	3	Level	0.518	-1.290
	2	First Difference	-9.768	-10.180
India	1	Level	-1.434	-1.743
	1	First Difference	-13.309	-13.342

Critical values at 1% and 5% are -3.45 and -2.57 respectively

5 b. ADF tests results for East Asian Countries

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Indonesia	2	Level	-1.307	-2.356
	1	First Difference	-12.150	-12.339
Malaysia	5	Level	-2.720	-3.205
	4	First Difference	-7.389	-7.444
Philippines	2	Level	-2.857	-2.635
	1	First Difference	-11.253	-11.348
South Korea	4	Level	-2.093	-2.516
	3	First Difference	-8.204	-8.211
Thailand	4	Level	-1.755	-2.678
	3	First Difference	-9.218	-9.452
Taiwan	1	Level	-2.064	-2.111
	1	First Difference	-13.598	-13.620
Singapore	3	Level	-2.141	-2.150
	3	First Difference	-9.347	-9.372

5 c. ADF tests results for Developed Countries

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Canada	2	Level	-1.787	-1.826
	1	First Difference	-12.519	-12.502
France	1	Level	-1.391	-1.605
	1	First Difference	-14.343	-14.423
Australia	1	Level	-1.355	-2.412
	1	First Difference	-13.685	1.000
United Kingdom	1	Level	-1.282	-2.414
	1	First Difference	-13.557	-13.573
Japan	1	Level	-1.780	-1.832
	1	First Difference	-13.665	-13.691
United States	1	Level	-1.751	-2.024
	1	First Difference	-13.692	-13.711

5 d. ADF tests results for European Union

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Austria	1	Level	0.355	-0.456
	1	First Difference	-12.523	-12.798
Belgium	1	Level	-1.638	-2.329
	1	First Difference	-14.353	-14.339
Czech	4	Level	-0.206	-1.107
	3	First Difference	-8.846	-9.018
Denmark	3	Level	-1.905	-1.892
	6	First Difference	-7.544	-7.550
France	1	Level	-1.391	-1.605
	1	First Difference	-14.343	-14.423
Germany	1	Level	-1.343	-1.895
	1	First Difference	-13.495	-13.517
Italy	1	Level	-2.122	-2.324
	1	First Difference	-12.999	-13.049

Table 6**Unit Root Test Results (ADF) (Period I)****6 a. ADF tests results for South Asian Markets**

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Pakistan	1	Level	-1.982	-1.947
	1	First Difference	-7.610	-7.712
Sri Lanka	3	Level	-2.679	-3.201
	2	First Difference	-7.309	-7.358
India	1	Level	-1.757	-2.267
	1	First Difference	-9.951	-9.927

6 b. ADF tests results for East Asian Markets

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Indonesia	2	Level	-2.709	-2.826
	1	First Difference	-8.774	-8.786
Malaysia	5	Level	-2.330	-2.923
	4	First Difference	-5.075	-5.107
Philippines	2	Level	-2.492	-2.538
	1	First Difference	-7.816	-7.811
South Korea	4	Level	-1.236	-1.530
	3	First Difference	-9.406	-9.382
Thailand	4	Level	-3.084	-3.066
	3	First Difference	-7.725	-7.753
Taiwan	1	Level	-1.398	-1.559
	1	First Difference	-9.345	-9.316
Singapore	3	Level	-1.187	-1.937
	3	First Difference	-6.144	-6.164

6 c. ADF tests results for Developed Markets

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Canada	2	Level	-1.127	-1.767
	1	First Difference	-8.730	-8.705
France	2	Level	-1.003	-1.471
	1	First Difference	-11.009	-11.000
Australia	1	Level	-1.123	-3.369
	1	First Difference	-9.191	-9.172
United Kingdom	1	Level	-2.204	-2.547
	1	First Difference	-9.420	-9.441
Japan	1	Level	-1.968	-1.977
	1	First Difference	-9.521	-9.498
United States	1	Level	-1.673	-1.559
	1	First Difference	-10.513	-10.595

6 d. ADF tests results for EU Markets

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Austria	1	Level	-1.751	-2.413
	1	First Difference	-9.041	-9.016
Belgium	6	Level	-2.297	-2.073
	5	First Difference	-5.239	-5.326
Czech	3	Level	-2.286	-2.450
	3	First Difference	-6.077	-6.060
Denmark	1	Level	-0.411	-1.575
	1	First Difference	-9.233	-9.240
France	2	Level	-1.003	-1.471
	1	First Difference	-11.009	-11.000
Germany	1	Level	-1.415	-1.946
	1	First Difference	-9.825	-9.815
Italy	1	Level	-1.669	-2.405
	1	First Difference	-8.223	-8.237

Table 7**Unit Root Test Results (ADF) (Period II)****7 a. ADF tests results for South Asian Markets**

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Pakistan	4	Level	0.192	-2.536
	3	First Difference	-6.192	-6.289
Sri Lanka	3	Level	-0.027	-3.251
	2	First Difference	-7.279	-7.322
India	1	Level	-0.351	-1.741
	1	First Difference	-8.453	-8.581

7 b. ADF tests results for East Asian Markets

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Indonesia	2	Level	0.039	-1.657
	1	First Difference	-8.105	-8.215
Malaysia	2	Level	-1.237	-2.303
	1	First Difference	-8.402	-8.402
Philippines	2	Level	-1.038	-1.247
	1	First Difference	-8.339	-8.562
South Korea	1	Level	-1.505	-1.919
	1	First Difference	-10.771	-10.741
Thailand	1	Level	-0.619	-1.789
	1	First Difference	-9.177	-9.159
Taiwan	1	Level	-1.858	-2.004
	1	First Difference	-10.262	-10.234
Singapore	1	Level	-1.600432	-1.815
	1	First Difference	-10.089	-10.304

7 c. ADF tests results for Developed Markets

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Canada	1	Level	-1.821	-2.075
	1	First Difference	-9.234	-9.465
France	1	Level	-2.383	-1.606
	1	First Difference	-9.467	-9.666
Australia	1	Level	-1.111	-1.272
	1	First Difference	-10.173	-10.217
United Kingdom	1	Level	-2.253	-1.659
	1	First Difference	-9.984	-10.150
Japan	1	Level	-2.117	-1.720
	1	First Difference	-9.799	-9.898
United States	1	Level	-2.238	-1.890
	1	First Difference	-8.944	-9.044

7 d. ADF tests results for EU Markets

Country	Optimal Lag Length	Level/ First Difference	Constant	Trend and Constant
Austria	1	Level	0.951	-0.637
	1	First Difference	-5.695	-5.923
Belgium	2	Level	-1.643	-0.755
	1	First Difference	-11.465	-11.658
Czech	1	Level	0.805	-2.084
	1	First Difference	-8.675	-9.012
Denmark	1	Level	-1.659	-1.056
	1	First Difference	-9.008	-9.151
France	1	Level	-2.383	-1.606
	1	First Difference	-9.467	-9.666
Germany	1	Level	-1.980	-1.475
	1	First Difference	-9.255	-9.361
Italy	2	Level	-2.575	-1.939
	1	First Difference	-10.565	-10.745

Table 8**Johansen Cointegration Test (Overall Period)****8 a. Johansen Cointegration Test for South Asian Markets**

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.0855	41.307	29.68	35.65	None **
0.0202	7.874	15.41	20.04	At most 1
0.0006	0.237	3.76	6.65	At most 2

Intercept and Trend in Cointegrated Equation - no trend in VAR.

*(**) Denotes rejection of the hypothesis at 5%(1%) significance level

8 b. Johansen Cointegration Test for East Asian Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.143	199.565	182.820	196.080	None **
0.113	141.681	146.760	158.490	At most 1
0.082	96.957	114.900	124.750	At most 2
0.056	65.141	87.310	96.580	At most 3
0.044	43.687	62.990	70.050	At most 4
0.034	26.790	42.440	48.450	At most 5
0.028	13.836	25.320	30.450	At most 6
0.009	3.381	12.250	16.260	At most 7

Intercept and Trend in Cointegrated Equation - no trend in VAR

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates 1 cointegrating equation(s) at 5% significance level

Lags interval: 1 to 5

8 c. Johansen Cointegration Test for Developed Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.096	138.243	146.760	158.490	None *
0.081	95.506	114.900	124.750	At most 1 *
0.068	63.928	87.310	96.580	At most 2
0.052	37.793	62.990	70.050	At most 3
0.026	17.749	42.440	48.450	At most 4
0.021	7.967	25.320	30.450	At most 5
0.001	0.188	12.250	16.260	At most 6

Intercept and Trend in Cointegrated Equation - no trend in VAR

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates 2 cointegrating equation(s) at 5% significance level

Lags interval: 1 to 5

8 d. Johansen Cointegration Test for European Union Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.1192	197.7923	182.82	196.08	None **
0.0911	150.5566	146.76	158.49	At most 1 *
0.0795	115.0223	114.9	124.75	At most 2 *
0.0758	84.2236	87.31	96.58	At most 3
0.0481	54.9085	62.99	70.05	At most 4
0.0471	36.5538	42.44	48.45	At most 5
0.0329	18.6125	25.32	30.45	At most 6
0.0164	6.1536	12.25	16.26	At most 7

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates 3 cointegrating equation(s) at 5% significance level

Intercept and Trend in Cointegrated Equation - no trend in VAR

Lags interval: 1 to 5

Table 9**Johansen Cointegration Test (Period I)****9 a. Johansen Cointegration Test for South Asian Markets**

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.062582	25.83859	42.44	48.45	None
0.046478	14.20594	25.32	30.45	At most 1
0.030843	5.639195	12.25	16.26	At most 2

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates no cointegrating equation(s) at 5% significance level

Lags interval: 1 to 3

9 b. Johansen Cointegration Test for East Asian Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.330	227.242	182.820	196.080	None **
0.256	154.273	146.760	158.490	At most 1 *
0.145	100.375	114.900	124.750	At most 2
0.138	71.918	87.310	96.580	At most 3
0.091	44.798	62.990	70.050	At most 4
0.072	27.423	42.440	48.450	At most 5
0.046	13.861	25.320	30.450	At most 6
0.028	5.242	12.250	16.260	At most 7

Intercept and Trend in Cointegrated Equation - no trend in VAR

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates 2 cointegrating equation(s) at 5% significance level

Lags interval: 1 to 2

9 c. Johansen Cointegration Test for Developed Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.171336	119.5348	146.76	158.49	None
0.128613	85.32951	114.9	124.75	At most 1
0.104413	60.27369	87.31	96.58	At most 2
0.076498	40.20346	62.99	70.05	At most 3
0.060618	25.71951	42.44	48.45	At most 4
0.044498	14.33842	25.32	30.45	At most 5
0.032717	6.054093	12.25	16.26	At most 6

L.R. test indicates 2 cointegrating equation(s) at 5% significance level

Lags interval: 1 to 5

9 d. Johansen Cointegration Test for European Union Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.344856	225.9572	182.82	196.08	None **
0.234886	150.258	146.76	158.49	At most 1 *
0.168222	102.3343	114.9	124.75	At most 2
0.128369	69.36431	87.31	96.58	At most 3
0.114216	44.7717	62.99	70.05	At most 4
0.061777	23.0622	42.44	48.45	At most 5
0.044858	11.64777	25.32	30.45	At most 6
0.018993	3.432506	12.25	16.26	At most 7

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates 2 cointegrating equation(s) at 5% significance level

Lags interval: 1 to 4

Tables 10

Johansen Cointegration Test (Period II)

10 a. Johansen Cointegration Test for South Asian Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.1496	57.2616	42.44	48.45	None **
0.0858	25.6680	25.32	30.45	At most 1 *
0.0411	8.1784	12.25	16.26	At most 2

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates 2 cointegrating equation(s) at 5% significance level

Lags interval: 1 to 3

10 b. Johansen Cointegration Test for East Asian Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.3075	191.6942	182.82	196.08	None *
0.1696	120.0377	146.76	158.49	At most 1
0.1365	83.7916	114.9	124.75	At most 2
0.1135	55.1844	87.31	96.58	At most 3
0.0682	31.6969	62.99	70.05	At most 4
0.0518	17.9233	42.44	48.45	At most 5
0.0255	7.5459	25.32	30.45	At most 6
0.0128	2.5132	12.25	16.26	At most 7

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates 1 cointegrating equation(s) at 5% significance level

Lags interval: 1 to 2

10 c. Johansen Cointegration Test for Developed Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.213365	148.9913	146.76	158.49	None *
0.130338	102.193	114.9	124.75	At most 1
0.121926	74.96111	87.31	96.58	At most 2
0.08686	49.60634	62.99	70.05	At most 3
0.077272	31.88754	42.44	48.45	At most 4
0.050574	16.20544	25.32	30.45	At most 5
0.030726	6.085458	12.25	16.26	At most 6

*(**) denotes rejection of the hypothesis at 5%(1%) significance level

L.R. test indicates 1 cointegrating equation(s) at 5% significance level

Lags interval: 1 to 3

10 d. Johansen Cointegration Test for European Union Markets

Eigenvalue	Likelihood Ratio	5 % Critical Value	1 % Critical Value	Hypothesized No. of CE(s)
0.249	201.918	182.82	196.08	None **
0.182	146.115	146.76	158.49	At most 1
0.177	106.926	114.9	124.75	At most 2
0.127	69.001	87.31	96.58	At most 3
0.076	42.533	62.99	70.05	At most 4
0.062	27.056	42.44	48.45	At most 5
0.051	14.672	25.32	30.45	At most 6
0.023	4.500	12.25	16.26	At most 7

Table 11
Error Correction (Overall)

South Asian Markets		
	D (PAKISTAN)	
	Coefficient	t stat
D (SRI LANKA (-1))	-0.199	-1.27
D (SRI LANKA (-3))	-0.231	-1.474
D (INDIA (-1))	0.081	-3.071
D (INDIA (-2))	0.057	-2.121
East Asian Markets		
D (INDONESIA (-1))	0.247	-1.139
D (MALAYSIA (-3))	0.174	-1.002
D (PHILIPPINES (-3))	-0.09	-1.158
D (S. KOREA (-2))	0.345	-2.442
D (SINGAPORE (-2))	-0.102	-1.136
D (SINGAPORE (-3))	0.091	-1.013
Developed Markets		
D (CANADA (-2))	0.046	-1.401
D (CANADA (-4))	0.047	-1.454
D (FTSE (-1))	0.062	-1.071
D (FTSE (-5))	0.07	-1.251
D (JAPAN (-2))	0.017	-1.538
D (JAPAN (-3))	0.026	-2.34
D (US (-3))	-0.414	-1.514
D (US (-4))	-0.326	-1.193
EU Markets		
D (AUSTRIA (-1))	0.184	-1.171
D (AUSTRIA (-2))	0.195	-1.257
D (AUSTRIA (-3))	0.235	-1.507
D (BELGIUM (-2))	-0.118	-1.515
D (BELGIUM (-4))	-0.092	-1.176
D (DENMARK (-3))	-0.847	-1.029
D (FRANCE (-2))	0.087	-1.224
D (GERMANY (-4))	0.061	-1.136
D (ITALY (-4))	0.013	-1.263
D (CZECH (-1))	0.616	-1.843
D (CZECH (-2))	-0.666	-2.037
D (CZECH (-4))	-0.395	-1.194
D (CZECH (-5))	0.357	-1.089

Table 12**Error Correction (Period I)****South Asian Markets****D (PAKISTAN)**

	Coefficient	t stat
D (SRI LANKA (-3))	-0.65678	-1.91289
D (INDIA (-1))	0.115667	-4.31805
D (INDIA (-2))	0.047675	-1.7207

East Asian Markets

D (MALAYSIA (-1))	0.198	-1.207
D (S. KOREA (-2))	0.469	-3.230
D (THAILAND (-2))	-0.334	-1.035

Developed Markets

D (AUSTRALIA (-2))	-0.134	-1.099
D (CANADA (-2))	0.038	-1.338
D (FTSE (-1))	0.095	-1.839
D (FTSE (-2))	-0.116	-2.295
D (JAPAN (-2))	0.015	-1.482
D (FRANCE (-2))	0.088	-1.633

EU Markets

D (BELGIUM (-1))	-0.129	-1.541
D (BELGIUM (-2))	-0.102	-1.233
D (BELGIUM (-4))	-0.085	-1.046
D (FRANCE (-1))	-0.092	-1.244
D (FRANCE (-3))	0.076	-1.034
D (GERMANY (-1))	0.075	-1.139
D (ITALY (-4))	0.019	-1.645
D (CZECH (-1))	0.619	-1.626
D (CZECH (-2))	-0.545	-1.460

Table 13**Error Correction (Period II)****South Asian Markets****D (PAKISTAN)**

	Coefficient	t stat
D (SRI LANKA (-1))	-0.2809	-1.42332
D (SRI LANKA (-3))	-0.20078	-1.00802
D (INDIA (-2))	0.067777	-1.35527

East Asian Markets

D (INDONESIA (-1))	0.546	-1.236
D (MALAYSIA (-1))	-1.298	-2.601
D (SINGAPORE (-1))	0.573	-2.825
D (TAIWAN (-1))	0.051	-1.197

Developed Markets

D (AUSTRALIA (-2))	0.308083	-1.61687
D (CANADA (-1))	0.074346	-1.06531
D (CANADA (-2))	0.112595	-1.6545
D (CANADA (-3))	-0.07485	-1.12485
D (FTSE (-2))	0.205417	-1.53731
D (JAPAN (-3))	0.039904	-1.90991
D (US (-1))	-1.47312	-2.81453
D (US (-2))	-1.16072	-2.03245
D (US (-3))	-0.92498	-1.71449
D (FRANCE (-1))	0.198812	-1.4891

EU Markets

D (CZECH (-1))	0.791234	-1.46563
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RESEARCH

Towards a Vision 2030*

Direction of Industrial Development in Pakistan

A Summary of the Study conducted by

Japan International Cooperation Agency
and
International Development Center of Japan

I. OBJECTIVES AND METHODOLOGY OF THE STUDY

Pakistan needs to find out ways to promote expansion of the dynamic market economy. This Study attempted to present ways to promote industries, specifically in order to achieve “well-directed economic development” to be broken down into: upgrading of industrial structure, control of the underground economy and proper development of economic infrastructure. In addition, in relation to “building economic clusters, unique to its locality”, concrete recommendations should be presented for the purpose of “well-directed regional development”. The Study selected seven manufacturing sectors – textile, food processing, automobile, electronic & electrical, chemical, housing related and IT industries –, and looked into their current situations to know future prospects of growth, and identified things to be done for development. Moreover, the Study covered a whole country with emphasis on four cities, namely, Lahore, Karachi, Peshawar and Quetta. The Study attempted to identify the Leading Industries, which should drive the Pakistani economy in the future. Furthermore, the study analyzed the industrial clusters in several areas, which could contribute to vitalize regional economy.

The Study had the following two objectives:

- (1) Reveal the current state of the Pakistani industrial structure and of industrial policy, and identify future tasks in this regard; and
- (2) To consider and recommend future courses of Japanese support, in the light of the findings mentioned above as well as consultations with Pakistani authorities and the ODA Task Force stationed in Pakistan, concerning the Research Team’s draft proposals on the country’s industrial structure and industrial policy to be pursued in future.

The Study team subcontracted a Pakistan consulting company to conduct an manufacturing establishment surveys in order to identify leading industries and formulate recommendable industrial policy. From June to September 2006, the interview was made with the CEO of the surveyed firm. Various aspects of business information were obtained from over 500 firms from this survey. The surveyed firms are categorized by industrial classification and city in Table 1. Reflecting the structure of the industrial

** Presented by Hisaaki Mitsui and Hisaya Oda at the JICA Seminar held on November 29, 2006 in Avari Hotel, Karachi, Pakistan.*

establishment in the country, textile/clothing and food process sectors account for over one-half of total firm. Regarding the regional distribution, Karachi has 205 firms, make up 40% of total, following Lahore has 147 firms.

Table 1: The composition of industrial classification/city classification on research firm

	Daska	Faisalabad	Gujranwala	Hyderabad	Karachi	Lahore	Peshawar	Sargodha	Wazirabad	All cities
Textile Clothing	0	37	19	10	91	47	4	2	1	211
Food Processing	2	3	0	7	20	16	13	7	3	71
Automobile & Parts	2	0	2	0	21	14	0	0	0	39
Electronics	0	0	2	0	6	5	1	0	0	14
Chemicals	0	0	0	1	28	19	8	1	0	57
Housing related	0	0	2	5	35	39	14	1	6	102
Information Technology	0	1	0	0	3	0	2	0	0	6
Others	0	0	0	0	1	7	0	0	0	8
All sectors	4	41	25	23	205	147	42	11	10	508

Source: JICA Study Team

II. THE PRESENT SITUATION OF THE PAKISTANI INDUSTRIAL SECTORS

II-1 The Present Situation of the Pakistani Economic and Social Development

In 2005-06, the services sector accounted for over 52.3 per cent of GDP, and manufacturing is the second largest sector of the Pakistan's economy accounting for 18.2 per cent of GDP. The growth rates of manufacturing sector were remarkable during the last several years, 14.0 per cent in 2003/04, 12.6 per cent in 2004/05 and 8.6 per cent in 2005/06 respectively. The manufacturing sector and industrial sectors development are the government policy with overriding priority.

The first thing we should point out is that the share of industrial sectors has rather fixed in the past several decades. The traditional products such as food and textile still dominate the industrial sector. Food and Fiber System that consists of food including tobacco and textile is the main industry and its share did not change so much from 43.2% in 43.7% in a decade from 1985/86 to 1995/96. The share is still dominant in the whole industrial sectors. Food and Fiber System has dominated the export market as well. Cotton manufacturers, leather, rice and synthetic textile account for 71.8% of the total exports in 2004/05, of which, cotton manufacturer accounts for 57.4%. In the international market, cotton yarn, cotton cloth and leather products belong to a group of industries whose growth rates are the lowest. Even a country, which has experienced the rapid export growth of such products in the past, will easily lose its share in the market once the labor costs increase compared with other competitive countries. Furthermore, the fact that types of cotton fiber are limited in short and medium staple length in Pakistan and downstream of the woven cloth chain has not been well developed yet, the country mainly exports low value added and low quality cotton yarn, instead of high value added cotton products.

Labor productivity growth rate of Pakistan's industrial sector from 1992 to 2001 remained 1.48%, which is far less than those of other Asian countries such as India, Sri Lanka, Bangladesh, Malaysia, Taiwan and South Korea. Labor productivity growth rate of Pakistan's Manufacturing sector from 1992 to 2001 is 2.23 %, which is higher than those of Bangladesh and India, but less than those of Sri Lanka, Taiwan and South Korea. The main reasons of low rate of labor productivity in Pakistan can be derived from low rate of capital spending and low rate of human resource development including lack of education and training.

II-2 Importance and Direction of the Pakistani Manufacturing Industry

At the National Economic Council on the 27th May 2005, the following statement of Vision 2030 was accepted. It was also approved that the Planning Commission would prepare to draft a long-term plan to realize this vision. In February 2006, the Planning Commission presented the Approach Paper to show the orientation of economic development to achieve Vision 2030¹. This paper sets specific quantitative targets as follows: "Pakistan per capita GDP (at constant market prices of 2004/5²) is expected to near quadruple by 2030, advancing from Rs. 43,000 (US\$ 742) in 2005 to Rs. 164,000 (US\$ 3,000) in 2030. For three decades from 1971 to 2000, the annual growth rates of the agriculture and services sectors are 3.89% and 5.82% respectively. If the two sectors continue to have comparable growth rates, the industrial sector, which includes the manufacturing sector, should grow by 9.83% per year to achieve the target of 7.0% annual growth rate of GDP until 2030. In any cases, the manufacturing industry should keep growing by near 10% a year on average in order to achieve the quantitative targets, highlighting the important role of manufacturing industry for the realization of Vision 2030.

Currently, Pakistani manufacturing industry is internationally competitive in low-tech and generally low value added products such as textile and food. This is clearly shown in the composition of exports of the country. Pakistan's highly competitive export products, mostly textile items and low-tech, still lead the domestic manufacturing. Due to their low-tech feature, however, foreign countries can easily enter into the market, and the price rather than the quality of the products determine the competitiveness in the market. Pakistani textile industry would remain competitive in the future by keeping and improving the competitiveness of products. However, if the manufacturing industry should grow by 10% a year, it is imperative to promote more high-tech, high valued manufacturing, which could expect increasing demand in the world market.

II-3 Selection of Leading Industries Following the Outcome of the Survey

This study is expected to specify "leading industries", which could lead the economic growth of the country to achieve the target of Vision 2030. From the viewpoint of leading

¹ *Approach Paper: Strategic Directions to Achieve Vision 2030, Government of Pakistan, Planning Commission, Islamabad, February 2006.*

² *Pakistan's fiscal year starts on 1st July and ends on 30th June the following year.*

the economic growth for a long period, the leading industries should have some specific requirements. From the viewpoint of technological progress and quality improvement, the partnership with foreign firms in industrialized countries is the most effective.

Therefore, the industry, which has already established intimate partnership with sophisticated foreign industries, or the industry, which are highly export oriented, can be candidates of the leading industries. Therefore, the local manufacturing establishments survey, which is currently on progress, asks various questions focusing on the following three aspects (3L).

Linking: how manufacturers link with foreign capital or overseas markets

Learning: how manufacturers introduce new technology from foreign partners, promote R&D and train employees

Leveraging: how spillover effects are observed in other industries

On the basis of the analyses of the survey results, the possibility of each industry to be leading industry of the country shall be examined below.

Textiles/Clothing:

The export ratio is high and the sector is linked with foreign markets most closely among all sectors. After the removal of MFA, the export of denim and made-ups are particularly considerable. Moreover the magnitude of its value added and employment is so large, that it will certainly continue to form a backbone of the country's economy. Compared with the other sectors, however, the Textile/Clothing sector does not seem eager to introduce new foreign technology or carry out in-house R&D. It is expected that the sector should produce more high valued added goods in order to remain competitive in the international market. For this purpose, the sector should make much effort to introduce new foreign technology or to increase in-house R&D activities, so that it could develop new materials or design as well as strengthen the marketing capability.

Food Processing:

Oriented to domestic markets, this sector is not closely linked with foreign markets: only a few firms receive foreign technical support or import foreign equipment. R&D is not being eagerly carried out. Most firms are passive investors, and appear inclined to maintain status quo. The Food Processing sector has a close link with agriculture, and the sector is expected to play an important role in generating employment. However, from the viewpoint of 3L in this study, the Food Processing sector is less likely to be the leading industry, which drives the rapid economic growth in the country.

Automobiles/Parts:

The sector is not closely inked with foreign markets, due to the large domestic demand. Exporting very little, the sector is not closely inked with foreign markets. Automobiles/Parts makers, however, are actively introducing foreign technology, and transacting with foreign or foreign-affiliated firms, which provide technical support on many occasions. Foreign equipment is being imported actively. Recently, the plant utilization is high and therefore equipment investment is being made actively. As the analysis of the input-output tables of Japan, Korea and Thailand was outlined in Chapter 1, the auto industry in every country is supported by wide-ranging industries enjoying substantial backward linkage effects. The sector consequently is likely to develop into a leading sector that will serve as an engine of the entire economy.

Electronics:

Though oriented to domestic markets like the Automobiles/Parts sector, the Electronics sector often enjoys chances to transact with foreign-affiliated firms in Pakistan, and to enter into a licensing agreement directly with foreign firms. Notably, R&D is being actively conducted and public R&D institutions are used frequently. Though adverse effects of smuggled electric appliances for home uses have been a cause of concern, the impact appears less serious than on other sectors. Investment in equipment is also being made actively. The sector, however, suffers low plant utilization in recent years, and firms in this sector are much smaller than in the other sectors. Beside, apart from a small number of large enterprises, manufacturing establishments in this sector are much smaller than those in the other sectors. The Electronics sector may not be able to develop into a growth-driving leading sector, but its future expansion may be hoped for.

Chemicals:

Being oriented domestically, the sector has only a weak linkage with foreign markets, having limited chances to receive technical support from foreign firms. Meanwhile, R&D is being carried out actively as R&D outlays per firm are in by far the largest amount among all the sectors. The sector's plant utilization is high in recent years. The sector may be expected to lead the economy, if active liaison is pursued with foreign-affiliated firms covering technology introduction, taking advantage of the globalization trend in future.

Housing-related:

Being inward-looking by nature, the sector has a weak linkage with foreign markets. Chances to receive technical support from foreign firms appear limited. The companies in the sector are not active in R&D, either: their R&D budget is limited in consideration of their large amounts of sales. As expected, the backward linkages with mining and forward linkages with the construction sector are strong, while the linkages with other manufacturing sectors also appear strong. In recent years, their plant utilization is high. Though hopefully the sector may lead the economy as a leading sector, a concern

is felt whether it will be able to maintain its competitive edges when a great deal of foreign competitors products flow into the country or the current construction boom come to an end in the future.

IT:

For this survey, IT sample size was very small, and was not enough for detailed examination of the sector's future. To begin with, however, there are only a very few firms belonging to the sector, and this was the reason why only a few samples were taken. It therefore appears safe to assume at this stage that this sector is unlikely to lead the country's growth in future.

III. INDUSTRIAL DEVELOPMENT STRATEGIES AND THEIR POLICY OPTIONS

As previously pointed out, it is needed to achieve rapid growth of manufacturing industry so as to realize the objectives of the Vision 2030. This Study attempted to identify the leading industries of the country, which would drive the rapid industrial growth for the coming decades. This identification is followed by the suggestion of industrial development strategies and their policy options to promote the growth of the leading industries.

III-1 Industrial Development Strategies

The current industrial development policy of the government might not focus on promoting some specific groups of the industry, but on constructing a framework of incentive for all sectors of the industry. It was pointed out that "An old fashioned industrial policy approach, that seeks to promote a specific group of industries at the expenses of others, is eschewed for the simple reason that it rarely works" in the paper presented by the Ministry of Industries in 2005³. It seems widely recognized in the government that promotion of specific sectors does not work. Therefore, the government officers might have made little incentive to look at the features of specific sectors in detail, and to examine the possible industrial structure of the country in the future. Moreover, as being a "facilitator", the government officers seem to abandon the idea to seriously consider the direction of industrial development. It is surely an appropriate and valid approach to rely on the function the market economy to allocate economic resources. This should be one of the alternatives for Pakistan to adopt, as the country had a bad experience that the government was deeply involved in the management of the industrial sector, by nationalizing private establishments for instance, and that the economy faced severe recession afterward. However, this experience does not conclude that the government has no role in promoting specific groups of the industry by introducing policy measures. In all of the East Asian countries, including Japan, which achieved rapid industrial development, the government has played an active role in promoting specific groups of industry with a market friendly approach.

³ "Toward a Prosperous Pakistan: A Strategy for Rapid Industrial Growth", January 2005, Ministry of Industries, Production and Special Initiatives.

With globalization, the manufacturing industry in the world is going to be reorganized. If Pakistan takes easy way to rely on the principle of the free trade and does nothing active to promote the local industry, the country might miss the bus and become an orphan in the middle of the global competition. The country might face the following two alternatives in enhancing industrial development:

- i) To construct the framework of incentives for all groups of industry, and rely on the principle of the free market economy or free trade in allocating economic resources of the country.
- ii) To prioritize the importance of the industrial sectors for the country and concentrate economic resources to promote these sectors in order to effectively utilize the limited resources of the country.

Between the two, which should be the appropriate strategy for the country to adopt in the coming decade? Decision makers in both private and public sectors should make intensive discussion on these alternatives. After the discussion, these decision makers should decide which ways the government takes to promote industrial development. At least, they need to look into the experience of the East Asian countries and examine the reason for their rapid industrialization, before reaching their decision about the Pakistani way for industrial development.

In the following section of this chapter, we suggest two strategies in order to enhance industrial development of the country, which are:

- i) Promoting high valued manufacturing
- ii) Ensuring effective implementing of industrial policy

These strategies are based on the Japanese experience in the post war period as well as the experience of rapid industrialization in Thailand and Malaysia after the mid 1980s. In the international trend of globalization, we believe that Pakistan should take these two strategies to achieve the target of rapid economic growth anticipated in the Vision 2030. Moreover, we have reached conclusion that the country is somehow suitable to adopt these strategies from our comprehensive survey of local manufacturing industries. We hope that our suggestion would be useful for the decision makers to examine the Pakistani way of industrial development.

(1) Promotion of Highly Valued Manufacturing

Integral Manufacturing

Many segments of the Pakistani market are already full of competitive and attractive Chinese products. When the trade with China expands in the process of globalization, it is unavoidable that Pakistani products should face severe competition with Chinese

ones in the domestic market. The Pakistani consumers are attracted to Chinese products due to their low prices. Even though the quality of these Chinese products is not fully satisfactory, it is expected that the demand for these cheap Chinese products might gradually expand in the future. If the Pakistani manufacturers also produce cheap and low quality products to compete with the Chinese ones, these Pakistani might not be able to survive in the market. In fact, some Pakistani producers have already started making cheap and low quality goods by imitating the Chinese strategy or even by getting components from China. We do not consider that this is an appropriate strategy for the Pakistani manufacturers. It is needed to avoid direct competition with Chinese products. If cheap, low quality and counterfeit products are easily available in the market, it is very difficult to promote high-valued, high tech, and internationally competitive manufacturing in the domestic industry. The Pakistani should better introduce the strategy to focus on manufacturing highly valued, high quality products, and making its own brand recognized in the market.

One of the ways to realize this strategy is to strengthen the basis of so called “integral type production” for assembly-type manufacturing such as motorbikes, automobiles and electronics, in which product quality heavily depends on intimate coordination of each production process or component designing. The relationship between functions and components of the integral manufacturing is highly intricate. Each component affects each other and determines the quality of final products. Automobile is a typical example. Thus, long-term collaboration among assemblers and vendors is indispensable for this integral manufacturing, because the combination of uniquely designed components/considerably affects the quality of final products. When consumers want “product integrity” in the manufactured goods, or the competitiveness of the products depends on their compactness or weightlessness, in particular, the integral manufacturing is more appropriate. The institutional requirements for the integral manufacturing include ‘subtle coordination of component designing’, ‘consistent control of production process’, ‘intimate coordination among sections in the company’, ‘close communication with customers’, ‘solid and stable interaction with customers’, and ‘support of multi skilled workers’.

The other type of manufacturing is the modular-type manufacturing. The characteristic of the modular-type products is that the relationship between the function and the component (module) is simple and close to one to one. Each component has its self-contained module, which has a rather independent function. Therefore, the exchange of signals among components is not often required, which means that the interface of production is relatively straightforward. In case one product has ten sets of functions, it is possible to manufacture the product by combining ten self-contained components, corresponding to the ten sets of functions. The designers of each module (component) do not worry about the designing of the other components and freely design their own products, so long as they understand the rule of designing upon the interface. The typical module-type products include personal computers, package software and bicycles.

Japan has an advantage in integral manufacturing, so their automobiles and motorbikes are much competitive internationally, while the US has an advantage in module

manufacturing, so their personal computers have sweeping competitiveness in the world market. China is relatively good at modular type manufacturing, and the Chinese manufacturers are producing labor-intensive modular products by mobilizing cheap labor force. In fact, China is becoming the production base of personal computers. China has rapidly expanded the production of automobiles and motorbikes as well. However, many of these products are made up with a variety of counterfeit and unoriginal components, without intimate and frequent coordination among component designers. Therefore, the quality of these products cannot be very high. In India, on the other hand, these counterfeit automobiles and motorbikes are not likely to be accepted in the market. Several homegrown manufacturers of automobiles have developed indigenous products with intimate and frequent coordination among stakeholders. Integral manufacturing seems to be suitable for the country. Moreover, the East Asian countries, such as Thailand or Malaysia, carefully avoided direct competition with China and achieved rapid industrial growth, by introducing the integral type manufacturing from the Japanese manufacturers.

Which ways does the Pakistani choose as the model of her manufacturing? Would the modular-type manufacturing of the Chinese model be selected, or the integral-type manufacturing of the Indian or the East Asian models be selected (see Figure 1)? One possibility is that Pakistani industry would decide to become a subcontractor of the Chinese industry, by introducing the same modular-type manufacturing. On the other hand, it is also possible to promote the integral type manufacturing in order to avoid direct competition with the Chinese industry. Considering the intense competition with the Chinese products in the domestic market, and the experience of rapid industrialization in the East Asian countries, we believe that the integral type manufacturing should be the appropriate choice for Pakistan so that she could promote high-valued manufacturing.

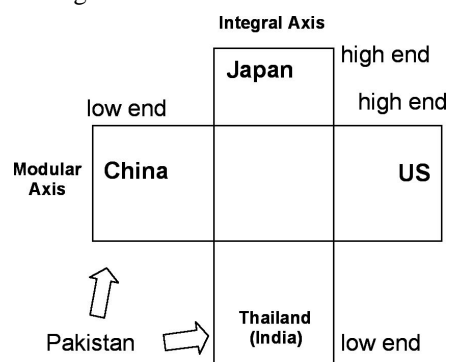


Figure 1: Where Each Country Fits in the Integral and Modular Axis?

In Pakistan, Japanese automobile firms have assembled cars and motorbikes for over 25 years. These assemblers have made significant effort to develop human resources suitable for integral manufacturing. In one of the Japanese assemblers, for example, around 400 senior technical staff workers out of 2,000 had opportunities to be trained at one of the

Suzuki's Japanese assembling plants to learn the root of integral manufacturing. The employees tend to stay long in the firm, and the seniors, who started working at the factory in the 1980s, occasionally instruct the younger staff about the integral manufacturing. Furthermore, these assemblers have kept steady and intimate relationship with domestic vendors for a long period. It is said that around 200 vendors are able to supply parts and components directly to the assembler. Out of these 200, 20% to 30% are regarded as "Tier 1", which could participate in the development process of the final products with the assemblers⁴. For Pakistan, the accumulation of human resources who understand the integral manufacturing should be the outstanding asset. The automobile industry can be the model case for the country to learn the integral manufacturing. The other sectors should possibly learn the fundamental nature of this integral manufacturing by examining the experience of the automobile industry.

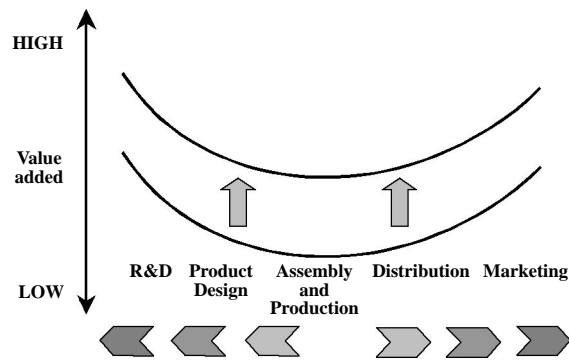
One of such examples would be the textile industry. The integral type manufacturing should considerably improve the international competitiveness of the Pakistani textile industry, by developing so-called 'new synthetic fiber'. 'New synthetic fiber' is produced by adjusting the designing of yarn with the function of fabric. The style of the integral manufacturing should be suitable for producing this kind of fiber. The integral manufacturing should be a key to make the textile industry generate high valued products.

Forward and Backward Extension of the Manufacturing Value Chain

The second way to realize the strategy is to extend the value chain of production toward the forward and the backward directions. The technical improvement in the whole part of the value chain is also required. Pakistan has a number of export-oriented SMEs producing a variety of products such as sport goods, surgical instruments, cutlery, bed wear and so on. As the subcontractor of European firms, many of these SMEs are only in charge of simple processing work, or producing low-valued commodities, such as disposable surgical equipments. Product design is usually supplied by European firms, so the potentiality of local Pakistani designers cannot be fully realized. Moreover, these SMEs find it difficult to explore new business opportunities as the European firms control the marketing of the products.

Malaysia had a keen interest in extending the value chain toward the forward and the backward, and improving technical level of the production. So the Malaysia government presented the direction of the local manufacturing industry using the catch phrase of "Manufacturing Plus Plus" in the Second Industrial Master Plan (1996-2005). Pakistan should also transform its labor-intensive and simple processing manufacturing into high-valued, productive and efficient manufacturing, by extending the production value chain toward forward, backward as well as upward. In some sectors of the industry, such as textile and clothing, the industry associations have led the effort to establish the institutions to develop human resources for industrial designing or marketing. The government should support such effort so as to make full use of the talented and highly motivated young staff in the country.

⁴ Based on the information from the CEO of a Japanese assembler in Karachi (September 14, 2006)



Source: Malaysian Industrial Master Plan 2

Figure 2: Concept of Manufacturing Plus Plus

2) Ensuring Effectiveness of the Industrial Policy

As previously mentioned, the basic principle of the current industrial policy is being a “facilitator”, which might mean that the government constructs the framework of incentives for all groups of industry so that each of them can equally get benefits from the government policy. Due to this principle, the government officers are declined to introduce any policy measures to support specific sectors of the industry. In addition, the government officers might consider it unnecessary to understand the unique features of each manufacturing sector. Occasionally, several CEOs of major firms are invited by the government to attend meetings, and required to comment on the government policies from the sectoral viewpoints. The government officers might be pleased with themselves in such way of “public-private partnership”, but these CEO’s comments do not necessarily reflect views of the whole segment of the industry, and could mislead the direction of the government policy. Moreover, even though the government officers formulate some industrial policies on their own, their effective implementation and useful monitoring can no longer be realized without pervasive participation and cooperation of the private entrepreneurs. It is useless to have a policy without clear road maps and effective implementing measures. The private sector’s view that “the government only presents proposal or vision” could be reflected on such feeble institutional settings.

In the first place, the government officers alone can no longer grasp the realities of business in the manufacturing sectors, which are rapidly changing in the trend of globalization. Unless the frequently updated business information is available, the officers are not able to formulate any appropriate policies. Moreover, unless the wide segment of the private entrepreneurs recognize and support the policies, they cannot be effectively implemented. It is indispensable for the Ministry of Industries to have intimate relationship with the private sector, and to ask the private sector to cooperate in collecting business information, implementing policies as well as monitoring the government programs.

Furthermore, industrial promotion is deeply related to other policy issues, including trade policy, HRD policy, environmental policy, urban development policy as well as infrastructure policy. So, it is also needed for Ministry of Industries to closely coordinate their programs with programs of the other government institutions in charge of those issues. Therefore, we would suggest how to ensure effective implementation of industrial policy from the following two viewpoints;

- Promotion of public-private partnership
- Promotion of intra government coordination.

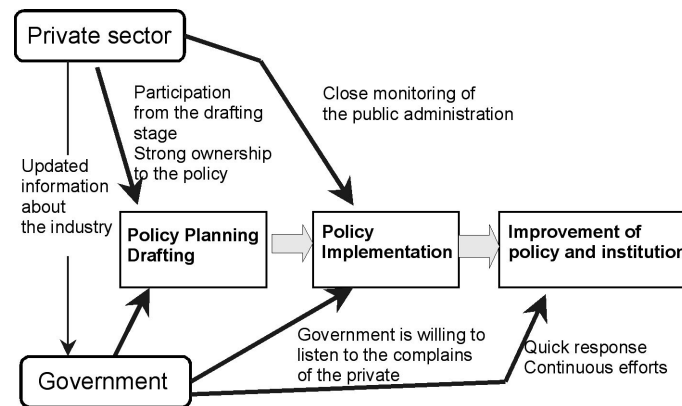
Promotion of Public-Private partnership

It seems that the public-private partnership in Pakistan has already been the basis of economic management. The initiative of the current government is positively perceived, even though this partnership has not been fully matured yet. The private sector tends to depend on the government support, while the government hardly understands the realities of private business. The government usually considers that “the private sector just presents its wish list”, while the private people often criticize that “the government only presents proposal or vision (without any road map of implementation).” The private entrepreneurs should make much effort to be self-reliant and become capable of competing in the market on their own without asking for the government support.

The government officers, on the other hand, should make considerable effort to understand the realities of business. Occasional meetings with CEOs of major entrepreneurs do not provide precise and comprehensive information about the domestic manufacturing business in the field. After the both private entrepreneurs and government officers make these efforts, they are able to discuss the way to promote industrial development in the country. Following these matured and intimate relationship between the private and the public, it is possible to formulate and implement industrial policies that should truly contribute to the growth of local manufacturing industry.

In the East Asian countries, highly intimate and frequent cooperation between the private and the public has been institutionalized which resulted in substantial industrial development in the last few decades. In fact, public-private partnership is rather broad concept, having a variety of forms. For instance, we find a simple and one-way partnership form, in which representatives of the private sector, usually CEOs of large firms, made comments on the policy documents drafted by the government officials.

On the other hand, we can also find more deeply rooted and complex forms of private public partnership, in which the private sector participates in the formulation of the industrial policy from the drafting stage, or the whole exercise is even initiated by the private sector. The public-private partnership, which has been observed in the East Asian countries, is the latter form. The involvement of private sector has been very significant, in each stage of drafting, implementing and monitoring the industrial development policy.



The public keeps listening to the voice of the private.
Policy is not effective if the private has no interest.

Source: JICA study team

Figure 3: How the Private and the Public Collaborate to Formulate and Implement Industrial Policy

In East Asian countries, the private business organizations, such as industrial associations or chambers/of commerce, have significantly developed their institutional capability. They have developed highly sophisticated system to deliver information to the member companies as well as to collect and analyze domestic and overseas business information. They can provide the most updated business information to the counterpart division in the Ministry concerned, and the private and the public closely collaborate to formulate the industrial development policy. As the private sector has been involved in formulating the industrial policy from the beginning, the private has a strong ownership to the policy. Due to this strong ownership, the private also has a keen interest in the implementation of the policy, and closely watches the performance of implementing agencies. When the private watchdogs find any problems, they have no hesitation to report the problems to the government. The government authorities are willing to receive to any suggestions or complaints from the private businessmen, and immediately cope with these problems to improve business environment (see Figure 3). It is necessary for the government to keep listening what the private sector says. If only the government officers initiates the drafting of industrial policy and private involvement remains very limited, such policy cannot be effectively implemented, because the private sector does not show much interest in the policy.

As previously mentioned, the relationship between the private and the public sectors is rather weak in Pakistan. The private businessmen generally have a sense of mistrust, and this sense could be deeply rooted. This sense of mistrust might have been generated when the government confiscated private business in the 1970s, and this suspiciousness has not been completely wiped out. The subsequent lacks of consistency in the

economic policies and the frequent changes in the policies have failed to build trust to the policy among the private businessmen. At the same time, the government does not have a full confidence in working with private business associations. It sometimes happened that the representatives of major business associations were not invited to the meeting that discuss the critical economic policy that severely affected the sector concerned. They could be rather isolated cases of the mutual mistrust between the private and the public. However, such a deep-rooted private mistrust to the government should not generate any benefit to achieve the target of rapid industrialization.

In order to improve the relationship between the private and the public, the attitude of the government officials toward the private sector should be reconsidered. In addition to this, the private sector, the private business organizations in particular, should make utmost effort to develop their capability. There are a variety of business associations or chambers of commerce in the country, but most of them are not equipped with highly sophisticated system to collect and analyze business information, to propose practical policy suggestions to the government and to deliver business and policy information to the member firms. These associations just have engaged in some sorts of shortsighted lobbying or rent-seeking activities. Few of them have developed a long-term strategy to nurture their industry as a whole in the trend of globalization. It is extremely important to enhance the capability of business associations, so that the government can recognize them as fully reliable partners.

Particularly, a large business association like FPCCI needs to have a professional secretariat hiring numerous professionals who will carry out research by means of specialized expertise. As FMM (Federation of Malaysian Manufacturers) is aware, any respectable business association should not be dominated by a small number of its Board members if it intends to fairly represent interest of its constituent industry. Unless the business association acts in proper reflection of the industry's interest, it can neither satisfy its members nor be trusted by the government as its reliable partner. In Pakistan, too, business associations that are equipped with a professional secretariat should be fostered. A meeting between such trustworthy associations, the government agencies and other stakeholders would lead to formation of concrete government proposals and visions, discouraging private associations to stick to their egoistic wish list. Earnest public-private discussions are now essential in order to design strategies and policies that would prevent Pakistan from becoming isolated in global competition, which is restructuring manufacturing sectors of the world.

Promotion of Intra Government Coordination

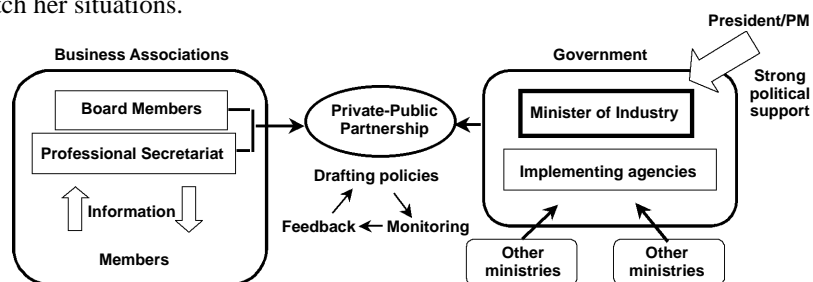
A variety of government institutions are directly or indirectly related to the implementation of any industrial promotion programs. Without an effective mechanism of coordination among these institutions, it is difficult to implement industrial promotion programs, which should cover a variety of issues. Pakistan does not seem to have such an effective mechanism. No policy is meaningful, unless it is effectively implemented. The government should make much effort to develop mechanisms to coordinate public programs to support local industry, and to strengthen its capacity to implement and

monitor such programs. It is said that the President and the Prime Minister invite the head of relevant ministries and agencies for every two months and discuss critical economic issues and policies in order to coordinate their strategies and activities. Moreover, Planning Commission should also be responsible for promoting coordination among ministries in charge of economic development. However, a number of private entrepreneurs as well as representatives of foreign donor agencies pointed out that the activities of various ministries are not still well coordinated.

Success in industrial promotion hinges on a variety of policies and permit granting administration consisting of encouragement of, among others, incoming foreign direct investment, SME promotion, urban development, road building, environmental protection, industrial standardization and protection of intellectual properties. Pakistan lacks a strong policy-making body that integrates formulation of such a variety of policies. With strong leadership of the President and Prime Minister, inter-ministerial rivalry should be eliminated and policy-making should be concerted for the purpose of industrial promotion.

In this connection, we should look at the strong leadership of the Malaysian Minister of International Trade & Industry that has effectively facilitated intra-government coordination in the fields of trade, investment promotion and industrial promotion, contributing to efficient management of the Malaysia Industrial Development Agency (MIDA) and other policy execution. Taking into account such success stories in East Asia, Pakistan is advised to form an effective framework of intra-government coordination.

In order to formulate appropriate industrial policies, to execute them efficiently and to monitor them closely, both public-private partnership and intra government coordination should be promoted. Effectiveness of industrial policy is ensured by both business associations armed with capable professionals and the government using decisive leadership (See Figure 4). This is a lesson learned through experiences in such East Asian countries as Thailand, Malaysia and Japan, which succeeded in industrialization. Pakistan is not necessarily advised to copy entire track records of these countries because its social and historical background differs from other countries. Pakistan, however, is at least recommended to take into consideration experiences of these already industrialized countries in order to build her own systems that would match her situations.



Source: JICA study team

Figure 4: Institutional Framework for Effective Implementation of Industrial Policy

III-2 Policy Options

These two industrial development strategies should be applied to a wide segment of manufacturing industry in order to strengthen international competitiveness and to achieve high industrial growth. It is practically feasible to realize these strategies using specific groups of the industry as role models in order to demonstrate the effectiveness of the strategies. Therefore, the study team presents the following three policy options as the role models, which are “promotion of automobile industry”, “export-oriented SME cluster production”, and “strengthening of industrial design and marketing capability”.

(1) Promotion of Automobile Industry

The automobile industry⁵ is qualified as a leading sector endowed with a potentiality to activate the country’s whole private sector and to strengthen industrial competitiveness. The industry is expected to develop into a major engine of the economic growth, due to the following reasons.

- Automobile manufacturing requires a number of parts and components, which suggest that automobile industry needs a wide variety of supporting industries and that it has large spillover effects to the other segments of the industry.
- Automobile should be a dynamic industry, with the largest and increasing share in the export market in the world.
- Automobile industry is a typical example of integral manufacturing, which generates high value added.
- Automobile industry has recently expanded considerably due to the increasing purchasing power of domestic consumers.
- Automobile industry has attracted several foreign investors for over two decades, resulted in rich accumulation of technological know-how.
- Automobile industry is the representative of domestic engineering industries.
- The Government of Pakistan, Ministry of Industries in particular, places emphasis on the promotion of automobile industry.

It would therefore be wise to designate the automobile industry as a “model sector”, which would be designed to demonstrate rationale of Pakistan’s industrial strategies.

Ministry of Industries as well as EDB plans to expand motorbike’s outputs up to a million units and cars’ outputs up to half a million units by 2010. They are of the view

⁵ *The automobile industry is composed of manufacturing of cars, motorbikes, trucks, tractors, and their parts.*

that production of these magnitudes would be enough to induce foreign vendors including Japanese vendors to invest more in Pakistan to accelerate development of auto-linked supporting industries. However, it is too optimistic to assume that the automobile production will increase without concrete policy support. Furthermore, even if the targeted production should be achieved, foreign vendors would not necessarily make desired investment. What should be done to enable the automobile industry to grow rapidly in the face of tough international competition? For the purpose of promoting “high value-added manufacturing industries” and formulating “effective industrial policy”, the following four concrete policy proposals are made:

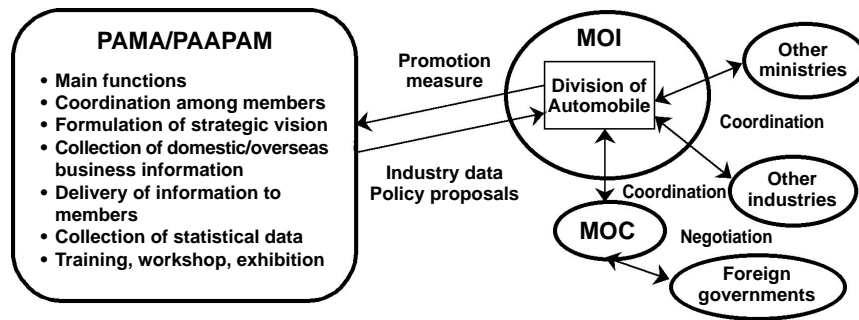
To Create an Automobile Division under the Ministry of Industries

Pakistan suffers shortage of professional bureaucrats who have hand-on knowledge in automobile manufacturing and the world trend of the industry. As the Ministry of Industries is organized in accordance with across-the-board functions, no organization specializes in any individual industry. The government consequently is advised to create an Automobile Division under the Ministry of Industries, which is expected to know major tasks faced by the industry, share such knowledge with the industry circle, and draw up a road map for the industry’s promotion based on a long run prospect. Policies proposed in the map should be put into practice steadily in collaboration with other agencies concerned. This is the way to ensure consistent policy formulation.

To Strengthen Business Associations

In the automobile industry, two associations have been founded: PAMA organized by assemblers and PAAPAM by vendors. PAMA has its head office in Karachi, while PAAPAM has offices in Karachi and Lahore. Their duties are to collect industry information, to make a strategic plan, to supply information to the government, and to compile statistics. Among these duties, statistics compilation is of the most urgent needs, because offices do not even know exactly how many units of cars are being sold in the country. The associations are now expected to strengthen manpower of its secretariat and to act as the reliable partner of the government, supplying useful information and helping the government execute its policy.

In liaison with the established Automobile Division, the associations strengthened by such support would realize closer government-industry collaboration in a way that would facilitate drawing-up of the auto industry’s promotion policy and its effective execution. Figure 5 depicts the roles of the government and the two associations as well as the relationship between them.



NOTE: MOI: Ministry of Industries
MOC: Ministry of Commerce

Source: Study Team

Figure 5: Expected Roles of Division of Automobile and PAMA/PAAPAM

To Upgrade Technical Expertise of Vendors

Protected by the Deletion Program in the last three decades, vendors are not eager enough to improve their product quality and delivery accuracy and to cut costs, while they often merely plead assemblers and the government to protect and support them. A few of them, however, have achieved the world class manufacturing standards thanks to a technical tie-up with foreign vendors. Decisive difference is observed respecting mind-set of management and factory technicians as well as skills in their process control between makers with technical support of foreign makers and those without such support. For the purpose of upgrading of technical levels of parts makers, hand-on support by foreign makers would be most effective. Some types of institutional framework should be developed in order to promote such hand-on support to domestic vendors.

To Improve Industrial Infrastructure

Industrial infrastructure of the country is far less developed than that of the East Asian competitors. Poor infrastructure is the severe bottleneck for the promotion of automobile industry. The supply of electricity in Karachi is particularly unstable. Even inside the industrial estate the manufacturers suffer from the frequent blackout. It is extremely necessary to improve the condition of the power supply at the industrial estate immediately. Moreover, in order to attract foreign investors in the automobile industry, the development of fully serviced industrial estates should be taken into consideration.

(2) Export-oriented SME Cluster Promotion

As indicated in the previous chapter, SMEs account for 99% of total enterprises in Pakistan. Therefore, vitalizing SMEs has prime importance for the industrial development of Pakistan. Considering the fact that most major companies are located in big cities

such as Karachi and Lahore, it becomes an even more important task to strengthen SMEs as a means to develop regional economies while sustaining the values and cultures in those areas. Compared with SMEs in advanced countries, however, Pakistani SMEs have much lower levels of capacity in terms of technology, finance, and operational and production management, which makes it difficult to raise the overall level of SME capacity. With this background, the study proposes to focus on 'Export-oriented SME clusters'.

There are export-oriented SME clusters in Pakistan such as those in Sialkot and Wazirabad. The government has provided assistance to SMEs and clusters in those areas through various programs. The study does not see any need to propose additional programs. If, however, we evaluate the present programs in terms of promoting export-oriented SME clusters, there are several weaknesses in the programs' direction, as well as impediments in implementation mechanisms. Taking these weaknesses and impediments into account, the study would like to propose the following policy options and future vision for promoting export-oriented SME clusters.

Fostering a Favorable Environment for SME Growth

SMEs face various bottlenecks hindering growth in terms of finance, human resources, government regulations, market distortions and infrastructure. Especially the lack of contract enforcement has resulted in compelling SMEs to resort to excessive self-production or long-term transactions with only limited trusted customers, which weakens linkages within the cluster and thus significantly erodes its competitiveness. In addition to institutional deficiencies, bottlenecks caused from bureaucratic burdens, such as corruption, frequent and often multiple inspections, and delayed procedures, heavily undermine SMEs' potential for growth. It should also be noted that these burdens are heaviest for middle-sized enterprises, which may cause SME to choose to stay small. No SME assistance programs can be fully effective unless these bottlenecks are removed. Since there have already been comprehensive policy recommendations made through other studies, these recommendations should be implemented in a timely manner.

Various institutions exist, both public and private, for offering SME assistance, such as SMEDA, EPB, SME Bank and Provincial Small Industries Corporation. However, utilization of their services has not been satisfactory. One of the reasons for low utilization is that these institutions have limited branch networks, and SMEs have difficulties accessing their services. In addition, the fact that these institutions have specific functions but do not have any linkages with each other discourages SMEs from approaching these institutions. It would be desirable in the long run if these services could be integrated into 'one window' for SME users. In the short term, the study proposes that the two steps be taken to improve accessibility for SMEs, which are "Networking of Relevant Institutions", and "One-window for Integrated SME Services".

Strengthening Business Associations

Business associations can play a pivotal role in strengthening the competitiveness of both SMEs and clusters, since they are in the best position to identify the exact needs and real views of SMEs in the cluster. The functions of business associations at present are, however, more inclined toward lobbying, especially regarding tax or subsidy issues aiming at favorable treatment. Associations have to develop the capacity to make more concrete and constructive proposals to the Government for their future development based on their study of their own industries and member companies. In addition they have to have the capacity to lead activities for enhancing the competitiveness of their industries by communicating with such organizations as research institutes or other relevant organizations, both domestic and foreign, in order to collect the latest information on markets and technology, and disseminating it thorough seminars or newsletters to their members.

Enhancing the Competitiveness of Clusters

The government's assistance to clusters lacks focus. In order to strengthen the competitiveness of SMEs, assisting export-oriented clusters whose SMEs have a certain level of competitiveness is effective. For clusters not reaching this level, capacity development of respective SMEs is more important. From this point of view, the study recommends some redirection of assistance policy, focusing specifically on export-oriented SMEs for cluster assistance, while remaining resources should be diverted to capacity development and support for individual SMEs. The principle of competition should be inherent in the selection of SMEs for assistance, with clear and transparent selection criteria established and followed.

Establishing Comprehensive Frameworks for Regional Economic Promotion Through Clusters

Local governments have the advantage of close proximity to the companies operating in the area and thus are in a good position to find out the real needs of SMEs. In addition, since they are responsible for the betterment of the living environment for workers, the improvement of education and health services for their families and the improvement of infrastructure, they can incorporate these functions into an industrial promotion strategy in order to achieve comprehensive regional development. With the view of developing regional economic centers which sustain their own value and cultures, social-sector development should be incorporated with economic development.

The role played by District governments in industrial development is minimal at present. They do not have enough capacity to carry out all the necessary functions for industrial development either. In the long run, however, it is desirable for District governments to take a leading role in industrial development. For this purpose, the District governments should develop capacities and strengthen linkages with relevant organizations such as Provincial governments, SMEDA and EPB through existing frameworks to prepare themselves fully for their future role in industrial development.

(3) Strengthening Industrial Design and Marketing Capabilities

As discussed, it would be the right strategy that industries in Pakistan will focus on producing value added and high quality products to have comparative advantage against products in other countries and to differentiate their product from others, rather than producing low value goods and products. In this context, this section will discuss value addition and differentiation by strengthening 'Design and Marketing' capabilities of industries. In order to improve the capabilities, public-private partnership approach (PPP) is worth considering adopting.

Strengthening Industrial Designing Capabilities

The industries, which are facing with severe competition in the world markets such as textile, bedware and apparel, fully recognize the limited potential of developing their products as far as they produce foreign branded products. Therefore, with the strong initiative of business associations, various vocational institutes were established. These institutes formulated the curriculum in response to private industrial sectors' demand and hence, designing become one of the major courses in these PPP based institutes. Thus, Pakistan immediately needs to set out policy of industrial design promotion. The policy must reflect high demand for domestic industrial design development and a situation where Pakistani industries are exposed to severe world competition. The policy must show a way to compete rivals. China, South East Asia and India now have associations for advancing industrial design, and organize much different type of projects annually. Pakistan can afford no further delay. The first industry group to examine and improve their design can be textile industry, especially cloths design, curtain and bed sheets. Probably design of furniture, leather products, residential interiors and computer graphics can be another group of good candidates. Design for domestic products or export products is another important issue where strategies and approaches of design development can be completely different.

Strengthening Marketing Capabilities

The more an industry faces severe competition in global markets, the more it needs to increase the values of the products through improving designs and to improve marketing capabilities of the products. Some industries have already launched on strengthening marketing capabilities. For example, in the case of textile industry, APTMA, which traditionally supported human resource development in the fields of production technology such as processing, engineering and mechanical, established Textile Institute of Pakistan (TIP) in 1999 in order to provide training courses on product development, marketing and designing. TIP has gradually increased the courses and now two courses named "Textile Management and Marketing" and "Apparel Manufacturing and Merchandizing" are organized.

Enhancement of marketing skill is also very important for the export oriented SME clusters. These SMEs are hardly responsible for the development of new products or

new markets, and their foreign buyers usually take these responsibilities. Therefore, once these SMEs terminate business linkages with the foreign buyers, they might lose any customers in the overseas market. Some types of subsidy scheme should be introduced to strengthen marketing skills or to promote R&D of these export oriented SMEs.

Strengthening Public-Private Partnership (PPP)

While industrialists' strong demand for designing and marketing specialists exists, it is costly to train such people in a way that vocational institutions provide students with appropriate teachers/experts who fully understand current market situation, and well maintained, not outdated facilities that are presently utilized by private firms. Under such a situation, it is rather difficult for public vocational schools, which receive nominal tuitions fees and limited budgets, to cope with such strong industrialists' demand. Therefore, it is highly recommended to consider the possibility of adopting the PPP approach to strengthen any private initiatives that try to train necessary people by themselves.

At first step of industrial design promotion, careful study is required to identify what kind of design is premature in which industry. After identification, the study must explore what kind of approaches should be taken. It is strongly stressed there is no easy package type of assistance for supporting industrial design. Government officials must sincerely learn facts from people working at a particular industry. This will be second step. The experiences in Japan, U.S. and Europe clearly show that top-down strategy by government for developing industrial design will be failure. People at the industry know requirement and shortage of design much more and better than government officials. When the Pakistani government plans to establish an industrial design association, some of executive members must be coming from industry sector to directly reflect their needs. In this context, the government officials pay a lot of attention to the fact that no particular company or group can only get benefit for their decision. Here, the government officials are not decision makers, but must be good facilitators to stop any company searching for its own profit. In this way, public-private partnership can benefit the private sector.

*No, those who turn good into great are motivated by a deep creative urge and an inner compulsion for sheer unadulterated excellence for its own sake. Those who build and perpetuate mediocrity, in contrast, are motivated more by the fear of being left behind. **Jim Collins***

DISCUSSION

The Analysis of Non-Financial Qualitative Factors for Corporate Value Creation

Syed Umar Farooq

Allama Iqbal Open University, Islamabad, Pakistan

ABSTRACT

Interviews conducted with the major KSE (Karachi Stock Exchange) Fund Managers revealed that they all faced problem of ignorance and uncertainty in stock selection and in asset allocation decision. The problems were due, in part, to the limitations of finance theory and the limitations of corporate disclosures and other public domain information sources. These problems increased fund manager's incentives to directly contact senior management teams to discuss these sources of value and to observe management qualities and understanding of these issues. Fund managers sought to identify links between these qualitative factors in a corporate value creation process. This paper explores how this information was used by fund managers to acquire a knowledge advantage. This activity of fund managers has important implications for regulatory policy issues on insider information, on corporate disclosure, on the corporate governance role of financial institutions, and for the governance of the institutions.

INTRODUCTION

In section 1, we explore how major KSE fund managers faced problems in stock selection and in asset allocation decision. Then we will see how fund manager directly contacted senior management teams to discuss concrete and intangible sources of value. We explore how the fund managers identified the many qualitative components of the corporate value creation process.

Research Method

Interviews were conducted with 20 Fund Managers during the period of January 2005 and April 2006. Each fund manager case participant had the interview questions for at least a month before the interview.

The interview case data revealed many different themes concerning financial institution information collection from their investor companies and significance for fund management. These themes have been identified through a Glaser and Strauss (1967) 'grounded theory', approach to the case data. The interview case data formed the basis for identifying common patterns and themes across the cases. Generalizations have been restricted to the cases studied.

Public information sources for fund managers: Company and sector level

In this section, we explore how the case fund managers faced problems of ignorance and uncertainty in stock selection and in asset allocation decisions. These problems were due, in part, to the limitations of corporate disclosures and of other public domain information sources. Associated problems also arose for the case fund managers because of major difficulties in implementing modern portfolio and aspects of finance theory in fund management decision. These problems with public information sources and with the conceptual framework for fund management were a major stimulus for creating structured fund management decision processes to cope with uncertainty and ignorance and a strong incentive to acquire private information directly from companies.

Public sources of information included company announcements and financial results as well as government announcements. Major sources of fund managers' information were the brokers through which the fund managers bought and sold shares. The main broker houses were Taurus Securities, KASB Securities, Invest Cap, Saleem Chamdia Securities and First National Equities. Fund managers faced a major problem in that all of the major information and data suppliers provided historic, mainly public domain information. They also provided software to analyze this data and establish summary statistics. The fundamental problem with these public sources was that the information was perceived as already being in the price, with the price change not necessarily indicating the nature of the event or information.

The case fund managers argued that they needed a special information edge for fund management roles and this was unlikely to be found with financial reports, public announcements, public domain analyst reports on companies and other public sources. As a result, the limitations of public sources provided the fund managers with strong incentives to develop private corporate sources of information. However, despite the limitations of public sources of information, they play a central role in fund management because they form the primary sources of financial and quantitative information about corporate performance and focus on well established financial output measures. Stopford (1997) argues that the fusion of the information age with traditional industries has been a primary driver of innovation. This has increased the ability of companies to change the rules of competition and the chances of corporate failure. As intangibles such as knowledge and innovation have become an increasingly important part of corporate value then this has exacerbated the problem of how to disclose the value of these assets on the balance sheet and how to explain the manner in which profits arise from such intangibles. These problems of financial reporting of intangibles have increased the information asymmetry between users and suppliers of equity risk capital.

PROBLEM OF IMPLEMENTING FINANCE THEORY

The case fund managers faced major problems in implementing finance theory, especially with the CAPM when estimating stock returns and when using optimization routines to find the efficient frontier and the optimum risk, return portfolio. The problems arose, in part, because of the limitations of public domain data and because

of the uncertainty implicit in forecasting stock risk and return characteristics. These problems also arose because of the main controversies and fundamental problems facing finance theorists. Markowitz (1952) laid the foundations of modern portfolio theory. He stated that investors seek a risk/return trade off by seeking to maximize returns for a given level of risk or to minimize risk for a given level of return. This information could be used to generate a large number of feasible portfolios which were dominated by a smaller number of efficient risk/return portfolios lying on the efficient frontier.

Risk averse rational portfolio managers could choose one of the portfolios to reflect their or their clients' risk/return preferences (utility). Given the input data, the portfolio selection problem could be solved to find the optimal solution using a quadratic programming approach. This approach was further simplified by the development of the CAMP by Sharpe and Lintner in the 1960's. They identified a single factor, linear model, with which a company's Beta measured the stock's return volatility relative to that of the overall market. Markowitz further argued that finance theory tells us what is to be estimated in the form of future risk and return and how estimates for specific shares are to be combined to form estimates for the portfolios as a whole. However, theory does not tell us how to make the estimates of return, variance and covariance. Markowitz pointed out the controversy regarding which measure of risk to employ. In particular there has been a major academic dispute in the empirical validity of the CAPM and of betas in determining security returns and prices.

Given these theoretical difficulties, none of the case fund managers felt they could construct a portfolio with the ideal risk/return tradeoff and diversification risk benefits envisaged by theory. Finding a stable efficient frontier was problematic in this context. Despite these problems with modern portfolio theory, the existing theory provided the sole conceptual guide for fund managers in their difficult asset allocation and stock selection decisions.

VARIETY IN THE FUND MANAGER'S SAMPLE

One conclusion we can derive from this is that whilst theorists and empiricists continue to improve theoretical framework, the best practitioners can do is to recognize these theory limitations and to draw on the best insights of theory to guide their decisions. The case fund managers divided in terms of quantitative (strong use of quantitative (QM) aspects of theory) versus qualitative preferences. Major factors here were fund managers' judgments as to the credibility of the numbers used in the QM approach, the weight of evidence for and against theoretical approaches, as well as personal decision style preferences.

For the quantitative case fund managers (16 FM's), public domain information on share prices provided the means to calculate historic average returns, variance, covariance and market weightings. Public domain sources such as financial reports, corporate disclosure and future looking data such as analysts' earning forecasts were important means to adapt these historic figures to estimate future returns, variances, covariance and weightings.

In qualitative fund management (24 FM's) the view was taken that modern finance theory was too difficult to implement given information problems and time constraints. Portfolio theory and diversification benefits were accepted but constrained asset allocation optimization techniques were not. Public domain information on sectors and major companies were combined with macro economic forecasts to arrive at asset allocation decision within a more judgmental and intuitive collective decision process. These fund managers also recognized that their judgmental skills were unlikely to produce above average performance on the basis of public domain information alone.

INTELLECTUAL CAPITAL AND THE UNIQUE PRIVATE AGENDA

The unique private information agenda consisted of, in part, a very different information agenda as compared to that employed for the public channels. A key part of private agenda was a dialogue about public information sources, especially quantitative financial information sources such as the financial report. In contrast, the unique private agenda included information on qualitative, non financial company variables such as quality of management, strategy and its coherence, investment and financing plans, recent changes in these and in corporate succession and management style. Information on competitors and the structure of competition was very important. Other information sources here included a supportive company climate for innovation and long term investment in productive and human assets, R&D; Expenditure, flexibility of company to technological change and the role of internal financial resources.

They also used ideas of human capital such as management's track record in dealing with risk over time as an important source of information on risk management capabilities. Both forms of structural and human capital revealed much about corporate attitude to risk, as well as corporate responsiveness to financial and business risk and hence corporate vulnerability. The case fund managers ensured against high risk management teams by preferring to invest in companies that adapted to good financial risk management practices. They preferred good financial risk practice companies because they perceived that the information asymmetry they faced in company financial risk and risk management was extensive.

The regular interaction of the case fund managers with various portfolio companies shows that the fund managers were in a unique position to learn how elements of structural capital, such as strategy and board structure, the character of innovation and various management practices, all interacted with elements of human capital such as management quality, to contribute to good financial performance in different ways across diverse companies and industries. They could also observe the collective effect of these variables on financial performance and share prices. This provided the means for fund managers to develop a knowledge advantage concerning these qualitative factors and variables in the corporate value creation process.

Once the case fund managers acquired knowledge advantage concerning the corporate value creation process, they were in a position to analyze macro and competitive changes in the company's environment and to assess their effect on the company and

the likely corporate response. This in turn provided the means to estimate corporate returns, their risk vulnerability and corporate value. In order to determine if the fund managers have an information advantage, the case fund managers argued that, if they had secured unique information, their company valuation was likely to be superior to that prevailing in the market place. This belief was not necessarily based on some idea of market inefficiency.

Fund managers did not believe that the market was full form or strong form efficient. Rather, they argued that the information gap between semi strong and strong form was significant and that this gap provided a major incentive for a huge and active market for information. They therefore tried to gain two advantages. The first was to gain access to private company information. The second was to develop unique skills in processing both private and public sources of information. Keane (Stock Market Efficiency, 1983) refers to these as information and processing advantages.

Relationship sources of information were likely to be somewhat different in publicly available sources of data. They provided information that was more timely and close to the return and risk generating process than the current public domain data. They also provided novel insights into many intangibles concerning corporate risk, including management attitude to risk, and management capability to risk management. Additionally, they provided new information on risk that was not generally available. The private information appeared to be different in character to publicly available information in that it emphasized qualitative, difficult to observe aspects of the risk and return generating process and the risk management process. This included information on intellectual capital factors such as the qualities of the management team, their understanding of strategy, their impact on the risk and returns generating process, their attitudes to risk and track record in handling risk.

USE OF PRIVATE INFORMATION IN TOP-DOWN AND BOTTOM-UP RISK CONTROL

The private insight into the risk, risk management and risk attitudes was used to manage risk in a bottom up manner as well as top down manner expounded by conventional portfolio theory. More specifically, fund managers used direct contact with relationship companies to identify high risk, low return companies and to drop them out of their portfolios. In the majority of fund managers' cases, mean-variance and optimization approaches were either not employed or were only used as a supplementary source of information at the top down level. The majority of these qualitative fund managers argued that at various times, they found themselves either too information constrained, or too ignorant, to find robust and stable optimal portfolio solutions for the future concerns. A small number of them also argued that experience and intuition alone were much better guides than these quantitative models.

CONCLUSIONS

This paper has explored how fund managers deal with major problems of ignorance and uncertainty in stock selection and in asset allocation decisions. These problems arose due to the limitations of public domain information sources, but they were exacerbated by an increasing intellectual capital and intangible components to share prices. As a result, the case fund managers used private meeting with company management to understand how value arose through intangibles as well as through tangible assets. The case data revealed the nature of this private information agenda concerning intellectual capital or intangibles and the dynamic connections between these variables in the value creation process. This private information was combined with public sources to create a knowledge advantage within case fund management teams. It was found that the learning and knowledge advantages played a central role in framing fund managers' perceptions of corporate gains, losses and risks. The knowledge advantage and prior framing were used by fund managers to estimate future corporate performance variables to evaluate the company. The case data thus provided some insight into how the book value and market value gap arose and the special role of information on intangibles and intellectual capital in valuing the company. Private information, the knowledge advantage and prior framing were also key inputs to bottom up and top down portfolio risk control and asset allocation by fund managers. The private information sources were used to remove the poor performance from the portfolio. In addition, they were used to understand which companies and sectors were likely to be winners and losers under forecast macro conditions. Both bottom up and top down risk controls were expected to boost fund performance. This fund management behavior has important implications for regulatory policy issues on insider information, the corporate disclosure, the corporate governance role of financial institutions and for the governance of financial institutions. In the case of insider information, the fund managers were clearly acquiring an inside knowledge advantage through their regular direct contact with companies.

Finally, we need to ask the following questions. Should the market information benefits arising from fund manager being informed in this private way about intangibles, be restricted in the interest of fairness to small investors in financial markets? Secondly, can the private disclosure process offer ideas on how to improve the public disclosure process? Thirdly, should the informed fund managers be asked to pursue wider governance aims in the interests of many savers, stakeholders and the public at large? Finally, in connection with the larger issue of governance, we must talk: who governs the directors? These questions are likely to become more urgent in the knowledge decades ahead as the information asymmetry based on intangibles becomes acute and an increasingly concentrated and global fund management industry continues to exploit knowledge and power in the interest of favored groups of savers and shareholders.

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*Everyone would like to be the best, but most organizations lack the discipline to figure out with egoless clarity what they can be the best at and the will to do whatever it takes to turn that potential into reality. They lack the discipline to rinse cottage cheese. **Jim Collins***

DISCUSSION

Corruption Improves Efficiency: An Erroneous Belief

Naved Ahmad

Institute of Business Administration, Karachi, Pakistan.

Corruption plays a destructive role in the progress and development of any society¹. Countries around the globe are facing the problem of corruption, albeit in different degrees. The topic of corruption received immense attention during the late 1990s when a stream of systematic empirical studies emerged to examine its causes and effects. Moreover, the debate on the beneficial and detrimental effects of corruption gets central position in the empirical literature².

One body of theoretical literature on the effects of corruption demonstrates that corruption improves efficiency and leads to economic growth by avoiding cumbersome and lengthy government procedures. Nathaniel H Leff (1964) in his article titled "Economic Development Through Bureaucratic Corruption" published in *American Behavioral Scientist*, first gave this idea. He contends that if government errs in policy formulation corruption might improve welfare by reducing some of these mistakes. Others, confirming Leff's contention, argue that society with rigid, over-centralized and dishonest bureaucracy is better than the society with rigid, over-centralized and honest bureaucracy³. Corruption money is also considered as speed money for avoiding delays. To acquire public utilities in many less developed economies, one has to stand in long queues. In this situation, bribe can be used to avoid such delays⁴.

The argument that corruption can contribute to economic growth when government regulations are too rigid is questionable, however. With more discretionary powers, public officials often raise firm's costs by introducing unnecessary requirements in order to extort bribe. Thus bribery instead of avoiding cumbersome regulations increases administrative delays to lure more bribes. Paolo Mauro (1995), a Harvard graduate, using subjective indices of corruption assembled by Business International provides empirical evidence that corruption lowers investment and economic growth.

He finds that corruption lowers private investment and economic growth even in the sub-sample of countries where bureaucratic regulations are very cumbersome. His analysis, however, does not embrace diverse effects of various forms of corruption on economic growth. He makes an implicit assumption that the effects of all types of corruption on growth are identical.

Criticizing Mauro's analysis, Andrew Wedeman (1997) of University of Nebraska-Lincoln analyzes the effects of corruption on growth by grouping corruption into three categories: looting, rent scraping, and dividend collecting. Looting creates capital

¹ See Alam (1990) for details

² See Lambsdorff (1999) for a complete review of empirical literature

³ See Huntington (1968) for details

⁴ See Kaufmann and Wei (1999) for details

outflow because of insecurity, whereas rent scraping distorts the allocation of capital towards rent seeking sector. Contrary to both looting and rent scraping, dividend collecting gives incentives to corrupt officials to encourage domestic enterprise to invest and prosper in order to share their profits. The study concludes that the effect of corruption on growth will depend on the method the corrupt monies are extracted and how they are disposed.

Economists perceive that corruption always creates winners and losers; it is indeed possible that losers are not visible, albeit. The taxonomy of winners and losers in terms of their visibility in any corrupt deal provides six possible cases. First, winners are not visible but losers are. Any ill-intentioned government regulations that are intended to contrive bribes impose higher cost to the consumers who are visible. Second, both winners and losers are not visible. This is the case where corruption is collusive in nature. The above two cases best explain what Wedeman (1997) calls "Looting".

Third, winners and losers are both visible. For example corruption in the procurement of various government contracts where the officials who receive bribes and the one who is awarded the contract are winners and all the remaining bidders are losers. Fourth, winners are visible but losers are not. For example corruption in educational institutions where students are involved in cheating by paying bribes to the concerned persons or where examiners are awarding inflated grades to the students who are either their relatives, friends, or private students. In this case the students and the examiners who are involved in corruption are winners. Unfortunately this has inflicted heavy losses to those innocent students who because of this corruption are unable to either get jobs or obtain admissions of their choice on merit. They are the losers but are not visible. This type of corruption compels students to waste their energy to acquire either private tuition or find someone who can help them steal the required grades. In the jargon of economics we call it rent seeking activity. The third and fourth cases best explain what Wedeman (1997) calls "rent scraping". One can easily furnish numerous examples for the above four cases. However, it is not possible, I surmise, for any corrupt dealings that do not create winners.

The last case that is often neglected highlights a situation where corruption does not leave any victims or losers. This last case is akin to the "dividend-collecting" concept noted by Wedeman (1997). People who are involved in petty corruption in less developed countries often support Leff's argument making a case that their act does not hurt anyone. In other words, it is possible for a person to pay bribes for his or her own legal work that does not impose any cost to others. And therefore it is Pareto efficient. This type of bribery is often used to illicitly counteract other forms of corruption. For example, if one wants to get his/her passport that is legal but the system is such that one has to grease the palms of the officials to avoid unnecessary delays, many people often believe that there is no harm greasing their palms. This example can also be applied to the efficiency wage model where wages determine the efficiency of the workers. By analogy bribe can also be used as a backhander for the public officials to work efficiently. For example when people are coerced to bribe the

officials in order to avoid delays for their legal work, it might increase overall efficiency for the following three reasons: a) people get timely and efficient services without delays; b) the officials will have the money (bribe); and c) it does not hurt others. The above arguments make Leff's contention logical.

There is a wide consensus among economists about the detrimental effects of corruption on economic growth particularly if it creates losers. However, the paucity of data on the amount of bribery primarily asked for legal work has constrained researchers to establish an empirical relationship between bribery and government efficiency. Nevertheless, corruption no matter whether it leaves victims or not is undesirable. Accepting bribes whether for doing legal or illegal work is unethical, immoral and disgusting act; and therefore should be abated. To abate corruption even if it leaves no victims, we have to edify our coming generations about the evilness of corruption and at the same time empower the victims of corruption by teaching them ethics. One important policy prescription that can be derived from this analysis is that government should not impose excessive regulations in the hope that some of these regulations can be avoided through bribery.

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It is one thing to tell the truth even when it damages your friends. It's another to tell untruths in order not to offend your enemies.

Clifford D. May, President

Foundation for the Defense of Democracies

DISCUSSION

Innovation Studies in Different Countries: Future Research Agenda for Pakistan

Syed Awais Ahmad Tipu

Institute of Business Administration, Karachi, Pakistan.

ABSTRACT

This paper presents a selected literature review on innovation management practices in different countries. A tabular analysis of previous case studies is presented. The paper also presents the overview of innovation surveys which have been conducted in selected countries using the Oslo manual guidelines developed by the OECD. Different studies show the innovation management practices of firms operating in various countries. However, little is known about the present state of innovation management activities in Pakistan. This paper will set forth the future research agenda for Pakistan with regard to managing innovation.

Keywords: *Innovation Management, Organizational Behavior, Technology Management, Organizational Culture*

INTRODUCTION

According to Porter (1990), innovation includes “both new technologies and new ways of doing things” (Porter 1990 cited in Tidd et al, 2001, 38). Miller and Morris defined innovation as “the process of transforming an invention into something commercially useful and valuable” (Miller and Morris 1999 cited in Kane and Ragsdell 2003, 1).

Various authors argued that the economic development of different nations was the result of technological innovations (Chandler 1990; Diamond 1997; Landes 1998; Tushman and Anderson 2004). Diamond (1997) and Landes (1998) stated that the societal receptivity is critical for the success of innovation. Gault (2003) also mentioned that the innovation could be beneficial for the society at large by means of encouraging economic development. Some countries offer more conducive environment in which innovations could flourish (Afuah 2003; Chandler 1990; Diamond 1997; Landes 1998). Slazar and Holbrook (2004) suggested that the research should also focus on the non-innovative behavior and innovation failures in addition to innovation success stories.

INNOVATION SURVEYS IN DIFFERENT COUNTRIES

The following section presents the overview of innovation surveys in different countries.

Innovation Surveys based on OECD Oslo Manual

The Organization for Economic Cooperation and Development (OECD) has developed guidelines called Oslo Manual in order to collect and interpret innovation data (OECD

1997). The Oslo Manual provides guidelines to collect data concerning firm size, expenditure on innovation, sources of innovative ideas, role of public policy, economic and organizational aspects of innovation. However, it does not fully address other societal factors such as national culture, poverty, corruption, quality of life, trust, and organizational factors such as firms' strategy and structure, rewarding innovation and risk taking.

The innovation surveys based on Oslo Manual have been conducted in various OECD member countries including Germany, France, Australia, Italy and Canada. The first innovation survey (known as European Community Innovation Survey) based on Oslo Manual was conducted in Europe in 1992 (Salazar and Holbrook 2004). Various countries in Latin America that have initiated innovation surveys based on Oslo Manual include Chile, Colombia, Venezuela, Argentina and Brazil. The initial innovation surveys conducted in Latin American countries found Latin firms less innovative because these firms pursued few research and development activities due to resource scarcity (Salazar and Holbrook 2004).

The recent Community Innovation Survey was conducted in Europe in 2001 based on Oslo Manual guidelines. The research institutes in member countries collected the data. The non-technical aspects of innovation are now being incorporated in the Oslo Manual for future innovation surveys. These non-technical aspects include organizational, management and marketing aspects of innovation (European Communities 2004). The following are some of the findings of this survey:

- 47 percent of European Union industrial enterprises carried out innovation activity during 1998-2000.
- 59 percent of enterprises in manufacturing implemented both product and process innovations.
- 21 percent of enterprises mentioned that innovation costs were too high.
- 15 percent mentioned perceived economic risk as innovation hampering factor and 15 percent mentioned lack of finances as impeding factor.
- 13 percent mentioned lack of qualified staff hampered innovation.

Salazar and Holbrook (2004) criticized the Oslo Manual guidelines and said that the innovation surveys are more focused on measuring innovation and do not fully address the environmental and societal factors that may influence innovation. They further said that innovation surveys lack information concerning innovation diffusion and fail to explain the linkages among different entities in an innovation system. Salazar and Holbrook (2004) emphasized the importance of studying non-innovative behavior and innovation failures and said that innovation surveys are more concerned with innovation success stories.

Innovation Systems Research Network (ISRN) Canada

A network of researchers, known as Innovation Systems Research Network (ISRN) in Canada is currently involved in an innovation survey that encompasses five regions

in Canada. This innovation survey was launched in 2001 covering five regional nodes including Atlantic Canada, Quebec, Ontario, Western Canada, and National Capitol Region. The focus of this innovation survey is to evaluate the role and relationship of clusters in the regional innovation systems. A total of 27 clusters are participating in the study (Salazar and Holbrook 2004).

The representatives of government, private sector, and international community are participating in this study funded by the Social Science and Humanities Research Council of Canada. The data collection methods include surveys and interview based case studies. The data collected from an earlier survey known as "Statistics Canada" which was conducted during 1999, is also being used. The expected completion data of this survey was fourth quarter of 2005. The participating clusters include biotech, wireless, wood products, food and beverages, information technology, auto, steel, and aerospace (ISRN 2001).

Innovation Survey in Finland

Palmberg et al (2000) examined 1482 Finnish innovations that were commercialized during 1980-1990 in order to highlight the significance of different factors such as collaboration, public support, and firm size. The data was collected based on expert opinion, publications and annual reports of the participating firms. A total of 18 trade related Finnish journals were used to gather innovation data. According to the findings of this survey, large firms were more inclined to establish relationship with universities for collaborative research. Small firms were dependent on public funding for innovative activities. Finnish firms were focusing more on collaboration and gave importance to the customer's relationship and focusing on specific market segment in order to have better customer satisfaction. Finnish firms preferred to work with domestic partner as compared to foreign partners. Finnish companies were also able to launch half of the studied innovations in the market place in less than two years from the time of basic generation. About 30 percent of the innovations were not exported and about 40 percent were not able to break-even (Palmberg et al 2000).

Innovation Survey in Australia

The innovation survey in Australia was conducted by Australian Bureau of Statistics (ABS) based on Oslo Manual guidelines developed by OECD. This survey was conducted during 2001-2003 and the questionnaires were mailed to 8500 businesses. According to the survey results, about 34 percent firms carried out technological innovations. Large companies (100 or more employees) were more innovative as compared to small companies (5-19 employees). The businesses in manufacturing industry spent the most (27 percent) on innovative projects and about 62 percent businesses mentioned cost as a significant barrier to innovation (Australian Bureau of Statistics 2005).

National Innovation Initiative, United States

The Council on Competitiveness, a non-profit organization, launched a study named "National Innovation Initiative" in 2003. This study was a team effort of Georgia

Institute of Technology and IBM. The objective of this initiative was to explore how America could maintain its technological leadership in the world and what are the areas that need improvement to face the challenge of the 21st century. A total of about 400 leaders participated in this think tank (Council on Competitiveness 2005).

The Council on Competitiveness published its final report in December 2004. This report particularly highlighted three areas that are critical to the American technological leadership in the future and need improvement. These areas include:

- 1) Talent: Culture of collaboration, life long skill development and commercial orientation of research
- 2) Investment: Resource availability. Incentives for innovation
- 3) Infrastructure: Strong linkage between Industry-Academia, effective intellectual property protection

The report pinpointed that America is facing stiff competition and the society as a whole should respond to face this challenge in order to maintain the leadership position in 21st century (Council on Competitiveness 2004).

CASE STUDIES OF INNOVATION MANAGEMENT PRACTICES AT THE ORGANIZATION LEVEL

A selected literature review was conducted to identify previous case studies with the focus on the innovation management practices in different countries. The results are summarized in table I.

Selected innovation practices at firm level

In the context of case “A”, (Atherton and Hannon 2000) says that in order to be successful, firms must have innovation strategy and other capabilities like a pool or library of ideas, technical expertise and business management know-how. The case “B” reflected the importance of internal funds for financing innovative projects and the importance of the role of top management (Lehtimäki 1991).

The case study “C” showed that the coworkers often originate innovative ideas in small firms and the suppliers are main source of innovative ideas in large firms (Bommer and Jalajas 2004). The case study “D” concluded that the most significant barriers to innovation are lack of finances, lack of trust and identification of suitable partners (Freel 2000). These factors have critical implications for companies operating in developing countries. The European case study “E” showed that the firm’s ability to innovate increases if the firm is engaged in R&D activity intensively and has qualified personnel on board (Caloghirou et al 2004).

According to the case study “F”, the organizations must have an effective communication mechanism in order to nurture innovation. The study also identified that the team spirit, mutual trust, low interpersonal conflict, cross-functional support, management support, personal rewards, and recognition enhance innovativeness of R&D teams

(Thamhain 2003). Thamhain (2003) further characterized the external as well as internal factors that influence innovation performance. The internal factors are leadership, organizational environment, people, processes, strategy, tasks, technology, tools and techniques. One important point of consideration is to investigate the implications for managers operating in developing countries in the context of internal factors? Do they practice these innovation management techniques or not? Can firms practice these techniques while operating in an unstable external environment?

In the context of case “G”, Keller and Holland (1983, 746) found that the innovators had “a low need of clarity, and high self-esteem. In addition, they tended to have a higher level education, to read more work related journals and periodicals.” Furthermore, they also suggested that the management should encourage a physical layout that fosters mutual interaction and facilitates the flow of information. This can be achieved by proper clustering of offices, building common lounge areas, and common eating-places. This kind of setup will encourage the mingling of employees and sharing of knowledge.

According to the case study “H” conducted in US and Canada, the relationships have significant importance as far as innovation implementation is concerned. In this context, the peer group is the most important relationship that is essential for smooth implementation of innovative project (Linton 2000). The case study “I” was primarily focused on the effects of a hostile environment and uncertainty on the organizational structure and strategic posture (Ozsomer et al 1997). This relationship is particularly significant in the case of the organizations operating in the developing world because they operate in an uncertain and hostile environment. Depending upon the external environmental circumstances, the organizations adopt appropriate strategic posture: aggressive, proactive, or reactive.

Ozsomer et al (1997) found that firms were more proactive in highly uncertain environment and that a highly hostile environment forced companies to have a reactive posture. This study was conducted on Fortune 500 companies, so there are serious implications for firms in developing countries to be proactive. However, little is known about how organizations will encourage creativity within the boundaries of organizations if they have a reactive posture. Are organizations in the developing world willing to embrace the innovation management techniques of the developed world’s organizations? Is the organizational structure of firms in developing countries flexible enough to nurture innovation?

(Saleh and Wang 1993) reported the results of their study “J” conducted in Canada. They tried to identify factors that differentiate innovative firms from less innovative firms. They identified the following parameters:

Calculated risk taking, commitment to entrepreneurial activities and innovation, integration and intermingling of talents in teams and tasks forces, group and collective orientation, and a reward system that reinforce entrepreneurial behavior. (Saleh and Wang 1993, 20)

INNOVATION STUDIES IN PAKISTAN

The objective of the literature review was to determine previous innovation studies in Pakistan. No significant innovation study on industrial sector of Pakistan was found. Qureshi (1983) completed a research study on cotton textile sector of Pakistan with the focus on inter-firm innovation diffusion. The research was quantitative and was focused on factors that may influence technology transfer among firms in the same industry. He underlined factors such as firm size, growth rate of the firms, competition, vertical integration and international connections and analyzed their impact on firms' decision to adopt new technology such as shuttleless looms (a kind of loom that result in lower unit cost). He found that the firms' international connection is the crucial factor in adopting new technology. However, this research does not explain whether technical organizations in Pakistan encourage organizational innovation at the organization level and how various other factors such as geographical and regional, political and legal, organizational structure, organizational culture, and people could influence organizational capability to innovate.

Pakistan Council for Science and Technology (PCST) conducted research to identify the productive scientists of Pakistan. The study reviewed different scientists based on their recent publications. Most of the organizations studied in this study were 47 public sector universities and 100 major research and development organizations. The study was heavily focused on public sector and found that only seven centers conduct international level research (The News 2004). The Asian Technology information Program (ATIP 1998) reported that there is a weak linkage between industry and public sector research institutions in Pakistan, because the research activities were not focused on exploiting the commercial potential of research outcome. This report was also heavily focused on government and universities' research activities and not on industry's perspective on managing innovation in Pakistan.

CONCLUSIONS

Based on the review of the literature, it appeared that there is no significant innovation study that underscores the current state of innovation in Pakistan. There was a paucity of research that examined various social, legal, cultural, technological and people factors which could deter or encourage innovation in Pakistan. It is suggested that future research should be conducted both at the country level and the organization level in order to highlight the innovation management practices in Pakistan. The guidelines of the Oslo Manual developed by OECD could be used to conduct the innovation surveys in Pakistan. Different research approaches mentioned in Table I suggest the tracks that could be considered for future research studies in Pakistan.

Table I: Survey Comparison: Innovation Management Practices

Case	Country	Sample Size	Type of Respondents	Data Collection Method	Study Focus	Key Findings
A	UK (large, medium, small firms)	5 cases-firms	Owner	Interview	Innovation process	Innovation strategy
B	Finland	40 cases	Unknown 1-260 employees	Structured interview using questionnaire design	Innovation process	-Role of top management -Internal funds
C	US	235	R&D workers	Questionnaire	Sources of innovation	SME = coworkers Large = suppliers
D	UK	238 (SMEs)	Full time employees	Postal questionnaire	Barriers to product innovation	Finances, lack of trust and identification of suitable partner
E	Greece, Italy, Denmark, UK, France, Germany, the Netherlands	558	R&D managers (SMEs)	Telephone interview questionnaire	Internal capabilities & interaction with external sources of knowledge	-R&D intensity -Personnel qualification
F	US Fortune 500 companies (27 firms)	74 project teams	Project leader Team members	Questionnaire Observation Interview	Factors influencing performance of R&D teams	-Effective communication -Team spirit, mutual trust -Low interpersonal conflict -Cross-functional support -Management support -Personal rewards -Recognition
G	US (3 applied R&D organizations)	256 employees at time one	Professional employees	Questionnaire	Innovators' individual characteristics and impact of physical layout	- Read work related journals - Clustering of offices - Common lounge areas - Common eating places
H	US Canada	129 projects	Project leaders	Mail survey Telephone interview	Role of relationships and innovation implementation	-Peer Group
I	US -Fortune 500 companies	346	Senior managers	Questionnaire	Effects of environmental uncertainty on the firms organizational structure and strategy posture	- Hostile environments lead to reactive posture - Flexible structure make firms more innovative - Proactive postures make firms significantly more innovative
J	Canada	43	Senior executives Technical staff	Questionnaire	Factors that differentiate innovative and less innovative companies	- Calculated risk taking - Intermingling of talents in teams - Reward system

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To go from good to great requires transcending the curse of competence. It requires the discipline to say, "Just because we are good at it – just because we're making money and generating growth – doesn't necessarily mean we can become the best at it." The good-to-great companies understood that doing what you are good at will only make you good; focusing solely on what you can potentially do better than any other organization is the only path to greatness.

Jim Collins

DISCUSSION

The Case for including Study of Arts in Management Development Curricula*

HUMAYUN S. ANSARI

Institute of Business Administration, Karachi, Pakistan

ABSTRACT

Proliferation of business schools and institutes providing business education have resulted in the creation of a vast pool of trained manpower which has little avenues to explore for getting gainful employment.

Therefore, we have to discover new avenues, which do not require direct foreign investment for creating employment and adding value to our indigenous intellectual property owners.

The thesis of this paper is that the induction of the study of fine arts in business education curricula can help forge a common ground between the two cultures (Arts and Business) and to develop projects that are cooperative and mutually beneficial.

This paper is based on personal involvement with musicians since 1960 as the author's father was the founder of the all Pakistan music conference (APMC) and thus the author has been witnessing the continuing decline in the living standards of our classical musicians and contemporary artists.

The paper makes a strong recommendation for creating institutional networks for professionalism in the entertainment industry and for inducting modern management practices in the conception, creation and execution of performing arts.

RATIONALE

For the Arts:

- i) The recent explosion in mass media (FM, Satellite and Private Television Channels etc.) has enhanced the scope of business opportunities for artists in the industry, which has precipitated the need for professional management in the area of Media & Entertainment.

Business schools can be the spawning grounds for providing such resources to fulfill the manpower needs of the mass media. It is interesting to note that no business school in Pakistan offers MBA degrees with specialization in media

* Paper presented at the 1st AMDIP Conference, Karachi, 29-30th March, 2004.

entertainment along the lines of what is being offered abroad, especially in the UK and USA to support their multi-million dollar entertainment industry.

- ii) The rich cultural heritage and unique art forms abundant in Pakistan have immense marketing potential, which needs to be professionally explored in order to leverage it as a value creation entity. By incorporating professional management and marketing techniques in this area, the vast untapped potential can be utilized to create marketable intellectual property. This can be a source of substantial revenue for the country as well as increment in the foreign exchange inflow thus contributing towards reduction of the trade deficit. Also, the arts & entertainment industry may prove to be extremely valuable in the post WTO scenario since it is indigenous.

For Management Development:

- iii) Modern studies and research have proven that for excellence in the areas of business management; aesthetic values, awareness and appreciation of the arts are critical leadership qualities that would differentiate the visionary companies from the me-too entities.
- iv) Business education starting after the initial 12 years of study does not allow students to develop their aesthetic sense, which leads to lack of creativity and originality, which are a must for achieving excellence in any chosen field of work.

METHODOLOGY

- i) Recording of personal observations of the author due to his involvement with the All Pakistan Music Conference (APMC) since 1960 and as a patron of the arts.
- ii) Personal interviews with prominent performing arts personalities and critics, namely, Mr. Salman Alvi, Mr. S.M. Shahid, Dr. Hassan Azad, Ustad Rais Khansahib, Dr. Ghazala.
- iii) Personal interviews with prominent business leaders, entrepreneurs and young executives, namely, Mr. Shahid Shafiq, Mr. S.I. Ahmed, Mr. Ishrat Ansari, Mr. Mohd. Amin, Mr. Salman Shareef, Mr. Ameer Haider, Mr. Danish Ansari.
- iv) Secondary research utilizing web based resources.

FINDINGS

Benefits of including arts in Management Development Programs

- Link the strengths of arts and business, promoting corporate social responsibility, community growth and vitality.

- Provide leading sources of talent, innovation, creativity and new ideas for business professionals.
- Arts inspire creativity and originality and the study of arts will add value to the ability of aspiring managers for generating intelligent and imaginative business strategies.
- Builds creative partnerships: using the arts does something very profound for the creativity and innovative potential of participating companies and all their employees.
- Study of arts helps people manage change successfully, helps staff to develop as individuals and team members, releases untapped potential to create vibrant, diverse and cohesive communities.
- Trains managers to strike a balance between the left and the right side of the human brain.
- Inspires adventurist responses, increases the ability to take risks, develops the human dimension of management, ensures the ascendancy of humans in a world of technological prowess.
- Can create sustainable partnerships between seats of learning, cultural and creative organizations.
- Add vital quality of life to the company and its employees.
- Serves as a catalyst for creating synergy between artists and businesses.
- Recruit, train, and place corporate managers with arts organizations in need of management assistance.
- Enables entrepreneurs to undertake endeavors for their intrinsic worth rather than for their contribution to the bottom line i.e. creates a rationale for sponsorships of art events.
- Introduces a human element to the mechanistic motions of corporate life and enables managers to recognize and appreciate others.
- Enables managers to accept and manage uncertainty, chaos and increases their tolerance towards ambiguity.
- Advantages of including art in management development programs has been illustrated by Abraham Zaleznik-Professor of Leadership Emeritus Harvard Business School, as follows:

“It seems to me that business leaders have much more in common with artists, scientists, and other creative thinkers than they do with managers. For business schools to exploit this commonality of dispositions and interests, the curriculum should worry less about the logics of strategy and imposing the constraints of computer exercises and more about thought experiments in the play of creativity and imagination. If they are successful, they would then do a better job of preparing exceptional men and women for positions of leadership.”

- Another viewpoint to illustrate the same linkage is that of Robert Joss – Dean, Stanford Graduate School of Business.

“Leadership, in a sense, is a performing art, just like opera, singing or diving. It takes a lot of practice. But there’s a body of knowledge and awareness that’s very important to go with the practice.”

LINK BETWEEN LEARNING OF THE ARTS AND ENHANCEMENT OF CREATIVITY IN ASPIRING BUSINESS MANAGERS

The way to get ahead in the age of the knowledge worker is not through raw brainpower, but by harnessing your emotions. Daniel Goleman, a Harvard-trained psychologist and former New York Times science writer, turned this idea into a household phrase with his 1995 blockbuster Emotional Intelligence.

As students increase their technical understanding in social sciences and quantitative techniques, they're missing out on a parallel track of social learning. They become emotionally de-skilled, and that pulls them back later in their careers.

Experts stress that education is just an entry-level requirement. You have to have enough to do the job - but it's not what sets star performers apart. A UC Berkeley study, started in the 1950s, followed a group of Ph.D. students in science and the technical fields for 40 years. It turned out EI (Emotional Intelligence) abilities were four times more important than IQ in determining professional success and prestige by the end of their careers. And in a study of managers who failed, it was always because of a deficiency of EI.

The increasing reliance on communication via the Web and email replaces human touchpoints. This weakens the fabric of connectedness that makes a company or organization work. That's why EI is so important in the high tech universe.

Dylan Evans writes that ‘Intelligent action results from a harmonious blend of emotion and reason.’ He adds, ‘Knowing when to follow our feelings and when to ignore them is a valuable talent that some have called “emotional intelligence”.’

Emotional Intelligence learning is most effective in the developmental stages of individuals, which are early in the educational career i.e. in the first 12 years of study. Thus, most EI programs are designed and developed for school going children, which

accompany their personality development and positions them for the challenges in their future. For the professional student, learning the arts give them the panache for developing EI capabilities.

Arts practice involves the exploration and development of ideas and feelings through the use of a range of skills and knowledge of art techniques and processes. The arts provide a powerful means of expression and communication of life experiences and imagination.

The arts contribute to the development of an understanding of the physical, emotional, intellectual, aesthetic, social, moral and spiritual dimensions of human experience. They also assist the expression and identity of individuals and groups through the recording and sharing of experiences and imagination.

Artistic works can inform, teach, persuade and provoke thought. They can reproduce and reinforce existing ideas and values, challenge them, or offer new ways of thinking and feeling. They can confirm existing values and practices, and they can bring about change.

Learning the arts contributes to the development of core shared values in students, in particular, helping them to critically reflect, make personal meaning and show enterprise and initiative.

The opportunity for creativity in the arts develops students' abilities to plan, visualise consequences, experiment, try different approaches, solve problems and make decisions in situations in which there may be no standard answers i.e. almost all of the problems faced by business managers.

Learning in the arts promotes the integration of skills from different areas of human potential, promoting 'multi-sensory' learning and the development of 'multiple intelligences'. The arts develop verbal and physical skills, logical and intuitive thinking, interpersonal skills and spatial, rhythmic, visual and kinaesthetic awareness. They promote emotional intelligence, a way of understanding, using and making responses through the emotions and students' intrapersonal qualities and experiences. Through arts, students learn to use and experiment with a range of traditional and emerging technologies.

NEW PARADIGMS FOR THE BURGEONING ENTERTAINMENT INDUSTRY

- Build partnerships that may enhance the management capacity of arts organizations while strengthening the leadership capacities of business professionals.
- Inspire literature, architecture, painting, music, theatre, thereby creating lot of business activity.

- Prepare arts groups to understand the marketplace in which they operate and to develop innovative and effective marketing plans through workshops that address market research, audience development, diversity, branding.
- Great art changes people's perceptions of the surrounding world for the greater good of all.
- Business managers well versed with the value and appreciation of the arts can be instrumental in adding value to the artisans and crafts enterprises in the following manner:
 - i. Creating awareness about the value of intellectual property.
 - ii. Training programs about marketing fundamentals for artisans and craft enterprises.
 - iii. Carrying out marketing research for visual artists to determine critical market characteristics i.e. market size, segmentation, targeting, tailoring and tying.
 - iv. Developing marketing plans and strategies along modern lines for enhancing the economic potential of entertainment, media and arts.

CONCLUSION & PROPOSED PLAN OF ACTION

This enquiry has demonstrated that there is a need for creating an effective synergy between the arts and business communities. By the support that both communities can extend to each other, a multi-million dollar industry can be created which will be independent of the need for foreign direct investment. A proposed roadmap for realization of this vision is as follows:

- Leading business schools in Pakistan should be the focal point for disseminating modern management practices in the business of arts.
- Research should be conducted to evaluate perspectives of artists, writers, painters, actors etc. towards business professionals and vice versa to identify gaps and then build strategies to bridge these and create value entities.
- Business internships to be created involving final semester students allocated to a particular art practitioner. This should be apart from the customary internship in a commercial organization.
- Specially developed management, marketing and business courses should be included in prominent art institutions of the country.

- Specially designed short courses in the arts i.e. music, theatre, painting, writing should be included in the curricula of business education.
- Students should be asked to identify clusters of artistic endeavors in various regions and provinces of Pakistan, subsequently, a database be created.
- Business institutions to offer consultancy services to the arts & entertainment industry for solving problems by utilizing the student base.
- Use of feature films, recorded plays and other artistic endeavors for improving communication abilities to be encouraged. e.g. Kramer Vs. Kramer for improving interpersonal skills, Twelve Angry Men for demonstrating the benefits of collaborative problem solving etc.

I conclude this paper by offering some 'food for thought'; what was it that made the renaissance age much more beneficial and flourishing for people of the world as compared to the complete and utter helplessness of mankind in the dark ages?

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I have already said that there is no such thing as a work of art which is entirely devoid of ideas. And I added that not every idea can serve as the foundation of a work of art. An artist can be really inspired only by what is capable of facilitating intercourse among men. The possible limits of such intercourse are not determined by the artist, but by the level of culture attained by the social entity to which he belongs. **Plekhanov**

Inhabitants of Stifling City

*Of love ashamed of thought afraid.
Foul prejudices rule their brains.
Their liberty they gladly trade.
For money to procure them chains.*
Pushkin

DISCUSSION

Diversification in Banking Sector with Special Reference to Finance

Yaseen Ahmed Meenai

Institute of Business Administration, Karachi

SUMMARY

Diversification in Banking Sector is relatively a new phenomenon. The aim of this article was to analyze the boom in banking sector with special reference to CONSUMER FINANCING. For this purpose, financial products - Credit cards, Home financing and Car financing - of different banks were selected and their policies were analyzed.

My goal was to find the reasons behind the diversification in Banking Sector particularly in Consumer financing over the last 10 years. For this, I collect the data from different banks to analyze the factors involving in it.

After analyzing the various aspects of financing strategy in banks, I concluded that the major reason behind the boom in consumer financing is INFLATION. Purchasing power of the people has greatly reduced for the past ten years. Due to this reason people were attracted towards the policies, which different banks are offering in different products like home, cars and home appliances, with minimum down payment and minimum markup.

Another reason behind the boom is 9/11 incident. After the incident the liquidity form of money in Pakistan was raised with a great extent, because Pakistanis living in European countries and America projected their future in danger. So they transfer their earnings to their homeland. This is the reason, which raised the liquidation of money in the economy. In order to overcome this problem, State Bank ordered the commercial banks too lower their interest rates so that people will invest their earnings in Banks.

1.1 BANKING & FINANCIAL SECTOR IN PAKISTAN

Pakistan is one of the key emerging markets of South Asia with a total population of over 140 million people. Pakistan's GDP is expected to grow at over 5% during the year 2004-05. Macroeconomic stability and financial sector reform are targeted to have a positive, substantial impact on real economy.

The banking sector in Pakistan consists of Commercial Banks and Specialized Banking Institutions. During the 8 months of financial year 2004 as per SBP Quarterly report there has been robust growth in deposit mobilization and credit off take with a rise of PKR 150 billion in net credit to the private sector (Aazim 2004).

1.2 CHANGES IN SELECTED BANKING SECTOR INDICATORS

	Billion Rupees		
	FY 01	FY 02	FY 03
Deposit Mobilization	112.2	173.5	275.1
Gross Disbursements	105.9	199.3	387.3
Net Credit	66.9	41.7	133.2
Credit to Private Sector	54.3	32.3	167.7
Stock of NPLs	18.8	14.0	-7.0
WA lending rates (basis points)	103.0	-185.0	-454.0
WA deposit rates (basis points)	-89.0	-83.0	-227.0
Negative sign indicates decline over the previous year.			

The following correlation matrix showing the strong +ve relationship b/w financial years 2002 and 2003 with respect to all the categories shown in the table 1.2. So we can say that banking seems to be uniform in all categories in terms of liquidity form and its approx. 97.37% associated.

Correlation Matrix

	FY 01	FY 02	FY 03
FY 01	1		
FY 02	0.408797	1	
FY 03	0.387362	0.9737	1

The performance of the Pakistani banking sector has improved considerably in the years 2002 and 2003 on account of the following:

- The performance of nationalized banks has significantly improved as the restructuring process initiated in these banks since the year 1997 has begun to show positive results.
- Banks, especially the nationalized banks have taken steps, to reduce their administrative expenses.
- The tax rates have reduced from 58% in 2001 to 50% in 2002 to 44% in 2003 to 41% in 2004 and will decline to 38% in 2005 and reach 35% for 2006 onwards.
- The State Bank of Pakistan/ Ministry of Finance has also introduced several reforms in the banking sector.

The key trends in the banking sector are as follows:

- Increased Merger & Acquisition activity in the banking sector with local private banks having made several domestic acquisitions.

- Large expansion of branch network and deposits by private and some foreign banks.
- Rationalizations of branches by nationalized banks.
- Increased focus towards consumer finance.
- Increased focus on attracting local rupee deposits.
- Increased emphasis towards automation and customer service.
- Reduction in the increase in non performing loans as a result of better governance of banks and greater accountability process initiated by the government.

Significant increase in inward remittance business as a result of governmental clamp down on unofficial remittance channels following September 11.

1.3 CONSUMER FINANCING

Apart from the specific regulations given under each mode of financing separately, general requirements laid down here should also be followed by the banks / DFIs while undertaking consumer financing. It may be noted that these are the minimum requirements and should not in any way be construed to restrict the role of the management of the banks / DFIs to further strengthen the risk management processes through establishing comprehensive credit risk management systems appropriate to their type, scope, sophistication and scale of operations. The Board of Directors of the bank / DFIs are required to establish policies, procedures and practice to define risks, stipulate responsibilities, specify security requirements, design internal controls and then ensure strict compliance with them.

The banks / DFIs must clearly disclose, all the important terms, conditions, fees, charges and penalties, which inter alia include Annualized Percentage Rate. Pre-payment penalties and the conditions under which they apply. For ease of reference and guidance of their customer, banks / DFIs are encouraged to publish brochures regarding frequently asked questions.

Recent weeks and months have witnessed generous advertisements by banks, both in dimensions and frequency, on consumer financing, i.e. for purchase, on installments, of durable consumer goods such as automobiles, household electronic goods, housing units, etc. dotting the national print media, heralding emergence of a new sector in commercial banking and financial-services sector of the economy.

The savings of small earners or of middle-class, anxious to save for rainy days, constitute the bulk of bank deposits. Banking has been one of the instruments of the exploitative structure that goes by the name of politico-economic order in this country where politics has always dictated economics; squeezing the shrimps to feed and fatten the sharks. Initiation and promotion of consumer financing is a very welcome

development, as a potential source of contribution to socio-economic stability and towards growth of middle class envisaged to be the backbone of democracy.

As a corollary to the absence of active and effective movement to protect consumers' interests, consumers' needs for loans by the money market have merited scant attention of the banking system in Pakistan over the past decades. As such consumer credits launch by the banking and financial-services sector can be billed as a positive measure macro-economically. Advanced and progressive economies striving to attain socio-economic equilibrium are known for offering opportunities, both for producers and consumers, resorting to the lending system to meet their requirements for cash on loan. One of the reasons for socio-economic stability and the promotion of democracy in these countries can be traced to this arrangement.

Given the reliable flow of income, one has the possibility to enjoy the benefits of larger range of goods and facilities financed through credit than going in for their one-shot out-of-pocket purchase. In rich economies, where this arrangement is a common practice, it has also greatly contributed to their economic dynamic. To consume something first needs to be produced; consumption by one, is the production by other: this is how modern productive system operates.

The situation has resulted in lot of liquidity with banks keen to do their job of allocating capital in the economy while making a healthy return for themselves. This ushered in a phase where consumer financing offers a growth- promising segment in financial services, "the single most powerful theme in Asian financial services" as termed by SSB part of Citigroup.

Governments are equally positive since this concerns the real economy. Whether it is the construction of houses being financed by mortgages, purchase of long-life consumer goods or revolving credit-card loans and unsecured loans, they all contribute to create demand promote production and generate employment.

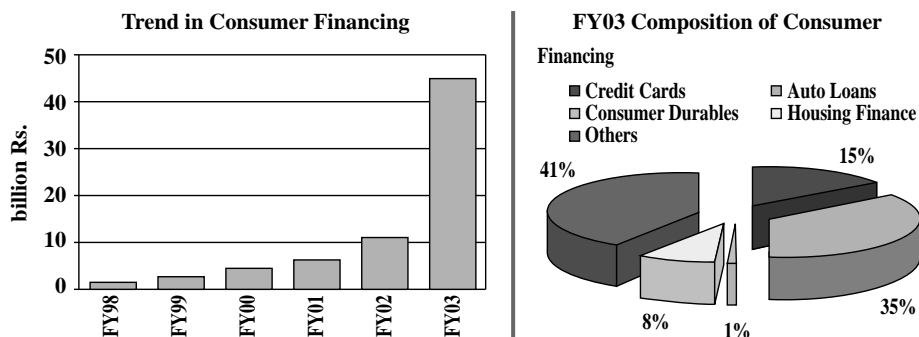
The recent interest by banking and financial-services sector in consumer financing in Pakistan is a healthy sign to log on to the trends and directions emerging in Asia. While the performance of the NAB over the past years leaves a lot to be desired, it has certainly sent a shock wave for potential credit sharks that acquisition of heavy loans without intention of paying back, may prove highly unpleasant and torturing. This pressure must not be relaxed.

This would contribute to the liquidity of banking sector to finance households' loan requirements. The State Bank has also a positive approach in this regard. What is required is to set parameters for a total environment conducive to successful and effective consumer financing. The banks are required to set affordable mark-ups, the manufacturers of durable household goods to avoid supply of sub-standard products, the vendor/trader should not over-shoot in quest of profits and the households/consumers would have to keep up credibility while enjoying the benefits of consumer finance banking.

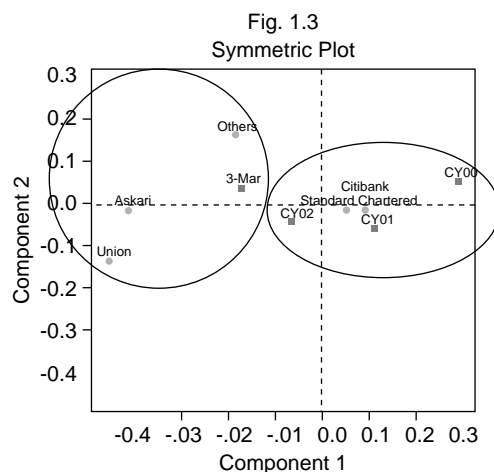
The concerned state institutions would have to ensure a viable and equitable watchdog function so that all stakeholders in the venture share the benefits. A well conceived, implemented and monitored and macro-economically-organized scheme of consumer financing can be a potent contributor to lift up the economy and generate employment.

It was only 2001, when banking sector faced a liquidity glut and declining yields in their traditional business lines that banks began to focus more strongly on the potential offered by this relatively untapped and higher yielding market segment. As a consequence, Pakistan witnessed remarkable growth in consumer finance over the last two years. Specifically, banks' exposure toward consumer financing increased to Rs. 45.1 billion by end-June 2003, up a spectacular 639 percent as compared to the mere Rs. 6.1 billion by end-June 2000.

A break-up of the consumer financing by category shows that, by end-June FY03, personal loans (others) accounted for more than 40 percent of total credit, followed by the auto finance while other products are still in their infancy; these too appear to be growing strongly.



Financing through credit cards is another well established e-banking activity in Pakistan, and it has witnessed remarkable growth since CY00. The number of credit cardholders and volume of transaction have both significantly increased during last three years (see Fig 1.3 Symmetric Plot of Correspondence Analysis*) showing the initiative given by CITIBANK and STANDARD CHARTERED in FY 2000-02, after this period, some other banks also started their credit cards. This sharp rise was facilitated by improving ebanking infrastructure and rising banks' interest in the area of consumer financing. While the total number of POs terminals has increased to 8616 by the end of March 2003, net credit expansion to consumer financing surged to Rs. 59.3 billion by end-June 2003.



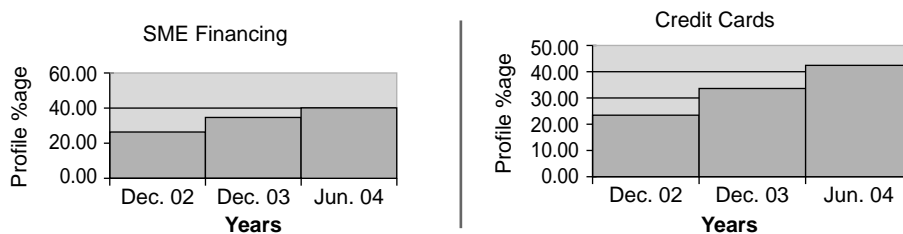
* Simple Correspondence Analysis helps you explore relationships in a two-way contingency table, that is, a table of frequencies based on two categorical variables. You can also use simple correspondence analysis to analyze three-way and four-way contingency tables.

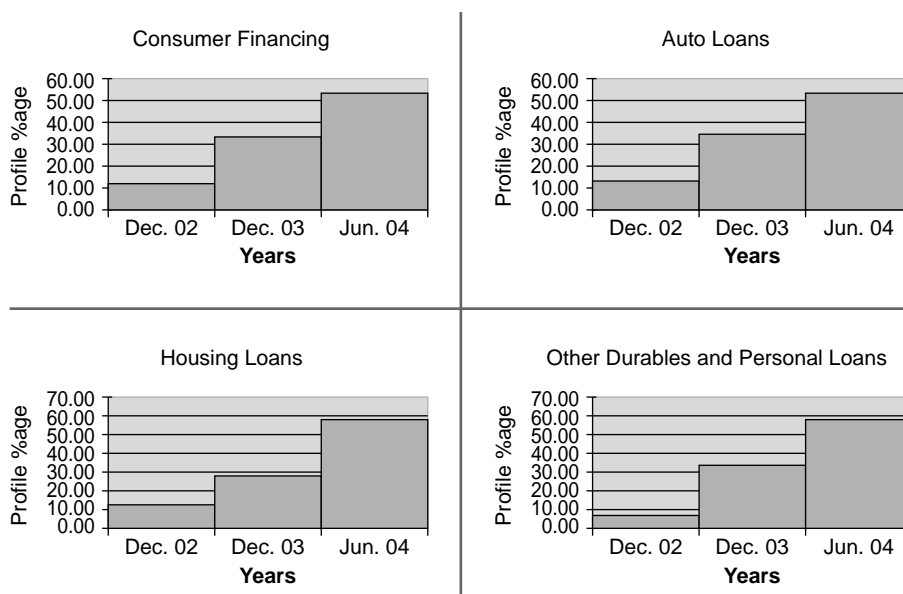
Table 4: Financing to SMEs and Consumer Sector by the Banking System

	Billion Rupees		
	Dec-02	Dec-03	Jun-04
SME Financing	170.0	215.0	250.6
Consumer Financing	22.6	65.5	102.6
Credit Cards	6.1	8.9	11.2
Auto Loans	8.3	22.2	33.1
Housing Loans	1.9	4.1	8.3
Other (Durables and personal loans)	6.3	30.3	50.0

Source: Banking Supervision Department, SBP

If we analyze above figures using the Profile Analysis*, then we can observe the raise in each category of Financing including the credit card holders but the increment seems to be with a lower ratio in SME financing sector while it is rapid in consumer financing, home loan & auto loan sectors. Yearwise profiles are given below:





* Profiles are proportions that are calculated from the counts, n_{ij} , in the original data table. Specifically, the profile for row i is $(n_{i1} / n_{i.}, \dots, n_{ic} / n_{i.})$; The average row profile is calculated from the column totals.

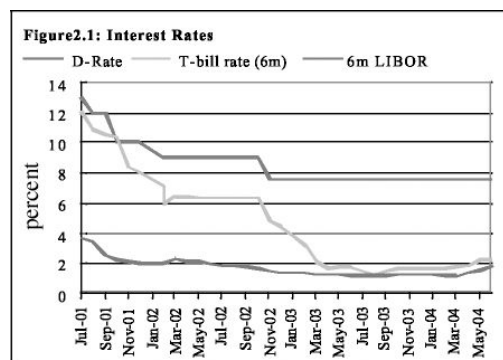
Although a few banks had been extending auto loans since the mid-1990s, the business segment remained largely in the domain of leasing companies until recently. Over the last two years many banks have launched car financing schemes and marketing aggressively. Combined net credit of all banks for auto financing reached at Rs. 15.8 billion by end FY03. This is substantially higher as compared to the aggregate total of only Rs. 3.5 billion in FY01 (similar pattern can be observed by the profile of autoloan). In sharp contrast to the credit cards and auto loans market where banks were free to undertake these business activities, housing finance by banks was barred until the May 5, 1998, prior to the issuance of a National Housing Policy. Policy guidelines first issued in July 2001 were further liberalized in June 2003 keeping requirements of stakeholders and risk managing capacity of the banks in mind. Another very important development was the Financial Institutions (Recovery of Finance) Ordinance 2001, which empower banks to recovery collateral without recourse to potentially lengthy and expensive court proceedings.

The main characteristics of the credit policy for housing finance are summarized in the above table & in profile. As a result of these policy initiatives and increasing banks' interest in housing finance, net credit to this sector reached at Rs. 4.1 by end-FY03.

1.3.1 Interest Rate

The SBP started reducing the discount rate gradually from 14 percent in June 2001 to 7.5 percent in November 2002. Since then, the SBP has kept the discount rate stagnant at 7.5 percent, which reflects the commitment of SBP towards keeping a low interest rate environment.

However, the 6-month T-Bills rate, which is also, a benchmark rate, started edging up after reaching at its lowest in August 2003. As the benchmark T-Bills rate is more sensitive to money market conditions and other economic indicators, the T-Bills rate started inching up in the later half of September 2003 on account of increase in foreign interest rates, increase in domestic inflation particularly in the non-food component, depreciation of Rupee vis-à-vis US Dollar and higher demand for bank credit due to seasonal factors. The rates on T -Bills with different maturities also increased during the period. Similarly, the export refinance rate, which was linked with the 6-months T-Bills rate, also increased from 1.5 percent as in June 2003 to 2 percent as in June 2004 (SBP-APR 2003-04).



1.4 E-BANKING

**“In the 21st Century there will be a lot of banking but there will be no banks.”
(Bill Gates)**

In recent years, Automated Teller Machines (ATM), Tele Banking, Internet Banking, Credit and Debit Cards, etc. have emerged as effective delivery channels for traditional banking products in Pakistan.

Foreign banks took the lead by re-introducing credit cards to the Pakistani mass market in mid-1990s. This was followed by the domestic banks, which introduced ATM facility in late 1990s. However, this delayed entry in e-banking may be largely explainable by regulatory hurdles, higher start-up costs, on-going banking sector reforms, and lack of technical skills.

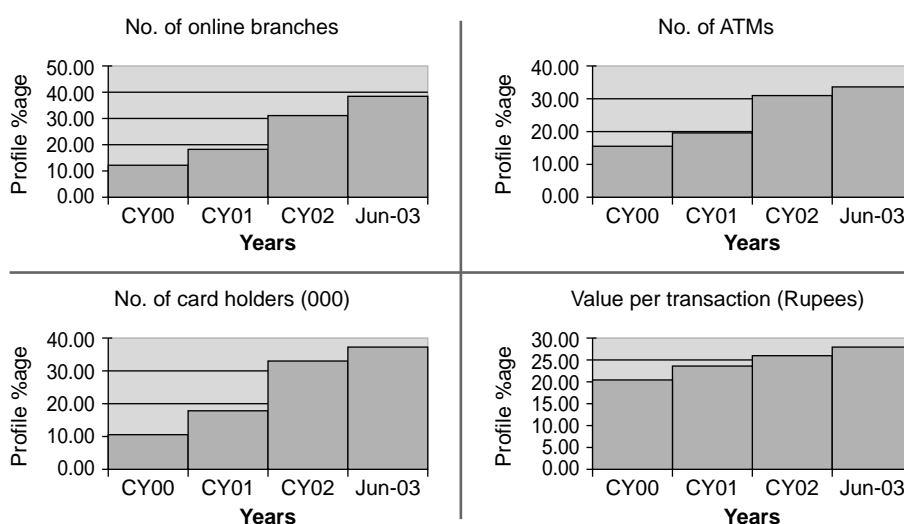
At present, a number of commercial banks have set up their own standalone ATM networks, issuing credit and debit cards, offering round the clock phone banking, and maintain comprehensive websites providing detailed information on their conventional and e-banking products. Furthermore, all banks have joined one of the two operating ATM Switch Networks and these two switches are in process of linkage with each other. Have linked these two switches, customers will have access to over four hundreds ATMs throughout Pakistan. (39) However, other e-banking activities are yet to establish.

In Pakistan, the ATMs generally allow cash withdrawals, balance information, PIN change, and to print mini-statement. A few banks also provide fund transfers, checkbook request, and utility bill payment facilities through their ATM networks. A quick glance at **Table 1.4** shows that the number of ATMs, cardholders and cash withdrawals have sharply increased since CY00. As a result, the value of ATM transactions has also recorded strong growth over the same period.

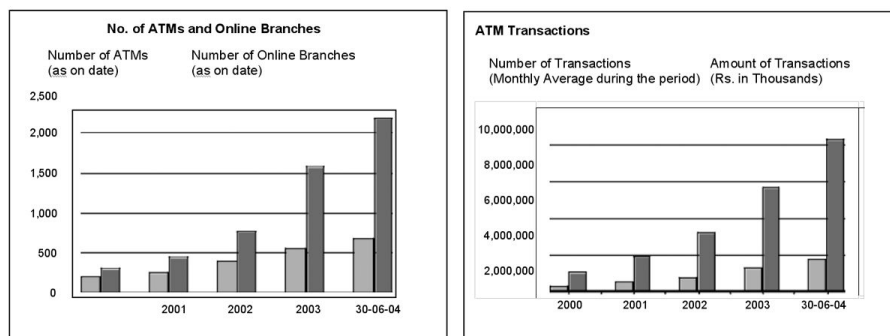
Table 1.4: Position of ATM

	CY00	CY01	CY02	Jun-03
No. of on-line branches	322	450	777	994
No. of ATMs	206	259	399	445
No. of card holders (000)	240	415	736	838
No. of transactions (000)	3624	5923	9319	6450
Value of transactions (million)	12507	22108	37786	28052
Value per transaction (Rupees)	3451	3733	4055	4349

The *profile analysis* also signifies the e-banking boost during the above mentioned period of time, the same time-period is taken because the changing occurs significantly during these years, now we have to take a look on the profiles to identify the pattern during 4 years:



The pattern seems to be rising during years from 2000 to 2003. The number of ATMs, which was close to 207 at the end of 2000, has increased to 676 ATMs as of June 2004. Similarly, online branches of commercial banks have grown over 6 times to 2,181 during the same period. The volume and value of business transactions through the ATMs have also witnessed a steady rise. The number of credit card holders has multiplied three-fold from 200,000 to over 600,000 cardholders during the last four years. Also, the average monthly volume of transactions has more than doubled in the same period, see the following figures (APR-SBP-2003-04).



CONCLUSIONS

Many domestic banks have improved their working standards. For instance, the internet-based services are being offered, ATM machines are being installed, the number of Debit and Credit Cards is on the increase at an unprecedented rate, and last but not least, consumer financing has taken a new shape and dimension. The increased borrowing by the private sector has influenced the economy favorably by generating economic activity and in the process the profitability of the banks has also improved. Around 2 million households are direct beneficiaries of the latest initiatives of the banks such as Microfinance, Consumer loans and diversified Mortgages schemes.

RECENT INITIATIVE

The Islamic Banking has been introduced in parallel with the conventional banking and the SBP has setup a full-fledged Islamic Banking Department. The Shariah Board has also been established to promote Islamic modes of banking in the country. The Islamic banking is attracting a large majority of customers who prefer interest free banking on religious grounds.

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Leading from good to great does not mean coming up with the answers and then motivating everyone to follow your messianic vision. It means having the humility to grasp the fact that you do not yet understand enough to have the answers and then to ask the questions that will lead to the best possible insights.

Jim Collins

BOOK REVIEW**Aman U. Sayed****Management Accounting for Financial Services****The Institute of Bankers Pakistan****PP x 258, Tables, Evaluation Questions and Answers**

The accounting profession has come a long way to be counted as one of the most important management disciplines. In our present day competitive environment, management cannot ignore the most elementary aspect of measuring the profitability of the business. All the various branches of accounting, e.g., Financial Accounting, Management Accounting, Tax Accounting and the newly emerging Forensic Accounting (the field of accounting to detect white collar crimes such as money laundering and embezzlements) play their roles in helping the managers conduct their businesses effectively and efficiently.

Management accounting has emerged as a separate discipline from the traditional cost accounting. As more and more production processes are automated and outsourced, managers need comparative information not about costs but about the nature of activity to determine the profitability of an operation. The very emergence of Activity Based Costing traces its origin to this phenomenon. This approach towards activity rather than cost structure is more pronounced in the service industry. This is the subject of the book.

“Management Accounting for Financial Services” is an expression of the desire to apply the knowledge acquired in the discipline of management accounting for decision-making in banks and other financial institutions. The author brings twenty years of his experience of working overseas in the field of accounting profession, especially the management accounting, to bear upon his writing of the book. This is the first compilation of its kind in Pakistan that directs the principles and methodologies of management accounting specifically towards banking and financial industry.

The book comprises of 22 chapters. The first 17 chapters cover management accounting in theory and practice. They are roughly subdivided into cost concepts, management planning in performance evaluation and management accounting for decision-making. The remaining five chapters exclusively deal with using management accounting for decision making in financial service industry. Management today relies heavily on accounting information - reliable and fast – to make decisions. Today, majority of decisions are made on the basis of accounting information pertaining to costs that are of short and mid term duration. The book, therefore, starts with describing the nature of costs, their behavior and their business framework. Costing carries a special meaning in the business environment and the book shows its importance as a decision making tool. Recording and reporting costs i.e., job order costing and process costing are the two common methods of collecting costs. Both these methods are fully discussed in the first part of the book.

Planning, controlling and organizing – the three most essential aspects of management function – are also discussed and sufficiently examined. In the second section of the book the role of budgets, development of standard costs used in budget making, comparison of actual results with the budgets and responsibility accounting are discussed. With flexible organizations and de-layering of organization levels, responsibility accounting is taking on more and more importance. The last chapter of this section deals particularly with responsibility accounting and its role in performance evaluation is thoroughly examined.

The third section of the book uses the knowledge gained and the techniques learned in the two earlier chapters to use management accounting for decision-making. It addresses the question: at what point would it be profitable to sell just one product or a product mix to maximize profitability and at what point the business will actually become profitable? This aspect of decision-making is addressed by cost-volume-profit analysis or break-even analysis for short.

Decisions such as whether or not to add or drop a product, buy or manufacture parts or the whole product, use the same process to make one or more products and their cost distribution whether or not to accept or reject special production orders are problems frequently encountered by managers. A quantitative analysis of such problems provides management the comfort to make decisions. The book shows that problems such as these are solved by differential analysis. This management accounting techniques is thoroughly discussed and explained in this section of the book.

Although most long-term decisions are beyond the scope of management accounting, management accountants do get involved in decisions pertaining to capital budgeting or project financing. As the time horizon of the project gets wider the inherent risks involved get more pronounced. A thorough analysis of risks and returns must therefore be made before committing resources to long-term projects. This requires comparing return on investments that leads to measuring the time value of money. This concept is introduced and its application in various methods to evaluate risk and return is sufficiently explained in the book.

The last section (section iv) of the book exclusively deals with management accounting for financial services. The author believes that Pakistani business cannot expand or even survive in this global economy without being competitive. Competition, the author maintains, requires businesses to be cost conscious and cost consciousness, he explains, cannot be achieved without understanding management accounting and implementing a good management accounting system. It is, therefore, not surprising that in Pakistan financial sector in business is taking management accounting seriously and the banking business is at the forefront of this movement.

The author has very educational views regarding the banking culture in Pakistan. Banks, being one of the largest providers of services, need financial information accumulated and sorted out in accordance with their needs. Until recently, accounting for banking industry was geared towards regulatory reporting. Banks operated in a

very limited sphere of business operation, namely raising funds and loaning them out to the borrowers. With the entry of mutual funds, guaranteed investment contracts by insurance companies, real estate investment trusts, and leasing companies in the financial marketplace, banks have begun to feel stiff competition from outside their industry. This has led the bankers to give a critical look at their overall financial information needs and to have an internal accounting system that not only meets the regulatory requirements but also provides verifiable and reliable information for internal decision making.

Due to nationalization, banks in Pakistan did not have exposure to the kind of competition faced by foreign banks. This put Pakistani banks at a disadvantage. Their ways of doing business were primitive and their approach to banking was heavily mandated by government regulations. They also had to face very strong pressure from the trade unions and the politicians to act in a certain manner. Very aptly the last section of the book discusses costing of banking operations. The last two chapters explain the methodology to evaluate performance of banking operations.

Index and glossary, definition of technical terms and referencing could have substantially added to the normal expectation of the reader. However, the book is an attempt worthy of the merit it deserves. We recommend it highly to both students and teachers in the field of Management Accounting for Financial Services.

Courtesy
Business Review

*However penetrating a piece of writing may be, it is not a good review if it leaves the reader wondering what the book itself is like as a whole or if it is concerned with only some aspects of the book's quality. **Joseph Wood Krutch: What is a Good Review? From The Nation, April 17, 1937***

BOOK REVIEW**Jim Collins****Good to Great****Harper Business****An Imprint of Harper Collins Publisher Inc., New York,
NY 10022****ppx 300, Model Questions, Appendix, Notes, Index**

“Why Some Companies Make the Leap... and Other’s Don’t?”

Ever so often you come across some reading material which lives with you for a long time, long after you have finished reading it. It gives you specific lessons and takeaways, perhaps about life itself. For me, *Good to Great* is one such book. I first read this book not by choice, but because it was required reading for my MBA program. I am glad that the professor made us read it.

Good is the Enemy of great. This statement is the theme of this book and needs elaboration. Jim Collins is of the view that all too often we get the job done, without striving for quality. We do not dot the “I”s nor cross the t’s, with the premise that even without it the job is good enough. And it is. But it is not great; it is not something that would impart it a lasting high quality.

It then leads the discussion to a fundamental question: Is Greatness Necessary? The answer is a resounding yes. The book articulates a definition of greatness in the context of corporate culture where it is measured based on a parameter relevant to all stakeholders and financial performance. In this regard, by way of the Data Set, the book analyses 11 great companies. These companies were selected after using different logical tests. Significant among the tests was the fact that a comparison company in the same sector was also selected to eliminate the effect of certain favorable circumstances for a particular industry at a given time. The key, however, was a financial return below the average stock market return for the given companies, then a turning point, followed by a consistent above average performance by the same companies. Thus some consistent high performers were eliminated since they did not have a prior poor performance, and a turning point to high performance, which were needed to show as to why the superior performance was achieved.

LEVEL 5 LEADERSHIP: SUPER STAR CEOs

The discussion of this topic is the most enlightening component of the *Good to Great*. Who is the level 5 leader in Jim Collins gradation of leadership? What is the definition of a super star? A flamboyant personality? Extrovert, star power on any of the different types of media? If the answer to any of the above questions is yes, then the CEO stands eliminated from the distinction of being a Level 5 Leader. Based on Jim Collins very refreshing observations and, contrary to what we would like to believe, the most effective CEOs are quite ordinary looking in their demeanor, yet they have some

remarkable qualities. They are not the people who seek the limelight. They are ordinary people, and are content to remain so. Yet they have the inner strength of character that does make them quite extraordinary. The two main traits for this are humility and a fierce resolve to achieve something. "Level 5 leadership is Humility + Will".

Level 5 leaders put the company first and their personal benefit second. They want to achieve something not solely for their personal gain, but for the company as a whole. Thus if the size of the pie increases, so does the corresponding piece belonging to the CEO. What is not acceptable is to let the pie remain of the same size, and claim a bigger piece for oneself.

As a natural corollary, level 5 leadership is rooted in the creative will, transcending "I, myself". It is motivated by the quest for *Succession Plans* and the desire to develop strong leaders to follow. Level 5 leaders are confident in their abilities and are not afraid of being toppled over. Yet they realize, as per Shakespeare, that the world is a stage where we perform our part and leave. But the organization would survive and out live us; it would be there even after we are gone. Thus a system needs to be developed where succession is a seamless process, and there is no clash of interest. This can be developed only by people, who think beyond their own person and for the benefit of the organization.

The most effective CEO is guided by the *First Who, Then What*. Therefore, CEOs should first find the right people, then, and only then, should the decision be made as to where they are to be utilized. At first reading this does not make sense. As a CEO, shouldn't I first know what I want to do, and then look for the right candidate for the job? You wouldn't hire a marketing person to teach finance at a business school. Would you?

Now analyze Jim Collins' view. He feels that a good and able person shall be a good resource no matter what the job. Looking for the right person for a job is short sighted since a job description does and should change with the passage of time. Thus a right person for the job today might be the wrong person for the same job five years later. However, a right person shall remain the right person even after 5 years no matter what changes occur in science and technology, or the economy, or the market.

Thus the point is, a marketing guru should be hired if he is available. Whether he teaches graduate school, or first year undergrads, or is assigned a pure research project or some special project needing his brand of skills.

I can give personal examples on this one. I have worked in a multidisciplinary engineering firm. I have seen electrical engineers make a success of a civil engineering project by asking the right questions and having good project management skills. I have seen civil engineers sink a civil engineering project by not doing the same. First who then what is equally relevant in engineering.

Face the Reality and Have Hope. This chapter outlines the beginning of the recovery process. The key message here is to face the difficult situation that an organization finds itself in and have open discussions. The idea is not necessarily to reach a consensus, but to hear and listen to what people have to say. Companies that have the attitude of this is right, because I, the CEO, said so are on a perilous path to decline.

The complement of this self destructive and arrogant “I know all” attitude is to have an open mind, willing to learn and ready to seek. Above all, it means to believe and to know that things will improve, even though we might not know exactly when. We must therefore exercise caution against setting deadlines for things that are not within our control. For example, we can set deadlines for doing something, like we shall build this, or get rid of that. But we should not set a deadline that we shall be profitable by this date. That is something we do not know, much as we would like to believe otherwise.

To be rational and to understand the logic of our situation, let us keep in mind the Venn Diagram. To understand the choices we make and the process involved in taking fundamental and decisive steps, we must answer three simple questions.

- What are we as a company really passionate about, i.e. what is it that we do or should really care about?
- What can we be the best at?
- What shall fuel our economic engine, i.e., is there a financial return on what we do?

The author firmly believes that the intersection of these three questions is the key to success.

In the *Good to Great*, a great deal hinges upon the concept of Discipline. A subtle distinction is drawn when it comes to discipline. There are discipline enforcers, and there are discipline builders. Discipline enforcers are like traffic policemen. They make you follow the rules and penalize you if you do not. But here the obvious short coming is that as soon as the policeman is not there, bad habits return.

Good to Great companies emphasize the importance of building discipline. For individuals and organizations that build discipline as a matter of routine, discipline is not an effort but a part of life. For them it is a matter of habit and a secret of their success. Easier said than done. Not really. Read the book to see how.

The book was written right at the time of internet boom and bust. Thus the author could be an arm chair critic after the fact. That is true to some extent, but it is not the whole truth. Jim Collins has given concrete examples from the internet era. But, in retrospect, he has also used examples from before that time to show how *technology* should be used as a tool for business development and not vice versa.

Jim Collins introduces the concept of *Flywheel* in discussing the transition from Good to Great. To those of us for whom physics was not a favorite subject (and I do not blame anyone, I did not like it either) I suggest they consider the example of pushing a car. The first few centimeters are the most difficult, but as we keep on pushing, the car starts to gain momentum and gradually it becomes easier to do so. That is what the Flywheel concept is all about.

Change is difficult to accept but harder still is the temptation to deny change. But if we start with small steps, and keep at it, fairly soon we realize that we have gone through some big changes and that we have moved significantly towards our goal. Big thunderbolts seldom get the desired results, small integral steps do.

The question of Relevance in a Rapidly Changing World is the most difficult question one can ask. Certain principles of natural and normative sciences, management, and administration tend to have an enduring character. A fundamental principle, if established correctly, assumes an independence from the incremental development and changes that take place in science and technology.

The principles presented in this book although empirical, are still timeless in the sense that they do not derive their relevance from technological development. Rather, they are derived from the interpretations of human nature, the individual and collective strengths and weaknesses of human beings. Human character does not change over time. It has remained the same, and should remain the same for the next 1,000 years. Thus the reader can accept or reject the theories presented in this book, without any serious misgivings. Although it is an individual choice there is no question of their becoming obsolete or irrelevant.

The book ends with an exclamation, conjoined with a pause. When all is said and done, if one feels like saying: But all this was so ordinary: – Pause – Yes and No. If, at the end of it all, it seems that all this was so ordinary – (Pause) – Yes and No. I'll explain by an example from the academic setting. We have all heard that to be a straight 'A' student, the individual has to keep up with the class, the teacher, and allocate regular time for studies. The A students do make some choices, they do and do not do certain things. They exercise discipline. In the end, they turn out to be a sustained Great Entity. What they did was fairly ordinary, yet at the same time extraordinary and different. And it showed in the results.

That is the beauty and the secret of Good to Great.

Mohammad Ahsan Siddique

A Word About The IBA



Our logo reflects “our resolve to meet the future challenges with integrated and multi-disciplinary knowledge and its creative application in a changing global environment.”

FOREWORD

At the Institute of Business Administration we recognize the importance of both theory and application. In our teaching practices we celebrate a very strong sense of future, encouraging our students to welcome change, growth and becoming. By exposing them to the problematic issues and a wide variety of perspectives we invite them to see the world from the standpoint of the role they will assume tomorrow. Besides deepening their knowledge, by placing their specialized concerns in a broader perspective, we expect them to develop an understanding of our national issues in a larger global context.

In teaching we follow a research oriented methodology, characterized by both, passion and objectivity, revision and anticipation. As an academic and intellectual discipline, future oriented and goal seeking research and teaching methodology aims to focus on our core courses. These courses with well defined areas of specialization and integrative analysis aim at drawing various insights into the fold of a larger perspective of discovery. We believe that when teaching is pursued with such a pronounced bias, and discovery is made an integral part of our teaching methodology, skills and insights developed in one field become meaningfully relevant in many fields, enriching both the analytic and synthetic approaches to the perspectival unfoldment of our view of life. More importantly, it will deepen our interpretative approach, broadening at the same time our descriptive skills. Also, by combining the application of these skills with a broad and general view of education, fusing theoretical with practical, weaving the realities of the lived-world with the academic analysis in the class room, it will enrich both the theoretical and the applied components of our teaching methodology. As a radically pursued creative approach, such a pedagogical orientation is bound to result in a deeper appreciation of the nature and scope of the operational and strategic management of our corporate affairs. In the present day academic world, corporate concerns derive their relevance and significance from the specialized competence of various academic departments. Beside providing the material and insights, our departmental studies offer guidance and direction in the fields of teaching core and collaborative courses, conducting and promoting pure and applied research in the related fields of specialization.

In this focussed and yet diversified approach, as we engage in research, we experience the joy of *moving beyond the way things are towards the anticipation of the way they*

can be and therefore ought to be. With each perspectival variation and horizontal unfoldment we see the future expanding into a larger and still larger horizon, merging with the existing picture of the “given” reality, adding to it new dimension and new profiles, making it larger than the sum total of its parts. As members of the IBA community we celebrate the holistic approach and the *gestaltan* view of life and knowledge and truth.

We uphold the academic and the corporate concerns of the Institute of Business Administration. Essentially, our reflections in this regard converge upon two fundamental thematic concerns: *teaching* and *research*. Individually and in conjunction with all other factors that bear upon the process of education, these two concerns define our *forte* and our calling which is ours not by compulsion or imposition but as a consequence of the divine ordinance of our privileged choice. At the IBA, we emphasize the importance of making choices and decisions. We believe that he who is taught to be well educated knows that not to choose is also a way of making a choice and not to decide is also a way of making a decision. We are free to choose not to decide and we are free to decide not to choose. But our choices and our decisions have consequences. So, we can, if we will, decide to live creatively; we can and therefore we ought to live transcendently. These are matters of serious educational significance, inspiring the passion for authenticity, integrity and excellence.

The passion for excellence defines the creative and dynamic orientation of the IBA culture and its belief in the principle of growth and development. They who live in knowledge societies, for them the most critical idea is their belief in the creative principle of movement towards a higher and still higher stage of development inherent in their culture. They believe that they can disentangle themselves from the petrifying weight of necessity by becoming or wanting to become larger than who and what they are. We are not what we could have become; we are the possibility of what we are capable of becoming. By living the kind of life we decide to live, we assume a fate, a destiny and a character. They who live with that knowledge are, according to the Qur'an, “without excuses”.

At the IBA, we believe that research orientation, in varying degrees of emphasis, is always dominated by the *questions* we did not care to ask and the *answers* we carelessly took for granted. It is also dominated by our ability to creatively welcome the phenomena of change and more so, our ability to draw the principle of movement towards the future into our world-view. Therefore, we recognize the importance of change and emphasize the need to grow by outgrowing ourselves. We trust to let education define the goal we ought to be seeking and to let research determine the direction in which we ought to be moving to reach our goal.

Editor

INTRODUCTION

The IBA is the oldest business school outside North America. It was established with technical collaboration of U Penn's Wharton School of Finance and later University

of Southern California. The IBA set the standards of educational and professional excellence.

It seeks to advance and encourage new ideas and to promote enduring values to guide the practice of management. Over the years, the IBA has built a reputation for producing graduates of unmatched professionalism and sound ethical and moral values. The IBA has an academic environment in which talented and outstanding young men and women are inspired to reach out to the farthest limits of their vision and capacities.

The IBA is proud of its nearly 7,500 accomplished alumni who are engaged in highly specialized and professional undertakings all over the world. Many of them hold demanding positions of administrative responsibilities in various fields of governance in Pakistan and abroad. We proudly celebrate their association with the IBA.

CORE VALUES

We celebrate:

- Merit
- Creativity
- Truth
- Discipline
- Integrity
- Tolerance
- Humility

as the creative dimensions of the “highest good” – *summum bonum* – of an ethically motivated academic life based on moral foundations.

MISSION

At the IBA our mission is to provide education and training for management leadership in business and public sector in Pakistan. We aspire to be the best business school in Asia and amongst the best in the world.

It is our cherished mission to establish links with renowned business schools in the world and with business and public sector organizations in Pakistan and to try to introduce the knowledge, current and contemporary business culture and the work ethics for making Pakistan amongst the most competitive countries in the world.

IBA PHILOSOPHY

Our philosophy is rooted in the creative urge to strive continuously to improve upon all constituents of our system: culture, people and infrastructure; and to turn bright students with leadership potential into outstanding human beings and business professionals and leaders for tomorrow.

MEETING THE CHALLENGES

A fine blend of our educational environment, academic culture and the highly qualified and devoted faculty at the IBA, moulds bright and intelligent students with leadership potential into high performing entrepreneurs and professional managers.

THE GOAL AHEAD

The IBA is set on a path of constant improvement, introducing changes in all critical fields of its undertaking. Its recent partnership with MICROSOFT has given a new dimension to the Center for Computer Studies, enabling students and faculty to remain abreast with the most advanced technologies in software as well as hardware. It has entered into agreements with CBR to impart not only the quality education to its probationers but also to its senior members in the field of management in order to realize the government's policy to change the culture and the managerial practices of this sensitive department and to bring them to the accomplished level of modern-day needs and expectations.

PROGRAMS OF STUDY AT THE IBA

Our programs have been growing steadily in keeping with the needs of the society and the competence of the Institute of Business Administration.

We offer courses in the fields of :

- Doctor of Philosophy – Ph.D. (MIS/ ICT/ CSE)
- Master of Business Administration – MBA (Morning Program)
- Master of Business Administration – Management Information System MBA- MIS (Morning Program)
- MS (Economics)
- MS (Finance)
- Master of Business Administration – MBA (Evening Program)
- Master of Business Administration – Management Information Systems MBA- MIS (Evening Program)
- Postgraduate Diploma in Business Administration – PGD (Evening Program)
- Certificate Courses (Evening Program)
- Visiting Students Program (Evening Program)
- Master of Business Administration – Tax Management (Morning Program)
- Bachelor of Business Administration – BBA (Morning Program)
- Bachelor of Business Administration – Management Information System MBA- MIS (Morning Program)
- Bachelor of Computer Studies – BCS (Morning Program)
- Preparatory Program for Rural Students (Talent Hunt)
- Business English Program

CAREER OPPORTUNITIES

The Institute offers a flexible curriculum, diverse and focused, to the committed and *highly motivated students* who are willing to embrace change and ready to experiment with new ideas and thought patterns, anxious to assume the leadership role in the corporate world of today and tomorrow.

CENTER FOR EXECUTIVE EDUCATION

The Center for Executive education is a state-of-the-art learning and training center. It focuses on training the managers and providing them with educational opportunities aimed at the refinement of the skills and the attitudes they will need to succeed in the highly volatile, competitive and complex business environment of today's corporate world.

The programs designed by the center aim at helping organizations gain competitive advantage by developing their most important resource - the people. The center encourages activities designed to enhance organizational effectiveness of the professionals and their training in various areas of professional interest by providing them with the tools and knowledge to improve their managerial skills. The programs offered are designed to strengthen the participants' leadership skills with a focus on personal development, productivity improvement and strategic thinking. The Center Specializes in executive education and management development activities through 'open-enrollment' courses, client- specific programs, consultancy and applied research.

CENTRAL BOARD OF REVENUE (CBR) – CAPACITY BUILDING PROGRAM (2005-2006)

The IBA is providing training to the Tax and Customs officers of CBR in Karachi, Lahore and Islamabad. Up till now, 350 officers of grade 17-21 have been trained in Karachi. All the courses are designed by the faculty at IBA, which include Computer Skills, Communication and Presentation Skills, Management Skills, Leadership and Teambuilding Skills.

CENTER FOR ENTREPRENEURSHIP IN PAKISTAN

United States has chosen the IBA for establishing a Center for Entrepreneurship in Pakistan under its broader Middle East and North African Initiative. There will be a distinguished advisory panel, 'Blue Ribbon Panel', consisting of the Directors of Entrepreneurship Institutes at MIT, Babson, Harvard and Stanford. This panel will not only advise but also assist and support the new Pakistani Center. Dr. Peter Bearse, who is an International Consulting Economist and an expert in developing Entrepreneurial Center, is supervising the project. This project will start functioning by the end of 2007.

RESEARCH CENTER

The Research Center at City Campus plays a key role in the development of industrial and financial sectors of Pakistan by providing useful research and evaluation guidance. The activities of the Research Center consist of both core and collaborative research to provide help to the federal and provincial governments, non-governmental organizations and the private sector.

The Center is a repository of the core research done by the IBA faculty, scholars and students. The research papers written are documented, archived and made available to other researchers and industry. The IBA faculty and students can access these research papers via the IBA internet.

HIGH PROFILE FACULTY

The IBA faculty comprises of teachers with academic achievements as well as successful practical business management experience. The faculty ensures that the system of education at the IBA is a unique blend of the best in classroom instruction, case studies, role-playing, business games, research and practical training in business organizations.

HIGH ACHIEVING STUDENTS

Our students win distinctions and praises from foreign and local dignitaries for their confident, reasoned discourse, organized team work and knowledge. The IBA student groups arrange dozens of seminars and conferences every year. As individual contestants our students have been successful in national and international competitions. Two of our students; Muniba Mahmood and Asim Ali Raza were chosen to go to Geneva in an international seminar. They joined 30 other business students from around the world. The IBA was the only school in the world which had the distinction of having two students accepted for the seminar. Last year Asnia Asim topped contestants from 109 countries to win the World Bank Essay Contest. The IBA team won Pakistan round of Microsoft India's Imagine Cup 2006.

Let the children of the rich and poor take their seats together and know of no distinction save that of industry, good conduct and intellect.

Townsend Harris

“The Educated Person”

You know, we have a very peculiar situation. Young people, when they are in school, are extremely excited by the humanities, even the most traditional subjects. And five years after graduation, they will reject them, basically, and become totally vocational in their orientation. This imbalance isn't healthy in a long-range sense. As I look at our executive-management people who started out twenty or thirty years ago, I thought that these just-turned-45-or-50-year-old managers would ultimately come back to their schools and say, 'Now we need to understand a little bit about ourselves and about life!' But the postgraduate education of our managers, from this perspective, has been a total flop.

A flop?

Almost a total fizzle. But more and more are coming back, and they always want to come back to this vocational or their professional area. They start to see the humanities or the world of history as a way to reflect on their business experiences and to judge how they might have thought or acted differently, to look at their lives from whole new perspectives.

Peter F. Drucker

Left to themselves, the creative forces in society will always deliver; but keeping them reasonably free to do so is a perpetual, grinding battle. It is one that must never be lost.

Paul Johnson
Forbes, February 27, 2006

Business Review



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Institute of
Business Administration
Karachi

Main Campus, University Road, Karachi. UAN: 111-422-422, Tel: (92-21) 9243090-5 Fax: (92-21) 9243421

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