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EDITORIAL PERSPECTIVE

Research is an intensely dynamic inquiry, while knowledge is a more quiet research. Both are ever on the move, according to similar principles, towards a deeper understanding of what is already known.

- Michael Polyani

We must welcome the future, remembering that soon it will be the past, and we must respect the past, remembering that it was once all that was humanly possible.

- George Santayana

Let us spend some time, thinking the thoughts we have not thought so far; and let us relive our half-felt emotions, to feel the joy and the anguish we did not feel before. Let us subject our assumptions and presuppositions to ruthlessly radical examination to test their relevance and validity; let us put our paradigms to a critical pragmatic test, asking the questions we did not ask for fear of painful answers. Let us try to remember the ways which have made us grow older but not wiser, recounting the days and also the nights which came our way laden with happiness and tears, sadness and sorrow, high hopes and great expectations. Let us not forget the truth which our heart knows and our mind cannot deny – the truth that life moves on and time never stops, and both, life and time, carrying the burden of the past through the present move on towards the future, leaving behind the silent echoes of what used to be.

Nothing abides, nothing stays and nothing is permanent; "Nothing nothings." Everything is constantly changing, everything is in a flux and nothing is ever the same. "You cannot step into the same river twice", said the Greek philosopher Heraclitus and Omar Khayyam glorified the irreversible forward movement of life and time--the "moving finger writes and having writ moves on ..." Iqbal, in his *Reconstruction of Religious Thought in Islam*, deepened the mystique of *serial time* and the mystery underlying the existential, socio-cultural and philosophical meaning of the *"principle of movement"*.

تُو اُسے پیمانۂ امروزوفرداسے نہ ناپ، ہے رواں،پیہم دواں،ہردم جواں ہے زندگی

Can the corporate world-view sustain the burden of the weightlessness of the transcendental sense of life? A great deal depends upon our answer to the question, particularly in relation to whether or not corporate culture can draw this dynamic, creative and grave sense into its lust for life to add deeper meaning and value to its world view? That there is a religious side to the question cannot be denied without knowing what it means to be religious; that there is a moral and ethical side to it can only be denied by inviting the wrath of the inexorable law of consequence. This realization, and much more besides, reveals the sadness and sorrow, modern man, with all his achievements and glory, carries deep down in his heart because of his failure to draw the existential, moral spiritual pathos creatively into his lived-world. He hasn't grown wiser simply because of his apathy to incorporate the transcending power of the truth of this experience into his *world-view*. Miguel De Unamuno, in his book the *Tragic Sense Of Life* has described it as a "direct expression of the strife between the truth thought and the truth felt." Without living through the transforming power of this strife a corporate functionary cannot rise above himself, to become larger than who he is, to know and to understand what he is capable of becoming.

Besides, these are all pedagogical observations with deep cultural underpinnings and, in their deeper and richer meanings, they all converge upon the liberal and humanistic philosophy of education. Surprisingly, however, as Charles W. Elliot has rightly pointed out, "more and more in our schools of business education, we tend to forget that liberal education develops a sense of right, duty and honor; more and more in the modern world, large business rests on rectitude and honor as well as on good judgement."

Contrary to what we think, or do not think at all, it is not true that as teachers we are really conscious of the reciprocal relationship between our sense of education as a means of specialization and our sense of education as a means of self-realization. In our present day system of education the liberal and humanistic dimension of education is sadly glossed over under the lure of specialization. Unfortunately, it is a neglected theme in the modern system of education, more so in our schools of business education. We have therefore become forgetful of Ruskin's refrain that "education does not mean teaching people to know what they do not know; it means teaching them to behave as they do not behave." Obviously, in the fullness of their meaning such refrains reflect upon the cultural norms of education. Webster's offers several definitions of "culture". For example, in its most refined form, "culture as the act of developing ... the intellectual and moral qualities, especially by education." It is also defined as enlightenment and excellence of taste acquired by assimilation and internalization of knowledge not just as a mode of knowing but, more importantly, as an act of being. Such knowledge beautifies the human mind and ennoble the human soul. As an embodiment of value judgements, it results in the formation of attitudes and ultimately in the fruition of character.

The fusion of the ontological propensities of knowledge is the most creative act of human mind. It is reflected in the total pattern of behavioral dispositions which is also the aim and the ideal of a genuinely liberal education. These humanistic and liberal ideals of education were envisaged and actively practiced during the time of Socrates, Plato and Aristotle. Those were the days when the focus of education was on making the most and the best of who you are and wanted to become. Education in those days, unlike today, aimed at letting an individual become all he was *capable* of becoming as a total person. The Japanese sage and philosopher Karbara Ekken wrote that "the aim of learning is not merely to widen knowledge but to form character. Its object is to make us true men rather than learned men." The *True Man*, like the Confucian *Higher Man* or what Aristotle described as *Great-minded Man*, is primarily concerned with "the cultivation of himself with reverential care." In all these instances, character is rated above intellect and "character ethics" is judged to be the essence of education. Education, in the olden days, comprised of noble and sublime passions and sentiments. In those good old times, knowledge was defined as virtue and man was free to will the truth. Education to those ancients was a "trial by existence" and an invitation to "dare to be wise" *(Sapere Aude)*. Today, progressively under the crushing weight of materialism, misguided utilitarianism and vulgar pragmatism, modern man has reduced himself to a "hollow man", living in the "wasteland" marked by the impending total eclipse of liberal and humanistic ideals and values. Our situation reveals Bertrand Russell's prognostic that "unless man increases in wisdom, as much as in knowledge, increase of knowledge will be increase of sorrow". It will not be totally wrong to say that today we sadly stand on the verge of loosing the taste of what it means to be educated, cultured and civilized.

In the corporate societies and business schools, it is an issue which must be addressed with utmost care and concern because it pertains to man's emancipation from the bondage and servitude to the forces resulting in his arrested development as a total man.Since it is a question of cultivation of attitudes, rooted in the creative power of human and humanizing attributes, the intent of our teaching methodology ought to be to go beyond consideration of a manager, an administrator, a corporate functionary or a CEO as a specialist in the formal sense of training. To achieve this objective, business education must aim at enlarging the horizons of the corporate thinker to empower him with the creative will and moral vision to enlarge his perspectives on the corporate world. It involves the education of the corporate man as a total man. As a pedagogical ideal, it will explore the wider and wiser sense of the uses of the corporate functionary will make of his creative, critical and evaluative faculties and his power of judgment in a corporate society and the fluid and indeterminate situations, willing to do the right things, hoping to do whatever he does rightly.

We can see our thoughts drifting into the thorny, stony and dusty domain of leadership. In this domain, change reigns supreme and nothing abides except the reality predicated on truth. Hickman C. R. and Silva, M.A., in the preface to their book *Creating Excellence*: Managing Corporate Culture, Strategy and Change in the New Age, have observed that "only those leaders who learn to anticipate and even invent the future will profit, rather than be surprised by, change." In anticipation, let us invite our students to think about the daunting challenges they will face and the impossible task their love of authenticity and own-ness will impose upon them as corporate leaders. As teachers, let us keep in mind the refrain of Socrates who said it once and more than twice: "I cannot teach anyone anything but I can make him think." Let us think about it, at least one more time, if we have not reflected upon it many times before.

Such a scenario in its totality will undoubtedly open up vast possibilities of research into the domains of personality development, value-judgment, attitude formation and character ethics . To help our student develop into a harmonious personality, alongside his training as a specialist, our business schools must make available to him courses outside his preferred field of study. Such offerings will enlarge his vision and deepen his experience in the class room and beyond in the lived-world to discover what lures him into pursuing his passion to go in the direction his goal inspires him to go.

The existing literature in the field of corporate management shows that the normative component of corporate culture is a distressingly neglected theme in the morally accented *tour d'horizon* of business education. It is a fatal disregard because, as a desired and desirable thematic goal, it is concerned with the question: *what does it mean to be in relation to what it means to know?* It means that, in its deeper ramifications, ontology as an integral part of any world-view cannot be separated from epistemology without doing violence to our existential integrity and moral authenticity. It also means that the need to integrate ethical and the moral into the corporate world-view is the imperative need of *self-education* of the corporate manager and business executive. As a functionary of the corporate world the business executive must learn to teach himself characteristics of absorbing and assimilating the ethical and the moral into his executive and managerial disposition. To achieve this ideal, he must regard himself as a *total man*. The total man is not a morally dispossessed man. On the contrary he is the man who is in full possession of himself and his own-ness. His *own-ness* is the essence of his being; it is the foundation of his consciousness as a civilized man i.e, the individual who does not suffer from the "stupidity of intellect or stupidity of feeling." Such consciousness is the spring of moral discontent and ethical despair and, in its creative rage, of heroic achievements. Such a man, the *total man,* and our ideal corporate man, is bound to suffer from deep existential pathos and profound tragic sense of life. He is, says Unamuno, *"neither the human nor humanity,* neither the simple adjective nor the substantivized adjective, but the concrete substantive, that is, man . The "man of flesh and bone; the man who is born, suffers, and dies above all, who dies; the man who eats and drinks and plays and sleeps and thinks and wills; the man who is seen and heard …." The corporate executive will not find the way to his greatness, his totality and fullness,.... that is his own-ness, until he is seen and heard as a prototype of total man and, like Ghalib, presents himself as his own self evident witness.

برآور ہرچہ اندرسینہ دارِی   سرودۓ نالۂ آہۓ فغانے

Raised to the level of a corporate manager and CEO, such a man should not be a captive of *personality ethics* and the delusion of *narcissism;* rather he must be an embodiment of *character ethics*. Covey in his book: *The 7 Habits of Highly Effective People,* has made an incisive distinction between "personality ethics" and "character ethics". However, it will be a mistake to assume that the corporate man can function as a total man and live a harmonious life if he is trapped between opposing existential categories. Through painful process of self-education and "cultivation of himself with reverence", the corporate man must reach and keep the height of Kantian categorical imperative to “act in such a way that by his own will his action becomes a law universal”. He must elevate himself to the level of what Jean Paul Sartre, the French existentialist philosopher calls, the “particular universal”. It is almost an impossible task which his self - regard imposes upon him because of the predicament that he has to live in a society which is not morally constructed. As an existential *gestalt,* to be larger than his circumstances and greater than his predicament, the corporate man has to make a case for himself. The easiest, which is also the hardest, way to do so is for him to conclusively establish within the domain of his calling that a distinguished family steeped in the beautiful ethical and moral values, too gentle an education rooted in the edifying liberal, humanistic and cultural traditions and too nice a morality with imperatives which ennoble human personality are not, and should not be, an impediment or handicap in the bustling world of business. He has to establish by the sheer force of his character and a deep sense of corporate social responsibility that he is not an alienated elite or a displaced and dispossessed man living in a society which does not belong to him and to which he does not belong.

In order to treat the *corporate man as a total man,* it is, therefore, necessary to divest the distinction Covey has made between “personality” and “character” of its dichotomous nature. We need to realize that character forms and informs personality and makes it the concrete fullness of life. Personality is the shadow of *persona* -- a mask. Character is the vision of the *essence* of human existence; it is rooted in the secret depth and innermost recesses of an ontological structure. Character is the source and the origin of a transcendental and dynamic unity and the glorious irreducible without which a person will not be what he is capable of becoming.

A manager and an executive officer who is a captive of personality ethics is good but he is not great. He becomes great by rising to the level of a leader who is endowed with “humility and will” – a rare quality in the corporate culture. In his *Good To Great*, Jim Collins says that “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. They are more like Lincoln and Socrates than Patton or Caesar.”

When diverse strands converge upon a single point and need to be drawn into a unified whole in the interest of a comprehensive understanding, they make our task all the more demanding. Through our research and teaching, the goal we are seeking is a normative understanding of the Ontological structure of the corporate man as a total man, rather than a rarified and vacuous concept – the so called *specialist*. To pursue that goal our research methodology must dare to draw into a synthetic unity such seemingly disparate notions as:

1. Social Science research in the organizational, managerial, and administrative corporate behavior,

2. Psychological research in the field of moral reasoning to draw the dynamics of personality development and character ethics into the fold of moral attitude. Here, existential ethics can teach us as much as we are willing to learn and, therefore,

3. Our research and pedagogical proclivities will result in a comprehensive and a unified approach that will teach us that in the final analysis our research methodology will be determined by the path we take in search of our purported goal.

Besides, to accomplish this objective, the goal of our teaching and research will need to be broadened to absorb the creative will and transcendental vision of the teacher and a researcher since both of them, as journeying selves, are ever on the move according to similar motivations towards the yet-to-be and from could to great. It will also need to draw into its fold the discontent and the rage of moral passion to radically construct and reconstruct the existing corporate culture by divesting it of its fatal flaws. The corporate thinker, therefore, must assume the moral responsibility to dialectically engage in the act of demolition of the *idols of mind* and the *idols of the market place* (تراشیدم، پرستیدم، شکستیدم). His will must be the will to truth, i.e. the will that lets the truth prevail. Let the frenzy of creative will empower the iconoclastic attitude of the corporate executive to announce his cultural role (صورت نہ پرستم من، بتخانہ شکستم من). Besides, the corporate thinker needs to incorporate into his thinking the logic of moral reasoning dictated by the dictum that whereas "all reasoning is thinking, all thinking is not reasoning". Let the corporate executive armed with creative will and the logic of moral reasoning, also demolish within his mind and within the sphere of his influence the twin idols of *authority* and *power* he loves so immensely and fears most. Let his executive and administrative propensities reflect the beauty of Hazrat Ali's refrain that the character of a man speaks in and through the ways he exercises authority and power. Let the corporate thinker's proposed world-view shine through his vision of the world-to-be. As a research project, observations such as these must be drawn into the thematic structure of *A Critical Philosophy of Corporate World-View.*

Our research orientation and the quest for knowledge must therefore stress the importance of critical thinking and appreciation, multi-disciplinary and inter-departmental orientation. Such a pedagogical approach and research orientation must be considered a necessary component of the business education of a total man because the ability to use other's passion, insight and existential awareness for our own development and inspiration is the most valuable and enriching form of self-education. As such it is bound to have a deep bearing upon the existing and future profiles of our corporate culture and world-view; especially upon the use to which the knowledge so acquired can or will be put in the formation of managerial attitudes, executive skills and administrative acumen.

No matter what career they choose, most of our business students will spend their work lives in organizations and that is where they will experience for the first time the compelling force of decision making and the pristine simplicity of virtue. The most unsettling part of their encounter with the stubborn realities of the administrative and organizational culture will teach them the hardest lesson that in life nothing is settled if it is not settled right and in logic, as in ethics nothing deserves the description of being right unless it is predicated on the truth.

Our goal in teaching business ethics to our students should therefore be informed by what we know about how ethical decisions and moral judgments are made in organizations. Outside these organizations, and in a larger context, our students will experience moral distress which is an inevitable consequence of living in an immoral society. Ironically, the distress of their experience will be magnified many fold by the predicament of living a moral life based on ethical values of fairness, honesty, integrity and dignity resulting in their consciousness of how blatantly faulty and distressingly flawed our values are. We must remember that moral distress is an existential reality and, like religious distress, as Marx pointed out, it is *"an expression of real distress"*.

Moral reconstruction of corporate world-view requires that, any program of reform and reconstruction designed and implemented to rejuvenate corporate culture must, like Webster's definition of culture, stress and emphasize the act of developing desired traits with expert care and training. That is the role of liberal education. It must also be remember that dynamic, vital and "strong corporate cultures, like strong family cultures, come from within, and they are built by individual leaders, not consultants" or specialists; they result as a consequence of the passionate desire to create and aspire for excellence.

Creating excellence means living a life of creative discontent, which is the goal and the quest of all teaching and research (ہے جستجو کہ خوب سے ہے خوب تر کہاں). In search of this goal, let us join the *journeying selves*, the seekers of truth, the lovers of virtue, the teachers and the dreamers of what *ought to be*. They are the most beautiful people in the world. Those of us who belong to the business schools need not look very far into the *yet; to; be.* Let us first look inward, intently and long enough in order to situate oursalves, to know where we are coming from and where we are going to ask where in the world of academia, and more importantly in the corporate world, do we belong. At every stage of our progressive and incremental development, it is always necessary do embark on our journey with that knowldge to clearly understand how far we have come and in what direction we have yet to go. To approximate the goal of contemporaniety.

Now, let us say the things we otherwise would not like to say. but, let us first tentatively presents some working hypotheses which, after they have been refind will the given the defination of methodological devices to help us achive the goal we are seeking.

It may sound problematic to say that, in the domain of lived - knowledge it is not possible to lie without knowing the truth. In other words, we can lie only if we know the truth already. Therefore, in the realm of discour□se, irrespective of its nature, any question we ask to further and advance our knowledge must be such that the answer is tied to our consciousness of our ability to deny the correctness of the answer. That is the intriging part of the logic of discourse. For instance, in Hindu philosophy, to find out who you are, you ask what are you not. Then in the end, by the process of elimination, you are left with what you are. To borrow a methodological device from information technology, the idea is to create a negative data base about yourself. Thus, instead of containing information about who you are, the negative database would contain everything except that information. From phenomenological standpoint, the technique is similar to the method of naturalistic and phenomeno logical reductions, whereby we arrive at the pristine and essential cognition, i.e. the cognition of the attribute or the attributes without which you will not be who you are. Although, in its indubitable form, moral excellence, like culture, may be apparently easy to recognize, from purely logical point of view, sometimes it helps to consider what a concept is not rather than what it is. We achieve moral excellence when, like self-regulated and inner-directed men, we do, on our own accord, what we ought to be doing. Excellence as a cultural phenomena is achieved when in our lived-world we move from the "reality" of the *given world* to the "vision" of a *constructed world.*

In short, excellence is achieved when, by nature, we aspire for something we are capable of and *just a little more*. A little more here is the quotient that adds beauty, value and creative vitality to the will and imagination of man. Once again, we are waylaid by the concept of human nature to ask the question we seldom ask, i.e. *how natural is human nature?*

"It is evident", says David Hume in his *A Treatise of Human Nature*, "that all the sciences have a relation greater or less to human nature: and that however wide any of them may seem to run from it, they still return back by one passage or another". "Naturally", says Alexis Carrel in his *Man The Unknown*, "all these sciences arrive at a different conception of their common object. They abstract only from man what is attainable by their special methods and those abstractions after they have been added together, are still less rich than the concrete fact … Man, as known to the specialists, is far from being the concrete man, the real man". Unfortunately, the corporate man is, but he need not be, such an abstraction. Here, to our advantage of understanding the nature of corporate man, by employing the technique of negative database, we come to realize that man the concrete being, as we know him in his totality, is not just the man of bone and flesh, instincts and impulses; he is also a saint, a poet, a hero, a martyr.

Phenomenological conception of the real man, i.e. the total man, includes the tendencies, attitudes, conjectures, hopes and aspirations, symbolizing man's ability to attain to the fullness of his being able to become what he is capable of becoming. Corporate man, being a man, should not be an exception to this ontological possibility. Existentially conceived, the nature of the real man is imbued with ontological possibilities and, in the light of negative database, after all the abstractions of the scientists have been put together what emerges may, with justice, be called a *gestaltan* view of human nature. We, therefore, submit that, in all fairness, our research in the field of a *Corporate Philosophy of Human Nature,* must be based on a normative commitment to the human condition and its bearing upon corporate management, executive and administrative decision making. This will enable us to finally ask not only how natural is human nature but also how human is the nature of man. Equally importantly, it will help usto understand the concept of corporate culture with reference to the nature of decision and value in the corporate system.

That the corporate system suffers from congenital weaknesses and fatal flaws cannot be denied without betraying our own "bad faith". Insiders and men of great insight have sounded warnings against the impending dangers. They all have attributed the causes of the growing malaise to specialization and an alarming disregard for the ethical and moral concerns in the corporate management and business education. In his *The Folklore of Management*, Clarance B. Randall warns that "unless the danger is seen in time, galloping specialization can bring any company to the brink of chaos. The remedy? Top managers with the breadth of vision only a liberal education can provide." This brings us to an interesting anomaly which reveals the elements of strength and weakness of business education. William H. Whyte Jr., in his *The Organization Man*, has pointed out that:

> "Lately, leaders of U.S. business have been complaining that there are nowhere near enough "generalists". The average management man, they have been declaring, has been far too narrowly educated. One company, the Bell Telephone Company of Pennsylvania, feels so strongly on this it has been detaching some of its most promising middle-management men to the University of Pennsylvania for a year of special study in the humanity, but this, executives concede, is a stop gap measure: it is the kind of education a trainee should have gotten in the first place. Give us the well rounded man, business leaders are saying to the colleges, the man steeped in fundamentals; we will give him the specialized knowledge he needs."

Tufail A. Qureshi

ARTICLE

PAKISTAN'S GROWTH EXPERIENCE

1947-2007

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ABSTRACT

Pakistans growth experience over the past sixty years is both impressive and disappointing. It is impressive because rapid growth rate has resulted in a quadrupling of per capita incomes and reduction in poverty levels by one half despite fairly high population growth. Structural changes have transformed a predominantly agrarian economy to a more diversified production structure. Manufactures account for 80 percent of the country's exports. But there is a sense of disappointment too. Social indicators are among the worst in developing countries. Pakistan ranks 134th among 177 countries in Human Development Index. Income Inequalities, Rural Urban disparities and Gender differentials have worsened over time. Pakistan has lagged behind East Asian Countries and more recently India is so far as integration into the world economy is concerned. Global Competitiveness Report ranks Pakistan 92nd while India's rank is 48th.

This paper attempts to shed light on the determinants and sources of long term growth of Pakistan, the impact of growth on poverty and inequality and then offers some suggestions for sustaining the growth momentum in the future.

The paper is divided into five sections. Section-I present the growth accounting framework. Section-II documents Pakistan's long term growth record and empirical evidence on the determinants of growth in Pakistan. Section-III summarizes the various studies on the sources of growth in Pakistan in the growth accounting framework. Section-IV traces the relationship between Growth, Poverty and Inequality while Section-V discusses the lessons to be drawn from this review and the proposals for sustaining the growth momentum in the future.

SECTION – I

GROWTH ACCOUNTING FRAMEWORK

The output of an economy is a function of its endowments (labor, physical capital, human capital) and the productivity with which these endowments are deployed to produce a flow of goods and services (GDP). The growth of per-capita output can, in turn, be expressed in terms of three proximate determinants (a) physical capital deepening (b) human capital accumulation and (c) productivity growth.

The growth accounting framework provides the analytical basis for understanding the sources of growth in a country or cross section of countries. This framework allows for an explicit modeling of growth in terms of contributions from underlying factors input and growth effects related to pure technological progress (captured by the residual Total factor productivity (TFP)). The basic neoclassical production function is given by:

$$Y = F(A, K, L)$$

Where Y is real output; A is total factor productivity; K is the Capital stock and L is the size of the labour force. More recent attempts have tried to isolate human capital from pure labour and a modified production function of the following specification is estimated:

$$Y = F(A, K, H, L)$$

Where H is a measure of human capital. Applying an economy of scale Cobb-Douglas production function the TFP is derived in the following manner:

Where á = r_k K/Y is the share of capital in output (with r representing the remuneration of capital), = W_h H/Y is the share of human capital in output (with Wh representing the remuneration of skilled labour) and (1-á-) measures the share of labour in output. In this production function, capital, human capital and labour are observable from data while TFP is TFP is derived as:

Where a_t is the growth rate of TFP, k_t is the growth rate of capital h_t is the growth rate of human capital and l_t is the growth rate of labor.

TFP is the residual and captures components of real GDP growth that are left unexplained by three factor inputs – capital, labour and human capital growth. It provides a measure of economic efficiency i.e the quantity of output that can be produced with a given quantity of inputs. In addition to technological progress, TFP also reflects, for example, political stability, economic policies or institutional changes which affect the efficiency of an economy.

All economic policies could potentially affect the level of TFP and its growth. This is explicitly recognized in the Endogenous Growth theory where the rate of productivity growth is not only endogenous but is in general not constant over time. In Solow model this rate is constant and exogenous.

DETERMINANTS OF GROWTH

Economic growth theory and empirical studies have by now provided some useful insights into the processes through which countries are able to achieve high growth. Rapid growth, in turn, is necessary condition for poverty reduction and improvement in the living standards. What is the empirical evidence on the determinants of growth for developing countries in the last five decades or so? Although many studies differ in their conclusions there is some broad consensus on the main variables that affect the rate of growth of GDP and also on the estimates of contribution of inputs and productivity growth in various region.

The main determinants of economic growth that have found empirical validity over a large number of countries over a sufficiently long period have been found to be initial conditions, investment in physical capital, human capital and labor quality, macroeconomic policy, quality of institutions and governance and external environment facing a country. Raising investment has the biggest impact on growth. Strong correlation is also found between growth and sound economic policies and the quality of governance institutions. Higher levels of educational attainment and better health indicators are also associated with higher real per capita growth rates. A World Bank study (2006) has concluded that what has been common to all successes is that four functions have been fulfilled: rapid accumulation of capital, efficiency of resource allocation, technological progress and sharing the benefits of growth. Countries that have been able to sustain growth over time have been able to progress along all four fronts.

Senhadji (2000) estimates production functions for a sample of 88 countries for the period 1960-94 using the data on levels of outputs and inputs and also using first differences. He found that most of East Asia's growth on the level-based estimates came from physical capital accumulation. But if first difference based estimates are used productivity growth as well as high levels of investment explain East Asia's growth over the same period. Africa and Latin America had negative growth of TFP South Asian TFP growth was also positive and significant.

Beaugrant lists seven key steps to promote entrepreneurship and growth. These include (a) a credible political system that ensures legitimacy and continuity (b) governance and the rule of law: enforce property rights, promote accountability, maintain law and order, weed out corruption and set up a credible judiciary system (c) mobilize support for economic and social reforms (d) economic incentives: adopt sound economic policies including hard budget constraints, allowing competition, while creating a level playing field (c) basic infrastructure: ensure the provision of basic public services such as power, roads & highways, dams, ports, canals (f) access to capital: develop an efficient financial intermediation system, mobilize external savings and (g) education: build up human capital, raise literacy and gain access to up-to-date knowledge.

Hausmann et al (2004) find that a country has one-in-life chance to experience a growth acceleration sometime during a decade, with an acceleration defined as real per capita growth of 2 percent or more lasting for at least 8 years. They also find that growth accelerations tend to be correlated with increase in investment and trade, with real exchange rate depreciations and with political regime changes. But it was also found that not all accelerations are sustained. External shocks, for example, tend to produce growth accelerations that fizzle out, but economic reform is a significant predictor of accelerations that are sustained.

Rodrik (2003) finds that it often takes only small reform steps to stimulate. But it requires continued institutional reforms to sustain growth by improving resilience to shocks and maintaining productive dynamism. He emphasizes that there are a few first-order economic principles that need to be adhered to-protection of property rights, market-based competition, appropriate incentives and sound money-to maintain strong growth. These principles can translate into very different policy packages for individual countries. Reformers have substantial room for creatively packaging these principles into institutional designs that are sensitive to local opportunities and constraints.

SECTION – II

PAKISTAN'S GROWTH RECORD

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Pakistan's overall growth record (Table-I) has been quite impressive; on average, the economy grew at an average annual rate of slightly above 5 percent during the last six decades. In per-capita terms the growth rate was 2.5 percent annually (Table-II). The trends in sectoral GDP growth rates are presented in Table-III which shows that industry including manufacturing sector has been the most dynamic sector of the economy.

In the regional context, Pakistan grew faster than South Asia by an average 2 percent through most of the 1960s and 1970s and at similar rates during the 1980s. However, since 1993 Pakistan's growth was below the regional average.

In the first 20 years after independence in 1947, Pakistan had the highest growth rate in South Asia. According to the World Bank (2002) Pakistan exported more manufactures than Indonesia, Malaysia, Philippines, Thailand and Turkey combined in 1965. By the 1990s Pakistan, however, become the slowest growing country in South Asia, an exact reversal of its previous role. The incidence of poverty, which declined from 46 percent in the mid-1960s to 18 percent in the late 1980s rose to 34 percent by the late 1990s. How did this happen? What are the factors responsible for this reversal?

The main explanatory factor for this reversal is the paradigm shift in the basic model of development brought about by Mr. Z.A Bhutto soon after assuming power in 1971. His regime nationalized all the major manufacturing industries, banking, insurance, education etc. and caused a major disruption to economy and an erosion of private investor confidence that persisted for the next 20 years. This experiment with socialism had a negative impact on industrial development, export expansion, the quality of education and gave an overarching role to the bureaucracy in economic decision making. The substitution of a culture of entrepreneurship, risk taking and innovation by rent seeking and patronage suppressed the private sector dynamism. The emergence of bureaucrats as business leaders reinforced the new culture. Bureaucratic harassment, problems of law and order, unreliable and expensive power and inadequate infrastructure also discouraged investment and help explain why the private sector was reluctant to make long-term commitments. The disintegration of the unified economy of East and West Pakistan and the resultant formation of Bangladesh as an independent country served from Pakistan also caused tremors in this period.

The opportunity to undo most of the damage done by nationalization was missed by the Zia-ul-Haq regime (1977-88). Instead of taking proactive measures to reverse the state-owned and dominated economy the regime maintained status – quo. Although the path pursued by their immediate predecessor was not followed and the process of nationalization was abondoned the preferential orientation towards public sector did not diminish in any perceptible way. The economic performance was impressive in this period not due to any fundamental policy or institutional reforms. The regime benefited from the output that came on stream from large public sector investments made in the 1970s, the most significant among them were the Tarbela Dam that added considerably to irrigation water availability and hydel power capacity, the fertilizer and cement factories. Macroeconomic imbalances in form of large fiscal and current account deficits of the 1980s had repercussions on the economy in the subsequent period in form of increased debt burden. Real Defence spending increased on average by 9 percent per annum during this period while development spending rose 3 percent per annum. Defence spending averaged 6.5 percent of GDP in this decade and contributed to large fiscal deficits and a rapid build up of public debt. The neglect of development spending was one of the contributory factors to slow growth in the 1990s.

Pakistan underperformed other countries with similar per capita income in just about all of the social indicators – a phenomenon called the ‘social gap’. The discrepancies are especially large for women i.e a ‘gender gap’ reinforced the social gap. These twin gaps stunted the growth rate since no country can hope to make much progress in a globalized world economy without an educated and healthy work force.

Although the Nawaz Sharif Government introduced major economic liberalization reforms in 1991 both private investment and exports tended to stagnate or decline through the 1990s. Macroeconomic sustainability was a serious problem. Financial sector was dominated by inefficient state-owned banks and access to capital was limited. The policy environment in relation to rules, taxes and import tariffs was unstable and arbitrary use of Statutory Regulatory Orders (SROs) affected the level playing field needed for investors to compete based on business fundamentals rather than their ability to secure special deals.

The inter-decade differences in economic performance halted the secular rise of the growth rate. The 1960s, 1980s and 2000s witnessed robust economic growth with average annual rates exceeding 6 percent while the 1950s, 1970s and 1990s were marked by a decline in the trend growth rate to 4 percent.

The 1950s were the initial years of formation of Pakistan in which the problems arising from the aftermath of the partition and the setting up of a new nation-state preoccupied the decision makers. The disintegration of the sub-continent's economy and inheritance of poor human and financial resource endowments proved stumbling blacks in laying solid foundation of the economy in this period. A crisis mode prevailed throughout the decade.

After near-stagnation of agriculture in the 1950s, the 'Green Revolution' technology was introduced during the 1960s on a large scale. Industrial production was stimulated by import-substitution policies, encouraging private investment in this sector. The physical capital stock growth rate was 13.1 percent per year and levels of schooling improved significantly due to advances in basic education that resulted in an average human capital stock growth of 11.6 percent per year.

As discussed earlier the decade of 1970s saw the break-up of the country after a civil war, the nationalization of industries, finance and education, flooding, a sharp hike in petroleum prices and recession in world market. The stifling of private initiative and entrepreneurship and the control over all key decision variables by the Government were a major set back to the economy causing huge uncertainty and loss of investor confidence.

The lost growth momentum was partly recovered in the 1980s by a shift from the policies of state ownership and control and by reaping the benefits of large investments made by the public sector in the 1970s. Although macroeconomic management was not the best the external flows such as workers remittances and increased foreign assistance boosted economic growth rates. The structural problems faced by the economy were left untouched by the policy makers. Fiscal imbalances were not addressed causing problems for economic management subsequently.

Economic growth decelerated again in the 1990s with average trend GDP growth of 4.4 percent per year and stagnant TFP. Political instability, frequent changes in government, weak governance, poor macroeconomic management and unfavorable external environment were more dominant than the favorable impact of economic policies of deregulation, liberalization and privatization introduced in 1991. These reforms and policies were pursued haltingly and sporadically.

The with-drawl of US aid after the end of the Afghan war and the nuclear imposition of sanctions by the western governments following the nuclear tests in 1998 accentuated the difficulties. The freezing of the foreign currency accounts of Pakistani residents and non-residents eroded investor confidence. The turnaround in the economy since 2000 did put Pakistan on a higher growth path but it is important to understand this phenomenon with reference to earlier episodes of growth acceleration.

Since 1960, Pakistan has experienced two earlier sustained growth accelerations with per capita real growth rates consistently exceeding 2 percent per year, one that started in 1961 and one in 1977 and lasting 10 and 12 years respectively. In both periods, growth resulted from an increase in capital inputs as well as an increase in TFP.

The two growth accelerations were preceded by or coincided with – a significant increase in the investment ratio. In the early 1960s, the investment ratio rose from just over 12 percent of GDP in 1960 to 22.5 percent in 1964. By 1971, when this ten year period of strong growth ended, the investment ratio had declined again to about 14 percent of GDP. Similarly, the investment ratio rose sharply to 19 percent of GDP in the two years preceding the 1977 growth acceleration. This second period ended in 1992, however, following a dip in 1993, growth was fairly strong again in 1994-96. Starting in 1993, the investment ratio started to decline, falling back again by 14 percent by 1998.

The recent growth acceleration has also been accompanied by a similar increase in the investment ratio from 15.5 percent of GDP in 2001-02 to 20 percent in 2005-06. The recent growth acceleration has come largely from an increase in TFP. The contribution of TFP to growth in the last few years is similar or even somewhat higher than in the earlier growth periods. To some extent, this may reflect the growing contribution of the services sector to growth which is likely to require less investment compared to manufacturing. It may also reflect that following the slump of the late 1990s there was considerable excess capacity in the economy and therefore less of a need for new investments to generate growth. The increase in capital utilization translates into higher productivity per unit of capital and is reflected in the higher-than-average contribution of TFP to growth. But with many sectors approaching full capacity, sustaining growth in the coming years would require an increase in the investment ratio as without new investment it might be difficult to continue to improve productivity at the same pace as in these last few years.

In the recent years, improved rainfall has been a significant contributor to the recent growth acceleration. The contribution of agriculture to the overall growth rate in 2000/01 – 2004/05 improved by almost 2 ½ percentage points compared to a similar increase in the contribution of the services sector and an increase in the contribution of the industrial sector of 1 ½ percentage points.

An IMF study (2005) of Pakistani economy for 1960-2004 confirms the importance of investment and rainfall as key determinants of growth in Pakistan. Macroeconomic stability also appears to be a pre-condition for growth. Periods of sustained growth appear to have been preceded by a reduction in inflation from relatively high level. Prior to the 1977 growth spurt, inflation was reduced to 7 percent, down from a peak of almost 27 percent in 1974. Similarly, inflation was reduced to 4 percent in 1999 following a peak of about 12 percent in 1994-95. Inflation averaged 3.5 percent during the growth spurt of the 1960s, 7 ½ percent during the one starting in 1977 and 5 percent during 2003-04. By comparison, inflation averaged 15 percent during 1971-76 and 10 ½ percent during 1991-98.

A World Bank study (2006) on growth determinants of Pakistan reports that economic growth increases with improvements in education, financial depth, trade openness, and public infrastructure. It decreases when governments impose excessive burdens on the private sector. Economic growth decreases when governments do no carry out policies conducive to macroeconomic stability. An increase in the inflation rate, the volatility of the output gap, real exchange rate over valuation or probability of financial crises all lead to a significant reduction in economic growth. The deterioration of world growth conditions between the 1970s and 1980s led to a decrease in a country's growth rate of about 1.5 percentage points.

Comparing the changes in average per-capita GDP growth between the first year of the current decade (2001-05) and the previous decade (1991-2000) the regression model estimated that the increase in growth was due to a mild improvement in stabilization policies and most importantly to structural reforms and cyclical reversion. Within the group of structural reforms, the strongest contributions came from the improvement in public infrastructure, the reduction of the government burden and the expansion of trade openness with some progress in financial depth. In the category of stabilization policies, there was marginal improvement in lowering macroeconomic volatility and real exchange rate overvaluation.

Muslehuddin (2007) in his study of the period 1983/84 to 1987/88 and 2002/03 to 2005/06 during which the economy exhibited strong growth averaging about 7 percent finds that the striking similaries between the two growth experiences in these two periods were driven by an improved policy stance and a favorable external environment. However, growth in the current period differs from the eighties in that present growth took place due to better macroeconomic fundamentals, structural reforms, institutions and governance and private sector dynamism.

	1983-84 to 1986-87	2002-03 to 2005-06
Policy consistency	Yes	Yes
Favorable External Environment	Yes	Yes
Sound Macroeconomic fundamentals	No	Yes
Adequate Savings	No	No
Strong Human Capital base	No	No
High Productivity	Yes	No
Structural Reforms	No	Yes
Private Sector dynamism	No	Somewhat
Strong Institutions	No	Somewhat
Good governance	No	Somewhat

Source: Din, M (2007)

SECTION – III

SOURCES OF GROWTH IN PAKISTAN.

Before the empirical studies on the sources of growth in Pakistan are discussed a question that needs to be addressed is; What drives changes in total factor productivity? A number of studies have found that FDI can contribute to TFP growth by facilitating technology transfer as well as better managerial and production practices in domestic firms. Higher trade openness may benefit TFP growth through efficiency gains from specialization, by enlarging the interaction with modern economies and raising the scope for learning-by-doing. Higher educational attainment could have an impact on TFP by improving the organization and internal management of enterprises and incorporating the latest techniques and tools of production.

Several studies have been carried out on sources of growth including total factor productivity in Pakistan in the recent years. Almost all these studies show that TFP growth was associated with high GDP growth rates. The decades of 1960s, 1980s and 2000s had relatively high TFP growth rates compared with the 1970s and 1990s. The former were characterized by above average growth rates of GDP. Kemal, Muslehuddin and Qadir (2002) carried out an analysis for the entire period 1964/65 – 2000/01 and also for each decade separately. Their findings presented in Table-IV show that almost one-third of the growth in GDP can be accounted for by increases in productivity. This is one of the reasons that despite lower investment rates Pakistan's growth has been above average that of developing countries.

The IMF study (2005) covered the period 1960-2004 and also each of the decades of 1960s, 1970s, 1980s, 1990s and the four years of 2000s separately. This study (Table-V) also confirms that TFP growth has contributed almost one third to the growth of GDP. This contribution was more pronounced in the 1960s and 1980s relative to the 1970s and 1990s. The IMF study further isolated the impact of rainfall from TFP and inputs and found that good rainfall enhanced the contribution of TFP.

A World Bank study (2006) concluded that since the early 1960s, TFP has been an important contributing factor in Pakistan's overall economic growth. The macro-level quantitative analysis indicates that TFP growth explains over 20 percent of the long-term GDP growth rate with the rest attributable to capital accumulation and labor force expansion. The results also indicate that TFP growth itself has been particularly strong in sub-periods where both microeconomic and macroeconomic dimensions of business environment have improved and political instability diminished. The study found that TFP growth was particularly strong in the 1980s explaining 38 percent of the GDP growth rate; after a fall in the 1990s it has rebounded in the current decade, accounting for nearly 23 percent of growth between 2001-2005.

Research carried out by Qazi Masood Ahmed and Kalim Bukhari at Social Policy and Development Center (SPDC) (2007) came to similar conclusions. Their results show that the contribution of TFP in achieving high growth varies from 5.6 percent in 1973-77 to 67.6 percent during 2003-06. During this most recent period the economic growth was mainly driven by the enhancement of TFP and the lower growth during the 1970s and the 1990s was mainly due to a massive decline in TFP whereas the high economic growth during the 1980s was to an extent equally contributed by inputs availability and TFP.

A study focusing on manufacturing sector (Table-VII) also points in the same direction. Growth of value added in manufacturing varied with the growth in sectoral TFP. In the decades with higher growth of manufacturing the contribution of TFP was quite significant and vice-versa.

Table-VI compares the TFP growth rates of Pakistan with several developing countries. Except Thailand, Pakistan has done remarkably well.

Srinivasan (2005) rightly points out that all TFP growth estimates without exception are highly sensitive to the data used and above all to the methodology of estimation. For example, different authors use different real GDP growth data-some using constant domestic price based values and others who use purchasing power parity based data. Also strong maintained assumptions are made in the empirical analysis about production functions and the statistical properties of the disturbance terms that are essential components of the model used for estimation.

Errors of measurement can also lead to substantial errors in the estimated residual. The informal sector economic activity that is quite significant has not been fully accounted for and can cause measurement error. Similarly, the improvement in the quality of labor force over time is not captured in the labor input measure.

SECTION – IV

GROWTH, POVERTY AND INEQUALITY

How has growth affected incidence of poverty in Pakistan? The earliest published data on poverty incidence available pertains to 1963 /64 and therefore it is difficult to estimate as to what proportion of population was living below poverty line at the time of independence. As the provinces constituting Pakistan were relatively backward compared to provinces inherited India and a large migration of refugees facing dire economic conditions took place in the early years of its formation it may be safe to guess-estimate that 50-60 percent of the population was living below poverty in 1950. The most recent survey carried out in 2004 /05 indicates that this proportion has halved to 24 percent although the absolute number of the poor today exceeds the entire population of the country in 1947.

Table-VIII shows that income poverty levels in Pakistan have fluctuated widely. Although poverty declined from 40 percent in 1963 /64 to 17 percent in 1987 /88 it rose both in the decades of 1960s and 1990s. In the decade of 2000s there is once again a downward movement. The data limitations and the weaknesses of estimation methods for the 1960s have made it difficult to repose confidence in the intra-decade results which may be not strictly comparable. For example, a consistent time series constructed by Ali and Tahir (1999) on household count index rather than head count index contradicts the trend of increasing poverty for the 1960s and shows an unchanged level of poverty.

The results presented in this table should be taken with some caution. A consistent time series of changes in poverty measures for Pakistan is difficult to construct as there has been a major restructuring of Household and Income Expenditure Surveys (HIES) questionnaires sample sizes, and sampling methodologies. The surveys prior to the 1990s and the estimates derived from these surveys are not directly comparable.

While poverty levels may have declined the social indicators have not kept pace with income growth. Pakistan ranks 134th in Human Development Index among a group of 177 countries and the value of index is 0.539 – slightly above the Low Human Development Index cut off point. Almost one half of the population is illiterate and only one – third of female population is literate. More than one half of the population does not have access to decent health facilities. Infant mortality rate of 80 per thousand is still very high. The health status of women and children is particularly low. Female labour force participation rates are lowest among with South Asian countries. Table-IX shows the changes in Human Development Indicators between 1960 and 2004. The progress has clearly faltered in comparison to countries with similar per-capita incomes and growth rates. An above average growth in GDP and per-capita incomes was achieved with below average improvement in human development indicators.

Rapid growth has been found to be associated with poverty reduction in cross-sectional empirical studies of large samples of developing countries. The evidence in Pakistan for the 1980s and 2000s does corroborate this finding as high growth rates of over 6 percent in this period had resulted in decline in incidence poverty. What is surprising, however, is that the data shows a decline in poverty in 1970s when annual growth rate was 4.8 percent i.e. below the trend. In this period income inequality as measured by Gini co-efficient also increased. Considering the Growth-equity decomposition equation it seems odd that poverty is declining when both components – growth rates and income distribution are worsening. It may be argued that pro-poor policies pursued by the Bhutto Government in 1970s may have created conditions whereby the benefits of growth had reached the poor. Some of these who were previously marginalized- small farmers, small enterprises, labour – may have improved their incomes disproportionately to lift themselves out of poverty. Public policies of redistribution may have been successful in short term although it may have caused adverse impact on economic incentive structure in the long term.

Whereas the empirical evidence about the relationship between rapid growth and poverty reduction is quite clear the same cannot be said about growth and income distribution. A recent IMF study (2007) documents the rise in income inequality in most countries over the past two decades of fairly robust growth. The analysis found that technological progress has had a greater impact than globalization on inequality within countries. Whereas trade globalization is associated with a reduction in inequality, financial globalization and foreign direct investment in particular are associated with an increase in inequality.

The long-term trends of economic growth, poverty and inequality for Pakistan are presented in Table-X The picture is highly ambiguous as income inequality has declined and increased during periods of high growth. There is however a consistent pattern that shows income inequality does increase when the growth rates are low. Rural – urban income disparities have also risen in the 2000s a period of high growth. In the early 1990s the difference in poverty level between urban and rural areas was 8 percentage points which has widened to 13 percentage points by 2004/05 (Graph-II). Despite remarkable reduction in poverty – almost 10 percentage points in a relatively short period of time there has been an increase in income inequality as well as urban-rural disparities. Pakistan has the lowest rate of female participation in economic activity among South Asia Countries.

SECTION – V

LESSONS FROM PAKISTAN'S EXPERIENCE

There are several lessons that can be drawn from this review of Pakistan's long term growth experience. These are:

First, high growth rates are associated with high growth in TFP and therefore explain the paradox of relatively low investment ratios and high GDP growth rates. The observed low aggregate Incremental Capital output ratios reflect this high productivity effect.

Second, Pakistan's per capita income would have been much higher if the country had made adequate investment in human capital – education, literacy, health, population planning etc. The low female participation rates in labor force have also inhibited the full exploitation of the existing human capital.

Third, the episodes of high growth rates in Pakistan are also the periods during which the incidence of poverty declines while it resurfaces when the economy is growing below the trend line. Public policies can alter the pattern of growth to pre-poor.

Fourth, the income inequalities and urban-rural disparities have widened in Pakistan despite solid economic performance. A better income distribution can promote social cohesion and regional balance.

SUSTAINING THE GROWTH MOMENTUM

Pakistan is still a low income country and it would require at least next 14 years of 5 percent average annual per-capita income growth to double it to around $ 2000 (official exchange rate conversion). This growth rate should also be able to reduce the incidence of poverty by half and meet the Millennium Development Goal. How can this growth rate be achieved on a sustained basis in a non- inflationary way? Inflation hurts the poor more than other income groups and thus the pattern of growth matters. The main preconditions for sustaining growth momentum in the future are:

(a) favorable global economic conditions
(b) successful integration of Pakistan into the global economy
(c) Pursuit of sound, credible and consistent economic policies
(d) strong institutional delivery and governance framework
(e) investment in physical infrastructure and human development and
(f) Continued political stability and peaceful security conditions.

Pakistan has made a lot of strides in turning around its economy since the beginning of this decade. The reforms initiated since 2000 had put Pakistan back on its historic growth trajectory, revived investors' confidence and developed resilience to face exogenous shocks. While Pakistan did well but other countries did even better. Thus the catch up process for Pakistan is becoming tougher every day. The latest example is that of Viet Nam which has overtaken Pakistan in the race towards integration into the global economy.

Structural reforms in the areas of financial sector, tariff and tax administration, privatization of state-owned enterprises, creation of an enabling environment for private sector, liberalization of foreign exchange and foreign direct investment, market orientation and openness to the global economy have brought about at least 2 percentage point increase in total factor productivity. If this hypothesis is found to be empirically valid then the output potential of Pakistan's economy should have risen from 5 to 7 percent annual growth. The cyclical fluctuations around this mean would either result in lower or higher actual outcomes depending on the agriculture production variability, external economic environment such as prices of oil and commodities or demand for Pakistani products, macroeconomic stability etc. It would therefore be fair to surmise that the growth rates should range between 6 to 8% annually in the next decade if Pakistan gets back to its growth trajectory sooner than later and all other things remained constant. Let us analyze the preconditions for future growth in Pakistan.

First, how far the global economic conditions would remain favorable for Pakistan? The global economy despite the recent financial turbulence in the US mortgage market remains buoyant at present and has never had such sustained high growth. Of course, the US is the main driver of the world economy but the relative share of emerging countries particularly China and India is on incline. The decoupling of the emerging economies from the US has not yet been fully tested and proven and therefore the risks to the global economy cannot be ignored. Most analysts, however, believe in soft landing and continuation of a benign environment from which emerging countries can derive benefits.

Second, the speed at which Pakistan successfully integrates into the global goods, services, financial and labor markets will determine the extent of benefits to the external sector. For the last two years exports have been stagnating showing a declining share in the buoyant world market. Diversification of exports in composition as well as markets is badly needed to capture the lost market share. Attention to labour productivity, efficiency within the firm and plant, aggressive marketing and research and development should replace the traditional mode of the private firms looking to the Government for concessions and subsidies. The business as usual, would be highly detrimental to inculcating private sector dynamism and innovation.

Third, the policy makers in Pakistan should steadfastly persevere in pursuing sound, credible and consistent economic policies. Fragmented, parochial and turf protecting decision making should give way to a more collegial and collaborative process. Fiscal Responsibility Law would certainly act as a safeguard against excessive borrowing but there are many other policy lapses or delayed responses which can do harm. For example, extra-budgetary and contingent liabilities of public sector corporations can create fiscal stress and should be carefully managed.

Fourth, the intermediation between good policies and their impact on the lives of the majority of citizens takes place through strong institutions and well functioning governance structure. Devolution of powers to local governments has been one of the significant hall marks of the recent times in Pakistan but the lingering reluctance to part with powers by the Provincial Governments, the absence of supporting infrastructure, lack of capacity building at lower levels, clogging of systems and outdated procedures are some of the constraints that have not made this tier of government effective so far. Civil Services have to be strengthened and made more responsive to meet the needs of the common man and carry out the basic functions of the State impartially, transparently and efficiently. Accountability for results has to be built in the system rather than extraneously enforced. Most of our key institutions have lost their way and have to be brought back to their original track.

Fifth, supply of critical infrastructural facilities such as power, natural gas, pipelines and storages, roads and railways, urban mass transit, water supply and sewerage, ports and civil aviation have not kept pace with the growing demands of the industry, commerce and general public. Government, despite increased development expenditure outlays, would not be able to meet this demand in any meaningful way. Public-private partnerships in both capital investment as well as operations and maintenance would have to be put in place.

The way the skills, technology and innovation are changing the competitive advantages of nations Pakistan would have to redouble its efforts in the fields of education, skill up-gradation, science and technology. Raising the average years of schooling received by Pakistan's population of 15 years and older from 3.5 years to 5-5.5 years i.e to the levels of countries such as Thailand or Venezuela would result in real per-capita growth rate by ½ percentage points per year. Investing in human capital through better education and health care also benefits the poor directly by improving their current living conditions. Although a beginning has been made in higher education the state of scientific research organizations in the country is simply pathetic. The whole governance and incentive structure of these organizations needs to be revamped to bring them at par with at least China and India.

The pace at which Gwadar Port can be made fully operational and linked with the transport network of Central Asia Republics and Western China will determine the accrual of additional economic gains to Pakistan in the coming decade. The sooner this network becomes effective and the National Transport Corridor network is completed the economy should be able to extract benefits of at least another half to one percentage point of GDP. The on-going public and private investment projects such as construction of new dams and reservoirs, rehabilitation of canals, barrages and lining of water courses, new power generation plants, Iran – Pakistan gas pipeline, Liquefied Natural Gas, oil refinery at Khalifa point, extensive road network in Balochistan, new science and engineering universities, up-gradation of the quality of technical and vocational education, mass transit systems in Karachi and Lahore, and other projects if completed on time would give a big boost to the economy overcoming some of the supply-demand gaps.

Sixth, the continuation of political stability and a predictable, orderly and constitutional transition of power from one regime to the other would add a lot of strength to Pakistan's economic prospects. The risks associated with an uncertain political transition process would be mitigated if different political parties take over the reigns of the government at predetermined regular intervals of time through fair and transparent electoral process. Fortunately, the thrust of economic policies of all leading political parties in the country is much the same but this positive aspect has been lost in the loud noise of political bickerings, venomous rivalries and unwarranted accusations against each other. The links between political stability, economic growth and social cohesion are mutually reinforcing and need to be further nurtured and developed in Pakistan. The lessons of the 1990s should clearly teach us that the gains achieved so far can be reversed if we do not manage our political governance with tolerance, a healthy respect for dissent and differences of opinion, and reliance on institutions rather than personalities.

Pakistan is facing serious problems of internal and external security. Law and Order situation has worsened in some parts of the country more than others. A reversion to normalcy in the security conditions of the country would reassure the investor community and help the mobility of factors of production. Foreign buyers and technical personnel are reluctant to visit Pakistan at present. Improved security would allow their free movement in and out of the country.

Raising investment in physical capital particularly water and power management, better education and health care and improvements in institutional quality will have the largest pay off in terms of increased growth and reduced poverty. An increase in Pakistan's investment ratio by 5-6 percentage points could result in an increase in the country's annual real per-capita GDP growth of about 1 percentage point. The pace of economic growth can be raised by ½ percentage point further by improving the score of institutional quality by 1 point. Pakistan not only has to raise its investment rate but the quality of its institutions as well as health and education indicators to levels achieved by Malaysia, Thailand and Singapore if it wants to emulate the stellar growth performance achieved by these countries. To achieve the higher investment rate, tax revenue yield has to be raised to provide the fiscal space needed for social and infrastructure spending while reducing the debt to GDP ratio. Pakistan has a low revenue – GDP ratio compared to countries in the same per-capita GDP range. Base broadening and better taxation of agriculture and service income could yield more than 2 to 3 percent of GDP increase in revenues.

What are the downside risks and upside gains of the above scenario? The planners and policy makers should keep in mind that growth and integration in the world economy will create painful transitions, dislocations of the existing structures, losses of jobs and increased pressures on urban centres through migration. There will be many losers who will resist implementation of some of these essential preconditions. If the policy makers give into these pressures the outcome will be disastrous.

In some intervening years, natural or manmade disasters may further exacerbate the situation and lower growth hurting the poor and vulnerable. On the other hand, peace and normalization of relations with the neighboring countries may provide some additional economic dividends. If this happens the spill over effects from the two neighboring giant economies – China and India – will have positive impact on Pakistan. Free trade agreements with China and SAARC countries could boost our domestic economy as well as our international trade. Pakistani firms will then be able to fit into the global supply chain of Chinese industry. However, continuation of tensions and sporadic or intermittent episodes of war or war like situations may strike a serious blow to this benign scenario and slow down the pace of economic growth and poverty reduction.

The future economic prospects of Pakistan look promising but their actual realization would depend upon a number of critical factors such as benign global economy, successful integration of Pakistan into the global economy, sound macroeconomic policies, strong institutional and governance framework, investment in infrastructure and human development and political stability. Under a constellation of these favorable conditions, it should be possible to add 2 to 5.5 percentage points to the current trend growth rate of 6.5-7 percent and for per-capita income to double to $ 2000 by 2020 and to reduce the incidence of poverty by half by 2015.

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TABLE – I
GDP GROWTH RATES

	GDP growth rates	Change in Per Capita Income (US$)
1950-51 to 1959-60	3.5%	
1960-61 to 1970-71	6.1%	$ 91 to $ 175
1971-72 to 1979-77	4.2%	$ 175 to $ 213
1977-78 to 1987-88	6.6%	$ 213 to $ 395
1988-89 to 1998-99	4.4%	$ 395 to $ 453
2001-02 to 2006-07	6.1%	$ 563 to $ 925

TABLE – II
PER CAPITA GROWTH RATES

1960s	3.6
1970s	1.5
1980s	3.0
1990s	1.9
2000-2007	4.0

TABLE – III
TRENDS IN GDP GROWTH RATES

	GDP	Agriculture	Industry	Manufacturing	Services
1950s	3.5	1.7	8.2	7.7	3.1
1960s	6.8	5.1	10.9	9.9	6.7
1970s	4.8	2.4	6.1	5.5	6.3
1980s	6.5	5.4	7.6	8.2	6.7
1990s	4.6	4.4	4.3	4.8	4.6
2000-06	5.4	2.2	7.4	9.3	5.9
1950-2006	5.2	3.7	7.3	7.4	4.9

TABLE – IV
TRENDS IN TFP
1964-65 to 2000-01

	Growth rates	Contribution of Capital	Contribution of Labor	TFP	1960s	1970s	1980s	1990s
Overall GDP	5.31	2.48	1.17	1.66	3.4	0.8	2.5	0.8
Agriculture	3.89	2.70	0.82	0.37	4.0	2.0	Neg.	1.5
Manufacturing	6.39	2.23	0.94	3.21	4.3	2.0	5.4	1.6
Contribution to								
Aggregate growth	46.6	22.1	31.3					
Agriculture growth	69.3	21.1	9.6					
Manufacturing growth	35.0	14.8	50.3					

Source: Kemal, Muslehuddin and Qadir (2002)

TABLE – V
PAKISTAN: GROWTH ACCOUNTING

	60-04	60.69	70-79	80-89	90-99	00-04
Real GDP growth	5.4	6.31	4.9	6.3	4.4	4.5
Capital	1.9	2.1	1.8	1.9	1.9	1.6
Labour	1.8	1.6	2.0	1.8	1.7	2.0
TFP	1.7	2.6	1.1	2.6	0.8	0.8
Labour	1.7	1.5	1.9	1.6	1.6	1.9
TFP	1.6	2.9	0.9	2.5	0.7	0.6
Rainfall	0.2	0.1	0.4	0.2	0.2	0.4

Source: IMF (2005)

TABLE – VI

INTERNATIONAL TFP COMPARISONS	
Pakistan	1.70
Bangladesh	0.33
Srilanka	1.25
Indonesia	0.80
Malaysia	0.90
Philippine	0.40
Thailand	1.80
Korea	1.50

Source: Collins & Bosworth

TABLE - VII
TRENDS IN TFP IN MANUFACTURING

	GROWTH RATES			
	VALUE ADDED	K	L	TFP
1964/65 to 2000/01	6.4	2.2	0.9	3.2
1964/65 to 1969/70	9.0	3.0	1.8	4.3
1970/71 to 1979/80	5.5	2.0	1.4	2.0
1980/81 to 1989/90	8.1	2.1	0.6	5.4
1990/91 to 2000/01	4.0	2.1	0.2	1.6

TABLE – VIII
GROWTH AND POVERTY

	63/64-69/70	71/72-76/77	76/77-87/88	87/88-92/93	92/93-98/99	98/99-01/02	01/02-04/05
Growth rate of GDP	7.16	4.83	6.66	4.82	4.22	3.16	
Growth rate of Labour Force	1.67	3.49	2.54	1.85	3.61	2.48	
Growth rate of employment	1.49	3.37	2.49	1.52	3.40	1.61	
Changes in Poverty level	46.53	30.68	17.32	22.40	32.6	32.1	24.

Source: Kemal et al (2002)

TABLE – IX
TRENDS IN HUMAN DEVELOPMENT

	1960	2004
Human Development Index	0.183	0.539
Life expectancy (years)	43	63
Gross enrolment ratio for all levels	19(1980)	38
Adult Literacy rate	21(1970)	50
Infant Mortality rate	139	80
Fertility rate	7.0	4.1
Under weight children (% under age 5)	47(1975)	38

Source: Human Development in South Asia (2007)

TABLE - X
ECONOMIC GROWTH, POVERTY AND INEQUALITY

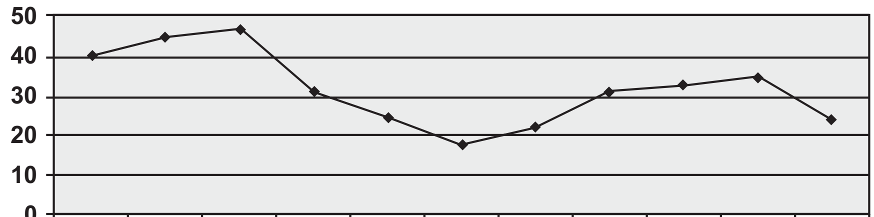
Decade	Economic growth	Poverty	Inequality
1960s	High	Increased	Declined
1970s	Low	Decreased	Increased
1980s	High	Decreased	Declined
1990s	Low	Increased	Increased
2001-2006	High	Decreased	Increased

Source: Human Development in South Asia Report (2007)

GRAPH - I

INCOME POVERTY: LEVELS AND TRENDS

Trends in poverty in Pakistan



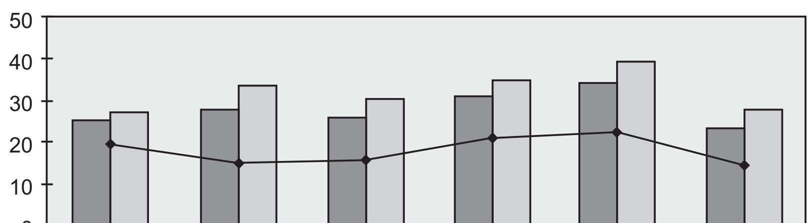
	1963-64	1966-67	1069-70	1979	1984-85	1987-88	1990-91	1996-97	1998-99	2000-01	2004-05
	40.24	44.5	46.53	30.68	24.47	17.32	22.11	31	32.6	34.5	23.9

Source: Human Development in South Asia Report (2007)

GRAPH - II

RURAL – URBAN DISPARITIES

Trends in Urban and Rural poerty, 1992-2005



	1992-93	1993-94	1996-97	1998-99	2001-02	2004-05
Total	25.46	28.17	25.78	31.08	34.46	23.9
Rural	27.63	33.54	30.17	35.13	39.26	28.1
Urban	19.99	15.39	15.84	21.37	22.69	14.9

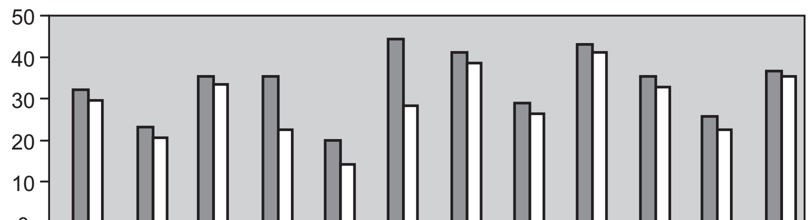
Based on official poverty lines

Source: MHDC 2007 "Human Development in South Asia 2006"

GRAPH - III

DISPARITIES AMONG PROVINCES

Provincial disparities in poverty



	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Column 1												
2000-01	32.2	23.2	35.8	35.3	20.1	45	41.3	29	43.4	35.5	26.2	37.5
2004-05	29.7	20.6	33.9	22.4	14.3	28.4	38.9	26.5	41.4	33.1	22.4	35.9

Source: Anwar 2006

- NWFP has highest poverty levels followed by Balochistan, Punjab and Sindh in 2004-05
- As compared to 2000-01, poverty incidence has improved both in urban and rural areas in all provinces. Poverty has declined significantly in rural Sindh.

KNOWLEDGE IS ALL

The next society will be a knowledge society. Knowledge will be its key resource, and knowledge workers will be the dominant group in its workforce. Its three main characteristics will be,

- Borderlessness, because knowledge even more effortlessly than money.
- Upward mobility, available to everyone through easily acquired formal education.
- The potential for failure as well as success. Anyone can acquire the "means of production," i.e., the knowledge required for the job, but not everyone can win.

- Peter Drucker

ARTICLE

Global Financial Crisis: Causes, Emerging Trends and Strategy

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ABSTRACT

Global financial crisis is the biggest threat to the survival of the world in years to come. It has far reaching consequences for both developed and developing economies of the world. There is only a difference of the degree of impact. This crisis is resulting into recession which is also a most dangerous thing for the global economy. Hence, these days, global attention has now shifting from concern in regard to dimensions of the financial crisis to assessing how deep the real economy recession it has triggered will be and how long the crisis would last. No one can say how long it would last or when recovery would start. With the recession intensifying and estimates becoming more pessimistic, there are reasons to fear that a possible recovery that is being expected by 2010 may not be realized or materialized. The present paper would deal with these issues and would also suggest a strategy to overcome the existing most chronic problem.

Keywords : Global Economy, Financial Crises, Emerging Economies, Developing Economies.

INTRODUCTION

The world financial crisis is not only an economic crisis but also an end of an economic model that trumpeted the lack of controls as a concept. Not long ago, analysts were of the opinion that the world may see financial crisis as they realized that what they were hiding was the real possibility of their own bankruptcy, as it indeed happened.

Most of the humanity is watching the international financial crisis deepening and increasingly jeopardizing the precarious living conditions of billions of the people world over. Meanwhile, a fast processing of mergers and acquisitions is underway, and a huge amount of taxpayers' money is pouring into the financial markets.

As in other historical experiences, the most vulnerable ones would end up paying for the excesses of others, unless a viable and technically well designed roadmap is created to defend their interest.

While the global financial crisis originates in the developed economies, it perpetuated a sudden and sharp rise in the borrowing costs of developing countries and in many cases their currencies have fallen dramatically too. The Millennium Development

Goals are among the first casualties of this crisis. These goals have been set back by about seven years ago, precisely because there's slowdon.

Developing countries are in a peculiar situation, they are not the cause of this crisis, but are amongst the worst affected. The contraction of exports, a credit crunch, and lower flows of capital and foreign direct investment would slow down their economic growth push millions of people back to poverty, with adverse effects on nutrition, health and education levels.

For the first time the problems are not in the developing countries, they are in developed countries. It doesn't help to look for palliative measures if you don't resolve chronic problems of economic policy of the USA and of the EU.

When Does it Originate?

Whereas year 2008 was the year of persisting crisis, the origins of this crisis dates back to the mid of 2007, wherein home owners had borrowed to finance the property which these owners purchased had begun defaulting on their borrowings. Thereafter it had become clear that so many persons having limited or poor creditworthiness had been induced to take substantial amount from banks eager to exploit the considerable amount of liquidity and the low level of interest rates in the system.

An unbearable percentage of defaulters have become inevitable. What is the most significant in the events which has to follow was that this 'sub-prime' problem soon dispersed and created a systematic crisis that soon bankrupted a host of mortgage finance firms, banks, investment banks and insurance firms that include globally dominated players namely, Bear Sterns, Lehman Brothers and AIG.

Why Doest it Happen?

Noble Laureate in economics Prof. Amartya Sen. has stated that the present global financial crisis 'has come about from an over-reliance on markets and not enough regulation". Similarly another Noble Laureate Prof. Joseph Stiglitz has opined that the US is responsible for this crisis and was very critical about the role of the US in this economic crisis. According to Prof. Stiglitz "the US has exported its toxic mortgages.

If this had not happened we would be even worse off. We have also exported our deregulation policy. Decoupling was a myth and the US was now exporting its recession. September 15, 2008 the day when Lehman Brothers filed for bankruptcy was a black day in the history of capitalism"

September 15, 2008 would be to free market economics as Berlin wall is to fall of communism. Market fundamentalism does not work. The idea that markets are self-correcting is flawed. There were several inferences that could be drawn from this very economic crisis: Wall Street has made several bad decisions and has repeatedly failed; prices are bad signal for resource allocation; and though the G-7 has been expanded to G-20 old paradigms were still at work.

Global financial crisis is not just a crisis of capitalism but a crisis in how we mean and approach economics. Prof. Stiglitz has rightly emphasized that Prof. Amartya Sen.'s work which is all about increasing the well-being of human beings is more important and relevant here. The new financial order must be built up on this proposition.

Major Contributory Factors

There are many contributory factors that are responsible for present global financial crisis resulting further into a recession.

The rise in sub-prime credit took place due to the complex nature and contents of the present financial structure that is in practice worldwide. The existing finance system allows an array of agents to earn lucrative returns even while transferring the risk. Mortgage brokers seek out and find willing borrowers for a fee, taking on excess risk in search of volumes. On the other side of it, mortgage lenders or financiers extend credit to the mortgages not with the intention of garnering the interest and amortization flows associated with such lending but that they can sell these mortgages to Wall Street banks. The Wall Street banks buy these mortgages because they can bundle assets with varying returns in order to create securities with differing probabilities of default that are then sold to a range of investors namely- banks, mutual funds, pension funds and insurance companies.

Another important and very relevant contributing factor to this crisis is that institutions involved therein at every possible level do not fully rid of risk but those risks were shared in significant measures by the rest of the investors lying in the distribution chain. The most unfortunate fact about this transfer was that all players were exposed to each other and ultimately to the toxic assets themselves. When sub-prime defaults started then the whole existing financial structure collapsed resulting into financial crisis of such a great magnitude.

Magnitude of the Crisis

The impact of this financial crisis can be imagined by looking at what kind of losses were to be realized by the investors. Morgan Stanley marked down the value of mortgages and leveraged loans estimating the total cost of credit losses and write downs to over US $ 1 trillion.

The largest credit losses and write downs are reported in which contributes the US as much as 67 per cent of the total losses while Europe accounted for 29.5 per cent Asia contributed the lowest possible losses There share of the estimated global loss was just 3.5 per cent

(Table I).

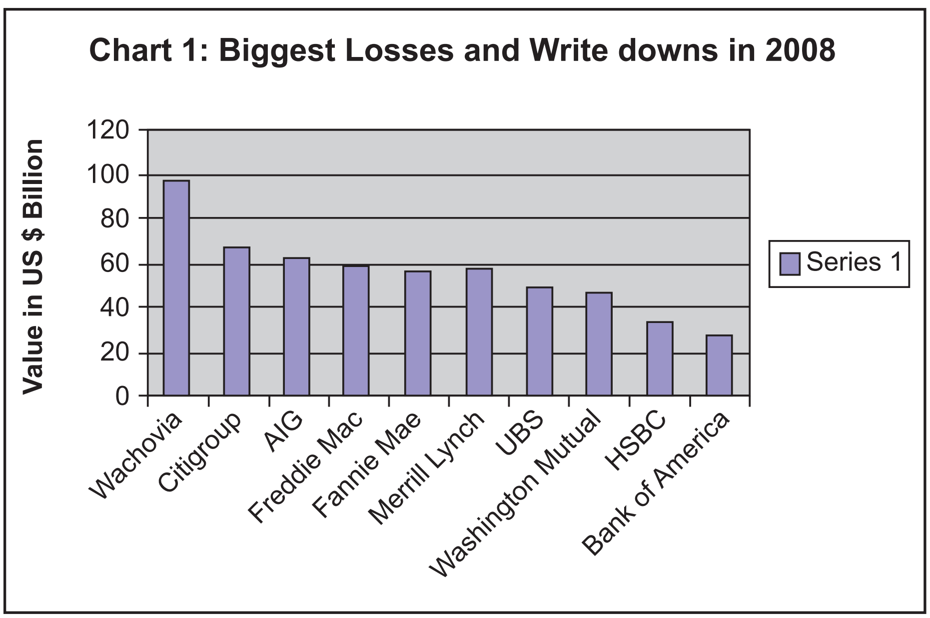
Credit Crisis Cost Crosses US $ 1 Trillion

US	$678.40 Billion	67.0 %
Europe	$302.10 Billion	29.5 %
Asia	$31.50 Billion	3.5 %
Total	$1,011.00 Billion	100.0 %

Source: John Mack; CEO, Morgan Stanley; the Financial Express; New Delhi; December 19, 2008.

Biggest Loser

Biggest losses and write downs in terms of individual organizations can be seen from Chart 1. The largest losses are registered in case of Wachovia as high as $ 96.5 billion and the lowest possible losses are attributed to Bank of America with as low as $27.4 billion.



Source: Same as Table I.

Major consequences

The following are the major consequences of this crisis to the people of developed economies:

a) This crisis has made households whose houses were now worth much less more careful in their spending and borrowing behavior leading to collapse of consumption.
b) This crisis has made institutions namely, banks and other financial firms more cautious in extending credit. This has resulted in to a paucity of credit which may have caused some businesses to go bankrupt.
c) This crisis has caused substantial downward trend in respect of value of assets held by banks and financial institutions resulting into a situation of insolvency.
d) This crisis has led to a situation where there is an enormous pull out of capital from the emerging markets namely, China, India, Brazil, South Africa and Mexico.
e) This crisis has resulted into a decline of capital flows to developing countries making it difficult for them to finance their development needs. It is estimated that capital flows to developing countries are likely to go down to a level of US $ 530 billion in 2009 from an all time record figure of US $ 1 trillion in the year 2007.
f) This crisis has affected the availability of credit and demand for credit, leading to fall in exports. This has resulted in recession in developing economies.
g) These emerging trends would lead to decline in demand which means a crisis in real terms to global economy in general and developing world in particular. These trends would also result in a decline in output on one hand and an increase in unemployment on the other.
h) The existing crisis situation would worsen further in years to come.

Vicious Cycles

The global financial crisis has created four vicious cycles that are affecting world economy badly and these vicious cycles are also currently working their own way and spreading their tentacles to other regions of the world.

a) Falling asset prices- leading to sale by holders, driving prices further lower;
b) Losses at financial institutions- which are eroding their ability and capacity to finance investment through reduced asset values culminating in further losses;
c) Weakness of financial system- adversely impacting economic growth that further weakens the financial systems; and
d) Falling output affects- employment that in turn results in reduced demand for output.

The US Contribution

The present world financial crisis has been caused by the wrong policies and perceptions of the people responsible for managing financial markets in the US. Therefore, the US is the biggest contributor to this crisis. It is to be noted that there were very few people who predicted the coming crisis. Those few who saw the upcoming crisis based their forecast on the assertion that the United States economy would crash because of years of over consumption. They contended that the lower saving rate would lead the US economy downwards and with it the stock market, the bond market and the dollar. The result was that the doers got 1 out of 3 markets right. These people were of the firm opinion that US bond yields will increase to 8 per cent or more. But what happened was that these yields had recorded just 2 per cent rise that is the lowest yields recorded in the post-war history. Since August 2007, bond prices have appreciated by nearly 23 per cent. And the dollar instead of crashing has appreciated by 5 per cent. The expectations went wrong resulted into severe sub-prime crisis and the starting of bankruptcy and insolvency of big resulted into severe sub-prime crisis and the starting of bankruptcies of large financial institutions.

The US sub-prime crisis has had three phases. The first phase was August 2007 to March 2008, i.e. an eight month time for markets to adapt to a new world order. The second phase was from the bankruptcies of Bear Stearns to Lehman Brothers in September 2008 or 13 months duration which the crisis of sub-prime started. The third phase started s from September 2008 and may still be continuing.

It would be logically right to realize that the bankruptcy of Lehman Brothers changed the world financial order, at least for a few quarters or years. It is a bit questionable to assume that for 13 months the financial markets had not anticipated the severity of the crisis. Once Lehman Brothers went bankrupt, every one reacted as if the sky was falling. It would not be correct to argue against the fact that Lehman Brothers bankruptcy was just incidental to the inevitable global crisis.

It is said that when the US sneezes the whole workd catches the flu. But this time the US starting sneezing in August 2007 and got the flu when Bear Stearns collapsed seven months later in March 2008. All through that period, trade and purchasing were frozen, inventories rose and production fell sharply.

It was in July 2009 when Barack Obama's Treasury started their effort to revive the economy. This simply means that the current recession lasting about 19 months is the longest post-war recession.

An Emerging Dimension

The financial crisis and the resulting recession has made the American people embrace the virtues of thrift. Stores are now showing a substantial inceasr in "Piggy

Banks'. These Piggy Banks are used to save coins. The US savings levels have risen considerably in recent months as households adjust to a year-long recession and the worst ever financial crisis since the Great Depression.

The downturn has palyed havoc with house prices and the value of individual retirement accounts(IRA) which, in turn, has reinforced the necessity to systematically put funds aside for the future. A symbol of this changed attidue is the increase in the ale of Piggy Banks that people now give to each other.s.. As a result, personal savings as a proportion of the US disposable income went up to 2.8 per cent in November 2008 compared with zero during April 2008. But they are still well below the 10 per cent range it recorded back in the early decade of 1980s.

In fact, the shift from consumption to saving would be a crucial factor in determining the pace of the US economic recovery, which many economists saw gradually taking shape in the second half of 2009.

The European Contribution

The economy of Europe is facing its worst ever slump in decades . The most astonishing and unfortunate thing is that policy measures such as cutting interest rates is not working or responsive to economic downturn. Therefore, large scale government aid seems to be the only way to end the economic downturn.

The most worrisome trend is that conservative politicians still cling to the so called an out-of-date ideology of non-interference and believe that their constituents are relatively well positioned to overcome the economic nosedive. They are in affect standing in the way of action.

Surprisingly, the German Chancellor and her economic advisors are being considered as the major constraint to much required European rescue plan because the European economies are focusing on their own problems. Whereas the other global economic super powers namely, the US and the EU are facing troubles of their own. The most delicate financial problems are lying at the periphery of Europe wherein small nations are experiencing a financial crisis strongly reminiscent of past crises experienced by Latin America and Asia. Accordingly, the economists are saying that Latvia is the new Argentina. Similarly, Ukraine iss being compared with Indonesia.

The effect of the global financial crisis is also being felt in bigger economies of Europe namely, UK, France, Italy and Germany. Consequently every one mow realizes the need for a lPan-European fiscal stimulus.

Emerging trends in Developing World

The present financial crisis has created a 'silver lining' for the developing world as it emerges with a much stronger voice in the affairs of the institutions that are governing economic globalization. As soon as the financial crisis is over, emerging economies namely, China, India, Brazil, South Korea along with other emerging nations would be able to exercise more influence over the way that multilateral economic institutions are being managed, and would be in a better place to push for long awaited reforms that reflects their interest. There are two reasons for this eventuality. First, the global financial crisis has weakened the US and Europe in a big way. Hence, these two are unwilling or hesitant to extend or create the required level of leadership which is essential now to sustain the multilateralism in coming years. Therefore, it is high and right time for the developing world to step in and fill the vacuum. In this direction the role of China and India could be of paramount importance.

In the present scenario, it is presumed that the relative importance and dominance of developing world in the world economy would have risen even more. This is because many of the leading institutions of Western Europe which have not been nationalized along with other industrial corporations would remain at the mercy of capital from China and the Gulf States. Hence, it is imperative on the part of the developing world to show a good sense of their interests and priorities.

Meltdown and the Humanitarian Crisis

If there is one positive result of the global economic crisis, it is probably this that developed countries have realized what it means to be on the other side of the divide. Although this realization has come up too late, anti-hunger campaigners such as Josette Sheeran hope that this would be a wake-up call for every one and that hunger would no longer be looked at and taken as a 'soft issue".

Many economists have opined that the food crisis was just a dress rehearsal. But because of this meltdown, millions of people have further become vulnerable. Countries whose economies are greatly based on the remittances have the high degree of feeling of loss as the inflow of the remittances has reduced to pittance. According to an estimate, about 98 million people would have to be provided food during 2009 and this figure does not include all those persons who have been affected by the present financial crisis. This indicates that with the same amount of resources at the disposal, the world would have more people feed.

As a matter of fact, the present global financial crisis has put the clock back in many ways than one. In December 2008, the Food and Agriculture Organization (FAO) has brought to the notice to all that the food and financial crises, which followed each other, have taken away about 30 years of progress on reducing hunger and as a result, the number of hungry people went up to 963n million in 2008. Put this in other words nearly 17 per cent of the global population is going hungry. These figures are nearly same as back as 1990s. This is despite the fact that the world is now 7 times richer than it was in the decade of 1990s.

Financial Crisis Resulting into Recession

The present global financial crisis has become a three edged weapons resulting into three burning crises and issues namely collapse of global financial system, humanitarian crisis and recession. The biggest challenge before the world is how to avoid recession. As the year 2008 came to an end and the new year 2009 began, projections and forecasts in respect of the global economyturned dire. According to the World Bank estimate the world output grew by a very meager margin of 0.9 per cent in 2009. In the year 2008, world production recorded a rise of 2.5 per cent. World trade grew by a meager 2.1 per cent in 2009 as against a rise of 6.1 per cent during 2008. It is important to note that the World Bank did not bring up any sort of stimulus for the recovery in coming months.

Chapter 1 of the UN's World Economic Situation and Prospects for 2009, has pointed out that the growth rate of world output which was at 2.5 per cent in 2008 would be around 0.5 per cent (much less than the projection of the World Bank) during 2009.

According to the latest preliminary edition of the OECD's Economic Outlook for the end of the year 2008, the GDP in the OECD's economies which was at 1.4 per cent in 2008 is likely to go down to the lowest possible level of -0.4 per cent during 2009.

Hence, from above mentioned estimates, it is evident that the global output was on the decline and there arewere rare possibility of recovery in the coming months.

Therefore, this might be true that what was a recession in 2008 could turn into depression during 2009.

The agency known as Business Cycle Dating Committee (BCDC) belonging to National Bureau of Economic Research, USA has opined that the recession in the US economy started as early as December 2007. By November 2008 this recession was 11 months long, equal to the average length of recessions during the post-war period. Now the question is how long the recession would continue? In the opinion of OECD, for most of the nations, a recovery or at least the trend of growth rate is not expected before the second half of 2010 implying that the downturn is likely to be the more severe since early decade of 1980s, leading to a sharp rise in unemployment.

It is an undisputed fact, that differential in the distribution of the impact and consequences of the recession and a possible recovery during 2010 are the only possible silver linings in the eyes and minds of the development economists and analysts world over.

Possibility of Recovery

The views in regard to a possible recovery during 2010 are look optimisti. The most delicate question that is keeping the analysts thinking and searching the possible answer is how long the recession would continue? The predictions made out by the individual analysts or the institutions clearly depend upon the assumptions that the crisis in financial markets would be ove come in coming months and there will not be any negative feedback loops between real sector and financial sector till the positive effects of interventions of the Governments are materialized. Such assumptions are of more hypothetical nature and may lead to uncertainty in the process of recovery. There is no other option before the development economists and analysts just to rely upon the uncertain assumptions.

Now the very pertinent question does arise as to what to do to ease the crisis on the one hand and to bring into operation the process of recovery. This would require a sound and effective strategy which depends upon the more realistic and effective assumptions and guidelines.

IMF and Financial Crisis

No longer do member countries that joined the Fund during the period 1945 -1971, agree to maintain fixed exchange rate between their respective currencies and the US $. This Bretton Woods system fell apart when a high rate of inflation in the United States and the rising trade deficit prompted the US to allow dollar tro float freely. Since then , IMF members have been free to choose any kind or form of exchange arrangement they wish or like (except pegging their currency to gold); allowing the currency to float freely; pegging it to another currency or a basket of currencies; adopting a currency of another country or participating in a currency block. These trends have further exacerbated financial crisis..

Can Financial Crisis be a Calamity for Poor Nations?

The global financial crisis could become "a human and development calamity" for many poor economies especially African economies. Accordingly, the World Bank is urging donor countries to accelerate the implementation of promises that they made and to pledge further support to overcome the crisis.

Developing nations, its main constituency, face especially serious consequences, impact and implications' with the crisis driving more than 50 million people into extreme poverty, particularly women and children.

The World Bank is responding through its healthy balance sheet to increase lending up to US $ 100 billion over three years and launch initiatives in social protection, public works and agriculture. No one can say how long it would last or when recovery would start.

Role of The World Bank

In managing the global financial crisis, the role of the World Bank is more positive and constructive. The World Bank is also determining what additional measures are required to counteract the worst Global financial crisis in the decades. The World Bank has also invited G-7 and then G-20 nations group. These groups were of the opinion that more needs to be done as the global financial crisis is of a very serious nature. These groups have also asked all donors to speed up delivery of commitments to increase aid and for all to go beyond their existing commitments. According to these groups, the world economy is stabilizing, but it would take until mid-2010 for the world to emerge from the recession. Stimulus packages, bank recapitalization and other needed measures taken by the governments and central banks to deal with crisis are beginning to show results. Financial markets are trending up and other economic indicators are improving, but there are still downside risks.

Recession Worse Than Expected for UK

Very recently, the Chancellor of the Exchequer has pointed out that UK's economy is contracting more quickly than expected, indicating forecasts would be trimmed in his upcoming budget and that public finances would remain strained resulting into downside of process of development. There is no doubt that the depth of the present recession, here and across the globe, is far greater than people were predicting.

With the UK in its worst recession since 1980, tax revenue is drying up as expenditure on benefits surges. The treasury now expects growth to revive at the very end of this year at the earliest. The fiscal deficit would probably be larger than the 118 billion Sterling Pounds ($175 billion) predicted in November 2008 pre-budget. Hence, there is an urgent need of balancing the budget to support UK's economy with the fact the government has got to ensure in the medium term all countries live with in their means. There are clear indications that the UK's Government is not going for a new stimulus as the Treasury has failed to attract enough investors for an auction of 40 year Government bonds.

Effects of Crisis on Developing Nations

The most unfortunate thing is that the developing economies are not the real culprits or responsible for the escalating financial crisis which was originated and started from the United States especially in finance sector and thereafter the same has been transformed throughout the globe and affecting badly multiple sectors and areas. This crisis transformed into developing world through the channels of trade and finance. Although, economists have mainly concentrated on how the global financial crisis affected the developed world the picture and situation has been reversed. The effects of global financial crisis are more intensive and extensive in developing world. As a result, ramifications are of more serious nature.

The serious effects of global financial crisis are in terms of plummeting exports, quick and sharp decrease in Gross National Product (GNP); considerable decline in industrial production, substantial decrease in gross capital flows; increasing unemployment; poverty, social development, external debt crisis, trade balance, balance of payments; and foreign exchange reserve depletion.

Transformation Through Finance Route

The economists' world over believe that there are four routes of global financial crisis in developing nations:

1) Many economies have global financial crisis due to heavy investment on toxic or depreciated assets. The main countries that have lost substantial funds are Singapore, Middle East oil producing nations who have made huge investment in big, US, Swiss and the UK banks. China has also made investment in toxic assets. Similarly, people from Singapore and Hong Kong have made investment in Lehmann Brothers which has gone in bankruptcy. Likewise, people from Latin America have invested in US based Stanford Bank which is now mired in fraud charges.

2) There has been substantial decline in funds that are flowing into developing economies. Accordingly, net capital flows to emerging economies have gone down from US $ 929 billion in 2007 to US $ 466 billion in 2008 and thereafter went down further to a level of US $ 165 billion in 2009. Out of the total capital flows to developing countries, portfolio investment that went up considerably in developing economies has gone out, especially from the sale of shares in the stock markets. In case of bond markets business transactions in emerging markets recorded a decline of US $ 45 billion i.e. from US $ 50 billion during the second quarter of 2008 to only US $ 5 billion during the last quarter of 2008.

3) There has been a constant and alarming reverse flow in bank credit the life line of economic development which always based on capital formation. According to Institute of International Finance (IIF), the banks world wide would take out more in debt repayment in emerging markets which they provide or extend in new loans.

4) The existing flow of FDI has been slowed down. According to UNCTAD, the FDI flows have gone down by 21 per cent and in absolute terms they stood at US $ 1.4 trillion during 2008. The degree of effect of DFI is more in case of developed economies. While on the other hand, FDI flows to developing economies have shown a rise of 4 per cent in 2008. But this rise is much lower than the rise recorded during 2007 i.e. 21 per cent.

Transformation Through Trade Route

This is the second most vital route through which the global financial crisis entered into developing world. There are many ways that have affected developing economies.

1) One of the major instruments through which the developing economies provide some degree of sustainability to their economies namely exports. The exports of many developing countries have gone down alarmingly and these because of sharp decline in the demand of good in the two biggest regions namely the Europe and the USA. According to the latest data available, export value has declined by 46 per cent in Japan, 44 per cent in Taiwan, 40 per cent in Philippines, 38 per cent in case of Singapore, 34 per cent in case of South Korea and 28 per cent in case of Malaysia. The effect is of worst nature in case of China where hundred of units have closed down and the nearly 20 million people went out of jobs.

2) Trade in services also constitutes a significant share in overall trade. This segment of trade also felt a heat due to global financial crisis. One of the major segments of trade in services is tourism which has recorded a decline of 1 per cent in tourist arrivals in the second half of 2008. Similarly, the Caribbean region that heavily depends upon tourism, the decline is estimated at one-third of the present session. The other two vital segments are outsourcing and remittances. On both the counts, developing economies have been much affected, resulting into sharp decline in foreign exchange (6 per cent in 2009) on the one hand and on the other hand increasing unemployment.

3) In developing economies banks play a vital and strategic role in the promotion of foreign trade and therefore, always extend finance to traders

so that they could export more. This component is facing a worsening as the banks are tightening the supply of credit for day to day export and import business. According to World Trade Organization (WTO), there is considerable shortfall in trade financing in developing economies and the shortage of funds amounted to US $ 25 billion. This gap has to be filled in by all means.

4) The decline in capital inflows or outflows along with decrease in exports of goods has resulted into deterioration in the balance of payments as well as in forex reserves of so many developing economies. Accordingly, such countries have taken drastic action by devaluating their respective currencies and as a result, these nations rare finding difficult to make debt servicing. For example Pakistan and Sri lank has approached IMF for funds to avoid debt defaults.

Strategy

The following are the guide posts to face the issues and challenges of the existing financial crisis and save the world from such happening in coming times.

1) Changes are required in the existing global financial structure.
2) Developed nations must put their house in order especially the US and Europe and must come forward with an amicable solution.
3) Stepping up global cooperation in creating and regulating financial markets.
4) Globally coordinated and huge fiscal stimulus.
5) To take immediate measures in regard to reforms in respect of international financial institutions.
6) There should immediate cooperation and coordination with regard to regional blueprint.
7) Regional Monetary Agreements are the need of the hour.
8) Permanently monitor exchange rate policy.
9) Strict vigilance on the working of developed countries financial markets.
10) Effective and efficient regionalization of banking and credit structure both in terms of contents and nature.
11) Need of a convergence between the US and international accounting standards.
12) Creation of more transparent and level playing field.
13) Global measures required in respect of risk management, valuation issues, underwriting, due diligence, ratings.
14) Principles of conduct and best practices have to be carried out in regard to originators, sponsors, underwriters and distributors.
15) Rating agencies should be more careful and transparent in their practices.

16) Institutional investors should carry out their own due diligence on structured products and risk appetites not rely solely on ratings in making investment decisions.
17) Private sector including financial institutions must have a responsibility to ensure more transparency in their operations with out violation of human rights.
18) There should be regeneration of flow of productive rather than speculative credit.

Conclusion

It is very true and certain that the present financial crisis has shaken the confidence of every individual world over. The most pertinent out come is that the crisis has compelled financial analysts' and gurus to start rethinking on the nature and contents of the structure of the global markets. They have to create a more transparent financial system in coming times so that such crisis must not be recurring again. The behavior of the lenders must be more rationalized and they must not go for casual approach in regard to raters. In this regard, the recommendations of the Committee on Market Best Practices (CMBP) appointed by Institute of International Finance must become mandatory for all the persons directly and indirectly concerned with the working and management of the global financial markets. What is most needed is to have a sound, strong, vibrant and transparent financial system that could work as an antidote of such financial crisis so that future shocks of such nature to the global economy could be absorbed effectively and efficiently. The global financial crisis is only part of global worries. Among the list of urgent global challenges faced by the world people, climate, energy and food security are all rank at the top.

Hence, with the right policy initiatives, the globe can overcome the present crisis. With unyielding determination, the world and the people could turn crisis into opportunity. There are many other things the people can do to help address the financial crisis.

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ARTICLE

Organizational Democracy and Organization Structure Link: Role of Strategic Leadership & Environmental Uncertainty

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ABSTRACT

This theoretical paper focuses on the issue of implementing democratic principles in modern day organizations facing turbulent and changing environments around them. The paper captures the notion of participatory style of management through the construct; organizational democracy. It traces the origin of this construct from theories and philosophies of political democracy. The paper also briefly describes the notion of economic democracy and why it failed to succeed in the face of partial success of political democracy. The underlying question which the paper raises is the role of organization structure and strategic leadership style in the successful implementation of democratic principles in organizations in the face of a turbulent and dynamic environment. The paper also attempts to raise some thought provoking questions for future research.

Keyword : Democratic Principles, Organizational Democracy, Political Democracy, Strategic Leadership, Organizational Structure.

INTRODUCTION

People who grew up feeling comfortable and secure working for a manufacturing firm appreciate just how elusive stability and security are in these days when the companies across the globe are feeling the enormous impact of globalization on their style of work, leadership, communication, reporting mechanisms, and other structural and contextual dimensions of present-day companies. There are a number of ways in which organizations are coping with the reality of globalization and the need for 'organizational excellence' focus is realized to be more than any other time in industrial history. Recent research has identified four threads of corporate excellence (Daft, 2000, pp. 483). These include, strategic orientation (customer-driven, fast in responding, ability to establish interorganizational links), top management leadership style (leadership vision, bias towards action & change), organization design (horizontal structure, empowerment of employees, use of electronic technology & e-commerce) and, corporate culture (creating a climate of trust, sharing information, encouraging productivity through people).

The impact of globalization is different for different industries. The high-velocity industries like electronics and information technology are probably more exposed to the impact of globalization as compared to typical manufacturing industries, but in general, the focus on 'productivity through people' (Hitt & Ireland, 1999) has largely meant a participatory style of management and decision-making. This paper presents the notion of organizational democracy to capture the participatory management style within a company and also examines the relationship between this participatory style and other dimensions of the company like strategic leadership style and turbulent environment.

HISTORY AND BACKGROUND OF ORGANIZATIONAL DEMOCRACY

The term democracy originated from Greek word demokratia where demo means people, and kratia referring to power or rule, so democracy means rule of the people (Powley et al. 2004). The Greeks were no doubt the first to try to build political philosophy theories and Plato equated the three elements of human soul with the three elements of an ideal or just state (Moore & Bruder, 2001, pp. 266). His notion of democracy is however a degenerated form of plutocracy which results because, "a society cannot hold wealth in honor and …… establish self-control in its citizens" (Republic). Aristotle too regarded state as an organism and defined democracy as an improper rule by many.

Later on, during the period of renaissance, Nicolo Machiavelli's The Prince (1532) was labeled as, "one of the most famous political treatise of all times" (Moore & Bruder, 2001, pp. 272). In fact Machiavelli established his reputation as the first one to advocate the notion of power politics. Lock, Rousseau, John Stuart Mill, all mentioned "liberty" and "happiness" as essential ingredients of good governance.

By 19th Century, Karl Marx (1818 – 1883) brought in the issue of "class struggle" in the governance of a society. He also attacked the foundations of capitalist theories by pointing out that workers produce the product but don't own it!

Be it in the West or in the "form of varna and jati in Hindu society" (Presby, Struhl & Olsen, 2000, pp. 591) in East, most of the philosophers who wrote on politics and its philosophy mention the classes in society and the need for a fair and transparent governance system to bring these classes and factions together in the formulation of a solid and whole system of political governance.

The 20th Century is therefore labeled as the "century of democracy" as the older versions of democracy improved in quality and further experience was gained in governance through democracy and one can witness that from 1985 to 2000, the number of most democratic countries in the world increased from 44 to 82 and the number of authoritarian regimes declined from 67 to 26 (Ringen, 2004).

Economic democracy, on the other hand has not witnessed such successful proliferation as its political counterpart. Though it seems logical that economic democracy follows from the democratic principles and that economic power should also be under the democratic control but in contrast to political democracy, economic democracy, “does not appear to be something people are ready to take to the streets and fight for” (Ringen, 2004). In the same article on distributional theory of economic democracy, Ringen (2004) captures the failure of economic democracy in the following way:

“Various attempts can be identified through the last century of subordinating economic resources and activities to political control, all failures. The extreme case is that of Soviet-style command economy……British style nationalization of heavy industry……French socialists’ move under President Mitterrand to nationalize major banks……Swedish idea of bringing capital under democratic control”.

All of these above mentioned endeavors enjoyed brief success but none lasted long.

The advocates of the concept of Inclusive Democracy recognize this failure and are of the view that, “the world is in a multidimensional crisis, caused by concentration of power in the hands of various elites, as a result of the establishment of the economic system of market/growth economy, its political complement in the from of representative democracy” (Gezerlis, 2003). The principle of political democratic equality understood as “one man one vote” does not probably apply to economic democracy and a recent case study of political decision-making in Skanderburg, a small town in Denmark only confirms this (Sorensen & Torfing, 2003).

Even the modern political democracy is seem to be under attack from factors like, “commercialization of education, media consolidation, news uniformity……extension of application of psychology from the cultivation of consumer tastes to the cultivation of political ideology and voter perception……and a consumer culture that has elevated material wealth to be all, end all” (Swaney, 2003).

It would now be interesting to pose the question: Why various efforts and experiments to launch economic democracy failed? Why the theory that political control over the economy would be conducive to economic efficiency did not work?

The answers to these questions seem to lie in the “big tradeoff” of the economist Arthur Okum, according to which citizens in democratic societies value both prosperity and equality, they want equality but not at the cost of prosperity (Ringen, 2004). Slowly and gradually issues like poverty, income inequality have been absorbed in the society with little or no political resistance. Political equality has been somewhat achieved in equal rights and the universal vote (at least in the developed countries) while economic equality has been given up, even in these advanced societies, as it not possible without incurring prohibitive costs. Can we imagine a society where everyone has the same economic power? The answer to this question seems to be no as it's understood that real economies are comprised of different classes of people with uneven economic power, in contrast to political power, which is more or less equal as one man has only one vote, whatever his/her economic resources may be. Society has an upper, middle and lower class in terms of income and prosperity, though each person within these classes has the same political power of one vote. Laclau noted earlier that, "power which is equally distributed among all members of the community is no power at all" (Marchart, 2003), one can infer that the control and acquisition of economic resources is power as it is not equally distributed across any society in the world.

The political democracy, on the other hand, has seen some success and is probably one of the reasons of successful integration of the 'melting pot' culture of America as it has forged a single nation from people of remarkably diverse racial, religious, and ethnic origins through democratic principles and participatory democracy (Braceras, 2005). Political democracy has to its credit the adoption of Civil Rights Act of 1964 to redress and to eliminate inequality in the treatment of Black Americans. Samuel Loescher while examining the merits of a corporate progressive value added-tax to induce spin-offs by corporate giants to enlarge pluralism, notes the same merits of political democracy in including people to rise, but voices the above mentioned 'big tradeoff' question when he asks, "would adoption of any of these alternatives (tax incentives) be as economically efficient a use of citizens' 'love' for our democratic environment as a massive citizens' campaign for tax incentives to limit corporate power?" (Loescher, 1979).

The next natural question to rise is: If economic democracy has failed due to non homogenous society in terms of income inequality and class struggle, can organizational democracy succeed in organizations?

ORGANIZATIONAL DEMOCRACY

The idea of political democracy, as we have already seen, is deeply ingrained in Western culture. It is not surprising therefore if the organizations based in the Western economies are viewed as natural setting in which to extend democratic values and practices (Kerr, 2004). Organizational democracy means that members of an organization participate in the processes of organizing and governance (Harrison et al. 2004). There is no doubt that the idea of applying democratic principles to organizations is appealing. It is argued that increase 'voice' (Fenwick, 2005) of the employees (as a result of democratic principles) would lead to higher level of organizational commitment which would further improve implementation rates of the decisions made, reduce dysfunctional behavior in employees and upgrade their skills and abilities due to more participation which would ultimately lead to improved organizational performance and productivity.

But the literature also points out that organizational democracy practices do not reach out the lowest employees as they are not in a position to capture the ‘big picture’ of organizational governance and hence the quality of their decisions will be compromised and not up to the mark of organizational requirements (Harrison, et al. 2004). It is also mentioned that organizational democracy is a time consuming process which demands sweeping changes, and fierce resistance from various worker groups and clash of interest of different corporate players would make it even more time consuming and difficult to implement in the organizations.

Organizations are after all much like societies in the sense that they are not homogenous and parallel the rich, middle and poor classes of society as top, middle and lower management hierarchies in organizations. In real economies there is a surplus and no equality (Ringen, 2004) and similarly in organizations there is profit with minimum equality among organizational members. If economic democracy has failed in society, in the face of success of political democracy, can we not assume that democracy in organizations, which are structured more or less like societies, is doomed for failure as well? Is it not the nature of an organizational person to grasp power rather than sharing it or giving it up?

These questions at least caution us to the fact that trying to blindly duplicate political democracy in organizations will end up in failure and trouble. The recent researchers define corporate democracy as, “referring to a system of democratic governance embedded in a supportive organizational structure that includes shared residual claims by all members in combination with democratic decision-making rules” (Harrison, et al. 2004).

We can see that this definition of organizational democracy is subject to ‘supporting organizational structures’ as a main moderating variable which will decide the fate of the application of democratic principles in organizations. The conceptual and structural differences among different organizations are explained aptly in the following paragraph:

“Some (organizations) are truly command-and-control organizations where attempts by employees or managers to be more democratic are disparaged by owners and senior executives……A few organizations are built not just on democratic principles but are in fact ‘democratically designed communities’ where ownership, employment and business processes are all aligned to create viable entities that achieve a high level of results……While larger organizations have difficulty transitioning to a full democracy, many smaller companies have embraced a systemic approach called ‘open book management’” (Caimano, 2004).

In the nutshell, the organizational democracy principles can be summarized as follows:

- Participative management practices
- Increased ‘voice’ of employees

The basic theory underlying my proposed model of organizational democracy implementation in organizations is based on the interaction between its structural and contextual dimensions. Organizational dimensions fall into two categories: structural and contextual. Structural dimensions provide labels to describe the internal characteristics of an organization and include degree of formalization, specialization, centralization in decision-making, breadth of the span of control and, length and width of the hierarchy, while the contextual dimensions characterize the whole organization, including its size, technology, environment, and goals (Daft, 2000, pp. 16, 17 & 18). These dimensions of organizations design interact with one another as shown in Figure 1.

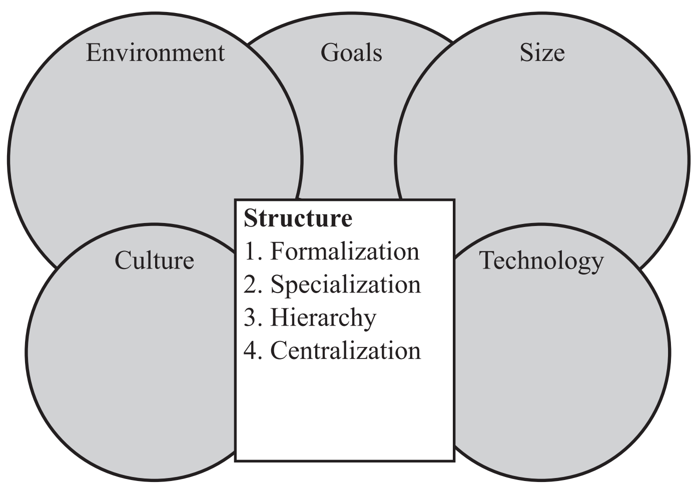

Figure 1: Interacting Contextual and Structural Dimensions of Organization Design
Adapted from Daft, 2000, pp. 17: Organization Theory & Design

The above shown interaction of the contextual and structural dimensions of the organization determine the unique design of that organization and research has proved that these dimensions or variables are interdependent, e.g., large organization size, a routine technology, and a stable environment all tend to create an organization that has greater formalization, specialization, and centralization (Daft, 2000, pp. 20) or mechanistic structure (Daft, 2000, pp. 144; Sharfritz & Ott, 2001, pp. 201). Similarly, a medium size, a non-routine technology, and a turbulent and dynamic environment tend to create an organization that has lesser formalization, specialization, and centralization or in other words, an organic structure.

The underlying theory of my proposed model for successful implementation of organizational democracy is therefore, embedded in the current literature on organizational theory. Since organizational democracy requires participative style of management, the best suited structure to achieve this would be a free flowing organic structure and not the rigid mechanistic structure. In the sections to follow, I will address how successful implementation of organizational democracy depends on the presence of supportive organizational structure and two additional variables; strategic leadership style and change (captured by the environmental uncertainty). My proposed model is shown in Figure 2. This figure is not meant to be a full-blown theoretical model, but it does summarize and integrate some of the findings of the previous research, along with my structure-based predictions. For example, my contention on the connection between successful implementation of organizational democracy and organization structure is that the relationship between the two would be augmented in the presence of two additional variables; a dynamic strategic leadership on top of an organic structure and with a turbulent environment around the organization.

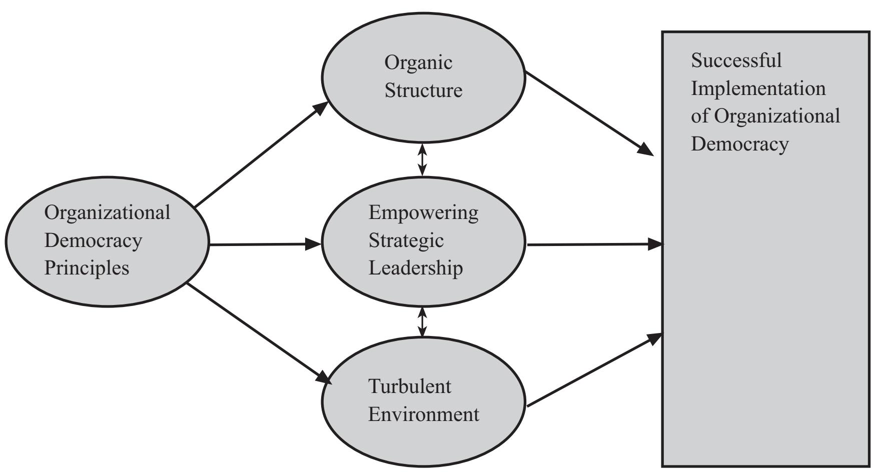

Figure 2: Theoretical Framework Linking Organizational Democracy to organizations' Structure, Strategic Leadership Style and Turbulent Environment. Double-arrows indicate interdependencies.

The link of organizational democracy with supportive organizational structure, strategic leadership and turbulent environment is now described in some detail.

SUPPORTIVE ORGANIZATION STRUCTURES AND ORGANIZATIONAL DEMOCRACY

Most organizational theorists like Taylor and Perrow have determined two definitions of organization structure and have evolved the concept of mechanistic versus organic structures (Kennedy, 1983; Ambrose & Schminke, 2003).

Organizations have a mechanistic or organic structure not because they like to have one, it is because of a particular type of product/service which the organizations is offering and to the degree of environmental stability or the lack of it, around that organization which defines and imposes the structural requirements on the organizations. Burns and Stalker observed that external environment was related to the internal management structure to the extent that when external environment was stable, the internal organization was characterized by rules, procedures and a clear hierarchy of authority. The opposite was observed to be true when the external environment confronting an organization was complex and dynamic. These organizations tended to have loose, free-flowing and adaptive organic structure (Daft, 2000, pp. 144). Various authors and researchers in the field of organization theory have developed sets of characteristics which are intrinsic to mechanistic and organic structure. The following table summarizes some of these characteristics:

Table 1

Mechanistic Structure	Organic Structure
1. Tasks are broken down into specialized separate parts	1. Employee contribute to the common tasks of the department
2. Tasks are rigidly defined	2. Tasks are adjusted and redefined through teamwork
3. There is a strict hierarchy of authority and control, rules are many	3. There's less hierarchy of control and authority, there are few rules
4. Knowledge and control of tasks are centralized	4. Knowledge and control are located anywhere in the organization
5. Communication is vertical	5. Communication is horizontal

Source: Adapted from Richard L. Daft, 7th edition, 2001

These two above mentioned structures are in reality the two formally contrasted forms of management systems, a mechanistic management system which is appropriate in stable conditions and the organic form which is appropriate to changing conditions (Shafritz & Ott, 2001, pp. 201- 201).

Michael Porter's framework of competitive strategies of either low cost leadership or differentiation also captures the same structural differences among organizations as a result of their interaction with the environment. His low cost leadership strategy where the organization aggressively seeks efficient facilities, pursue cost reduction, and uses tight controls to produce the product more efficiently (Daft, 2001, pp. 60) is clearly more suitable for mechanistic organizations rather than organic forms where the strategy of differentiation, characterized by organizational attempts to distinguish their products or services from others, would be more suitable.

Broadly speaking, one can conclude that organizations with an efficiency focus would be more prone to have a mechanistic form and organizations which focus on effectiveness (or are less concerned with efficiency) would do better with an organic structure. In a business context, increased efficiency can result from providing greater output for a fixed set of inputs, by marinating output at reduced levels of input or combining the two approaches, the inputs are generally seen as costs which are usually minimized in order to achieve efficiency (Bronn et al. 2005). Other researchers have also defined organizational efficiency as cost-effectiveness or value for money (Smith & Street, 2005; Lear & Fowler, 1997) and as fostering, "intra firm compromises economically" (Gellner, Frick & Sadowski, 1997). It is also mentioned in the literature that corporate efficiency is measured in terms of productivity because increased productivity leads to more competitive cost structure and the ability to offer more competitive products and services (Chowdhury, 2005).

The discussion so far has yielded that organizational democracy cannot be blindly applied across all organizations. There seem to be some prerequisites or some, "internal conditions that facilitate……democratic organizations" (Rothschild & Whitt, 1986, pp. 172). I now enlist some of these prerequisites of organizational democracy:

1. a more provisional sense of temporality towards organizations than that of bureaucracy
2. a climate (culture) in which constructive mutual and self-criticism can flourish
3. small size
4. homogenous membership in terms of backgrounds and values
5. a turbulent and dynamic environment around the organization so that the organization's main focus in innovation and idea generation (differentiation) rather than efficiency (cost leadership)
6. a team culture
7. an internal environment where employees trust each other and this trust is emanating from the leadership of the organization
8. a horizontal and flat organization as opposed to a tall and vertical one

A comparison of the above mentioned prerequisites with the structural characteristics mentioned in Table 1 clearly demonstrates that organic organizations with horizontal communication, employee participation, less vertical hierarchies and decentralization would be much more suited for the practice of democratic principles than a large and tall bureaucratic organization.

Even in organic organizations the assumption that organizational democracy would work like political democracy is a far fetched idea. The top management of organizations is not elected representatives like members of a politically elected government and employees, specially the lower cadre employees, cannot be expected to understand the longer-term repercussions of their decisions and hence the quality of these decisions can be challenged. But organizational democracy in large and bureaucratic organizations seems just out of question. In mechanistic organizations it's not the people but rules and procedures and their meticulous implementation which makes possible the successful realization of a cost leadership strategy in their intensely competitive but relatively stable environments. There is little scope for 'participatory' management systems in mechanistic organizations and hence little scope for the practice of democratic principles in these organizations.

On the basis of the discussion so far, following is the first proposition of this paper:

Proposition 1: Organizational democracy would be implemented more successfully in organizations with an organic structure.

ORGANIZATIONAL DEMOCRACY, STRUCTURES AND STRATEGIC LEADERSHIP

The study of leadership has progressed from a simple description of traits to examining complexities of interaction between leaders and followers and since 1940s, the main approach in studying leadership focuses on leadership styles (Athanasaw, 2003).

Hambrick and Pettigrew (2001) note two distinctions between the terms leadership and strategic leadership; first, leadership theory refers to leaders at any level in the organization, whereas the strategic leadership theory refers to the study of people at the top of the organization, second, in contrast to the micro focus of leadership research on relationship between leaders and followers, strategic leadership research focuses on executive work, not only as a relational activity but also as a strategic activity and a symbolic activity. One branch of leadership research which has proven useful to the study of CEO-level management is the framework of transactional/transformational leadership (Vera and Crossan, 2004). This framework stems from the visionary or charismatic school of leadership theory, which along with other five main schools, trait school, behavioral or style school, contingency school, emotional intelligence school and, competency school, formulate the six main themes or schools of leadership theories over the past 70 years or so (Dulewicz & higgs, 2003; Handy, 1982; Partington, 2003). Recent work has suggested that the positive relationship between charismatic leadership and performance found in earlier studies also holds true at the strategic (CEO) level (Waldman et al., 2004).

Transactional leadership, primarily task-focused (Turner & Muller), motivates individuals primarily through contingent-reward exchanges. These leaders set goals, articulate explicit agreements regarding what the leader expects from organizational members and how they will be rewarded for their efforts and commitment, and provide constructive feedback to keep everyone on task (Howell & Hall-Merenda, 1999; Jung and Avolio, 1999). Operating within an existing system, transactional leaders seek to strengthen an organization's culture, strategy, and structure and hence is similar in nature to the cultural maintenance for of leadership described by Trice and Beyer (1993) They clarify the performance criteria for followers and also explain to them what they would receive in return (Hartog, Muijen and Koopman, 1997; Waldman et al., 2001).

Transformational leadership, primarily people-focused (Turner & Muller, 2005) in contrast, is charismatic, inspirational, intellectually stimulating, and individually considerate (Avolio et al., 1999; Carless, 1998; Hartog et al., 2004). Some researchers have treated charisma and transformational leadership as distinct concepts but others mention transformational leaders talking of articulating a vision, which creates considerable loyalty and trust among the followers (Tichy and DeVanna, 1986) which sounds very similar to charisma. Similarly, some researchers use the term empowering leadership to capture five themes of this type of leadership, the themes are leading by example, participative decision making, coaching, informing and showing concern for team members (Srivastava, Bartol and Locke, 2006). These five themes of empowering leadership are no different than the definition of charismatic/transformational leadership. In this paper, therefore, the terms transformational and charismatic leadership are used interchangeably. Similarly, House and Shamir (1993) propose that charisma is the central concept in the theories of charismatic, transformational or visionary leadership. Transformational/charismatic leaders help individuals transcend their self-interest for the sake of the larger vision of the firm. They inspire others with their vision, create excitement through their enthusiasm, and have everybody do the same. These leaders seek to raise the consciousness of followers by appealing to higher ideals and moral values such as liberty, justice, equality, peace, and humanitarian, and not to basic emotions such as fear, greed, jealousy, or hatred. Transformational leadership has been specified as an important mechanism for introducing organizational change in the recent research literature (Masood, Dani, Burns and Backhouse, 2006).

Based on these research findings, following is the second proposition formulated in this paper:

Proposition 2: Organizational democracy would be implemented more successfully in organizations with an organic structure and where the strategic leadership style is that of empowering or transformational/charismatic type.

Organizational Democracy, Structures, Strategic Leadership and Turbulent Environment

The relationship between organizations and environment is perhaps the most popular and conceptually appealing aspect of the structural-contingency model (Hrebiniak and Snow, 1980). Present day theorists view the interaction between the organization and the environment as the critical variable in determining the nature of internal strategies and processes and point to the need to develop appropriate systems of differentiation and integration, depending on the degree of turbulence within the environment (Shipton, Dawson, West and Patterson, 2002).

The organizational environment is typically divided into two levels. The most influential level is termed the task environment and consists of firms that directly influence the setting and achievement of goals for a particular organization. The general environment, on the other hand, has no out boundary and includes the source of conditions, trends, political pressures, norms and social trends. Changes originate in the general environment and, in turn, influence task environment phenomena (White, 1998) and it is also suggested that organizational uncertainty is derived from failure to understand a task environment and from interdependence with elements of task environment (Lang and Lockhart, 1990).

Milliken (1987), in a review of the literature and research on environment, developed a general definition of environmental uncertainty, calling it “an individual’s perceived inability to predict an organization’s environment accurately” because of a “lack … of information” or “an inability to discriminate between relevant and irrelevant data” (Buchko, 1994). Key managers in the industry rely on, “some minimum level of perceived predictability – specifically, predictability relating to customer demands and competitor actions” to formulate strategies to cope with the environmental uncertainty (Dickson and Weaver, 1997).

Environmental uncertainty has also been defined as the degree to which an environment is stable-unstable, simple-complex, and concentrated-dispersed (Karimi, Somers and Gupta, 2004). The stable-unstable dimension refers to whether the elements in organization task environment are dynamic. Organizational task environments, “include all the sectors with which organizations interact directly and have the potential to impact organizations’ ability to achieve their goals and typically include industry, market sectors, raw materials, human resources, and, perhaps, international sectors” (Daft, 2001). Under unstable conditions, organization task environment shift abruptly, and companies react with aggressive moves and countermoves regarding advertising and new products.

Dynamism is characterized by the rate of change and innovation in production and service technologies, as well as the uncertainty of customer taste and actions by the firm's main industries. Firms in more unstable environments face a number of similar external elements that change frequently and unpredictably. Environmental dynamism poses the challenge of planning and control as managers must cope with unpredictable external events and must seek to integrate and improve operating processes. To do so the managers and decision-makers require detailed, timely information that allows them to coordinate the flow of activities, at all levels in organization, with an understanding of process dynamics and their relationship to organizational performance. As environmental uncertainty increases, interdependency becomes more important due to increased need for coordination for internal resolutions and the need to link the organization with the key elements in the task environment to detect, bring, and send information about changes in the environment (Maier et al. 1997; Schwab et al. 1985).

The simple-complex dimensions concern environmental complexity and refer to heterogeneity, which is the degree of similarity or differentiation within the organization task environment. Firms in these environments face many distinctive elements that remain the same or change slowly and require very different marketing, production, and administrative practices. Organizations in such environment have a great need for information processing to reduce uncertainty and it is expected that the decision-makers in these organizations are more likely to face a higher frequency of nonroutine and interdependent tasks.

The concentrated-dispersed dimensions refer to scarce material and financial resources and the need to ensure the availability of resources. Hostile task environments are characterized by severe regulatory restrictions, a harsh and overwhelming business climate, intense competition in price, product, technology, and distribution, a shortage of labor or raw material and the relative lack of exploitable opportunities and resources (Miller and Friesen, 1983). Under these conditions, the organizations' responses can be in the forms of greater integration and coordination and establishing favorable links with key elements of its task environment. These responses can be in the form of joint ownership, contract, joint ventures, interlocking directorates, executive recruitment, buffering, advertising, and public relations (Daft, 2001; Kopp and Litschert, 1980).

Some companies also use innovation, marketing differentiation strategies, high quality, auxiliary services, convenient distribution, and comprehensive warranties to induce customer loyalty in the face of a changing and turbulent environment (Miller, Droge and Toulouse, 1988). The firm's perception of environmental uncertainty has been attributed to its perceptions of the level of control it exerts over its environment (Perrow, 1967). Research evidence further suggest that firms operating in highly uncertain environments are more likely to form exchange relationships that mitigate their organizational risk levels; conversely, firms that perceive that they have a greater degree of control over their current and future technologies (more certain environment) are less likely to forge relational customer-supplier exchange relationships (Pfeffer and Salanick, 1978; Fink, Edelman and Hatten, 2006).

The use of uncertainty as an environmental variable flows from an information-processing view of organizations, a view that explains organizational adjustments, like changes in structure, by variations in information, as filtered by managerial perceptions of their external environment (Koberg, 1987). Duncan (1972) made a distinction between the internal and external environments of a company. The internal environment refers to all those internal forces operating within an organization itself, such as the company's goals and objectives, nature of its' products and services, communication processes and networks within the organization, and the educational background of the employees; the external environment refers to all those forces outside the company, such as customers, competitors, suppliers, governments, and trade unions (Tung, 1979). Overall, the literature suggests that firms should adopt a more organic structure to cater to a more complex environment where jobs are less specialized and more complex, companies should apply a mechanistic structure to a more predictable environment with greater subdivision of tasks and similar job assignments (Chang, Lin and Sheu, 2002). Similarly, other theorists and researchers have suggested that increase in environmental complexity increases need for strategic activities like developing interorganizational linkages to cope with complexity and uncertainty of the environment (Stearns, Hoffman and Heide, 1987). The recognizable pattern of organizational responses to environmental conditions is determined not so much by the objective characteristics of organization-environment interactions as by managerial perceptions of the strategic importance of the critical areas contained within different organizational functions. Researchers investigating the link between perceived environmental uncertainty (PEU) and the relative strategic importance of different organizational functions have found that "externally oriented functions (e.g., market research and product development) received emphasis with high PEU but internally-oriented functions (e.g., production) assumed more strategic importance with low PEU (Hitt, Ireland and Palia, 1982). Organizational contingency theories traditionally have argued that when contextual variables (technology, environmental conditions) are matched with appropriate organizational responses (centralization, communication, formalization, subdivision of work), effectiveness of the unit will be enhanced (Morrow, 1981).

Environment and Strategic Leadership Link

While developing a theoretical model of the impact of CEO and top management leadership styles and practices on organizational learning, Vera and Crossan (2004) argue that, "in times of change, these (organizational learning) processes make evident the need to alter a firm's institutionalized learning – a task best suited to transformational leadership….in times of stability, organizational learning processes serve to refresh, reinforce, and refine current learning – a task best suited to transactional leadership".

Howell and Higgins (1990) suggest that champions of innovation have characteristics of transformational leaders. These leaders rely on innovation and risk taking more than non-champions. Pinto and Slevin (1989) found that aspects of transformational leadership, such as mission awareness, predicted the success of R&D projects. Similarly, Keller's (1992) work found that transformational leadership of project leaders in R&D organizations predicted performance at two times, concurrently and a year after leadership was measured. Thite (2000) notes that transactional leadership also predicts project success but to a lesser extent than transformational leadership (Berson and Linton, 2005).

Organizations exhibit three types of inertial forces; cognitive inertia, motivational inertia and obligation inertia (Gersick, 1991). During changing environments, overcoming these organizational inertial forces is viewed as an important condition for improving organizational performance (Tichy & DeVanna, 1990). Charismatic leaders overcome cognitive inertia (inability to think beyond one's own schema) because their strong values shape choices concerning strategy as they can create exciting visions of future and promote unconventional problem-solving approaches. Motivational inertia (desire to avoid change) can be overcome through a leader's ability to provide followers with confidence that changes can be positive. Finally, obligation inertia (commitment to constituencies) can be overcome through leader's ability to change current contractual relationships with various stakeholders (Agle et al., 2006).

Transformational leaders, in unstable, shaky, risky, or crisis situations take on greater symbolic importance as the followers feel the need for direction and guidance under these conditions, and therefore, willingness to a follow a leader may be more pronounced in unstable and turbulent environments (Agle et al., 2006). Studies also suggest that crisis and the associated stress and uncertainty may foster the emergence of charismatic leadership and Waldman's (2001) study empirically prove that charismatic leadership of CEO is highly related to an organization's performance when the environment is perceived to be uncertain and volatile, and the same link between charismatic leadership and performance, does not come strongly in the face of certain and stable environment.

Based on the above discussion, following is the third proposition of this paper:
Proposition 3: Organizational democracy would be implemented more successfully in organizations with an organic structure and where the strategic leadership style is that of empowering or transformational/charismatic type and where the surrounding task environment of the organization is dynamic (complex and unstable).

CONCLUDING REMARKS

This paper raises the critical question of the suitability of the application of organizational democracy in different organizations and under the influence of the interaction between their structural and contextual dimensions, resulting in unique settings or organizational designs and as such should serve as a food for thought for researchers to probe the following research areas:

- Empirical testing of the underlying theme of this paper and the proposed model (figure 1) that organizational democracy cannot be justified in mechanistic structures with stable environments around them and that it would be more successful in organic set ups in turbulent environments and where the leadership style of the top management is empowering or transformational/charismatic.

- The cultural differences across various nations and their role in preparing organizations for organizational democracy also need to be empirically studied. For example, Western societies with their long history of involvement with democracy are perhaps more suited to apply democracy in organizations in contrast to those nations where democracy has not been the preferred style of governance.

- Certain industrial sectors, for example service sector, have inherently different structural requirements as compared to organizations in production sector. It would make an interesting study to examine the possibility of employing organizational democracy principles in service organizations and to gauge their success in terms of productivity and performance to those service sector organizations where principles of democracy are not applied.

- Similarly in high-velocity industries like Information Technology and Electronics, where the environment is dynamic and turbulent and the rate innovation is high, the need for empowering leadership, horizontal structures and organizational democracy would be more pronounced as compared to other traditional production-focused industries.

- Organizational democracy as a construct needs further development in the sense that measuring instruments be developed to try to measure it empirically. Their relationships with other organizational variables like performance, job satisfaction, strategic leadership style and, uncertain environment would also shed further light on this construct.

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A man's ideal, like his horizon, is constantly receeding from him as he advances towards it.

- W.G.T. Shedol

Every one of us, unconsciously, works out a personal philosophy of life, by which we are guided, inspired, and corrected, as time goes on. It is this philosophy by which we measure out our days, and by which we advertise to all about us the man, or woman, that we are. . . . It takes but a brief time to scent the life philosophy of anyone. It is defined in the conversation, in the look of the eye, and in the general mien of the person. It has no hiding place. It's like the perfume of the flower ? unseen, but known almost instantly. It is the possession of the successful, and the happy. And it can be greatly embellished by the absorption of ideas and experiences of the useful of this earth.

- George Matthew Adams

ARTICLE

VIGILANT CORPORATE LEADERSHIP: A KEY TO VERITABLE ORGANIZATIONAL PERFORMANCE

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ABSTRACT

Leading a construction-related business in the global competitive environment is a complex and challenging undertaking. It takes more than technical skills to unleash new opportunities, compete for a leading position in the local market, break into foreign markets, develop and sustain long-term competitive advantage, continuously reinvent the business to be able to attract, develop and retain talent. Corporate leaders must be able to see and do things that their competitors do not, make quick decisions to seize business opportunities, and constantly grow their people to take over the leadership positions within the firm. An in-depth qualitative study of 49 senior executive leaders in the construction industry of Singapore revealed that 'vigilant outlook' – inspirational vision, providing courageous impetus, systemic perspective, and vigilant decision making' – was a key characteristic of successful corporate leaders and their respective organizations. This article highlights how corporate leaders effectively employ 'vigilant outlook' to achieve sustainable growth and veritable performance for their people organizations.

Keywords: Corporate Leadership, Construction Industry, Singapore

INTRODUCTION

Today's businesses operate in a rapidly changing, multi-cultural, and increasingly complex environment. Organizations are being compelled to keep abreast with these developments by adopting cutting-edge technology, innovation in products and processes, and sustainable management systems. In order to survive, let alone grow, corporate leaders constantly grapple with growing market demand for construction, increasing size and complexity of projects, conflicting demands of stakeholders, and scarcity of materials, machinery, and manpower. Additional complexity in leadership functioning is added by uncertainty of economic cycles intertwined with various socio-political upheavals, depleting environment, and increasing frequency of natural disasters. One key reason of successful organizations is judicious corporate leadership, lack of which usually leads to failed businesses that are somewhat more frequent in construction (see: Koksal and Arditi, 2004; Enshassi et al., 2006).

Recent corporate meltdowns, ethical failures, business malfeasances, management malpractices, and obsession of capitalism have also resulted in reduced trust in corporate leadership (George, 2003; Halloway and Rhyn, 2005). Many scholars refer to this state of distrust as "leadership crisis", frequently noting "where have all leaders gone?" (See: Bennis, 2008; George and Sims, 2007). Some studies have also reported low satisfaction with ethics and authenticity of organizational leadership (Toor and Ofori, 2007; Toor and Ofori, 2008). This situation has poised a challenging task for corporate leaders to demonstrate genuine leadership to regain the trust and win over the confidence of their organizational membership and outside stakeholders.

It is also an opportunity for leadership researchers to highlight the examples of those corporate leaders who have successfully led their multi-cultural, multi-ethnic, and multi-religious organizations towards veritable and sustainable growth. It is timely to revisit the common threads among corporate leaders of successful organizations and comprehend how effective corporate leaders are able to function within complex and ambiguous environment. This article targets to find answers to these very questions. Instead of offering a "comprehensive" shopping-list of traits, this article attempts to draw parallels between corporate leaders who have built sustainable businesses by demonstrating authentic corporate leadership. Discussion in the following pages attempts to highlight some key dimensions that differentiate high-performing corporate leaders from their ordinary counterparts.

ROLE OF CORPORATE LEADERSHIP

Corporate leadership is essentially a group of senior organizational leaders who possess managerial skills, have experience in varied disciplines, come from diverse backgrounds, and are willing to share their knowledge to lead the firm towards a sustainable future. Acquaah (2003) argues that capabilities of effective corporate leadership are firm-specific and rely on specific infrastructure, history, and collective experience in a firm, hence making it difficult to imitate by the competitors. Primarily role of corporate leaders is to identify opportunities and formulate strategies to maximize them – by comprehending the economic performance and increasing firm's profitability – while minimizing the impact of perceived threats. The effectiveness of corporate management is reflected by its innovative capabilities, clear strategic vision, and ability to manage human and financial assets (Ireland and Hitt, 1999; Acquaah, 2003).

Corporate leaders operate within complex and dynamic social systems and make trade-offs for their people and organizations. They exercise influence which may travel within a group of people in four different ways: top-down, bottom-up, lateral, and integrated – a combination of top-down, bottom-up, and lateral leadership (Locke, 2003). They bridge the past, present and future of organizations (Boal and Schultz, 2007). This demonstrates the complexity of leadership influence process that takes places in everyday leadership process. In order to generate and sustain influence – while solving complex problems and dealing with large number of stakeholders – corporate leaders reconcile conflicting interests and goals of people and organizations. In doing so, corporate leaders typically play two roles within organizations: an architectural role – in which they redesign their organizations by putting into place appropriate structures and systems – and a charismatic role – in which they envision the future, empower and energize the elements of leadership (Kets de Vries, 1996). However, to be effective, they also reconcile between their architectural role and charismatic role in order to avoid a situation where they have appropriate systems without a vision or dysfunctional systems with an inspiring vision.

To build sustainable organizations, corporate leaders skillfully balance the interests of all stakeholders, including their own interests, those of their followers and organization. They face paradoxes – such as paradox of knowing (self and other); paradox of focus (individual and communal); paradox of communication (direct and indirect); paradox of action (doing and being); and the paradox of response (time focus: short and long-term) (see: Fisher-Yoshida and Geller, 2008). They treat dilemmas as opportunities and are able to draw new directions for their organizations. For this purpose, effective corporate leaders stay focused, remain dynamic, and prepared to change (Lowy, 2008). Corporate leaders also employ skillful organizational politics in order to reconcile issues within the organizations (Kan and Parry, 2004).

Given that today's corporate leaders live in a whole series of complex adaptive organizations (Boal and Schultz, 2007) which are intricately intertwined with individual and social demands, constraints, and choices (Stewart, 1982), leadership process is also more complex and adaptive (Marion and Uhl-Bien,2001). Under such systems, its primary task is to establish a dynamic system where bottom-up structuration emerges and moves the system and its components to a more desirable level of fitness and order (Osborn and Hunt, 2007). In corporate leadership positions, leaders face more external pressures and lesser internal constraints while they develop, focus, and enable an organization's structural, human, and social capital and capabilities to meet real-time opportunities and threats (Boal, 2004). They engage in sense-making of environmental turbulence and ambiguity, and sense-giving to their followers (see: Figure 1). Through active sense-making (an upward process), leaders actively construct joint identities that help define future possibilities as well as make sense out of current realities. Through sense-giving (a downward process), leaders are able to achieve alignment between the sense-making process of themselves and their organizational members (Reicher and Hopkins, 2003).

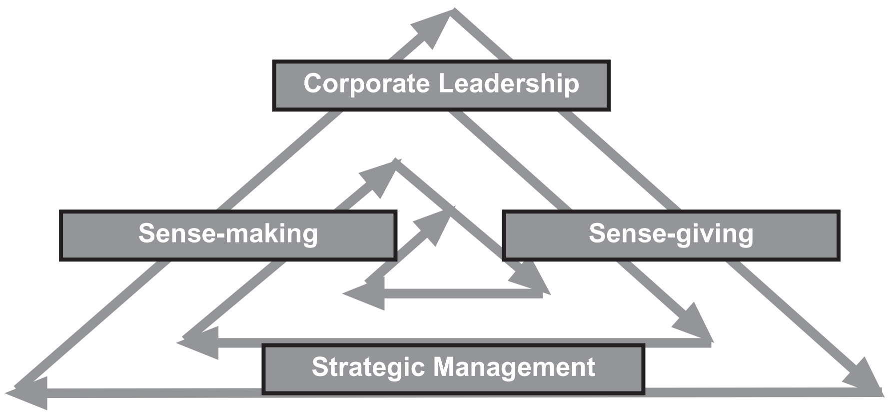

Figure 1: Sense-making and sense-giving in corporate leadership.

Characteristics of prudent corporate leaders include readiness for change, creative and critical reflection, self-organized networking, virtual and cross-cultural communication, coping with uncertainty and various frames of reference, increasing self-knowledge and the ability to build and contribute to high-performance teams (Thomas and Mengel, 2008). Such corporate leadership is able to operate on the edge of chaos in the multiplicity of complex adaptive systems. It is able to reconcile the varying social demands of social agents and other related systems. It takes a systemic approach in which leaders are able to integrate ideas that previously were seen as unrelated or even as opposed (Sternberg, 2007).

METHODOLOGY

This paper reports on part of a larger study that was conducted in Singapore. The study followed a qualitative grounded theory methodology. Driven by theoretical sampling procedures, a total of 49 leaders were interviewed. These leaders belonged to various trades in the development industry and occupied senior managerial and corporate leadership positions in their organizations (see: Table 1). Many of them were also serving on executive bodies of various professional organizations.

Most study participants (over 75%) sat on corporate boards of their organizations. Study participants were chosen based on their reputation for authenticity and success in their respective professions. They were nominated as authentic leaders – individuals who practice solid values, lead with heart and soul, establish connected relationships, and demonstrate self-discipline (George, 2003; George and Sims, 2007) – by their peers in the construction industry of Singapore. They were also well known as successful in their careers and respectful across other professions in the industry. Majority of interviewees had significantly contributed to success and sustained performance of their respective organizations – most of which had not only survived many economic recessions and organizational changes but had grown and diversified across the region.

Table 1: Demographic details of study participants

Attribute	Properties	No. of Cases
Gender	Male	42
	Female	7
Company Type	Architects	8
	Consultants (Engineers, Designers)	9
	Contractors	7
	Developers	11
	Quantity Surveyors	7
	Architects + Engineers	4
	Others	3
Position in the Organization	Manager and senior manager	7
	General/Deputy General Manager	2
	Director/Executive Director	20
	Managing Director	2
	CEO/Deputy CEO	10
	Managing partner	2
	President/Vice President	4
	Chairman/Group Chairman	2

In-depth interviews were used as principal source of data collection. Interviews typically lasted for 75-100 minutes. Interviews were recorded and transcribed into text. Analysis of transcriptions was carried out under the guidelines of grounded theory. Open coding procedures helped to identify various concepts within the data. Axial coding was used to integrate the emergent concepts into lower-level, middle-level, and higher-level categories. Theoretical sampling, memoing, and various other techniques were instrumental in developing higher-level of abstraction of lower- and middle-level categories and to convert them into higher-level categories.

STUDY FINDINGS

Analysis of qualitative data resulted in various higher-level categories which include leadership development, self leadership, self-transcendent leadership, and sustainable leadership. Sustainable leadership referred to the strategies that the leaders adopted for performing effective and successful leadership and influencing their followers and organizations. Middle-level categories that fall under 'sustainable leadership' include: (i) vigilant outlook; (ii) creative problem solving; (iii) developing high-performance and sustainable teams; (iv) sustainable human and social capital development; (v) leading and sustaining change; (vi) building sustainable organizations; (vii) and sustained succession planning. Although all these categories are important for effective functioning of corporate leaders, 'vigilant outlook' make the corporate leaders stand out and enable them to effectively accomplish later six strategies to eventually sustain their leadership.

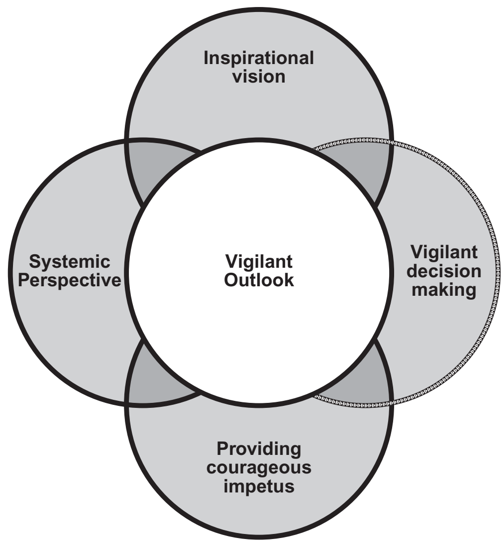

Figure 2: Vigilant outlook of corporate leadership

VIGILANT OUTLOOK

Lower-level categories that collectively generated the concept of 'vigilant outlook' include: inspirational vision, providing courageous impetus, systemic perspective, and vigilant decision making (see: Figure 2). Various concepts that produced each of the lower-level categories are shown in the Table 2. They know their destination and have a clear picture of their goals. They are also able to inspire their followers to come together to achieve the common goals. In doing so, they also take the responsibility of their own actions as well actions of their followers.

Through vigilant outlook, authentic leaders are not only able to inspire a vision; they refine their goals by keeping the bigger picture in front. They are also able to garner the support of their by providing a courageous impetus. In doing so, they also take the responsibility of their own actions as well actions of their followers. Their watchful decision making helps them to take right decision needed to transform their plans into actions and results.

Table 2: Sub-categories and concepts under 'vigilant outlook'

Vigilant Outlook			
Inspirational Vision	**Providing Courageous Impetus**	**Systemic Perspective**	**Vigilant Decision Making**
Bringing people on a common goal	Be able to see long-term	Leadership is all-encompassing	Gathering information; getting clarity
Conviction to make a difference	Following the lonely path	Being versatile	Facilitating decision making
Finding community oriented solutions	Making unpopular decisions	Bridging the gaps between stakeholders	Courageous and shared decision making
Inspiring a vision	Providing impetus and initiative	Building market intelligence	Firmness and flexibility
Knowing your purpose	Sharing authority	Conducting the orchestra; producing a play	Sensibility and maturity
Prioritizing the issues	Taking responsibility	Looking at the bigger picture	Timely decision making
Setting a direction	Showing positive firmness	Not bogged by the routine	Accepting responsibility of decision

INSPIRATIONAL VISION

When leaders were asked about their leadership philosophy, they frequently noted that having a vision and setting a common goal for followers are essential aspects. CEO of a consulting group noted:

I guess good leaders are able to formulate the vision and then motivate others to carry the vision through…you must still have people behind you to carry that vision through.

However, having a vision is not enough; communicating the vision down to the whole organization is imperative. "You need to know how to cascade your vision down to many many teams", said one CEO. Knowing the destination and persuading the followers to follow the common goal differentiates the leader from followers. In order to get to the destination, leaders garner the support from the followers and foster the attainment of mutual goals. For example, a female CEO noted:

We will have followers when we share the same objectives and they see we are sincerely working towards the objective. We have to try to be as fair as possible to everybody. It's not always that easier in practice.

Emphasizing on setting the direction and getting the support from people, another senior executive spoke:

You are supposed to do two things [in leadership]. You set the direction that is how things should move. Second part is to get people to support you … Now the part of setting the direction…it demands quality…you need to ensure safety, progress time, cost, and each and everyone of these issues is like a priority … as a leader … you must be able to make a list of priorities and actually make it very clear to those people who work with you.

PROVIDING COURAGEOUS IMPETUS

Another sub-category that emerged under the 'vigilant outlook' was 'providing courageous impetus'. Individuals in leadership positions are usually lonely and have to work their own way to provide direction and impetus, initiative to their followers. They have to take the responsibility of their actions as well as the actions of their followers. Their failure results in profound repercussions. Therefore, they have to make unpopular decisions sometimes. Occasionally they are unable to expose their concerns to keep their followers motivated. They may be smiling but they deeply understand inside the severity of the matters they are dealing with. Therefore, it is usually said that leadership is a lonely path and leaders have to find their own way and solve their problems. However, they still have to take steps to keep the wheel rotating. Therefore, 'providing courageous impetus' is important for leadership role in the business world.

CEO of a large consulting firm emphasized the long-term thinking of the leader. "I suppose, what is most important is that a leader, whatever you are, you must be able to see what real long term is", he said. And while thinking long-term, the leaders do not always make popular decisions. Sometimes they ride against the tide and make unpopular decisions. CEO of an engineering design firm observed:

I really think good leaders make all the difference. And good leaders don't work on the philosophy of getting popular because as a good leader you sometimes need to make some unpopular decisions. But that is the role of the leadership to look ahead, to project what's coming, to be able to see the future, and lead and motivate the people.

However, the leader has to take the responsibility of the collective decisions and actions. CEO of a quantity surveying firm gave the example of good leaders, saying:

They do not expose you when you're in trouble, because they take the responsibility …if something goes wrong, they are the ones responsible. I think leadership is taking responsibility, not exposing your team.

Under the category of ‘providing courageous impetus’, another concept that emerged was loneliness at the top and the severity of responsibility that leaders felt being in the leadership positions. One CEO, while talking about the issue of loneliness at the top, noted:

He who wears the crown traces the lonely path. [As a leader], who do you turn to? You are alone at the top. And the sad part associated with the leader is that the leader must worry first of all. On the other hand, as a leader, you celebrate after your flock has done it. It is a huge sacrifice.

Another CEO also noted that he had to work much harder to create an example and to keep his staff motivated. He mentioned:

Very often, I am the last one to leave the office. Even until now, in my late age, in the old days, I would stay behind, although I don’t need to work, I will just stay with them.

However, while providing courageous impetus, the leader has to show positive firmness to ensure that things keep moving. Giving the example of positive firmness, a CEO noted:

There are people who do not listen to you and have problems to understand. You can’t help it much. Until certain point, you have to stand firm and tell them that they need to change. Sometimes it works, sometimes it does not.

SYSTEMIC PERSPECTIVE

Under ‘systemic perspective’, several important concepts emerged shown in Table 2. Leaders interviewed in this study frequently noted that they saw leadership as a ‘whole-sum’ and overarching concept in which they had to understand the objective, comprehend the context, set the direction, and demonstrate strong leadership within and outside the organization. Vigilant corporate leaders respond to the situation differently. They take the stock of the crisis, measure the damage and then take appropriate action. They remain calm in the midst of chaos. They keep themselves composed and have a deeper look into the problem and then find solution. They don’t panic when they face failures or problems. Although no organization and no leader is fully prepared to meet the challenge and failure; the leader has a responsibility. He must assess the damage calmly. Then he should chart a course of action without getting panic and without getting into tension. Then comes the implementation. Selecting the right leaders to run the implementation is the key to formulating an overarching strategy to meet the challenge.

Under 'systemic perspective', several important concepts emerged namely: all-encompassing success, conducting the orchestra, producing a play, versatility of skills, seeing the bigger picture, etc. Interviewees noted that they saw leadership as a very 'whole-sum' and overarching concept in which they had to understand the objective, comprehend the context, set the direction, and demonstrate strong leadership within and outside the organization. In a memo that was written about systemic outlook during the analysis stage of interviews with authentic leaders, the current author noted:

Leaders respond to the situation differently. They measure the damage and then take appropriate action. They remain calm in the midst of chaos. They keep themselves composed and have a deeper look into the problem and then find solutions. They don't panic when they face failures or problems. Although no organization and no leader is fully prepared to meet the challenge and failure; the leader has a responsibility. He must assess the damage calmly. Then he should chart a course of action without getting panicked and without getting into tension ... Then comes the implementation part. Selecting the right leaders to execute the implementation is the key to formulating an overarching strategy to meet the challenge.

Therefore, when leaders are performing authentic leadership, they are not only leading the people within their own organizations, they are also performing leadership role outside the boundaries of their organizations. Director of an architecture firm noted that leadership is about 'all round success'. He said that:

You have got to be handling the people both inside and outside the firm. So, leadership means that you are able to relate to your own people as well as others outside. This is one of the most important criteria. You have to bring success to the organization and respect comes when you achieve this all round success.

Another CEO viewed leadership as an all-encompassing role in which the leader was not self-centered; they were rather more concerned about others and were driven by the passion to bring success to their organizations. He observed:

Leadership is a very all-encompassing role…it's a lot of teamwork as well, you can't do everything alone. Even if you can chalk the way, you can point people in the right direction, you must still have people behind you to carry that vision through. I guess good leaders are able to formulate the vision and then motivate others to carry the vision through.

General Manager of a developer's firm noted that "…the developer is only a facilitator and he is a conductor and must be a good listener". Another senior director in a consulting firm echoed the notion of 'conducting the orchestra':

In a senior position in a profession, you are like a conductor. You have to know all the instruments to play the whole orchestra, the whole team. If you have not been through all that, you may not know who is committing the mistake in the orchestra. If you have not been through, you don't know whether the violin guy is playing the best or what. I am lucky to have gone through this all in my earlier career, much wider and deeper in many aspects.

CEO of a consulting firm related leadership to producing a dance item or a play. He said:

Within our senior guys, we actually did agree that this is the right way that we put in systems that will serve our people, so that they can actually do their dance. [Leadership] is like producing a play, or a dance item. You have to have all those things; the lighting, the music, the necessary stage, props and all that. Once you do that, they can dance.

Otherwise, it makes no sense; they can't even do what they need to do.

Another Director in a quantity surveying firm noted the importance of looking at things from a different perspective. He noted:

I have learnt how to deal with people, to take a step up and redefine the whole thing. I have learnt how to look at things differently…straight away the whole ball game changes. For example, if some one is pressuring you on a certain issue until you get backed up into a corner, but then you look at the issue from another angle and you raise a new question, straight away the whole thing changes because the person then has to react.

You have to step back and re-look at things and pave the way strategically.

CEO of another consulting firm said that a leader should be "versatile" in order to perform numerous roles under different circumstances. He said that the leader is the one who is able to see the "big picture". An Executive Director in a contractors firm said:

I look at the bigger picture in most of the issues but I do go into smaller details when I think it is necessary for me to get into.

These selected excerpts show that effective corporate leaders posses a systemic outlook and are able to make a "total" sense of the environment. They are able to comprehend the big picture, understand the context in which they operate. Viewing things in totality helps the corporate leaders produce a harmonious play of leadership within their organizations.

VIGILANT DECISION MAKING

Decision making emerged as an important category during the analysis. On average, every leader interviewed in this study touched the issue of decision making in some sense or the other. Leaders explained why decision making was so crucial for leadership, how they made decisions, what factors they considered while making decisions, and how they dealt the consequences during post-decision stage. Decision making process, as it could be seen from the responses of interviewees is complex, multidimensional, and contextual. However, leaders have to make decisions given all complexity and demands of different situations. A senior executive in a consulting firm said that "…it can be very frustrating, when the leader doesn't decide."

A Senior Vice President in a developer's firm observed that the project manager has to make the eventual decision. Although he relies on the information various stakeholders provide, the final judgment still has to be made by him. She observed:

Quality of decision making is the key. Project manager is not an expert, [neither] a specialist. He is a generalist. The project manager is a people manager. You rely on your service provider to provide the service and there you make a decision or a choice. That is why I have to respect what advice they give me. From there, I tell them what my decision is. I do it based on my own knowledge or feedback.

However, the whole process of decision making is intricate and multifaceted. Articulating the process of decision making, a female leader noted:

I think the main thing really is that you have to be confident enough, you look at the available information you have, and you have to make a decision. And then you have to convey the reasons for your decision to your followers …the rest of the team. And if there is any change in the circumstance, then you may have to change your decision. But if people know the reason why you make the decision, they can also help you to look out, in case circumstances change …And if it is wrong, you have to just see what you can do to rectify it.

Interviewees noted that empowerment of followers along with clear instructions and direction was important to facilitate the decision making. CEO of a consulting group noted that empowerment was fundamental to his decision making. He noted:

My other approach is empowerment …give your staff the authority to make decision BUT and a big BUT… always asked them to think of implications, that is "see things that others do not see"… Also, if there are problems, try and think through your options and then come to me to discuss the options. Do not come and see me asking for my decision if you have not in the first place, brainstormed through the options. Such training will help them to think better.

During the decision making process, however, the leader must remain vigilant and impartial. He must take the stalk of the situation and then decide. CEO of a developer's firm commented on this, saying:

For decision making, one has to set aside the ego. The ego is very important. You need to have it so that you can feel that you can do it. But one has to have a balance to do something that is less glamorous and is more appropriate to the market.

In the process of decision making, the leader must remain courageous to take unpopular decisions which may not suit the majority. Also, authentic leaders, while making decisions, keep a fine balance between firmness and flexibility to ensure that the decisions are for the greater good of people. Maturity and sensibleness are also part and parcel to decision making process. Also, the decisions should be shared and timely so that everyone can work towards the common objectives to achieve the results from the decisions made. An important characteristic of vigilant decision making is that the leader takes the responsibility of the outcomes. A senior executive in an architectural firm noted that:

…if I make a decision, I hold its responsibility. I won't push the blame on anyone else... [Sometimes] to them, I make a decision that is against their interest…May be I make wrong decisions [sometimes]. But along the way, I hold the responsibility.

GENERAL DISCUSSION

The current study shows that 'vigilant outlook' of corporate leadership is instrumental in establishing, developing, growing, and sustaining businesses. Flexible and adaptive management systems; attracting, developing and utilizing home-grown talent; diversifying across product and geographical boundaries; and developing niches are the tools that successful corporate leaders adopt to distinguish their organizations in the market. Corporate leaders who are able to attain sustainable growth of their enterprises despite the formidable array of issues are those who turn the challenges into opportunities. They recognize and empowerment of their employees, and develop the next generation of leaders. Their leadership purpose and aspired legacies are aligned and portray the future they envision for their people and organizations. Their vision and philosophy mould the culture and values which determine the future prospects of their organizations. They provide initiative so that others can comfortably follow their path.

Vigilant corporate leaders also keep the bigger picture in front before they take any decisions or strategize any changes for their organizations. They are able to think out of the box and engage in systemic understanding of issues that matter for their organizations. Given the complexity of environment and high stakes involved in corporate decisions, vigilant corporate leaders adopt the approaches of informed, shared, collective, sensible, and vigilant decision making. They defy the tradition of "command and control" and take a different route of leadership that encourages empowerment and participation of organizational membership at all levels so that people can feel participated, acknowledged, and valued. Such leaders bring people to around a common vision, align them towards a single goal, empower them to innovate, promote a culture of shared values and understanding, and believe in serving the organizational stakeholders.

CONCLUSIONS

Effective corporate leaders reconcile between their dynamic roles such as transformational visionaries, effective managers, astute entrepreneurs, thoughtful strategists, systemic thinkers, and vigilant decision makers. Their actions are guided by their values and their behaviors are governed by their principles. Workings in concert with their other corporate counterparts, effective corporate leaders are able to keep the organizational values alive and develop a culture in which everyone participates, thrives, and feels valued. Although they use a repertoire of strategies for effectual functioning, 'vigilant outlook' is makes the difference. In mathematical terms, corporate leadership minus vigilant outlook will eventually result in organizational failure.

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Man can never come up to his ideal standard. It is the nature of the mortal spirit to raise that standard higher as it goes from strength higher as it goes from strength to strength, still upward and onward – the wisest and greatest man are ever the most modest.

- S.M.F. Ossoli

ARTICLE

PARADIGMATIC ASYMMETRIES BETWEEN ECONOMICS AND MANAGEMENT DISCOURSES AS INSTRUMENTALITIES OF CAPITALIST ORDER

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ABSTRACT

This paper contrasts the economics and the management discourse paradigms to identify the purposes these discourses serve in sustaining and reproducing capitalist order. The paper begins with an identification of the major characteristics of capitalist order. Section 2 and 3 compare and contrast economics and management discourses respectively on the basis of the role they are designed to play in legitimizing and operationalizing capitalist order. The concluding section argues that their roles vary in efficacy. Both economics and management provide incomplete justificatory and reformative proposals but this is because capitalism is an inherently conflictive social order always threatened by implosion. Economics and management discourse have often evolved in respect to capitalist systematic crises.

Key Words: Economics, Managerial Theories, Capitalism, Justice, Legitimacy

CAPITALIST ORDER

Capitalism emerged in the early modern period in the Mediterranean city-states. It developed into a national and imperial system in 19th century Britain—the seat of the world's first industrial revolution was also the first capitalist world power. Capitalist global dominance was seriously challenged by USSR and China during 1917-1991 [Hobsbawn (1995)] but from then on capitalism is said to have entered a globalizing phase after the collapse of the Soviet Union and the (partial) adaptation of capitalist transactional forms by China. However, it is sometimes argued that globalization has already entered a phase of disintegration [Gray (1999)].

Capitalism's historical evolution has taken several forms—there exist and have existed several different capitalist systems. But capitalism is a 'relentless totalizer' [Meszoros (1995)], a whole, a system, and not merely a 'life world'. It does not fit into another system—there is no such thing as Christian capitalism, Islamic capitalism, Confucian capitalism etc. Capitalism subsumes the social order from which it emerges and creates its own social order—its own individuality, its own society and its own state. It is important to distinguish what is constant and what varies in the capitalist life system.

We must identify what is common between Japanese and American capitalism (why it is justified to describe both systems as capitalist) as well as what separates and distinguishes them from each other.

Defining these common features requires a working definition of capitalism. Above all capitalist order is founded on the general acceptance of a world view with the following characteristics:

Individuals act rationally when they seek to achieve ends that they freely set themselves

- Each individual has an equal right to autonomously determine his own ends-his conception of the good
- The purpose of social organization is to ensure:
- that individuals become capable of un-coercively determining their own conception of the good
- that society organizes human relationships in a manner, which enables all individuals to acquire a continuously increasing flow of resources for fulfilling these autonomously conceived life plans
- Political power has to be structured through law and administration in such a manner that the set of social relationships required for the promotion of individual liberty and capital accumulation are strengthened and reproduced continuously [Ansari and Arshad, (2006), chap 2].

Capitalism thus requires the continuous reproduction of capitalist individuality, capitalist society and capitalist state structures. There is an organic interconnection between capitalist individuality, capitalist social organization and capitalist governance. Capitalism is correctly viewed as a totality because of this inter-connection. Thus the capitalist market—the main form of social organization within capitalist society—cannot function in the absence of capitalist individuality. If men seek the pleasure of God—as Saint Francis of Assisi and Imam Ghazali (RA) expect them to do—they will not act as utility and profit-maximizers and the laws of supply and demand will cease to be operative (this is recognized by both Weber (1966) and Tawney (1949). If law does not recognize corporate personhood and interest and speculation based transactions as legitimate, unlimited accumulation cannot take place. Capitalism is a system in the specific sense that its three component sub-systems—individuality, society and state—are inter-connected and inter-dependent, each sub-system requires the continuous reproduction of the other sub-systems for its own survival.

Norms and values of capitalism distinguish it generically from other systems. The essential capitalist value is freedom; that is why capitalism is often described as a 'free society'. The individual in capitalist society is committed to freedom. Freedom is self determination—the right to do what one pleases, as long as this does not interfere with the right of all other members of society to do as they please. Capitalism recognizes no criteria for evaluating the worth of personal choices. The only unworthy act is to restrict the freedom of the individual to do as he pleases.

Capitalism recognizes the 'shortage of material resources' as the most important constraint on freedom. Society must be organized to maximize the potential for producing and consuming goods and services (for an increase in goods and services is a pre-requisite for increasing freedom). My ability to do as I please in capitalist society is ultimately limited by the size of my income and wealth. Therefore two very important values promoted by capitalism are acquisitiveness and competition. I must be induced to desire more and more resources for myself. Moreover, since everyone in capitalist society possesses this insatiable desire for more resources they must compete against each other and derive pleasure from this competition. Acquisitiveness and competition are thus necessary means for continuous increase in resources. This continuous increase in resources available for production and consumption becomes an end in itself in capitalist society. A capitalist society is one which accumulates for the sake of accumulation and evaluates (assigns value to) all activities in terms of their contribution to accumulation.

There is of course nothing natural or inevitable about regarding acquisitiveness and competition as individual or social norms [Tawney (1949): p. 17-24]. Christian terms for acquisitiveness and competition were avarice and covetousness respectively. The Christian social system had sought to promote virtues of poverty and charity while avarice and covetousness were classified as sins. For over a thousand years the European economy was embedded in social practices which ought to promote these Christian values. As Weber (1966) and Tawney (1949) have shown it was the rejection of these values which led to the emergence of capitalism. Similarly, a rejection of the values of acquisitiveness and competition will lead to the overthrow of capitalism.

This shows that contrary to the claims of neo and new classical economists [e.g. Hayek (1998)] capitalism has a history. Capitalist markets invariably emerge from non-capitalist social formations. In the twenty first century legislative and policy-making measures adopted by the World Trade Organization seek to construct technology markets by universalizing the US patent system. There is nothing spontaneous, automatic or natural about the processes of legitimization which reduce the access of developing countries to the new technologies. Capitalist markets and capitalist property forms are historical constructions in the specific sense that laws and practices are required for their emergence and sustenance. Historically constructed markets cannot be viewed as natural .outcomes of myriad unrelated events or attributed to the natural evolution of technology. This illustrates the fact that capitalism requires regulation. The politically legitimated source of this regulation has traditionally been the liberal and/or nationalist state and its agencies; but regulation is also undertaken by firms, state and its agencies such as the IMF and the WTO [Ansari and Khan (1998)]. Regulatory systems have their origin in national and local histories and the form and intensity of regulations continue to change over time. This brings us to the important point that capitalism exists in several national versions [Gray (1999)] and the history and customs prevalent in a country determine both the pattern of capitalist regulation and the structuring of capitalist transactions. Regulation of capitalist order is required for legitimating capitalist property; the vestment of control of this property in the hands of technically skilled managerial elite (who are not the formal owners of the assets they manage); the enforcement of capitalist contracts premised upon the formal equality and the factual inequality of contractees, etc. Although it is the duty of every capitalist state (be it American, Pakistani, Saudi Arabian etc.) to preserve these essential elements of the capitalist system, yet each state has to define the scope of capitalist property, the balance of powers between capitalist owners and managers, the legal form of capitalist contracts etc. on the basis of its own history and traditions.

It is thus useful to speak of a 'mode of regulation' (which a set of mediations in a capitalist civil society and state) undertaken to ensure that social distortions created by a specific ordering of capitalist transactions do not destroy the overall political, social and economic coherence of that civil society and state [Aglietta (2000)]. Specifically, these mediations must ensure:

(a) systemic dominance of the desire to accumulate through the promotion of the values of acquisitiveness and competition

(b) continued expectation of increased access to resources for accumulation

(c) ensuring of compatibility between claims and obligations for continuing accumulation

'Post Fordist' order is characterized by growing full time unemployment, increased mal-distribution of income, the spread of consumerism to many developing economies, the growth of part time employment, cheapening of the cost of financial transfer processes across national frontiers, widening of differentials in inter-sectoral productivity growth rates and changes in demographic structures.

Effective mediation processes are required for sustaining "Post Fordism"—it is not a self-sustaining order. Fordist mediation structures are collapsing. Mediation within the work process continues with collective bargaining being replaced by human resource management. As monopolistic competition increases organizational changes in firms and state bureaucratic decision-making structures facilitate outsourcing, automation and the growth of "flexible specialization". All these are mediated, not spontaneous, responses. Creating compatibility between the accumulation regime and the social commitment to capital's hegemony requires the legitimating of these new organizational structures [Boltanski and Chiapello (2008)].

Economics and Capitalist Order

Capitalist transactions require:

- the existence of markets in which anonymous individuals contract for the achievement of personal gratification
- the separation of ownership from control and the vestment of management authority in the hands of a beaurocratic elite which possess technical proficiency in sustaining efficient accumulation
- The universalization of the wage form
- The establishment of the social dominance of the financial markets which

  a) facilitate the pursuit of unlimited accumulation through the conversion of money into capitalist money and finance

  b) assign relative value to all economic activities in terms of the contribution of each activity to efficient accumulation

Economics is fundamentally concerned with the justification of the pursuit of wealth rather than virtue [Callinicos (1999), chap 1]. According to Smith a society dominated by "a passion for money making" is likely to be a peaceful society—one that avoids wars and internal violence. In an ultimate sense, freedom is identified with the promotion of self-interest.

Justifying transition from religious to civil society—i.e. capitalist order—was a central theme of Adam smith's Theory of Moral Sentiments. Establishing the justification of capitalist order has remained a central theme of all economic schools and political economy discourse since the eighteenth century. In religious (non capitalist) societies, maximization of profit (shareholder's value) does not justify economic activity. On the other hand, economics is concerned to justify the pattern of resource allocation determined by the principle of profit maximization. The best known defense of the profit maximization principle from Smith to Acton is on naturalist grounds [Schumpeter (1949): p. 376-7]. Everyone, it is argued, naturally seeks to possess more than he has and profit maximization is merely a manifestation of this natural avarice. But even if avarice is natural the question remains whether it should be restrained—as sloth is—or encouraged. Smith was conscious of the need to justify avarice and he did so, on the grounds of the famous "invisible hand" argument, which states that when the individual pursues his own profit he contributes to the maximization of social well being. Smith recognizes that maximization of profit by individual corporations may inhibit the maximization of total social profit (welfare) but he argued that the perfectly competitive market was an agent of capital in general and these markets subject individual corporations to a discipline which eliminate the possibility of maximizing individual firms' profit at the expense of total welfare [Smith (1972): p. 341-3].

The need to justify capitalist order led the classical economists (Smith, Ricardo, Malthus etc.) to analyze variations in aggregate output and its distribution. The basic unit in their analysis was not the asocial self-determining individual but social classes—landlords, merchants, laborers. The classical economists were profoundly concerned with questions of political philosophy and their focus on distributional areas reflects their attempts to advance claims for the universal validity of the capitalist conception of justice. The need to justify capitalist order has meant that economics is eventually a moral and a normative social discourse. Economics requires every man to accept capital accumulation as the only legitimate social end in itself. The representative consumer and producer (for example the modern representative agent in macroeconomics) is a representative of capital. If a person rejects capital accumulations as an end in itself economics can say nothing to him or about him. All economic schools of thought recognize however that capitalist justice cannot emerge spontaneously even if everybody is persuaded to become a compulsive utility / profit maximizer. This recognition is explicitly reflected in orthodox and post Keynesianism which build upon the insight that supply does not create its own demand and under consumption and overproduction are systematic tendencies nurturing capitalist crises. Keynes stressed the non neutral character of capitalist money, the role of expectations in determining investment decisions and cyclical behavior of aggregate demand and supply. In Keynesian discourse the capitalist state—and not the market—was the primary agency of capital in general and it was the responsibility of the state to ensure capitalist justice through generating full employment equilibrium and steady state growth [Keynes (1936)]. Capitalist justice requires the state to articulate countercyclical fiscal and monetary policies and determine wages through collective bargaining in the labor market. The capitalist state must ensure high and rising wages, low interest rates, state controlled exchange rates and orderly intersectional capital mobility.

Orthodox Keynesianism—the Hicksian interpretation of the General Theory within the IS-LM framework (ignoring uncertainty, expectations, liquidity preferences, arbitrary determination of asset values by financial markets and non neutrality of money)—recognized capitalist market outcomes as producing under full-employment equilibrium. But Hicks disagreed with Keynes about the level and not about the form of state intervention required to generate full employment equilibrium. Hicks accepted the idea that both money supply and public expenditure were exogenous variables under the capitalist state's control. He accepted that the state should manipulate these variables to produce full employment equilibrium. The capitalist state was the agency that concatenated the decisions of individually rational producers, consumers and financers to ensure maximization of total utility / profit [Hicks (1956)].

Orthodox Keynesianism was discredited during the 1972 to 2005 period due first to break down of the Phillips curve and secondly due to the Dot Com financial derivatives boom. Economics responded to this new structuring of capitalist order by formalizing two new discursive paradigms. On the one hand representative agent macroeconomics rejected the need for capitalist order justification (there is no alternative) and instead emphasized the second major function of economics discourse—evaluation. We will return to an analysis of 'representative agent' macroeconomics later on this section [Fudenberg (2006)]. On the other hand post Keynesianism (which we equate with radical post-Keynesians) sought to take account of the systematic changes that had taken place since the collapse of the Breton Woods system—accelerated financialization of the economy, persistent unemployment, globalization and the decentralization of the labor process. In the post Keynesian view the capitalist economy has changed so drastically that it requires justification discourses regarding; e.g. monopolistic pricing and output decisions, the need to regulate speculation, dominated financial markets and an analysis of firm behavior, taking account of decreasing costs, increased scale and the need to preserve capacity. The post Keynesians continue to see the capitalist state as the legitimate representative of capital in general and propose policies to enable it to generate just capitalist market outcomes; in essence they provide an analytical framework for justifying social democratic policies [Lavoie (1994)].

Critics of market capitalism such as Sraffa and Marx are also legitimate representatives of the political economy school established by Smith and the Physiocrats. Sraffa's analysis [(1926), (1960)] presents market capitalism as a profoundly unjust system (in the sense that it necessarily fails to maximize profit/utility). Sraffa showed that it was impossible to derive individual or aggregate supply curves and therefore capitalist markets are not likely to yield unique (just) equilibrium price-output configurations. Sraffa also showed that productivity of capital does not determine profits. The pattern of income distribution / resource allocation generated by capitalist markets does not represent any technical imperative for maximizing efficient or equitable utilization of resources. On the contrary, it reflects the distribution of power within a particular capitalist order—i.e. the profit / wage ratio is determined by the struggle for power between capitalist and worker. Therefore market capitalism is not a rational system. The ends it sets itself cannot be realized by the universal practice of its own rationale.

Despite all this Sraffa's original motivation in his 1926 paper was to make microeconomic analysis more useful for understanding capitalist order. He sought a revival of the theory of the firm to take account of credit growth (what we now call financialization) and of the necessary resort of marketing, non-homogenous products to non-homogenous markets. Thus there is nothing in Sraffa rejecting capitalist values, structures and transaction forms. Sraffian suggestions for reforming market capitalism are much more limited than those of the Keynesians—they are mostly focused on the legitimization of monopoly in both product and factor markets [Bhardawaj K (et el) (1990)].

Marx like Sraffa is a critic of market capitalism—not of capitalist order. He sees the capitalist market as an instrument for the realization of surplus value (which accumulates in production) and its expropriation by those who own the means of production. To him, market capitalism is unjust not because it extracts surplus value rather because surplus value is expropriated by those who do not produce it. If the expropriators are expropriated, capitalist order will generate just outcomes. Capitalist (accumulation based) order can be justified if means of production are nationalized / socialized and allocation of resources is determined by state planning [Bose (1980)]. Since Marx endorses the fundamental capitalist value—freedom—it has proved easy to re-legitimate capitalist structures and transactions from within the context of the Marxist paradigm [Wilde (1989)]. After all the "end in itself" in non-market capitalist states—the USSR, China, Cuba, Yugoslavia—has always been capital accumulation, an indispensable pre-requisite for the extension of freedom. Von Mises showed nearly a century ago the price/output configurations generated by a perfectly competitive market system are identical to the price/output configurations generated by a system of perfect planning. The leading Marxist economics school today—Analytical Marxism—endorses this finding [Freeman and Carchedi (1996), Mahun (1994)].

Some other recent trends in economics, such as behavioral economics, redesign neoclassical theory by building the observed basis into the behavior of the individual. Behavioral economics thus 'add on (new variables) to standard neoclassical analysis and contributes to the effectiveness of policies designed to move actually existing capitalist individuality towards the idealized capitalist individuality [Fudenberg (2006)].'

HOW DOES MANAGEMENT SERVE CAPITALIST ORDER?

Section 2 attempted to show that economics discourse has the following main purposes:

1. To justify capitalist norms, regulatory procedures and transaction forms
2. To develop ideal types ("models") against which the behavior of actually existing individuals, societies and states can be evaluated
3. To develop policies which can induce and force individuals, institutions and governments to adopt capitalist norms, behavioral patterns and regulatory procedures

Microeconomics is principally concerned with the first two objectives. It justifies capitalist market order by positing that it provides a value-neutral analytical "tool-box" which can be utilized to achieve the optimal allocation of resources. It shows that society functions equitably and efficiently (both terms defined on the basis of capitalist epistemology) when people are fully (capitalistically) rational. These models of perfectly rational behavior provide a basis for assessing price and output determination processes within both product and factor markets. They show how consumers, producers and regulators ought to behave so that capitalistically optimal resource allocation can be achieved and sustained.

Microeconomics is however weak as far as its policy prescriptions are concerned. It subscribes to Smith's "invisible hand" and Menger-Hayek's "spontaneity" doctrines.

Once capitalist property rights are enforced ('law and order' ensured says Smith) capitalist markets will spontaneously, unintentionally, necessarily and continuously generate optimal equilibrium (harmonious & reinforcing) outcomes. Even the intuitionalists and evolutionalists recognize this as a naïve and simplistic model of actually existing capitalism. People do not normally behave as capitalism requires that 'they ought to' [Epstien and Stanly (1989)].

In fact, the key capitalist institution is not the market but the corporation. Markets exist in non-capitalist societies; corporations, on the other hand, are peculiar to capitalism (as is finance). It was capitalism that created the corporation. The corporation is the legal person totally dedicated to the maximization of the shareholders' value. Corporations can exist only within capitalist order, for the maximization of (surplus) value—accumulation as an end in itself—has never been recognized as a raison d'etre of any non capitalist society through out history. Corporations are the quintessential form of capitalist property. It is only when corporations achieve hegemony within a marker that it becomes a capitalist market. If corporations do not exist or are subordinated to non-capitalist property forms the market is not a capitalist market. Like our sabzi mandi, it remains a socially embedded bazaar whose output and price configurations do not reflect a quest for continuously higher levels of capital accumulation.

Management discourse appeared more than a hundred years after Classical Political Economy which was born in the mid to late eighteenth Century—through the writings of Quesmay, Turgot, Hume and Smith. Modern economics—Neo Classical Economics—was well on its way towards becoming the dominant social science paradigm when Management theory was first formalized. Growth of its intellectual predominance restricted the scope for Marginalist discourse. Within European universities neo-classical economics emerged specially in two majors streams; i.e. in the British school (Jevons, Edgeworth, Marshal) and the Austrian school (Menger, Bohm-Bark, Weizer). Both argued that capitalism and all its institutions, money, division of labor and production functions, emerged spontaneously when men behaved rationally. Operation of the "invisible hand" ensured that a system of general equilibrium prices prevailed throughout the system [Schumpeter (1949): p. 411-429]. We are in the best of all possible worlds and capitalism is a uniquely just, optimally efficient life-world which could not be improved upon by management or any form of policy intervention. Efficiently operating capitalist order eliminated the need for Management (both theory and practice).

However, the neoclassical claim for policy irrelevance was severely challenged at the turn of the century by several developments within capitalist order. From the 1880s onwards, several European countries were shaken by major strike waves led by the new unions which were successful in organizing large masses of non craft workers. In the first decade of the twentieth century, British global hegemony was effectively disputed by emerging protectionist and nationalist regimes in Germany, Japan and America. The Great War (1914-1918) followed and the disintegrating international finance and international trade system collapsed comprehensively during the inter-war period (1919-1939). With efforts to restore the gold standard proving futile, beggar thy neighbor protectionist policies and conservative fiscal and monetary stances (based on Neo Classical Economics teaching) led to catastrophic stock market crashes and ushered in the great depression of 1929.

Macroeconomics emerged from the debris of the Great Depression. It refuted the microeconomics doctrine of necessary 'policy irrelevance' and argued that the capitalist state must both govern and intervene in the markets through:

a) A cheap money policy
b) A deficit financing based fiscal policy
c) A capital movement restructionist fiscal exchange rate policy

The twentieth century also saw the emergence of the giant corporation and the consequent discrediting of the model of perfectly competitive markets based on atomistic-small firms (so central to neoclassical economics discourses). Imperfectly competitive markets theory emerged in Britain and in America and the theories of 'finance capital' and 'monopoly capitalism' were initially formulated by Rudolf Helferding (1969) and Baran and Sweezy (1953) during this period. These theories recognized that market governance and planning was also undertaken by giant corporations. Sraffa also recognized this as early as 1926.

It is the science of Management and not Economics which focuses theoretical attention on how decisions are made within the corporation and among corporations. Since these are extra market prior decisions—decisions a corporation takes before it enters the market—microeconomics has almost nothing to say about them. It calls the corporation a "firm" and in most microeconomics analysis a firm is treated as a mysterious closed "black box".

Management is specific to capitalist order. Management subsumes administration as the market subsumes the bazaar and the corporation subsumes private property in capitalist order. For example, Management is unknown in Islamic history before the imperialist conquest. Muslims built and rebuilt the Kaaba over several centuries, organized trade spanning three continents, developed an all-Asia transport and communications network, undertook incessant Jihad for almost a thousand and four hundred years all without any study and practice of Management.

Management does not exist in non-capitalistic society because management is dedicated to deploying resources to produce continuously maximized surplus value. The cooperation turns private property into a legal fiction—the share holder "owns" the corporation just as much as a citizen of the ex-USSR "owned" the Socialist Republic and "participated" in the exercise of the dictatorship of the proletariat. This devaluation of private property leads to the transfer of control of the resources of the corporation from its legal (fictional) owner to those trained to use these resources to maximize and realize the surplus, the corporation's raisin d, etre. Managers monopolize the type of knowledge on the basis of which resources are used solely for the purpose of continuing, never ending increase in their quantity (capital accumulation).

Capitalism's central value is freedom. Capitalistic individuality is nurtured not through repression but through freedom. Promoting freedom requires that 'preference for preference itself' (capital accumulation as an end itself) be prioritized over all specific preferences. A famous French philosopher of the twentieth century Michael Foucault said that capitalism requires a delicate balancing of "unity" and "diversity"[Foucault (1988)] . Simply put, this means that every capitalistic individual must:

a) dedicate his life principally to accumulation (that Foucault calls 'unity')

b) be willing to explore varied ways through which accumulation is achieved and accelerated (that he calls 'diversity')

Capitalist order has a unifying purpose—the maximization of utility/profit/rate of accumulation—but seeks the achievements of this purpose through an ever expanding diversity of thought and acts. Management, particularity self and self discipline, are crucial in capitalist order because it is through management that diversity of thought and action is organized in a manner which sustains continuing accumulation as the raison d'etre for individual being and social life.

This purpose becomes evident when we examine management theory. Management theory is an American project. It appeared as an academic discipline in the universities of Pennsylvania and Chicago in the late nineteenth century. Management is a multidisciplinary theory par excellence. It combines themes from psychology, sociology, cultural anthropology, philosophy, political science, economics, mathematics and statistics.

A first attempt to provide a coherent theoretical framework for the study of management was developed in Henry Fayol's theory of universal management process [Fayol (1949)]. He argued that management consisted of the performance of five basic functions (a) planning (b) organizing (c) commanding (d) coordinating and (e) controlling the managed. Management in Fayel's view is a process which begins with planning and culminates in controlling the managed. The purpose of undertaking all these functions is the achievement of 'efficiency', defined in all management literature as the production of greater output value with lower input cost. Fayel saw management as an orderly and rational process, and Fredrick Taylor—the inventor of scientific management—built upon this view. This approach focused upon improving quality, cutting costs and systematizing work processes [Taylor (1947)].

Taylor sought to create "a mental revolution" in both managers and workers so that they saw each other as allies and not as antagonists. Taylor's concern was to derive "best practice" operational standards through systematic observational experimentation and analysis of various aspects of the work process. On the basis of extensive time and task studies, Taylor made recommendations about work process recognition of employee selection and training and worker remuneration systems. He saw the capitalist worker as being primarily motivated by high wages and developed a complex remuneration system which links productivity and wage growth. Taylorist methods often proved very effective in raising productivity and reducing cost at the plant level. Work motion study was developed into something like an exact science by Taylor's followers. Attempts were made by them to combine production and cost control techniques and this led to the evolution of a more complex view of worker motivation. Joseph Jaran (1993) taught that management ought to view the worker as an "internal customer". The worker was to be motivated through teamwork, partnership, problem solving and brainstorming. Other "stakeholders, especially those within the corporation supply chain, could also be motivated through the use of these methods. The emphasis on quality management emerged from these insights. Feigenbaum (1951) showed that ultimately it was the customer who determined quality—quality was therefore a subjective, not an objective factor and managing customer preference was the key to quality improvement. Operations management showed how important this was in purchase, inventory management product and service design and design of the work flow process and data processing and communication [Littler (1983): p. 146-151].

This concern with worker, supplier and customer perception facilitated the emergence of the Human Relations Management school [Mayo (1993)]. In this view successful management requires that a manager be capable of working effectively with people of diverse background, perceptions and motivations. The manager must be capable of fusing this diversity into the singularity of accelerated capital accumulation (efficiency and productivity growth). HRM instructs managers to be particularly sensitive to employee diversity.

Human Resource Management (HRM) is an explicit response to the growth of unionization in America. It emerged as a reaction to the 1935 Wagner Act which recognized the unions' right to collective bargaining. HRM preaches that satisfied workers are less likely to join unions. Productivity could be enhanced by changing the attitude of the workers towards each other and towards management. HRM researchers tried to show that emotional factors are more important determinants of productivity growth than physical aspects such as lighting, job description, formal organizational communication systems etc. Management should consciously foster worker empowerment at work. Mary Follett, a pioneering HRM philosopher, urged managers to motivate workers. The boundary separating "management" from "operative" has become ambiguous. Both work for capital, and Follett argued that the worker could be taught to become "an organization man". He could be taught to practice self management (self control) and shed his traditional adversarial identity. He could be convinced that productivity growth, efficiency enhancement, profit maximization was necessary for his own well being. People are the key to productivity growth. Technology, standards and work rules do not guarantee productivity growth. Instead, profit growth depends on skilled and motivated workers committed to capitalist norms—utility/profit maximization as an ultimate end in itself [Metcalf and Ururick (1942)].

The complexity of capitalist order reflected in its dialectical pursuit of unity through diversity has been appreciated by authors who seek to address management on the basis of a systems approach [Kass (2003)] . They view the corporation as a co-operative system dedicated to the pursuit of a common end—productivity, efficiency and profitability maximization. Communication is the necessary means for linking the individual workers' motivation (his willingness to serve) to the corporation's purpose (maximization of profit) [Bennett (1933)]. Understanding intra-organizational communication necessitates that the corporation be viewed as a complex, dynamic network structuring and sustaining capitalist individuality as an essential means for the realization of its purpose (profit maximization). Management systems analysts portray the corporation as a living thinking system and emphasize organizational learning [Gravis (1993)]. Interaction between Chaos theorists and some system management thinkers has led to the realization that environmental feedback is key to organization learning. Systems theory, therefore, underlines the importance of viewing the corporation as part of a complex whole (capitalist order) [Gravis (1993): p. 87-89].

Several attempts have been made by management theorists to combine different elements of the Scientific Management, HRM and the Systems approaches. The most widespread of these is the 'Contingency approach' which emphasizes that there are not universally applicable principles for relating diversity to singularity. Different situations require different approaches—scientific management may be more suitable for increasing efficiency in a steel mill and HRM approach may be a useful means for enhancing productivity in a corporation which mainly employs copy writers [Shetly (1974)]. As a whole, Management theory emphasizes that capitalist individuality is not spontaneously produced in the market. It has to be structured and sustained within corporation hierarchies (which are extra market phenomenon) through interaction between the corporation and its stakeholders and through the regulation of the corporation by the capitalist states. Management theory therefore provides a much more realistic analysis of how capitalist order functions than does economics. However economics continues to provide the ideal types—the optimizing models—on the basis of which actually existing markets can be evaluated in terms of their conformance with capitalist ideology. Management science may therefore be viewed as a practice for moving capitalist realities towards capitalist ideals.

FUNCTIONALITY OF ECONOMICS AND MANAGEMENT DISCOURSE IN TWENTY FIRST CENTURY CAPITALISM

During 2007- 2009, global capitalist order has been going through a major financial crisis—the worst since the years of the Great Depression. But there are far fewer signs of resistance and revolt than there were four decades ago when following the upheavals of 1968, there was a surge of serious militancy in France, Italy, Britain and several other west European countries. The United States was in the grip of a powerful anti-war movement and Keynesianism was thoroughly discredited throughout the Western world.

But capitalist order—both at the national and the global level—emerged strengthened from the crises of both the 1930s and in the 1970s. Boltanski and Chiapello (2008) attribute some of this triumph to management discourse. It was the ability of management discourse to incorporate many of the critiques raised against capitalist practices, especially at the level of the shop floor which enabled management to defuse worker militancy and make workplace discipline and organization both acceptable and attractive to a large majority of workers. Unions were defeated. Man hours lost due to industrial action plummeted. Industrial relations and collective bargaining mechanisms lost their functionality and the distinction between 'boss' and 'operator' within the corporation became increasingly blurred.

Boltanski and Chiapello (2008) undertake an exhaustive survey of French Management literature during the period 1991–2001 to show that this literature provided insights which enabled management to win worker support for "re-appropriating" the critique of the 1960s within capitalist order. This was similar to the role of Keynesianism played after the crises of the 1930s. This re-appropriation of the 1970s critique enabled capitalism to articulate a new "spirit" providing formerly antagonistic workers with reasons for abandoning antagonism and participating enthusiastically in capital accumulation. This "new spirit" demonstrates the justice of capitalist order and provides "tests" demonstrating that this justice characterizes capitalist transactions. The "new spirit" successfully substituted the "tests" of collective bargaining and career advancement mechanism by tests of mobility, versatility and project switching opportunities.

The management literature of the 1990s succeeded in inducing the leading French enterprises to become "(l)ean, working as network, with a multitude of participants, organizing work in the form of projects intent on customer satisfaction (and) mobilization of workers (on the bases of) their leader's vision. Co-organizational principles like just in time, total quality, autonomous production teams and locus of tools to implement them (became widely) acceptable" (Boltanski and Chiapello, 2007: p. 73-74).

In the leading French firms "Taylorist" production systems gave way to more consensual orderings where firms adopted networking, dismantled rigid management hierarchies and structured management worker relationship to promote autonomy. This enabled management "to reassert control on their own particular batch to get these subordinates back to work, increase their margin of maneuver and to restore profits" (p. 501).

The new work culture was characterized by "autonomy spontaneity, delayering of hierarchies, multitasking, openness to others, sensitivity to differences, informality and interpersonal contacts" (p. 97). This neutralized what Boltanski and Chiapello describe as "the artistic critique" expressing the resentment, the inauthenticity of capitalist life-experiences, the subjugation of individual creativity brought about by standardization and commodification of labor process under Fordism. Management succeeded in making work more rewarding in the "artistic" side in the sense that it enhanced opportunities for the expansion of individual autonomy and creativity and this blurred and deferred the social critique which was aimed at inequitable distribution of wealth and power and rising poverty. "Exploitation" and social inequalities became more acceptable to workers as work process autonomy and flexibility was enhanced. The struggle for state governance of markets, social security and worker representation lost its edge.

Employees used management discourse to disarm worker militants and work process reorganization proved more effective than layoffs and lock outs in de-constructing capitalist resistance. The Manager "became a democratic leader (rather) than a dictator; authoritarian management was replaced with the semi-autonomous work group" (p.168) Centralized bureaucratic structures gave way to "decentralization meritocracy and management by objectives" (p. 65).

The emphasis on individualization, creativity and mobility "served as a lever for decoupling capitalism from the state (p. 504). Bourdiou, Derrida and Deluze delegitimated the interventionist state Trade Union struggles focused on capturing state apparatuses for contesting management authority thus lost popular support. Management discourses have thus proved their utility in enabling capitalist order to relegitemate itself and disarm some of its leading critics in the third quarter of the twentieth century.

During 1987-2009 there have been three major down turns in global capitalist growth; 1987-91, 2000-2003 and 2007 to the present. In none of these was capitalist hegemony seriously challenged by the national labor movements in the metropolitan capitalist countries (except perhaps in France in 1995 and 2005 but these were not enterprise specific challenges disputing management authority. They were movements against roll back of the macroeconomic commitments of the social welfare state, which is not management discourse's primary concern). The "globalization from below" movement which emerged in 1999 soon became something of a garland, rather, a banner. The annual festivals of the World Social Forum (WSF) pose no serious threat to capitalist order and the multinational organization of production and finance.

A less convincing case can be made for the continued (capitalist) functionality of economics discourse. As we have seen above economics discourse is concerned with providing ideal types against which actually existing behavior can be measured and for the formulation of macroeconomic and market regulatory policies to move actually existing capitalist transaction forms towards ideal types derived from capitalist rationality. Sraffa and the Post Keynesians have identified the inconsistencies and incoherence embedded in neoclassical micro and "macroeconomics" discourses conceptualizing ideally rational forms of market behavior and state market governance structures. While Sraffa (though not all Sraffians) seems to argue that capitalism's inherent contradictions are insurmountable and capitalist collapse is therefore inevitable, neither Marxists nor most post Keynesians share this view. Both Marxists and post Keynesians seek to present a truer and more authentic description of capitalism identifying space within the system for policy interventions what enable the system to achieve the objective of unending capital accumulated through the maximization of utility/profit. An eclectic incorporation of Post Keynesian and Post Marxist themes within neoclassical discourse remains possible—and indeed necessary during periods of capitalist crisis—and can lead to the reformulation of the ideal types of market transactions and state market relationships—as shown by the adoption of Keynesianism in the 1950s. Incorporating elements of Sraffa's theory in this way, however, seems impossible.

Institutional economics and related complexity analysis may also have the potential to articulate a more coherent understanding of capitalist reality. Meso (i.e. institutional structure) responses to disequilibria and institutional economics' understanding of the capitalist market as a dynamic system incorporating uncertainty in its formal analysis makes it useful for understanding how innovation and entrepreneurship is being institutionalized in capitalist order. Some Intuitionalists have also developed framework for showing that despite its evolutionary characteristics the market system possesses inherent characteristics for assimilating crisis situation in its normal functioning process. They can provide a much needed discourse for understanding capitalism's resilience to systemic shocks [Hodgeson (1999)].

The evolutionary variants of Institutional Economics may provide a more profound and better nuanced explanation of capitalist state capacities and policies than mainstream economics. Based on orthodox microeconomic foundations, Institutional / Evolutionary Economics is also functional in that it allows the analysts to methodically relax 'ceteris paribus' assumptions of standard economic theory to develop a better understanding of the functioning of capitalist markets. This is also true of Behavioral Economics, which is also functional and realistic, adding depth to microeconomic analysis [Fudenberg (2006) and Barnett (2000)].

Complexity theory applications to the study of market functioning can also deepen economic analysis. These applications (especially those on the basis of Chaos theory) identify non linear relationships among elements within the market system and investigate the capability of the market system to self-organize [Rosser (1999)]. Chaos theory applications in the physical sciences show that often behind apparently chaotic behavior there is an organizing force which Lorenz called "a strange attractor" [Keen (2004), chap 12]. Complexity theorists working on market systems sometimes claim that behind apparent persistence of disequilibrating price and output configuration there exist similar "strange attractors" which produce business cycles but (may) also ensure that the cyclical behavior of the capitalist market system is self corrective and self sustaining [Nightingale (1999)]. If Complexity analysis can identify "strange attractors" it will make a major contribution to the understanding of capitalist market order.

Economics discourse thus remains indispensable—and as yet untranscended—as an instrument for articulating capitalist rationality no matter however incoherently it attempts to do this. The affectivity of economics discourse is limited in two ways (a) First as Sraffa shows that capitalism is a conflict ridden, chaotic system generating discord not harmony and its maxims are therefore not universalizable (b) and secondly economics cannot prevent the transcendence of capitalist rationalization, the individual and social rejection of capital accumulation (utility/profit maximization) as an end in itself. Economics cannot persuade me to adopt the capitalist way of life and if I reject capitalist order economics has nothing to say to me or about me.

Management theory also faces two major challenges in the twenty first century. First, as Lash and Urry pointed out twenty years ago (1988) that capitalist order is unraveling. The capitalist state is "withering away" and the capitalist life world ('civil society') is inundated with meaninglessness. Boltanski and Chappiallo (2008) in their masterly review of French post-modernist management theory have shown how difficult is to maintain market order in these circumstances. Post modernist Management theory has responded by advocating social responsibilisation of business and the delayering of organizational hierarchies so that almost everyone can "do his/her own thing". But delegitimization of state regulation (i.e. regulation by the democratically sanctioned representative of capital in general) and dismantling of firm and market commercial structures compatible with capitalism's supreme singularity—profit / utility maximization? Boltanski thinks not but as dear, departed Zhou En Lai said "perhaps it is too early to tell".

Secondly, Management theory's American genesis limits its applicability to un-American societies—societies which are not and do not wish to become America. Here Management is an alien import thrust upon Kipling's "new caught sullen people, half devil and half child" by imperialist armies. Can Management be un-Americanized and embedded in un-American societies? John Grey (1999) argues that while Russia and most of Latin America have failed to do this, Germany, Japan, South Korea and China have succeeded in building distinctly national capitalisms involving among other things an indigenization of Management.

What is happening in Pakistan? Pakistan's specific management literature remains woefully sparse. We teach American text books and assume the inevitability of the Americanization of Pakistan. The time has come for challenging these assumptions and for developing an objective analytical framework for understanding organizational processes in Pakistani society and economy.

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A healthful hunger for a great idea is the beauty and blessedness of life.

- Jean Ingelow

ARTICLE

THE EFFECTS OF CORRUPTION ON THE NIGERIAN ECONOMY

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ABSTRACT

The study aims at examining closely the effects of corruption on Nigerian economy. This is informed by the general belief that the menace of corruption has disastrous consequences not only on the economy but on all sectors of human endeavour. A number of related works were intensively reviewed and both the secondary data and primary data from secondary source were used. It was however, discovered that corruption has significant effects on the Nigerian economy. In effect, corruption slows growth, leads to inefficient investments in public projects, and slows down foreign investments. Hence, it was recommended that government should ensure that the civil servants are honest and trustworthy and virtues should be inculcated in people. Any discovered case of corruption should be exposed without minding the position of the culprit and be brought to book. This will serve as deterrent to others. Importantly, government should provide adequate pay package for public servant and their remuneration should be competitive with that of the private sector.

Keyword : Economics, Corruption, Foreign Investments, Competitive Remunerations, Vigilant Outlook.

INTRODUCTION

Corruption has become an endemic in all the countries across the globe, and that it is not peculiar to any continent, region or ethnic group. It cuts across faiths, religious denominations and political systems and affects both young and old, man and woman alike. Corruption is found in democratic and dictatorial politics; feudal, capitalist and socialist economies. Christian, Muslim, Hindu, and Buddhist cultures are equally bedeviled by corruption (Dike, 2005). Similarly, Nwaobi (undated) observes that Corruption respects no national boundaries and it deeper poverty around the globe by distorting political, economic and social life. And Husted (1999) also notes that Scandals have shaken governments in Belgium, Italy, Japan, and Spain. No country has been left untouched by its pernicious consequences. Corruption is a universal cancer, according to Eigen, Chairman of Transparency International (TI) the world's leading anti-corruption organization. He stressed that: "Our new index again shows that corruption is widely seen to be very high in many countries." (TI, 2000).

Today, corruption at the highest levels captures headlines everywhere, and people are becoming aware of its disastrous consequences. Corruption is now a key and prominent issue in the international press. For instance Dike (2005) posits that the International Olympic Committee (IOC) had to relieve some of its officials of their posts because they had taken bribes. And all the commissioners of the European Union (EU), resigned because they, too, had been found to be corrupt. In the United States, Enron Corporation, an energy giant and WorldCom, a telecommunication company, were charged with fraud. The companies manipulated their balanced sheets, profit and loss account and tax liabilities. Enron's accountant, Arthur Andersen, collapsed for greed and fraud as it was charged with obstruction of justice in connection to the Enron probe. Hence, corruption is one of the greatest challenges of the contemporary world. It undermines good government, fundamentally distorts public policy, leads to the misallocation of resources, harms the private sector and particularly hurts the poor.

It is presumed that the menace of corruption is really disturbing in most of the developing countries and Nigeria in particular. Consequently, the Nigeria-Plant.com (2006), observes that one of the major challenges that has faced the Nigerian over the years is the issue of corruption and its debilitating ancillaries bribery, graft, fraud and nepotism.

Transparency International, an independent global watch on corruption consistently ranks Nigeria among the most corrupt nations in the world, an inglorious record that has stunted growth in all areas of endeavour in the country (Ribado, 2003;). Similarly, in his study Dike (2007), confirms that there are many unresolved problems in Nigeria, but the issue of the upsurge of corruption is troubling. He stressed that although corruption is a global phenomenon it is however, becomes a pandemic in Nigeria to the extent that almost everybody is involved in the crime. In effect, the issue of corruption is prominent among the problems bedevilling the country. In view of the aforementioned extent, this study is set out to examine the effects of corruption on the Nigerian economy.

LITERATURE REVIEW AND THEORETICAL/ CONCEPTUAL ISSUES

Corruption has attracted the attention of academicians and perhaps this is the reason that explains a wide range of definitions given to the topic (Salisu, 2000; Geo-JaJa and Mangum, 2000; Dike, 2007). Of significance are distinctions among what is considered a corrupt practice as defined in the official laws of various nations. Thus, Geo-JaJa and Mangum (2000) observe that corruption exists in varying degrees in all parts of the world, so has each country tried to enact or promulgate laws to deal with corrupt practices, no matter how they might define the term. This makes corruption a relative notion in that the norms and specifics of one society do not always agree or correspond to the norms of another society. Internal morality in some societies might be inconsistent with external morality, while in other societies standard might not exist to guide or enforce government official conduct. Thus, what might be abnormal in one society might be the accepted norm in another society. In any context in which corruption is perceived, it is both a serious problem in its own right and a symptom of deeper crises for the whole world. It makes positive social and political changes difficult.

The literature includes many definitions of the concept of corruption. Some of them are restricted to situations in which one of the parties is a public official (LaPalombara, 1995; Oldenburg, 1987 see Husted, 1999), while others allow for corruption between two private parties as in the case of commercial bribery (Coase, 1979). Corruption has broadly been defined as a perversion or a change from good to bad. Specifically, corruption or corrupt behaviour involves the violation of established rules for personal gain and profit (Sen, 1999). Corruption is efforts to secure wealth or power through illegal means private gain at public expense; or a misuse of public power for private benefit (Lipset & Lenz, 2000; Lawan, 2008). Similarly, Nwaobi (undated) and Salisu (2000), defined corruption as the use of public office for private gain and this include bribery and extortion which necessarily involve at least two parties and other types of malfeasance that a public official can carry out alone (including fraud and embezzlement). Corruption can be described as a behaviour which deviates from the formal duties of a public role, because of private gains - regarding personal, close family, private clique, pecuniary or status gains. It is a behaviour which violates rules against the exercise of certain types of duties for private gains - regarding influence (Nye, see Dike 2005). This definition includes such behaviour as bribery (use of a reward to pervert the judgment of a person in a position of trust); nepotism (bestowal of patronage by reason of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private uses) (Banfield see Husted, 1999). From social perspective Osoba (1996), posits that corruption is an anti-social behaviour conferring improper benefits contrary to legal and moral norms, and which undermine the authorities to improve living conditions of the people. In the same direction Nwaobi (undated) maintains that corruption is usually entrenched and embedded in a social setting. Hence, Husted (1999) observes that the subject of corruption has also been of great interest to criminologists. Many of their studies have investigated the relationship of specific organizational structures and incentives to corruption. Dombrink (1988) examines the structure and culture of police departments throughout the United States and concluded that "police corruption control represents a range of strategies aimed at instilling professionalism, high morale, and commitment to innovation in police organizations." Barnett (see Husted, 1999) performed a similar task by looking at the structural and institutional causes of corporate crime.

However, in a broader sense, corruption can be seen as an arrangement that involves an exchange between two parties (the demander and the supplier) which (i) has an influence on the allocation of resources either immediately or in the future; and (ii) involves the use or abuse of public or collective responsibility for private ends (Macrae, see Salisu, 2000). It is obvious from this definition that corruption takes place between two parties and involves the exchange of valuables.

Husted (1999) argues that a model of corruption should explain the underlying causes or antecedents of this kind of exchange that influence the allocation of resources and involve the use of public responsibility for private ends. Most of the literature regarding causes of corruption however, focused on the economic and the political factors involved. Husted (1999) develops a series of hypotheses related to the causes of corruption based on both the existing corruption literature, which tends to focus on economic variables (economic development and income distribution) and a political variable (government size), and the cross-cultural management literature. In addition he introduces the concept of culture look at the way certain cultural values may affect corruption. For instance in an attempt to understand the causes of corruption, economists cite the level of economic development as an important contributor to corruption (Alam, 1995; Macrae, 1982 see Husted, 1999). This explains the reasons for differences in the level of corruption for countries that are at different level of economic development. The differences in the level of corruption not only exist across countries but also within countries (Alam, 1995). Thus, Husted (1999) hypothesised that the higher the level of economic development, the lower the level of corruption in a country. Interestingly, Mauro (1995) suggests that a reverse causality may exist. He finds that a high level of corruption deters foreign investment in a country, which in turn reduces economic development. One would expect that as corruption increases, economic development would be lower. Regardless of the direction of the causality, one should find a negative correlation between the level of economic development and corruption.

Similarly, there is a relationship between income inequality and corruption. In effect, corruption tends to preserve or even widen inequalities in the distribution of income (Husted, 1999), and on the other hand inequality in distribution of income can promote higher levels of corruption (Alam, 1995 see Husted, 1999). It appears that some sort of mutual causation may exist between income inequality and corruption. It is presumed that the existence of a more equal distribution of wealth reflects the existence of a middle class that can act to protect its interests through the organization of interest groups. And such groups consequently, tend weaken the proliferation of corruption. Again, Husted (1999) hypothesised that: the greater the inequality in the distribution of income, the higher the level of corruption in a country.

Another cause of the variation in corruption from country to country, which has been proposed by political scientists, relates to the size of government. According to this argument, the size of modern government with respect to the economy as a whole creates larger bureaucracies, and increases the temptation for bureaucrats to misuse funds and exercise discretion in the awarding of contracts. LaPalombara (Husted, 1999) excludes Scandinavian countries from his generalization, but concludes that a rough positive correlation does exist between how much of GDP a government gets and how much corruption exists. Hence, Husted (1999) hypothesised that: The larger the government's share of GDP, the higher the level of corruption in the country.

Nature and Characteristics of Corruption in Nigeria

Corruption and the abuse of positions and privileges have long been features of Nigeria's economic and political landscape. Systemic corruption and low levels of transparency and accountability have been major sources of development failure. **Types:** corruption could manifest in many forms; hence, some studies have taken a holistic (broader) approach in the discussion of corruption by dividing it into many forms and sub-divisions (Dike, 2000). These are: political corruption; bureaucratic corruption and electoral corruption.

Tignor (1993) stressed that political corruption is widespread in contemporary societies, and is regarded by some analysts of the Third World as the single most important obstacle to economic development and political integration. Certainly the frequent regime changes which have occurred in Africa in the last several decades have been accompanied by charges of gross administrative malfeasance. Corruption takes place at the highest levels of political authority. It occurs when the politicians and political decision-makers, who are entitled to formulate, establish and implement the laws for the people, are themselves corrupt. It also takes place when policy formulation and legislation is tailored to benefit politicians and legislators.Ê Political corruption is sometimes seen as similar to corruption of greed as it affects the manner in which decisions are made, as it manipulates political institutions, rules of procedure, and distorts the institutions of government (NORAD, see Dike, 2000).

Bureaucratic corruption occurs in the public administration or at the implementation end. This kind of corruption has been branded low level and street level. It is the kind of corruption the citizens encounter daily at places like the hospitals, schools, local licensing offices, police, tax offices etc. Bureaucratic petty corruption, which is seen as similar to corruption of need, occurs when one obtains a business from the public sector through inappropriate procedure (see NORAD, see Dike, 2000).

Electoral corruption includes purchase of votes with money, promises of office or special favors, coercion, intimidation, and interference with freedom of election [Nigeria is a good example where this practice is common. Votes are bought, people are killed or maimed in the name of election, losers end up as the winners in elections, and votes turn up in areas where votes were not cast]. For instance Nwobi (undated) argued that money exchange hands during April 12 and 19 2003at the end of the first tenure of president Obasanjo. Corruption in office involves sales of legislative votes, administrative, or judicial decision, or governmental appointment.Ê Disguised payment in the form of gifts, legal fees, employment, favors to relatives, social influence, or any relationship that sacrifices the public interest and welfare, with or without the implied payment of money, is usually considered corrupt (The Encyclopedia Americana, see Dike, 2000).

Other types of corruptions include: Bribery, fraud, unconventional and fraudulent trade practices, misappropriation or diversion of funds, extortion, favouratism, nepotism, kickbacks, under- and over invoicing, bribery, false declarations, abuse of office, and collection of illegal tolls. All these forms of corruption involve mismanagement and siphoning of state resources, receiving money or benefits for rendering services by a state agent from the beneficiary. Corruption may also involve allocation of public resources based on subjective and illegal basis with violate establish procedures.

Also highlighting different categories of corruption, Nwobi (undated) observes that many aspect of bribery and corruption include giving or accepting gratification either directly or through agent, fraudulent acquisition of property; fraudulent receipt of property. Offences committed through postal system, deliberate frustration of investigation, making false statement or returns gratification by and through agents, bribery of public officer; using office or position for gratification; bribery transactions; false or misleading statements to the commission and attempt (conspiracy) punishable as offences.

Again, Nwobi (undated) and Glickman (2005) identify another form of corruption as business bribery which is popularly known as 419 in Nigeria. He added that this fraud is known internationally by different derogatory names like white-collar animals, con artists, e-mail hucksters, spammers, tele-marketers and scam artists. This is obviously due to their cross border animal activities that seen to be breaking new ground almost by the minute. However, Nigeria remains a focal point because the global fraud now appears to be synonymous with the country.

Magnitude of Corruption in Nigeria

It is presumed that corruption in Nigeria has become the order of the day to the extent that perpetrators do not feel that they commit serious crimes. And in most cases the masses facilitate bad system by considering the corrupt people as "accomplished" citizens. Corruption has become so deep-seated in the country that it has stunted growth in virtually all the sectors of the national economy and has been the primary reason behind the country's difficulties in developing fast (Nigeria-planet, 2006). Eker (1981) argued that corruption is, of necessity, a furtive affair, and documentation is, therefore, exceedingly difficult. The proportion of cases that actually come to light in Nigeria is 'guesstimated' to be very low. Bribery and corruption are victimless offences, having regard to the mutual participation of both parties; hence the difficulty of detection. Moreover, most published offences tend to belong in the less distinguished class. Revelations of corruption on a grand scale are frequently suppressed before publication or soon thereafter, unless they serve a political purpose. Of the important cases that escape concealment, many are either dismissed and/or buried in investigatory committees. Similarly, corruption is rampant in the private sector of the economy. The reason why it is not obvious as much is as observes by Eker (1981) that, corruption in the private sector is seldom advertised because of the need to maintain 'goodwill'. This results in the false impression that corruption is most rampant in official circles.

Despite the difficulty in obtaining data about corruption, some information about it, is however available:

An audit report revealed that Nigeria lost over N23billion in only ten federal ministries in 2001(Nwobi).

S/N	MINISTRIES	AMOUNT MISAPPROPRIATED
1.	Co-operation and integration in Africa	N10, 453, 241. 81
2.	Power and steel	N4, 394, 649, 602. 19
3.	Works and Housing	N2, 262, 797, 737. 01
4.	Defense	N1, 785, 877, 023.15
5.	Education	N1, 265, 272, 388.99
6.	Police Affair	N1, 209, 216, 325.05
7.	Information	N664, 124, 321.46
8.	Commerce	N640, 053, 177.72
9.	Health	N465, 103, 959.12
10.	Industry	N356, 064, 369.12
	Total	**N23, 860, 732, 145.20**

Source: Adapted from Nwobi

These amounts represent financial irregularities ranging from embezzlement, payments for jobs not done; double debiting of accounts, and inflation of contract figures to release of money without the consent of the approving authority (Newswatch, 2003). Details of the audit report revealed various forms of frauds. For instance, at the federal ministry of works and housing the report observed that cheques of the ministry amounted to N1.088 million were debited twice by the central Bank of Nigeria for the ministry of finance (Nwobi). Again the audit examination of revenue records at the Tin- Can Island port, Lagos Nigeria revealed that between July and September 2001, amounts totaling N134.769 million collected by some designated banks were not remitted to the of Central Bank of Nigeria. All these misappropriated funds are in addition to what more than 3,000 government officials have in Swiss totaling about $90 billion and in Britain £75 billion (Nwankwo, 1999 see Nwobi).

Furthermore, reports discovered that the sum of US$4billion was looted during a past regime and that the United Kingdom Financial Services Authourity indicted 15 British banks (Salisu 2001). Similarly, Salisu added that the ‘missing’ $12.2 billion excess oil windfalls during another past regime are yet to be accounted for. It is because of the aforementioned evidences of corruption in Nigeria that Transparency International consistently classified Nigeria as one of the most corrupt country on earth. An attempt has been made to compare Nigeria against some other countries with respect to TI ranking for eight consecutive:

Transparency International Corruption Perceptions Index for 1999 to 2006

YEAR	***RANK***	***COUNTRY***	***SCORE***	***STANDARD DEVIATION***	***SURVEYS USED***
1999	1	Denmark	10	0.8	9
	2	Finland	9.8	0.5	10
	3	New Zealand	9.4	0.8	9
	3	Sweden	9.4	0.6	10
	96	Azerbaijan	1.7	0.6	5
	96	Indonesia	1.7	0.9	12
	98	**Nigeria**	**1.6**	**0.8**	**5**
	99	Cameroon	1.5	0.5	4
2000	1	Finland	10	0.6	8
	2	Denmark	9.8	0.8	9
	3	New Zealand	9.4	0.8	8
	3	Sweden	9.4	0.7	9
	87	Azerbaijan	1.5	0.9	4
	87	Ukraine	1.5	0.7	7
	89	Yugoslavia	1.3	0.9	3
	90	**Nigeria**	**1.2**	**0.6**	**4**
2001	1	Finland	9.9	0.6	7
	2	Denmark	9.5	0.7	7
	3	New Zealand	9.4	0.6	7
	88	Indonesia	1.9	0.8	12
	88	Uganda	1.9	0.6	3
	90	**Nigeria**	**1.0**	**0.9**	**4**
	91	Bangladesh	0.4	2.9	3
2002	1	Finland	9.7	0.4	8
	2	Denmark	9.5	0.3	8
	2	New Zealand	9.5	0.2	8
	4	Iceland	9.4	0.4	6
	98	Angola	1.7	0.2	3
	98	Madagascar	1.7	0.7	3
	98	Paraguay	1.7	0.2	3
	101	**Nigeria**	**1.6**	**0.6**	**6**
	102	Bangladesh	1.2	0.7	5
2003	1	Finland	9.7	0.3	8
	2	Iceland	9.6	0.3	7
	3	Denmark	9.5	0.4	9
	3	New Zealand	9.5	0.2	8
	131	Haiti	1.5	0.6	5
	132	**Nigeria**	**1.4**	**0.4**	**9**
	133	Bangladesh	1.3	0.7	8

YEAR	*RANK*	*COUNTRY*	*SCORE*	*STANDARD DEVIATION*	*SURVEYS USED*
2004	1	Finland	9.7	NA	9
	2	New Zealand	9.6	NA	9
	3	Denmark	9.5	NA	10
	3	Iceland	9.5	NA	8
	142	Chad	1.7	NA	4
	142	Myanmar	1.7	NA	4
	144	**Nigeria**	**1.6**	**NA**	**9**
	145	Bangladesh	1.5	NA	8
	145	Haiti	1.5	NA	5
2005	1	Iceland	9.7	NA	8
	2	Finland	9.6	NA	9
	2	New Zealand	9.6	NA	9
	4	Denmark	9.5	NA	10
	152	Cote d'Ivoire	1.9	NA	4
	152	Equatorial Guinea	1.9	NA	3
	152	**Nigeria**	**1.9**	**NA**	**9**
	155	Haiti	1.8	NA	4
	155	Myanmar	1.8	NA	4
	155	Turkmenistan	1.8	NA	4
	158	Bangladesh	1.7	NA	7
	158	Chad	1.7	NA	6
2006	1	Finland	9.6	NA	7
	1	Iceland	9.6	NA	6
	1	New Zealand	9.6	NA	7
	4	Denmark	9.5	NA	7
	5	Singapore	9.4	NA	9
	156	Sudan	2.0	NA	4
	160	Guinea	1.9	NA	3
	160	Iraq	1.9	NA	3
	160	Myanmar	1.9	NA	3
	163	Haiti	1.8	NA	3

Source: annual press release by Transparency International for various years [http://www.transparency.org]

Notes: Transparency International provides explanatory notes for the surveys thus: CPI Score relates to perceptions of the degree of corruption as seen by business people and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

Surveys Used refers to the number of surveys that assessed a country's performance. A total of surveys and expert assessments ranging from 12 to 18 are used from independent institutions, and at least three surveys were required for a country to be included in the Corruption Perception Index.

Standard Deviation indicates differences in the values of the sources: the greater the standard deviation, the greater the differences of perceptions of a country among the sources.

It is obvious from the above table that corruption is pervasive in the poor and developing countries of the world. Most of these countries are located in Africa, Asia, former Soviet Union and Latin America. Nigeria has been consistently perceived among the most corrupt nations as seen by business people, academics and risk analysts. For instance, all through the period of eight years investigated by this study, Nigeria was ranked among the 3 most corrupt countries exception of 2006. The CPI scores for various years indicate that Nigeria scores less than 2.0 except in one instance when it scored 2.2 and became 5th most corrupt nation. This is the better ranked Nigeria achieved in the period under review. And this development was probably as a result of the activities of Economic and Financial Crime Commission (EFCC) during the period. The comparisons of results of a particular country for various years should be based on the country's score, not its rank. A change in a country's rank does not necessarily suggest an improvement in the country's position. A country's rank can change because of the fact that now new countries enter the index and/or others dropout. A higher score suggests that respondents provided better ratings, while a lower score suggest that respondents revised their perception downwards.

On the other positive extreme, it is apparent from the table that Scandinavian and/or Nordic countries (Finland, Denmark, Iceland, Sweden) and New Zealand were ranked to have minimum level of corruption and in most cases score higher than 9.0. Investigation reveals that these countries located in the Northern part of Europe not only have common geographical and economic factors but also have historical, cultural and linguistic affinities (Redmond, 2007). Perhaps these ties and relationships of the countries play a role in their cleanliness as far as corruption is concern. It could be ironically noted that rich countries have less tendency to corrupt practices than the poverty ridden nations.

Causes of Corruption in Nigeria

The causes of corruption are myriad; and they have political and cultural variables. Some evidence points to a link between corruption and social diversity, ethno-linguistic fractionalization, and the proportions of country's population adhering to different religious traditions (Lipset and Lenz, 2000 see Dike, 2005). And studies note also that corruption is widespread in most non-democratic countries. Thus, the political system and the culture of a society could make the citizens more prone to corrupt activities. Dike (2005) itemized other factors thus:

1) Great inequality in distribution of wealth;
2) Political office as the primary means of gaining access to wealth;
3) Conflict between changing moral codes;
4) The weakness of social and governmental enforcement mechanisms; and
5) The absence of a strong sense of national community.
6) Poor reward system and greed
7) Bad rules and Ineffective taxing system

In addition, obsession with materialism, compulsion for a shortcut to affluence, glorification and approbation [of ill-gotten wealth] by the general public, are among the reasons for the persistence of corruption in NigeriaÊ(Ndiulor, 1999 see Dike, 2005). It has been noted that one of the popular, but unfortunate indices of good life in Nigeria, is flamboyant affluence and conspicuous consumption. Because of this, some people get into dubious activities, including 'committing ritual murder for money-making.' Similarly, Salisu (2000) categorises causes of corruption into: policy induced sources of corruption this could be through government trade restrictions and government subsidy among others. Secondly, natural resource endowments; Sachs and Warner (see Salisu 2000) argue that resource-rich economies are more likely to be subject to extreme rent-seeking behaviour than are resource-poor economies. And finally, cultural or socio-political sources; these factors include customs, family pressures on government officials and ethnicity constitute potential sources of corruption.

Effects of Corruption on Nigerian Economy

The effects and consequences of corruption on the socio-economic development of Nigeria are enormous. In his study, Salisu (2000) use econometric analysis to evaluate the impact of corruption on Nigerian economy and found that corruption adversely affects the productivity of public investment and distorts the effects of industrial policy on investment. Similarly, Lipset and Lenz note that the effect on growth is in part, a result of reduced level of investment, as it adds to investment risk (Dike, 2005). This could probably explain the reason why international investors are in most of the times skeptical to invest in Nigeria

In addition, Mauro (see Dike 2005) observes that the negative effects of corruption on economic growth, among other things, reduce public spending on education. The effect of corruption on education comes from the fact that the government spends relatively more on items to make room for graft (Shleifer & Vishny, 1993; Lipset & Lenz, 2002 see Dike, 2005). And corrupt government officials would shift government expenditures to areas in which they can collect bribes easily. Large and hard-to-manage projects, such as airports or highways, make fraud easy. In addition, poverty and income inequalities are tied to corruption (Dike, 2005). Development projects are often made unnecessarily complex in Nigeria to justify the corrupt and huge expense on it. In effect this could explain for dilapidated educational facilities and inadequate attention given to the sector by government. And another consequence of this type of corruption is that government investments are not done based of priorities and expected benefit of the projects but rather based on the selfish interest of the policy makers. In this vein, Geo-JaJa and Mangum (2000) observe that corruption crowds out productive investment and raise the cost of carrying out business. These economic consequences have political effects that are less quantifiable but have serious implications on the legitimacy of governments and the stability of nations (Geo-JaJa and Mangum, 2000). Not only that, the image of a corrupt nation could be seriously dented in the international community. In addition, the damages corruption has done to the polity are enormous. The menace of corruption leads to slow movement of files in offices, police extortion tollgates and slow traffics on the highways, port congestion, queues at passport offices and gas stations, ghost workers syndrome, election irregularities, among others. Corruption and mismanagement swallow about 40 percent of Nigeria's $20 billion annual oil income (Boston globe, 2004). For a very long time, corruption has been acknowledged as the single most important obstacle to economic progress and democracy in Nigeria (Akinseye-George, 2000).

Corruption Control and Alleviation Strategies

Considering the corrosive effects of corruption on economic development and the fact that corruption has eaten deep into the fabric of the society (Nigeria), then there a necessary need for serious and effective control measures. These measures should not be restricted to merely constitution of committees without practical actions thereafter. A number of regimes have made attempts to combat the menace of corruption however, the evil continued unabated. For instance, the commissions or agencies that were established to fight against corruption include: War Against Indiscipline Council, Code of Conduct Bureau, Public Complaints Commission, Mass Mobilisation for Social Justice and Economic Recovery, and of recent Independent Corrupt Practices Commission and the popular Economic and Financial Crime Commission. Dike (2005) however argued that corruption in Nigeria cannot be effectively controlled by merely instituting probe panels and hence, suggested that the general public should be re-oriented to a better value system. The writer agrees totally with this view because it found out that corruption, cultural values and attitude have significant relationship (Husted, 1999). Based on these, it could be said that the lunching of ‘Nigeria Project’ under the Federal Ministry of Information and Communication would likely results in the reduction of corruption in the country.

To win the war on corruption, adherence to ethical standards in decision-making must be the foundation of the nation’s policies. Without ethics (set of moral principles or values or principles of conducts governing an individual or a group) in the conduct of the affairs of the nation (public and business), the apparent wars on corruption in Nigeria will not be successful (Dike, 2005). And again, to win the war on corruption

Nigeria has to fortify the institutional checks and balances among the country's major social forces and the separation of powers within the government (Dahl 1998 see Dike, 2005). The nation has to make sure that those entrusted to execute the war on corruption are men and women of virtue - those who recognize and always do what is right.

Other measures to be adopted in order to successfully campaign against corruption as highlighted by the former presidents of the World Bank and Ford Motors Robert McNamara (see Dike 2005) include among others:

1) Require direct, clear and forceful support of the highest political authority: the president or prime minister;
2) Introduce transparency and accountability in government functions, particularly in all financial transactions;
3) Encourage a free press and electronic media to forcefully report to the public on corrupt practices in the society;
4) Organize civil society to address the problems of corruption brought to light by the process of transparency and the activity of the media;
5) Ensure that enforcement is predictable and forceful; and

Conclusion

After intensive examination of theories and empirical researches carried out on the topic under investigation, the following conclusions were drawn:

1. That people perceived high level of corruption in Nigeria
2. The corruption is actually pervasive in Nigeria more especially in the public sector of the economy.
3. There is significant relationship between corruption and the country's economic development. In other words, corruption adversely affects economic growth and development by slowing down investments.
4. Corruption leads to the reduction of the public sector projects and the quality of products, while increasing the cost of both.
5. Corruption could be effectively controlled.

Recommendations

In view of the foregoing conclusions, the following recommendations are hereby offered:

1. The general public should be enlighten and sensitised on the evils of corruption. In addition the penalties should be intensified at various levels of government.

2. Government should ensure that the civil servants are men/women of integrity, honesty, trustworthiness. Hence, religious leaders should be involved in inculcating general virtues to people of all religions.
3. Corrupt individuals, no matter how highly placed in society, should be exposed, prosecuted, and if found guilty, jailed and ostracised. Illegally acquired property should be confiscated to serve as a deterrent to those intending to engage in corrupt practices. Leaders should avoid the situation of improper accountability after confiscating looted money/properties of the public.
4. Government should ensure adequate remuneration system in such a way that civil servant would have enough income to take care of his basic needs. In the same vein, government should pursue a serious economic reform side by side with the fight and campaign against corruption.
5. The results of public probes and commission of enquiries should be released to the public as soon as concluded. The practice of allowing the president or a governor to decide the fate of public probes should be constitutionally addressed, as the present practice encourages corruption.
6. The leaders should lead by example. And the recently lunched reorientation campaign by the minister of information and communication should be vigorously pursued and the exercise should be supported by the general public.

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The who wishes to fulfill his mission in the world must be a man of one idea, that is of one great overmastering purpose, overshadowing all his aims, and guiding and controlling his entire life.

- Bate

Take up one idea. Make that one idea your life - think of it, dream of it, live on that idea. Let the brain, muscles, nerves, every part of your body, be full of that idea, and just leave every other idea alone. This is the way to success that is way great spiritual giants are produced.”

- Swami Vivekananda

ARTICLE

DETERMINANTS OF OUTSOURCING DECISION IN THE MANUFACTURING INDUSTRY in BANGLADESH

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ABSTRACT

The purpose of this study was to identify and understand the factors influencing outsourcing decision in the manufacturing industry in Bangladesh. Existing literature revealed that many manufacturing industry were faced with challenges in the competitive environment to be competitive in the market and produce products at the minimum cost as possible yet meeting customer specification without affecting the quality and delivery schedule. Thus, outsourcing could be an alternative to solve most of the problems faced by the manufacturing industry in Bangladesh. This stirred these researchers to identify and understand the possible factors influencing the manufacturing industry in outsourcing decision whether these factors could really influence the management to opt for outsourcing and help in solving the problems. The theoretical framework was developed to hypothesize four components namely reduce operating cost, improve company focus, access to world class capability and unavailability of internal resources in relation to influence outsourcing decision in the manufacturing industry. The proposed study utilized the exploratory approach, whereby the survey method was used. The data was collected through questionnaires in various manufacturing industry in Bangladesh. The findings were analyzed using a statistical software package (SPSS), and the main tools that were used were Cronbach's Alpha, descriptive and linear regression analysis. The findings revealed that the factors or components identified for the study had significant effect on outsourcing decision except reduce operating cost. This study provided evidence that these factors would influence outsourcing decision in the manufacturing industry in Bangladesh. The recommendations are also offered more in-depth guidelines for maximizing the benefits of outsourcing.

Keywords: Outsourcing, manufacturing concerns, critical success factors, Bangladesh

INTRODUCTION

Outsourcing decisions are those strategic decisions that change the operations strategy of an organization both in manufacturing and services. The most important step in any outsourcing decision is to clearly define the scope of the operations that are being considered for outsourcing (Cook, Mary, F. and Gildner, Scoot B. 2008). Human resource professionals throughout the world are being asked to do more or less, to enhance productivity while controlling costs and to find out new ways to increase profitability. (Uddin, Gazi, M. 2005).

In the competitive environment of manufacturing concerns and evolving technology era, to enhance efficiency and productivity, cost remains a challenge to all manufacturing industry to compete with rivals in providing the best total lower cost to end customers and to secure the market share in order to add value to the shareholders. Having to invest heavily in capital investment such as machineries, buildings and land to expand space in supporting the production operation is a burden to most companies if the return of investment is not profitably. Most of the companies that were struggling to expand the capacity to support the ramp up demand at times were disappointed when there was a drastic downturn of demand cut. As a result, the sudden downturn would affect the resources and investment that were put into supporting the end customers' demand. Pool of human resources and machineries that consumed production space and being idled would increase the overhead and fixed cost, thus affecting the companies badly in their financial statements. In addition, training and development to up skill internal resource skills set in terms of running the operation effectively, bringing up technical content expert, specialist ability to perform research and development to add value, effective management and maintaining the operation would require significant investment in human resources (David Mackey and Kaye Thorne, 2003). Thus, most of the companies started to explore opportunities to reduce cost and to improve profit margin in order to maintain competitive edge in the market. One of the identified opportunities was to outsource non-core business functions to external service providers at a lower operating cost.

Outsourcing is not a new notion. For decades, jobs have been migrated from other part of the countries namely American and European countries as well as other overseas countries to global service providers primarily India, China, Singapore and Malaysia due to lower operating cost. According to Cynthia A. Kroll (2004), a regional economist from University of California Berkeley, the recent wave of outsourcing affected a different mix of jobs, at different wage levels. It was not confined only to a small set of industries but cut across all industrial sectors in new geographic area rapidly (Cynthia A. Kroll, 2004). William P. DiMartini (2005), Senior Vice President at SunGard Availability Services said businesses in all industry segments found that limited internal resources would make outsourcing an attractive, cost-effective and prudent option that would allow them to focus on their core competencies (AccountingWEB.com, 2005).

Demand for outsourcing is a result of demand for organizational products by the target audience. On the basis of organizational estimate of total turnover, practicing managers can attempt to establish the nature and type of outsourcing required to that esteemed goal (Uddin, Gazi M. 2005). Outsourcing advantages to name a few include lower operating cost, improve competitiveness, low in capital investment, shift resources to focus on core functions, generate demand for new growth and market segment, access to world class capability, sharing risks and make capital funds available for core business investment.

Bangladesh, a developing country, largely an agrarian economy with around 24 million acres of cultivation land employing about 14.5 million cultivators. Manufacturing industries have grown around Dhaka and Chittagong based on agriculture input of jute, cotton, chemical, cement, and gas based industries. Industrial production growth has averaged more than 6% over the last 5 years. The export sector has been the engine of industrial growth, with ready-made garments leading the way, having grown at an average of 30% over the last 5 years. Primary products constitute less than 10 percent of the country`s exports; the bulk of exports are manufactured/processed products, ready-made garments and knit wears in particular. (www.euroitx.com)

There are many manufacturing concerns in Bangladesh that are looking into outsourcing opportunity to reduce cost and to overcome the internal limitations and achieve lower cost of operation. The country is now moving towards industry based economy from the agro-based one. Hence, this study was an attempt to access determinants influencing the outsourcing decision and to research the manufacturing concern in Bangladesh on how well the factors would influence the manufacturing industry in Bangladesh to outsource certain function of their business areas to external service providers. The study also aimed at finding out the influencing factors that influenced the companies in outsourcing decision and helped the companies to overcome the internal limitation barriers.

PRIOR LITERATURE

Outsourcing Review

In the early 1980s, ‘outsourcing’ typically referred to the situation while organizations expanded their purchases of manufactured physical inputs, like car companies that purchased window cranks and seat fabrics from outside the firm rather than making them inside. Nowadays, outsourcing took on a different meaning. Presently it refers to a specific segment of the growing international trade in senices. This segment consists of arm's-length, or what Bhagvati (1984) called ‘long-distance,’ purchase of services abroad, principally, but not necessarily, via electronic mediums such as the telephone, fax and the Internet. Outsourcing can happen both though transactions by firms, like phone call centers staffed in Bangalore to sen7e customers in New York and X-rays transmitted digitally from Boston to be read in Bombay, or with direct consumption purchases by individuals, like when someone hires an offshore firm to provide plans for redesigning or redecorating a living room (Bhagwati, J. et al. 2004)

In an era of rapid technological change and short product life cycles, companies were trying to reduce cost and maintain quality at the same time which implied that companies would need to specialize in what they did best and de-emphasize management attention from business processes that did not directly impact the business. Outsourcing was a means to partner with service providers so they could handle specific business processes – better, faster and at a lower operating cost (V. Krishna Polineni, 2001). It was defined as the transferring one or more internal functions of an organization to an external service providers. According to the analyst Dean Davison, the outsourcing was growing about 20 percent to 25 percent per annum (Dean Davison, 2006). Outsourcing has become an alternative, which all major corporations must consider in order to remain competitive. It helped to increase efficiency, improve service quality, accountability, values, decreased headcounts and cash infusion and gain access to world class capability and sharing risk (The Outsourcing Institute, 2006)

One of the primary advantages of outsourcing arises quickly from the reduction of overheads. This might give rise to an immediate, and possibly one-off, advantage in terms of the avoidance of future or recurrent capital outlay, and the savings in office space and equipment provisions if these could be released during the outsourcing decision. There was clearly a staff cost reduction possible here, and this could be the predominant element in directly-attributable, ongoing cost savings. The spin-off from this might benefit the business support services department where the outsourcing was partial, and could be especially useful where the capital cost was high and recurrent, particularly if there was uncertainty about the future costs of maintaining effective and competitive business support. It was an investment risk transfer, in other words. Where outsourcing is total, the benefit was accrued directly by the core business - it translated to a capital injection to the customer's business. This was one of the major driving reasons of the outsourcing of IT provision in the early 1990s - generally agreed as having been led in 1989 by Kodak, which outsourced all of its IT operations to IBM (Jonathan ReuvidÊandÊJohn Hinks, 2001). This could also confer a great deal of flexibility on the company. For a centralized organization which was providing a range of its support services from its own personnel and offices, the move to outsourcing could allow a downsizing of the property commitments. Consider the impact on the organizational infrastructure requirements of a change to outsourcing IT provision, payroll and credit processing, pensions, catering, recruitment, training, Human Resource Management (HRM), cleaning, security, lettings, software development, estates and building management. It could also confer direct scope for downsizing or increased options for organizational re-structuring through property and HRM flexibility.

The transferal of a non-core service provision to a variable cost would allow economies of scale to be passed on from the supplier, and also would mean that incremental changes in the process capacity of the customer (upwards or downwards) could be covered at proportional rather than quantum cost changes. Where scope to vary the scale of the contracted supply was agreed, this has allowed the business organization to make maximum use of its marginal capital for core process change rather than non-core process support change. This could allow decreased time to market for new products or processes, and also increased scope for changes. Outsourcing solutions can provide an excellent chance to get the company service provision out of a rut and, if properly managed, to stimulate new solutions to problems from the mixing of different approaches.

A noticeable feature of the global economy is the enhancing international products. Robert Feenstra (1998) describes the remarkable international specialization in the manufacturing products. For example, the raw materials of manufacturing products like Barbie dolls (plastic and hair) are obtained from Taiwan and Japan. Assembly used to be done in those countries as well as to lower cost locations like Philippines, Indonesia, Malaysia, and China. The growth in international specialization can also be observed in aggregate statistics. William Zeile and Gorden Hanson et al (2003) document the importance of trade within multinational firms. David Hummels et al. (2003) show that trade in intermediate inputs has grown faster than trade in finished products. While the globalization of production may yield important productivity benefits, there is a widespread view that it has also adversely affected low skilled workers. There are frequent media reports on how low-skilled labours in the first world countries are hurt when manufacturing jobs are relocated in the US and in many other countries have picked up on this theme to push for greater restrictions on trade with developing countries. Yet, despite its prominence in the public debate, there is little systematic evidence of the extent to which low-skilled workers are harmed by outsourcing to poor countries (Hsieh, Chang T. and Woo, Keong T., 2005).

Outsourcing has existed in the USA for over 30 years particularly the business process outsourcing (BPO). The Bank of America, Best Buy, Delta Airlines, Goodyear, IBM, the Marriott, Motorola, PepsiCo, Procter & Gamble, and Sun Microsystems are all outsourcing HR functions. US federal and state governments also spend billions each year doing so also. HR functions are not just being outsourced, they are being sent offshore. The US companies have off-shored their manufacturing and their R&D facilities in their semiconductors, computing, chemicals and pharmaceuticals to the UK, Germany, France, Ireland and other developed countries ().

In view of developing countries, outsourcing takes place more recently to India and China. In 2003, 1.5 million service jobs were outsourced to the developing world and the number was projected to surge to 4.1 million by year 2008 (El'millian Chew Saint Fey, 2005). According to the Offshore Location Attractiveness Index published by AT Kearny (2004), Malaysia, an emerging South East Asian nation, was the third most desirable location for offshore outsourcing in the world, after India and china. In Malaysia, the demand for outsourcing was not only from global multi-national companies but also from local companies. The demand for outsourcing was driven by the fact that companies could access a more reliable infrastructure that could ensure smooth core business operations at lower costs and with greater flexibility. Outsourcing also encouraged the pooling of resources for a more efficient use of resources to reap the benefits that could be derived from economies of scale.

Bangladesh has potential in outsourcing in its competitive business environment with a relatively low cost structure as well as support from the government and non-government organizations. In view of outsourcing demand, Bangladesh could be very well take advantage of this fact by attracting quality outsourcing operators to the country. The availability of quality resources especially in the private sector to support the outsourcing demand, this could be made available to support off-shore and local outsourcers. HR outsourcing organizations in Bangladesh are in stage of booming up and most of the organizations have realized that they should play more attention to networking activities. Uddin, Gazi M. (2005) describes the challenges and prospects of effective HR outsourcing for managerial activities in the corporate world of Bangladesh. The study reveals that networking activities play a strong role in HR outsourcing and duration of outsourcing is temporary. The study mainly focused on HR outsourcing, not on the factors influencing outsourcing decisions.

Literature review shows that several comprehensive studies have been conducted in the world regarding outsourcing specifically HR outsourcing, general time management, managerial jobs, and managerial behavior and so on. But no significant study in the light of this research has been found. It is not claimed by the researchers that all of the literature regarding outsourcing decisions have been reviewed, but normally available literatures have been reviewed and none of them were found specifically written in the horizon of particular issue. In this research paper, the researchers would explore the extensiveness of factors influencing the outsourcing decision in the manufacturing industry of Bangladesh through the survey of the sample companies.

Factors Influencing Outsourcing Decision

Outsourcing has a long-established feature of cost effective business practice. The necessity to review what to remain in house and what would be contracted to external vendors has been dramatically increased over time by two factors: the thrust for competitive advantage in the global economy and successful business focus on its core competencies (Sandra Ward, 2004). The attraction offered by significant wage differentials has therefore stimulated moves of in-house production facilities to lower wage economies, using both outsourcing and off-shoring approaches. From initial IT and software development, financial services, business process supports, the outsourcing approach was beginning to be seen in research, engineering design or development, production function and many others. The locations for off-shoring were growing especially in the Asia region such as India, China, Singapore, Malaysia and Bangladesh. Although cost savings was still a very important consideration factor (Sounders et al., 1997), companies were outsourcing for other reasons as well not only just due to lower operating cost.

According to the Outsourcing Institute executive survey (2006), the top ten reasons why companies would outsource are as follows: Reduce and control operating cost, Improve company focus, Gain access to world class capability, Free resources for other purposes, Resources are not available internally, Accelerate re-engineering benefits, Non-core function that is too complex to manage, Make capital funds available, Share risks, and Cash Infusion

There were also reasons companies outsource due to lack of technology capability, strategic advantage to the companies, better service quality vendor and sound contract, lack of internal capacity in meeting production ramp demand and also possible limited space for expansion.

RESEARCH MODEL

Theoretical Framework

The literature review has indicated top ten factors according to the Outsourcing Institute that have major influence on outsourcing decision. These factors were primarily applied to offshore outsourcer and locally. Despite Bangladesh is ranked the third most desirable location for offshore outsourcing in the world, after India and china, Bangladesh could be a strategic hub for outsourcing too (El'millian Chew, 2005). The aim of the study was to perform a research in the Bangladesh manufacturing industries to validate the truth of the factors that indicated by the Outsourcing Institute that influenced the outsourcing decision by the management. The researcher would also assess on the effectiveness of the relationship between the factors as independent variables and the outsourcing decision as dependant variable. The researcher selected partial of the top ten factors as listed in the literature review for the research and the remaining factors would be a good starting point for research in this area in the future. In this framework, the dependent variable being studied would be the outsourcing decision. The four factors influencing outsourcing decision as independent variables being studied would be reduce operating cost, improve company focus, gain access to world class capability and unavailability of internal resources. The research framework is shown as Figure 3.1 below.

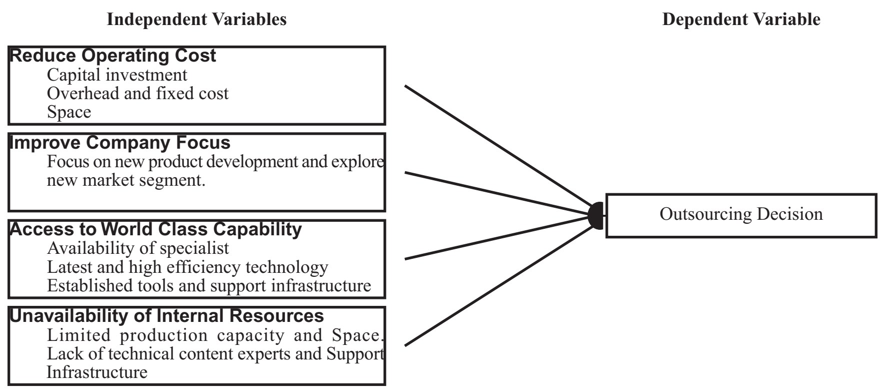

Figure 1: Schematic Diagrame of the Research Framework

Statements of Hypothesis

As shown in figure 1 above, based on the theoretical framework, the statements of hypotheses were developed in the following sections based on the four selected independent variables which were reduce operating cost, improve company focus, access to world class capability and unavailability of internal resources.

Reduce in Operating Cost

This variable was a measure of the customers on how they considered outsourcing would help in reducing the operating cost in their companies. The three areas being measured would be the capital investment, overhead and fixed cost and space.

Capital investment was a measure of the extent on how outsourcing would help and has positive impact in reducing capital investment such equipments, building and land for instance to reduce operating cost. By outsourcing non-core operation function areas, inevitably, some portion of capital investment could be saved and the investment fund could be diverted to core business investment to bring in more revenues to the companies. The fund could also be used on researching and generating new market segment development.

Outsourcing has positive impact in reducing capital investment that helps to reduce operating cost.

Overhead and fixed cost was a measure of the extent on how outsourcing would help and has positive impact to reduce operating cost for example human resources, fixed assets and utility cost. In most companies, outsourcing would help to reduce number of headcounts or employees whereby the core employees were shifted to focus on core functions. Thus, outsourcing would also reduce fixed asset quantity such as machinery and reduced the concern on depreciation value. Utility cost could also be reduced with less consumption.

Outsourcing has positive impact in reducing overhead and fixed cost that helps to reduce operating cost

Space was a measure of the extent on how outsourcing would help to reduce space consumption, flexibility for core business use, capacity expansion to generate new revenues and cash infusion to reduce operating cost.

Outsourcing has positive impact in reducing space that helps to reduce operating cost

Therefore, this study was proposed with three components of hypotheses related to reduce in operating cost as highlighted above. As per the literature review, researchers have found evidence that outsourcing led to reduce in operating cost. In the Outsourcing Institute survey (2006), it was found that reducing operating cost was one of the top ten factors that influenced companies to outsource some of their business functions.

Improve Company Focus

This following variable was a measure of the customers on how they considered outsourcing would help to improve company focus in their companies. There would be one area being measured on diverting resource to support core function that was to focus on new product development and explore new market.

As per the literature review, the benefits of outsourcing article cited that by outsourcing, resources could be diverted in value add activities that increased shareholder values. By shifting the resource to focus on core business and new product development, this would significantly produce a tremendous impact to the companies in exploring new market segment and reap new customers to boost the revenues profitably.

Outsourcing has positive impact in focusing on new product development and explore new market segment to improve company focus.

Gain Access to World Class Capability

In this section, this variable was a measure of the impact of outsourcing in gaining the access to world class capability. Customers would be measured on how outsourcing would help with the access of supplier's best in class specialist, latest and high efficiency technology that could produce higher yield rate and would they gain the access of better established tools and support infrastructure at the supplier site.

Based on the literature review, according to the Outsourcing Institute survey (2006), one of the top ten factors or reasons companies outsource was to gain access to the world class capability that was not available in-house.

Most of the suppliers that were specialized in their core service provider function have the best in class specialist that has sound technical and hands-on experiences engineers or specialists compared to outsourcer that were not specialized in the non-core business area. Suppliers would be able to provide the content expert resource that would support the requirement effectively and efficiently as deemed specialist.

Outsourcing provides the access to world-class capability with supplier's best in class specialist

Service provider would usually have the best in class of the latest and high efficiency technology considering that the providers were specific in the service business function area. This would give them the added advantage to compete with their rivals in winning the business from outsourcer. Having latest technology equipments and high efficiency would inevitable produce better quality and yield outputs and at a higher capacity rate.

Outsourcing provides the access to world class capability with supplier's latest and high efficiency technology

As elaborated in the above, service providers would be deemed specialist and have the latest and high efficiency technology would also necessary to be equipped with established supporting tools and infrastructure. Service providers has well established training and development plan in place to support the customers' need and should have best in class of information technology systems and tools infrastructure to support the specialized type of business transaction.

Outsourcing provides the access to world-class capability with supplier's established tools and support infrastructure

These three components of hypotheses above described that outsourcing would provide the access to the world-class capability in relation to the researcher's survey. These hypotheses would be assessed and analyzed the truth of the relationship to outsourcing decision in chapter four.

Unavailability of Internal Resources

In manufacturing operation industry, majority of the companies outsource due to the unavailability of internal resources that was a limiter for the manufacturer to meet the customer requirements. This was also one of the top ten factors quoted by the Outsourcing institute (2006) in the literature review that led to outsourcing decision.

Two components of hypotheses were presented below. One was the positive impact to overcome the production and space limitation and the other was the positive impact to overcome the lack of technical content expert and support infrastructure internally.

Production and space limitation would be a limiter if capacity would be a constraint and space was limited for expansion. By outsourcing non-core function, this would create space and capacity flexibility for the companies to support the core business function or customers upside demand. Non-core business could be negotiated for lower cost by outsourcing to service providers if the bulk of the volume came from the outsourcer that could generate the service provider's revenue. This could be a win-win situation for both companies.

Outsourcing has positive impact to overcome production and space limitation if unavailable internally

Concern on lack of technical content expert in non-core or niche business segment could also be outsourced to seek best in class specialist for support. Likewise the unavailability of support infrastructure could also be solved by seeking external providers' solution.

Outsourcing has positive impact to overcome lack of technical content expert and support infrastructure if unavailable internally

Outsourcing Decision

The dependent variable of this research framework study would be the outsourcing decision which would be measured in terms of the consideration of outsourcing decision. As described in the ten hypotheses of independent variables, the factors that influenced outsourcing decision highly dependent on how customers perceive or consider the impact of outsourcing. The benefits of outsourcing varied from one company to another and the initiative to seek outsourcing strategy would also depend on the maturity of the companies in planning for strategic advantage and compete in the competitive market environment. According to Maurice F. Greaver II (1999) in the literature review, outsourcing decision would need a structured approach in planning and there would be associated risks of outsourcing if it was taken for granted according to Dean Davison (2006).

RESEARCH METHODOLOGY

A questionnaire was the principal instrument selected. As this was a quantitative and exploratory research, questionnaire would be used to collect data for the statistical research analysis. Data collected from the respondents would be processed into the SPSS (Statistical Package for Social Science) software to evaluate the factors or independent variables influencing outsourcing decision in manufacturing industry in Bangladesh. A preliminary research questionnaire was tested to ensure the correct formulation and understanding of the questions. A five-point scale was used as it was judged to be reasonable compromise between differentiation in the statistical analysis of data and making it easy for respondents to make a selection. Table 1 summarizes the measures used in the study questionnaire.

Table 1: Questionnaire Design

Independent variables	Measurement Code	No. of Questions	Hypothesis
Reduce operating cost	Capital investment Overhead & fixed cost Space	5 5 5	H1a H1b H1c
Improve company focus	Focus on new product development Explore new market segment	5 5 5	H2a H2b H2c
Access to world class capibility	Available of specialist Latest and high efficiency technology Established tool and support infrastructure	5 5 5	H3a H3b H3c
Unavailablity of internal resources	Limited production capacity and space Lack of content expert and support Infrastructure	5 5	H4a H4b H4c
Dependent Variable	**Description of measurement**	**Number of questions**	
Outsourcing Decision	Outsourcing Decision	10	

Questionnaire was adopted from Islam M.A. et al., (2006) The respondents targeted were the working adults from various manufacturing industry in Bangladesh. The purpose of this research was to assess the factors influencing outsourcing decision in manufacturing industry in Bangladesh. A total of 150 questionnaires were distributed to the selected working adults through non-probability convenience sampling approach. A total of 70 questionnaires were collected out of a 150 questionnaires that were distributed which made up of 46.67% response rate. This approach was selected due to its inexpensiveness and fast. The questionnaires were distributed through the social and working network of the researchers through personal contact and referrals.

RESULTS

Respondents profile

The majority respondents were male (53%). Out of 70 respondents 40 were from the age group of 31-40 years old. Most of the respondents were from the management level in their occupation (60%). 61.43% companies have been in operation for about 5 to 10 years. 25 companies have 50 to 100 employees and only 8 companies in the sample have more than 500 employees. Table 2 presents the demographic profile of respondents.

Table 2: Demographic profile of respondents

Factors	Categories	Frequency	Percentage
Gender	Male	55	75.71
	Female	17	24.29
Age	21 - 30	11	15.71
	31 - 40	40	57.14
	41 - 50	11	15.71
	More than 50 Years old	08	11.43
Education	Diploma	03	4.23
	Degree	23	32.86
	Masters and Others	36	51.43
Occupation	Non Management	04	5.71
	Executive	20	28.57
	Management	42	60.00
	Professional and others	04	5.71
Years of work experience	Less than 5 years	05	7.14
	5 - 10 years	43	61.43
	11 - 15 years	16	22.86
	More than 15 years	06	8.57
Duration of Company established (Years)	Less tjam 5 years	17	24.29
	5 - 10 years	43	61.43
	More than 10 years	10	14.29
No. of employees in the organization	Less than 50	25	35.72
	50 - 100	25	35.72
	101 - 500	12	17.14
	More than 500	08	11.43

Goodness of data

Reliability analysis was used to test the internal consistency and validity of the data gathered. Cronbach's alpha was chosen to analyze the degree of internal consistency among the items in a variable. Alpha coefficient ranges in value from 0 to 1. The higher the score, the more reliable the generated scale is. Sekaran (2000) explained that reliability of a measure is established by testing for consistency and stability of data collected. All the variables, independents and dependent were tested to analyze its internal consistency. All of them showed an acceptable internal consistency, with Cronbach's alpha (á) ranging above 0.6 levels. Table 3 presents the results of the reliability analysis.

Table 3: Results of Reliability Analysis

Variables	Number of Items	Items Dropped	Cronbach Alpha
Capital Investment	5	1	.657
Overhead and Fixed cost	5	1	.688
Space	5	1	.692
Focus on New product Development and Explore New Market Segment	5	-	.644
Availability of Specialist	5	-	.705
Latest Technology and High Efficiency	5	-	.674
Established Tool and Support Infrastructure	5	-	.699
Limited Production Capacity and Space	5	-	.686
Lack of Technical Content Expert and Support Infrastructure	5	-	.655
Outsourcing Decision	10	-	.720

Findings

The Linear Regression Analysis was used to analyze the relationship between the dependent variable and the predictors or the independent variables. The key assumption is that the relationship between the dependent and the independent variables is linear. In this study, the dependent variable is the outsourcing decision and the predictors are capital investment, overhead and fixed cost, space, focus on new product development, availability of specialist, latest technology and high efficiency, established tools and support infrastructure, limited production capacity and space and lack of technical content expert and support infrastructure. The coefficient Table 4 below shows the results of the linear regression analysis.

Table 4: Summary of Multiple Regression Results

Factors	Beta	T-Ratio	Sig. t
Capital Investment	.150	1.865	.86
Overhead and fixed cost	.201	2.976	.62
Space	.224	1.985	.52
Focus on new product development	5.734	7.971	.000
Availability of Specialist	-4.123	-7.013	.000
Latest technology and high efficiency	-3.234	-6.354	.005
Established tools and support infrastructure	-2.456	-5.473	.009
Limited production capacity and space	.457	2.351	.016
Lack of technical content expert and support infrastructure	3.846	5.897	.003
R square = 66% Durbin Watson = 1.768 Condition index = 29.345			

- Dependent variable: Outsourcing Decisions

From the results of the regression analysis, the R square of the model of this study is 0.66. This indicates that approximately 66% of the outsourcing decision variability can be explained by this model. The Durbin-Watson variable of the model is 1.768, indicating no auto-correlation problem in the data. The F statistics has an acceptable significant level of 0.000, less than the 0.05 threshold, showing the variation explained by the model is not due to chance. Assessment on the co-linearity statistics shows the tolerance values for all the variables ranging from 0.005 to 0.815. The VIF is also within the co-linearity range. Based on the SPSS output summarized in Table 2, all variables shown to have success at 5 % significance level except capital investment, overhead and fixed cost and space variables.

RECOMMENDATIONS

Based on the key findings of this study, the result has shown that outsourcing had a positive effect on the variables of improve company focus, access to world class capability and solve the unavailability of internal resources. Before recommendations are offered, the researcher would like to recapitulate the objectives of carrying out the research study. The first objective of the study was to analyze what factors that were affecting the manufacturing operation industry in Bangladesh to run the operation in house. The researcher hoped to prove that outsourcing would be an alternative in reducing operation cost, improve company focus, access to world class capability and solve the problem of unavailability of internal resources. The second objective, the researcher hoped to relate the relationship on the factors affecting the manufacturing industry and the factors influencing the companies in considering outsourcing decision to outsource certain non-core business function areas and to determine how outsource could benefit the company in terms of lower operating cost, improve company focus, flexibility and efficiency in contributing to company revenues profitably.

With reference to the framework used in this study and data obtained from the results of the analysis, outsourcing decision has shown that all hypotheses were accepted except H1a, H1b and H1c which respondents disagree on capital investment, overhead and fixed cost and space could be reduced by outsourcing. The rest of the hypotheses have shown positive results in meeting the researcher's two objectives. General recommendations are offered with generic guidelines for successful outsourcing management from its very beginning. The recommendations below also offer more in-dept guidelines for maximizing the benefits of outsourcing.

Recent high profile failures in outsourcing relationships have highlighted the need for companies to carefully assess their options and develop a sourcing strategy that ensures processes are handled where the work can best be done. However, this is easier said than done, especially in large organizations where many processes are interlinked or dependent on one another. In these instances, identifying and evaluating issues concerning what, how and where to outsource becomes increasing daunting. Most of the outsourcing selection is based on gut feel and cost reduction potential only, not taking into account other important parameters such as process linkages and criticality of the process. Companies need to evaluate their business processes and not only identify the right ones to outsource, but also the delivery model that will best support these processes. For instance, certain processes or business functions that involve high level of confidentiality could be outsourced to a joint venture center as opposed to a shared services or external vendor. It is recommended to any business function or process outsourcing initiative is to determine the following:

1. WHAT processes or business function can be outsourced?
2. WHEN these processes or business function should be outsourced?
3. WHERE can they be outsourced?

In many cases, the significant of frequent service management communication is overlooked. This is critical for partnership and service management. Communication needs to be carried out on a regular basis. Daily or weekly reports of service status based on a pre-set performance matrix should be available to the buyers as agreed per the service contract agreement. Weekly or monthly meeting is also crucial in keeping things intact for addressing both immediate concerns and long-term planning. Moreover, when there is a service needs or technological changes, buyers and the vendors should follow an established protocol to address it. The quality of communication also matters. The level of organizational involvement and the inclusion of relevant information are two main aspects. Communication should be done not only between low-level but also high-level managers when a major shift of focus is introduced. Service performance information should be kept in a shared drive or central depository and decision support modules should be in place for informed decision making.

Contract and service management is critical for the success of outsourcing projects. The service contract governs the relationship between the buyer and the external vendors. A poorly written contract is a recipe for disaster in most cases of outsourcing due to ambiguity and lots of gray areas. A sound contract other than standard terms and conditions, it should also include the provisions of regulation and policies of the project, performance measurement, cost structure, benchmarking, technological change, penalty for poor service and termination for convenience. Most of the service management concerns should be addressed when a service contract is negotiated to avoid any pitfalls in the future when disaster strikes. Six-Sigma application has been widely recognized globally. Most of the industry that applied this methodology, found it to be fruitful in achieving the objectives of the companies. This method is used to continually measure and improve performance and processes. It is a systematical framework to guide process improvement by DMAIC (Define, Measure, Analyze, Improve and Control). Inevitably, with a systematic approach, this would help in delivering faster project timelines, greater cost savings, reduced risks, increased work efficiency, constant work process improvement and greater situational awareness in outsourcing.

CONCLUSION

The researchers have explored the effect of reduce operating cost, improve company focus, access to world class capability and unavailability of internal resources as factors influencing outsourcing decision. The results showed significant effect and relationship towards outsourcing decision as an alternative. This study facilitated the identification of critical factors that contributing to outsourcing decision. From the survey, majority of the respondents agreed on the factors such as to reduce operational cost, improve company focus, gain access to world class capability and the unavailability of internal resources would lead to outsourcing. From the research, the objectives and research questions have met the researcher analysis and study. The research indicated only parts of the factors were studied even though ten top factors were identified based on the Outsourcing Institute literature review. The study has given some insight views and usefulness of the research data to the manufacturing industry in Bangladesh that are seeking way out due to the factors associated to their manufacturing limitations and affecting their profits.

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The ideal with which you go forth to measure things determines the nature, so far as you are concerned, of everything you meet.

- H.W. Beecher

A successful society is characterized by a rising living standard for its population, increasing investment in factories and basic infrastructure, and the generation of additional surplus, which is invested in generating new discoveries in science and technology.

- Robert Trout

DISCUSSION

IMPROVING ENGLISH LANGUAGE INSTITUTIONS USING SWAT ANALYSIS

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ABSTRACT

The objective of language teaching is effective communication. The role of English as an international language has led to this language being accepted as a symbol of modernity, development and empowerment.

However, what is of critical importance is that language teaching itself is not as effective as it should have been. This article is based on the findings of a pilot study "SWOT analysis of English Language Institutions in Karachi" conducted by the faculty of Hamdard Institute of Education and Social Sciences, Hamdard University Karachi. The study indicates that most of the English Language Institutions in Karachi are;

- *not fully equipped;*
- *managed by non-technical or less-qualified persons or groups;*
- *working without any approved curriculum and teaching plans;*
- *run with a high profit motives and adopting short-cuts of learning English language offering courses and guaranteed learning within a span of only three months;*
- *not fully aware about their strengths, weaknesses, opportunities and threats; The study recommends the setting up of an accreditation body for the registration of English language institution all over the country; arranging training programs for the professional development of the heads and faculty of these institutions; introduction of a comprehensive test for the student of these institutions by third party to ensure the quality of learning process. A detailed SWOT analysis will be required to confirm the findings of the pilot study and a proper plan should be chalked out for the improvement of English Language Teaching institutions in Karachi/Pakistan.*

Keyword : Effective, Communication, Symbol of Modernity, Limited English Proficiency, SWOT, Scan Analysis.

INTRODUCTION

The role of English as an international language has led to this language being accepted as a symbol of modernity, development and empowerment. The world over, societies, even those with traditional cultures and ancient languages of their own, have begun to absorb this European language as a potent agent of contemporary change, and as a tool for upward society mobility. This perception, in turn, has impacted on the teaching and learning of English. English is now seen as a language that re-constructs and re-positions people's identities and their role in society.

Newsweek has an excellent feature article in the 7 March 2005 issue of its international edition on how the English language is evolving and changing the way we communicate. The article says "non-native English-speakers" worldwide now outnumber native ones 3 to 1. In Asia alone, Newsweek says, the number of English users has topped 350 million - roughly the combined populations of the United States, the UK and Canada. There are more Chinese children studying English - about 100 million - than there are Britons (that's nearly twice as many).

The objective of language teaching is effective communication. In this context, English is the medium of empowerment for businesses, academics, & students and has evolved with a number of local modifications as a living language. Besides, it reflects changing societal needs in the new geo political context, which is a good reason to teach and learn English in the developing societies.

However, what is of critical importance is that language teaching itself is not as effective as it should have been. For students entering a tertiary educational institution, writing is an essential skill. In an academic environment and later in career, being able to communicate ideas through the written medium is crucial for effective learning, assimilation of ideas and expression of opinion. But the question is that how many English language teaching centers are offering courses in writing skills?

Another issue is many used in the field of English teaching and learning may be confusing. English is a language with great reach and influence; it is taught all over the world under many different circumstances. In English-speaking countries, English language teaching has essentially evolved in two broad directions: instructions for people who intend to live in an English-speaking country and for those who don't. These divisions have grown firmer as the instructors of these two "industries" have used different , followed distinct training qualifications, formed separate , and so on. ESL (English as a second language), ELT (English language teaching, ESOL (English for speakers of other languages), and EFL (English as a foreign language) all refer to the use or study of by speakers with a different . Other terms used in this field include EAL (English as an additional language), EIL (), ELF (English as a), ESP (English for special purposes, or), EAP (). Some terms that refer to those who are learning English are ELL

(English language learner), LEP (limited English proficiency) and CLD (culturally and linguistically diverse).

The dominance of a language always favors a certain conception of life. There has been an unprecedented and near unanimous demand for English in Pakistan. Even poor parents prefer to enroll their children in unrecognized English language teacher centers and institutions that offer various short-cuts of learning English within a span of 3 months. Posing the true picture Dr. Rehman in his book, language and politics in Pakistan (2005) stated that "*English was introduced in the areas now comprising Pakistan by the British colonial power in the nineteenth century. As it was the language of the domains of power—government, bureaucracy, judiciary, military, education, commerce, media etc., at the elitist level, it became a preserve of elite and a means of empowerment. It also became a status marker and a social asset, this functioning as a class differentiate*."

Teaching of English as a Foreign or second language in Pakistan needs to be reviewed thoroughly concerning it all aspects. Our young generation and the generation before have struggled a lot to have full command on this language but unfortunately this target is not achieved by many students in schools and they join different Language Institutions. English Language coaching centers attract not only those who want to learn the language, but also people who are looking for better jobs.

The questions that arise here are:

- Are these institutions catering to the needs of our youth?
- Can our people afford their fees?
- Are these language institutions striving to work even in this recession?
- Do they get students to run their institutions?
- Do they have any threats in this market?
- Is the government playing any significant role to assist these institutions and students?
- Are these institutions justifying their roles?
- Is their any reluctance by parents in sending their daughters to such institutions?

The faculty at Hamdard Institute of Education and Social Sciences, Hamdard University, Karachi initiated a pilot study doing a SWOT analysis of English Language teaching institutions in Karachi to find out the answers of above mentioned questions.

SWOT ANALYSIS

SWOT analysis is a tool to find out the Strengths, Weaknesses, Opportunities, and Threats that are to be expected in a project or in a business venture or in something similar. It means that the marketing environment (internal and external to the organization or individual) is looked at. The technique was developed by Albert Humphrey, who led a research project at Stanford University in the 1960s and 1970s using data from the Fortune 500 companies.

Even today SWOT analysis is the part of the Harvard Policy Model, which has been developed as a part of the business policy courses taught at the Harvard Business School since 1920's.

SWOT analysis is fundamentally about discovering what you do well, how you could improve, whether you are making the most of the opportunities around you, and whether there are any changes in your market—such as technological developments, mergers of businesses, or unreliability of suppliers—that call for corresponding changes in your business.

Strategic and creative use of SWOT analysis

A SWOT analysis must first start with defining a desired end state or objective. A SWOT analysis may be incorporated into the strategic planning model. An example of a strategic planning technique that incorporates an objective-driven SWOT analysis is Strategic Creative Analysis. Strategic Planning, including SWOT and SCAN analysis, has been the subject of much research.

- Strengths: attributes of the person or company that is helpful to achieving the objective.
- Weaknesses: attributes of the person or company that is harmful to achieving the objective.
- Opportunities: external conditions that is helpful to achieving the objective.
- Threats: external conditions which could do damage to the business's performance.

Identification of SWOTs is essential because subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOTs. First, the decision makers have to determine whether the objective is attainable, given the SWOTs. If the objective is not attainable a different objective must be selected and the process repeated.

The SWOT analysis is often used in academia to highlight and identify strengths, weaknesses, opportunities and threats. It is particularly helpful in identifying areas for development.

PROCEDURE AND METHODOLOGY

The population of the study was all the English language teaching institutions (either recognized or unrecognized) providing skill based training to different level of students. A comprehensive list of all the English language teaching institutions was made using newspapers advertisement and web resources. Initially the institutes were divided into three categories:

Category One—Institutes offering only training in speaking skills and grammar improvement
Category Two—Institutes offering General Proficiency and ESP courses
Category Three—Institutes offering General Proficiency, ESP, and taught programs in TEFL etc.

Total 42 institutes were initially contacted and 11 were selected using purposive and stratified sampling criteria (Table 1.1)

Category of the Institute	Numbers of institute responded	Branches
One	05	10
Two	03	04
Three	03	06
Total	**11**	**20**

Table 1.1

RESEARCH INSTRUMENT

A questionnaire containing 48 items (categories shown in table 1.2) was developed and administered to find out the strengths, weaknesses, opportunities and threats for English language institutions in Karachi. A factual information sheet was also used to find the relevant data and information.

Strengths	Weaknesses
• Mission statement and vision/goals • Edge on competitors/other businesses • Qualification of the head/employees • Strategies to boost the morale of employees/satisfaction of customers • Total turn over of students • Recognition or affiliation • Any brand name • Ways of marketing • Major source of revenue/financial position • Gender ratio • Alumni • Mechanism of internal evaluation	• Customer complain • Unmet needs of the workforce • Programs in deficit • Biggest expenditure • Cost pressure • Turn over of staff • Financial weaknesses • Inability to take risks

Opportunities	Threats
• Emerging trends • Unique service area • Favorable circumstances • Placing after five years • Advancement in technology • Funding projects • Share in the market • Help from public sector	• Competitors • Emerging trends/inability to meet • External forces • Financial problems • Development obstacles • Government policies

Table 1.2

FINDINGS, ANALYSIS AND INTERPRETATION OF DATA

The responses obtained was mostly in narrative form, hence comments were organized into smaller categories e.g., concerns, suggestions, strengths, weaknesses, similar experiences, institutional inputs, recommendations, outputs, outcome indicators etc. Patterns, associations and causal relationship in the themes were identified and organized, as follows;

- 8 out of 11 institutes have one or more branches shows clearly that establishing English language institution is a viable and growing business
- Only one institute out of eleven was recognized by Higher Education Commission Pakistan. This shows the need for the establishment of proper platform either in the form of any quality agency or accreditation body to check the reliability, validity, and quality of the skills provide by these institutes. This agency could set some kind of benchmarking or accountability standard and procedures.

- 10 out of 11 were established during the last two decades which indicates the raising demand of getting English language skills by the society in general and the students in particular.

- The data clearly shows that most of the institutes and their branches are established in lower middle and middle class areas which indicate the rising awareness of middle class population for learning English as a mean of empowerment.

- The institutes are charging a range of fee from Rs. 1200/- to Rs. 6000/- per month per level depending on the facilities, teacher quality and the area concerned

- Most of the heads of the institution were qualified up to master's level. However, only one head was qualified in TEFL that shows clearly the need of training for the heads of these institutions in applied linguistics.

STRENGTHS;

- When asked the question regarding the mission, vision, and goals of the institutes, most of the institutes have mentioned only general objectives. Not a single institute narrated SMART objectives. The major focus of the institutes was to offer job oriented course of English language to be completed in a short span of time. Only two institutes were offering recognized program of English language skills.

- Most of them showed the rate of fee as their strengths and uniqueness in the market.

- Data of only two institutes showed a range of skillful employees, most of them have joined within the last two years.

- The average turn over of students was 3000 to 12000 per annum. The ratio between male and female students was ranging from 60:40 percent respectively. Despite this high turn over, only one institute indicates some surplus in the budget of its institute.
- Only one institute has indicated a proper system of internal evaluation.

WEAKNESSES:

- When asked the question regarding the weaknesses of the institutes, most of them were reluctant to discuss or narrate any weakness of the institute. However, almost all have shown budget deficit as one of the weakness. Marketing, salary and utility bills have been indicated as the measure expenditure of the institutes.

OPPORTUNITIES:

- When asked most of the heads of the institutes have not been aware of any emerging trends in English language teaching. Only two institutes have planned themselves for the next five years. Most of them think themselves on top position as compared to their competitors

THREATS:

- Most of the institutions have seen 'security' as the greatest threat to their business. None of them see their competitors as threat. Most of them were not aware of any policy of Government of Pakistan regarding English language teaching Institution and they don't expect any grant or help from the government.

RECOMMENDATIONS

- A details SWOT analysis is required to confirm the findings of the pilot study and a proper plan should be chalk out for the improvement of English Language Teaching institutions in Karachi/Pakistan
- All institutes must be registered by an accredited body to assure the accountability and quality of these institutes.
- Certified and recognized program should be introduced to facilitate students in learning and placement
- A competitive exam should be introduced keeping in mind the context of English for Pakistan (both foreign and second language), and student must be assessed on a transparent criteria
- Heads and faculty of these institutions shall be given proper training so that they may develop themselves professionally and understand the emerging trends in the teaching of English language all over the world. A proper qualification and license shall be mandatory for the teachers of English Language.

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Knowledge does not comprise all which is contained in the large term of education. The feelings are to be disciplined; the passions are to be restrained; true and worthy motives are to be inspired; a profound religious feeling is to be instilled, and pure morality inculcated under all circumstances. All this is comprised in education.

- Daniel Webster

Organization doesn't really accomplish anything. Plans don't accomplish anything, either. Theories of management don't much matter. Endeavors succeed or fail because of the people involved. Only by attracting the best people will you accomplish great deeds.

- Colin Powell

DISCUSSION

Comparative Study About English Reading Skills And Socio – Economic Factors Of Pakistani Universities Students

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ABSTRACT

Learning materials written in English language often embarrass our students due to lack of the command over this imported language. As Pakistani Universities curriculum happens in English, therefore, the study will let us know the extent to which University students comprehend written English.

This paper will let us know whether different socio-economic factors affect the reading skill of English language. Further it will help the teachers and curriculum developer to look into such factors while teaching or developing English curriculum. It will also help the students to know about their English reading skill and work for its improvement in the light of findings. Further it will be helpful for the further researchers to work in the respective field.

Learning of material written in English language often embarrasses our students due to lack of command over the important language. Reading comprehension is today more important than it was in past because of the introduction of 'Information Technology' at the same time Pakistani students face a number of problems while reading text, written in English. The researcher therefore, conducted a research to evaluate the English reading comprehension of Gomal University, (D. I. Khan, Pakistan) students and relate it to different interesting factors. The study was meant to know whether socio-economic factors of the Gomal University students affect reading comprehension. The main objective of the study is to find the relationship between the socio-economic factors of the University students and their reading skills.

Key Words: Imported Language , Reading Skills , Socio-Economic Factors , Family Background

INTRODUCTION

The modern scientific research and technology has introduced a number of devices in our educational institutions like advanced computers. Now one can have very easy excess to foreign universities and scholars. But it does not mean that we should shun our traditional way of educational process, especially the skill of reading. Reading comprehension is therefore, more important today than it was, in the past. We can communicate more effectively through Internet if we have better English comprehension. The educational process cannot proceed with a swift flow without better reading skills. Especially in our country, for higher education, when students confront with a foreign language like English, they need to know how to read purposefully; unfortunately the students are never taught the steps to improve their English reading. Moreover they ever do not try to learn it by themselves.

At the same time there are some socio-economic factors like poverty, malnutrition and its associated diseases, bad housing and parental unemployment etc. which may effect students reading comprehension. On the other hand if one has highly literate parents, less mental and physical strains and better facilities to read then one is likely to have a better approach in reading skill (Dechant, 1981).

In the meanwhile we have a totally different cultural and religious outlook as compared to English people. These differences are quite vivid in the structure and use of the two different languages.

The researcher will therefore, conducted a research a study to investigate Gomal University Students' competence in reading skill and to find its relation with socio-economic factors and students' interests towards reading.

The results were generalized to the whole country, considering that all the universities have the same and equal facilities.

READING

Human beings have been reading for thousands of years, but attempts to describe the reading process are only fairly recent in history. The theorists and researchers from different fields of studies have speculated about reading process and learning to read process. There has also been long standing belief that reading is not a single basic skill. Reading is compiled intellectual and linguistic process, which should be developed throughout the life.

Reading is very complex process as it involves several factors, elements and skills. Although reading is individual activities, which help the reader to comprehend the writers', massage, the contents of the text and to enter the result, it has to be taken in silently or loudly.

In the opinion of Divid Eskey, "reading is difficult to take about or at least to say some thing informative about. As familiar a part of our every day lives as reading is for most of us, the true nature of the act remains oddly elusive.

What exactly is reading? What do we do when we read? And how can we teach someone else? How to do it? These are difficult questions because even scholars in field do not fully understand the process.

Reading is no doubt a means of gaining knowledge. In the process of reading we receive information through the eyes, discriminating letter shapes, associating the letter with language, and associating the text with meaning. It is therefore quite clear that reading is cognitive process that demands a serious, careful and well-planned study of skill.

There are as many definitions of reading as there are experts in this particular area of learning. Some definitions of reading are given below:

i- Reading is an activity, which involves comprehension and interpretation of ideas symbolized by written and printed page.

ii- Reading is receiving communication. It is making the discriminative responses to graphics symbols. It is decoding graphic symbols.

THE SOCIO-ECONOMIC PROBLEMS

There are various factors involved in reading failure in Pakistan. These can be described as external ones.

One of the general concepts is that of social understanding. It is obvious that those students who belong to the low socio economic status are not the good readers. It is not specific to our own country it is a universal problem. For example when we study the work of a prominent educationist and psychologist of the west, Brute, he also declares poverty, malnutrition and its associated disease, poor hygiene, bad housing, unemployment and so on. Difficulty in learning is often associated with students' social background. We can deny this fact that one can get education in a better manner when one is economically sound and stable. As reading and education are correlated, so those students who belong to well bread famines are usually the best readers. Such students are mentally satisfied and can give proper attention to their study as their thoughts are focused on one aim i.e. to read. While the students from the low socio economic status have dispersed thoughts, which ultimately put diverse effect on their reading power.

Another factor in poor reading and comprehension of English is due to culture hostility. Culture has also its effect on reading. Our culture is entirely different from the Westerns culture. A particular class in our society has antagonistic attitude towards English. It is totally against this language. The people of this class want to uproot it from the country. So there exist two schools of thought in our country, one esthetically supports the English language and the other expresses its disgust against English. This thing once again has divided the readers into two categories, the supporters who are speeder readers and the antagonists who suffer from the flaw of halting during reading.

Another factor is that of choice. There is wide range of choice in selecting the language as a medium of instruction for our children at the elementary level. Their first preference is to adopt their mother tongue as medium of instruction. So these students whose schooling have been done in Urdu when they reach the colleges and the universities, they face embarrassing problem with their curriculum which often happens to be in English. Due to owing lack of practice in English reading they spend weeks and months in comprehending the material in a proper manner. Ultimately they turn ready-made notes.

Another factor is the role of teacher community that is dismal and not promising and encouraging one. Very few teachers at the elementary level have sound command over English. Most of the teachers lack the competency to motivate the students.

The most important factor of reading failure in English is that of "English Phobia". Whether this language is difficult or not but we have taken it for granted as "the language beyond our access". An English book often embarrasses us.

In our society adequate reading ability is important as English has been assumed the first priority in jobs, researches an almost in media. The demand of citizenship in the modern world requires that we read and think critically. Indeed the mastery over this language will open up new chapters of knowledge.

It can be said with ought reading no effective learning can occure. As in Pakistan, the university curriculum is usually in English so it is necessary for our students that they should have proper command over English. If they will overcome the problems of reading then they will not only be able to understand the written material either in the text books or in magazine but they can also easily understand the lectures delivered in the class and can interact with their teachers. All this leads to enhance their comprehending power and mastery over the subject.

SUMMARY

Learning of material written in English language often embarrasses our students due to lack of command over the important language. Reading comprehension is today more important than it was in past because of the introduction of 'Information Technology' at the same time Pakistani students face a number of problems while reading text written in English.

The researchers therefore, evaluate the English reading comprehension of Gomal University Students and relate it to different interesting factors.

OBJECTIVES OF THE STUDY

The main objective of the study is to find the relationship between the socio-ecnomic factors of the University students and their reading skills. This main objective is partitioned into the following sub-objectives:

1- To find out the correlation between vocabulary and comprehension.
2- To find the correlation between vocabulary and father education.
3- To find correlation between vocabulary and mother education.
4- To find the correlation between vocabulary and family income.
5- To find the correlation between socio-economic status of the selected students and their reading skill.

METHODOLOGY

All the post Graduate students of Gomal University were included in the study. Ideally, this kind of research requires randomly selected representatives but the researcher feared that some students might refuse to take the tests. Therefore the researcher took a convenient sample.

The test and questionnaire were given to the students in order to get the desired objectives. Three male and three female students of each department were given the test and questionnaire. The researcher kept a stopwatch in order to measure the reading time of the speed test. The whole data were tabulated and analyzed and conclusions were drawn on the basis of data.

ANALYSIS

TABLE –1 SHOWING CORRELATION BETWEEN TEST ITEMS

	Vocabulary Test	Spelling Test	Punctuation Test	Sentence Correction	Comprehension Test	Total Marks	Speed Test
Vocabulary Test		0.61	0.14	0.05	0.30	0.81	- 0.41
Spelling Test	0.61		0.36	-0.19	0.21	0.72	- 0.47
Punctuation Test	0.14	0.36		0.07	0.16	0.61	- 0.17
Sentence Correction	0.05	- 0.19	0.03		0.45	0.13	0.32
Comprehension Test	0.30	0.21	0.61	0.13		0.54	0.28
Total Marks	0.81	0.72	0.61	0.13	0.45		-0.40
Speed Test	-0.41	-0.47	-.17	0.32	- 0.28	-0.40	

1. Table No. 1 shows that the correlation between vocabulary test and spelling is 0.61, Which is substantial.
2. Table No. 1 shows that the correlation between vocabulary and total marks is 0.81, which is very high.
3. Table 1 shows that the correlation between the spelling test and total marks is 0.72, which is substantial.
4. Table 1 shows that the correlation between the punctuation test and total marks is 0.61, which is substantial.
5. Table 1 shows that the correlation between the vocabulary and speed is – 0.41, which is negative.
6. Table 1 shows that the correlation between comprehension test and vocabulary is 0.30, which is low.

TABLE –2 SHOWING CORRLETAION BETWEEN READING COMPREHENSION AND SOCIO-ECONOMIC FACTORS

	Vocabulary Test	**Total Marks**	**Father's Education**	**Mother's Education**	**Family Income**
Vocabulary Test		0.81	-0.05	0.35	0.56
Total Marks	0.81		0.02	0.15	0.53
Father's Education	-0.05	0.02		0.46	0.29
Mother's Education	0.35	0.15	0.46		0.44
Family Income	0.56	0.53	0.29	0.44	

1. Table 2 shows that the correlation between vocabulary and father education is – 0.05. It is negligible correlation.
2. Table 2 shows that the correlation between vocabulary test and mother education is 0.35, which is low.
3. Table 2 shows that the correlation between vocabulary and family income is 0.56, which is moderate.
4. Table 2 shows that the correlation between father education and total marks is 0.02, which is negligible.
5. Table 2 shows that the correlation between total marks and family income is 0.53, which is moderate.

THE ANALYSIS OF DATA LED TO THE FOLLOWING FINDINGS

The correlation between vocabulary test and spelling test is 0.61, which shows that there is substantial correlation between the two variables.
The correlation between vocabulary and total marks is 0.8, which is very high and shows that high vocabulary results in greater achievement of reading skill.
The correlation between vocabulary and comprehension is 0.30, which is low.
The correlation between vocabulary and speed is – 0.41, which shows that mother tongue translation hinders in the speed of reading skill.
The correlation between spelling test and total marks is 0.72, which is substantial and shows that correct spelling ability results in greater achievements of the reading skill.
The correlation between punctual and total marks is 0.61, which is substantial and shows that punctuation skill can affect reading comprehension positively.
The correlation between vocabulary and fathers' education is – 0.05, which is negligible and shows that educated fathers cannot spare for their children.
The correlation between vocabulary and mother education is 0.35, which is low but shows that educated mothers do affect the achievements in reading skills.
Correlation between vocabulary and family income is 0.56, which is moderate and shows that greater family facilities can affect skill positively.
Correlation between father education and total marks is 0.02, which is negligible. It shows that educated fathers have been unable to spare time to their children.
Correlation between total marks and family income is 0.53, which is moderate. It shows that greater economic stability may result in greater achievements of reading skills.

CONCLUSIONS

1. Skills like vocabulary, spelling, punctuation and comprehension affect the reading skills.
2. Reading skill of the universities students is good.
3. Family income affects the reading skill positively.
4. University students are weak at punctuation.
5. Parental education, especially mother's education can improve student's reading ability.
6. Educated fathers do not find time to spare to their children, which affects their reading skills.

RECOMMENDATIONS

1. Skills like vocabulary, punctuation, spellings and speed etc. of the university students should be properly checked and if there is any deficiency it should be removed in time.
2. Students from the rural areas should be given due attention.

3. Arrangements should be made in central library of the Universities for the improvement of the four fold skills especially the reading skill.
4. Students are weak at punctuation. Therefore proper guidance should be given for the proper usage of punctuation.
5. Parents, especially fathers should spare time for their children and help them to guide in reading skill.
6. University should arrange for computers and other reading materials to the students who are financially weak.
7. Special optional classes for improvement of reading skill should be started; when students are properly evaluated and guided for the better improvements in reading skills.
8. Students should be given English equivalent meanings, otherwise the mother tongue may influence in reading speed.

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Education does not mean teaching people to know what they do not know; it means teaching them to behave as they do not behave.

- Ruskin

DISCUSSION

DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN SERVICES SECTOR OF PAKISTAN: An Econometric Approach

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ABSTRACT

This study examines the key determinants of FDI inflows in Services sector of Pakistan, using time series data (quarterly) for the period of 1996Q1-2008Q4. To check the sationarity of the data, ADF test has been applied. Co-integration and Error Correction Model (ECM) is used for estimation of the data. This study found that Gross Domestic Fixed Capital formation (GDFCF), Inflation Rate(INF), Current Account Balance(CAB), Exchange Rate (ER) , and Per Capita Income (PC) are main factors of FDI inflows in services sector of Pakistan. This study reveals that GDFCF, INF and PC are found statistically significant with positive signs. CAB and ER are also statistically significant with negative sign. While, trade openness (TO) is found statistically insignificant but with negative sign.

Keywords: FDI, Services Sector, Econometric Model, GDFCF, Per capita Income, Inflation Rate, Exchange Rate, Pakistan.

I. INTRODUCTION

It is generally perceived by the countries which are rapidly making progress in economic development that FDI has proved to be a substantial booster for economic uplift of these countries. According to these countries, different types of vacuums are covered. These are mainly investment vacuum which takes into account investment shortage and fills it. Secondly it is foreign exchange gap which with the help of FDI meets the investment requirements and ultimately becomes a major source of earnings through export. At last but not least, it bridges the gap between tax and revenue ratio as the additional investment provides a boost to employment, industry, agriculture and thus making revenue from these sources in shape of tax.

Over the last two decades, Government of Pakistan (GOP) has initiated market-based economic reform policies. To initiate foreign investment, GOP has offered multiple incentives to foreign investors including relaxation in trade, fiscal incentives, tax concession or exemption, credit facilities, tariff reduction and foreign exchange control as well (Khan, 1999). In 1990's, GOP has opened its doors for foreign investors in agriculture, telecommunication, energy, and services sectors by relaxing its policies. Unfortunately, Pakistan could not attract considerable share of FDI as compared to other developing countries due to political uncertainties , and inconsistent policies. However, during 1990's, FDI inflow was revealed incredible growth over time.

Recently, GOP has adopted liberal investment policy to induce foreign investors in the services sector, especially in the telecommunication sector. In this regard, GOP has minimized the foreign equity upto US$ 0.5 million in 2000 for all the sectors of services industry. Further, GOP has reduced it to US$ 0.15 million in 2004. Another attraction for foreign investors in the services sector of Pakistan is that GOP has allowed them to own 100% equity and they can repatriate their 100% profit to home country.

Main objective of conducting this study is to examine the main determinants of FDI in Services sector of Pakistan which influence FDI inflows in aforesaid sector of Pakistan. This study is organized as follows:

Section II reviews the literature, section III describes research methodology and data sources, section IV discusses regression results and analysis, and section V deals with conclusion.

II. LITERATURE REVIEW

There are limited studies that have discussed the issue and importance of FDI relating to the services sector in Pakistan. Let we take the review of few important studies.

Studies such as Miller & Parkhe (1998); Nigh et al (1986); Goldberg and Johnson (1990), FDI inflows in total and FDI in banking sector are positively related. Moshiran (1997) also examined impact of exchange rate on FDI inflows in the host country and found that exchange rate of host country is strongly significant to FDI inflows, particularly in services sector. He argued that appreciation in host country's currency leads to increase FDI inflows in Insurance sector and found that rate of return is significant to FDI in financial services. Whereas, Yamori (1998) explored that in long run, exchange rate volatility does not affect FDI inflows considerably in financial services and his study does not support the association between rate of return and FDI inflows in financial sector.

Rubio & Simon (1994) conducted study by using annual time series data for the period of 1964-89 This study used co-integration techniques for estimation. Results indicate that long run association exists between FDI, real GDP, inflation rate, trade barriers and foreign capital stock. Further, they found that main determinants of FDI in manufacturing and Non-manufacturing sectors are almost same rather in total FDI. Other studies such as Macedo (2000) and Pinheiro (1996) in Brazil, Campbell et al (1998) in Sub-Saharn Africa, Appiah (2001) in Ghana, Andreasson (1998) in Mozambique, Due et al (2002), Temu et al (1998) examined commodity producing sector and services sector firms and they argued that efficiency and productivity of all the firms improved after privatization.

Akhtar (2001) conducted study to examine the determinants of extension of foreign banks in Pakistan and found that vital determinants of existence and development of foreign banks in Pakistan are market size, diversification of risk, profitability, trade financing and so on.

Ivar and Villinger (2008) conducted study to analyze the determinants of FDI in services sector of host economies. They used data of 57 countries for the period of 1989-2000. They found that institutional climate and democracy are more significant for FDI in services sector but trade openness does not impact significantly because service sector is 'Marketing-seeking" FDI. They also found strong correlation between \FDI in manufacturing sector and FDI in Producer's Services Sector'.

III. RESEARCH METHODOLOGY AND DATA SOURCES

After reviewing the literature, this study is based on the following econometric model:

Where

FDIS = Foreign Direct Investment in Services Sector of Pakistan
TO = Trade Openness
GDFCF = Gross Domestic Fixed Capital Formation
INF = Inflation rate
ER = Exchange Rate (Pak Rupees/$)
CAB = Current Account Balance (In Pak Rupee)
LC = Per Capita Income

It is hypothesized that

DETAIL OF VARIABLES

FDIS is used as a dependent variable. Services sector includes Transport and communication, storage, trade, financial services, social services, and tourism etc. It has been observed, that services sector has been growing at a faster rate than commodity producing sector of the Pakistan since 2000. In this study, we have analyzed the impacts of various macroeconomic variables on FDI in services Sector. Data for this variable has been taken from economic survey of Pakistan, web site of Board of Investment of Pakistan (BOI), and various issues of statistical bulletins of State Bank of Pakistan. We have constructed RFDIS in Pak rupee.

Following variables have been used as independent variables:

Trade Openness (TO), Gross Domestic Fixed Capital Formation (GDFCF), Inflation Rate (INF), Exchange Rate (ER), Current Account Balance (CAB), and Per Capita Income (PC) are taken as independent variables. All variables are measured in terms of Pak rupee. Data for this variable has been taken from various issues of economic survey of Pakistan, web site of Board of Investment of Pakistan (BOI), and various issues of statistical bulletins of State Bank of Pakistan.

Trade Openness is sum of Exports and Imports of Pakistan in each year and it is used to measure the degree of openness.

Time series data (quarterly) has been used for the period of 1996-2008. The study largely depends on secondary data sources originally collected by various organizations. Data have been gathered from World Investment Reports (WIR), various issues of Economic Surveys of Pakistan (1999-2000, 2001-02, 2003-04, 2005-06, 2006-2007, 2007-2008 and 2008-2009), Board of Investment (BOI), Statistical Year Book 2005, Various issues of Statistical Bulletin of State Bank of Pakistan For the analysis of data, Micro Fit #4.0(Interactive Econometric Analysis) has been used.

To investigate the major economic determinants of FDI in Services Sector of Pakistan, time series data (quarterly) have been used, covering the period for 1996-2008. Various summary statistics, correlation among variables, results of ADF test, and regression results are given in tables 1, 2, and 3(see Appendix)

REGRESSION RESULTS

The main purpose of this section is to formulate the model to investigate the affect of aforesaid variables on the FDI in services sector of Pakistan. The variables selected which influence FDI inflows in services sector of Pakistan are: Degree of trade

Openness, Gross domestic Fixed Capital Formation, current account balance. Inflation rate, exchange rate, and per capita income. Usually, time series data illustrates the non-stationarity and provide ambiguous results. First of all, we need to check the existence of unit root in order to eliminate the ambiguity in the results. Second step is to find out order of integration of all the datasets. So, Augmented-Dickey-Fuller (ADF) test was used for unit roots to determine all the variables in model are integrated in the same order. ADF test shows that all variables have stationarity in the levels of 95% critical values without trend. All variables are in first difference. Thus from the Unit Root test we conclude that all of the variables are integrated of order 1(1). (see table 3) We have used FDIS as a dependent variable in our study and used time series data covering the period of 1996-2008 (Quarterly). Table 4 shows the regression results of our model.

Results show that degree of trade openness (TO) is statistically insignificant but with positive sign. Similarly, Gross domestic fixed capital formation is also found statistically insignificant with positive sign.

Study reveals that inflation rate (INF) is statistically significant at 10% level of significance with positive sign. High inflation rate leads to rise the price level which, in turn, increase the profit margin of the investors. So our study indicates that high inflation rate attracts foreign investors in services sector of Pakistan. Current Account Balance (CAB) is also found highly significant at the level of 1% with negative sign, which indicates that improvement in balance of payment builds up the confidence of foreign investors in service sector and increase the FDI in this sector. Exchange rate (ER) is one of the most important variables in our study and found statistically significant at 5 % level of significance with expected sign. Per Capita Income (PC) also some matters in our study and found highly significant at the level of 1% with positive sign. Per capita income reflects the standard of living of the people of host countries and their buying power. Our results show that high standard of living and high buying power creates the wide market which leads to attract foreign investment in services sector.

R2 and adjusted R2 are 0.90983 and 0.89842 respectively whereas D. W-statistics is 1.6517. (See table 4 in annexure)

V. ESTIMATION OF ERROR CORRECTION MODEL (ECM)

An Error Correction Model (ECM) has been applied to find out the short run dynamics of this model. Now our model is estimated in the following equation:

Where r(-1) represents error correcting term.
The results of ECM of FDI in service sectors of Pakistan are given in table 5.

REGRESSION RESULTS

Result indicates that all variables are found statistically significant with required sign except degree of trade openness (TO). By applying ECM, GDP is found statistically significant at 1% level of significance with positive sign whereas degree of trade openness is still insignificant. R2 and adjusted R2 were 0.56970 and 0.49623 respectively and D.W-statistics has improved upto 1.9441 (means no serial correlation).

After applying ECM, all variables were significant with the required sign except trade openness. R (Residual) is also found statistically significant at the level of 1% with positive sign and speed of adjust is almost 50%.

Tests for structural stability based on Brown et al (1975: cited in Pesaran and Pesaran , 1997) suggests that at 5% level of confidence, there is insufficient evidence to reject null hypothesis, that model is well specified (see figure 3 (a) and 3 (b) in annexure).

VI. CONCLUSION

In Pakistan, Services sector has become largest productive sector since 2001. The prominent contribution of FDI inflows into services sector is the transfer of technology which leads to boost up economic development and economic growth as well. It is worth mentioning that FDI inflows into services sector provide transfer of skill and advance technology but also increase the employment level. The motivation of this study is to investigate the key determinants of FDI inflows in Services Sector of Pakistan using time series data (quarterly) for the period of 1996Q1-2008Q4. This research paper points out how different variables impact on FDI inflows in aforesaid sector of Pakistan. To investigate impact of independent variables on FDI in Services Sector of Pakistan, Co-integration and Error Correction Model (ECM) has been used. FDI inflows in Services sector in Pakistan is taken as a dependents variables whereas degree of trade openness, inflation rate, current account balance, gross domestic fixed capital formation, exchange rate and per capita income are taken as independent variables. This study shows that all the variables are found statistically significant with positive sign except degree of trade openness. This indicates that FDI in service sector increases with the rise in capita income and appreciation in home country currency. With the increase in capital formation and developed infrastructure attract more foreign investment. Improvement in balance of payment encourages foreign investors to make heavy investment to meet rising demand of the growing population in services sector of

Pakistan. This study concludes that that gross Domestic Capital Formation, Current Account Balance, Inflation Rate, Exchange rate, and per capita income, have favorable impact on motivating the FDI in services sector of Pakistan.

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ANNEXURE

Table 1. DESCRIPTIVE STATISTICS (Sample period: 1996Q1- 2008Q4)

Variable(s)	FDIS	TO	GDFCF	INF	ER	CAB	PC
Maximum	61302.9	1384407	248790.1	2.7657	181.1000	256038.4	34800.0
Minimum	364.0000	195986..4	22983.3	2.4660	65.5000	5663.8	15320.0
Mean	16243.1	423872.8	139867.1	2.5903	108.1258	53254.0	26663.3
Std. Deviation	197867	263140.9	83893.1	0.10013	24.5335	60123.7	6427.0
Coef: of Variation	1.2182	0.62080	0.59981	0.038656	0.22690	1.1290	0.24104

Source: Calculated by author

Table 2. ESTIMATED CORRELATION BETWEEN FDI AND OTHER VARIABLES

Variables	L FDIS	LTO	LGDFCF	LINF	LCAB	LER	LPC
L FDIS	1.0000						
L TO	0.94514	1.0000					
L GDFCF	0.80681	0.81183	1.0000				
L INF	0.91736	0.95889	0.83344	1.0000			
L CAB	0.77452	0.76230	0.41978	0.69173	1.0000		
L ER	0.68255	0.73613	0.89406	0.84197	0.28529	1.0000	
L PC	0.86799	0.87692	0.94933	0.93487	0.49951	0.94555	1.0000

Source: Calculated by author

Table 3. RESULTS OF ADF TEST

Variables	Level/Difference	Without trend	With trend	Order of Integration
LFDIS	Level	0.59995	-2.0526	
	First Difference	-7.3334	-7.2585	I(1)
LTO	Level	3.0578	0.27365	
	First Difference	-4.5686	-5.5008	I(1)
LGDFCF	Level	-1.5647	-1.7836	
	First Difference	-6.8579	-6.8734	I(1)
LINF	Level	2.3693	0.84956	
	First Difference	-3.2852	-3.6865	I(1)
LCAB	Level	-0.29255	-1.7331	
	First Difference	-6.3543	-6.4955	I(1)
LER	Level	-0.095565	-0.91627	
	First Difference	-5.1831	-5.1342	I(1)
LPC	Level	-2.0337	-1.2485	
	First Difference	-6.8778	-7.3206	I(1)

95% critical value for ADF Statistics for all variables: -2.9256(without trend) and -3.5088 (with trend)

Source: Calculated by author

Table 4 FDI in Services Sector(LRFDIS)DEPENDENT VARIABLE REGRESSION RESULTS (1996Q1- 2008Q4)

Variables	Coefficient	t-statistics	Probability
Constant term	0.16632	3.3101	0.000
L TO	0.51250	1.3891	0.178
L GDFCF	0.032189	1.5181	0.320
L INF	2.2215	1.7091	0.095***
L CAB	-0.43350	-4.1653	0.000*
L ER	-4.8040	-3.5356	0.001*
L PC	7.0670	3.3237	0.002**
F-Statistics	11.8253		0.000*
R^2	0.90983		
Adjusted R^2	0.89842		
D.W	1.6517		
No of Observations	52		

***, **, * indicates 10%, 5%, and 1% level of significance respectively.

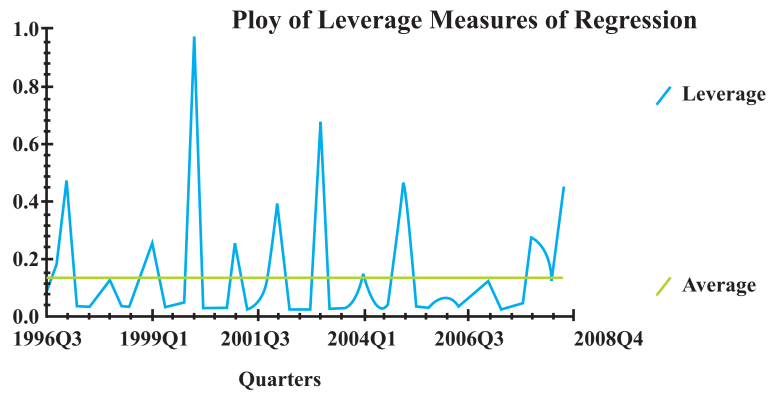
Source: Calculated by author

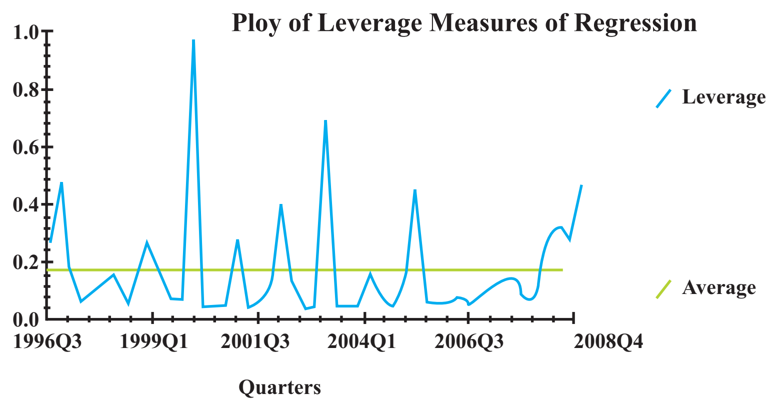
Table 5 ECM RESULTS

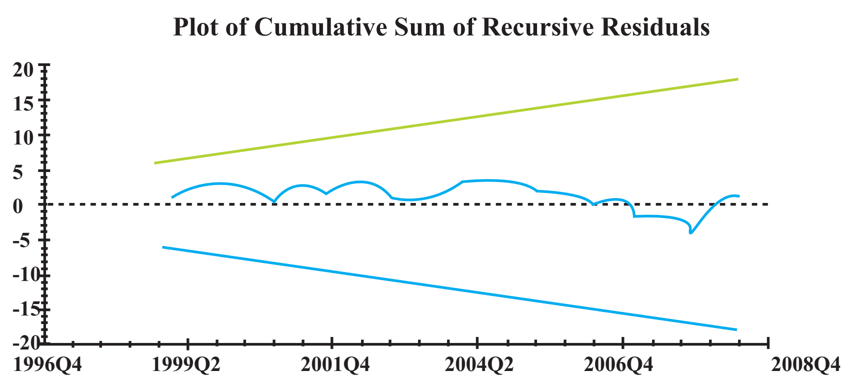
Variables	Coefficient	t-Statistics (Probability)	
Constant term	0.17049	3.3124	(0.002)
DLTO	0.87038	1.1185	(0.270)
DL GDFCF	0.0.64820	2.6631	(0.011)*
DL INF	2.5133	1.8589	(0.070)**
DL CAB	-0.34219	-3.0654	(0.004)**
DLER	-4.8619	-3.5243	(0.001)*
DL PC	4.4809	2.2375	(0.031)**
R(-1)	0.501080	3.32019	(0.001)*
F-Statistics F(6,45)	7.7546	(0.000)*	
R^2	0.56970		
Adjusted R^2	0.49623		
D.W	1.9441		
No of Observations	52		

**, * indicates 5%, and 1% level of significance respectively.

Source: Calculated by author

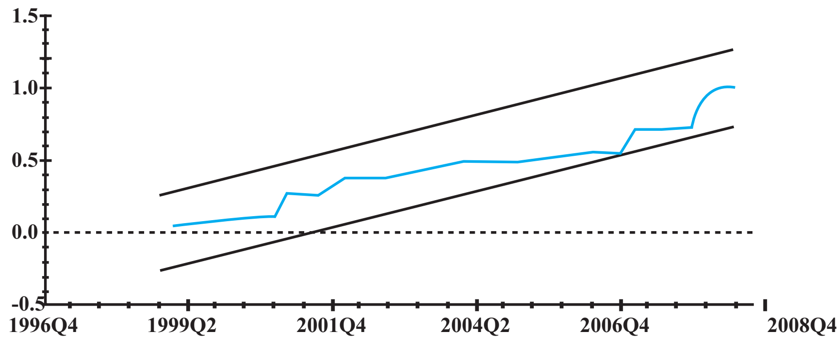






The straight lines represent critical bounds at 5% significance level

Plot of Cumulative Sum of Recursive Residuals



The straight lines represent critical bounds at 5% significance level

Independent variables	**Measurement Code**	**No. of Questions**	**Hypothesis**
Reduce operating cost	Capital investment Overhead & fixed cost Space	5 5 5	H1a H1b H1c
Improve company focus	Focus on new product development Explore new market segment	5 5 5	H2a H2b H2c
Access to world class capibility	Available of specialist Latest and high efficiency technology Established tool and support infrastructure	5 5 5	H3a H3b H3c
Unavailablity of internal resources	Limited production capacity and space Lack of content expert and support Infrastructure	5 5	H4a H4b H4c
Dependent Variable	**Description of measurement**	**Number of questions**	
Outsourcing Decision	Outsourcing Decision	10	

Factors	Categories	Frequency	Percentage
Gender	Male	55	75.71
	Female	17	24.29
Age	21 - 30	11	15.71
	31 - 40	40	57.14
	41 - 50	11	15.71
	More than 50 Years old	08	11.43
Education	Diploma	03	4.23
	Degree	23	32.86
	Masters and Others	36	51.43
Occupation	Non Management	04	5.71
	Executive	20	28.57
	Management	42	60.00
	Professional and others	04	5.71
Years of work experience	Less than 5 years	05	7.14
	5 - 10 years	43	61.43
	11 - 15 years	16	22.86
	More than 15 years	06	8.57
Duration of Company established (Years)	Less tjam 5 years	17	24.29
	5 - 10 years	43	61.43
	More than 10 years	10	14.29
No. of employees in the organization	Less than 50	25	35.72
	50 - 100	25	35.72
	101 - 500	12	17.14
	More than 500	08	11.43

Variables	Number of Items	Items Dropped	Cronbach Alpha
Capital Investment	5	1	.657
Overhead and Fixed cost	5	1	.688
Space	5	1	.692
Focus on New product Development and Explore New Market Segment	5	-	.644
Availability of Specialist	5	-	.705
Latest Technology and High Efficiency	5	-	.674
Established Tool and Support Infrastructure	5	-	.699
Limited Production Capacity and Space	5	-	.686
Lack of Technical Content Expert and Support Infrastructure	5	-	.655
Outsourcing Decision	10	-	.720

Factors	Beta	T-Ratio	Sig. t
Capital Investment	.150	1.865	.86
Overhead and fixed cost	.201	2.976	.62
Space	.224	1.985	.52
Focus on new product development	5.734	7.971	.000
Availability of Specialist	-4.123	-7.013	.000
Latest technology and high efficiency	-3.234	-6.354	.005
Established tools and support infrastructure	-2.456	-5.473	.009
Limited production capacity and space	.457	2.351	.016
Lack of technical content expert and support infrastructure	3.846	5.897	.003
R square = 66% Durbin Watson = 1.768 Condition index = 29.345			

BUSINESS REVIEW
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Karachi, Pakistan

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> Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall.
>
> **Stephen R. Covey**

GLOSSARY

A	
AIG	American International Group
B	
BCDC	Business Cycle Dating Committee
BPO	Business Process Outsourcing
C	
CEO	Chief Executive Officer
CLD	Culturally and Linguistically diverse
CMBP	Committee on Market Best Practices
CPI	Consumer Price Index
D	
DMAIC	Define, Measure, Analyze, Improve and Control
DSS	Decision Support System
E	
EFCC	Economic and Financial Crime Commission
ELL	English Language Learner
EU	European Union
F	
FAO	Food & Agriculture Organization
FBS	Federal Bureau of Statistics
FDI	Foreign Direct Investment
G	
GDP	Gross Domestic Product
GNP	Gross National Product
H	
HDI	Human Development Index
HRM	Human Resource Management
I	
IBM	International Business Machine
IIF	Institute of International Finance
IMF	International Monetary Fund
IOC	International Olympic Committee
IRA	Individual Retirement Account

L	
LEP	Limited English Proficiency
M	
MIS	Management Information System
MSEs	Micro- and Small-sized Enterprises
MSMEs	Micro-, Small-, and Medium-sized Enterprises
N	
NGOs	Non- Governmental Organizations
O	
OECD	Organization for Economic Co-Operation and Development
P	
PEU	Perceived Environment Uncertainty
S	
SBP	State Bank of Pakistan
SCAN	Strategic and Creative Analysis
SLIC	State Life Insurance Company
SM	Scientific Management
SMART	Self Monitoring , Analysis and Reporting Technology
SMEDA	Small and Medium Enterprises Development Authority
SPSS	Statistical Package for Social Sciences
SWOT	Strength, Weakness, Opportunities , Threats
T	
TEFL	Teaching English as a Foreign Language
TFP	Total Factor Productivity
TI	Transparency International
U	
UNCTAD	United Nation Conference on Trade and Development
U.S	United States
USSR	Union of Soviet Socialist Republics
W	
WB	World Bank
WSF	World Social Forum
WTO	World Trade Organization