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Editorial Perspective

Rethinking Corporate World: Eulogizing the Corporate Thinker

> Each one of us will one day be judged by our standard of life, not by our standard of living; by our measure of giving, not by our measure of wealth; by our simple goodness, not by our seeming greatness.
>
> **William Arthur Ward**

> Remaking the world is an insignificant task. It is not the world that must be remade, but man.
>
> **Albert Camus**

The discourse surrounding the corporate world suffers from a very low level of awareness of the fatal flaws it is afflicted by and a very high level of indifference to the visibly impending disaster. It is a situation disproportionate to the need to think and rethink about it and the necessity of constructing and reconstructing it in any realistic way. It is not commensurate with the dialectic between *is* and *ought, fact* and *value*, invested with a symbolic recognition of the co-efficient adversities of the surrounding circumstances. It does not spur but only curb the creative and co-creative will to invent a narrative highlighting the instrumental measures of remedial significance. With this mindset we embark on another ramble through corporate world in search of a perspective, per chance to run into a resolution of the dangerous polarities that are becoming intensified in the corporate world. It's a theme which is fairly low down in the scale of determinants of the recurrent profiles of the corporate reality. To educate ourselves, we have gone through a large number of ideas to discover that even the most welcome suggestions indicating the goal we are seeking, i.e. the reconstruction of the corporate worldview, and the direction in which we ought to be moving to reach the goal we are seeking, are woefully weighted by ideological underpinnings. Each familiar discourse relies heavily on one or two forces – economics and ethics. And that is a situation we want to avoid. We have, therefore, chosen for our narrative man's-being-in-the-world as the situation which covers the totality of human condition. But let us be clear about our terms and concepts. We must confess at the outset that we consider man's-being-in-the-world as almost a moral condition .A moral and ethical person is primarily concerned with the dialectical tension between *fact* and *value* – the way things are and the way they ought to be. He is concerned with the resolution of the contending forces in and through his creative will, resulting in the construction and reconstruction of the Corporate World. But, more importantly, because he is part of the total situation, he is equally concerned with reinventing and remaking himself.

Such a thought is not without ethical or moral underpinnings and there is a religious side to it. In the Qur'anic parlance we have a word for it. It is called *piety*. By piety we do not understand some pious platitude but a disposition and a way of being-in-the-world, an attitude and a way of *turning towards* life and the world یرجعون with a certain intention نیّت. Thus, man's creative imagination, his will to truth and his resolve to circumstance the world with the intention of making it better are one and all, manifestations of his passion to be ethical and moral. It is a need, seeking its fulfillment through his actions, decisions and choices. The need lives in his heart; it shows its grace in his being and its beauty in his character. Endurance, steadfastness, ability to resist temptation and tenacity to be free from the pressure of expediency are its defining features. To exist as a measure of loyalty to veracity authenticity, and fidelity to all that is true, good, just and beautiful, even though the world is overcast by the thick shadows of skepticism, pragmatism, subjectivism and relativism, are the ways of its glorious appearance and victorious grandeur.

Such a way of being in the world is the poetry of the lives engaged in conscious activity. It is the story of man as an autobiographical consciousness, determining his own destiny, fate and future by re-inventing and remaking himself in the light of his image of what it means to be a human being. This is what man's-being-in-the-world means to us. It is a paradigm of Corporate World in which we would like to invest our thoughts and ideas, hopes and aspirations, inviting, as our stakeholders, those who are not afraid to think creatively and to live dangerously. This is the worldview in which excellence, virtue and creativity galvanize man's "courage to be" - a worldview in which to be a man means to *vie* in good deeds.

To reminisce the thoughts we have already thought by rethinking them as a whole, to make new memories, to remember the old ones with painful joy and sweet sorrow, let our imagination take to wings; let our journey begin. Let us embark on our sojourn to put life in context. Let it take us on to a ramble through Corporate World. Let us position ourselves against the backdrop of our creative will and transcendental imagination, sure that the Corporate Thinker will help draw new parallels, establish new connections and form new associations with tenuous analogs in the Corporate World.

In the following sparsely stated ideas, we shall pick up our rambling thought from where we had left them. We shall follow them and wherever they will take us, that is where we will go. The thought, nearest to our heart, is to reach out into the domain of tangential concepts, beyond the exclusive categories of the corporate worldview- the domain where ideas are always receding beyond the familiar perspectives into the undiscovered horizons of meanings and perceptions, inviting us to strive for the glory that lies beyond our reach and yet to reach out to the horizon which never ceases to unfold itself to let us arrive. As a journeying self at each moment of our journeying towards the yet to be, we stand at the intersection of a fixed point of view and a transcending vision, forever and ever more.

کس ندانست کہ منزل گہِ مقصود کُجاست
ایں قدر ہسُت کہ بانگِ جرسِ می آید

The ramifications of such a transcendental and transcending way of being-in-the-world is not hard to imagine. It facilitates the transition from the *is* to *ought* from *fact* to *value,* from *thus it is* to *thus it ought to be.* In our culture and the society in which we live, such thoughts are always greeted with derisive smile by those who do not find in the personal dimension of their experience of the worldliness of the world any meaningful and creative possibility of the world-to-be, beyond acquiescence, resignation, submission and expediency. If we take such an attitude as indicative of popular belief about our redemption, we only haste our doom. It is a petrifying thought. But, let us not give up hope; let us keep on searching and, on our reciprocation to the thought, let us have something, an idea, a vision or a dream to feel nostalgic about.

Let us pick up our narrative from where we had left it off in our last Editorial Perspective. There, we remember to have reached a point that is sad and sweet, full of hope and disillusionment and also anticipation, and nightmares. Let us embark on our journey, far off into the future where 'time past' and 'time present' are both waiting for us; and also the world-to-be in its glory and solicitations towards the yet to be.

To break the monotony and to minimize the gravity of our discourse, we shift from academic to poetic to make and to illustrate the argument that forms the basis of our narrative. To our Corporate Executive we submit:

تُو مپندار کہ ایں قصّہ زخُودِی گویم
گوش نزدیکِ لبُم آرکہ آوازِ ہسُت

(Say not I'm making up this story myself. Lend me your ear, closer to my lips and now listen … is this not your voice?)

While thinking and rethinking the corporate world, as our thoughts escort us, we now embark on our ramble through corporate world, fully secure in the knowledge that we cannot understand the full impact of our situation if it is petrified into a *permanent* condition. Also, we will not be able to appreciate the full significance of the transcendental movement of our thoughts towards the yet to be if we fall to the temptation and sentimentalize it as a *necessary* progress towards better circumstances, better days and nights and better ways of being in the world. "No future is necessary unless we are such as to make it, and if we do make it and it satisfies us, this will be because it is appropriate to our condition, not because it is better or worse than what came before." (*The Next Development in Man*, L.L. White, Page 133)

Therefore, in rethinking the corporate world, we need to ponder over the polarities that have become intensified in the corporate worldview. We need, in particular, to dwell upon man's *hyphenated* relationship to the world and examine the significance of the relationship category with regard to the pre-position *in*. The Corporate Thinker believes that these are the two welcome steps in the right direction because they will help us in working out the details of rebuilding and reconstructing the corporate world out of the relationships as they are lived and experienced by man and weaved together into a delicate and fragile cobweb of interrelationships.

In rethinking the corporate world, we must therefore take a different route to reinterpret corporate world-view from a transcendental, dynamic and creative stand point. We believe it will provide us with valuable ways of reinterpreting the corporate experience in relation to the intentionality of corporate executives' consciousness of himself and his being-in-the-world.

The undertaking is worth all the effort it will take and rewarding too because it will educate us about the methodological requirement- (1)to get beyond the exclusive categories that have become sedimented into the discourse on the Corporate World and, - (2) the insight that interpretations tend to get organized and structured round certain fixed and emotionally applied, hurriedly accepted, unquestioned, unexamined, and taken for granted beliefs, ideas, assumptions and presupposition. Therefore, they are bound to result in the fallacies, dichotomies, antinomies, logical inconsistencies and contradictions.

Rethinking the Corporate World, with a view to reconstructing the corporate experience in the light of reimagined corporate worldview is a heroic effort, staggering, to say the least. The Corporate Thinker is aware of the magnitude of the task. He deserves our admiration. His effort will change our perspective on the corporate world, contrasting the two of its cardinal images – *the given* and *the imagined*, taken for granted and the examined world, the world as an acceptance phenomena and the interpreted world, in short, *the world as it is* and *the world as it ought to be*, making explicit the corresponding attitudes - acquiescence and creative discontent. Needless to say, these contrasting images of the corporate world and the radically opposed attitudes result from and are accentuated by our understanding of the place of *value* and *transcendence* in the corporate world-view.

It also reveals what philosophers and poets have always known. The existence of radically opposed forces, attitudes and values as the dialectical tendencies of the human mind, notwithstanding Hegelian dialectical idealism and its critique by Marx in terms of class struggle between opposed groups of men motivated materialistically in economic terms.

ایماں مجھے روکے ہے تو کھینچے ہے مجھے کفر
کعبہ میرے پیچھے ہے، کلیسا میرے آگے

Parallels can be drawn in different directions. Associations can be formed on different levels. We can even contextualize our times by the events from the past, to make them contemporaneous with our own present. We only need to imagine the past, to think how glorious must have been the times when, toiling upward in the night, men rose to the heights of passion and almost touched the limit of thought and how dark, silent and cold the night must have felt when he fell into the bottomless pit of hatred and greed, fear and prejudice

More than 2000 years have passed since my teacher and mentor, Socrates, lived and spoke the enigmatic words: "*I cannot teach anybody anything but I can make them think.*"He devoted his life to the risky proposition that an unexamined life is not worthy of a self-respecting man. He asked questions of philosophical and cultural import to deepen the discourse with whosoever came into contact with him; to make him think, if the stranger could listen to him with the third ear. He knew the secret to meaningful interaction with anyone he looked at.

He shook the conscience of man when he asked: *is something good because you like it or should you like it because it is good?* Nobody answered. But the deafening silence cried over the onset of the demise of the glory that was Greece. The lengthening shadows of the fictionalized culture of the Sophists tend to color our thoughts even today.

Socrates was accused of corrupting the Athenian youth, denying their gods and questioning their cherished assumptions and presuppositions. He was tried by a tribunal of judges and found guilty of treason and heresy. He was condemned to death by drinking hemlock. He refused to escape from the prison in spite of the safe passage arranged by his friends. "*Where shall I hide from myself, if I run away from here?"* He stayed and moments before eternity touched time, he spoke, to his accusers, gently and softly. "Now is the time to depart," he said, "you to live and I to die. But who has a better destiny, no one knows, except God." How cold and treacherously silent the passing moments must have felt! He died the way he had lived; a thorn in the heart of man. There is a difference between transitory and ephemeral glory and eternal damnation. That is the Socratic legacy; it will, forever, make a difference in the way a man lives and the way he dies. A corporate functionary can borrow and cherish from the useable past the invincible power of his words and the yawning emptiness of the pauses in between. If he will dare to think, he will, as a witness to truth understand that once the words go silent, the emptiness will remain empty. Unless it is filled by those who can dare to speak up. Socrates was the voice not only of his age but the voice of all thinking men, forever.

"I cannot teach anybody anything but I can make them think." These words of wisdom have become dispersed in the sound of silence but their echo will always haunt us. More than 2000 years have passed since Socrates was silenced by venomous ignorance and fear. But, his memory became etched eternally in man's *internal time consciousness*, far beyond the spatio-temporal determinations in which the categories of naturalistic world are set up. There, it is not the passage of time but the consciousness of time that matters. Memories are forever. As remembrances, memories are mementos and memorials. If or when remembered and recalled, they never refuse and always come down running laden with residual affects, happiness and sorrows, sadness and tears, guilt and shame, prejudice and hatred, shadows of smiles and the silent groans in which they were clad originally when we met them the first time ever.

جب تجھے یاد کرلیا، صبح مہک مہک اٹھی
جب ترا غم جگالیا، رات مچل مچل گئی

Socrates was an enigmatic man; ever self-aware. He knew the verge and also the precipice. He had an insatiable lust for life and an equally over powering temptation to exist. He knew the precariousness of standing at the point of convergence of *is* and *ought.* Standing at the threshold, he knew which side of the fence the rain must fall or the wind must blow. He was a man of character. To live a good life, i.e. a virtuous life, a man must question what needs to be questioned; he must think what must be thought about. He made us think the thoughts we believed to be our thoughts and also the thoughts we thought were not ours to think. He taught us to think dangerously, that is creatively. He taught us to dare to be wise.

To live wisely means to live dangerously, i.e. creatively. To live creatively a man must dare to ask painful questions, without any fear of painful answers. To live such a life, he needs both; vision and perspective. Socrates was the man a Corporate Functionary should like to have as his role model; a man distinguished for his love of life and the strength of character.

Unlike the Greeks I know, he was short, stocky, dark and very ugly. But he was the loveliest of the ugliest men we can imagine. He had a beautiful mind and a noble soul. He deserves our praise and admiration for thinking the perennial thoughts and for being the person he was. Lovers of wisdom and seekers of truth will always look for him behind his words and the memory of him as his legacy.

We know, but he did not, that someday we shall be living in a society called the *corporate society* which will neither demand nor produce character. That is our problem today. But yesterday, when he lived, he asked his companions to think about the consequences of the loss of character. He asked them to re-think about the collateral damage – emotional, ethical, moral cultural and intellectual – they will have done to themselves. He asked them to think *why* and try to remember how far behind and again, *why* they had lost it. Look deep within yourselves, he said, and *fear*. He aroused in their hearts the most destructive and dangerous emotion – fear - which led to his own death.

He sat in motion the conflict between two values and two value-judgments that men, with opposing tendencies have held strongly. He knew, as we now understand, that a society without a clear vision of what constitute the measure and the criteria of value becomes more and more deeply immersed in the artificial reality created by subjectivism and relativism and the false security provided by the *status quo*, and acquiescent culture antagonistic to change. In his own way, Socrates epitomized the paradox of our condition and the dilemma of our situation. We know now, more than ever before, that change reigns supreme in life, as Heraclitus, his contemporary, believed and taught. "*Nothing abides, nothing stays and nothing is the same forever. Nothing but impermanence is permanent. Everything is changing and you cannot step into the same river twice,"*

تو اسے پیمانۂ امروز و فردا سے نہ ناپ
ہے رواں، ہر دم جواں، پیہم دواں ہے زندگی

Raised to the level of socio-cultural development, such a universally accepted conclusion about unrepeatable nature of *becoming* must be drawn into our historical perspective to understand the incremental development and terminal decline of human condition and situation under the given circumstances. To this effect, we need to emphasize the relationship between "being" and "becoming", like the relationship between to know and to understand as quintessential for such historical perspective. To make the full use of it we need to co-integrate it with education and culture on the one hand and the creative power of moral authority and the dynamics of hermeneutics on the other.

Rethinking, as our Corporate Thinker knows is a toilsome and all-consuming businesses. Once you got on with it, it starts getting mass and momentum, becoming heavier and heavier leading into neglected domains of thought and ideas, associations and relationships, horizons and perspectives, forbidding and alluring, receding farther and farther into the transcendent.

میری صُراحی سے قطرہ، قطرہ، نئے حوادثِ ٹپک رہے ہیں
میں اپنی تسبیح روز و شب کا شمار کرتا ہوں دانہ، دانہ

We can now have a sense of why Socrates emphasized the role of thinking in his pedagogical philosophy. Our Corporate Thinker believes that such a radically dynamic and creative insight needs to be firmly integrated into the corporate world-view to provide a metaphysical basis to our reimagining and re thinking the Corporate World.

True to the spirit of his philosophy: "never to admit falsehood or to stifle the truth" and "the unity of wisdom, knowledge and virtue and also the pronouncement of the Belphic Oracle, Socrates raised the epistemic status of knowledge to the level of an ontological event, reminding us that *to know means to be* and *to be means to become*. We know the meaning of honesty by becoming honest; by living an honest life. The distinguishing feature and the most vital and precious possession in the life a man is his character. Although, it is not true that we all aspire for virtue; it is also not true that all of us admire good moral character. And by no means is it true that we vie with each other in good deeds, virtuous actions, will to truth and love of excellence. *But it ought to be*.

If it is true, as it is, that value judgment is the force behind the formation of attitude, it follows that the weakness or the strength of attitudinal disposition becomes the weakness or the strength of character. It is a belief that Bertrand Russell and Albert Einstein held very strongly. The Corporate Thinker believes that to rebuild and reconstruct corporate world we must, to our own advantage, incorporate this heuristic insight into our behavioral disposition. Remembering that truth loving people cannot astray from truth for very long; we must never forget that in the parlance of the corporate culture, such an insight is of crucial importance with deep ramifications. It is of critical importance for a successful business executive to cultivate and to abide by such an attitude. It is imperative for him to engage in serious introspection. As a methodological device, he must radically and ruthlessly examine his unexamined beliefs and assumptions, questioning what must be questioned, doubting what must be doubted. He must set aside his whimsical and distempered ideas as contingent and dubious rather than indubitable and apodictic. He must be free from the mindset created by dispositions and inclinations that grow as a consequence of "it goes without saying" and "taken for granted" generalizations. He must liberate himself from the compelling power of such tendencies in order to be free from their biased and prejudicial determinism. In order to be free, his mind must be free and also his conscience. These are elusive forces, and the Corporate Executive must engage in the iconoclasmic activity to unshackle himself from the emotions of veneration, adulation, fear and expediency at the cost of the integrity of his character. This is a tenuous and difficult exercise but it is necessary in order for him to be what he is capable of becoming.

The realization is crucial. In the parlance of corporate culture, a successful business executive must cultivate and abide by such an attitude. It is of critical importance for him to put his unexamined beliefs and assumptions in parenthesis, to liberate himself from the *naturalistic* and *taken for granted* attitude in order to be free from biased and prejudicial inclinations. He must, with full awareness and, as a methodological device, set aside his whimsical and distempered thoughts and ideas in order to arrive at valid and fair judgments, marked by the reasonableness of reason, truthfulness of truth and the veracity of goodness and honesty. In our institutions of business education, if we are interested in the personal growth of our students, we need to emphasize that such an attitude, cultivated by interdepartmental, cross cultural and liberal education is an excellent preparation for professional responsibilities. Beside, in order for us to broaden their perspective on life and to deepen their self-understanding we need to introduce courses on the *History of Ideas* and the *Procession of Cultures*. This will help develop in their lives an appreciation of ethical and moral dimension of historical experience which our present system of education lacks very sadly. It will help them acquire training and experience which is necessary to enhance their creative imagination, will to truth and critical reflection in the corporate world and in their future role as leaders in their respective spheres of influence.

Such reorientation requires that our students have sound reasoning and precision in linguistic expression and logical persuasion. They must be fully conscious of the logical tenet that whereas "*all reasoning is thinking, all thinking is not reasoning*". They must enter their managerial, administrative and executive domains fully armed with the unassailable and invincible convictions that "sugar is sweet" is not a sweet proposition and "ignorance is blind" is not a blind proposition. They must always remember that the life of each man is his alone and it is once in a lifetime opportunity. They should not resist the temptation to grow older and wiser. They should not fool around with the Law of Consequence, not even for the heck of it. He who ignores such refrains and admonitions makes himself vulnerable to the hidden traps of mind and many a *cul de sacs*, the blind alleys. Michael Dell, in his book, *Direct from Dell*, has very instructively observed that in the Corporate World "decisions are not made on whims. Successful business decisions require firm reasoning and practicality." We must, however, understand very clearly that the notion of practicality (or workability) is not to be confused with a belief in expediency or vulgar pragmatism. Such a mistaken belief has always been, and it shall always remain, very dubious criteria of value, *if it is not predicated on trut*h. The notion of expediency is a whimsical belief and, *ipso facto*, it can very conveniently result in equivocation, equating falsehood, deception and blatant lie, with something sacrosanct, indubitable and apodictic, only *because it works*.

It is an observation based on the possibility that can have devastating consequences for the ethical dignity and moral integrity of the Corporate Functionary. It is time that our schools of business education seriously review their pedagogical philosophy to examine the slow and gradual decay of moral discourse in the corporate culture.

The need to examine the *causes* and the *reasons* of such phenomena is an expression of a genuinely felt concern with corporate social responsibility and the role of business education as instrument of transformational change. It is not a recent phenomenon; it has a history and, as we understand it today, its roots can be traced back to the formation of the corporate culture in its not too distant past. To put it in historical perspective, what lies at the root of the malady of corporate culture is partly the commercialization of education. But mainly, most of the problems causing its foundational stress and strains coverage upon the point where ethics and economics intersect. As our knowledge of what we already know about the dialectical interplay between *causes* and the *reasons* grow, in this point of intersection become manifest consequential break down and the ultimate collapse of the corporate system. *The causes* of the failure of a system lay not so much in some corporate mystique; they lie in the power and enduring mystique of the "law of consequence". There are things which come from wisdom, not age. Today, we would have been living differently, if in the past, we had made different choices. But we missed the opportunity and now we long for yesterday. *The reason*s for the failure of a system lie in the inaptitude of its intellectual leaders and moral mentors to provide a sense of direction and the path that we need to follow in search of the desired goal. In life, and also in business, it is always possible to be on the *right path* but moving in the *wrong direction*. A philosophy of corporate social responsibility must, in the final analysis, be founded on a clear and distinct understanding of the relationship between *cause* and *reason* as much as between *value* and *decision*.

The ethical and moral education of the corporate executive is the central problem of the corporate world. In our Editorial Perspective we have always referred to the need to strengthen the appreciation of moral values and to deepen the desire to cultivate ethical attitude as the two indicators of professionalism in business. Our students in the schools of business education need to be exposed not only to the forces operating in the corporate world but they must as well be trained to listen to the "moral law within", to recognize the genius of human heart for the good and the evil, if, in their professional life, they are to be expected to live up to the requirements of rational imperatives as the requirement of corporate social responsibility. As managers of corporate affairs, let them learn to manage their professional integrity on their commitment to excellence. They must learn, and we must teach them, the virtue of integrity of character, away from patronage, and far away from nepotism. They must learn and we must teach them, to live a life of incremental creativity. The Japanese have a word for it. They call it *Kaizen.* Let us teach our students, to become what they are capable of becoming. Let them learn to create their own reasons to be what they are. Let them remain faithful to a life predicated upon truth, respect for the dignity and intrinsic value of man's humanity and, above all, an irrevocable rejection of man's inhumanity to man.

In *How We Think,* John Dewy, a renowned educationist and one of the three acknowledged exponents of pragmatism (the other two being Charles Pearce and William James), believed in the ability of human nature to *comprehend* and *respond* to the truth and reason. (Part II, Logical Considerations, Chapter 12). It is a lofty attribute but, nevertheless, it betrays ontological weakness and logical narrowness implicit in our experience with the Corporate Executive who lives not in contempt of truth and reason but for the love of expediency and workability. The reason for such thinking is existential rather than logical. Corporate Executive does not live in an integrated dwelling of the *will to truth* and *response-ability to reason.* He lives in temporary shelters where *truth* and *reason* do not feel very much at home. John Dewy was a good old philosopher. He belonged to a generation of thinkers who had not heard the indignant echoes of disdain for no other than the man whose nature he trusted and exalted so very much. He belonged to a generation of moralists who were mercifully spared the shock and the grief caused by the Machiavellian pragmatism and its way of comprehending and responding to truth and reason.

Our Corporate Executive is Machiavellian by nature who is interested in the means to attain power. He defines power as value, and expediency as a means to attain power and authority. He is not interested in value with ethical or moral connation as the reason to attain power, not necessarily or categorically. He is not a Kantian ethicist. He does not believe in value predicated on reason or truth. He does not subscribe to universally accepted standards or universalizing criteria as a means to ethical and moral legislation. That is the reason why it is so hard for him to comprehend and to respond to a very delicate and tenuous relationship between ethics and economics in the corporate worldview or ethics and politics, particularly morality and statecraft. However, our Corporate Thinker knows that certain biases and proclivities are and may indeed be indispensable in the sphere of economics. But, the indispensable, even if it is "absolutely indispensable", is not necessarily desirable in the domain of ethics.

If we look back into the recent past, we are struck by the realization that in the Corporate World, "good governance" and "good management" are at best metaphysical lures, so far removed from the Corporate World by the sheer fact of Corporate Executive's nature and by the transparent insight into hyphenated relationship to the corporate world. Corporate Executive's being-in-the--world does not tell even a half truth. But it says so much and even more than the sagacious words of John Dewy could ever say. Our Corporate Thinker is well aware of the workings of the Corporate Functionary's nature, almost mathematical in its limitation and also the nature of his mind, almost one dimensional in its expansion. Our Corporate Thinker is no stranger either to the metaphysical difficulties or the introspective questionings which are repellant to the Corporate Executive's mind and its unsympathetic way of responding to truth. It is becoming more and more evident that his being in the world is almost a moral condition and a "trial by existence". After all, the Corporate Executive has assumed the burden of being "the measure of all things", as a mark of preferment, by choice, on his own accord and by his own free will. It is now upto his own discerning nature to "comprehend and to respond to truth", in all matters pertaining to governance and management in the corporate world. In this respect, whether he likes it or not, he is *without excuses*. But, our Corporate Thinker believes in a holistic approach. Therefore he does not take such a harsh view of the Corporate Executive's predicament. He believes that substantive improvements and changes will be possible only when we rethink the Corporate World as a whole, as a *gestalt* of interrelated parts.

But, in a society where virtue is brutalized and scoffed at, where knowledge creating institutions become accomplices to the rape of human mind, where piety smacks of weakness of character, where intelligence is measured by cleverness and cunning, where excellence is perceived as a threat, rather than a creative challenge, where initiative is greeted with mute indifference and inspires hostility; when a culture, like the corporate culture, is dominated by obsessive – compulsive fixations on self-serving interest and self-aggrandizement, on "profit and more profit", then the working of the one-dimensional corporate mind and the real face of corporate reality shows forth in their true colors, in the battle of credibility and veracity. Corporate World is riddled with fatal flaws as a consequence of the inability of the Corporate Executive to comprehend and respond to truth. In addition to his disregard for a ***gestaltan*** view of the Corporate World, Corporate Executive's failure to comprehend and respond to truth (which must be sought everywhere or nowhere at all) has also resulted in the fragmentation of interrelated view of Knowledge across departmentalized knowledge, impairing and without any regard to coherence and coordination. In the academia, departmentalization and overriding concern with specialization are constantly undermining the need for an intricately interconnected and interdepartmental approach to research and pedagogical methodology. These are self-inflicted problems without any overriding vision and transcendental perspective, informing the future role of the Corporate Thinker and the Corporate Functionary to develop and sustain a worldview in which intellectual, scholarly, ethical and moral disposition are strategic assets of equal methodological significance.

We are living in times of Darwinism in ethics and Machiavellianism in the management practices of corporate institutions and their financial affairs. It is by design, rather than by some curious accident, that these two tendencies have become *inextricably* intertwined. They inextricably dominate the socio-cultural and educational landscape of the corporate world. Their destinies are conjoined, they fall and stand together. Strategically, not accidentally, it is a reciprocation of the process which has made the rethinking and reconstruction of the Corporate World such a compelling and extraordinary case. . . .

To be continued Tufail A Qureshi

"Nema Vir est qui mundum non reddat meliorem?"

"What man is a man who does not make the world better?"

Latin Saying

ARTICLE

Explaining China's Economic Performance from the Perspective of Non-Conventional Determinants

Jingjing Yang and Sana Khalil
Hunan University, China

Abstract:

We analyze forecasts concerning China's growth slow-down and future prospects concerning its economic performance. Extending the discussion on China's possibility of going through a slow-down in future, we focus on the avoidance of such a possibility by drawing forth the role of gross capital formation, trade openness, higher education enrollment ratio, higher education expenditure, R&D expenditure, population growth and number of inventions in determining per capita income. These non-conventional determinants: number of inventions, government R&D expenditure, higher education enrollment ratio and higher education expenditure, show not only significantly positive link with per capita income but also exhibit strong explanatory power in determining per capita income. We apply several techniques (robust regression analysis, Driscoll and Kraay (1998) method, Fixed effects, Random effects estimations and Arellano-Bond GMM estimation) to analyze the sensitivity of our results which show that our variables of interest are robust to heteroscedasticity, autocorrelation of type MA(q), and contemporaneous cross-sectional dependence.

Key words: Per capita Income, Growth Slow-down, Higher Education, R&D Expenditure, Inventions

JEL Codes: O1, O2, O3

1. Introduction

1.1- Background

This paper provides an empirical investigation and analysis of forecasts concerning China's growth slow-down and standard of living (as generally depicted by per capita income). According to World Bank (2013) estimates, China's GDP growth rate would gradually decline from an average 8.5 percent in 2011-2015 to around 5 percent in 2026-2030.[1] Labor growth (growth of labor force) and labor productivity growth will slow down from an average 0.3 and 8.3 percent respectively in 2011-2015 to -0.4 and 5.5 percent respectively in 2026-2030. Two factors are set to constrain China's current spree of rapid economic growth: first, the contribution from labor is set to decline due to lower expansion of its working-age population (which is estimated to

[1] The data quoted in the paper, unless otherwise stated, comes from the World Bank and the Development Research Center of the State Council, P. R. China, 2013, *China 2030: Building a Modern, Harmonious, and Creative Society*, Washington, DC: World Bank.

be eventually negative from 2015 onwards), second, total factor productivity growth which has been a source of China's past growth (Brandt and Zhu, 2010; Young, 2003) will decline significantly since much of the productivity gains due to reallocation from agriculture to industry have already been reaped. Much of the growth originating due to shifting and reallocation of resources from agriculture to industry has already been actualized and going further on from this point onwards continued capital accumulation will ineluctably generate less growth due to decreasing returns to capital and labor. Meanwhile, China is set to undergo major demographic transition whereby old age dependency ratio will more than double in upcoming two decades and the size of its labor force will shrink. Total factor productivity has also started declining as economy has already reaped the benefits from first-generation policy initiatives and gains from second-generation policy measures are more likely to have less impact on growth. Amid this whirlpool of transitions lie the challenges to support sustained economic growth that is inevitable for a leap toward higher-income level.

Future challenges apart, China's overall experience of sustained economic growth over past thirty years is unprecedented worth an exegesis. Justin Yifu Lin's recent book "Demystifying the Chinese Economy" provides a historical perspective in this regard. According to Lin (2011), before the advent of Industrial Revolution, China was still a leader in innovation as it enjoyed having the largest population in the world that endowed it with a huge stock of craftsmen and farmers. It can therefore be asserted, that even prior to the Industrial Revolution, China had a comparative advantage in terms of its unique endowments of human capital stock. The initial drivers of China's comparative advantage were its labor-intensive industries. However, with the advent of Industrial Revolution which marked the essentiality of capital-intensive industries, the need to shift from an agrarian economy to an industrial one turned dire. China's economic transition can be traced back to 1979 when a dual-system was adopted whereby protection and subsidies were granted to develop the capital-intensive industrial sector while liberalizing the labor-intensive sector by allowing private participation and foreign direct investment. This dual-system of economic shift bore fruits in terms of dynamic economic progress and sustained growth.

Reaping the benefits of its economic initiatives taken in past, China today stands as the world's second largest economy and the largest exporter. In 2008, China's per capita income was reported to be around 21 percent of the United States. China's per capita income in 2008 matched the same level as the per capita income of Korea and Japan in 1977 and 1952 respectively (Lin, 2011). Apart from focusing on sustained economic growth, China's recent economic policies seem to be laying more emphasis on environmental and social objectives which are underscored in China's next Five-Year Plan for 2011-2015. China's 12th Five-Year Plan for 2011-2015 centers more attention to carrying out market-based structural reforms, narrowing the rural-urban differences, shifting the growth and development model from quantity-based to quality-based and stemming the growing income inequality.

In our paper, we provide an analysis of China's growth performance (whether growth has slackened or not) and gauge new derivers of per capita income. We use regional level data over 2003-2011 (the selection of years is based on availability of data and ensuring a sample with minimum missing values) to discuss economic development from the perspective of higher education, research and development and inventions. Our data comes from National Bureau of Statistics of China. In the next part we would discuss the historical trends in main macroeconomic fundamentals and comparative analysis with South Korea and Japan. Section two highlights whether middle income trap is a myth or reality and its implications for China's case, section three delves into China's growth slow-down and future growth prospects, section four propounds means to avoiding the middle income trap by analyzing the role of higher education, inventions and R&D efforts in determining per capita income, section five propounds a basic framework for the analysis of the determinants of per capita income, section six and seven draw forth empirical estimations and conclusion respectively.

1.2. Historical trends in main Macroeconomic fundamentals

Before actually moving toward the discussion concerning China's future economic performance, it's necessary to peep through the historical trends in main Macroeconomic fundamentals. Graph[2] 1 shows the zigzag pattern of China's economic growth over past five decades. One undeniable aspect about China's growth is the incredible "resilience" of its economy in the face of slumps. Whether China can continue such remarkable display of resilience in future is still to be seen. Another aspect of China's growth is its sustained trade surplus which has been maintained since 1990s till present. Graph 2 reflects the export and import shares in GDP over 1980-2011. China has successfully maintained a positive current account since 2006. The gap between export and import shares in GDP widened in late 2000s but eventually started narrowing down over 2008-2011China has yet to see how this narrowed gap would effect its economic growth in future since the past economic growth was very much linked with its export growth. Savings and gross capital formation depict rising pattern (Graph 3) which does auger well for future growth. From the perspective of higher saving and gross capital formation, China stands as an outlier among other rapidly developing countries (Eichengreen, Park and Shin (2012). Thus, in forecasts for China's economic growth, higher savings and investment levels could be regarded as the forerunners of future growth. Comparing the industry value added and agricultural value added (Graph 4), major slump in the latter is quite obvious since China has capitalizing on its industrial growth while shifting resources from agriculture to industry (Lee and Hong, 2012). The gap between the two has widened tremendously over 1980-2011 whereby industrial value added shows stable rising pattern.

1.3. China's R&D, High-tech exports, Higher education and inventions: Comparison with Japan and South Korea

The available figures from World Bank data on China's public spending on education as percentage of GDP (both current and capital) show that share of education expenditure in GDP by government was around 1.4 percent in 1971 to 1.9 in 1999 (data for next years is not available). Comparing that figure with those of Japan's, it's not surprising to note that the government has maintained a handsome figure over the years. Government educational spending as percent of GDP was 3.7 percent in 1971 which rose sharply to more than 5 percent over 1980s (the remarkable aspect is the sustained portion of education expenditure in GDP to more than 5 percentage over 1980-989) to decline later over 1990s to finally close at 3.7 percent in 2011. This policy is quite congruent with that of Korea's over 1970-2011. In 1970, share of government education expenditure in GDP was around 3.45 percent which jumped up to 6.5 percent in 1982 and was declined during the later part of 1980s. However, as of 2000, the figures again jumped up and an average of 4 percent was maintained for 2000-2011, as of 2011 the figure reported was 5 percent.

[2] Data used for the graphs 1-4 and referred in the discussion here is extracted from World Bank database

Gross enrollment ratio in higher education (as percentage of total population) for China was nearly 0.13 in 1970 and 7.95 in 2000 which increased manifolds in a short span of eleven years to close at 26.79 as of 2011. Comparing that with Korea's, the gross enrollment ratio in higher education was 7.25 in 1971 and 103.11 as of 2011. Japan's gross enrollment ratio in higher education was 17.6 in 1971 and 50.74 in 2010. The comparative figures imply that China still needs to focus more on higher education, R&D and inventions to catch up with its more developed counter parts.

R&D expenditure (both public and private) as percentage of GDP for China more than tripled from 0.56 percent in 1996 to more than 1.7 percent in 2009. Comparing that figure with Korea and Japan's, their R&D expenditure figures were around 2.42 and 2.7 percent respectively in 1996 which later rose to 3.73 and 3.3 percent respectively in 2010.

Share of high-technology exports in total manufactured exports for China (high-technology exports as percent of manufactured exports) was merely 6.4 percent in 1992 which skyrocketed over the years to clinch a gigantic proportion of more than 25 percent in 2011. Same increasing trend can be discerned in the share of exports related to information technology and communication which was around 17 percent in 2000, but significantly incremented over the years to stand at 29 percent in 2010.

Patent applications filed by Chinese residents through Patent Cooperation Treaty procedure were only 4,065 in 1985. This figure incremented sharply over the years and as of 2011 there were 415,829 (or 0.41 million) patent applications filed by Chinese residents.

The comparison of figures does suggest that Korea and Japan, in their initial and later phases of development, exhibited tremendous efforts in developing a strong human capital base of highly educated students while expediting R&D and innovation efforts. However, whether such efforts are useful in avoiding a middle income trap requires further debate and research. In our paper, we would resort to finding associations between these socio-economic factors and per capita income in our effort to propound an empirical study pertaining to their role in the avoidance of middle income trap.

3. Identifying growth slow-down

China's growth rate decelerated to less than 8% in 2012 from a handsome figure of 10% in 2010. Speculations about continued slow-down of giant economy of China have already ripened in echelons of economists and policy makers.

Studies that focus on identifying the growth slow-down can easily be distinguished as two-pronged: those relying on statistical methods to chalk out growth slowdowns (Ben-David and Papell, 1998; Berg, Ostray and Zettlemeyer, 2012) and the others that apply rules of thumb to discern the growth slow-down (Eichengreen, Park and Shin, 2012; Hausman, Rodriguez and Wagner, 2006; Aiyar et al, 2013). While the former notch of studies generally employ algorithm techniques, the most popular ones being Bai-perron (2003) and Harding and Pagan (2002) methods to identify growth minima and maxima, the latter stream of literature relies on laying down conditions for defining growth slowdowns and then meeting those conditions. A simple yet intuitive approach (Hausman, Pritchett and Rodrick, 2005; Eichengreen, Park, and Shin, 2012; Agenor, Canuto, and Jelenic, 2012) to applying this rule of thumb is to define a phase of growth slow-down as one which satisfies the following condition;

i) $gYt, t\text{-}n \geq 3.5$ % per annum,
ii) $gYt, t\text{-}n - gYt,t\text{+}n \geq 2\%$ per annum,
iii) iii) $Yt > 10,000$

where gYt, t-n is the average growth of per capita income (measured in 2005 constant international purchasing power parity prices) between year t and t-n, while gYt,t+n is the average growth rate between years t and t+n. The first condition stipulates that the average growth rate in n years should be greater than 3.5% per annum prior to a slow-down. The second condition requires at least 2% decline in the average growth rate of n-years. Finally, the third condition sets up a limit for per capita income to be more than 10, 000 thereby excluding poor and lower-middle countries from the analysis (since these countries experience serious economic difficulties hard enough to be accounted for in terms of growth slow-down due to natural heating-up of the economy).

Yet another intuitive approach that heavily draws upon growth theories and conditional convergence framework identifies the slack-periods in term of abrupt diversions from growth predictions (Aiyar et al, 2013). Using the conditional convergence framework (which predicts that rich countries grow slower than poor countries), this approach regresses growth rate of output per capita on lagged values of output per capita, physical and human capital stock to get predicted growth rates conditional upon the level of income and endowments of factors. It, then, defines the residuals as actual growth rates less estimated growth rates. That is;

$$rest - rest\text{-}1 < p\ (0.20)$$

Where p(0.20) reflects the 20th percentile of the distribution of differences in the residuals from one period to another. Positive residuals would, then, imply that the country is experiencing faster growth while negative residuals would mean vice versa.

Using predicted values of growth rate and estimated growth rates (at regional level), we explore evidence of growth slow-down across regions over 2003-2011. The scatter plot in figure 1 largely reflects stability but exposes slumps in the tail. This pattern is in line with the actual data on growth rate of China's per capita GDP (World Bank Data) whereby growth picked up from 9.3% in 2003 to 13.6 in 2007 after which growth suffered from significant slumps to reach at 8.7% in 2011. Figure 1 reflects that at a regional level Chinese economy did exhibit a slump but some observations also reflect the upward pattern which may imply that some regions successfully avoided the slump. Thus it could be inferred from figure 1 that some of the regions did experience slowdown while others might not. The actual dataset on the growth rates of the regions (from China Statistical Yearbook) does provide a backup for such intuition. The regional level data indicates that Guizhou, Xingjiang, Sichuan, Henan, Beijing and Liaoning were some of the regions that showed a downward growth trend from 2003 to 2011 (China Statistical Database). On the other hand, Anhui, Hebei, Heilongjiang, Hunan, Jilin and Inner Mangolia were some of the regions that showed an upward growth trend. Figure 2 reflects the relation between growth and lagged growth over 2003-2011. It brings forward two distinctive patterns; a declining trend and an increasing trend. This can further signal toward the intuition that some regions experienced slowdown while others maintained growth acclivity.

Figure 3 tries to explore the link between per capita income and growth over 2003-2011 using the panel data from 31 regions. The figure shows the link between per capita income and growth is largely positive. This could have a number of implications concerning growth prospects and convergence: first, decreasing returns to capital and labor (as increasingly debated by future forecasts of China's growth) have not yet slowed down the growth of richer regions, second, the intuition that poor regions would grow faster than the rich ones is simply negated. The correlation between growth and per capita income turns out to be 0.73 which, rather, may imply that rich regions are experiencing higher growth by capitalizing on their high per capita income.

Having a look at the studies that predict slowdown for China, a general pessimism can easily be discerned. For example, Wilson and Stupnytska (2007) expect a future growth forecast of 5.8 percent over 2008-2030 for China. Using growth accounting framework, Lee and Hong (2012) base their growth projections on total factor productivity (TFP) growth estimated through growth derivers such as capital to labor ratio, saving rates, stock of patents, years of schooling, openness and demographic variables. They find that China appears as an outlier with an especially higher growth of capital to labor ratio. The authors, further on, project a growth rate of 6.1 to 7 percent for 2011-2020 and 5 to 6.2 percent for 2021-2030. The authors suggest a slower growth of growth derivers: labor force growth, growth in educational attainment, growth of capital stock and TFP growth. Slower growth is indicated to result from the convergence of capital to labor ratio, TFP to advanced-economic levels while slower growth of educational attainment is expected once enrollment ratios reach reasonably higher levels due to ageing population.

On the other hand, an optimistic forecast comes from Fogel (2007) who forecasts a growth of around 8.4 percent over 2001-2040 for China based on demographic trends and assumptions about investment in education.

Based upon myriads of forecasts about implications that a slowdown is coming for China in upcoming years, it becomes highly essential to explore determinants of per capita income that can help in avoidance of growth slow-down.

4. Basic framework for the determinants of per capita income

The basic framework for the estimation of per capita income can be derived from the augmented version (Mankiw, Romer and Weil, 1992) of the basic neoclassical growth model (Solow, 1956). Assuming a cobb-douglas production function, income, Y, at time, t, can be written as follows;

$$Y(t)= K(t)^{\alpha} H(t)^{\beta} (A(t) L(t))^{1-\alpha-\beta}$$

Where K and H represent physical and human capital, L represents Labor and A stands for the level of technology. Over time, technology and labor grow exogenously at rates g and n. solving for physical and human capital per unit of labor, the dynamics of growth can be summarized as follows;

$$\dot{k}(t) = s_k(t) A(t)^{1-\alpha-\beta} k(t)^{\alpha} h(t)^{\beta} - (n(t) + \delta) k(t)$$
$$\dot{h}(t)= s_h(t) A(t)^{1-\alpha-\beta} k(t)^{\alpha} h(t)^{\beta} - (n(t) + \delta) h(t)$$

Where $\dot{k}$ (k= K/L and h= H/L) and $\dot{h}$ represent growth rate of physical and human capital per unit of labor while s_k , s_h and δ are rates of investment in physical and human capital and depreciation rate. Assuming $\alpha+\beta<1$ (decreasing returns to physical and human capital), the steady-state dynamics can be summarized as follows;

$$\ln k^*(t) = \ln A + \frac{1-\beta}{1-\alpha-\beta} \ln s_k(t) + \frac{\beta}{1-\alpha-\beta} + \ln s_h(t) - \frac{1}{1-\alpha-\beta}\ln(n(t)+g+ \delta)$$
$$\ln h^*(t) = \ln A + \frac{\alpha}{1-\alpha-\beta} \ln s_k(t) + \frac{1-\alpha}{1-\alpha-\beta} + \ln s_h(t) - \frac{1}{1-\alpha-\beta}\ln(n(t)+g+ \delta)$$

$$\ln y^*(t) = \ln A + \frac{\alpha}{1-\alpha}(\ln s_k(t) - \ln(n(t)+g+\delta) + \frac{\beta}{1-\alpha}\ln h^*(t)$$

Where per capita income, y= Y/L and ln stands for log-linearization.

Since the steady-state level of human capital in the last equation is unobservable, a log linearized form can be stated as follows;

$\ln h^*(t) = \ln h(t) + \rho.\Delta \ln h(t)$

Where ρ is a function of technological parameters (α , β).

Finally, the steady-state income can be given as follows;

$$\ln y^*(t) = \frac{\alpha}{1-\alpha}\ln s_k(t) - \frac{\alpha}{1-\alpha}\ln(n(t)+g+\delta) + \frac{\beta}{1-\alpha}\ln h(t) + \frac{\beta}{1-\alpha}\rho.\Delta \ln h(t) + \ln A(0) + gt \qquad (1)$$

Eq. (1) reflects that the long-run steady-state level of per capita income can be determined by investment rates of physical and human capital (s_k and $s_{h)}$, growth rate of population, n, and the level of technology. This long-run steady-state equilibrium relationship can be estimated directly either in its level form or through growth-based form. The model has generally been more often used in its growth-based form to examine convergence and to compare growth specifications in different countries. On the other hand, estimation of the long-run steady-state relation in static form has been employed by a handful of studies (Hall and Jones, 1999; Bernake and Gurkaynak, 2001). However, the static or dynamic specifications are considered to yield congruent results (Hervé Boulhol, Alain de Serres and Margit Molnar, 2008) for homogenous countries (which are not far from their steady states and share similar characteristics).

5. Empirical results and discussion

In order to analyze the full specification, we estimate following regression equation;

$$\ln Yit = \alpha + \beta 1\ GCAit + \beta\ 2\ Opennessit + \beta\ 3\ PERit + \beta\ 4\ SERit + \beta\ 5\ HERit + \beta\ 6\ R\&Dit + \beta\ 7\ Inventionsit + \beta\ 8\ EduExpit + \beta\ 9\ PopGrowthit + cit + dit + \varepsilon it$$

$$i = 1, \ldots\ldots 31; \qquad t = 2003, \ldots .2011$$

where Y_{it} is per capita income (calculated as gross regional output divided by total population for region i at time t), GCA_{it} is the ratio of gross capital formation to gross regional output (used as a proxy for investment to GDP ratio), $openness_{it}$ is a proxy for trade liberalization and is measured by sum of total exports and imports divided by gross regional output, PER_{it}, SER_{it} and HER_{it} are the primary enrollment ratio, secondary and higher education enrollment ratios respectively. $R\&D_{it}$ is per capita government expenditure on R&D activities at institutions of higher education (R&D expenditure divided by total population), $Inventions_{it}$ is the number of inventions made (proxied by number of patents granted), $EDUEXP_{it}$ is government appropriation of funds per student at higher education institutions, $PopGrowth_{it}$ is the population growth rate, c_{it} $_a$and d_{it} are dummies for controlling region effects and time effects while ε_{it} is an error term.

Our aim is to study the roles played by inventions, stock of highly educated students, R&D efforts and government appropriation of funds for higher education per each student at higher educational level in determining per capita income. Measures such as R&D efforts, patents and highly educated personnel are associated with “national technological efforts” (Lall, 1992).

Measuring technological efforts of a country empirically is a difficult exercise therefore studies resort to proxies to remedy that. A few studies forward suggestions for measuring a country's innovative capacity or technological efforts through number of patents. Furman and Hayes (2004), for example, use number of patents to measure the innovative capacity of countries and find large variations in inventions across countries at similar income levels suggesting that the link between patents and income could be different across different countries.

Our dataset comprises of panel data from 31 regions of China over 2003-2011 available from National Bureau of Statistics of China.[3]

In table 1 we regress per capita income on the set of explanatory variables conventionally associated with per capita income i.e. physical capital, human capital (measured by primary and secondary enrollment ratios), trade and population growth. Results in table 1 indicate that higher education enrollment ratio and trade openness stand as the strongest variables among others in their individually positive influence over per capita income accounting for 63% and 43% of the variance in per capita income respectively. Contribution of capital formation turns out to be positively but insignificantly related to per capita income. Population growth shows a negative and significant relation with per capita income. The noticeable aspect in the above table is that the primary and secondary enrollment ratios turn out to be negatively related to per capita income. An intuition behind this could be that the stock of students at primary and secondary educational level represents "idle human capital" which is not involved in the production function directly. On the other hand higher education is usually the last stage of education more closely associated with production function in its spill-over effects. Therefore, stock of students at higher education level would represent "highly educated human capital" closely linked with the economic output. The negative link between primary and secondary enrollment ratios with per capita income can imply that regions with higher enrollment ratios at primary and secondary levels are those which have lower per capita income. That is, poor regions have higher ratios of primary and secondary enrollment. Also, the positive link between higher education and per capita income could suggest that regions with higher enrollment ratio for higher education are those which have higher per capita income or that the rich regions are experiencing higher enrollment ratio for higher education.

Table 2 explores the explanatory powers of variables of interest when other variables are held constant. Results indicate that income per person is significantly and positively related with the four variables of interest. The adjusted R^2 is 0.89 indicating that around 89 percent of the variation in income per person can be explained by the four variables. Table 2 indicates a one percent increase in higher education enrollment ratio increases income per person by 0.78 percent. Further on, higher per capita income is positively linked with higher appropriation of funds for higher education; a one percent change in higher education expenditure per student raises the income per person by 0.57 percent. Higher education enrollment rate and expenditure is crucial as a highly educated labor force can imitate technology faster (Nelson and Phelps, 1996) and contribute more to labor productivity. Also, higher education can be more closely linked with the production function since it is usually the last educational stage after which students join the labor

[3] The link to the data can be accessed from
http://www.stats.gov.cn/english/statisticaldata/yearlydata/

force as highly skilled workers. From this perspective, higher education can be considered more important than primary and secondary education.

R&D expenditure per person is substantially positively related with per capita income. A one percent increase in R&D expenditure per person leads to 0.08 percent increase in per capita income. The result signals toward the fact that higher "technological efforts" contribute positively toward per capita income (Lall, 1992).

The results in table 2 also indicate a statistically significant positive relationship between inventions and income per person. A one percent increase in number of inventions increases income per person by 0.1 percent. This finding is in line with the findings by Fagerberg and Srholec (2008) who found a close correlation between economic development (as measured by GDP per capita) and "innovation system variable". Using factor analysis on data from 115 countries over 1992-2004, Fagerberg and Srholec (2008) found that four principal factors jointly explained about 75 percent of the variance of the total set of indicators. These four principal factors (along with electricity consumption and education, are jointly termed as "innovation system variable") were associated with "technological capability" and were measured through patenting, ICT infrastructure, scientific publications, and ISO 9000 certifications.

Table 3 shows the regression results under full model. Estimated coefficients of the selected variables remain significant and positively related to income per person: HER 0.71(.062), R&D expenditure per person 0.062 (.036), number of patents granted 0.106 (0.015) and Education expenditure per student 0.443 (0.041) are almost comparable with the coefficients in table 1.

Gross capital formation ratio (as measured by share of fixed capital formation in GDP) and trade openness (as measured by sum of the total exports and imports divided by gross regional output) are positively related to income per person which is congruent with the conventional concepts about physical capital investment, trade openness and output. Ratio of gross fixed capital formation to GDP (or share of fixed investment in GDP), which serves as a measure for investment in physical capital, is found to be positively associated with economic growth (Barro,1991; De Long and Summers ,1992). However, in our study we link investment in physical capital with per capita income and find that higher level of physical capital investment ratio raises standard of living. Also, the positive link between trade openness and per capita income is in line with the results found by Frankel and Romer (1999) who used cross country regression estimates to suggest that trade has a quantitatively large, robust yet moderately statistically significant, positive effect on per capita income. In their direct specification to estimate per capita income with population, area and trade share as the only dependent variables, they found that increasing the ratio of trade to GDP by one percentage point, per capita income is raised by around one-half and two percent. They also found that increasing both population and area by one percent, per capita income is raised by 0.1 percent.

5.1. Comparative estimations: Robust regression, Driscoll and Kraay method, Fixed Effects and Random Effects

Table 4 explores the links by comparing results under robust regression, fixed effects and random effects. Coefficients of the selected variables are congruent to those estimated under simple OLS in table 2. Column 2 and 3 of table 4 provide estimation results of the full model under Driscoll and Kraay (1998) method, fixed effects and random effects.

Since we use a micro panel in which T<N, the data is likely to exhibit temporal and cross-sectional dependencies (Cameron and Trivedi, 2005, P.702). Also, ignoring the correlation of the disturbance terms over time and between entities can lead to biased estimation results. Therefore, in order to ensure validity of the results, panel data is used to adjust the standard errors of the coefficients for possible dependencies in the residual terms. According to Petersen (2009), while most of empirical studies employ regression methods that produce standard errors being robust to heteroscedasticity and autocorrelation, cross-sectional dependence across panels is widely left ignored. Provided that the disturbance term (or the unobservable factors) is uncorrelated with the independent variables, the coefficients under standard panel estimators would still be consistent but inefficient. However, standard error (SE) estimates under commonly applied techniques for covariance matrix estimation can be biased leading to invalid statistical inferences based biased standard errors (Driscoll and Kraay, 1998). Driscoll and Kraay method produces standard errors that are robust to general forms of temporal and spatial dependence, heteroscedasticity and autocorrelation. Although standard errors under Driscoll and Kraay method tend to be a bit optimistic, their sample properties (especially for micro panels) are significantly better than other techniques when cross-sectional dependence is present.

In the regression model with Driscoll and Kraay, standard errors are robust to disturbances being cross-sectionally dependent, auto correlated with type MA(q) and heteroscedasticity. With maximum lag of 2 with pooled OLS, column 2 of table 4 shows regression results with Driscoll and Kraay standard errors. Sensitivity of the coefficient estimates appears robust to heteroscedasticity, autocorrelation and cross-sectional dependence as the estimates how little change in comparison with estimates under robust regression. Coefficients for R&D expenditure and population growth turn out to be insignificant under Driscoll and Kraay while other coefficients remain significant under 1%, 5% and 10% significance levels.

The fixed effects model is employed to control for all time-invariant differences between the regions, therefore the estimated coefficients under fixed effects model cannot be biased due to time-invariant characteristics (such as differences in demography, geography etc.) which are omitted from our analysis. However, the random effects model, unlike the fixed effects model, assumes the variations across the regions to be random (uncorrelated with the explanatory variables). Since the variations across the regions are expected to influence the dependent variable (income per person), random effects model could account for such variations. In order to verify such limitations, we diagnose both models by using Hausman test (to decide between fixed and random effects models) and Breush-Pagan Lagrange multiplier (LM) test (to decide between random effects and simple OLS model). The results reveal that when robust standard errors are not used, the Hausman test (to decide between fixed and random model) rejects the null hypothesis that differences in coefficients are not systematic and suggests that random effects model serves better.

Further on, diagnosing the random effects model (under robust standard errors), we test for Breusch-Pagan Lagrange multiplier (LM test). The LM test fails to reject the null hypothesis that there is no significant difference across regions thus suggesting that random effects would work better than simple OLS.

Results obtained through different estimation techniques in table1, 2, 3 and 4 indicate that our variables of interest: number of inventions, government R&D expenditure, higher education enrollment ratio and higher education expenditure generally depict a significantly robust link with per capita income. However, other explanatory variables such as gross capital formation ratio, trade openness and population growth do reflect considerable sensitivity under different estimation methods and controls. The sensitivity of gross capital formation ratio (ratio of physical capital investment to GDP), population growth and trade openness under different controls and estimation methods is discussed in detail by Levine and Renelt (1992) and is beyond the context of this paper.

5.2. Dynamic Panel Data Analysis under Arellano Bond GMM Estimation

Dynamic panel data can be used to investigate the causal relationship between the dependent variable and explanatory variables. We use lagged values of the dependent variable as instrument in our dynamic panel data estimation under Arellano-Bond GMM method.

Results in colum1 of table 5 indicate that, holding other variables constant, higher education enrollment ratio, R&D expenditure per person, Higher education expenditure per student, and numbers of inventions are substantially positively related to subsequent per capita income. The estimated coefficient for higher education enrollment ratio is 0.326 which means that a one percent increase in higher education enrollment ratio results in 0.32 percent increase in subsequent income per person. The estimated coefficient for higher education expenditure per student and R&D expenditure per person are 0.089 and 0.117 which are both significantly positively associated with per capita income. Contribution of inventions toward per capita income turns out to be 0.077 percent. Based upon the results in colum 1 of table 5, higher education enrollment ratio carries the strongest explanatory power in determining the subsequent standard of living which is quite plausible given the role played by higher education in improving productivity and overall quality of life. Column 2 and 3 indicate that the results remain significant when other variables are included with little change in estimated coefficients.

Column 4 and 5 replace R&D expenditure per person with R&D ratio (share of R&D expenditure in GDP) to test the strength of relationship between R&D expenditure and standard of living. The results indicate that R&D ratio is substantially positively related with subsequent income per person and the replacement of R&D per person with R&D ratio casts little or no significant change in estimated coefficients of other variables.

6. Conclusion

Extending the discussion on forecasts pertinent to China's future growth slow-down, our paper highlights the aspects concerning the avoidance of such possibility by drawing forth the analysis of determinants of per capita income.

Analyzing the prospects of growth slow-down for Chinese economy, we find that during 2003-2011 Chinese economy, as a whole, did exhibit a slump but at regional level some observations also reflect an upward pattern suggesting that some regions successfully avoided the slump. An intuition for such pattern could be that some of the regions experienced slowdown during this period while others may not. The real data available from China Statistical Database from National Bureau of Statistics of China does bolster such intuitions that some regions experienced growth slowdown while others continued growth acclivity.

Further on, we test the role of higher education enrollment ratio, government appropriation of funds per enrolled student at higher education institutions, government R&D expenditure at public institutions and number of inventions (patents granted) in determining the standard of living. We use regional level data from 31 regions over 2003-2011 to bring forward empirical findings that link per capita income with gross capital formation, openness, higher education enrollment ratio, higher education expenditure, R&D expenditure, population growth and number of inventions made during that period. The empirical findings suggest that lower per capita income is associated with higher ratios of primary and secondary enrollment while higher per capita income is associated with higher ratio of higher education enrollment. Per capita income is positively associated with number of inventions made, government R&D expenditure and higher education expenditure. Also, ratio of gross capital formation to gross regional product (which is treated as a measure of investment to GDP ratio) turn out to be positively related with per capita income in dynamic panel data estimations suggesting that higher investment to GDP ratio substantially raises the subsequent income per person. Results obtained through Arellano-Bond GMM estimation suggest that a one percent increase in higher education enrollment ratio raises subsequent per capita income by 0.326 percent. Also, a one percent increase in higher education expenditure per students raise subsequent per capita income by 0.089 percent. Using share of R&D expenditure and R&D expenditure per person alternatively, the results suggest that per capita income is raised by 0.091 and 0.117 percent respectively. Estimated coefficient for inventions (number of patents granted) show that a one percent increase in number of inventions raises subsequent income per person by 0.07 percent.

Our results obtained using robust regression analysis, Driscoll and Kraay method, Fixed effects Random effects estimations and Arellano-Bond GMM estimation method help in analyzing the sensitivity of the estimated coefficients under different control and estimation techniques. We find that the results for our variables of interest are mostly robust to heteroscedasticity, autocorrelation of type MA(q), and contemporaneous cross-sectional dependence. However, other explanatory variables such as gross capital formation ratio, trade openness and population growth do reflect considerable sensitivity under different estimation methods and controls.

In conclusion, our analysis lays emphasis on higher education, R&D expenditure and invention efforts based upon their tremendous contribution toward per capita income. We propose that higher education, R&D and invention efforts can serve as a means to avoiding future growth slow-down for China.

Acknowledgement

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Appendix:

Table 1: Determinants of per capita income: Physical capital, Human capital, Trade and population growth (Independent variable= Log Per capita income)

Independent Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
GCA	.182 (.177)						.863 (.108)*	.513 (.093)*
Openness		.447 (.03)*					.387 (.026)*	.26 (.024)*
PopGrowth			-.094 (.012)*				-.0222 (.012)***	.0288 (.010)**
PER				-1.007 (.081)*			-.490 (.093)*	-.339 (.077)*
SER					-0.548 (.081)*		-.282) (.052)*	-.165 (.044)*
HER						1.126 (.05)*		.73 (.062)*
Adj. R	.0002	0.43	0.17	0.35	0.14	0.63	0.68	0.78
No.of Obs.	279	279	279	279	279		279	279

Note: Table 1 shows OLS regression results for the component specification. Standard errors are given in parenthesis and are robust to heteroscedasticity. *Shows significance at 1% level; ** at 5%; ***at 10%.

Data source: The link to the data used in all the regressions can be accessed from http://www.stats.gov.cn/english/statisticaldata/yearlydata/

Table 2: Determinants of per capita income: Higher education, R&D and inventions (Independent variable= Per capita income)

	OLS	OLS	OLS	OLS	OLS	RE	FE[1]
HER	1.126 (.05)*				0.787 (0.061)*	.6525793 .098)*	.5853891 .1414)*
EduExp		.368 (.072)*			0.537 (0.032)*	.417366 .0404)*	.3277923 .0930*
R&D			.471 (.015)*		0.089 (0.035)**	.2376657 .058)*	.2968708 .079)*
Inventions				.259 (.017)*	0.109 (0.016)*	.0587835 .0350)***	.0678063 (.050)
Adj. R^2	0.63	0.081	.77	0.43	0.89	0.95	0.95
No. of Obs.	279	279	279	279	279	279	279

Note: Standard errors are in parenthesis and are robust to heteroscedasticity. *: Shows significance at 1% level; ** at 5% level; *** at 10% level.

Table 3: Estimation under Full Model: Dependent variable= Income per person

	(1)	(2)	(3)
GCA	1.034 (.121)*	.513 (.10)*	.220 (.068)*
Openness	.460 (.028)*	.260 (.024)*	.104 (.016)*
PER SER HER		-.339 (.074)* -.165 (.041)* . 730 (.059)*	-.078 (.055) -.054 (.033) .711 (.062)*
R&D			.062 (.036)**
Inventions			.106 (.015)*
EduExp			.443 (.041)*
PopGrowth	-.0660 (.009)*	.028 (.009)*	.0105 (.006)***
Adj. R^2	0.59	.79	.91
Prob > F	0.00	0.00	0.00
No. of Observations	279	279	279

Note: Table 3 shows OLS regression results for the full specification. Standard errors are in parenthesis and are robust to heteroscedasticity. *: Shows significance at 1% level; ** at 5%; *** at 10% level.

Table 4: OLS (robust regression), OLS with Driscoll and Kray, FE and RE comparison

	OLS (Robust regression)	Pooled OLS with Driscoll and Kraay std.err.	FE	RE
GCA	.209 (.061)*	.2202 .108)***	-.1991 (.132)**	-.182 (.053)*
Openness	.128 (.014)*	.104 .018)*	-.088 (.025)**	-.047 (.022)**
PER SER HER	-.051 (.043) -.037 (.024) .709 (.052)*	-.078 (.049) -.054 (.023)*** .7116 (.135)**	-.148 (.080)*** -.079 (.017)* .707 .(065)*	-.116 (.067)*** -.078 (.016)* .688 .057)*
R&D	.086 (.027)*	.0620768 (.096)	.209 (.040)*	.20 (.034)*
Inventions	.100 (.011)*	.1065895 (.029)**	.042 (.022)**	.061 (.018)***
EduExp	.383 (.030)*	.443 (.062)*	.473 (.052)*	.462 (.036)*
PopGrowth	.016 (.006)*	.0105 (.006)	.028 (.009)**	.024 (.007)**
R^2		0.91	0.96	0.96
No. of Obs.	279	279	279	279

(fe) F test that all u_i=0: F(30, 239) = 34.91 Prob > F = 0.0000

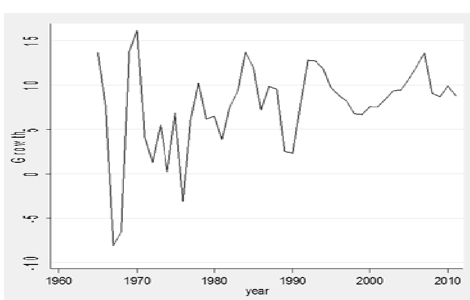
Note: Standard errors are in parenthesis and are robust to heteroscedasticity. *: Shows significance at 1% level; ** at 5%; *** at 10% level. In column 2, standard errors are based on Driscoll and Kraay (1998).

Table 5: Dynamic Panel Data Analysis under Arellano-Bond GMM Estimation

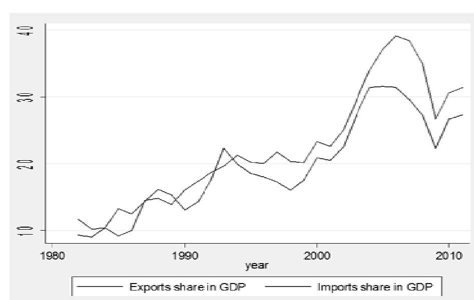
8	(1)	(2)	(3)	(4)	(5)	(6)
Ln GCA		.098 (.053)***	.101 .0539)**	.112 (.053)**	.106 (.051)**	.098 (.052)***
Ln Openness		.022 (.019)	.022 (.019)	.019 (.0190	.02 (.0189)	.022 (.018)
Ln PopGrowth			-.0015 (.008)	-.002 (.008)		
Ln PER					-.196 (.074)**	-.20 (.073)**
Ln SER					.280 (.069)*	.297 (.068)*
Ln HER	.326 (.059)*	.274 (.068)*	.263 (.082)**	.232 (.085)**		
Ln EduExp	.089 (.032)**	.065 (.037)**	.060 (.044)		.067 (.037)***	.069 (.037)***
Ln R&D ratio				.091 (.036)**	.073 (.034)**	
Ln R&D	.117 (.037)**	.107 (.037)**	.107 (.038)**			.094 (.037)**
Ln Inventions	.077 (.021)*	.077 (.021)*	.076 (.021)*	.071 (.022)**	.075 (.021)**	.077 (.021)*
No. of Obs.	217	217	217	217	217	217

Note: in this specification, we test the role of share of R&D expenditure in GDP and R&D expenditure per person alternatively.

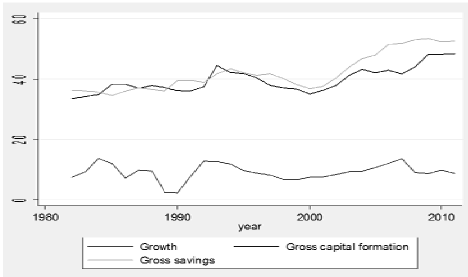
Graph 1: China's Growth pattern over 1960-2011



Graph 2: Export and Import shares in GDP over 1980-2011



Graph 3: Growth, Gross Capital formation and Savings over 1980-2011



Graph 4: Industrial value added and Agricultural value added over 1980-2011

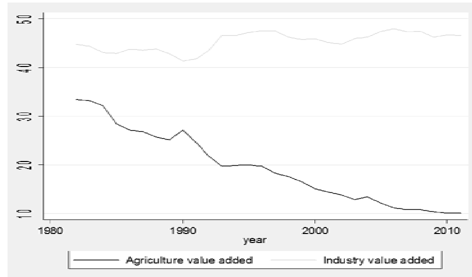


Figure 1: Identifying growth slow-down

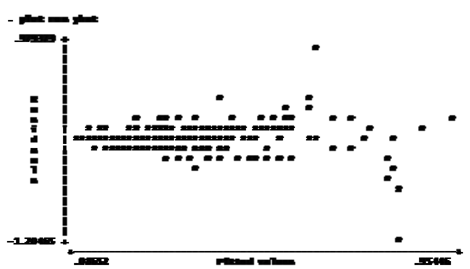


Figure 2: Relation between growth and lagged growth over 2003-2011

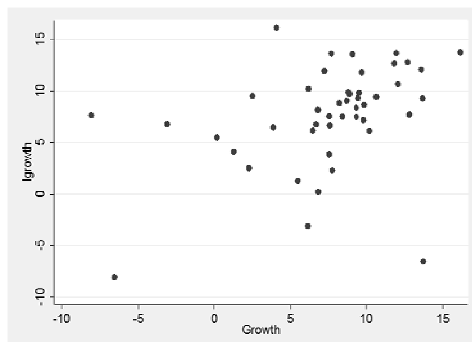


Figure 3: Per capita income and growth (2003-2011)

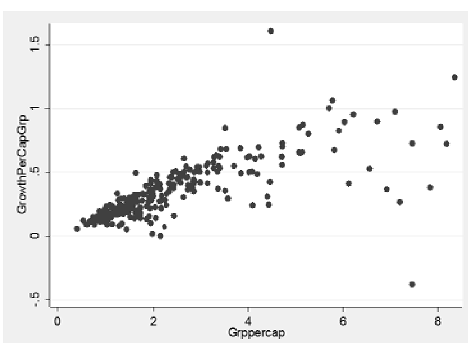


Figure 4: Per capita income and inventions

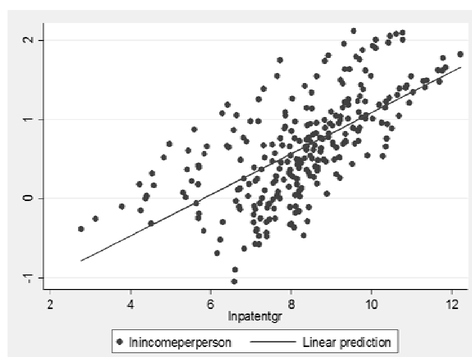
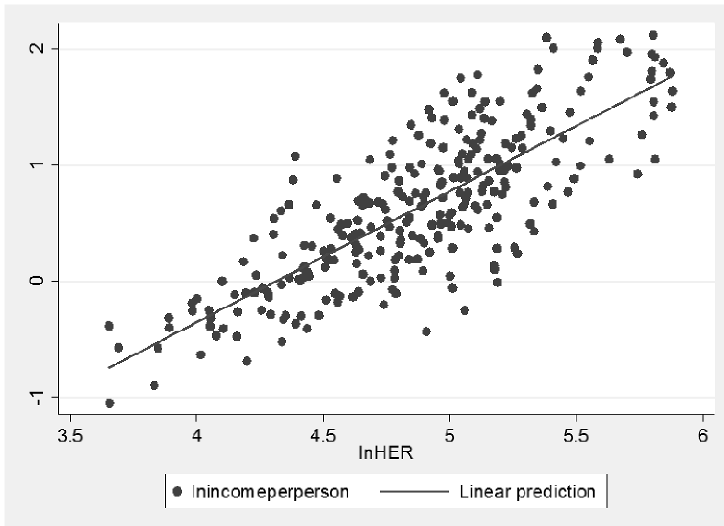


Figure 5: Per capita income and Higher education enrollment ratio



The mind that is much elevated and insolent with prosperity, and cast down by adversity, is generally abject and base.

Epicurus

ARTICLE

Using Metaphors in Strategy Formulation

Naveed Yazdani
University of Management & Technology, Lahore, Pakistan

Ayesha Gulzar
University of Management & Technology, Lahore, Pakistan

Abstract

This theoretical paper focuses on brain as a metaphor for studying the process of strategy formulation. The paper argues that when individuals within organizations use brain to self-reflect the uncertainty in the environment, the organization are in better position to meet the competitive advantage.

Key Words: Metaphor, Brain, Strategy formulation

Introduction

Ascribing to the social existence of the organizations (Stinchcombe, 2000; Weber, 1997) the human beings are the building blocks of organizations and in this view organizations are social entities (Broom, Casey, & Ritchey, 1997; Ringberg & Reihlen, 2008; Selznick, 1948). Whenever people come close to achieving certain goals they create organization. So, an organization refers to a person or group of people that are on purpose organized to achieve an overall, common goal or set of goals. Hence the organizations are social entities that work and sustain their operations in a social context (Broom et al., 1997; McAuley, Duberley, & Johnson, 2007). There are several significant features to consider about the goals of the business organization(Drazin, Glynn, & Kazanjian, 1999; Dutton, Dukerich, & Harquail, 1994).These characteristics are explicit or implicit. These characteristics are carefully considered and established, during the process of strategic planning(Daft & Wiginton, 1979; Downs, Durant, & Carr, 2003; Mehregan, Kahreh, & Yousefi).Members of the organization often have some image in their minds(Calvin, 1990) about, how the organization should be working, how it should appear when things are going well (Morgan, 1980, 1983). The explicit goals are quite clear and easy to understand by the organizational members while implicit goals of the organizations are quite complex(Martin, 2010).

As the societies are getting more and more industrialized the purpose of organizational creation and goals is also getting complex(Rappa, 2003). It is because of this importance and complexity of organizational existence a fully established paradigm under the domain of OMT exists to overview organizations in detail and in order to understand these goals, a stream of research in the domain of organizational theory is paying attention to metaphors or images of the organizations, so that members can clearly identify their role. According to (Daft & Wiginton, 1979; Drazin et al., 1999;Gioia, Schultz, & Corley, 2000) metaphors and role of language have gained great attention in the organizational studies. Organizational image or metaphors are seen in a broader perspective which includes the concepts that how organization is perceived by others, (Dutton et al., 1994). Metaphors have gained great attention of academic interest as a tool for highlighting symbolic and ideational dimensions of organizational life(Morgan, 1983).

Organizations all over the world are spotted with confusions and obscurities, (Morgan, 1983) and in order to scan them internally and externally images of organizations play a meaningful role. Up till now most agreed upon classifications of metaphors encapsulates nine metaphors listed by Morgan (1983). These organizational metaphors include machines, organisms, culture, brain, political systems, psychic prisons, flux and transformation and instruments of domination. Metaphors are helpful because they transmits enormous amount of information, (Yousefi) thus presenting the receiver with ideas and situations that provides the opportunity to understand the organizations in a better way.

Organizations as machines acts as rational enterprise which are designed and prearranged to achieve predetermined goals as competently as possible, using the one best possible solution to systematize and linear concept of cause and effect(Galbraith, 1974; Morgan & Videotraining, 1997). Organizations as living organisms seek to adapt and survive in a changing environment. Organizations as brains are flexible, resilient and inventive(Calvin, 1994). Here, the capacity for intelligence and control is seen as being distributed throughout the enterprise, enabling the system as a whole to self-organize and evolve along with the emerging challenges(Takeuchi & Umemoto, 1996; Zeleny, 1977). Organizations as cultures act as mini-societies, with their own distinctive values, rituals, ideologies and beliefs(Scott, 1961). Organizations acts as an ongoing procedure of realism construction, which allows people to see and comprehend particular events, actions, objects, comments and situations in distinct ways(March, 1962). Organizations acts as systems of political activity in political system, with patterns of competing interests, conflict and power(Mintzberg, 1985). As psychic prisons organizations acts as systems that get trapped in their own thoughts and actions; and in which obsessions, mind traps, narcissism, strong emotions, illusions of control, anxieties and defense mechanisms become the focus of attention(Walsham, 1991). In flux and transformation, organizations acts as expressions of deeper processes of transformation and change(Taber, 2007). While acting as Instruments of Domination, organizations proceed as systems that exploit their employees, the natural environment and the global economy for their own ends; exposing the ethical and social dimensions as important points of focus(Morgan, 1980).

In today’s world of uncertainty the success of an organization depends more than ever on the importance and usage of strategic planning and strategy formulation in achieving the ever desired business results(Godet, 2000; Godet & Roubelat, 1996). In other words, "If you don't know where you are going, any road will take you there "(David & Hall, 1998) implies the significance of the strategic planning.

All firms are competing with one another for gaining sustainable competitive edge over each other(Galbraith, 1973; Garud & Kotha, 1994). Sustainable competitive edge can only be gained by responding rapidly to the changes in environment and meeting the customer demands(Anderson & Rosenfeld, 1993; Arbib, 2005; Beer, 1972;Hedberg & jöhsson, 1977). This requires strategy formulation on regular basis and it can be done only if organization acts as a brain(Rumelt, 1998). Brain has the ability to self-organize and responds quickly to the broad range of external stimuli. Taking the lead from this line of thought our argument is that the emergent school of strategy which also focuses on strategy formulation on emergent and regular basis (McDermott & O'Connor, 2002; Mintzberg & Waters, 1985) is directly linked to brain metaphor of the organizations as strategies will emerge according to the changes in environment and brain will act as a focal point for strategy formulation (Dyer, 1983).

It is of little doubt that all of these metaphors provide useful insights to the organizations, their makeup and their goals(Ashforth & Mael, 1989). Which metaphor is more useful to provide a deeper insight is coined to the scenario which needs attention and is at hand; hence to comment which metaphor is more effective is beyond the scope of this paper. The primary objective of this paper is to review process of strategy formulation with the help of grounded theory of images of the organizations. Taking the lead from Morgan's conceptualization of Metaphors or images this theoretical paper aims to use images of the organization as a framework for strategy formulation and in this back drop raises the following research questions.

1- How organizations are conceived?
2- What are the various images of the organizations?
3- How images of the organizations can be used to formulate the strategies?
4- What is the relevance of using brain as a metaphor for strategy formulation?

Literature Review

Self-organization and the brain

The process of "Self-organization" is defined in terms of systems that are in general comprises of many parts that impulsively attain their structure or function without specific intrusion from an external agent(Dutton et al., 1994). Example of self-organization is provided by the growth of plants and animals. Another example is the creation of a sculpture by an artist(Haken, 2008).

The concept of self-organization was first discussed in ancient times in Greek philosophy (Paslack, 1991). Moreover, in more modern times, self-organization was discussed by the German philosopher Immanuel Kant (Paslack, 1991), who specifically dealt with the formation of the planetary system, as well as by the German philosopher Schelling (Paslack, 1991), whose discussion remains rather weak. In more modern times, self-organization was discussed by Heinz von Foerster (1992) within his book "Cybernetics of second order". A systematic study of self-organization phenomena is performed in the interdisciplinary field of synergetic(Haken, 2008) that is concerned with a profound mathematical basis of self-organization as well as with experimental studies of these phenomena.

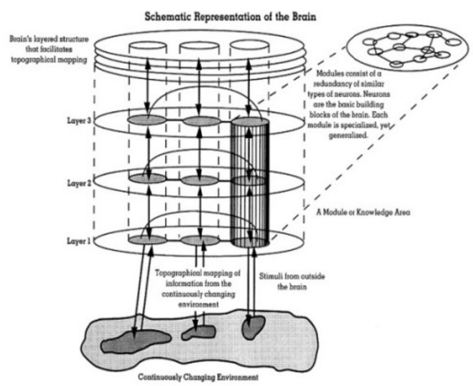
The phenomenon of self-organization is found everywhere in living and non-living world. But at this point the research paper provides a predominantly interesting example, explicitly self-organization phenomena of the human brain. The human brain is one of the most composite systems that we all know in the world. It is composed of up to 100 billion neurons and glia cells which are strongly interconnected. For example, a single neuron can have more than 10,000 associations to the other neurons. The question to be asked is who or what steers the various neurons so that they can generate macroscopic trend such as the logical navigation of muscles in locomotion, grasping, visualization that is in particular pattern identification and decision making(Drazin et al., 1999). An early proposal that the human brain acts as a self-organizing system according to the laws discovered by synergetic was presented by H. Haken in 1983. The explicit example of Gait transitions of horses were conceived as non-equilibrium phase transitions studied in synergetic that provide an explicit example of self-organizing phenomena. A similar suggestion was made in the context of dissipative structures by(Haag & Kaupenjohann, 2001; Kelso, Holt, Rubin, & Kugler, 1981;Kohonen, 1988).

Brain Metaphor

Most of the firms compete in industries that require quick responses to the changing environment and technology. Due to increase in customer demand new products are manufactured on continual basis. A human brain is capable of responding constantly to the changing environment. Brain can create new repertoires of behaviors and perception as it become accustomed to the change in environment (Garud & Kotha, 1994). Brain can learn new languages and its ability to self-organize makes it capable to respond quickly to wide range of external stimuli (Arbib, 2005). Due to these characteristics researchers are inspired to use brain as a metaphor in strategy formulation in order to respond the broad range of stimuli (Beer, 1972; Garud & Kotha, 1994).

Brain at Analogical Level

Most of the researchers suggest that the ability of brain to process information in parallel and dispersed is due to its layered structure that manner makes it to take action swiftly against the change in environment (Anderson & Rosenfeld, 1993; Arbib, 2005; Calvin, 1994). A group of similar type of neurons is fired through parallel processing which integrates the input and generates an output (see Figure 1). The generated output either excites or stops the activities of



other neurons by means of synapses that create electrochemical connectivity among neurons (Anderson & Rosenfeld, 1993). Topographical is another feature of brain that promotes parallel processing and boost flexibility because it allows the transformation of complex information in parallel (Anderson & Rosenfeld, 1993; Arbib, 2005; Argyris, 1976; Beer, 1972; Calvin, 1990)

Source: Garud, R., & Kotha, S. (1994). Using the brain as a metaphor to model flexible production systems. *Academy of Management Review*, 678.

Brain also performs several functions that are dispersed over other parts of brain's anatomy. In brain no prior estimation of operating parameters are made because it continuously changes with the environment. Brain tunes its operating parameters (Arbib, 2005) by updating its operating parameters that preside over the information transformation into insights and action.

Strategy Formulation

The art and science of formulating, implementing and evaluating strategy is broadly defined as strategic management (David & Hall, 1998). Although the scholars and practitioner believe that strategic management and resulting strategy is an important contributor to the firm performance. But till to date it is still debatable that in which form strategic management contributes to firm performance, in this line we claim that strategic management has not yet become a robust paradigm of studying organizational performance.

As the various schools has emerged over the time defining strategic management and resulting performance of the firm (e.g. Emergent school by Mintzberg and Planning school by Ansoof) hence the claim that strategic management has become a fully established paradigm is still debatable (Ansoff, 1987) and needs an extensive empirical evidence. In the words of Kuhn a paradigm is unanimously recognized scientific achievements that, for a time period, provide problems and solutions for a community of researchers(Kuhn, 1996)". In this view if strategic management has become a fully established paradigm it must answer the relationship of strategic management with the performance in all contexts and types of the organization. With this notion the present study aims to examine the power of strategic management as a fully established paradigm of formulating strategy and resulting performance of the firm and further it will be interesting to discuss images of the organization as a tool for strategy formulation.

The strategy formulation is like coping with the beast and for the managers in today's word of uncertainty the beast is unmanageable until or unless they will use certain analytical tools that can proactively analyze the environmental uncertainty (Greenley, 1986, 1994; Mintzberg, 1990; Mintzberg, Ahlstrand, & Lampel, 2005). Thus strategic planning is a proactive approach that helps an organization to find a better position in an uncertain world (Amram & Kulatilaka, 1999; D. C. Eadie, 1983; D.C. Eadie, 2000) with the desired goal of reducing the implicit gap between current position of an organization and where it wants to be (Bryson, 1988, 2011; Gooderham, 1998).According to Eadie (2000) strategic planning is the centripetal force and is an organized process which helps to generate information about the environmental uncertainty and translates the organizational goals into practical objectives .Hence strategic planning helps to permeate the organizational culture and develops the intuition of managers about where we are now and where we want to go (Osborne, 1993). In Greenley's (1986, 1994) opinion there are two fundamental reason of strategic planning in the organizations first strategic planning improves the performance second it improves the organizational effectiveness.

Even when the immediate returns on application and use of strategic planning are not evident but in an uncertain environment, the usage of strategic management and strategic planning tools to remain competitive is not an option any more (Calantone, Garcia, & Dröge, 2003; Christensen, 1985; White, 1986). It is believed by the scholars that strategic management and usage of strategic planning for the strategy formulation is mandatory decision in front of mangers to cope with the serious challenges that organizations have been experiencing (Aldehayyat & Anchor, 2008; Paulraj & Chen, 2007). The organizations that use strategic planning as a compass to navigate through the turbulent environment develop a unique strategy and as a result gain competitive advantage (Wilson, 1998).

Various schools of thoughts on Strategy Formulation

The strategy literature is overwhelmed with various views of scholars and practitioners on effective formulation of strategy (Poister & Streib, 2005; Poister & Streib, 1999; Porter, 1996;Porter & Millar, 1985). But there are three schools that predominantly overshadow the strategy formulation process namely intuitive school and analytical or planning school and cognitive school (Mintzberg, 1990; Mintzberg et al., 2005; Mintzberg & Lampel, 1999; Nutt, 1984; Poister & Streib, 1999; Rindova & Kotha, 2001).

Intuitive School

The central of every decision is intuition(Mintzberg et al., 2005). Intuition is not an irrational phenomenon rather it is the deep understanding of a particular situation(Mckenna, 1999; Mintzherg, 1999). The chief role of manager in an organization is to formulate strategies(Liedtka & Rosenblum, 1996). The future is dependent on the strategic process and is created through the strategic planning which comes from the intuition of managers (Gooderham, 1998; Simpson, 1998a, 1998b;Sjöberg, 2003). It is the intuition not the in depth analysis that leads to the strategy formulation(Simon, 1987; Zimmerman, 1990) in the organizations as intuition is quick, automatic and it allows the manager to know what is the best course of action(Mintzberg et al., 2005).

Analytical School

According to analytical schools an effective strategy is not the result of intuition only as it is the amalgamation of manager’s insight towards backward and forward circumstances (Houlden, 1995). The analytical schools asserts that to look five years ahead, organization must look ten years backward so that effective trends can be analyzed and as a result effective strategies can be formulated (Desai, 2000; Schriefer, 1998). Here the underpinning logic is that relying on intuition is not enough organizations must analyze the uncertainty in the form of trends (Mintzberg et al., 2005). For analytical analysis of trends, organizations need tools and methodologies that can effectively analyze the environment (Amram & Kulatilaka, 1999). Hence the logic to successful planning is to get the best fit between the chosen tools and techniques, the organization's current culture, capabilities and business environment and the desired outcome (Gooderham, 1998).

Cognitive School

According to cognitive school, strategies are developed in people’s mind as frames, models, concepts and schemas(Sørensen & Vidal, 2006). From 1980s till today research has grown steadily on cognitive biases in strategy making and on cognition as information processing, knowledge structure mapping and concept attainment(Mintzherg, 1999). All these play an important role in strategy formulation. The other branch of cognitive school has adopted a more subjective interpretative or constructivist view of the strategic process(Mintzberg et al., 2005). According to cognitive school, cognition is used to construct strategies (Haken, 2008)as creative interpretations rather than simply to map reality in some or more objective way.

Brain as a framework of strategy formulation

As discussed in the previous sections strategy formulation is a complex phenomenon and requires deep insights from the managers of the organizations. In this view it seems logical that brain can be used a framework for strategy formulation as when organizations are considered as brain they solely rely on their human resources to formulate strategies that can best meet the objectives of the organizations. Hence cognitions of the individuals will be reflected in the process of strategy formulation and brain will act a self reflective mechanism that will guide the future of the organizations.

Discussion

The challenges which today mangers have to face in the organizations are trends such as globalization, technology advancement, deregulation, emerging of new markets and industries, and economic restructuring have greatly increased the organization's need to develop its unique strategy (Aldehayyat & Anchor, 2008; Douglas & Craig, 1989; Kotabe & Murray, 2004).The historical discourse of OMT leads us to the time of Aristotle who for the first time used various metaphors for discussing the social phenomenon. Similar to this line of thought today OMT has been accustomed to the usage of various metaphors to discuss the organizational phenomenon.

The strategy which is at the heart of organizational success is discussed in this paper through a metaphor of brain. We are of the view that if organizations have to survive in today’s changing environment they have to use the cognition of individuals in their process of strategy formulation. According to cognitive school, people perceive and processes information regarding the changes in external environment. A strategy in cognitive school emerges as frames of realities using the self reflection of brain to cope uncertain environment. This cognitive school then requires individual’s insights in to whole process. Hence brain which is the self reflecting tool can be a guiding parameter for effective strategy formulation.

There is a need for organization’s attention in this regard where extensive training and more empowerment to the individuals is required so that they can be used to employ brain while defining the process of strategy formulation. A useful guide in this connotation can be(Argyris, 1976) frame work of organizational learning where individuals through the process of single and double learning can be accustomed to use their brains so that past mistakes can be rendered and future strategies can be formulated in more effective manner.

Conclusion

Following set of conclusions can be drawn from this study. Organic organizations can be more successful and competitive if they can use brain as a framework for strategy formulation. Images of the organizations can be used to set forth the new dimensions of strategy formulation in the paradigm of strategic management. Self reflection of the organizations can be more helpful to cope with the external environment as the organizations that are in touch with the uncertainty of environment and plan effectively through self reflection and can have a competitive advantage as they are in a position to develop an effective strategic plan aligned with the objectives of the organization.

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“ Metaphors are no arguments, my pretty maidan.”
(The Fortunes of Nigel, Book2, ch. 2)

ARTICLE

BUSINESS AND CLIMATE CHANGE: TRENDS, ISSUES AND CHALLENGES

Badar Alam Iqbal
Aligarh Muslim University, Aligarh, India

Munir Hassan
M. Business School, Kuwait

Ms. Bhawana Rawat
Aligarh Muslim University, Aligarh, India

Shabib Arslan
Aligarh Muslim University, Aligarh, India

Abstract

The present century i.e. 21st Century is the century of Business and Climate. These two issues are getting higher attention from both developed countries and developing economies. On the one hand, business has affecting environment and on the other hand environmental products are boosting business and therefore, there is close relationship between business and climate change

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Looking into the growing grave concern from different sections over climate change, considerably due to industrial units, businesses had also started to take initiative in this regard. The paper, henceforth, concentrates on what had so far been done, and what more need to be done for maintaining ecological balance. The paper, as such, is divided into four parts. Section second briefly brings strategic information on climate change. Section third of the study traces-out distinct problems and barriers associated to climate change, particularly in Indian scenario. Finally section four of the study lays down various solutions for tackling the problem of climate change.

Key words: Business, Climate, ecological balance, carbon emission, human civilization, Industrial revolution.

PART I

Introduction:

Ecological Balance is an important requirement for the existence of all sorts of species present in the world. One can easily find evidences from history regarding impact climatic changes had brought for the world in general and human race in particular. Emergence of Human beings was, indeed, the outcome of this climatic change. Even, climatic change had been the reason for destruction and emergence of distinct species on the Earth.

Carbon emissions, which are considered as the most common reason for climatic change, are generated by the activities performed both by nature and by man. In past, climatic change, due to carbon emissions was the result of natural turbulence that took place due to the activities taking place in ecological environment and because of ecological environment. Since the inception of human civilization, both natural and man-made (anthropogenic) forcing apparently contributed, more or less equally. Since mid-century, man's activities seem to have been by far the major contributor (Llewellyn, 2007). In short, there is transition in contribution to carbon emission from natural to human with the passage of time.

The very point has been evidenced by the isotopic 'fingerprinting analyses. The analysis finds that, prior to the Industrial Revolution, atmospheric greenhouse gas concentrations, and hence Earth's temperature fluctuations, were driven primarily by orbital, volcanic, and solar 'forcing' (Llewellyn, 2007). However, presently human beings are considered as an important reason for this. Human race had been destructing the climate directly or indirectly. With the development of the civilization came industrial development. There are mounting proofs that following the industrial revolution of the 18th and 19th centuries, which commenced in Britain and has expanded to several parts of the world, the amounts of carbon dioxide, methane and other greenhouse gases in the atmosphere has increased somewhat. This leaves room for the suspicion that human industrial activities are believed to be a major contributor to Global Warming. (www.environbusiness.com)

Uncertainties in emissions scenarios feed into uncertainties in carbon-cycle modeling, which feed into uncertainties in climate modeling, which drive an even larger range of uncertain climate impacts (www.nature.com). Climate change is projected to result in a variety of physical effects, including sea level rise and changes in patterns of temperature, precipitation, and extreme weather events. These effects will in turn have implications for both managed and unmanaged ecosystems, human health, and other human systems, such as buildings, industrial processes, transportation, energy supply and demand, and infrastructure. (Sussman and Freed, 2008)

Thus, business activities are contributing to the environmental pollution, and thus climate changes, in number of ways due to which there are unpredicted phenomena's are taking place. One can easily find frequent evidences of impact of climate change - like rise in sea level and changes in patterns of temperature, precipitation, and extreme weather events - can make on the world. Thus, there is an immediate requirement of putting business activities under stringent scanner for saving the earth, and henceforth, human race.

Since long back, there had been growing concern over the issue. This had resulted in number of initiatives taken from distinct authorities and distinct sections of the society for conserving the earth from destruction. In this regard government authorities had framed various policies; society had raised concerns by promoting purchase of green products; and international organizations had been involved in framing international standards for Green Business Operations and consequent promotion of Green Business Activities. For example, The UN Climate Change Conference in Copenhagen in December 2009 may have kept international negotiations alive on the issue, but it certainly did not deliver a comprehensive agreement that would set the framework for international action (Economic Intelligence Unit, 2010). Even efforts made through Kyoto Protocol, Cancun Accord and many like this, though had made some impact overcome the problem, but the same were either resulted in disagreement or were not found to be ample to meet the crisis.

PART II

Strategic information:

Considering the growing concern over the issue, the environment—which is synonymous with climate change for many executives—has become an important topic for most companies these days. Companies know that consumers and employees care about the environment, and their interest often presents real business opportunities and risks. (www.mckinseyquarterly.com, 2010)

Since the concerns for climate change had been raised, governments around the world had been putting constant efforts to mitigate the problem. Governments launched the international climate change effort at the "Earth Summit" in 1992 with the signing of the United Nations Framework Convention on Climate Change (UNFCCC), which sets its ultimate objective as stabilizing atmospheric GHG concentrations "at a level that would prevent dangerous anthropogenic [human] interference with the climate system." Recognizing the wide range in countries' historical contributions to climate change and in their capacities to address it, governments agreed they had "common but differentiated responsibilities." In keeping with that principle, developed countries agreed to "take the lead" and to assist developing countries in combating climate change. Developed countries also agreed to a non-binding "aim" of reducing their emissions to 1990 levels by 2000. (www.pewclimate.org, n.d.)

In 1995, recognizing the probable failure of the governments in achieving this voluntary target, governments adopted the Berlin Mandate, calling for the negotiation of binding targets for

developed countries (www.pewclimate.org, n.d.). These negotiations led to Kyoto Protocol, which was signed in 1997 and entered into force in 2005. The Protocol commits industrialized (known as Annex I) countries to reducing GHG emissions by an average of 5.2 per cent from 1990 levels until the period 2008–2012. In line with the UNFCCC (1992), which determined that countries have to act or be supported according to their "common but differentiated responsibilities and capabilities", the Kyoto Protocol acknowledges that developing countries have the right to develop their economies as developed nations did in the past, and thus does not assign them binding GHG reduction targets. This does not preclude them from exploring options in the context of the global battle against climate change. In addition, some developed countries did not ratify the Protocol. The Protocol's lack of coverage and of participation by a number of countries has been criticized, together with its short-term nature, lack of stringency and lack of compliance incentives the Kyoto Protocol has been applauded for allowing Annex I countries to reach their targets cost-efficiently through the establishment of flexible mechanisms: Emission Trading, Joint Implementation (JI) and the Clean Development Mechanism (CDM) (WIR, 2010). Other flexibility provisions include: setting emission targets as five-year averages, rather than single-year limits; counting a "basket" of six greenhouse gases, not just carbon dioxide; and providing credit for carbon sequestration (i.e., storage) in forests and farmland. (www.pewclimate.org, n.d.)

Another effort to meet climate challenge was made through "The Copenhagen Accord", which set a long-term goal of limiting global warming to 2 degrees Celsius; called for a new multilateral climate fund and set goals of mobilizing \$30 billion in public finance in 2010-2012 and \$100 billion in public and private finance in 2020; further defined how countries' actions are to be reported and verified; and called on countries to list mitigation pledges (economy-wide emission targets for developed countries, and mitigation actions for developing countries) for 2020. (www.pewclimate.org, n.d.)

The Copenhagen summit, however, demonstrated the difficulty of achieving a new round of binding climate commitments (www.pewclimate.org, n.d.), as most countries with binding targets under the Kyoto Protocol showed strong unwillingness to commit themselves to new targets without commensurate commitments from the United States and the major emerging economies.

Box 1: International Action on Climate Change

1992	United Nations Framework Convention on Climate negotiated And ratified
1995	Berlin Mandate calls for emission targets for developed countries.
1997	Kyoto Protocol negotiated.
2001	U.S. rejects Kyoto Protocol.
2004	Russia ratifies Kyoto Protocol meeting threshold for entry into force.
2005	Kyoto Protocol enters in force; Kyoto partners open talks on post-2012 developed country commitments.
2007	Bali Action plan launches parallel negotiations under Framework Convention.
2009	World Leaders negotiate Copenhagen Accord.
2010	Cancun Accord agreed upon.

Source: www.pewclimate.org (n.d.), Climate Change 101 Business Solutions, Retrieved on: March 20, 2012. P-3. http://www.pewclimate.org/docUploads/1114_BusinessFinal.pdf

The Accord that was agreed at Cancun in 2010 has gained wide international acceptance, not because of its utility in terms of carbon reduction but because of its political usefulness. The Accord has developed no real teeth as the Carbon policy remains distinctly national among Accord signatories. Countries that initially stayed out of this club, however, faced carbon tariffs as states sought an excuse to impose trade barriers while maintaining the broad tenets of the increasingly fraying world trade apparatus. In fact, supposed progress on carbon is often used as a distraction from the failure of other international institutions and negotiations to address the ongoing economic malaise (Economic Intelligence Unit, 2010). Compendiously, the efforts made under various accords and summits etc. was directed towards reductions in either greenhouse gases emissions or global warming. However, disagreement on various issues put questions on its success.

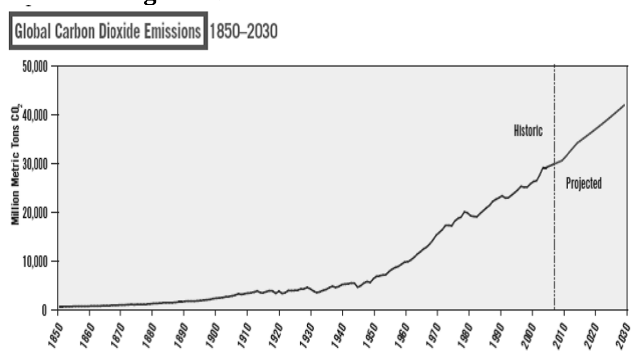
PART III

Constraints and barriers: an indian scenario

The global policy debate on tackling climate change is no longer about whether to take action. Against the background of common but differentiated responsibilities and respective capacities, it is now about how much action to take and which actions need to be taken – and by whom. (WIR, 2010)

Greenhouse gas (GHG) emissions have risen dramatically since the start of the Industrial Revolution. Globally, energy-related CO2 emissions have risen 145-fold since 1850—from 200 million tons to 29 billion tons a year—and are projected to rise another 36 percent by 2030 (Figure 1). (www.pewclimate.org, n.d.)

Figure 1: Global carbon Emissions



Source: www.pewclimate.org (n.d.), Climate Change 101 Business Solutions, Retrieved on: March 20, 2012. P-1. http://www.pewclimate.org/docUploads/1114_BusinessFinal.pdf

CO2 comprises the majority of GHG emissions, at about 77 percent of the worldwide total (measured in global warming potentials). The remainder comes mostly from methane (CH4) and nitrous oxide (N2O), with small shares coming from fluorinated gases (SF6, PFCs, and HFCs). The contributions of CH4 and N2O are significantly larger in developing countries, and in some cases are larger than energy-related CO2 emissions. Emission estimates of CH4 and N2O, however, are subject to higher measurement uncertainties than energy-related CO2 emissions. (www.wri.org)

Increases in global temperature, and the resulting effects on climate, are likely to have numerous impacts on physical and biological systems, differentially across Earth's regions. Following table (Table 1) mentions various geophysical effects of climate change and its likeliness about its occurrence.

Table 1: Effects, Probability and Impact of Climate Change

Geophysical effect	Probability	Impact Likely to Occur Somewhere
Higher maximum temperatures, more hot days, and heat waves over nearly all land areas	Very Likely (90-99%)	• Increased deaths and serious illness in older age groups and urban poor • Increased heat stress in livestock and wildlife • Increased risk of damage to a number of crops • Increased electric cooling demand and reduced energy supply reliability
Higher minimum temperatures, fewer cold days, frost days, and cold waves over nearly all land areas	Very Likely (90-99%)	• Decreased cold-related human morbidity and mortality • Decreased risk of damage to a number of crops, and increased risk to others • Extended range and activity of some pest and disease vectors • Reduced heating energy demand
More Intense precipitation events	Very Likely (90-99%)	• Increased flood, landslide, avalanche, and mudslide damage • Increase in soil erosion • Increase flood runoff

		• Increasing recharge of some floodplain aquifers
Increased summer drying over most mid-latitude continental interiors and associated risk of drought	Likely (67-90 %)	• Decreased crop yields • Increased damage to building foundations caused by ground shrinkage • Decreased water resource quantity and quality • Increased risk of forest fire
Increase in tropical Cyclone peak wind intensities, mean and peak precipitation intensities	Likely (67-90 %)	• Increased risks to human life and risk of infectious disease epidemics • Increased coastal erosion and damage to coastal building and infrastructure • Increased damage to coastal ecosystem such as coral reefs and mangrove swamps
Intensified droughts and floods associated with El Nino events	Likely (67-90 %)	• Decreased agricultural and rangeland productivity in drought- and flood-prone regions • Decreased hydropower potential in drought-prone regions
Increased Asian monsoon variability	Likely (67-90 %)	• Increase in flood and drought magnitude and damages in temperate and tropical Asia

Source: Nils G., Doug R. and Peter S. (2007, January), A System Vulnerability Approach to Consider the Potential Impacts to 2050 of a Mid-Upper Greenhouse Gas Emissions Scenario, Global Business Network, San Francisco, CA. P-4.

There had always been a common and popular complaint in the West - that the emerging Asian countries are using unfair tactics to protect their own growing markets and manipulating currencies to keep their products unfairly cheap. Increasingly confident Asian governments, however, see no reason to change policies which they consider entirely justified, and which have brought them success. They point to increasingly free trade within an incipient Asian economic bloc as a sign that they are open for business. Meanwhile, carbon emissions have become one of a growing list of disagreements plaguing East-West relations.

Asian countries are taking a range of approaches to climate issues. Some, mostly the low-cost manufacturers for the larger Asian markets, refuse to cut their emissions at all. As calls for aid to help convert to cleaner fuels jarred increasingly with growing wealth in the region, these states instead began to insist on “carbon reparations”. India and China, however, are promoting green technology as a way of creating energy self-sufficiency and hope to develop a leading position in a growth industry. The same reasoning, however, leads to an increase in use of domestic coal. The two states remain rivals, co-operating little on energy matters. (Economic Intelligence Unit, 2010)

The principal actors on the world stage, regarding climatic change, are business units. Negatively, corporations are responsible for a huge share of the appalling environmental deterioration now under way. Positively, corporations have the technology, access to capital, and managerial discipline essential to the transition to sustainability. The corporate sector thus has both a profound interest in promoting the transition to sustainability and a responsibility to do so. How then should it respond? The historical transformation now needed is one in which corporations rise to their new responsibility and accept the need for positive collaboration with government and citizens in adopting the far-reaching climate measures that are now essential. (Speth, 2005)

It is widely recognized that climate change poses potential risks and opportunities to business in the form of current and possible future greenhouse gas regulations and emissions trading systems, changing attitudes of shareholders and consumers, evolving product markets, and actions taken by competitors. Equally, the physical effects of climate change—changes in temperature and weather, water availability, and other changes—can affect business processes, fixed assets like buildings, and resource availability. However, relatively few businesses have climate impacts on their "radar screens" (Sussman and Freed, 2008). Thus, climate change may have both positive and negative impacts on your business depending upon many factors including:

- your location
- your business' activities
- the ability of your premises to withstand extreme weather events
- your customer base
- the length, location and diversity of your supply chain. (www.businesslink.gov.uk)

One of the largest and most immediate risks businesses face from climate change is what experts refer to as "regulatory risk"—or the risk to companies posed by government limits on greenhouse gas (GHG) emissions. The effect of these limits on business operating costs and the value of company assets will be significant, especially for firms producing high levels of emissions. As a result, many companies are starting to reduce their emissions voluntarily now. Their motivations include gaining a head start over competitors in learning what climate strategies work, preparing to respond rapidly once regulations do take effect, and better managing the costs of reducing their emissions over time. In addition, many companies recognize that acting early to reduce emissions is an important way to gain credibility and influence among lawmakers as they consider what policies will work best. (www.pewclimate.org, n.d.)

A more difficult issue for many companies is adaptation to climate change. Variations in weather patterns will affect companies across the board from finding basic inputs to getting out finished products. Moreover, along with risk management, well-prepared companies also recognize and aim to capitalize on potential opportunities. As global economies get transformed into low-carbon economies, businesses are getting aware about opportunities being thrown up by climate change (www.copperwiki.org). In 2009, for example, Siemens generated €23bn (US$34bn) in income from environmentally related product sales, up by 11% from 2008 sales of € 20.7bn. GE's Ecomagination products earned the company around US$18bn in 2009, despite last year's global economic difficulties. Even in a survey conducted by Economic Intelligence Unit, 45% agree that their companies see carbon emissions reduction as a way to gain competitive advantage by cutting costs, and 59% say their companies see it as a way to obtain advantage through new products and services. Only 24% and 14% respectively disagree (Economic Intelligence Unit, 2010)

Businesses that are taking action to address climate change, both within their companies and in the policy arena, recognize two things: 1) regulation of greenhouse gas emissions is inevitable; and 2) mandatory climate policies, if properly designed, are consistent with sound business planning and good corporate governance. As more companies and more investors come to this realization, pressure will mount for other businesses to take a more responsible and proactive stance. (www.pewclimate.org, n.d.)

India is a country which is and will continue to be severely bearing the negative effects brought in by climate change, especially at a time when it is looking forward for its phenomenal growth**.** Giving due concern to the issue, India had started finding ways to get escaped from the problem. The government claims it is already spending over 2 percent of gross domestic product (GDP) on measures to adapt to the impacts of the changing climate. The Carbon Disclosure Project estimates that climate change could result in a loss of 9–13 percent in the country's GDP in real terms by 2100 (Malini Mehra, 2009). However at the same time, India had declared that even as it pursues its social and economic development objectives, it will not allow its per capita GHG emissions to exceed the average per capita emissions of the developed countries. (Government of India, n.d.)

Albeit India has not been an emitter historically, the growth in economy and change in consumption patterns, led to dramatic rise in emissions and the country's carbon footprint. Even, future projections regarding GHG emissions by the International Energy Agency projects that India will become the third-largest emitter by 2015.

India's problem is its energy economy. The country has an extremely high dependence on fossil fuels—in particular on imported oil and dirty coal, which it has in abundance. Fossils fuels are responsible for 83 percent of India's carbon dioxide emissions; coal alone accounts for 51 percent. Addressing climate change effectively therefore will require a transformation of India's energy economy. (Malini Mehra, 2009)

Seeing no comprehensive initiative being taken by the Indian government for climate change, India's business community are leading the way to tackle climate change considering it an important business issue. Finding immense opportunity in the issue, if exploited intelligently, many Indian businesses had started investing in clean energy, energy conservation and efficiency, smart buildings, and green products. They realize the market is changing and the time to act is now. Efforts from Business houses Like ITC, Infosys, Suzlon energy, Tata BT can be set as examples which show that India Inc. is prepared to move and doing so voluntarily in many respects. Even, a new breed of eco-developer is focusing on housing, seeking to capitalize on a projected $4-billion market for green buildings by 2012 and pushing existing building codes on energy efficiency. (Malini Mehra, 2009)

To understand perspective of India's business leaders regarding different aspects associated to climate change, KPMG conducted a study, by interviewing seventy business leaders on a structured questionnaire from a broad range of industries and sectors, to develop an understanding regarding the opinion Indian industry holds over the issue of climate change. The results derived from this study are quite encouraging and appreciable for India's initiative for clean and safer environment. The results over various are stated as under:

- With regard to understanding of the issue, 41 percent of the respondents hold the view that have a good understanding of the issue and have a clear strategy for meeting out the challenges. Furthermore, forty two 42 percent of the respondents claimed that they are looking forward for developing their carbon strategy in contrast to the company's and country's requirements (Figure 2).

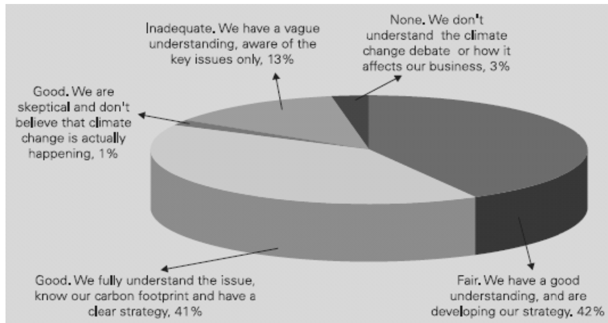
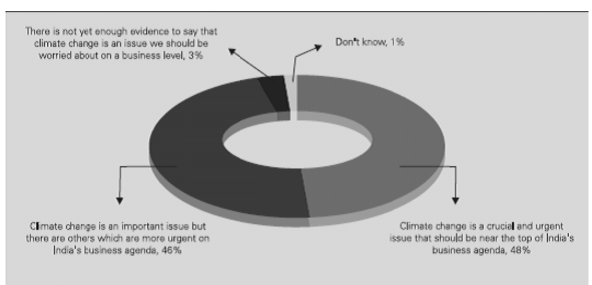


Figure2: Understanding of the Issue

Source: KPMG (2008), Climate Change: Is India Inc. Prepared? A KPMG Study, KPMG in India. P-6

- Favorable response from significant proportion of the respondents of the survey with regard to awareness of issues has resulted in growing grave concern over the agenda of climate change (Figure 3). Accordingly, results exhibits that 48 percent of the respondents holds climate change as a crucial and urgent issue and should be, in near future, at the top of India's business agenda. Simultaneously, 46 percent of Indian businesses indicated that, albeit, climate change is an important issue, but there were other issues that hold more urgency on India's business agenda.

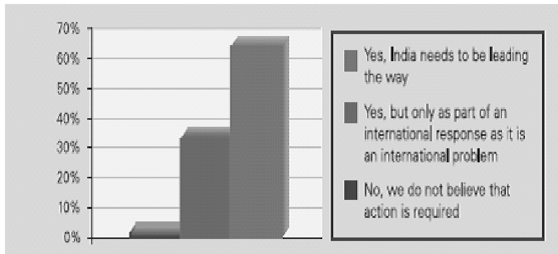
Figure3: Awareness of Issues



Source: KPMG (2008), Climate Change: Is India Inc. Prepared? A KPMG Study, KPMG in India. P-7

- With concern to outlook towards India's role in responding to the problem, results exhibited that Indian businesses are commendably positive in their outlook for the country's role in the global response to climate change, with 65 percent of respondents indicating that India should be leading the way (Figure 4).

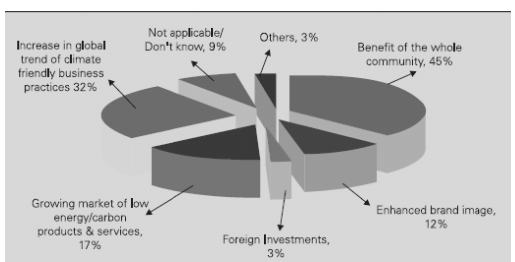
Figure 4: Outlook Towards India's Role



Source: KPMG (2008), Climate Change: Is India Inc. Prepared? A KPMG Study, KPMG in India. P-10.

- With regard to the motivator for such initiative, forty five percent (45%) of the respondents mentioned 'benefit of the whole community' as their main motivator to reduce their carbon impact, while 32 percent mentioned the desire to align with the global trend of climate friendly business practices as the main motivator (Figure 5)
- The survey, however, exhibits dismally low results for low energy/carbon products and services as a motivator for reducing their carbon impact, with only 17 percent of the respondents standing in favor. On the other hand, in the context of investment decisions, consideration of the environmental impact and availability of greener options appears to be playing a greater role. Eighty eight percent (88%) of the respondents consider it important to evaluate their carbon footprint for investments in up-gradation of existing technology and equipment. Similarly, 87 percent believe it to be important for investments in new plants and technology.

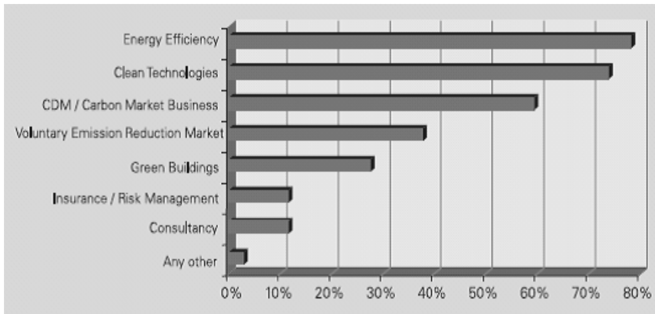
Figure 5: Motivator for Initiative



Source: KPMG (2008), Climate Change: Is India Inc. Prepared? A KPMG Study, KPMG in India. P-19.

- Survey results also outlines that majority of the respondents are presently working or planning to work towards building businesses in the areas promoting climate conservation. These areas preferably includes, Energy Efficiency (75 percent), Clean Technologies (74 percent) and CDM/ Carbon Market business (59 percent) (Figure 6)

Figure 6: Sectors Working/ Planning to Work for Promoting climate Change



Source: KPMG (2008), Climate Change: Is India Inc. Prepared? A KPMG Study, KPMG in India. P-20

Thus, we can easily state that India's response to climate change is proactive and broad-based, enabling the country to move consistently towards a stage of decoupling of growth and carbon emissions. The country has taken various initiatives in this direction, including:

- Changing trends in overall consumption patterns
- A thrust on the use of renewable energy sources
- Improved energy efficiency in the power and manufacturing sectors
- A transport policy that seeks to encourage an efficient rail-road mix and developing an efficient highways network
- An automobile policy that is aligned to the best international safety and emission norms
- Urban planning that aims to optimize living and working spaces as well as restores the depleted green cover. (ASSOCHAM, 2011)

The transition to a low-carbon economy will have economic implications that will transform businesses. Indian businesses are beginning to adopt a transformational approach, underpinned by an integrated climate change strategy to adopt a low-carbon growth trajectory. India Inc. can make a significant contribution to India's foreseeable low-carbon economy. The transition is an achievable goal, but it will require a massive and coordinated effort assisted by strategic long-term planning and innovation. (ASSOCHAM, 2011)

PART IV

Solutions and policy recommendations:

Government climate policies and growing customer awareness about the climate problem are combining with other forces to produce significant changes in the markets for products. For companies to remain competitive, they will need to position themselves to succeed in the face of two trends: a decline in the value of inefficient and greenhouse gas intensive technologies; and acorresponding increase in demand for climate-friendly technologies and services. (www.pewclimate.org)

The report, conducted by Business Continuity Expo 2008, showed that 87% of businesses see climate change as the single biggest threat in terms of risk assessment and the effect it could have on their businesses future growth. The rising cost of energy is also a serious risk, with 83% of businesses concerned that it will have a major impact on their business over the next five years. (www.co2balance.com)

Business leaders know better than anyone that they are trapped in a system, constantly hemmed in by imperatives shaped by market competition, consumer preferences, investor behavior, and other factors. These imperatives often preclude attractive options. When the gap between the required answer and the right answer gets too wide, government action to provide new norms and rules of the road becomes imperative. (Speth, 2005)

The experiences of companies addressing carbon issues show that mitigating the requirements of lesser GHG emissions had been like a journey. Typically it starts with the reduction of greenhouse gas emissions from internal operations, where achieving energy efficiency frequently lowers costs as well as emissions. The next step tends to be taking advantage of the market opportunities provided by goods and services that require less energy either in their creation or (frequently more important to customer appeal) in their use. Usually around this time or soon after, firms move towards reducing the broader carbon footprint of the enterprise, including emissions generated by consumers using company products and by suppliers. (Economic Intelligence Unit, 2010)

Scientists say that the world needs to reduce total greenhouse gas emissions by 50 to 80 percent (compared to a business-as-usual scenario) in order to stabilize atmospheric greenhouse gas concentrations and avoid “dangerous climatic change.” Despite the recent upsurge in private-sector involvement in the climate issue, voluntary action by selected companies and their investors is not achieving sufficient reductions to solve the problem. (www.pewclimate.org, n.d.)

Considering the need for better world for our generations – present and future – we have to intellectually search-out for the measures – micro as well as macro level – to deal with the issue. Since businesses had emerged as a major contributor to this problem in last few decades or so, they had to lead from the front. In order to overcome from this crisis various suggestive measures can be enlisted as under:

1) Behavioral Transition of Citizens:

What is required at the most is considerable change in the behavior of the ordinary citizens towards the issue. The respondents of various surveys and researches believes that the main cause of the earth’s climate change are people themselves – human causes (waste, population increase, electricity, etc) and irresponsible practices that lead to deforestation and pollution; and in order to address climate change, most of the respondents acknowledge that it would mean changing the behavior of ordinary citizens (Go, 2011) (NOTE 1). The transformation of human mind had brought drastic changes in past and, if handled appropriately, changes could be brought this time.

2) Behavioral Transition of Companies:

Businesses in these polluting, incumbent, industries have already extracted considerable sums from the public purse, made hysterical claims about carbon pricing while profiting enormously from the over-allocation of carbon permits, and if there were no price for their pollution we would all be subsidising them long after they ceased to exist. These businesses know they can reduce their carbon emissions at relatively low cost, that even with a price for carbon the demand for their products will remain high for the next decade, and that there are alternatives emerging that are less wasteful and also have other attractive properties for their customers. (Cameron, 2012)

3) **Transformation in production Process:**

Most companies, taking their cues from governments, treat carbon emissions as a public relations issue. Even those who might otherwise do more are too busy rebuilding supply chains increasingly impeded by barriers to trade. Innovative business models or products that offer rapid cost reductions through energy efficiency find great favor among consumers, but more adventurous business models requiring longer-term investment find it hard to obtain financing. A few entrepreneurs start out well, but find it hard to scale up. Thus, low-energy-using goods have been gaining market share, but progress on renewable energy is very slow. (Economic Intelligence Unit, 2010) Low-carbon and environmental goods and services (LCEGS) sector and carbon finance are going to be increasingly important areas for us to earn our way in an increasingly competitive global economy. (Cameron, 2012)

Even there are compelling strategic, economic and political reasons why we must transform the way we generate energy, ensure access to clean water and feed our growing populations. Considering the impetus the issue holds the agenda is going to be the prime one at this year's World Economic Forum meeting in Davos. (Cameron, 2012)

4) Halting Deforestation:

There had, indeed, strong support that we can't effectively tackle the problem of climate change, and the resultant impacts of environmental challenges we face in today's world without putting halt on deforestation. We all are aware of the facts that more the greenery on the earth, lesser would be the climatic fluctuations.

5) Trained Manpower:

The obvious solution for the business houses to overcome the problem is through training employees. Proper training to the employees, for encouraging and ensuring production of low-carbon goods and services, does not only help to close the skills gap (especially with global standards), but also help in sustaining in the market, generating synergistic gains in comparison to the global or local competitors, and ultimately, achievement of goal of securing climate.

6) Effective Policy Framework:

In order to ensure cease-off or reduce the pace of climate change, businesses need to frame-out their overall policies considering the same. For the purpose, businesses should keep an eye over the changing global scenario and adopt the one which fulfils their aspirations. Business houses should also, to the maximum possible extent, strongly promote use of low-carbon emission materials and process for generating goods and services. Such an initiative will ensure in building brand image among today's "much aware" and "much concerned" customers. It will also help in acquiring larger market share and resultant earning of huge profits.

Along with, government cannot hide itself from the problem. It had also to take equal responsibility to mitigate the problem. It is required on Government's part that it should frame such policies (industrial) that encourage businesses to undertake, as much as possible, low-carbon emitting activities for production of low-carbon products.

7) Effective Strategy Framework:

In this highly competitive business environment, much is put at stake to accelerate from competitors. Such efforts sometimes drastically affect the environment.

When there is so much hoopla around the globe for saving and securing the world, businesses cannot be exception to it. Being recognized as the major contributors to climate detoriation, they hold the prime responsibility for the same. Businesses for fulfilling aspirations of their stakeholders cannot put climate concerns at stake. Hence, businesses are required to frame their strategies in such a manner which not only ensure higher profits to stakeholders, but also in maintaining climatic balance.

Conclusion:

From the fore going discussion, it is evident that fear of disastrous future due to climate change had put the issue on the table, for the whole world. Even if there is tussle between developed and developing world's regarding who contributed most in past and who's doing so in present, both are making comprehensive and constant efforts to mitigate the challenge on their parts.

India, considering that it is among the top most pollution emitting countries, and will rise up on the charts in future, had been actively involved in resolving the issue. The business community, in particular, is taking the problem with both hands seeing immense opportunity the problem holds. For achieving success, businesses had started seeing the problem of climate change as an issue of hope, growth, innovation, and opportunity.

India's business houses like ITC, Suzlon, Tata Infosys, etc. had set an example among others by taking responsibility from the front, of securing climate from further major fluctuations. They expect to extract high profits by comprehensively contributing to the initiative of saving the planet. By taking some early commendable steps, it had shown its zeal towards achievement of its commitments. However, the efforts made so far, though appreciable, are not found to be ample enough, and businesses had get themselves ready for fulfilling much more and much larger responsibilities in future.

India and other emerging economies have to come forward to take the major issues relating to business and climate change seriously. The role of BRICS countries is of paramount significance. Any lapse on the part of the world may cause an unimaginable disaster that could be beyond the control of human being.

NOTES:

1. Synovate's research findings (on the basis of responses from more than 2,500 Filipino, Thai, and Indonesian respondents), exhibits that 79 percent of the respondents believe that climate change is indeed a matter of concern. In Philippines, there is general concern about climate change (82 percent), and in terms of responsibility, virtually everyone (96 percent) of those surveyed in Manila believed that it is up to the individual to reduce the effects of climate change. Thus, the respondents believe that the main cause of the earth's climate change are people themselves – human causes (waste, population increase, electricity, etc) and irresponsible practices that lead to deforestation and pollution; and in order to address climate change, most of the respondents acknowledge that it would mean changing the behavior of ordinary citizens**.** (Go, 2011)

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ARTICLE

Relevance and Key Factors of "Demand-Side Oriented Market" Analysis to Define Indonesia's Retail Industry[1]

Sih Yuliana Wahyuningtyas, S.H. M.Hum.

A.Y. Agung Nugroho, MM
Atma Jaya Catholic University of Indonesia, Jakarta, Indonesia

The remarkable development of the Indonesia's retail industry draws attention due to its complexities with regard to the business characteristics and the relation between retailers as well as between retailers and suppliers. This brings competition law into relevance, which one of the fundamental elements for the analysis is the definition of relevant market, in terms of both product and geographical market.

The study focuses on the relevance of "demand-side oriented market" analysis with the application of cross shopping approach to define Indonesia's retail industry taking both the development and formats of retail into consideration. The focal point of this study is assigned in two subjects: the first aims at finding a suitable approach in order to enable the identification of the market definition in the perspective of competition law. The study is restricted to food retailing. The second issue emphasizes on the key factors of "demand-side oriented market" analysis using cross shopping approach to define Indonesia's retail industry.

This paper constitutes a recommendation to take the particular natures of food retailing in the respective country into account for the assessment of the market definition within the competition law framework. This includes the rapid shift from a certain pattern of consumer behaviour to another that affects how consumer defines a product and geographical market of food retail.

Keywords: retail, food retail, demand-side oriented market, market definition

1. Introduction

Retail industry in Indonesia has been developing very rapidly as shown partly by the emergence of modern retail formats like hypermarkets, supermarkets, minimarkets, and recently midi and convenient stores. The emergence of modern retail formats on one side benefits customers. However, on the other side it is deemed detrimental to traditional retailers, such as grocery shops and wet markets[2] due to the increasingly heavy competition in this industry and the imbalance of ability to compete among retailers.[3]

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[1] The paper is based on a research *"Pendekatan Cross Shopping untuk menentukan Pasar Hilir yang Relevan dalam Industri Ritel di Indonesia"* conducted by the Authors with financial support from the Education Ministry of the Republic of Indonesia *(HIBAH DIKTI BERSAING)* in 2011-2012.

[2] The term is used to refer to traditional markets (*"Pasar"* in Indonesian) that mainly sell fresh products, including but not limited to vegetables, fruits, fish, and meats. Wet markets usually

The emergence of modern retail cannot be separated from the entry of big and foreign capital which has consequences in the formation of the structure of competition among the existing retailers. Competition takes place both among retailers in the same format and between traditional and modern retail. Some of the cases dealt with by the Indonesia's Committee of Business Competition (KPPU) show how complex the situation of competition. As an example is the case of listing fee imposed by Carrefour in 2005, in which Carrefour applied trading terms containing fee imposed to its suppliers for the listing of their products in Carrefour stores.[4]Although the Carrefour case of 2009 has been concluded by the Supreme Court's effective ruling, the thinking and methods of analysis to assess the situation of competition in the retail sector does not cease to develop and in that context, this study intends to contribute. The essential element in such cases is determining the relevant market. In the case of Carrefour in 2009, the different measurements used by the competition authority and the courts to determine the relevant market of the food retail industry have a significant impact on the decision being taken. An important element to determine the position of a business actor in the market is firstly the definition of the relevant market .In the next step, within the relevant market, several points shall be assessed, namely: the competition level (e.g. whether the market is competitive or concentrated and how the level of competition or concentration is) and the position of the respective business actor in the market taking the quantity (e.g. market share) and quality (e.g. the ability to influence prices and the production of goods or services) into consideration. From here, it will be further investigated how the behavior of the business actors.

As shown in the previous paragraph, the definition of the relevant market is crucial and fundamental. Its essence is to know if there is significant competition in those markets and who are the competitors of the business is investigated, which is used as the basis to analyze the relationship between the competing business actors. For example if the definition of market is too broad, it may result in the actual position of big business to look small, because the market is divided into too many business actors.

The definition of the relevant market is generally based on the concept of market analysis from the point of view of end buyers on one side and suppliers or producers on the other side.

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belong to and are managed by local governments with traditional methods of management. This will be more detailed explained in the part of the comparison of characteristics between retail types.

[3] This development has brought the issue to apply a zoning policy in order to allocate the existing market for traditional retailers in certain area like Greater Jakarta. A contra argument against this policy is that it would be a violation of the principles of the freedom and fair competition provided for in Law No. 5 of 1999 concerning the Prohibition of Monopoly Practices and Unfair Competition (hereinafter Indonesia's Competition Law). In other words, it clearly establishes a protective market by means of creating market barriers, in which consumer does not have freedom not only to get the product their need from, but also at the end will have to pay uncompetitive price for less quality of products. On the other hand, small-sized enterprises are exempted from the application of the Law according to Article 50 letter h of the Law and one of the Purposes provided for in the Law (Article 3) to protect small-sized enterprises. This, at the same time, is an example of how different aims in the multipurpose competition law can contradict each other.

[4] Carrefour Case 2005

Each side creates a different market in the relation with retailers. The first side creates downstream market, while the other upstream market. In the upstream market, the definition of relevant market is based on the supplier's point of view *(Angebotsumstellungsflexibilität)*, whilst in the downstream market the perspective of consumers becomes the basis for the definition. The latter is also referred to as demand-side oriented market *(Bedarfsmarktkonzept)* analysis.[5] This study focuses only on the approach based on the consumer's perspective, where an understanding of consumer behavior plays a dominant role.

The approach from the demand side perspective is also used due to the significant impact of the market power in the downstream market to the upstream market, where the buyer power of the retailers in conjunction to suppliers upstream market - which in fact dominate the retail issue in Indonesia today - is significantly influenced by its market domination on the downstream side, or in other words its ability to significantly attract consumers. On that basis, an approach based on consumer point of view was chosen to be used as the basis for this study.

Among several methods, cross shopping is used for the definition of the relevant market according to the demand-side oriented market analysis. This method is also used by the Commission in the case of Carrefour decided by the end of 2009. How does actual demand-side oriented market analysis, i.e. by the application of cross shopping approach, can be implemented to define the relevant market?

Furthermore, from the consumer side, one interesting phenomenon is the growing consumer understanding of the importance of maximizing the benefits of a purchase, for example, the advantages in terms of price, practicality, comfort, quality products, or services. The next thing that takes place is the phenomenon of "one stop shopping" that is commonly known. In the shopping pattern, consumer combines shopping purchases from one store (so called the patron store) with spending at other stores. This phenomenon is also known as cross shopping. Are these two stores are competing or merely complementing each other, when the pattern of incorporation of purchases by consumers are cross shopping, what are its main elements, how it impacts the categorization of competitors in the retail sector?

The research will focus on answering the question about the relevance and the key factors of “demand-side oriented market” analysis to define Indonesia’s retail industry.

2. The Relevance and Key Factors of “Demand-Side Oriented Market” Analysis to Define Indonesia’s Retail Industry

The Decision of the Indonesia’s Competition Authority, KPPU, on the case of a merger between Carrefour and Alfaretailindo in November of 2009[6] showed the importance of digging deeper into the supplier-retailer relationships to understand the uniqueness of the problem of competition in the retail industry. The development in the retail industry in Indonesia has been rapid enough to give impact and change the trend of the supplier-retailer relationship in at least a decade.

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[5] *Bechtold*, GWB, 5. Auflage, 2008, § 19 Margin No. 7.

6 KPPU Decision No. 09/KPPU-L/2009 - *“Akuisisi Alfa oleh Carrefour*

If in the previous decade the supplier showed dominance in the supplier-retailer relationship, retailers today tend to have a stronger bargaining position in relation to supplier,[7] although this statement is only valid for large modern retailers. The bargaining position of small-scale retailers such as "Mom and Pap's shop" or the traditional retailer in dealing with suppliers remains unchanged from a decade ago. Along with the strengthening of major retailers in their relationships with suppliers, the issue shifts to the imbalance of small retailers competing with large retailers, especially in terms of price, product, retail services and management, which problems stem from the scale of capital.[8] Meanwhile, suppliers have difficulty in determining the content of supply contracts with large retailers because of the weak bargaining power.[9]

The issue of competition in the retail food sector in Indonesia is rooted in the "buyer power" in the downstream market. Meanwhile, despite complaints by the imbalance of competition because of the low price of products from major retailers in Indonesia that cannot be matched by small retailers, so far there are no cases related to the pricing behavior[10] for example in the form of "predatory pricing".[11]

However, the imbalance to competeemanating from the scale of capital shall not be confused with anti-competitive conducts in the context of competition law, like an abuse of market power because of the scale of capital held to restrict competition.[12]The issue of competition in Indonesia's retail sector that stands out from the Carrefour case decided by the Commission in 2009 is more about the retailer-supplier relationship than the relationship between retailers.

Nevertheless, the behavior of retailers in the upstream market is influenced also by its market power downstream level. If a retailer in the downstream market dominates the market, then he will have a better bargaining position in the upstream market when he deals with suppliers, because of the importance of the retailer to suppliers to access the consumer (end buyer).[13] The ability reflected in the market power is not only measured by the size of the percentage of market share,[14] but also by other parameters such as financial strength and ability to influence supply and demand of a particular product.[15]

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[7] *Sujana, Asep S.T.,* Retail Negotiator Guidance: Menyingkap Rahasia Sukses Global Retailer, 2004, p. 4.

[8] KPPU Decision No. 02/KPPU-L/2005, Tentang Hukum, 9.1. ff, pp. 87 ff.

[9] See *Visidata Riset Indonesia,* Market Research and Feasibility Studies, "Studi tentang: Perkembangan Bisnis Ritel Modern di Indonesia (Hypermarket, Department Store, Supermarket dan Minimarket), January 2003, p. 317.

[10] About pricing behaviour as a means to compete, see *Levy/Weitz,* Retailing Management, 2007, pp. 404-406.

[11] *Heermann,* in: Undang-undang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat (Law Concerning Prohibition of Monopolistic Practices and Unfair Business Competition), 2002, Art. 20-21, Margin No. 9.

[12] *Poesoro, Adi,* SMERU Newsletter No. 22, April-June 2007, p. 7. See also the practice inEurope in*Clarke/Davies/Dobson/Waterson,* Buyer power and Competition in European Food Retailing,2002, pp. 27-28.

[13] Putusan Nomor 09/KPPU-L/2009, 20.1.I.1.1.(69) ff, pp. 58 ff.

[14] About the relation between buyer power and market volume, see *Clarke/Davies/Dobson/Waterson,* Buyer power and Competition in European Food

In Law no. 5 of 1999, relevant market is used as a basic element to determine the action and the anti-competitive agreements in most of its provisions.[16] The elements of the relevant market has a fundamental significance for competition analysis and should be done in a particular market both in terms of certain specific products or geography,[17] and in some cases, it is temporally specific.[18] Relevant market is therefore determined based on individual cases and cannot be generalized.

Limitation of the relevant market is further used to determine who the competitors of the businesses examined in the case concerned are. This is important, because competition analysis does not include non-competing businesses or in other words, those who do not have business relevance within the same relevant market. In this study, the relevant market under assessment is the market in the food retail industry in Indonesia.

Article 1 No. 10 of Law No. 5/1999 defines the objective-relevant market in two phases: *First*, they are of the same or similar characteristics or, *second*, they are substitutes to each other.[19]
This paper focuses on the analysis to answer both criteria from the point of view of the demand-market side.

In order to determine if certain products are the same or similar on the first phase, the simplest test is whether they have the same or similar material characteristics that can result in the inter changeability. Two exceptions apply for this assumption. *First*,difference of brands might not be interchangeable, even when the characteristics of the materials are the same or similar. Nevertheless, not every brand is able to create a particular market. *Second*, products with different

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Retailing,2002, pp. 27-28. Buyer power plays a significant role in the competition between retailers. See *Kumpmann*, Systemwettbewerb und Umverteilung, 2005, p. 140.

15 Art. 1 No. 4 Law No. 5 Tahun 1999.

16 *Lubis/Sirait*, Hukum Persaingan Usaha antara Teks dan Konteks, 2009, p. 50; *Säcker/Füller*, in: Undang-undang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat Law Concerning Prohibition of Monopolistic Practices and Unfair Business Competition), 2002, Art. 1 No.9 Margin No. 1; Article 2 I c UNCTAD Model Law; For practice in Europe, see Commission Notice on the definition of relevant market for the purposes of Community competition law (97/C 372/03), Introduction No. 2, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997Y1209%2801%29:EN:NOT, Stand: May 5, 2010;*Säcker*, The Concept of the Relevant Product Market, Between Demand-side Substitutability and Supply-side Substitutability in Competition Law, 2008, p. 14; *Möschel*, dalam *Immenga/Mestmäcker*, Wettbewerbsrecht, Band 2. GWB, Kommentar zum Deutschen Kartellrecht, 4. Auflage, 2007, § 19 No. Margin 18; *Bechtold*, GWB, 5. Auflage, 2008, § 19 Margin No. 3; *Götting*,in**Loewenheim/Meessen/Riesenkampff, *Kartellrecht, 2. Auflage 2009, § 19 Margin No. 9***.

17 Law No. 5 of 1999 Art. 1 No.10; *Lubis/Sirait*, Hukum Persaingan Usaha antara Teks dan Konteks, 2009, p. 51.

18 *Säcker/Füller*, in Undang-undang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat (Law Concerning Prohibition of Monopolistic Practices and Unfair Business Competition), 2002, Art. 1 No. 10, Margin No. 22.

19 *Wahyuningtyas*, Unilateral restraints in the retail business: a comparative study on competition law in Germany and Indonesia, Vol. 27 of Munich Series on European and International Antitrust law, 2011, p. 86.

material characteristics can belong to the same market if they serve the same function to meet the consumers' need.[20]

A more sophisticated way in defining a relevant market is shown in the second phase. The purpose of use from the point of view of consumers can create substitutability as long as it concerns the main and not merely the marginal purpose of use.[21]

Retail food industry is distinguished from other retail industries based on the products being offered. Regardless of the uniqueness of its products, as any other retail industry, food retail market can be examined both in the upstream[22] and downstream markets.[23] Both markets are distinguished, because retailers in the upstream market are dealing with different parties from those in the downstream market. Also, in both markets, retailers have a different legal relationship with other parties, different interest and accordingly, close different types of agreements.

If in the upstream market, retailers act as buyers of products dealing with suppliers as a seller, the retailer's role in the downstream market act as the seller of the same products dealing with consumers (end buyer) as the buyer. This study focuses on food retailers in the downstream market.

As explained above, the downstream market involves a relationship between the retailers and the consumer. Thus, an understanding of consumer behavior has significant importance in the analysis of downstream markets in the food retail industry.[24] The behavior of consumers is analyzed based on the preference of consumer spending, why do consumers choose a particular retailer. This will determine which types of retailer are in competition to a particular retailer and the basis for the categorization of a retailer from a consumer perspective.

One approach that can be used to define the relevant downstream market from a consumer perspective is cross-shopping approach. This approach is also used by KPPU in its

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[20] *Säcker/Füller,* in: Undang-undang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat (Law Concerning Prohibition of Monopolistic Practices and Unfair Business Competition), 2002, Article 1 No.10, Margin No. 9. See also the arguments in *Wahyuningtyas*, Unilateral restraints in the retail business: a comparative study on competition law in Germany and Indonesia, Vol. 27 of Munich Series on European and International Antitrust law, 2011, pp. 86 ff.

[21] *Säcker/Füller,* in: Undang-undang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat (Law Concerning Prohibition of Monopolistic Practices and Unfair Business Competition), 2002,Article 1 No.10, Margin No. 10. See also the arguments in *Wahyuningtyas*, Unilateral restraints in the retail business: a comparative study on competition law in Germany and Indonesia, Vol. 27 of Munich Series on European and International Antitrust law, 2011, pp. 86 ff.

[22] KPPU Decision No. 09/KPPU-L/2009, 20.1.I.1.1.(80), p. 61. See the role of retailers in the pasar upstream market in *Levy/Weitz,* Retailing Management, 2007, p. 7.

[23] KPPU Decision No, 09/KPPU-L/2009 tentang Akuisisi *Alfa* oleh *Carrefour*, 20.1.I.1.1.(49) ff, pp. 55 ff.

[24] See the definition of relevant market from the point of view of consumers in *Säcker/Füller,* in: Undang-undang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat (Law Concerning Prohibition of Monopolistic Practices and Unfair Business Competition), 2002, Art. 1 No.10, Margin No. 24. See the practice in Germany *(Bedarfsmarktkonzept)* in *Säcker/Füller,* in: Undang-undang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat (Law Concerning Prohibition of Monopolistic Practices and Unfair Business Competition), 2002, Art. 1 No.10, Margin No. 24.

decision on the case of Alfa's acquisition by Carrefour in 2009. The objection to the verdict later on submitted by Carrefour to the District Court was granted and finally supported by the Supreme Court that ruled out the decision of the KPPU. The dominant position was not proven, so was the abuse of it, accordingly, and the shares acquisition was affirmed. The difference of the decisions made was a result from the different definition of the relevant market of food retail in the case.[25] While KPPU considered hypermarket shared the relevant market only with supermarket, the District and the Supreme Court took a different consideration that resulted in broader relevant market both in terms of product and geographical area. As a result the market share fell far below the market share defined by KPPU and the benchmark of dominant position.

The term “cross shopping” refers to the cross-shopping patterns of consumer spending, in which individual consumers make purchases at more than one retailer that has a different retail formats in order not only to meet their needs but also to obtain the best value or to maximize the benefits of spending.[26] The most important consideration in cross-shopping is that this behavior does not necessarily lead to the emergence of competitors for the patron retailers (siphoning), otherwise it may cause the expansion of cross-shopping business for retailers patron, when cross-shopping is directed on the product supplement and not a substitution of products in the retailer's patron.[27]

Although the cross-flow movement of consumers is a shopping from a store patron to at least one other store, the movement is not by itself mean that the customer leaves the store patron and replace it with a new patron. The flow is more an indication of additional channels and this means that there is no reduction process of consumers ("consumer drain") from a patron store. On this basis, the store patrons can actually grow its business by operating outlets with different formats to capture new markets or in other words to capture the different target markets. The products offered may be of the same variety,[28] but with different emphasis, for example by

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[25] The Jakarta Post, Carrefour Defies KPPU Demand, Files Appeal, January 21, 2010 http://www.thejakartapost.com/news/2010/01/04/carrefour-defies-kppu-demand-files-appeal.html, Stand: January 21, 2010.

[26] *Yu, Lizhu*, Cross-Shopping and Shopping Orientation: Consumer Perceived Value in Today’s Dynamic Retail Environment, North Carolina, 2006, p. 21, http://libres.uncg.edu/edocs/etd/1194/umi-uncg-1194.pdf, Stand: January 18, 2009. A more complex definition of *cross-shopping* from Cort and Dominguez involves three characteristics, products in the same line or variety, the shops are operated by the same retailer, and the shops target the same market. See *Cort/Dominguez*, Cross-Shopping and Retail Growth, Journal of Marketing Research, Vol. XIV, May 1977, 187, 187.

[27] *Cort/Dominguez*, Cross-Shopping and Retail Growth, Journal of Marketing Research, Vol. XIV, May 1977, 187, 187. The term “patron” refers to a shop chosen by an individual consumer as her preference. The question about “where to shop” is referred to as “patronage. See *Fox/Montgomery/Lodish*, Consumer Shopping and Spending Across Retail Formats, October 2002, p. 2, http://www.andrew.cmu.edu/user/alm3/papers/cross%20format%20shopping.pdf, Stand: January 19th, 2009.

[28] The difference of varieties as an indication of competition in practice in Europe is explained also in *Howe,* Retailing in the European Union: structures, competition and performance, 2005, p. 117.

offering different assortment.[29] Thus, different retail formats would not automatically become substitutes for one another.[30]

The noticable factor for the market analysis based on the demand side perspective is price. Pricing system has been recognized as one of the most prominent retail strategies.[31] There are some considerations in setting retail prices in this regard.[32] Basic consideration regarding price is that in general, the increase of price of a product will result in the decrease of the sale of the product. The greater the price sensitivity of customers, the more significant will be the decrease of sales as a result of an increase in price. Price sensitivity is commonly measured by price elasticity.

The formula is as follows:[33]

$$\textbf{\textit{Elasticity}} = \frac{\textbf{\textit{Percentage change in quantity sold}}}{\textbf{\textit{Percentage change in price}}}$$

However, price alone cannot create sufficient criterion for substitutability. It has a certain level of impact to the decision of to consumers towards the shopping preference.[34] The other significant factors that become key factors to analyse market definition from the point of view of consumers are the purpose of purcahes of individual consumer, the location of the store, retail services, and the type of varieties and assortments available in the stores.[35]

The consideration of the key factors result in the following study using cross shopping approach as shown below.

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[29] *Zentes/Morschett/Schramm-Klein,* Strategic Retail Management: Text and International Cases, 2007, p. 163; *Levy/Weitz,* Retailing Management, 2007, p. 35.

[30] *Cort/Dominguez,* Cross-Shopping and Retail Growth, Journal of Marketing Research, Vol. XIV, May 1977, p. 187.

[31] Price is also a tool for market positioning for retailers and it can at the same time also create an image for the consumer. An example is Lidl, which uses price to position itself as a discounter in food retailing in Germany. A combination of a good offer of quality and price nevertheless involves a choice of merchandise; especially in the high pressure of cost in the German retailing market, retailers have to choose which merchandise they can offer at a good price. Lidl provides an example with basic food products, which have fluent circulation, so that it can avoid the cost for fresh foods inventory. See *Denzinger,* Der deutsche Lebensmitteleinzelhandel, Analyse des Status quo und mögliche Alternativen zur Preispositionierung, 2007, p. 10.

[32] The following explanation is extracted from *Levy/Weitz,* Retailing Management, 2007, p. 403 ff.

[33] *Levy/Weitz,* Retailing Management, 2007, p. 403 ff.

[34] *Bechtold,* GWB, 5. Auflage, 2008, § 19 Margin No. 10.

[35] *Nugroho/Wahyuningtyas,* Pendekatan *Cross-Shopping* untuk menentukan Pasar Hilir yang Relevan dalam Industri Ritel di Indonesia, Research Report, 2011.

Cross Shopping Apporach: the Survey Result

In general, the survey conducted in 2011 in Jakarta by the authors showed that most respondents chose hypermarket as a shopping preference. This means that the majority of respondents (48%) chose to make purchases in hypermarkets. The shopping place preference is also called a patron. The second rank was occupied by a supermarket as a patron with quite big disparity from hypermarket (only 23.6% respondents choose supermarket as their shopping patron). Among multiformat shoppers, only one-fifth who choose traditional markets as a patron (20.7%). (Figure 1)

Figure 1[36]:

Table 1[36]:

Shopping Preference	
Retail Types	%
Hypermarket	48.47%
Supermarket	23.58%
Minimarket	5.97%
TraditionalMarket	20.67%
Others	1.31%

Furthermore, assuming an increase in price of goods in the patron store, respondents were asked to respond, to the retail format where they would switch. Survey shows that in general almost one third of respondents switched to traditional markets (31.7%). Generally it can be assumed that although the traditional market is not a patron for the majority of respondents, but in cases of prices increase of goods in general, traditional market remain reliable as a retail format that provides goods at competitive prices. It can be said also that a low price is still the stronghold of traditional retail in view of the consumer. (Figure 2)

[36] *Nugroho/Wahyuningtyas*, Pendekatan *Cross-Shopping* untuk menentukan Pasar Hilir yang Relevan dalam Industri Ritel di Indonesia, Research Report, 2011.

Figure 2[37]:

Table 2[37]:

Switch Of Retail In Case Of Price Increase In The Patron Store	
Retail Types	%
Hypermarket	21.69%
Supermarket	25.18%
Minimarket	15.87%
Traditional Market	31.73%
Others	2.81%
Do not Switch	2.72%

To see whether a particular retail format substitutes other formats, respondents were asked, where they will shop in lieu of the main shopping areas (patron). Replacement is not based purely on price considerations, but it is rather left open to any factor that may become the reason of the substitution, including if for any reason consumers do not get access to the store patrons. This is based on the consideration that price is not the only factor that determines the existence of substitution. Purposes of the expenditures and other spending considerations also have an important role. Other important factors found out from the study are: the location of the store, the types and availability of the products (varieties and assortments), retail services, payment methods, how frequent the shopping is done, and transportation consideration.

In general, respondents chose the supermarket as the replacement of the retail format patron (30.4%). This position was followed by a minimarket with subtle disparity from supermarket (29.8% of respondents chose a minimarket in lieu of store patron). (Figure 3) This means that the supermarkets and hypermarkets are the main competitors and in a lower competition level, hypermarket also competes with minimarket. This is different from the findings of two previous years in the case of Carrefour in 2009 that the minimarket is not a competitor of hypermarket. The competitor of hypermarket in the research results in 2009 was supermarket.

[37] Nugroho, Agung/Wahyuningtyas, Sih Yuliana, Pendekatan *Cross-Shopping* untuk menentukan Pasar Hilir yang Relevan dalam Industri Ritel di Indonesia, Research Report, 2011.

Figure 3[38]:

Table 3[38]:

Other Type of Retail Format as Replacement of the Patron Store	
Retail Types	%
Hypermarket	14.99%
Supermarket	30.42%
Minimarket	29.84%
Traditional Market	20.82%
Others	3.93%

By looking at the data in general, when compared with an explanation of shopping preferences in the previous paragraphs, it can be said that supermarket, followed by minimarket, is a substitute of hypermarket. Meanwhile, traditional retail substitutes hypermarket in general in terms of replacement in case of a specific event, namely in case of an increase in price. This means that although in general only a fifth of respondents (20.8%) chose traditional retail as a substitute, but because of the price competition, traditional market should also be taken into account in the same relevant market with both hypermarkets and supermarkets.

The next issue is to find out from the cross shopping behavior, which stores are considered as a supplement (complement) of the store patrons for their additional shopping. Whilst in terms of substitution consumers leave the store patron and replace it with a replacement or substitute store where a siphoning or consumer drain from the patron store is possible, in the case of complementary shopping, consumers remain shop at their patron store but in addition spend at other stores only for complementary reasons. Thus, in this case, there is no siphoning or absorption of consumers from the patron store to a second store. Therefore, the second store is referred to as complement, not substitute.

Of the total respondents in general, more than a third chose minimarket as the complement of the store patron (31.9%). (Figure 4) We are dealing with an interesting phenomenon here. When compared with the previous explanation regarding to substitution, minimarket is actually occupying the second place as the substitute of the patron store, but at the same time here, minimarket is chosen as a complement of the most respondents. It can be assumed that the complementary characteristic of the minimarket is therefore, not pure, because in fact, minimarket is a potential substitute to hypermarket in general. This means that although minimarket occupies the highest position as a complement to hypermarkets, on the basis of consumer preferences it should be taken into account in the relevant markets to hypermarkets.

[38] Nugroho, Agung/Wahyuningtyas, Sih Yuliana, Pendekatan *Cross-Shopping* untuk menentukan Pasar Hilir yang Relevan dalam Industri Ritel di Indonesia, Research Report, 2011.

Figure 4[39]:

Table 4[39]:

Complimentary Retail Formats to the Patron Store	
Retail Types	%
Hypermarket	21.98%
Supermarket	23.44%
Minimarket	31.88%
Traditional Market	18.34%
Others	4.37%

It can be concluded that the cross shopping approach to analysis consumer behavior in general, based on the shopping preferences, the relevant market of food retail in the region where all of comparable type of formats are available, includes both modern and traditional retails or in other words, it includes hypermarket, supermarket, mini market, and traditional retails.

This indicates a shift from the research findings in 2004/2005 which shows that the traditional markets and modern markets are in two different relevant markets, which means that they did not compete in the calculation of market share of hyper markets. The existence of traditional retail was not taken into account for the assessment of the market share of modern retail, and vice versa. The findings were used in the examination of the case of Carrefour in 2005.

The findings in 2004/2005 were also used as a basis for arguing that the modern market is not in competition with traditional markets. As a consequence, there was no causal relation between the decline in traditional retail’s turnover and the existence or the emergence of modern retails. Similar findings were also demonstrated in a study in 2009 that was used in the examination of the case of Carrefour in the same year with a refinement that even within the category of modern retail, hypermarkets only compete with supermarkets. Thus, the presence of a minimarket was not taken into account in the analysis of the market share of hypermarkets.

The findings in this study show different results. However, there is a logical reason for the difference, namely that consumer behavior is subject to change as time goes and as the retail industry itself evolves. Retailers are aware of the potential market in taking all types of retail format, since from the consumers’ point of view, as long as a store meets their need of products and prices, formats are not anymore significantly important. This is mainly because of the similarities of retail products and services, similarities in prices and most importantly, the closed vicinity between all types of retail format. Geographical scope of this study is also narrower than other former studies; it focuses only in Greater Jakarta, in an area where the four retail formats are found.

39 Nugroho, Agung/Wahyuningtyas, Sih Yuliana, Pendekatan *Cross-Shopping* untuk menentukan Pasar Hilir yang Relevan dalam Industri Ritel di Indonesia, Research Report, 2011.

3. Conclusion

The analysis can be summaries as follows:

1. The downstream market involves a relationship between the retailers and the consumer. Thus, an understanding of consumer behavior has significant importance in the analysis of downstream markets in the food retail industry. The importance of the approach from the demand side perspective lies on the significant impact of the market power in the downstream market to the upstream market, where the buyer power of the retailers in conjunction with suppliers in the upstream market is significantly influenced by its market domination on the downstream side, or in other words its ability to significantly attract consumers. The cross shopping approach to analysis consumer behavior in general, based on the shopping preferences, the relevant market of food retail in the region where all of comparable type of formats are available, includes both modern and traditional retails or in other words, it includes hypermarket, supermarket, mini market, and traditional retails.

2. The following shall be taken into account for the market analysis based on the demand side perspective, namely product price, the purpose of purcahes of individual consumer, the location of the store, retail services, and the type of varieties and assortments available in the stores.

To conclude, this paper advocates the particular natures of food retailing in the respective country into consideration for the assessment of the market definition within the competition law framework.

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> Many men do not allow their principles to take root, but pull them up every now and then, as children do the flowers they have planted, to see if they are growing.
>
> Longfellow

ARTICLE

Preferential Attributes In Consumer Buying Behavior At Retail Megastores In Karachi

Javed Ahmed Chandio
University of Sindh, Pakistan

Abstract

Retail mega stores are common in developed countries. In Pakistan this is a comparatively recent development. It was assumed that the consumers and their buying behavior are different in these stores as compared to small retail stores in the local vicinity of the customers. This study focuses on some major factors influencing customer buying behavior. Hypotheses were framed and tested through survey research. A total of 100 respondents were interviewed using predesigned questionnaire that had a number of pre-selected attributes for store preference. It appeared that the economy was not the main reason for shopping in these stores despite the fact that the shops are economical. Location of the store in close vicinity and parking space were important attributes were found to be preferential attributes for consumer buying behavior in the retail megastores that were surveyed.

Introduction

Retail megastores are common in developed countries. They have shifted the trend of the retailing industry all over the world. The trend is now coming to the developing countries like Pakistan. This recent development is changing the buying behavior of general consumers in big cities like Karachi. Pakistani retail industry – following its counterparts in the developed world - is also adopting new formats by offering a wide variety of quality products and in large quantity under one roof with a pleasant ambience. This initial shift has been taken place from the conventional road side shop to large super stores, offering a large number of grocery products under one roof which has a good and pleasant environment.

In view of the different quality and variety of products, these stores are shifting the retailing industry in Pakistan altogether. Now people are looking for better quality and variety of products under one roof with a nice ambience. Today, the grocery shopping is not just to go and buy the routine items for daily use of the household instead, it has become an outing as well. Consumers in Pakistan not only look for grocery items but also a place, where they can spend their time in a pleasant environment. The main purpose of this research is to find out the different drivers, which are forcing the current consumer to go to retail megastores for shopping and their relationship with the purchase value of the consumers. To find out the relationship between purchased value and shopping behavior of the consumer, different variables can be considered as drivers of consumer buying through the retail megastores. These drivers can be: low prices, variety and availability of different products, location, parking space and service quality of these stores as well as the visitors' convenience. Although these retail megastores are providing new trends, shopping experience adoptions for the consumers, it needs to be appreciated that the buyers and sellers are undergoing an evaluation phase having no stable decision making factors in their minds. This may result in a totally different set of attributes for retail megastore preference in the future.

Consumer buying trend has changed over time, more so during the last decade. However while the changes in urban areas are quite obvious, rural areas are still being served by traditional kiryana stores. The change is more in terms of family business and the traditional kiryana stores, which offer a high level of personalized services to their customers. Moreover the increase in general stores as well as utility stores was also observed. These were introduced by the Government of Pakistan to provide daily grocery items at low prices to the public. The main emphasis of utility stores is to fulfill the utility needs of the layman consumer at competitive prices. Then, the emergence of new formats like super stores, which offer bigger range of products and variety of formulations from kitchenware to doormats, cosmetics to stationary, vegetables and fruits to poultry and chicken, and clothes to household appliances, under one roof with ambiance being a critical and essential part of the concept.

The objective of mega stores is to provide all sorts of products not only to small households but also to small institutions like hospitals, schools and the catering business as a one stop solution at affordable prices. This trend is spreading fast and is welcomed by developed countries as well as being accepted by the Pakistani consumers. This retail shift is expected to have a very positive and profound impact, not only on working individuals and families, but also on small institutions and business. This retail trend is also expected to increase ease of grocery shopping for small consumers in Pakistan who have lesser time and money as compared to the conventional mode of grocery shopping. However, the literature is very scarce regarding how this new trend of retailing is affected by consumers. The main purpose of this research is to find out the different attributes which will encourage consumers to go and shop in mega stores.

Research objective

The objective of this research is to find out the relationship between the purchase of items by the consumers and different variables of the mall. In addition to this, it aims to highlight the following factors which may affect the consumer buying behavior inside the retail mega stores:

- income level;
- family size;
- variety of products;
- availability of products under one roof;
- location of store;
- ambience of the store;
- parking space outside the store.

Hypothesis

H1: Economy is a major factor influencing consumers to purchase in retail megastores.
H2: Size of the household is a major factor influencing consumers to purchase in retail megastores.
H3: Variety of products is a major factor influencing consumers to purchase in retail megastores.
H4: Availability of the products under one roof is a major factor for visiting the retail megastores.

H5: Location of the store is an important factor for visiting the retail megastores.
H6: Ambience of the store is a major factor for visiting the retail megastore.
H7: Parking space outside the store is an important factor for visiting the retail megastore.

Literature review

Over the last few decades, the retailing trend has changed dramatically all over the world. This change has taken place from small road side shops to large super stores and mega stores. One of the main reasons for this development is the value of time and money saving that large scale stores provide to their customers. This concept is referred to 'one-stop-shopping', which means that customers can buy everything at one location.(Hallsworth&McClatchey, 1994; Fernie, 1995; Kaufman, 1996; Messinger&Chakravarthi, 1997). Due to the current economic situation of the world, which hasforced women along with men to join the workforce for fulfilling their routine expenses, one-stop-shopping concept has gained greater significance and people prefer to purchase everything at one place. Nowadays, female workers have joined every field and line of work, which, as a result, has increased the disposable income of families but at the cost of shorter time. Now both the partners of a family have less time to spend on purchasing of grocery items. This change had to be catered by the new retailers, and they did it by introducing the idea of big malls, which offer all kinds of products under one roof with attractive ambience and competitive prices. Due to the offering of large number of products by super and mega stores, the trend of one-stop-shopping has significantly increased (Messinger&Chakravarthi, 1997).

One study (Leszczyc et al 2000) has mentioned significant reduction in customer visit to the local grocery stores, mainly since there is an increased need for buyers to best utilize their shopping time. Now single purpose shopping trend of consumer has changed into multipurpose shopping behavior. People prefer to make their trip multipurpose instead of single purpose due to the short time available and they are not only saving time but also the cost of transportation by reducing the trips and purchasing large number of goods in one turn. Retailers also have foreseen the shifting trend and have changed themselves accordingly by providing large number of products from vegetables to meat, kitchen wareto doormats and stationary to cosmetics with pleasant and good ambience under one roof, allowing consumers to purchase multiple products in one go and make their trip multi purpose (Jones & Douce, 2000). This shift from the retailers' end has increased the number of large stores and customers have to decide which store to select for shopping between different types of stores which can fulfill all of their requirements under one roof.

While there are small local retail outlets at community living areas serving the community at large by offering desirable quality products that the end users demand at the same time the mega stores offer a convenient shopping experience at competitive market prices under one roof. These mega stores differ in their product variety, location and competitive pricing strategies and also to a great extent facilitating multipurpose shopping (Leszczyc et al 2000). The authors found that the choice for store is mainly a purposeful activity in a single retail outlet which the consumers visit. Appropriate location is developed based on the premise that consumers visit nearby stores offering competitive prices. This includes cost of traveling in terms of distance and time.

It has been found that shopping is a gender specific activity (Peter and Olson 1999). Men and women differ in their behavior while they go out for shopping. Their values also differ for a variety of reasons (Dittmar et. al., 1995, 1996). For women window shopping is an activity itself while for men it is more based on essential activity and done under necessity and compulsion. Therefore shopping has been termed as a female typed task (South and Spite, 1994). Erkip (2004) confirmed this finding through another study. He found some positive factors in gender relationship and shopping.

For more than three decades researchers have been trying to find the answer to whether the poor pay more than higher income groups for food. The findings of different authors (Kaufman et al 1997) indicate that the results are mixed. Poor visit shops where prices are at a lower side as compared to their other counterparts. Their choices are also limited in terms of offerings. Cost, quality and convenience are the main trade offs (King, Leib tag, and Behl, 2004) while making a buying decision for consumers.

It has been seen that low income group sare much more selective in purchasing and are also very price sensitive. They are looking for the products and stores that can fulfill their needs at a lower cost. They are disloyal customers and their preferences change quickly according to the offer of a specific store, and also in accordance to their disposable income. In Pakistan, this segment of the customer constitutes a large part of the target market and need to be handled efficiently. Pakistan is a developing country and wage rates are very low, although much better than those in other developing Asian countries like India, Bangladesh etc. and therefore, a large portion of the target market has very low disposable income, which forces them to change their shopping pattern very quickly. Therefore, small road side conventional shops cater to their needs very effectively and they prefer to visit these shops, where they can buy all grocery items in as much quantity as they need.

For the purpose of focusing and optimizing resources and capabilities retailers offerings need to be matched with the needs and wants of consumers. Retailers having low priced goods usually do not tailor their offerings for a better margin or high price. This segment is taken care of by other kind of super stores. The small retailers prefer to cater limited market segment with fewer products but offering better services to their customers. They do market their private brands as well which are less likely to differentiate by their customers in terms of value. It is therefore more likely that the ultimate decision making factor would be price rather than anything else.

It has been found that buyers' buying behavior based on price has some impact on shopping frequency. Buyers are supposed to buy fewer items if the prices are high and more items if they are less. Similarly if two stores have the same average price, buyers would prefer to shop at the store with high variability in price. The phenomenon is common in retail industry. Thus a higher mean price is indicative of high variability in price of products and vice versa (Ho, Tang and Bell,1998)

Retailers offering complete services with commitment offer a wider variety and assortments of products. This includes low turnover products as well. In this case the seller sacrifices efficiency for providing better services to the customers. Private brands are favored in case of narrow assortments where specialty items are usually eliminated including national brands of different sizes and flavor (Dhar and Hoch 1997). Due to time constraints customers prefer to buy things of their choice under one roof. It is not unusual that retail megastores own brands fulfill the customers need in a unique way. This also minimizes customers risk when they go for unknown brands from unknown manufacturers. These attributes were substitute for the reseller's efforts and commitment. The product categories represent different variety of food products. The megastores operate through adaptable policies including adherence to quality control, branding and premium line (Dhar and Hoch 1997). It has also been noted that in the presence of store brands the consumer become more price sensitive. Once the megastore introduces its own brands, the known brand manufacturers remain more flexible on price as well. It has also been found that as a consequence of introduction of the store brands, the margin of profit of the known brands also increases. We have also found that the sales of national brands remain unaffected after the launch of store brands. At the same time buyers were found to be more price sensitive. A certain degree of elasticity was found in the preference of store brands. (Chintagunta, Bonfrer, 2002). Thus it is essential for the retailers that they appreciate customers need before introducing their own private brands.

Dawson (1983) considered location as the single most important factor for the success of a megastore. Such a location should have easy access to general public, well connected through transport and car parking should be available. At a macro level, the government's planning and support play an important role as well. However, sometimes developers do face problems with land availability. In such cases, integration with existing building structure is usually done (Guy 1994). The planner should keep in the mind two major factors; the consumers' preference for the megastore and retailers choice to open a megastore in that location (Dawson 1983). It is quite obvious that all megastores do not have the same freedom of planning in layout and designing due to space limitations (Kirkup andRafiq 1999). The retailer may operate at a number of places to attract more customers, but this would cost more and may make the entire operation costly and less profitable (Betancourt and Gautschi 1988). Sometime the megastore operators do think that they do not need marketing because of its good location (Kirkup and Rafiq, 1999).The marketing task for megastore operators includes offering better services, make the access more convenient to desirable product mix, well managed environment, satisfying the safety needs as well as leisure experience. It has been seen that the retail parks, better destinations, high streets, access, mix, environment etc. are commonly preferred characteristics for services (Cowell 1984). Kirkup and Rafiq (1999) think that accompanying goods and services do play some role in marketing of the megastores. Yard et al (2007) suggests that the importance of mall image by effective internal marketing should be communicated to the employees by the management

This is consistent with LalandRao's (1997) study which shows that promotional stores are perceived as having higher levels of service (i.e., they impose lower inherent costs on shoppers). It has been described in one research done by IBM business consulting services (IBM 2004) that today's customers want convenience. They are willing to place a high premium for their ease of shopping and they are ready and willing to embrace new technologies and in store services which are relevant and can increase their particular shopping needs. Therefore it has been concluded that the most successful retailers of the future will foresee their target customers' needs and align their marketing, staffing, services and merchandising strategies according to their customers' requirement.

There will be a limited impact on any change of the services quality (Leszczyc et al 2000). Those who make less number of trips to the megastores and try to economize their shopping will also be influenced with the services quality. Some authors (Kaufman et al 1997 and Kaufman 1996) opined that economizing strategies were also followed by low income shoppers. Since they remain willing to compromise on quality of services they do receive fewer of them in practice. Ambience was an attribute for which assessment was done. The attribute was discussed by some authors. (King, Leibtag, and Behl, 2004). According to them, ambience is able to attract buyers in the new stores. But their purchasing due to this reason appear to be low resulting in low profitability from the consumers. According to Kirkup and Rafiq (1999) marketing of the mega stores need to be done in two stages. The first stage the overall location, design followed by market positioning that need to be done at the time or before the store is opened. They play a very important role in the success of the megastore. This becomes a clear basis for differentiation. One of the key factors is to project the external image and authority in terms of visibility, signage and cladding (Guy, 1994).

However, there is a feeling that glamorous design has its limitations though its maintenance has a long term impact on service charges for retailers. (Morgan Grenfell Laurie, 1989). McGoldrick and Thompson (1992) opined that a high design attribute of the megastore may convey an inappropriate price signal more so when the trading environment is difficult. Kirkup and Rafiq, (1999) emphasized the need for managing the process to obtain customer services. The authors emphasized user friendliness environment to minimize shopper's effort. The design should meet both the requirements: consumer's social satisfaction and retailer's profitability (Dawson, 1983). Dawson also referred the study of Messinger and Narasimhan (1997) in which it is mentioned that megastores are difficult to negotiate and therefore shopping cost may rise. A user friendly intelligent layout of the store may help the buyers to shop in less time. Parking is a major attraction and in this regard suburbs or out of town megastores have the advantage.

Therefore, vast parking areas are a very important factor to be considered while selecting a mall for shopping. It has been seen that all small and medium size stores like super stores always have small parking space or the front road of the stores is used as the parking space as compared to megastores, which have their own free large parking space available with all the security and proper in-out ways. In order to attract customers, it is very important to have a large parking space. Since there is a large part of the customers that come by car in mega stores, it is important for superstores to be accessible and provide generously parking space in connection to the store location.

Time optimization is one of the reasons for change in grocery shopping. This may be because time demand in individual household has increased substantially, more so in the advent of computer and internet. Thus multipurpose shopping trips are common and large quantity of items go with it. (Leszczyc et al 2000). Due to this factor need of buyers and retailers has synchronized to a great extent. Thus single stop multipurpose shopping trip is common (Jones&Douce, 2000). In line with this concept grocery stores have been converted to superstores providing customers the opportunity to buy clothes, toys, drugs, crockery under the same roof. Leading megastores like Walmart are following the same concept. They are offering wide variety of grocery products for their common buyers. It is the largest grocery retailers in the world (Supermarket news 2010). Other megastores are following Walmart. Sometime these large stores have facilities that enable customers to indulge in other activities rather than just to purchase grocery items. According to previous study authors (Leszczycet al 2000) they assumed that buyers may be divided into different segments based on their time utilization, price and the shopping strategy used. Lal and Rao(1997) rather differed with this idea and proposed that buyers may be divided into two segments: time constraint shoppers and cherry pickers. Galata, Bucklin, and Hanssens (1999) further divided the time constraints shoppers into service seekers and non-service seekers. Umesh et al (1989) found that time sensitive buyers buy substantially more in a single visit as compared to others.

Sampling and methodology

A predesigned multiple choice questionnaire was used as the research instrument to collect the primary data. Two retail mega stores Metro in Gulshan e Iqbal and Macro at Malir were visited and 100 questionnaires were filled up (50 at each store) to determine the major factors influencing consumers to purchase from these retail megastores. Socio-economic attributes of the consumers were included which influence them to visit and buy. The following variable attributes were included for the survey:

- Income level
- Family size
- Reasons for visit
- Availability of the products under one roof
- Location of the store (close vicinity)
- Ambience of the store
- Parking space.

The questionnaire used for this survey was developed based on Booms and Bitner's (1981) 7Ps services mix. The questionnaire was used to get the socio–economic information of customers of Metro and Makro stores. They were also asked specific reasons to visit and shop. The information about all the variable attributes were collected through a questionnaire, consisting structured questions. Data were collected through store intercept (exit interviews) from customers, while they were leaving the stores. Respondents were randomly selected from Metro and Makro stores located at Gulshan e Iqbal and Malir respectively.

Limitation of the project

The sampling was based on convenience and therefore chances of error remain. Total number of respondents were also limited. Timing of the survey was limited to evening only. Thus we have no idea about the shopping trend during day time. It was assumed that most of the shopping is done in the evening but this could not be substantiated due to lack of data. The data shows that some retailers and wholesalers also visited the stores and their buying was substantially higher than the general consumers. This aspect was not undertaken at the time of designing the survey. All the retailers and wholesalers were met during 4-5 PM time leaving the chances that more resellers would have visited the stores during the earlier part of the day time. It is therefore assumed that resellers do form a part of the buyers of these retail megastores. Quantification cannot be accurately given due to limitation of the survey in terms of timing of the interviews.

TABLE 1:
Income level of the household

	No n= 50	n=50	n=100
	METRO	MAKRO	TOTAL
Less than Rs. 30,000 (Lower middle)			
Rs. 30,000 – 59,999 (Middle middle)			
Rs. 60,000 – 89,999 (Upper middle)	16	7	22
Rs. 90,000 – 119,999 (Lower upper)	25	39`	64
Rs. 120,000 and above (Middle upper and upper upper)	9	4	13
Total	50	50	100

Analysis for Table 1

The question was related to income level. As high as 64% of the respondents were of lower upper income group. All of the respondents had a household income level of 60,000 and above. The findings are being analyzed as follows. It goes beyond doubt that shopping at these megastores is economical. But the very people who need economical buying do not visit these stores. While the well-off families are frequent buyers, the highly affluent class is not frequent visitors. The finding suggests that economy is not the reason for visiting these stores.

TABLE 2:
Family size (no of family members in the household)

	No n= 50	n=50	n=100
	METRO	MAKRO	TOTAL
2 or less			
3-5	29	33	62
6-8	21	17	38
9-11			
12 or more			
Total	50	50	100

Analysis for Table 2

The finding shows that as high as 62% of the respondents have 3-5 members in the family while 38% have 6-8 members in the family. This finding also suggests that economy is not the main reason for shopping in these megastores since larger families need more economy as compared to smaller ones. Household having big families do not come to these stores for shopping. Thus H2 (Hypothesis 2) mentioning ‘bigger size of the household is a major factor influencing consumers to purchase in retail megastores’ is rejected

TABLE 3:
Nature of employment of customers

	No n= 50	n=50	n=100
	METRO	MAKRO	TOTA L
Employed with multinationals	21	18	39
Employed with big local firms having more than 100 employees	23	22	45
Self employed (retail stores)	6	6	12
Self employed (Wholesalers)		4	4

Analysis for Table 3

As high as 39% of the respondents were employees of multinational while 45% employed with medium to big organizations having 100 or more employees. Remaining 16% were self-employed having their own retail or wholesale stores. It is important to mention that the interview timing was 4 PM to 10 PM and all the retailers and wholesalers were interviewed between 4-5 PM leaving a doubt that such people do visit the store at earlier part of the day. There were no wholesalers / retailers in both the stores after 5 PM. According to our analysis, 16 percent does not appear to be representative sample of the total visitors. To ensure the proportion of such buyers another survey is needed expanding to the entire day for interview.

TABLE 4
Preferable attributes for visiting the retail megastores

	n= 50	n=50	Total 100
	Metro	Makro	Total
Economy	11	11	22
Variety of products	5	6	11
Availability of products under one roof	33	37	70
Location of the store (Close vicinity)	50	50	100
Ambience of the store	9	7	16
Parking space	50	50	100

Analysis of Table 4

A total of 22% of the respondents mentioned that they visit the stores for economy and 78% did not opt for economy as a major reason for shopping in these megastores. Thus H1 (Hypothesis 1) mentioning ‘economy is a major factor influencing consumers to purchase in retail megastores’ is rejected.

A total of 11% of the respondents mentioned that they visit the store for variety of products while 89% of the respondents did not opt for this reason. Thus H3 (Hypothesis 3) mentioning ‘variety of products as a major factor for visiting these stores’ is rejected.

As high as 70% of the respondents mentioned that they visit the store for availability of products under one roof. This correlates with hypothesis 4. Thus H4 (Hypothesis 4) mentioning ‘availability of products under one roof is a major factor for buying from these stores’ is accepted.

Location of the store (close vicinity) was considered a major factor for visiting these stores by all of the respondents. Thus H5 (Hypothesis 5) mentioning ‘location of the store is a major factor for buying from these stores’ is accepted.

A total of 16% respondents mentioned that ambience of the store is a major factor for visiting the store, while 86% did not opt for this attribute. Thus H6 (Hypothesis 6) mentioning ‘ambience of the store is a major factor for visiting these stores’ is rejected.

As high as 100 percent of the respondents replied that ‘parking space is a major reason for visiting these stores’. Thus H7 (Hypothesis 7) is accepted.

Conclusions

We derive the following conclusions from this research study:

- Economy is not the main reason for shopping in the retail megastores
- People having 3 – 8 members in the household come to shop in these stores.
- Availability of products under one roof, close vicinity of the store and parking space were the main factors for visiting the megastores.

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ARTICLE

FACTORS LEADING TO DECENTRALIZATION OF ICT COMPANIES: The case of multimedia super corridor, Malaysia

Muhammad Asim Tufail
Abu Hassan Abu Bakar
Wiwied Virgiyanti
Faisal Manzoor Arain
Northern Alberta Institute of Technology, Alberta, Canada

Abstract

Technological development in the information and communication technologies (ICT) sector is essential to attain sustainability in today's era. Cities have developed satellite towns at the periphery with hi-fidelity digital and physical infrastructure which converts a single cantered city into a multi cantered one. In case of Kuala Lumpur Metropolitan Area (KLMA) the shift of civic services to Putrajaya and development of Multimedia Super Corridor (MSC) which offers incentives to local and foreign companies to develop a super block of research and development based economic sector. This development spearheaded the Malaysian Vision 2020 of knowledge based economy and society and has become an attraction to the business community across Malaysia. The purpose of this paper is to discuss the key factors that have attracted the companies to physically move from KLMA to MSC. To achieve the study objectives, a questionnaire survey and interviews were carried out to collect pertinent information from companies focusing on businesses in finance, insurance and real-estate. The data collected was analyzed to identify the ranking of variables of Bill of Guarantees offered in MSC policy. The study findings suggest that in addition to good infrastructure and good working environment, the tax exemption offered by the government has been the driving force for companies to decentralize towards MSC. The results suggest that the better infrastructure, connectivity, low taxes, low telecommunication tariffs, and land cost were considered as the most important factors for decentralization of ICT companies in Malaysia. The other factors that were highlighted in this study include low cost of doing business, and competitive conditions for attracting companies to avail MSC status. The study also presents the initial hindrances faced by the ICT companies i.e., accessibility issue for city clients and workers, high rental rates of the property and slow development of supportive public amenities in MSC.

Keywords: ICT; Knowledge based economy; multimedia, super-corridor, decentralization

Introduction

The high living standards of Malaysia have generated many manufacturing and business employment opportunities in global business industry. The growth of towns has accelerated as a result of high population growth. The importance of effective ICT to address demands of the business community has increased many folds. Information technology has become strongly established as a supporting tool for many professional tasks in recent years.

Over the last two decades, the importance of the ICT in business practices has increased significantly. The world is indeed becoming a smaller place; more and more companies are operating across geographic and cultural boundaries. New communication and distribution technologies, and the removal of trade and investment barriers, have created truly global markets with global competition for goods, services and capital, and even corporate control.

Several studies have suggested that the office location research could be categorized into two main groups. Firstly, it covers the central location tendency of offices, and secondly, it deals with the likely effects of telecommunications technology on the spatial pattern and distribution of offices (Kutay, 1986). The result of globalization exposing regional markets to a wider spectrum of competition as well as providing possibilities for urban centres to shift from the more restrictive central place orientation of economic interaction to one based on international networks (Goddard, 1990).

In such context, city administrators, educational institutions, e-entrepreneurs, the information technology (IT) industry, community developers, planners, and urban designers, among others, have come together to reinvent locales as more liveable, sustainable and vibrant, world-class, digitally connected communities. The rallying cry of these coalitions is often because of urban sprawl and its consequences, including central city decline; lack of affordable housing; long commutes; traffic gridlock; fast-disappearing open space; environmental pollution; and automobile-dependent, mass-produced, boring development patterns (Katz, 2002; Henton and Walesh, 1998).

Therefore, the questions of the office locations effected by ICT are appropriate conventional and thus, this paper explores the factors effecting the movement of information and communication technology (ICT) companies towards the Multimedia Super Corridor (MSC), Malaysia, hypothesizing that "Due to advanced ICT infrastructure and incentives provided by the MSC, global as well as local business companies are moving from the city centre towards the MSC in order to get maximum output of the advanced infrastructure and greater incentives offered by the MSC development policies".

It also focuses on, how the development of infrastructure, in addition to comprehensive policies has attracted the companies to physically move towards the MSC thus, forming cluster of information and multimedia intensive companies in a designated area. The study objectives include Identification of the effects of technology on decentralization of ICT companies, the driver for the decentralization, the factors of decentralization of ICT companies from the CBD of Kuala Lumpur to MSC area, analysis and assessment of the effectiveness of existing Bill of Guarantees offered by MSC and finally the recommendations for future policy direction.

Factors Influencing the Choice of Office Location

One of the significant factors in locating office facilities in the periphery of a city or in suburban locations is the occupancy cost. In addition to space adaptability, operating expenses that are absorbed by the tenant are closely associated with such costs (Moss, 1999). In addition, the basic cost of labor can be reduced with intensifying usage of ICT, given that the sophisticated technology is in a position to improve the quality and efficiency of labor, and enable speedy and cheaper flows of information for both firms and individuals to operate from any location

(Prud'homme, 1992; Stutz and de Souza, 1998). Although the increased availability of telecommunication technology and the reduction in its expense has been important, the driving force toward the globalization of back office services are demographics, rental cost and labor costs (Dickstein, 1999).

Moreover, entry-level wages in the computer field are rising faster than inflation in the developed world with high job turnover (Goff, 1990). In case of software development companies, recognizing the shortage of programmers and fearing an escalation of labor costs as companies compete for qualified programmers; many companies have started to locate their software development and maintenance facilities in Ireland and in developing countries as India to take advantage of the lower wages (Ludlum, 1987; Tagare, 1989; Goff, 1990; Brandt, 1991).

Studies by Stutz and de Souza (1998) and Sassen (2000) also show that use of ICT has been seen by multinational corporations (MNCs) as the most important element to increase their competitive advantage and to support a business unit's competitive strategy, and therefore performance and productivity. ICT allows an efficient decentralization of corporate activities by providing speedy communication lines and streamlining product designs, processing and analyzing of business information about innovations, markets, competitors and environmental changes, hence sharpening the competitive edge of MNCs in the market place.

Furthermore, Local or regional disconnection has emerged alongside an uneven global interconnection in the production of urban space (Wong, 2003). The reliability of connectivity with the global telecommunication network and the band-width remain an important factor for the information incentive firms using high level of ICT's. Mitchell (1995) puts this notion as; "low baud-rate connection puts you out in the boonies, where the flow of information reduces to a trickle, where you cannot make so many connections, and where interactions are less intense…. Since the cost of high bandwidth cable connection grows with distance, information hotspots often develop around high-capacity data sources. Much as oases grow up around well".

The comparative advantages of dense urban areas are not limited to high-bandwidth access. They extend to the deployment of new information technologies in general, since most cities that have a high concentration of information industries such as finance, insurance, and real estate are also high-use telecommunications customers (Guldman, 1994).

Much more than low cost the main advantage of shifting business operations to low-cost countries comes from a combination of lower wages and the improvement in the quality and price of international telecommunications. A report by HSBC says that the cost of a one-minute telephone call from India to America and Britain has fallen by more than 80 percent (Jebson, 2003).

State and local taxes can also influence the cost of a particular location; however, numerous studies have pointed to the limited role of state and local tax rates in determining corporate location (Netzer, 1985) but in the near past it has been seen that countries seeking business being off-shored are offering exemption of income tax to get more benefits of the capital investment and thus getting advantages in the job opportunities and development of overall economy on a city and regional basis (Campos, et al 2003).

ICT technologies are destined to change the spatial urban scene. As the technologies will develop and become more sophisticated, the cities having the infrastructure that can meet the requirements of the information age will be the nucleus of the economic activities controlling the diverse operations anywhere in the world. In fact, because telecommunications have also facilitated the extension of market reach and thus, the rise of the multinational firm, cities with access to the most sophisticated telecommunication systems have a comparative advantage with regard to choice of information services. Front-office functions, reliant on direct client contact and using technology to coordinate dispersed operations, are likely to become highly centralized in a small number of information-based cities (Moss, 1999).

Strong communications linkages help develop an overall culture of entrepreneurship, whether this is applied to social or economic ends. A vibrancy fostered by a local talent pool generates learning processes embedded within a community, and channels of external communication built to reach selected outsiders speed up knowledge and technology transfer. General transitions in the history of societies, cities and their economies are reflected in how cities develop and how urban planning is conceived. The form and the priorities of a city-making to develop a city’s assets are different under the era of labour-intensive mass production-based industrialization from those of high-technology-focused and knowledge-based development (Landry, 2008).

The comparative advantage of large metropolitan regions as the sites for new capital investment in telecommunications should allow information-intensive cities to maintain their economic strength as places where both face-to-face and electronic communications are affordable and accessible. Far from proving the unmitigated decentralizing force of technology, current events bear out Thomas Mandeville (1983) concluded that technology facilitated both centralization and decentralization of tasks and jobs. The development of Internet-related technologies was also having a profound effect on the headquarters of major financial firms by allowing a corporation’s headquarters office to exert a new form of control over their satellite offices (Stirland, 1997).

In this context, Ronald Abler predicted that advances in information transmission may soon permit us to disperse information gathering and decision-making activities away from metropolitan centers and electronic communications media will make all kinds of information equally abundant everywhere (Abler, 1970). Mulgan (1991) added further that cities were to be re-defined as a system for producing and switching information.

As the size and importance of a city is determined by the amounts and kinds of information flowing into and out of it, and by the way it is interconnected with other cities in the national information flow network (Abler, 1970). It is now widely argued that the increasingly pervasive applications of linked computer, media and telecommunications technologies constitute nothing less than a wholesale shift of our economy, society and culture. Social scientists regularly now talk of a new, emerging 'digital age', and 'information society,' or a 'network society' (Gosling, 1997; Castells, 1996). Such a transition is widely believed to be a new industrial revolution, a societal technological and economic shift across capitalist civilization of similar magnitude to the industrial revolution through which, every aspect of society is transformed (Graham and Marvin, 1996).

The heightened use of information technologies allows firms to centralize key executive and decision-making functions in a handful of central cities, while dispersing the routine, data-processing, and support activities to sites on the edge of large metropolitan regions. Telecommunication systems are not leading to the obsolescence of central cities, but are allowing the face-to-face decisions and transactions that occur in major financial capitals to serve geographically larger markets. The deregulation of the communication industry, combined with advances in new technology, presents a particularly important challenge for planners, developers, and managers of office space. Communication and information technologies are creating new choices in office location and new demands for office structures that can accommodate modern information systems (Moss, 1999) specially for planners it is quite evident that they have to adopt to how the new technologies are being absorbed in the current socio-economic setup of a city and how to plan according to the needs of the information age with better public policies and infrastructure in place.

The rush to build fiber optic systems by telecommunication companies in the United States resembled the rush to build railroads in the 19th century; as if, whoever builds the first integrated network captures much of the long distance business (Johnston, 1985).

Another important social impact of using computing and telecommunications technology for distributed work involves changes in land use patterns. A commonly held hypothesis is that distributed work will make it possible for people to move even farther from central sites than they currently live, possibly leading to a net increase in travel. Again, the empirical evidence (Nilles, 1991; Mokhtarian, 1994) has not borne out the hypothesis that distributed work will lead to fewer but longer commuting trips in aggregate, although no long-term evaluation has been made. A simple theoretical model based on economic location theory (Lund and Mokhtarian, 1994) suggests that even after optimal residential relocation occurs, total commute-miles traveled will generally be lower because of more widespread telecommuting, but more research is needed to refine such a model and to test empirically.

Thus, the leading factors effecting the choice of location by information incentive companies are identified as; infrastructure, area prestige, easy access to office location, connectivity, labour and operating cost, telecom tariffs, taxes, security, land cost and competitive condition for ease of doing business.

Knowledge Based Economy

According to Drucker (1993), this is the beginning of the knowledge society in which the basic economic resource is no longer capital, or natural resources nor labour, but is and will be knowledge. The twenty-first century is a century of knowledge economy or k-economy. The 21st Century is also being identified as the 'Century of Cities' and their economies as knowledge economies (Landry, 2000). Carrillo combined these two and identified the 21st Century as the "Century of Knowledge Cities" (Carrillo, 2006).

Malaysia started to lay the foundation for the knowledge-based economy in the mid-1990s, with the launching of the National Information Technology Agenda (NITA) and the Multimedia Super Corridor (MSC). It is now more than ten years that this technology region has been launched. The MSC strives to create an ideal IT and multimedia environment as well as a global test-bed to enable Malaysia to be in the mainstream of activities necessary to attract knowledge workers, techno-entrepreneurs and high-technology industries (Malaysia, 2001).

Technology and Regional Development in Klma

The Kuala Lumpur Metropolitan Area with its importance in national socioeconomic and urban development has been historically the city to be equipped with extensive telecommunication infrastructures meant for socioeconomic and administration activities. Kuala Lumpur is the capital of the nation, its economic catchments encompasses the entire country. It covers a total area of approximately 4,000 square kilometres. It is estimated that the population for Kuala Lumpur in 2000 was 1.42 million people. The per capita GDP for Kuala Lumpur during the period 1995 to 2000 rose from RM22,799 to RM30,727 (Note: at the time of writing , US$ 1 is RM 3.70 approx), an average annual growth rate of 6.1 percent which was more than twice that of the national average (Malaysia, 2003). This shows that, offices in KLMA enjoy more advance communication infrastructures and services than other major cities in this country and could have higher information and communication sophistication and utilization level, which might effect the decision to decentralize. Hence, offices in the city of Kuala Lumpur could be more adaptive towards ICT applications which might influence the office decision to locate outside city centre area.

The transformation of Kuala Lumpur and its wider urban region during the last decade demands greater critical scrutiny than it has so far attracted. Three issues in particular motivate this profile. First, theme is of Kuala Lumpur region as a “globalizing city”. Since the early 1990s, Kuala Lumpur has changed from federal capital to a “node” in global networks. It is this globalizing shift which forms an important focus on its profile. The second motivation concerns the nature of the development of the city, population increase, spatial expansion and economic growth over several decades that have changed its urban landscape. The third theme in the Kuala Lumpur area is its status as an urban region forming part of a broader Klang Valley urban region, planners and policy makers are now acknowledging the existence of a more extensive Kuala Lumpur Metropolitan Area (KLMA). The centralization of political authority, particularly within Kuala Lumpur Federal Territory, has made this the focus of national development project (Bunnell, et al., 2002).

The Multimedia Super Corridor (Msc)

MSC is well positioned as a cost effective, high quality location for knowledge based ‘hub’ activities. It is an initiative to create an integrated environment with all unique elements and attributes needed to build a global multimedia hub. Its physical location is in a green-field corridor of 15 km width by 50 km length, stretching from the Kuala Lumpur City Centre (KLCC) to the Kuala Lumpur International Airport (KLIA). The MSC houses 5 Cyber cities namely; Cyberjaya, Technology Park Malaysia (TPM) Kuala Lumpur City Centre (KLCC), Universiti Putra Malaysia – Multimedia Technical Development Corporation and Kuala Lumpur Tower with ample space available for business setup (see Table 1). Cyberjaya is the nucleus of the MSC and is the home of the nation’s high-tech ICT industry. Many large global companies have established their presence here, serving its Asia and even global business process. Attributes such as political and economic stability and pro-business Government contribute to attract even more ICT investments (MDC, 2003; MDC, 2004; MDC, 2008).

Table 1: Office Space Distribution in Cyber Cities within the MSC

Cybercities	Area	Current Office Space Available
Cyberjaya	753,496,553 ft^2	3,030,600 ft^2
Technology Park Malaysia	9,978,590 ft^2	1,513,245 ft^2
Universiti Putra Malaysia-Multimedia Technical Development Corporation	1,690,179 ft^2	137,874 ft^2
Kuala Lumpur City Centre	4,104,404 ft^2	2,360,000 ft^2

Source: MDC (2004, 2008).

MSC status companies are largely made up of small and medium sized companies with paid-up capital of less than RM 500,000. The technological focus of these companies is in all areas of ICT ranging from software development to wireless technologies. The total number of employees to be by the end of 2012 was projected to be 75,000 people (MDC, 2008).

Many companies with national and global operations are beginning to consolidate segments of its internal operations such as IT support, human resource, financial processing and customer management from multiple locations into a single hub serving many nations. Improving global communication facilities, desire of companies to achieve operational efficiencies, effectiveness and a constant drive to save on costs, further encourages this phenomenon. A.T. Kearney's Top 10 rankings of countries for offshore location attractiveness are as follows (Kearney, 2009):

Table 2: Top 10 ranking of countries for offshore location attractiveness

Rank	Country	Financial Attractiveness	People Skills & Availability	Business Environment	Total Score
1	India	3.13	2.48	1.30	6.91
2	China	2.59	2.33	1.37	6.29
3	Malaysia	2.76	1.24	1.97	5.98
4	Thailand	3.05	1.30	1.41	5.77
5	Indonesia	3.23	1.47	0.99	5.59
6	Egypt	3.07	1.20	1.37	5.64
7	Philippines	3.19	1.17	1.24	5.60
8	Chile	2.41	1.20	1.89	5.50
9	Jordan	2.99	0.91	1.59	5.49
10	Vietnam	3.21	1.02	1.24	5.47

The weight distribution for the 3 categories is 40:30:30. Financial attractiveness is rated on the scale of 0-4 and the categories of people skills and availability and business environment are rated on the scale of 0-3.Source: (A.T. Kearney, 2009)

According to this report Malaysia has been ranked as the third most suitable country for outsourcing business after India and China (Kearney, 2009).Companies with a special status are entitled to enjoy the incentives and benefits backed by the Bill of Guarantees which commits the following to the companies:

a) Provide a world-class physical and information infrastructure
b) Allow unrestricted employment of local and foreign knowledge workers
c) Ensure freedom of ownership by exempting companies with MSC status from local ownership requirements
d) Give the freedom to source capital globally for MSC infrastructure and the right to borrow funds globally
e) Provide competitive financial incentives; include Pioneer Status (100% Tax exemption) for up to ten years or an Investment Tax Allowance for up to five years, and no duties on the importation of multimedia equipment
f) Become a regional leader in intellectual property protection and cyber laws
g) Ensure no censorship of the internet

h) Provide globally competitive telecommunication tariffs

i) Tender key MSC infrastructure contracts to leading companies willing to use the MSC as their regional hub.

j) Provide a high-powered agency to act as an effective one-stop super shop.

Research Methodology

Through the above literature review, the 10 leading factors affecting the choice of location by information incentive companies were identified. The factors included the infrastructure, area prestige, easy access to office location, connectivity, labour and operating cost, telecom tariffs, taxes, security, land cost and competitive condition for ease of doing business. The questionnaire survey was restricted to the ICT companies who were located in MSC area. The selection of firms has been limited to firms from the economic sectors, namely banking, finance and insurance sector; real estate and property; information technology (IT) and telecommunication sector, as these are the strongest growing economic sectors in the urban economy, for which the survey has been targeted at large, small and medium size private firms which have taken up the MSC status (Department of Statistics, 1998). This is due to the application of significant information and communication technologies in these companies, which contributes to the nation's ICT growth and advancement. The respondents of the survey were targeted at firm owner, director, managers or senior executives located in KLMA. For sampling design, the method of stratified random sampling was used to select samples from the population which was of a total of 71 out of which, a response of 30 (42.3%) was gathered. Ranked data was further gathered on the response to the bill of guarantees offered in the MSC policy.

Further more, in this study, for the testing of hypothesis, the statistical technique of Mann-Whitney U test has been used. It is a simple test of finding a significant difference between two sample sets of data. It tests whether the two sets of data differ from each other on ranked scores. It is a non parametric test, which means it is not restricted by any assumption about the nature of population from which the sample has been taken.

Results and Discussion

Response is gathered on the driver to move the front-office and back-office location. According to the analysis of the response; better infrastructure, connectivity and low taxes has been found to be the major attraction for companies to move their office location The overall population of 30 had a front-office set up but only 12 out of the total also had a back-office in addition to the front-office (See Table 3).

Table 3: Driver to move office from existing location

Driver for Shift	Front-office			Back-office		
	Yes	No	Yes - (%)	Yes	No	Yes - (%)
Better infrastructure	21	9	70	11	1	91.6
Area Prestige	10	20	33.3	3	9	25.0
Easy Access to Office	9	21	30.3	5	7	41.6
Connectivity	19	11	63.3	8	4	66.6
Labour Cost	7	23	23.3	4	8	33.3
Low Telecomm. Tariffs	13	17	43.3	4	8	33.3
Low Taxes	18	12	60	7	5	58.3
Security	7	23	23.3	2	10	16.7
Land Cost	11	19	36.7	6	6	50
Competitive Conditions	9	21	30	3	9	25
Other	1	29	3.3	2	10	16.7
						n=30

Better Infrastructure

Developed infrastructure is vital in selection of front and back office premises. Built-up infrastructure with guarantee of reliable services is backbone to the ICT based businesses as they rely more on virtual connectivity than face to face meetings. Better infrastructure has been ranked at the highest of 70% for showing that, for technology based companies it remains the priority as they completely depend on technology itself to conduct their businesses.

Another response has been gathered on the same factors as drivers to shift back-office location based on the division of offices into front and back offices has concluded to the same response as shifting of office locations but infrastructure accumulating to over all 91.6% has been of the highest attraction as back offices rely on stability of services reliability for connectivity to the front offices located in different regions.

Connectivity

The second highest response has been to the connectivity which accumulates to 63% by the front office and 66.6% for the back office because the information incentive companies need to have high level of connection reliability to other locations in order to send and retrieve the latest data from and to the back-offices world wide.

Taxes

The third most important factor influencing the office location decision has been the low taxes, as MSC is mostly build up of SMEs it was evident that such companies have to cut down on their costs to remain competitive and low taxes are quite beneficiary to them in this regard, specially as BOG guarantees up to ten years of tax holidays for companies choosing MSC for their businesses.

In response to the BOG offered in MSC policy, it was visualized that in addition to tax exemption, world class infrastructure competitive telecom tariffs, unrestricted employment of foreign workers and freedom of ownership has been ranked above the mean by foreign companies, while MDC as one stop super shop, Infrastructure tenders to be given to MSC companies and freedom to source capital globally has been of the interest of locally owned companies (Figure. 3).

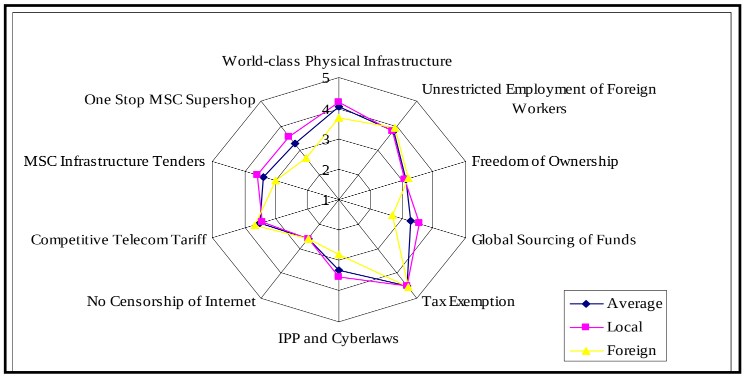

Figure 3: Response of foreign and local companies to MSC's Bill of Guarantee

By the data gathered it was clearly seen that with the passage of time and outsourcing of business to the cheaper locations world over, the attraction to the incentives offered has differed. As companies taking up the MSC status before five years has ranked tax exemption offer in bill of guarantees as high attraction, later on, for the companies choosing to locate in the MSC area it was not that interesting, while global sourcing of funds and freedom of ownership by exempting foreign companies from local ownership requirements and freedom to source globally has become of more high a choice for the new companies as compared to older companies located in the area. It also concluded that more companies have located in the MSC within last five years then before that time (see Figure 4).

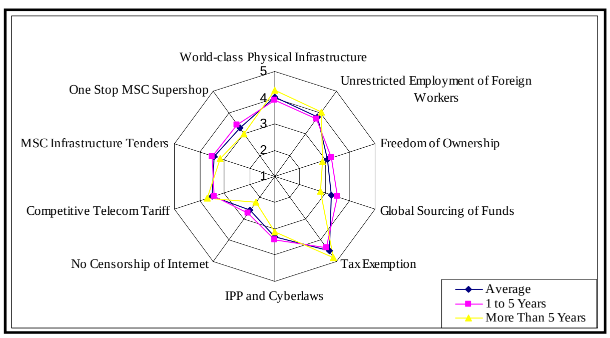

Figure 4: Response of companies to MSC's Bill of Guarantee by time of inception.

It was also observed that companies located in the MSC area highly rely on internet as the basic mode of communication, that is being Internet and Extranet as extranet depends on internet it results in 90% of the total. Only one company responded to have its own independent wide area network while two companies were reported to be using there own communication system. This shows confidence of the companies on the available connectivity present in the MSC as being 99.9% reliable (NASSCOM, 2003) (see Table 4).

Table 4: Mode of Communication in Offices

Mode of Communication	Frequency	Percent
Wide Area Network	1	3.3
Personal Communication system	2	6.7
Internet	21	70.0
Extranet	6	20.0
Total	30	100.0
		n=30

Overall, satisfaction on tax exemption 86.7%, world class infrastructure provision 66.6% and unrestricted employment of foreign workers 63.3% has proven to be the major attraction for companies choosing to locate in the MSC area. This data concludes it clearly that companies locating in the MSC are attracted to it the comprehensive Bill of Guarantees offered in its policy of development. Thus converting the area into a hub of knowledge based economic cluster.

Table 5: Ranking percentages of the most attractive incentives offered in MSC Policy

Ranking		Tax Exemption	World Class Infrastructure	Employment of Foreign Workers
		Percent	Percent	Percent
1	Highly Recommended	66.7	43.3	33.3
2	Most Recommended	20.0	23.3	30.0
3	Moderate Recommended	10.0	30.0	23.3
4	Less Recommended	3.3	0	10.0
5	Not Recommended	0	3.3	3.3
	Total	**100.0**	**100.0**	**100.0**
				n=30

Hypothesis Testing

The Mann-Whitney U test is to test significance of difference between the medians of two samples. The null hypothesis is that the two samples are taken from the same population and there should not be a consistent difference between the two sets of values while the alternate hypothesis is set as that the companies have not favored the bill of guarantees offered in MSC policy and it has no significance. The population is then divided into two groups according to the time duration located in the MSC consisting of companies located there, longer than five years and companies located less than five years and then been tested on the hypothesis.

The sample has been distributed into the two groups according to the time of location in the area. This was to understand the difference in response of companies taking up the MSC status in the initial development phase and later on when it was well into development. This was expected to show some difference in the choice of incentives offered in the MSC policy as driver to shift office from existing location overtime.

Table 6: Summary of Mann-Whitney U test

Bill of Guarantees	Mann-Whitney U @ Critical Value (62.000)	Asymp. Sig. (2-tailed)
World Class Physical Infrastructure	81.000	0.373
Unrestricted Employment of Foreign Workers	80.000	0.360
Freedom of Ownership	89.000	0.613
Global Sourcing of Funds	63.500	0.094
Tax Exemption	76.000	0.205
IPP and Cyberlaws	89.500	0.630
No Censorship of Internet	74.000	0.231
Competitive Telecomm Tariffs	77.000	0.231
MSC Infrastructure Tenders	86.500	0.537
One Stop MSC Super shop	78.000	0.307
		n=30

Testing of hypothesis has shown a significant difference in two variables of tax exemption and global sourcing of funds at 95 percent reliability level as been summarized in Table 6. As tax exemption was the top choice for taking up MSC status by the companies locating in the area before five years of time which has become less important overtime and it was envisaged that companies taking up the MSC status now, are valuing the allowance of global sourcing of funds and to borrow funds globally in addition to other incentives offered. Therefore, it is concluded as that the choice to relocate overtime is proportional to overall competition in global market for which a long term policy is not a recommendation but there is a need of change in policies at a certain interval of time according to the market politics.

Besides the Bill of Guarantees it has also been suggested by the respondents that the rental rates for property are higher in the MSC area. Although, being cheapest in the region they are equivalent to any prime location in the city of Kuala Lumpur and also that space available for rent is quite limited and there is not much choice. In addition, the lack of public amenities such as; public transport, residences, restaurants, public telephone booths, etc. is needed for people working in the MSC area.

Conclusion

It has been observed that there has been a difference in attraction of different factors in different time frames on choice of location to decentralize office activities in the case of MSC supporting the ever evaluating process of policy making. The infrastructure provided in the MSC is one of its kind in the region having 99.9 percent reliability (Nasscom, 2003), and thus making Malaysia the third most suitable place for business outsourcing (Kearney, 2009). Although the bill of guarantees offered in the MSC policy is quite comprehensive but overtime, same incentives have been offered in many other countries as it has become a need for developing companies to retain information incentive companies in order to remain competitive in the global arena. It has been found that there is a significant need to develop more office space on lower rental basis as well as development of cheap and convenient way of transport, provision of residence for workers in MSC and development of basic public amenities. It can be said that MSC progress has been up to the mark since its time of inception and that there is a great potential in this corridor to contribute towards Malaysian vision of converting its economy into knowledge based economy and thus to attain sustainability.

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A flippant, frivolous man may ridicule others, may controvert them, scorn them; but he who has any respect for himself seems to have renounced the right of thinking meanly of others.

Goethe

ARTICLE

A Comparative Study of the HR Professionals' Effectiveness in the Banking Sector of Pakistan

Aqeel Ahmad
COMSATS
Institute of Information Technology, Abottabad, Pakistan

Mohmad Yazam Sharif
University Utara Malaysia
Sintok, Kedah Darul Aman, Malaysia

Abdul Rashid Kausar
School of Business and Economics
University of Management and Technology, Pakistan

Abstract

The aim of this study is to examine the relationship of human resource (HR) professionals' competencies, HR professionals' willingness (HRPW) and HR professionals' effectiveness (HRPE). The Human Resource Competency Study model is used in this research, which is modified to include 'Willingness' as an important competency. The study is undertaken using data drawn from the line managers of two large Privatized Banks (PB1) and (PB2) of Pakistan. It is hypothesized that all HR professionals' competencies are equally and strongly related to HR professionals' effectiveness which is theoretically associated with organizational performance. The study finds that the HR professionals' competencies including HR social competencies (HRSC), HR technical competencies (HRTC) and HRPW have a highly significant correlation with HRPE. However, social competencies are more significant in their relationship with HRPE than the HRTC and HRPW in both PB1 and PB2. Within the sub competencies of HRSC the 'Credible Activist' (in case of PBP1) is the most significant and strongly correlated competency with HRPE. While, the 'Culture and Change Steward' (in case of PB2) is the most significant and strongly correlated competency with HRPE. Furthermore, within the sub competencies of HRTC the 'Operational Executor' (in case of PB1) and 'Business Ally' (in case of PB2) have a stronger relationship with HRPE than others. The study finds the HR professionals' competencies are lacking in the PB1 in Pakistan as most of the HR professionals' competencies as well as their effectiveness were found to be below the expectation levels of the line managers. The study also finds the HR professionals' competencies, willingness and effectiveness are generally on moderating side (in case of PB2). This indicates that the HR professionals' competencies, willingness and their effectiveness need to be improved further which will ultimately lead to the better organizational performance.

Keywords: HR Professionals' Competencies, HR Professionals' Effectiveness, Willingness, Bank

Introduction

Due to an economic shift from agriculture to industrial to services and now to information, the role of the human resource (HR) function in organizations has changed. HR has become central to business competitiveness. By virtue of the multiple managerial roles, the HR function has become strategic, operational, as well as process and people oriented (Lemmergaard, 2009). In the past HR was considered to be a staff function where its role was considered as an administrative and HR operations were often regarded as a commodity. It has all changed and in recent time HR's primary role is to influence workforce mindset, skill-set and work-related behavior for formulation and implementation of organizational strategies and the alignment of Human Resource management (HRM) with the strategic needs of an organization (Beatty, *et al*., 2003; Bal, 2011).

In the new era of 21st century, the HRM function is experiencing unprecedented changes. Lawler and Mohrman (2003) argue that human resources are emerging as one of the key resource within the organizations. This paradigm shift in resources concerning the value of human resources will, therefore, generate new opportunities for the HR function and would help to develop a broader role in the organization's operation. Ulrich *et al*., (2009) have reiterated that business challenges have become more complex because of globalization of markets, products and services. The changes in information and communication technology have also created more competition because of customers and suppliers' awareness and thus demand higher level of skilled workforce in the organization. Furthermore, this dynamism is occurring in an environment where products, markets and services are highly globalized. Therefore, giving a major impetus to the need to bring about changes in the required skill and capabilities set of the organization's HR. In other words the effect of this setting of changing environment, shifting competitive landscape enjoin upon the organizations to seek to develop new competencies and HRM practices as well as the modify the role of HR professionals from functional to strategic partners.

The purpose of this paper is first, to understand the relationship between HR professionals' competencies with HR professionals' effectiveness. Secondly, the paper investigate those competencies which the employees observe as the most significant and will require immediate attention. The paper has made the choice to seek perception of employees with regard to competencies derived from the Ulrich *et al*., (2007) model. The choice of this study is the banking sector of Pakistan. This sector is significant in view of its current growth potential. Further, over the past decade the reforms initiated by State Bank of Pakistan (SBP) have identified the lack of competencies of HR professionals' as an obstacle in the face of growth potential of the banking sector.

Banking Sector of Pakistan and Human Resource Management

Researchers have claimed that in the 21st century, the banking sector will play a critical role in the economic wellbeing not only of the country but the world. Khan (2004) suggest that the banking sector is one of the most sensitive businesses all over the world and plays a significant role in a contemporary world of money and economy of any country (Bollard *et al*., 2011) and Pakistan is no exemption. To be more explicit about the role a banking sector plays in their economy Abbas and Malik (2010) suggest that banking sector of an economy generally perform three roles which include the facilitation of payment system, mobilization of savings, and allocation of funds to stakeholders like government, investors, consumers, and business community who can utilize them for the generation of economic activities. On the other hand, Rehman (2011) reports that banks indulge in catering to the needs of government, public sector organization and private businesses. All the above lead us to conclude that the banking sector, therefore, plays a vital role in the developmental activities in terms of offering financial resources to the public and private sector for achieving the developmental goals.

HRM has not been well-established in the banking sector of Pakistan even though Khan (2004) states that Pakistan has a well developed banking system. The SBP (2008) mentioned its report that the bankers believe the incompetent of HR professionals is the major barrier for growth of the Pakistani financial sector. Mangi *et al*., (2012) report that HR professionals are not capable to develop or perform good HR practices which eventually leads to the employees' dissatisfaction and they are unable to perform what is expected from them. There is enough room for banks to improve cost efficiency, which can be acquired by corrective measures to improve further HRM practices, best choice for asset portfolio and reducing in Non-performing loans (Bukhari, 2008; Abbas & Malik, 2010; Khan *et al*., 2011).

Table 1: Non-Performing Loans of PB1 and PB2 of Pakistan
(NPLs in Rupees Billion)

Years	2006	2007	2008	2009	2010
Non-Performing Loans (PB1)	26.92	24.59	36.08	42.30	44.80
Non-Performing Loans (PB2)	8.57	10.73	18.27	23.24	23.90

Source: Economic Bulletin (2011)

The data shows (Table 1) that the Non-Performing Loans (NPLs) in term of percentage have been growing in large leading Private Banks (PB1 and PB2) in Pakistan. From the last few years the NPLs is increasing attention in Pakistan and also the hampering the profitability of the banks. High amount of NPLs in the banking sector of Pakistan is attributed to the ineffectiveness of HR professionals and needs to be investigated (Hussain, 2008). This attribute to the HR practices including hiring of managers on political basis and under the influence of those forces which provided them the job to the detriment of professionalism, poor customer services and a high bureaucratic approach which leads to inefficiency of Pakistani banking sector (Ahmad *et al*., 2012). On the other hand, Janjua and Malik (2011) argue that banks reduce their NPLs through improve their HRM effectiveness. The HR professional is responsible for employee's performance because he is involved in recruiting, retaining and rewarding. While, Reilly (2012) suggest being competent HR professionals they need greater emphasis on hiring the right talent in place to overcome the obstacles of the business performance. If performance of the bank officers has to be improved as required by strategic consideration of banking sector in Pakistan to reduce NPLs, it has a relevance and relationship with HR professionals' competencies and their professionals' effectiveness.

Significance of the Study

This study attempts to provide new insights into the body of knowledge and practice of HR professionals' competencies in the banking sector of Pakistan. HR professionals' competencies in the banking sector still require improvement in Pakistan which can enable them to hire, develop, motivate and retain the employees. These employees when properly trained and motivated can help to lend money prudently and reduce the NPLs effect successfully. These improvements in HR practices will help the Pakistani economy, which is suffering from many other political & security challenges. It can eventually result in helping Pakistan stand on its own feet financially. This study may also be taken as a benchmark for the banking sector of other developing countries like Bangladesh and Sri Lanka. Moreover, this study will be a significant initiative in the development of the HRM as a profession in developing countries like Pakistan and as such will contribute to the HRM body of knowledge of Pakistan and especially of South Asian Association for Regional Co-operation (SAARC)[1] and Developing-8 (D-8)[2] countries because of similar economic development indicators. Finally, results of this study on HR professionals' effectiveness can relate to the improvement of the banking performance and the overall economic development of Pakistan.

Literature Review

The area of HRM has passed through a long path from its humble beginning. The historical trends of the HRM can be seen from various perspectives such as the development of HRM as professionals and scientific discipline as an aid to management, as a political and economic conflict between management and workers and as a growing movement of workers' involvement which is influenced by developments in industrial and social psychology (Schuler, 1992; Pucik, 1996; Francis & Kegan, 2006).

HR Professionals' Effectiveness

Many scholars argue that the HRM effectiveness is a very vast construct. Many studies on HRM effectiveness highlighted that, how HR professionals doing their job in the organization and how their functions aligned to foresee the organizational performance (Huselid, 1995; Boxall, 1996; Baron & Kreps, 1999; Wright *et al.,* 2001). To evaluate the HRM effectiveness started with the research of Tsui (1984) and recommended that the structure of personnel department effectiveness need to be examine. Rastogi and Dave (2004) argue that effectiveness is best seen as something the HR professionals create from a situation. Moreover, he meets the goals in every share of the activities of organizations. Currently effectiveness of HRM is a critical component in the development process of developing countries. Although, HRM has come under strong criticism in many developing countries with their effectiveness thrown into significant reservation (Bennell, 1994; Budhwar, 2001; Praha, 2004; World Bank, 1994).

Kane and Crawford (1999) reported that one of the barriers of effective HRM is the lack of competent HR staff. The staff of HR department is trying to find out the ways to contribute their organizations efficiently and effectively. Ruel *et al*., (2007) Emphasis that the basic factor for HR staff to be effective he or she should be competent then they can contribute for and add value to the organizations. The effectiveness of HRM is frequently talked about as HRM's contribution to an organization's output. The HR professional's competencies and their effectiveness have not been thoroughly studied in South Asia. Han, *et al*., (2006) argued that HRM as a management field is in its relatively early stages in Asia compared to the western countries. They have focused on various issues such as measuring the managerial effectiveness, examining the process of ensuring managerial effectiveness and building models of managerial effectiveness (Sharif *et al*., 2011). On the other hand, Shehzad (2010) argues effective HR department should

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[1] Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
[2] Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, Turkey

have the essential HR competencies to enhance the level of success and competitive advantage. Guest and Conway (2011) report that HR professionals' effectiveness even more important than the HR practices. HR professionals' competency is a necessary first step towards the HR professionals' effectiveness.

HR PROFESSIONALS' COMPETENCIES

Literature on competencies has expanded rapidly in the last two decades (Hollenbeck *et al*., 2006; Bartram, 2005; Hamel & Prahalad 1998; Boyatzis, 1982). Kurz and Bartram (2002) explain that competency is not a performance itself, but a list of capabilities, actions, procedures and responses available that facilitates a range of work demands to be met effectively by some employees better than others. Competencies are employees' personal characteristics, (knowledge, skills, behavior, attitude, aptitudes, and social motives) that are linked to effective and advanced performance in a job (Gangani *et al*., 2006; Dubois & Rothwell, 2004; Boyatizis, 1982). Ulrich *et al*., (2008) argue that competencies refer to the knowledge, skills and behaviors demonstrated by individuals in the course of getting their work done.

MODELS OF HR COMPETENCIES

Many surveys have been conducted around the globe on HR competencies and some notable ones are presented below in Table 2.

Table 2: HR Competencies

Sr. #	Name of Authors	Years	HR Competencies
1.	Kesler	1995	Performance Capabilities, HR Technical Know-How and Business Know-How.
2.	Yeung, Woolcock and Sullivan	1996	Core, leadership, HR expertise and Consultation.
3.	US office of Personnel Management	1999	Leadership, HR expertise, Consultation and Core.
4.	World Federation of Personnel Management Associations	2000	Individual style, organizational involvement, leadership and technical activities.
5.	Schuler and Jackson	2001	Business competency, Leadership and Managerial competencies, Change & knowledge management competencies and Professional and technical competencies.
6.	Schoonover	2003	Personal Attributes, Leadership & Management Competencies, HR Core Competencies and HR Role-Specific Competencies.
8.	Boyatzis	2008	Expertise & experience, knowledge and cognitive

Hr Competency Model

Ulrich (2007) and his colleagues has suggested six competencies domains as credible activist, cultural and change steward, talent manager/organization designer, strategic architect, business ally, and operational executor. This model is latest and more relevant to the current business environment and is directly related with the HR professionals in the 21st century. We look at HR professional competencies through the lens of Ulrich *et al*., (2007) model. The competency constructs divided / broken into social-based and technical-based competencies. The HR professional's competency model is depicted in Figure 2.

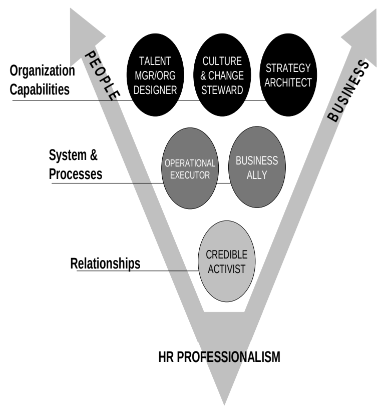

Figure 2: HR Competency Model by Ulrich *et al*., (2007)

Credible Activist

According to Grossman (2007) credible activist competency is the top indicator of HR professional performance. This competency is the heart of what is takes to be an effective HR professional. Ulrich *et al*., (2008) argues that the HR professional needs to be both credible (respected, admired, listened to) and active (offers a point of view, takes a challenges assumptions).

Talent Manager / Organization Designer

Attracting, developing and retaining talent are the most eminent functions of HR professional. According to Ulrich *et al*., (2008) the most effective HR professional those are master of both talent manager and organization designer. Talent management focuses on competency requirements and how individuals enter and move up, across, or out of the organization. Organization design more focuses on how an organization incorporates capability into the structure, processes, and policies that shape how an organization works.

Culture & Change Steward

Culture and change became a common buzzword in late 20th century. The 1980s and 1990s brought a dramatic era of downsizing, mergers, acquisitions, and restructure for many organizations. Culture & change has been acknowledged as an important influential factor in examine performance of the organizations (Wilkins & Ouchi, 1983; Marcoulides & Heck, 1993). Ulrich *et al*., (2008) argues culture has been important feature in HR competency studies since

1997. HR professionals need to recognize, articulate and help shape an organization's culture to make change happen. Culture is a pattern of activities more than a single event. As steward of culture, HR professionals respect those aspects of the past culture that should be respected, at the same time helping to shape a new culture that will facilitate organization success.

Strategy Architect

Lawler and Mohrman (2003) found that HR professionals who have desired to be strategic partners must have understanding of business strategy and ways to support its implementation. Ulrich *et al*., (2009) argues HR professionals must thoroughly master the strategic architecture of the business in which they work. The need an in-depth appreciation of the business portfolio and what makes each business distinctive in customers' eyes. HR professionals must understand the business strategy and align HR practices with it. This includes being able to identify the problems central to the business strategy, recognize marketplace trends and their impact on the business, and translate the strategic direction into annual business and HR initiatives.

Business Ally

Business related competencies enable HR professional to understand how business considerations unique to a firm can create firm-specific HRM needs (Schuler, 1992; Walker, 1992). While Heffernan and Flood (2000) reports that one new and emerging human resource theme is that competencies and effectively performs their HR practices in helping organizations cope with the changing environment and need to integrate and organization's HR strategy and its business strategy. According to Caudron (2003) business knowledge is considered extremely very important for HR professional. Ulrich and Brockbank (2005) stated that HR professionals master the knowledge of external realities of today's business environments. They must be fully literate how they can add value for their investors, commercial customers, internal customers like managers and employees. Therefore HR professionals are required to become active players and partners of business and develop human abilities and organizational capabilities that enable an organization to compete now and in the future.

Operational Executor

Not too many years ago, day-to-day activities and policy issues were the prime responsibility of the "personnel" department. Personnel department manage the paperwork, employee hiring, firing, paying and promoting. Operational implementation was the name of the game. The personnel department emphasized by focusing on the terms and conditions of work and running the administrative systems to assist the employee to perform their duty properly (Ulrich *et al*., 2008). HR professional as an operational executor is responsible for HR procedures need to be documented and implemented. HR professional's competency as an operational executor to carry out the operational aspects of managing employee and organization. In addition, employees need to be hired, trained and paid etc. HR professional is accountable to make sure that these fundamental needs are efficiently met (Ulrich *et al*., 2009).

Hr Professionals' Willingness

The word 'Will' is associated with intrinsic motivation to be effective or not. Smith and McLaughlin (2004) argue that if 'will' is combined with employees' competencies and capabilities, then personal performance will go up. If HR professionals lack the willingness and motivation to contribute their knowledge and expertise, then he may not be effective. One way by which HR department can add value to the organization is that HR professionals be willing to actively contribute to HRM strategies and their implementation. This paper plan to examine the effect of willingness on the HR professionals' effectiveness.

Relationship between Hr Professionals' Competencies,
Hr Professionals' Willingness and Hr Professionals' Effectiveness

The research of Whittaker and Marchington (2003) reports that line manager express their concern that lack of willingness from HR professionals during the executing of an HR practices can affect their overall effectiveness. Huselid (1995) argues that willingness is a necessary condition to perform effectively. He advocates that the performance of even the best employees will decrease if they are not willing / motivated to perform their duties. HR professional may / can perform effectively if they are competent and willing. According to Brockbank (1999) HR professional have to obtain the competencies if they desire / willing to become highly effective. While Ulrich and Grochowski (2012) claim that HR professionals' willingness is one of the best ways to make the HR professional effective. The one way a human resource department can add value for the organization, if HR professionals be willing to actively contribute to HRM strategies implementation. HR professional be willing to actively develop the skills set they need in order to become effective.

Theoretical Framework

The research model shown in Figure 3 includes the three following predictors to assess and their impact on HR professionals' effectiveness: HR professionals' social competencies, HR professionals' technical competencies and HR professionals' willingness. HR professionals' effectiveness ratings would be collected from line managers. Since these groups were the internal HR customers, they were believed to be the right people and the knowledgeable people with the most to say about HR professionals' effectiveness.

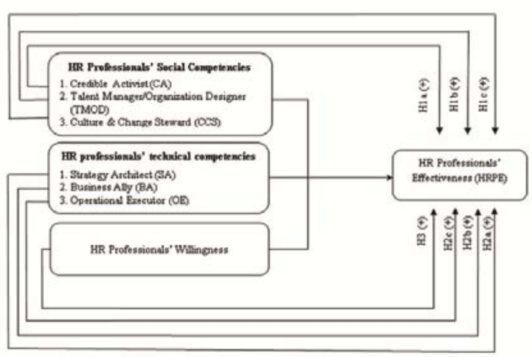

Figure 4: Research Model for Present Study

Based on the above theoretical model the following hypotheses are proposed.

Hypothesis 1: HR professionals' social competencies (H1) as defined CA (H1a), TMOD (H1b) & CCS (H1c) have a positive relationship with HR professionals' effectiveness as perceived by line managers.

Hypothesis 2: HR professionals' technical competencies (H2) as defined by SA (H2a), BA (H2b) & OE (H2c) have a positive relationship with HR professionals' effectiveness as perceived by line managers.

Hypothesis 3: HR professionals' willingness has a positively relationship with HR professionals' effectiveness as perceived by line managers.

Data Collection And Analysis

A cross sectional survey method is used for the present study and the questionnaire used draws on the previous researches (Sharif & Ahmad, 2009; Ulrich *et al*., 2007 and Han *et al*., 2006) and is adapted through appropriate modification to align with the Pakistani context which helps establish the ecological validity and reliability of the instrument. The questionnaire is make up of three parts namely; Part I) Personal information of the respondents and background section with 5 items; Part II) The HR professionals' effectiveness as perceived by the line managers and contains 11 items; Part III) HR professionals' competencies and HR professionals' willingness as perceived by the line managers comprise of total 65 items. The survey questionnaire was distributed using snowballing technique with the respondents being the individual manager (permanent full time) in two large local privatized banks in Pakistan. Before sending the final draft of the questionnaire, a pilot test was conducted to ensure the reliability and validity of the content measurement scale. Therefore, the overall Cronbach Alpha of the instrument is 0.985 and the entire scale variables used in the research instrument fall within acceptable limits.

Respondents Profile for the Study

This section describes the demographics of the respondents who participated in this study. The individual characteristics of the respondents such as designation, educational qualification, age, years working in the banking sector and gender are presented in Table 3 below.

Table 3: Profile of the Respondents

Variables	Category	Frequency (PB1)	Percentage (PB1)	Frequency (PB2)	Percentage (PB2)
Designation	Branch Manager	10	33.3	15	31.9
	Operations Manager	12	40.0	16	34.0
	Customer Relations Manager	5	16.7	7	14.9
	Credit Manager	3	10.0	9	19.1
Highest Qualification	MS/M. Phil	3	10.0	1	2.1
	Masters	23	76.7	35	74.5
	Bachelor	4	13.3	11	23.4
Age	Less than 30 Years	4	13.3	12	25.5
	30-40 Years	8	26.7	28	59.6
	41-50 Years	7	23.3	5	10.6
	More than 50 Years	11	36.7	2	4.3
Years Working in the Banking Sector	1-3 Years	2	6.7	6	12.8
	4-6 Years	2	6.7	15	31.9
	7-10 Years	6	20.0	16	34.0
	11-15 Years	4	13.3	5	10.6
	More than 15 Years	16	53.3	5	10.6
Gender	Male	24	80.0	33	70.2
	Female	6	20.0	14	29.8

Most of the respondents (40 % and 34 %) are Operations Managers of PB1 and PB2 respectively. They are responsible for managing the day to day affairs in their branch, (33 % PB1 and 32 % PB2) are the Branch Managers. Customer Relation Managers as well as Credit Managers accounted for 16.7 % and 10.0 % respectively in PB1. In case of PB2 the Credit Managers are 19 % and Customer Relation Managers are 15 %. With respect to the respondent age in PB1, majority that is 36.7 % of the respondents are more than 50 years of age while those between 30 to 40 years of age are 26.7 % and between 41 to 50 and less than 30 years are 23.3 % and 13.3 % respectively. In case of PB2 the majority that is 59 % of the respondents are between 30 to 40 years while those who are less than 30 are 25 % and between 41 to 50 and more than 50 years are 16 % and 4 % respectively. In PB1 53.3 % respondents have more than 15 years work experience in the banking sector and 20 % have served for 7 – 10 years while those between 11 to 15 years working experience are 13.3 %. On the other hand, in PB2 34 % respondents have between 7 to 10 years work experience in the banking sector and 32 % have served for 4 – 6 years while those between 1-3 years working experience are 13 % and 11 to 15 and more than 15 years working experience are 10. % each respectively. Further as far as educational qualifications are concerned, almost 76.7 % of the respondents have a 'Master' degree with the remaining 13.3 % and 10 % hold Bachelor and MS/M. Phil degrees respectively. This reflects that highly educated people participated in this survey. 80 % of the respondents are Male while 20 % are Female respondents showing a good mix of gender contribution in the survey.

Table 4 shows the mean score and indicates the extent of respondent's agreement level with the various competencies constructs. The variables that underline the constructs are measured on a five point Likert scale of 1 – 5, where 1 represents "Strongly Disagree" and 5 "Strongly Agree". In this regard, any mean scores for the constructs that are below the midpoint (3.00) is considered by the respondents to be low and reflects a weakness in that competence.

Mean scores between 3.00 to 3.50 can be seen as indication of moderate level of competence, and the mean scores above 4.00 to 5.00 can be considered as an indication of strength in the competence area as perceived by the responding managers.

Table 4: Descriptive Statistics of the Variables

Constructs	Mean PB1	Standard Deviation	Mean PB2	Standard Deviation
HR Professionals' Effectiveness (HRPE)	2.56	.734	3.02	.673
Credible Activist (CA)	2.89	.688	3.09	.614
Talent Manager /Organization Designer (TMOD)	2.82	.623	3.14	.694
Culture and Change Steward (CCS)	2.93	.650	3.09	.779
Strategy Architect (SA)	2.74	.739	3.13	.762
Business Ally (BA)	2.77	.765	3.37	.753
Operational Executor (OE)	3.08	.645	3.21	.741
HR Professionals' Willingness (HRPW)	2.84	.874	3.35	.685

Table 4 shows that the highest mean scores of PB1 is (3.08) for OE competency as considered by the respondents, thus indicating that the competency of OE is moderately present in the HR professionals'. On the other hand, there seems to be a general perception among the respondents that HR professionals' lack in the other required competencies (CA, TMOD, CCS, SA and BA). A similar low opinion is prevalent among the respondent regarding the effectiveness of the HR professionals'. This result may be considered surprising given the highly developed financial sector but seems to be in line with prior research, where HR professionals' competencies have been reported to be of low level (SBP, 2008; Ejaz, 2009; Mangi *et al*., 2012). The respondents on the other hands seem to also consider that the HR professionals' are 'unwilling' to either acquire competencies or apply these competencies to help the organization to effectively implement strategies.

Table 4 show that the highest mean scores is (3.37) for BA as considered by the respondents, thus indicating that the competency of BA is moderately present in the HR professionals in the PB2. On the other hand, there seems to be a general perception among the respondents that HR professionals' are on the moderately have these competencies (CA, TMOD, CCS, SA, OE, HRPW and HRPE) in PB2.

Given that HR professionals' score low (in case of PB1) on both their competencies and their effectiveness in the perceptions of the responding managers, a case can be made that there is a suggestive relationship between HR professionals' effectiveness and HR professionals' competencies. This proposition finds support from Ulrich *et al.*, (2012). However, this aspect is further explored through correlation analysis, which also forms part of the hypotheses testing framwork.

Correlation Analysis

The Table 5 addresses the relationship between HR Professionals Social Competencies (HRSC) with sub constructs Credible Activist (CA), Talent Manager/Organization Designer (TMOD) and Culture and Change Steward (CCS), HR Professionals' Technical Competencies (HRTC) with sub constructs; Strategy Architect (SA), Business Ally (BA) and Operational Executor (OE) and HR Professionals' Willingness (HRPW) with HR Professionals' Effectiveness (HRPE). The hypotheses (H1 – H3) and are analyzed using Pearson Correlation.

Table 5: Relationship of HRSC, HRTC, HRPW with the HRPE of PB1

	Variables	HRPE	CA	TMOD	CCS	HRSC	SA	BA	OE	HRTC	HRPW
Dependent Variable	HRPE	1									
	CA	.801**	1								
	TMOD	.640**	.730**	1							
	CCS	.577**	.662**	.749**	1						
	HRSC	**.753****	**.894****	**.923****	**.880****	1					
Independent Variables	SA	.531**	.596**	.620**	.636**	.685**	1				
	BA	.597**	.644**	.666**	.754**	.760**	.896**	1			
	OE	.611**	.644**	.660**	.482**	.669**	.578**	.567**	1		
	HRTC	**.635****	**.691****	**.715****	**.713****	**.784****	**.955****	**.950****	**.742****	1	
	HRPW	.682**	.675**	.624**	.603**	.706**	.768**	.788**	.736**	.849**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Table 6: Relationship of HRSC, HRTC, HRPW with the HRPE of PB2

	Variables	HRPE	CA	TMOD	CCS	HRSC	SA	BA	OE	HRTC	HRPW
Dependent Variable	HRPE	1									
	CA	.728**	1								
	TMOD	.700**	.721**	1							
	CCS	.759**	.626**	.806**	1						
	HRSC	**.805****	**.854****	**.944****	**.904****	1					
Independent Variables	SA	.668**	.596**	.674**	.782**	.760**	1				
	BA	.713**	.682**	.744**	.764**	.840**	.759**	1			
	OE	.614**	.730**	.732**	.649**	.779**	.493**	.628**	1		
	HRTC	**.755****	**.755****	**.816****	**.848****	**.895****	**.898****	**.927****	**.765****	1	
	HRPW	.671**	.796**	.747**	.686**	.820**	.680**	.797**	.751**	.846**	1

**. Correlation is significant at the 0.01 level (2-tailed).

As shown in Table 5 and Table 6 HRSC has a significant correlation at 0.753 (p<.000) 0.805 (p<.000) with the HRPE of PB1 and PB2 respectively. Within the sub competencies of HRSC, the CA is the most highly correlated at 0.801(p<.000) with HRPE followed by TMOD at 0.640 (p<.000) and CCS at 0.577 (p<.000). In case of PB2 the sub competencies of HRSC, the CCS at 0.759 (p<.000) is highly correlated with HRPE. We can further note that HRTC of PB1 and PB2 also has a significant correlation at 0.635 (p<.000) 0.755 (p<.000) with the HRPE respectively. On the other hand, within the sub competencies of HRTC, OE has the highest correlation at 0.611 (p<.000) among the sub constructs with the HRPE, (BA at 0.597 (p<.000) and SA at 0.531 (p<.003) respectively) of PB1. The highest correlation of sub competencies of HRTC in PB2 is BA 0.713 at (p<.000). SA 0.668 (p<.000) and OE 0.614 (p<.000) are also correlation with HRPE in PB2 respectively. Finally, we can observe that HRPW also is significantly correlated at 0.682 (p<.000) and 0.671 with the HRPE in PB1 and PB2 respectively. Given the above data there is significant support for the purposed hypotheses and as such we fail to reject them.

Discussion

The surveyed managers' of a two large privatized Pakistani banks perceive that competencies as defined by HR professionals' social competencies, HR professionals' technical competencies and HR professionals' willingness have a strong relationship with the HR professionals' effectiveness. We can observe this phenomenon from the evaluation done by managers of competencies and effectiveness (see Table 4) where both are considered below par in case of PB1. In other words they believe that as there is a lack of professionals' competencies the effectiveness of the function of HRM is also weak and not in line with what is expected or what is necessary to create successful organizational performance. The relationship between the effectiveness and the three competencies constructs are also supported by the results of correlation test (see Table 5). In other words, the general perception that all the Social and Technical Competencies are equally relevant and significant for professionals' effectiveness, is rejected as in the opinion of employees, 'social competencies' consider to more significantly relevant to HR professionals' effectiveness than the 'technical' or 'willingness' competencies. The rationale to understand this seeming anomaly comes from two points. In 'collectivist' societies (Hofstede *et al*., 1990) social relationships are more important than 'technical' which in turn are more significant for 'Individualistic' societies. Second, in the initial stages of introducing or developing a practice there is a strong need for interpersonal connectivity which will have a more profound impact on perceptions of effectiveness than those created by 'technical' aspects of competencies.

The surveyed managers' of PB2 perceive that competencies as defined by HR professionals' social competencies, HR professionals' technical competencies and HR professionals' willingness have a strong relationship with the HR professionals' effectiveness. We can observe this phenomenon from the evaluation done by managers of competencies and effectiveness (see Table 4) where both are considered at moderate level. In other words, they believe that as the HR professionals are on the moderate side. Still they are lack the competencies and can be improve further. The relationship between the effectiveness and the three competencies constructs are also supported by the results of correlation test (see Table 6). In other words, the general perception that all the social and technical competencies are equally relevant and significant for professionals' effectiveness, is rejected as in the opinion of employees, 'Social

Competencies' consider to more significantly relevant to HR professionals' effectiveness than the 'technical' or 'willingness' competencies.

When seeking an answer to the research objective, where the question sought to understand, which of the sub constructs of competencies has a stronger relationship with HR professionals' effectiveness, we find that 'Credible Activist' (CA) is highly correlated with the HRPE in case of PB1. In other words, according to the surveyed managers, if, the HR professionals' are more 'Credible Activists', they will be more effective as professional. This finding is significant, as one would either expect all of the competencies to be valued at the same level in terms of their impact on professional effectiveness as proposed in the literature. In this regard one does not find any specific guide line in the Ulrich *et al*., (2007) model which may indicates if any of the sub competencies are more significant, than others, thus leading us to assume that they all are equally significant. On the other hand, as proposed by Lawler and Mohrman (2003) and Lawler and Boudreau (2009) the competency of strategic partners are highly desirable. Within the context of SHRM the 'strategic partner' competency relates to and highlights two sub competencies of the Ulrich *et al*., (2007) model and these are of 'Strategic Architect' and 'Business Ally' as both relate to the strategic partner concept. Thus one could consider either of the two to be more strongly related to effectiveness of HR professionals'. However, in the context of a developing economy of South Asia and in view of the argument provided above, CA being the most significant competency than all others is worth noting. This same proposition has been forwarded by Grossman (2007) also, who considers CA as the most important competency in terms of professionals' performance. Nevertheless, this relationship can be easily understood in the cultural context of South Asia, which according to Hofstede *et al*., (1990) is more 'collectivist'. In a collectivist framework dependence on others is a significant factor for performance. Therefore, HR Professionals' who are dependable, and are believed to do, what they say will do, will be considered more effective which is also the line taken by Brockbank *et al*., (2012). They also suggest that HR professionals' should do what they say they will do. It is important to note that according to us, HR professionals who are credible but not activist are admired but will produce little impact on performance. On the other hand, the HR professionals' who are activist but may not be credible, would not be able to garner enough trust in their abilities to implement required policies but those who are both activist and dependable will be the one with the most effective performance. The HR professionals thus need to focus on commitments in terms of being supportive of the organizational members and their efforts. Moreover, in all regions (US, Latin America, China, Australia and India) the CA competency is also seen as a positive contributor to bottom line result. Further the latest Human Resource Competency Study (HRCS) in 2012 also reports that CA is the more demanded competency required of HR professionals' for their effectiveness (Ulrich *et al*., 2012), thus lending support to the findings of this paper. On the other hand, we have already noted that HRTC has positive relationship with the HRPE. However, within the sub constructs of HRTC the 'Operational Executor' is the more significant in creating professionals' effectiveness the competency whose presence among HR professionals' are rated higher than all other (see Table 5). In other words, surveyed managers feel that day-to-day activities and policy implementation issues are very important for effective HR professionals'. This if seen from the point of view of CA being the most important competency, this perception become further clearer. To the authors it suggests that if professionals are dependable in implementing HR policies and practices they will be more effective, especially where operations are concerned. Reflects the overriding concern for implementing policies and may suggest a lagged affect of the Personnel Management era in managing human resource.

We have already indicated that HR professionals' effectiveness as an area of academic research is relatively at early stages most developing countries including Pakistan. In this ongoing work, this emerging area of research should be extended by including other private and public sector organizations. The result of this study can be used as a benchmark for other developing countries, which would need to cross cultural studies to assess and verify these findings.

Conclusion

The finding of this study contributes to the literature on the HR professionals' effectiveness. This study is the first of its kind to be undertaken in the two Pakistani privatized banks using competency based model of Ulrich *et al*., (2007) to understand HR professionals' effectiveness framework rather than HR practice based assessment. The study finds that the HR professionals' competencies including social, technical and willingness have a highly significant correlation with HR professionals' effectiveness. However, social competencies are more significant in their relationship with HR professionals' effectiveness than the other two i.e. HR professionals' technical competencies and HR professionals' willingness in both PB1 and PB2. Within the sub competencies of HR professionals' social competencies the 'Credible Activist' (in case of PB1) is the most significant and strongly correlated competency with HR professionals' effectiveness. While, the 'Culture and Change Steward' (in case of PB2) is the most significant and strongly correlated competency with HR professionals' effectiveness. Furthermore, within the sub competencies of HR professionals' technical competencies the 'Operational Executor' (in case of PB1) and 'Business Ally' (in case of PB2) have a stronger relationship with HR professionals' effectiveness than others. The study also finds the HR professionals' competencies are lacking in the PB1 in Pakistan as most of the HR professionals' competencies as well as their effectiveness were found to be below the expectation levels of the line managers. The study also finds the HR professionals' competencies, willingness and effectiveness are generally on moderating side (in case of PB2). This indicates that the HR professionals' competencies, willingness and their effectiveness need to be improved further which will ultimately lead to the better organizational performance. A professional value driven HR professional in the 21st century should therefore, have the essential HR competencies as indicated by theoretical model to further enhance the level of their effectiveness.

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ARTICLE

The challenges of Textile and Manufacturing Industries in Kano Metropolis

Ahmed Audu Maiyaki
Bayero University, Kano, Nigeria

Abstract

Industrialization is the engine of growth in any economy because it plays an important role in the provision of employment, foreign exchange earnings and general well being of a society. However, industrial growth is moving at a very slow rate in Nigeria and particularly in Kano state. This paper aims at unveiling the causes for poor performance of textile industry in Kano Nigeria In this study two textile companies were purposively chosen to represent both the functioning and non-function textile companies. To this end, structured and unstructured interviews and also practical observation were used to collect the data. It was found that grossly inadequate provision of basic infrastructure is main reason accounting for poor performance of textile industry in Kano, Nigeria.

Keywords: Manufacturing, Textile, Infrastructure, Kano, Nigeria.

Introduction

In spite of various macro and micro economic policy measures taken by the Nigerian government at different times, the industries in the country have not achieved impressive performance over the years. Thus, a sizeable number of manufacturing companies has closed down, while many others are struggling to survive. This resulted to the insignificant contribution of the sector to Gross Domestic Product (GDP) of the country. For instance, the sector accounted for only 6.4 percent of GDP (Sagagi, 2003). Similarly, capacity utilization of the sector has been persistently declining over the years (Anyanwu, Oyefusi, Oaikhenan, Domowo, 1997). This is in line with the observation by (Tybout, 2000), that some of the critical areas in which manufacturing industries in developing countries generally face serious challenges include: market size, access to manufactured input, infrastructure, plant size and scale efficiency among others.

Ironically some foreign investors like those from china and India operate in Nigeria comfortably and have their business flourishing. Many organizations in Nigeria and Kano in particular are either operating below capacity or have closed down completely due to external or internal problems they are faced with. The external problem include political/legal environment i.e. government policies that neglect the provision of infrastructural facilities such as power supply, good roads network water supply among others. Secondly, globalization leads to a stiff foreign competition, and Nigerian industries cannot compete effectively with their foreign counter part especially the textile industries. On the other hand internal problem comprise of managerial inefficiency, employee unrest, use of out dated machineries, local method of production, lack of diversification, and lack of research and development to mention just a few. For instance, Nigerians mostly depend on foreign technology to improve there manufacturing facilities (Oyelaran-Oyeyinka, Laditan & Esubiyi, 1996).

Based on the aforementioned background therefore, this paper examine the reason(s) why local textile industries are folding up due to some problems while at the same time; the foreign textile manufactures operate in Nigeria with some degree of success.

An Overview of the Manufacturing Sector in Nigeria

Manufacturing sector plays an important role in the growth and development of any nation. In fact, the sector is considered as the edge of modernisation and skilled job creation, and hence, is often the darling of policy markers in the developing countries (Tybout, 2000). Manufacturing involves the conversion of raw materials into finished consumer, intermediate or producer goods. This is due to the fact that it generates employment opportunities, boast agriculture, diversify the economy, increase foreign exchange earning among others (Anyanwu et al, 1997).Furthermore, in classifying the manufacturing sectors, the following products in various sect oral groups are identified in Nigeria: Food, Beverages & Tobacco; Chemical and Pharmaceuticals; Domestic and Industrial Plastic and Rubber; Basic Metal, Iron and Steel and Fabricated Metal Products; Pulp, Paper & Paper Products, Printing & Publishing; Electrical & Electronics; Textile, Wearing Apparel, Carpet, Leather & Footwear; Wood and Wood Products Including Furniture; Non-Metallic Mineral Products; Motor Vehicle & Miscellaneous Assembly (Mike, 2010).

Manufacturing industry in Nigeria has evolved through a number of stages and this evolution has started since before the country got independence and has continue to evolve till today. However, all the stages of development in manufacturing industry in Nigeria are faced with one problem or the other. An yawu et al. (1997) observe the nature of some problems with regards to Nigerian manufacturing industry as follows:

- Over dependence on foreign trade and import substitution during the period of colonial rule.
- Participation by government and exercising monopoly in the production of commodities such as: fertilizer, liquefied natural gas, steel etc. and also the attempt, by government to diversified into non-traditional products e.g. Petrochemicals.
- In the 1980s the economy faced dwindling revenue, due to the drastic falling of the petroleum product price in the international market. Again around mid 1980s Nigeria adopted an economic reform measure known as structural adjustment programmer (SAP), which subsequently leads to devaluation of naira, high exchange rate and high inflation rate. These developments further worsen the situation in the manufacturing sector.

All the above bottlenecks, perhaps negatively affected real sector more than any other sector because most of the manufacturing companies used to import raw materials at the moment. However, the impact of the SAP programme on the manufacturing industry and the economy at large is worth mentioning. Although some industries considered SAP programme as an opportunity while other saw it as a threat. According to Iyanda (2003), the results of SAP can be described as mixed at best and disastrous at worst. Even though, a major objective of the programme was to increase productivity, however, its adverse effects on the economy made cost efficiency and factor productivity impossible (Iyanda, 2003). Moreover, the effects of SAP were equally evident from the marketing perspectives. For example, the changes brought about by the programme resulted into a weakened consumer demand, increases price cognition, reduced preference for product/service quality (Iyanda, 2003). Generally, the consequential effects of SAP in the developing economies such as Nigeria and Zimbabwe are disastrous (Maiyaki, 2010).

According to CBN annual report and statement of accounts for various years as cited by Anyanwuet. al. (1997), some selected indicators of the manufacturing sub-sector in Nigeria between 1960 and 1995 were on the negative side. For instance, capacity utilization reached its peak in 1980 at 75% and then started coming down continuously (except for 1992 which increased marginally) till it reached 29.3% in 1995. Another key indicator is import; the value of import in Nigeria between 1960 and 1995 on the other hand shows an annual increase (except for the marginal decrease in 1970) from ₦1.1b in 1965 to ₦56.6b in 1995.

Textiles Industry in Nigeria

The Nigerian agro-allied sector is made up of various enterprises that provide inputs to several other sub-sectors in the economy. However, the situation of agro-based industry in Nigeriasuch as textile is that of old glory. Modern Nigeria was built on the revenue derived from key industries relating to cotton, groundnut, oil palm, rubber, cocoa among others. A large number of these companies have been reduced to mere signboards because most of the factories are closed down.

Textile industry is the most prominent agro-based industry which used to be next to public sector in terms of the number of employees. Thus, the industry has strong association for employers and employees. However, the recession in the industry has been rapid and devastating. The industry, which depends principally on the locally produced cotton, is in very poor state, in fact on the verge of collapse. The cotton locally produced can no longer sustain the textile industry. At a point in time cotton has to be imported from Burkina Faso to provide input for textile industry.

Problems of Industries in Nigeria

The Nigerian economy is characterized by over dependence on oil and neglecting other sectors of the economy, which are equally important in terms of GDP improvement and employment opportunities. For instance, before late 1970s the economy was mainly based on agriculture and it adequately employed two thirds of the whole population in addition to accounting for 41.84% of the GDP (Dandago & Maiyaki, 2008; Mike, 2010). The possibility of Nigerian industries to make the necessary transition to avail themselves of the opportunities offered by the increasing integrated world trade system is questionable (Mike, 2010). This is because they are constrained by factors such as law-level of local purchasing power, lack of health and literate workforce, poor infrastructure and low capacity utilization, the stringent control on liquidity, variable higher interest rate coupled with substantially devalued currency and the unstable macro economic environment have negative effects on manufacturing industries (Tybout, 2000; Dandago & Maiyaki, 2008).

With globalization today, world has become a borderless environment with free flow of goods, services, persons, capital, and ideas from one country to another. Nigerian economy has become relatively opened in compliance with GATT/WTO agreements. Other problems of industries in Nigeria are insufficient access to credit facilities (Malik, Teal & Baptist, 2004). Thus, local investors cannot afford the huge capital needed in setting a world class standard manufacturing plant. Secondly, preference for foreign product by the local market, lack of effective strategic management in companies and lack of innovation are yet other set of problems

(Tybout, 2000). Similarly, it has been observed that lack of linkages between small and medium scale industries forces domestic industries to engage in backward integration (Mike, 2010). This situation resulted in inefficient utilization of resources, which also affects its development.

Additionally, political instability, this scares away both local and foreign invertors because, industrialization does not take place in a politically rowdy atmosphere (Bala,2003). Similarly, Dandago & Maiyaki (2008) observe that despite the huge resource base of the country, Nigeria has not been able to achieve a high level of economic growth, nor has it been able to attract a high level of Foreign Direct Investment (FDI) commensurate with its economic potentials. The consequential effect of this is inadequate flow of foreign direct investment (FDI) and poor export performance also contribute to the problems of the sector (Malik, Teal & Baptist, 2004).Nigeria as a is third world country characterized by absence of developed markets, Nigeria's system of exchange is still underdeveloped and there is low demand as a result of low per-capita income which consequently leads to idle capacity (Malik, Teal & Baptist, 2004).

Furthermore, Malik, Teal & Baptist (2004) found that due to domestically oriented strategies adopted by local companies, Nigeria's total export of manufactured products/services insignificant. Inadequate skilled personnel can be attributed to our faulty educational system, which is inherited right from the colonial times. Tybout (2000) observes that low rate of secondary school education and inadequate technicians/scientist also affects the production process in the manufacturing industries. It has been observed that skill is an important determinant of earning and the level of workers' education is often considered as a proxy for skills (Malik, Teal & Baptist, 2004).

Similarly, intermittent power supply is yet another major problem which brings the productive activities of industries to almost a halt. Hence, some industries are compelled to buy generators to support their operation, this leads to an increased in production cost and eventually results in increased product price. Hence, Malik, Teal & Baptist (2004) concluded that by far the most significant problem of the physical infrastructure relates to unreliable and intermittent power supply; and that erratic power supply has become a fact of life for most manufacturers in Nigeria, who now increasingly rely on personal generators, voltage stabilizers and motors to keep their machines running. This therefore, significantly, raises the cost of production.

Furthermore, shift of ownership is another great problem of industries failure especially in the northern part of Nigeria. Most of the Kano based industries are sole proprietors owned by individuals, when the owner dies the ownership shift to his/her children. The involvement of the family in management usually leads to crisis between the family members, which eventually lead to closure of the firm.

On the basis of the foregoing, Nigeria's manufacturing industry could be considered as non-competitive in the international market. This is due to the failure of local industries to secure a competitive position in the world market. The concern however, is how to explore deliberate actions that could increase the industries participation in international market.

Background of the Sampled Companies

Bagauda Textile Mill, Bompai, Kano, was incorporated in 1971, as a limited liability company with Alhaji Isyaku Rabi'u as Chairman and majority shareholder, of the company. The factory was designed to produce various types of fabrics, namely; suiting, shirting, dress material, upholstery materials with different type of colours combination and woven designed.

In late 1970s and early 1980s Bagauda Textile Mill successfully started producing uniform materials in various institutions as the best manufacturers specialized in blended suiting materials and this led to its award winning from Spain for quality in 1984. Additionally, Bagauda Textile Mill got technical know how "to produce high quality blended suiting materials, and was therefore, awarded contract to produce uniform materials for Army, Police, Navy, Air force, to mention a few. Bagauda Textile mill, owned the latest type of waving machine "SUIZER".

Northern Textile Manufacturers Limited (NTM) was established in 1962. NTM is a specialized textile manufacturer. They specialized on baby shawls and blankets. The company made a huge profit from 1965 to early 1980s. However, in the 1990s the company's productivity started going backward, year in year out, due to the macro and micro economic problems. The company is now under receivership, that is, it is being taken over by the bank they owe, until the bank recovers its money.

Methodology

Research Questions

1. Are macroeconomic factors such as interest rates, exchange rate, inflation and microeconomic factors the causes of industry closures in Kano?
2. To what extent does government policy and infrastructural deterioration bring about business closure in Kano?
3. Are there operational and business strategy problems (at financial) that contribute to the problems?
4. Is there a relationship between company closure and corporate leadership?
5. Is there any marketing problem that led to the present situation?
6. To what extent raw materials sourcing contribute the problem?
7. Is there any labor unrest that contributes to the problem?

In an attempt to answer the above questions, the authors used survey as their research design in this study. The population of the study is textiles industries that are located in Kano metropolis some which have been closed down, while some are struggling to survive and very few (if any) are operating to full capacity at moment of data collection. The sampling method used in the study is purposive Sampling, which is a non-probability sample selection method. Two textile Mills were purposively chosen to represent the population. One of them was closed down, i.e. Bagauda Textile Mills Kano and the Northern Textile Manufacturers is operating, but at below capacity. These two textile mills are used as the sample size of the study because data needed and the respondents were readily available. The data collection instrument adopted by the researchers was a structured interview. The research questions above are the question used for the interview. Documentary source of data or rather the secondary data was also used.

RESULTS AND DISCUSSION

In this section, the authors present the data obtained from the field, that is from Bagauda Textile and Northern Textile Manufacturers limited. Basically, the data involves structured interview with some of the key management staff as well as some junior staff of the companies. Consequently, an attempt was made by the authors to analyze the data obtained qualitatively.

Based on responses by the respondents it could generally be concluded that macroeconomic factors significantly contribute to the failure of textile industry in Kano.This is so, because according to the respondents most of the chemicals they used and spare parts of the machineries are imported, and at the same time the exchange rate is high. Similarly, the high interest rate in the country also hinders the manufacturers from borrowing from financial institutions. With high interest rates they may not be able to get profit out yet.

Similarly, shortage of power supply significantly contributes to the failure of the manufacturing companies. Provision of basic infrastructures in the country is generally inadequate. For example, power supply is epileptic, thus, almost all manufacturing enterprises rely on alternative power supply mostly using generating sets which further increase the cost of production (MAN report, 2006). The report also revealed that the "Industrial estates within Kano: Sharada, Challawa, Kano Bompai were worst hit, with average power outages of 15 hours, 10.3 hours and 17.2 hours for January (2006) respectively. However, in March the outage figures aggravated to 17.6 hours, 13.0 hours and 18.5 hours respectively.

Similarly, despite the fact that water supply is very essential in industrial development, pipe bone water is lacked in the manufacturing industries. Given that textile plants can not do without water, this forced the organizations to drill boreholes in their premises that will supply them enough water. Some of the companies visited have between two to four boreholes and the maintenance further increases cost of operations. According to the respondents, lack of good road network contributes so much to the failure textile industry in Kano. This is because the access to raw materials is very poor. Similarly, for the imported materials to be transported from Lagos (sea port) to Kano is another problem which leads to higher cost of production.

When asked on whether there was any government policy that affected textile industry negatively, a management staff in one of the companies admits that high rate of tax by different level of government seriously affects their business negatively. In some instances the companies experienced multiple tax which leads to drastic reduction in their operation income and subsequently their inability to cover production cost. However, the respondents stressed that the fact that the banning of fabric materials importation if effectively implemented by government will significantly assists the local textile industry against foreign competition.

Based on the interview conducted it was also found that seasonality of the textile market also contributes to the problems in the industry. This is because during the off peak period the industry's income is very low.

About the relationship between the companies' leadership and company failure, one of the respondents said that inexperienced leaders significantly contribute to the falling down of their company. The respondents hold that subjective appointment of managing director not based on qualification eligibility was part of the companies' problems. According to him inexperienced chief executive would not be able to control cost and quality among others which are vital in terms of profit maximization and competition.

Again when asked about marketing problem the respondents agreed that preference mentality by the local consumers greatly affected the locally manufactures goods adversely. Therefore, most Nigerians prefer foreign products more especially the textile materials even if the locally manufactured one is of high quality.

On whether the raw materials constitute a problem to the textile companies, Northern Textile Limited do not have problem in sourcing raw materials. This is due to the fact their product is special as such they use waste which according to the General Manager is readily available. However, all companies covered by the study emphasize the difficulty in procuring "Black oil" fuel which has to be imported a thigh cost.

FINDINGS

The authors arrived at the following as major finding of the research:

Firstly, lack of entrepreneurship orientation on the part of our local business men. The business people that can invest in industry to make money do not have the zeal to invest. This is because most of them are risk averters and therefore, they prefer business that has short gestation period (quick return).

Secondly, lack of managerial skill and/or qualification is yet another problem that causes the coming down of textile business in Kano. In some cases people without qualification and/or managerial skill are put at the driver's seat of the organizations. And the Chief Executive that has not got the basic qualification or skill ends up worsening the situation.

Similarly, lack of infrastructures facilities is the issue that was repeated by respondents as one of the major problems faced by the textile industry. Infrastructures such as power supply, pipe bone water, road networks are grossly lacking, by the companies studied. This is consistent with the findings by Malik, Teal & Baptist (2004).

All the companies studied are limited liability companies either owned by a single individual or by few individual. And this greatly contributed to collapsing of the companies. Closelyrelated to this is the issue of family disagreement whereby due to misunderstanding by members of the family that owned a particular company, it spills over to the company's operation.

The above findings are all in line with what Tybout (2000) suggested as some of the bottlenecks militating against the growth of manufacturing sector in the developing countries vis-à-vis its counterpart in the technologically developed countries.

RECOMMENDATIONS:

In line with the above findings, policy makers are recommended to:

- Expand and facilitate entrepreneurship education through redesigning school curriculum.
- Adequately provide the basic infrastructure such as pipe borne water, electricity, good road network.
- Provide enabling environment that would attract foreign direct investment (FDI).

CONCLUSION

Lack of basic infrastructures facilities such as power supply, pipe-bone water, road network played the role in putting our textile industry into a chaos situation. However, the most significant factors are lack of entrepreneurship zeal by our local investors, lack of qualification and managerial skills by the key management staffs; lack of enough capital, and the problem of sole ownership. This category of problem appears to have significant importance in blocking the development of textile industry in Kano. Similarly, inability of our local industry to stand the test of global competition is another factor that contributes to the downfall of our textile industry. However, critical analyses into the above issues that the respondents considered to be the problems that led to the collapse of textile industry in Kano, most of them are not actually the problems that are really beyond the capability of the local entrepreneurs. This can be justified when we consider the fact that Chineese, Indians and Lebanees manufacturers operate in the same business environment successfully despite the so-called problems claimed by our local manufacturer.

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CASE STUDY

Study of Economic Development of Pakistan through Stock Market: Causal Relationship of Stock Prices and Macroeconomic Indicators

Rizwan Raheem Ahmed
Yaseen Ahmed Meenai
Fazal Hussain
Institute of Business Administration, Karachi, Pakistan

Abstract

The purpose of the research is to examine the causal relationship between stock prices and the variables representing the real sector of the economy for example real GDP, and real investment, in Pakistan. In this study, annual data is used (quarter-wise) from December 1980 to June 2007 and the correlation analysis has been applied, to investigate the relationship. For better understanding of the Market's Behavior, data has been grouped in to Liberalization periods; Pre-liberalization and Post-Liberalization.

The stock market in Pakistan provides an average quarterly return of 2.86%.The average annual growths in real variables are just lower than 1% for GDP and returns slightly over 1% in investments. A comparison of the descriptive statistics between the two sub-periods indicates decline in the average growth in real variables. Real GDP fell ,and real investment also decreased. The decline is significant both in GDP and investment. Though the magnitude of the average growth in stock price index increased in the second period it is not significantly different from that of the first period.

The descriptive statistics indicates a much higher expansion in stock prices relative to real variables. However, the stock prices also experienced higher volatility during the sample period whereas the real variables seem to be stable.

Key Words: *Causal Relationship, Stock Price index, Real Sector of the Economy, GDP & Real Investment, Higher Volatility, Pre-Liberalization, and Post-Liberalization*

1. Introduction

1.1 Background of the Study

The stock market plays an important role in the economy by mobilizing domestic resources and channeling them to productive investment. This implies that it must have a significant relationship with the economy. The relationship can be seen in two ways - The first relationship views the stock market as the leading indicator of the economic activity in the country whereas the second focuses on the possible impact the stock market may have on aggregate demand particularly through aggregate consumption and investment. In other words, whether changes in stock market cause fluctuations in macroeconomic variables, like Consumption Expenditures, Investment Spending, Gross Domestic Product (GDP), Index of Industrial Production (IIP), etc., or are caused by these variable is an interesting issue to be examined. The former case implies that stock market leads economic activity whereas the latter suggests that it lags economic activity.

The knowledge of the relationship between stock prices and macro variables is now becoming more important in the case of developing countries in view of the various economic reforms taking place there, starting, in the beginning of the 1990s there have been a number of measures taken for economic liberalization, privatization, relaxation of foreign exchange controls, and in particular the opening of the stock markets to international investors. These measures resulted in significant improvements in the size and depth of stock markets in developing nations and they are beginning to play their due role. (Husain & Mahmood, 2001)

The issue that highlights whether stock market leads or lags economic activity is now becoming very crucial in Pakistan, as the stock market has gained much attention in the last few years. The stock market has been, in general, among the best performing markets. The indicators like market capitalization, trading volume, the market index have shown phenomenal growth. These developments are often claimed by the authorities to be an indication of economic progress of the country. It would be useful to examine whether these developments have influenced the economy, particularly the real sector. Moreover, the relationship between stock prices and the real sector variables is also important in view of the various economic reforms initiated in early 1990s. The measures taken for economic liberalization, privatization, relaxation of foreign exchange controls, and in particular the opening of the stock markets to international investors were supposed to greatly impact the economy including the real sector. (Fazal Husain, 2006)

1.2 Role of the Securities Market in Economic Development

The deepening and level of sophistication of modern financial markets is arguably a recent phenomenon. However, stock markets have long played a significant role in economic life.

Most academicians and policy makers in developing countries hold the view that securities market development is a key element of financial deepening as this market provides a variety of financial assets to the economy to facilitate resource mobilization for investments. Arguments against the benefits of securities market development are hardly heard. Securities market development is often regarded as an important barometer of financial deepening in developing countries where financial sectors are represented mainly by the banking industry. The importance of securities market development to financial development is sometimes emphasized to the extent that it is regarded as a necessary condition for complete financial liberalization. Despite the general perception that securities market development is an evolutionary process, correlated with the level of income per capita, the question that has not yet been answered satisfactorily, is, why one country with a lower income per capita may have a much more advanced securities market than a higher income country?

Agtmael and Errunza (1982) summarize and provided a wide range of arguments for the positive role of the securities market in economic development. The securities market could:

1. Raise funds for investments through issuance of new securities.
2. Improve efficiency and solvency of the financial system by increased competition in the system and improved financial structure.
3. Facilitate mobilization of financial savings by providing an incentive to save, invest and compete with other financial assets.

4. Improve allocated efficiency of investment by reducing the distortion of planned allocation of resources, which is often plagued with political favoritism, special privileges of the public sector over the private initiative, preference for large projects over small businesses, credit rationing and distorted interest rates.
5. Enhance solvency of the corporate sector by strengthening the financial structure of corporations.
6. Asset decentralization of ownership by promoting the spread of ownership participation by the general public.
7. Expand access for new and emerging companies to venture capital.
8. Improve accounting and auditing procedures and standards through disclosure of regular, adequate and reliable information, checked by independent auditors.

1.3 Stock Markets and Economic growth

For more than a decade stock markets have boomed in about every country. From 1984 to 1994 the capitalization of world stock exchanges grew fivefold to a combined $18 trillion. Most of this money is still invested in industrial nations, but the dramatic growth has been in the emerging countries. Foreign investors increased their annual net investments in emerging markets from $13 billion in 1990 to $61 billion in 1993.

1.4 Purpose of the Study

The purpose of the research is to examine the causal relationship between stock prices and the variables representing the real sector of the economy like real GDP and investment spending in Pakistan. The recent phenomenon is what is being studied and the issues regarding the efficiency, seasonality, volatility and other characteristics of the stock market as well as the role of the stock market in the economic development of Pakistan is scrutinized. In this study, all the aforementioned key issues will be discussed in a quantitative perspective and the results of the study determine the role of the stock market in the economic development of Pakistan, markets' behavior and other characteristics of the market.

2. Review of Literature

2.1 Stock Market Development and Long-run growth

The theoretical basis to examine the link between stock prices and the real variables are well established in literature, e.g., in Baumol (1965), Bosworth (1975). The relationship between stock prices and real consumption expenditures, per say cycle theory, developed by Ando and Modigliani (1963), states that individuals base their consumption decision on their expected lifetime wealth. Part of their wealth may be held in the form of stocks eventually linking stock price changes to changes in consumption expenditure. Similarly, the relationship between stock prices and real investment spending is based on the q theory of James Tabin (1969), where q is the ratio of total market value of firms to the replacement cost of their existing capital stock at current prices. Finally, the relationship between stock prices and GDP, a measure of economic activity, indicates whether the stock market leads or lags economic activity.

Hussain and Mahmood (2001), covering the data from 1959/60 to 1998/99 report an unidirectional causality from the macro economic variables, GDP, consumption, investments, to stock prices, implying that the stock market lags economic activity and thus cannot be characterized as the leading indicator of the economy in Pakistan.Devereux and Smith (1994) emphasize that greater risk sharing through internationally integrated stock markets can actually reduce saving rates and slow economic growth. Finally, Shleifer and Summer's (1988) and Morck, Shleifer, and Vishny's (1990), analyze that stock market development can hurt economic growth by easing counterproductive corporate takeovers. Moreover, Joan Robinson (1952) argues that the financial system does not spur economic growth; financial development simply responds to developments in the real sector. Thus, many influential economists give a very minor, if any, role to the financial system in economic growth.

In contrast, a prominent line of research stresses the role of the financial system in economic growth. Bagehot (1873), Schumpeter (1912), and Cameron, et. al. (1967), Goldsmith (1969), and McKinnon (1973) all provide conceptual descriptions of how and empirical examples of when the financial system affects economic growth. Building on these seminal contributions, Gelb (1989), Ghani (1992), King and Levine (1993), and De Gregorio and Giudotti (1995) show that measures of banking development are strongly correlated with economic growth in a broad cross-section of countries.

2.2 Risk Diversification – International Integration

Theory suggests that the ability to diversify risk by investing in an internationally diversified portfolio of stocks can influence investment decisions and long-run growth rates [Devereux and Smith (1994) and Obstfeld (1994)]. However barriers to international capital flows such as taxes, regulatory restrictions, information asymmetries, sovereign risk, etc. may impede the ability of investors to diversify risk internationally. Thus, international capital flow barriers will impede risk diversification, reduce capital market integration, and keep arbitragers from equalizing the price of risk internationally. To measure the ability of agents to diversify risk internationally, we use Korajczyk's (1996) estimate of the degree of international integration of national stock markets.

The results suggest a strong positive relationship between stock market development and long-run economic growth. The instrumental variable results show that the predetermined component of stock market development as extracted by the first-stage regressions is strongly and positively correlated with economic growth. Moreover, the results hold after checking for outliers and reproving individual countries. As discussed in the introduction, measurement, statistical and conceptual problems impedes cross-country growth regressions. Nonetheless, the results suggest a comparatively strong link between the functioning of stock markets and economic growth.

2.3 Financial Factors in Economic Growth; The Theoretical Nexus

Why it is that financial development spurs economic growth? In a frictionless Arrow-Debreu World there is no room for financial intermediation. Explaining the role played by stock markets or banks requires building in frictions such as informational or transaction costs into the theory. Different frictions motivate different types of financial contracts, markets and institutions. The functional approach of Levine (1991) provides a useful framework to think about the role of financial intermediaries. They perform five interrelated functions. Each of these financial functions can increase growth through two channels: capital accumulation and technological innovation. We briefly review the functions and illustrate them for the case of Belgium in the remainder of the paper. First, financial intermediaries facilitate pooling and trading of risk. Without financial markets, investors facing *liquidity* shocks are forced to withdraw funds invested in long-term investment projects.

2.4 Cross-Country Econometric Evidence

There is substantial cross-country evidence that country with a better-developed stock market and banking system witness higher subsequent growth. Most studies focus on the postwar era. The idea that finance matters for growth in the early stages of economic development goes back to Patrick (1966), Cameron (1967) and Goldsmith (1969). In his study, Goldsmith (1969) establishes the important stylized fact that periods of above average rates of economic growth tend to be accompanied by faster, financial development. King and Levine (1993) document a robust relationship between initial levels of financial development and subsequent economic growth across 80 countries, after controlling other growth-inducing factors. Their measures of financial development are based on the degree of monetization and bank development. Rousseau and Sylla (2001) also employ a cross-country regression framework to make the case for finance-led growth. They use a long data set (1850-1997) for the US, the UK, Japan, France, Germany, and the Netherlands. In their findings, they consistently argue that financial factors had the strongest effect in the 80 years prior to the Great depression.

Levine and Zervos (1996) conduct a similar analysis for 48 countries and for the period 1976-1993, but focus on the role played by the stock market. They measure stock market development along various dimensions: size, liquidity, international integration and volatility. More precisely their measures are aggregate stock market capitalization to GDP and the number of listed firms (size), domestic turnover and value traded (liquidity), integration with world capital markets, and the standard deviation of monthly stock returns (volatility).

2.5 Time-Series Econometrics Evidence

Hansson and Jonung (1997) investigate the case of Sweden from 1830 to 1991. In a bivariate system, they find that bank development is cointegrated with per capita GDP for the entire period 1834-1991, but the relationship is unstable over time. Banking has the strongest influence on the real economy in the interval 1890-1939 and to a lesser extent in the period 1834-1890. Rousseau and Wachtel (1998) compare the US, the UK, Canada, Norway and Sweden for the period 1870-1929. This comparative 5-country study uses the same methodology to study trivariate systems of GDP, the monetary base and financial intensity, measured by the value of the financial sector's assets. The authors find a single co-integration relationship between the three variables under examination, suggesting persistent co-movements between finance and growth.

Demetriades and Hussein (1996) and Van Nieuwerburgh (1998) apply co-integration analysis to a mixed sample of developing and developed countries for the postwar era. Financial development variables, which are bank-based, are co integrated with economic development. In both studies, the direction of causality varies across countries and depends on the measure of financial development used.

3. Research Methodology

3.1 Data and Methodology

The study was based on annual data from December 1980 to June, 2007, to investigate the causal relations of stock prices with the variables of the real sector in Pakistan, specifically the real GDP and the real investment spending. The sample is further classified into two sub-samples to take care of the economic liberalization program started in the early 1990s. Hence, Sample-I, from December 1980 to March 1991, covers the period prior to the start of the liberalization program whereas, Sample-II, from April 1991 to June 2007 represents the post-liberalization period. Similarly in regression analysis the study includes a dummy variable from April 1999 to June 2007 to take care of the possible shift in relations between variables due to economic liberalization program.

3.2 Data Sources

State Bank General Price Index (SBGPI) represented stock prices with base 1980-81. Similarly, investment spending and GDP at constant prices of 1980-81 are used as variables representing the real sector of the economy. The principal data source is the National Accounts of Pakistan, 2007, prepared by the Federal Bureau of Statistics. The other data sources include Economic Surveys by The Finance Division, 2006-07 and Annual Reports, 2006 & 2007 by the State Bank of Pakistan, the Central Bank.

3.3 Descriptive Statistics

This study is based on the descriptive statistics that shows the basic characteristics of the variables used in the analysis. An easy and quick way to know the relationship between stock prices and macro variables is to find the correlations between them.

3.4 Correlation Coefficient

As a preliminary analysis, the correlation coefficients are calculated. In addition to the full sample, the correlations are also calculated for two sub-samples consisting of periods from December 1980 to March 1991 and from April 1991 to June 2007. The division of the sample is done to examine the effects of various economic reforms on the relationship. (Fazal Husain, 2006)

3.5 Augmented Dickey Fuller (ADF)

The formal investigation starts with examining the stochastic properties of the variables used in the analysis. Hence, the Unit Root Test is performed on the variables to test the stationary variables. In this context, the widely used Augmented Dickey Fuller (ADF) is used.

3.6 Co-integration Analysis

The relationship, however, is formally investigated through Co-integration and error correction analysis. In this context, first performing Unit Root Test tests the stationary variables. For this purpose the study used the Augmented Dickey Fuller (ADF) Test. Then, the researcher examined the existence of long-run relations between stock prices and macro variables with the help of Co-integration analysis suggested by Engle and Granger (1987).

3.7 Error Correlation Model (ECM):

Finally, the causal relations were examined through the Error Correction Model (ECM). The ECM is an extension of the Granger causality test where an error correction term is introduced into the test, that is:

$$\Delta Y_t = \alpha_1 + \rho_1 e_{t-1} + \sum_{i=1}^{p} \beta_i \Delta Y_{t-i} + \sum_{j=1}^{q} \delta_j \Delta X_{t-j}$$

$$\Delta X_t = \alpha_2 + \rho_2 e_{t-1} + \sum_{i=1}^{p} \beta_i \Delta Y_{t-i} + \sum_{j=1}^{q} \delta_j \Delta X_{t-j}$$

Where,e_{t-1} is an error correction term, representing the long-run relationship. A negative and significant coefficient indicates the presence of long-run causal relationship. If both coefficients are significant, this will suggest the bi-directional causality. If, e.g., only p_1 is significant, this will suggest a unidirectional causality from *X* to *Y*, implying that *X* drives *Y* toward long-run equilibrium but not the other way around.

On the other hand, the lagged terms of ΔY_t and ΔX_t, found as explanatory variables, indicate short-run cause-and-effect relationship between the two series. Thus, if the lagged coefficients of ΔX_t appear to be significant in the regression of ΔYt, this means that *X* causes *Y*.

3.8 Dummy Variable:

As mentioned above, the Pakistan economy has been brought under various economic reforms in the 1990s (Fazal Husain, 2006). The most significant measure is the opening of the Pakistani equity market to international investors in early 1991. To take care of these reforms, a dummy variable is used for the period from April 1991 to June 2007.

4. Data Analysis

The empirical results and interpretations of the study are discussed as below:

4.1 Descriptive Statistics for Growth in Stock Prices and Macro Variables

The undertaken study presenting the descriptive statistics of the variables used in the analysis is shown in the following three tables:

TABLE – 1 (a)
Descriptive Statistics for Growth in Stock Prices and Macro Variables:
Total Sample: Dec. 1980 – June 2007

Descriptive Statistics			
	(Dec. 1980 - June 2007)		
	D(SP)	D(GDP)	D(INV)
Mean	0.0286	0.0099	0.0107
Std. Dev.	0.1184	0.1452	0.1221
Skew-ness	0.4776	0.5598	-0.7757
Kurtosis	3.8994	2.0286	3.5678
Observations	106	106	106

TABLE – 1 (b)
Descriptive Statistics for Growth in Stock Prices and Macro Variables:
Sample I: Pre Liberalization: Dec. 1980 – March 1991

Descriptive Statistics			
	(Dec. 1980 – March 1991)		
	D(SP)	D(GDP)	D(INV)
Mean	0.0300	0.0126	0.0189
Std. Dev.	0.0451	0.1618	0.1108

Skew-ness	0.3597	0.4698	-0.7423
Kurtosis	3.8060	1.9229	3.3115
Observations	41	41	41

TABLE – 1 (c)
Descriptive Statistics for Growth in Stock Prices and Macro Variables: Sample II: Post Liberalization: April 1991 – June 2007

Descriptive Statistics			
	(April 1991 - June 2007)		
	D(SP)	D(GDP)	D(INV)
Mean	0.0277	0.0081	0.0056
Std. Dev.	0.1475	0.1349	0.1292
Skew-ness	0.4177	0.6270	-0.7520
Kurtosis	2.6687	2.0122	3.5110
Observations	65	65	65

The summary of the descriptive analysis of the data is divided into three periods (Table 1a, 1b, 1c) as the total sample comprises of data ranging from December 1980 to June 2007, whereas, the whole set of data again is divided into two periods. The first category is called “Pre liberalization” period which comprises of data from December 1980 to March 1991 and the second category “Post liberalization” period is from April 1991 to June 2007.

The tables 1a, 1b and 1c indicate that the stock market in Pakistan provides an average quarterly return just under 2.86%. On the other hand, the average annual growth in real variables is just lower than 1% in GDP, whereas, slightly over than 1% in investments. However, the volatility in the stock price index, measured by the standard deviation, is much higher relative to the real variables. The real variables seem to be much stable during the sample period.

A comparison of the descriptive statistics between the two sub-periods indicates decline in the average growth in real variables. Hence, real GDP fell from 1.26% to 0.81% whereas real investment decreased from 1.89% to 0.56%. However, the decline is significant both in GDP and investment. Though the magnitude of the average growth in stock price index increased in the second period it is not significantly different from that of the first period. On the other hand, the stock price is the only variable that experienced significant increase in volatility in the second period. In the case of real variables the variances are not significantly different between the two sub-periods. Therefore, it is concluded that the average quarterly return for the full sample is 2.86%, whereas, the average return fell from 3.00% to 2.77% in sample II but volatility increased more than three times from 4.50 to 14.75.

4.2 The Correlation Coefficient of Stock Prices and Macro Variables

The correlation coefficient of stock prices changes with changes in real investment and real GDP are presented as follows:

TABLE – 2 (a)
Correlation Coefficients between Stock Prices and Macro Variables:
Total Sample: Dec. 1980 – June 2007

Correlations			
	(Dec. 1980 - June 2007)		
	D(SP)	D(GDP)	D(INV)
D(SP)	1.0000	0.0287	0.0427
D(GDP)	0.0287	1.0000	0.6702
D(INV)	0.0427	0.6702	1.0000

TABLE – 2 (b)
Correlation Coefficient between Stock Prices and Macro Variables:
Sample I: Pre Liberalization: Dec. 1980 – March 1991

Correlations			
	(Dec. 1980 – March 1991)		
	D(SP)	D(GDP)	D(INV)
D(SP)	1.0000	-0.2595	0.0155
D(GDP)	-0.2595	1.0000	0.6594
D(INV)	0.0155	0.6594	1.0000

TABLE – 2 (c)
Correlation Coefficient between Stock Prices and Macro Variables:
Sample II: Post Liberalization: April 1991 – June 2007

Correlations			
	(April 1991 - June 2007)		
	D(SP)	D(GDP)	D(INV)
D(SP)	1.0000	0.1000	0.0500
D(GDP)	0.1000	1.0000	0.6924
D(INV)	0.0500	0.6924	1.0000

It shows in Table 2-a, that the correlations are very low and not significantfor both GDP and investments. Similarly, in table 2-b, the first sub-sample, consisting of pre-reform period, the correlations are again very low. However, the post reform period shows a significant increase in correlation coefficients in table 2-c, indicating the beginning of association of stock prices with real variables following liberalization measures. In particular, the correlation between stock prices and GDP is high as compared to INV. Correlation with GDP increased significantly in the post liberalization period from -0.26 to 0.1.

4.3 Efficiency of the Stock Market in Post-Liberalization Period

The efficiency of the stock market in post liberalization period is investigated through Q-Statistics.

The Q-Statistics imply that the market is efficient during the post liberalization period because the probabilities are more than 0.05.

4.4 Causal Relations between Stock Prices and the Variables

The formal investigation of causal relations between stock prices and the variables representing the real sector is done with the help of Co-integration and Error Correction Model framework. At the first step, the ADF unit root test is applied to all the variables to examine the stochastic properties of these variables. The test is applied to both the original series and to the first differences of the series. Moreover, both the models with and without trend are tested. The results are reported in Table 3, which indicate that the variables are integrated of order one (I).

TABLE – 3
Unit Root Test (ADF) for Variables

	Unit Roots			
	Levels		First Diff.	
	Without Trend	With Trend	Without Trend	With Trend
SP	-1.023	-1.973	-.755***	-.723***
GDP	-2.533	0.090	-.374***	-.584***
INV	-2.058	-2.558	-.345***	-.356***

The unit root test (ADF) shows that variables are not stationary at levels but become stationary at first difference because the values are significant, implying that they are integrated of order one.

4.5 The Long-run Relations of Stock Prices with the Real Variable

At the second step, the co-integrating regressions suggested by Engle-Granger are estimated to examine the long run relations of stock prices with the real variables. The results are shown in Table 4(a) & 4(b).

TABLE – 4 (a)
Co-Integrating Regressions: Sample I: Pre Liberalization Period

Regressions	**Co-Integration**		
	Const.	Co-eff.	ADF
GDP on SP	9.606	0.355	-1.81
INV on SP	10.315	0.250	-2.52**

The ADF is significant and indicating the existence of a long run relation between stock prices (SP) and investment (INV) but not with GDP. Therefore, it is concluded that in pre-reform period there is a long run relationship existing between stock prices and investment but there is no evidence of long relationship between stock prices and the GDP because of weak ADF value.

TABLE – 4 (b)
Co-Integrating Regressions: Sample II: Post Liberalization Period

Regressions	Co-Integration		
	Const.	Co-eff.	ADF
GDP on SP	11.12	0.132	-2.339**
INV on SP	11.305	0.104	-4.425***

In post liberalization period the ADF is less significant in the case of GDP, whereas, more significant in case of INV, however in both cases this indicates a long run relationship of Stock prices (SP) with GDP and investment (INV).

4.6 The Direction of Causality between Two Variables

Finally, the causal relations were examined through the Error Correction Model (ECM). The ECM is an extension of the Granger Causality test where an error correction term is introduced into the test, that is:

$$\Delta Y_t = \alpha_1 + \rho_1 e_{t-1} + \sum_{i=1}^{p} \beta_i \Delta Y_{t-i} + \sum_{j=1}^{q} \delta_j \Delta X_{t-j}$$

$$\Delta X_t = \alpha_2 + \rho_2 e_{t-1} + \sum_{i=1}^{p} \beta_i \Delta Y_{t-i} + \sum_{j=1}^{q} \delta_j \Delta X_{t-j}$$

[This model has already been explained in chapter three, research methodology].

The Granger Causality indicates no causal relationship between stock prices and GDP. Moreover, it indicates no causal relationship in both long and short run. So, it is concluded that stock prices do not have any causal relationship on Gross Domestic Products (GDP) either in long run or short run in full sample period i.e. from December 1980 to June 2007.

The ECM verifies the long run relation between SP and INV and indicates a bi-directional causality. The INV affects the SP only in the long run but SP affects INV not only in the long run, but also in the short run for up to three quarters. So, it is concluded that there is a relationship between stock prices and the investments and further concluded there is a bi-directional causality between investments and the stock prices.

Post Liberalization Period

The Error Correction Models are also estimated to examine the direction of causality between two variables for post liberalization period. Residuals clearly explain the causality & effect of the variables.

The Error correction Model (ECM) does not verify the long run relation between stock prices (SP) and GDP. It also indicates no causal relationship both in the long run and short run in post liberalization period.

The Granger analysis indicates no causal relationship between Stock prices and GDP. Therefore, it is concluded that there is no causal relationship between stock prices and the GDP in post liberalization period.

The residuals analysis verifies the long run relation between Stock prices and Investments and indicates a bi-directional causality where investments affects the Stock prices only in the long run but Stock prices affects investments not only in the long run but also in the short run for up to three quarters as well.

Hence the researcher can conclude that the stock market in Pakistan is not that developed to influence the real sector and therefore cannot be considered as the leading indicator of the economy. However, the results may be affected by the shifts in the data due to the liberalization of the stock market as well as the economy in the early 1990s.

4.7 Shifts in Stock Prices and Real Variables

To take care of the shifts in variables representing the stock market as well as the real sector due to the liberalization measures the researcher introduces a dummy variable in the analysis that takes the value of one from 1991/92 onwards. Once again the study start by estimating the co-integrating regressions reported in Table 5.

TABLE – 5
Co-integrating Regressions Including Shift in Variables

Regression	Constant	Dummy	Coefficients	ADF
GDP on SP	11.101***	-0.127	0.600***	-2.132*
Inv on SP	11.213***	-0.148	0.488***	-4.314**

The table-5 shows that the values of dummy variable are very low as compared to the other variables and dummy variable is not significant anywhere implying that the relations of stock prices with the variables representing real sector are not affected by the liberalization measures. Hence, the researcher may not expect any significant change in his conclusion derived earlier. It can be further concluded that despite significant developments in the stock market like market capitalization, high trading volume or high market index etc., the stock market in Pakistan is still not in a position to influence the real sector.

5. Summary, Conclusion and Recommendation

The summary, conclusion and the recommendations of the study are on the basis of the empirical results that are given as follows:

5.1 Summary and Conclusions:

- The summary of the descriptive analysis of the data is divided into three periods as the total sample comprising data from December 1980 to June 2007. The whole set of data again is divided into two periods, Pre liberalization period (December 1980 to March 1991), The Post liberalization period (April 1991 to June 2007).
- The stock market in Pakistan provides an average quarterly return of 2.86%.The average annual growth in real variables is just lower than 1% in GDP and slightly over than 1% in investments.
- A comparison of the descriptive statistics between the two sub-periods indicates decline in the average growth in real variables. Real GDP fell from 1.26% to 0.81% and real investment decreased from 1.89% to 0.56%. The decline is significant both in GDP and

investment. Though the magnitude of the average growth in stock price index increased in the second period it is not significantly different from that of the first period.

- The stock price is the only variable that experienced significant increase in volatility in the second period. In the case of real variables the variances are not significantly different between the two sub-periods.
- It is concluded that the average quarterly return for the full sample is 2.86%, whereas, the average return fell from 3.00% to 2.77% in sample II but volatility increased more than three times from 4.50 to 14.75.
- The descriptive statistics indicate a much higher expansion in stock prices relative to real variables. However, the stock prices also experienced high volatility during the sample period whereas the real variables seem to be stable.
- The correlations are very low and not significant in the cases of GDP and investment in full sample period. The first sub-sample, consisting of pre-reform period, the correlations is again very low and not significant.
- The post reform period shows a significant increase in correlation coefficients. In particular, the correlation between stock prices and GDP is very high. Correlation with GDP increased significantly in the post liberalization period from -0.26 to 0.1.
- The correlation analysis shows low correlations between stock prices and macro variables. However, there is evidence of significant increase in these correlations in the period subject to reforms, suggesting that these reforms resulted in significant improvement in the behavior of stock market and its linkages to the economy.
- The Q-Statistics imply that the market is efficient during the post liberalization period because the values of probabilities are very low and less than 0.05.
- Augmented Dickey Fuller (ADF) shows that variables are not stationary at levels but become stationary at first difference, implying that they are integrated of order one.
- The Augmented Dickey Fuller (ADF) is significant and indicates the existence of a long run relation between stock prices and investment but not with GDP. In post liberalization period the Augmented Dickey Fuller (ADF) is significant, indicating a long run relationship of Stock prices with GDP and investment as well.
- The relationship, however, is formally investigated through Co-integration and error correction analysis.Then, the researcher examined the existence of long-run relations between stock prices and macro variables with the help of Co-integration analysis suggested by Engle and Granger (1987).
- The Granger Causality indicates no causal relationship between stock prices and GDP.Moreover, it indicates no causal relationship both in the long run and the short run as well. Therefore, the analysis does not verify the evidence of improvement in the linkages of stock market to the economy, which is indicated by the correlation analysis.
- Finally, the causal relations were examined through the Error Correction Model (ECM). The ECM is an extension of the Granger Causality Test. The Error Correction Model (ECM) verifies the long run relation between Stock prices and investment and indicates a bi-directional causality where investment affects the stock prices only in the long run but stock prices affects investment not only in the long run but also in the short run for up to three quarters.
- Moreover, the Error correction Model (ECM) does not verify the long run relation between stock prices and GDP. It indicates no causal relationship both in the long run and short run.

- The results may be affected by the shifts in the data due to the liberalization of the stock market as well as the economy in the early 1990s. The dummy variable is not significant anywhere implying that the relations of stock prices with the variables representing real sector are not affected by the liberalization measures. Hence, the researcher may not expect any significant change in his conclusion derived above. Hence it can be concluded that despite significant developments the stock market in Pakistan is still not in a position to influence the real sector.

The above findings of the study suggested that the stock market in Pakistan is still quiteunder developed to play its due role in influencing the real sector of the economy. However it can be implied, that the government can use the real sector to influence the stock market. An important implication of the findings is that the stock market in Pakistan cannot be characterized as the leading indicator of the economic activity. The study clearly indicates that it lags economic activity. It seems that the phenomenal growth in stock market variables like market capitalization, trading volume, the market index etc. do not seem to influence the economy of Pakistan.

5.2 Recommendations:

The study clearly indicates that it lags economic activity i.e. the Stock market does not lead the economy rather the economy leads the Stock market. Therefore, individuals, institutions and government should be aware of the resulting speculative bubbles. In the absence of other strong economic indicators, all the stake holders should be cautious when stock prices shoot up.
It is further recommended that the government should take appropriate steps in order to rectify the market development and offer better financial infrastructure for operation of stock markets. These include strengthening of regulatory provisions and better enforcement, improvements in information systems and mechanisms for payments, more neutral application of fiscal policy to all types of financial instruments, higher standards of disclosure of financial information by companies, and greater scope for financial innovation within a flexible regulatory framework. Researcher expects that progress in these areas will substantially enhance the role of stock markets in the economic development of Pakistan in the coming years.

This study was done to examine the causal relationship between stock prices and the variables representing real GDP, and real investment, in Pakistan.It is suggested that further research can be done on the causal relationship between stock prices and the rest of the macro economic variables like inflation, poverty, consumption etc.

In this study the time period considered is from December 1980 to June 2007.Further research can be conducted for the whole time period of the stock market.

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Sheridan once said of some speech, in his acute, sarcastic way, that “it contained a great deal both of what was new and what was true; but that what was new was not true, and what was true was not new.”

Hazlitt.

CASE STUDY

The Changing HRM practices through CMP model (A Comparative Case study on American and Asian Companies)

Nadir Ali
Keyline University, UAE

Abstract

The paper aims to report on the role of HR managers with special reference to changing management practices by proposing a model named CMP (Changing Management Practices) for modern companies. This will help organizations to set their directions in the most appropriate manner. The main purpose of this case study is to analyze the parameters proposed in the model and apply them on the sampled companies from American and Asian contexts. The study reports as a comparative case study as it is the best choice to address such parameters mentioned in the CMP model. Research suggests that companies no longer have a choice when it comes to adopting modern changes. If they do not accept these changes, they will lag behind in this hypercompetitive global scenario. . Companies are supposed to handle the overload of information, customer changing choices, employees' motivational level and adopt modern methods of corporate activities. Such practices are well identified by HR managers as they are considered important organizational icons and must be managed like an organizational wheel of coordination, collaboration and changing modern management practices. The practical implication of this paper will be on HR managers who will apply the parameters mentioned in the model. HR managers can utilize the CMP model to make their companies more competitive. Modern managers will learn from the success of the companies and will adopt the ways recommended in this study. This paper is a comparative case study for academic and practical domains. It will benefit all HR managers, students and Business Management faculty.

JEL Classification: M12, M14

Key words: Changing Management Practices, The Role of HR managers, Modern Organizations and CMP Model.

Introduction

Organizations are always in search of finding good people with interpersonal skills, social acceptance and commercial minds. In this regard, HR managers are the main icons to be utilized and help others to do the same. Today's varied Change Management models, OD processes &Strategic HRD functions are supposed to be smartly applied and HR managers are the responsible personnel to measure that all such practices are complied with organization needs. This research paper highlights the importance of such factors and this study aims to help HR managers see their roles in the bigger picture. . The CMP model in this study is logically complied with TQM, BPR, OD practitioners and Changing Management Models for modern companies. All sampled companies follow all models but CMP is the important model for them. The author has suggested this model (CMP) as a tool that helps run the company smoothly. This research got across and explored all the factors in detail and found that changing management practices are required when it is the need of the hour in terms of culture, change, analytical approach, coping up with IT, management styles and role of HR managers in modern organizational domain. The role of HR managers is highlighted in almost every aspect mentioned in the model.

Today's HR managers have more tasks to ensure that everything is right as it must be not only for the company and its employees but for the customers as well to enhance organizational productivity. As identified by Olson, 2008 "Lower productivity and morale, missed objectives, wasted time, wasted money & higher employee turnover mean big costs of failure for the organization" (Olson, 2008). HR Managers will always be important icons because of the increasing scope of HR management. As Aberg said Even HR departments are downsized, HRM seems to become increasingly important (AbergAas, 2005). The HR manager, in changing management practices is considered an important agent to innovate and develop resources and intellectual capital to compete with modern companies. As Beer and others supported that "Managing Human Assets (Beer, et al, 1984) emphasized the importance of innovating in HRM practices in order to "build a relationship between the organization and its employees that will pass the tests of greater competition and the shrinking economic pie" (Beer, et al 1984:7). Most of the companies are stuck in many approaches to develop yardsticks to get all employees motivated but selection criteria needs to be focused. As Devanna said "HRM is very important thing, its areas as suggested by Devanna, Fombrun&Tichy (1984),Four generic functions for HRM, Selection, Appraisal, Development &Research"The ultimate goal should be to improve performance, both for the organization and for the individual. HR needs to help executives understand that if they do not accurately understand the strengths and weaknesses of the cultures they create, they will have a harder time achieving their organizational objectives. By focusing on training and development efforts, HR will help employees to think, act and behave in the desired manner. .

Literature Review

Today's fast paced changing technological age has brought lots of changes and the responsibilities of Marketing managers, Finance manages, MIS managers &HR managers have also been changed into various modern categories. Such influence has also affected the role of HR managers to design new strategies to cope up with modern changes and workforce diversity in particular. This study has a special focus on HR managers' role in modern organizations with continuous changes to HRM activities. The Role of HR managers in changing management practices is changing due to the different ways of executing HR activities based on globalization, information flow and information technology updates in coordination, communication and faster work processes. According to Richard Change, author of the Passion plan at work, HRM focuses mainly on HR research & development system, union & labor relations, employee assistance & employee compensation. Whereas he says, HRD, includes career development as helping individuals, aligning career planning, organizational development as helping groups initiate and manage change, and also mentions training and development as designing, developing and delivering training to ensure people are equipped to do the job.

The role of HR managers is to develop employees as they could keep contributing something special for the companies' success. As Rainey et al responded that HRM in the public sector is the development of abilities and the attitude of the individuals, leading to personal growth and self actualization, which enables the individual to contribute to organizational objectives (Rainey, 2003, Keating & Davis, 2000, Caiden, 1991). There are many managers who have different roles in the organizations. This means that Marketing managers care about marketing activities, Finance managers are in deep thought of putting organizational money in the best possible project, IT managers are busy in identifying efficient information systems for smooth workflow automation while HR managers are focusing to entice best people for the organization. But all the managers attain human skills which may or may not be utilized. As far as HR managers are concerned, these human skills are widely evaluated and learned to maintain good environment in the organization. We need talented people and human skilled workforce. Currently, the consistent change in the nurture of HRM is mandatory in organizations. Every company increasingly depends on knowledge, process, management skills, technologies, information about customers, suppliers, old-fashioned, experience and intellectual capital (Fukuyama, 1990). The increased competitiveness puts on added pressure on the need for human capital and a highly committed workforce.

HRM is considered as the mind of a business but employees must justify the benefits and put efforts to achieve organizational goals. Not a single professional, not even those with top qualifications, can be considered human capital unless they contribute to value creation and thus justify the investments of the company (salaries, bonuses, taxes, training, and motivation programs) – *Handbook of IC Management in Companies (page # 29).*HR functions must be aligned with the effective use of employees as per organizational demand and employees' expertise. HR functions should be in a real relationship with employees and employers. This research proposed a CMP model that maintains systematic approach of HRM functions. As Pynes suggests "HRM is the design of formal systems in an organization to ensure the effective use of employees' knowledge, skills, abilities, and other characteristics (KSAOCs) to accomplish organizational goals" (Pynes, 2009, 3). This broad definition is supplemented with some specific HRM functions such as "recruitment, selection, training and development, compensation and benefits, retention, evaluation and promotion of employees, and labor-management relations within an organization" (Pynes, 2009, 3).The CMP Model will also portray systematic use of employees and mention good relationships in the organization. The company needs to have proper planning for maintaining good discipline, culture, change& management style. The CMP model will help organizations to plan and become more disciplined. This will help organizations to identify external factors and utilize internal talents. As suggested by Klinger & Wool ridge, the functions typically carried out by human resources departments are "planning, acquisition, development, and discipline" (Klingner, 2009, 3). Peggy Jackson (2007) and Blue Wool ridge (2004) indicate that strategic plans should include: an organizational profile to present relevant information about operations, history, success enjoyed, challenges faced, and applicable statistical data; environmental scan and analysis to identify external factors that must be considered and project what the future holds for these peripheral elements. Such planning is a must if companies are to face HR related challenges. The proposed model will help organizations to be more systematic and create a knowledge based working environment. Knowledge workers are defined as workers that possess great capacities in problem solving as well as production of knowledge that requires high level of intellectual capital in a form of specialized tacit knowledge (Mitchell & Meacheam, 2011) Knowledge workers are always valuable in the identified environment. The development, focus & change side of the CMP model will help in building intellectual capital and sustaining a good working environment.

Learning increases human capital (Lazear, 1998), therefore organizations have to engage their workers in training and development because of the rapidly changing working environment (Wild, Griggs & Downing, 2002; Beaver & Hutchings, 2005; Ong & Lai, 2006; Griffin, 2011). The HRD side of management practices & quality ensures good environment and capable workers. It helps organizations train, help and attain a sense of responsibility. This system will help employees identify their key roles. As suggested by Turkel & Kline, The Quality Management System suggests that employees have a sense of responsibility and perform their actions by themselves without having to be told (Türkel, 1998:41). The quality management system seems to be significant especially for HRM applications (Kline, 2002:73).

The changing environment of modern companies has changed the role of HRM in the companies. The CMP model explains the role of HR with reference to competitive advantage. It is aligned with planning, development and communication. As Schuler & Hansen suggested, HRM plays active roles in providing competitive advantage in many changes such as new competitors, new technologies, and reconstitution of works (Schuler, 2000: 240). HRM should overcome problems confronted with the expanding of the field related to human work in new competitive atmosphere (Hansen, 2002: 516).

If CMP model is properly applied then problems and crises can be solved. As identified by Tutar, the most important provision of resolving the crisis is seeking a solution depicting solidarity among employer, employee and even customers (Tutar, 2007: 119).The model is one of the strategic HRD directions to control and maintain the smooth system. It will help and empower employees to better perform in this competitive world. Philosophers like Chung &Hertog suggested similar arguments. Strategic International Human Resource Management (SIHRM) focuses on conformance to macro perspectives as a strategy, a system in order to control and manage multinational companies' overseas operations in an efficient way (Chung, & Beamish, 2005: 333). HRM should concentrate on authorizing employees in job processes to play key roles and up skill them (Hertog, Iterson, & Mari, 2010: 17). The proposed model will help companies perform in better ways. The companies that are sampled in this case study have applied such practices and can serve as examples. HRM and HR managers' role is the backbone in global companies today. "Aspects such as trade liberalization and globalization of markets and industries are not issues that can be viewed just for profit maximization, satisfying customer needs and creating a niche or market position (Sparrow et al, 2004). As all these mechanisms have a direct and profound impact on the behaviors, attitudes and mindsets of people who work in such organizations and on how they should be managed, all these changes and fluctuations have changed the world of work globally" (Deepika Faugoo, Global Cooperation in Management, 2009).

The role of HR managers in such activities has become important and companies need to invest enough money to attract talented HR personnel. HR managers are the attractive icons who can build trust among the employees by collaborating and guiding the employees in various domains. They keep up with the pace with the changing management practices and keep innovating ideas for the betterment of the organization.

Global HR managers or local HR officers, both have the utmost requirement to help people to change attitude towards work and organizational development. "The belief is emerging that the world class human resource (HR) competencies, and the processes for managing them, are those strategic assets that can lend an organization added value over their competitors"

(Khandekar et al, 2005). HR managers' aptitude develops employees' aptitude enabling them to change their attitude towards organizational success. The HR professional is viewed as the individual who is responsible for identifying and bringing together the right people in order to achieve the organization's strategy. These responsibilities, in addition to the demands placed by the fast-paced business environment, leave few opportunities for mistakes. Therefore, it is crucial for the HR professionals to understand the responsibilities of his or her role within the organization. According to Lawler (2005), the time for HR to change its role and function within the organization is now, as human capital is considered a competitive advantage and HR is the means to leverage that capital. As a result, the HR role must evolve into a business and strategic partnership with the organization to best serve its need. These days organizations are busy in enticing the workforce and motivating them with different methods as this becomes a policy architecture for all the companies as mentioned by Joegensen, B.,2005, "*Attract, retain and innovate: a workforce policy architecture adapted to modern conditions"*, Foresight, Vol.7 No.5, pp. 21-31. As previously mentioned, historically HR has functioned as the traditional entity that offered basic administrative services with an "emphasis on resource efficiency and service quality"(Lawler, 2005).

Changing HRM Practices

The changing management practices are focused on many areas but three are most dominant where HR managers can contribute their role in modern organizations: The Changing Market trends, Intellectual Capital and Required Technology. CEOs around the world have the same concerns to survive in today's modern organizational focus. "The market is so dynamic. Visibility is very low" says the Electronics CEO, "We are making acquisitions for the people, not the assets" reports the Financial markets CEO, "Technology is driving huge changes in our industry landscape" reflects the Government health agency leader (IBM Global CEO study: The Enterprise of the Future, 2008, page 16) www.ibm.com/enterpriseofthefuture.

The Role of HR managers in such situations is very clear and the need to work on all three areas like Market trends, Intellectual Capital and Technology is quite evident. The HR personnel can play a role of coordination with Finance, Marketing, IT and other departments. HR officers need to come up with the acute interesting models with high tactics to install innovative business models to attract the market. "When the Business Model is innovative, operations and the product will follow automatically" (IBM Global CEO study: The Enterprise of the Future, 2008, page 53) www.ibm.com/enterpriseofthefuture.

The modern companies' biggest practice regarding change management after the year 2000 was to focus on the talent who can design striking strategies to maintain the organizational image. The talented workforce can bring and contribute something very special for the development of company. "Recruiting and developing talented staff and synergizing their contribution with the resource bundling of the firm, can lay the basis for sustained competitive advantage" (Khanderkar et al, 2005). Technology is an area where the HR role has become very crucial. The main responsibility of the HR professional is to be connected with the workforce around the world in just seconds which has saved company's millions of dollars of training & development. Furthermore, the HR role has been supportive towards managing the workforce very effectively not just monitoring them butguiding , supporting, and motivating them by identifying key competencies and matching them to the right job. "Management of people is increasingly being considered as one of the key links to generating a competitive advantage. Competitive advantage leads to organizational effectiveness" (Lengnick in Khanderkar et al, 2005). Such initiatives will definitely bring out the competency levels of the employees and provide a competitive edge to the organization as well.

Changing Management Practices Model (CMP)

Many philosophers have subscribed to many management styles and work methods in organizations but it always differs from company to company. The literature shows that companies follow different management styles in different cultural context. Some management styles are suitable in European countries while others would be better suited in the Asian environment. Literature shows that some management patterns like business, paternalistic, professional or participative management styles are suitable in various environmental contexts but exploring them based on how much time the companies has to implement it is crucial.

CMP (Changing Management Practices) model is designed to lead companies in the modern domain. The model is based on the following elements (it is applied on the sampled case companies later). This evaluates the Role of HR managers in changing management practices with reference to modern organizational domain. This model suggests that the best way to lead a company is to adopt five basic parameters as setting a culture, bringing a change, developing analytical approach, focusing & coping up with information economy trends and proven management styles. The CMP model is sequential towards success. All the top companies which are leaders today are only successful because they followed these sequential steps mentioned in the model. Whenever, we mention any successful company, we either mention its culture that ensures everything to be aligned as planned, or mention its change program that transformed employees to apply a hundred percent effort for the company's image, or mention that the company has a great analytical approach because of its human capital where all employees justify their rewards & put in required working hours.More often than not, the company usually has the best IT setup that makes it number one when it comes to reaching customers with care & solution.Furthermore the company has a proven management style as it is required as per the need of the hour.

Setting a culture is the tradition of top companies and is initiating a focused care for employees and similarly for customers. However, the culture being determined is not a predictor of excellent performance. Major changes may be required at some point in time. It has been proven that employees become more analytical if given required orientation. This discipline should be highly supported by focusing on essential information regarding economic trends. Lastly, adopting the style that is most suitable for the environment in the company is essential for efficiency.

CMP (Changing Management Practices) Model

Application on all modern organizations to evaluate the Role of HR Managers in Changing Management practices				
Setting a culture	**Bringing a change**	**Developing Analytical approach**	**Focusing & coping up with information economy trends**	**Proven Management styles (Modern & Situational)**
Working culture	Why change?	Market analysis	Focusing on IT infrastructure	Professional
Customer focus culture	What change?	Competitors' analysis	Focusing on faster electronic trends &usage	Paternalistic
Business mind culture	Sensing the results after change	Changing preferences analysis	Focusing on IT flexibility for customer usage	Situational
Caring& helping culture	Careful selection of change agents	Analysis of current &future strategies	Focusing on customized ERP modules	Equity patterns
Working ethics culture	Apprise people that change is beneficial & rewarding.	Government analysis &policies settlement	Focusing on required IT training for employees	Counseling, Training &Mentoring

Figure # 1 (CMP model)

1. **Setting a culture**
- Working culture
- Customer focus culture
- Business mind culture
- Caring and helping culture
- Working ethics culture

2. **Bringing a change**
- Why change?
- What change?
- Sensing the results after change
- Careful selection of change agents
- Apprise people that change is beneficial & make it rewarding.

3. **Developing Analytical approach**
- Market analysis
- Competitors' analysis
- Changing preferences analysis
- Analysis of current and future strategies
- Government analysis & policies settlement

4. Focusing and coping up with information economy trends

- Focusing on IT infrastructure
- Focusing on faster electronic trends and usage
- Focusing on IT flexibility for customer usage
- Focusing on customized ERP modules
- Focusing on required IT training for employees

5. Proven Management styles (Modern and Situational)

- Professional
- Paternalistic
- Situational
- Equity patterns
- Counseling, Training& Mentoring

Application of CMP Model on the sampled companies

1. <u>AMERICAN COMPANIES</u>

1.1 Microsoft

1.1.1 Setting a culture

Microsoft is one of the leading software companies and has a unique, focused working culture. Its employees adopt a very casual culture during their working hours. They keep working wherever they may be ranging from sitting on the walls, tables, the cafeteria, the office, to the staircase. Its focus has made Microsoft successful. Microsoft considers its customers as the most important partner of the company. Microsoft's unique product offerings are the sign of a customer focused approach and this complements its business minded trends. Microsoft is a major player in IT industry which follows its work ethics and legal requirements to the bone, may it be with customers, employees, suppliers or even competitors.

1.1.2 Bring a Change.

This company brings change in every aspect of its work because it knows how to cater the changing needs of the customer. Microsoft has implemented such changes and has always been successful. Microsoft's abilityto come up with new operating systems so frequently has the world anxiously waiting for its products. It has an ability to grow because it possesses the sense of identification for what the consumer requires and needs. Microsoft is very good at hiring people and select the best HR personnel who train other employees to be change agents for Microsoft.

1.1.3 Developing Analytical Approach.

Microsoft is an authentic company when it comes to reading industry attractiveness. They use out of the box in strategies which brings them in a better position than its competitors. Its success is mainly dependent on knowledge of changing preferences of customers; they evaluate and deliver the right thing to the customers, at the right time. The company is very competent in analyzing future markets and coordinates with government regulations. Microsoft's HR department is an expert at analyzing international markets and then incorporating that analysis within the company to become more competitive. This strategy is known as outside-in strategy.

1.1.4 Focusing and Coping up with Information Economy trends

Being an IT company and in a much better form than its competition, it has an impressive IT infrastructure, competing with many IT giants inside and outside America. It is the market leader to provide flexible and customized software solutions for efficient use in offices and homes as well. It has provided some ERP modules which are customized and has trained its employees diligently and provides guidelines for customers as well to ensure user friendliness.

1.1.5 Proven Management Styles

Microsoft has maintained professional management style since decades. They are flexible in the kinds of management styles employed and have instilled in their employees the same kind of rigor. The employees work on their own and are used to ambiguity and uncertainty.

1.1.6 International Business Machines (IBM)

1.2.1 Setting a culture

IBM is a well established company and is popular amongst its corporate and general customers.IBM is the only company which has formalized itself as a company and has well dressed, high on corporate ethics and hundred percent hard working employees.. IBM employees know what to do at what time. It seems that at IBM its employees are naturally programmed work in any kind of culture. This kind of culture has promoted the customer focused aspect in its employees as well. IBM possesses very impressive business minded personnel as proved by the fact that they keep offering new updates on an IBM gadget and other multimedia & supportive aids for corporations. . IBM not only trains their own employees but like Microsoft, also helps& guides customers so that they have total understanding of the product.

1.2.2 Bringing a change

Most of the companies always claim that change is important but very few can implement and prosper after a change has been introduced. IBM is the only company which fulfills all claims made to customers, government and employees as well. Change is important at IBM to face and stop the competitors to win the race in customer satisfaction. The change which IBM brings all the time is customer delightedness in novel ways. To keep updated on customer preference & knowledge, IBM keeps contacting them from time to time. Now-a-days, IBM is changing methods of workflow automation, customer database updates and is finding new ways to keep the company's reputation out of the black water. IBM knows that making changes to customer database will bring in good results and has therefore followed this many times. IBM's HR managers are talented especially in the role of change agents. The role of HR managers has been crucial in making IBM successful. The change has never been resisted at IBM because of the impressive role of HR managers to motivate and inform the employees about the benefits of change about to come.

1.2.3 Developing Analytical approach

IBM's varied ambassadors are known as great analysts in the HR, marketing, finance and IT departments. They have a watch on market changes & updates to foster change management in the company. They focus on competitors' analysis and strategize on how to avoid letting competitors take business from IBM. IBM's strength today is the sense of the changing preferences and the analysis that follows. The employees receive formal trainings for such analysis. They are also experts in knowing the current &ever so dynamic markets with reference to the laws, regulations and government policies

1.2.4 Focusing and coping up with information economy trends

IBM is an expert on focusing on IT infrastructure. In fact, IBM is the world's leader in IT infrastructure which provides corporations with faster electronic to accelerate business transactions and keep connected with the rest of the world. It provides varied customized ERP modules and other software and machines for the requirements of these customer corporations. IBM is the leader in such areas since many years and that can be attributed to its trained employees and HR personnelwho coordinated with other departmental managers.

1.2.5 Proven Management styles (Modern and Situational)

IBM follows almost all management styles to be flexible and remain updated with the requirements of the changing trends of corporations and customers. IBM follows professional style management and teach sits employees the essence of such management practices. . IBM employees are not only focused on companies' requirements but also put more efforts than required, this whole kudos goes to HR people who guided and trained in such manner. The professional style of HR managers play very vital role in equipping employees on company objectives and its image.

1.3 Google

1.3.1 Setting a culture

Google is one of the top American brands in the "search" domain and has been accepted as the search leader in the world. People love Google for its search offerings and quick services in information handling pools. Google, no doubt, has a very impressive and customer focused approach which definitely is a proof of success. Google is less business minded as they claim to be and is more concerned about customers.

1.3.2 Bringing a change

Change is the permanent activity at Google as it comes up every time with new offerings because they want to focus on their customers. Customers feel more than happy at availing new benefits offered by the company. Google is also efficient in hiring talented intellectual capital which helps it develop and understand the results of the change activity. Their employees are always well aware of the imminent change and this can be attributed to effective and clear communication .

1.3.3 Developing Analytical approach

Google provides employees an opportunity of training and independence as well as opportunities to come up with good ideas for the company. They are experts in market analysis and competitors' analysis and focus on the changing preferences of customers, government, suppliers and competitors. Being on the search of good things for customers, Google forms teams to conduct an in depth analysis current and possible futuristic change that may happen in IT and other search domains. That team including HR managers become active and show utmost responsibility in maintaining Google's number one position.

1.3.4 Focusing and coping up with information economy trends

As Google is an expert in software search, competitors come up with supportive IT infrastructure. Google focuses on such trends which may help Google maintain its lead position. Google's focus on customized search engine facilities is no doubt, helping corporations to know and share the information with the rest of the world. Google's facilities with IT flexibility create training opportunities for Google's employees to be more updated and up skilled.

1.3.5 Proven Management styles (Modern and Situational)

Google follows all management styles because it maintains a situational trend which they believe is the most effective in today's business world. Google follows different management styles time to time but professional is dominant as Google's employees are asked to adapt to such a culture from the minute they join the company.

1.4 General Electric (GE)

1.4.1 Setting a culture

GE provides a platform for the employees to work on customer focus in a business minded culture. This means a business is important but employees, customers, government and suppliers, all are equally important. GE Managers think along the lines of contributing more to the country rather than to business needs. It provides and promotes caring and ethical culture on a larger scale. Its employees are very happy and hold their top management in high regards. This credit goes to JeffImmelt or Jack Welch (ex CEO) for maintaining such a unique working culture at the company.

1.4.2 Bringing a change

The company brings changes which are helpful in working efficiently every year. The biggest change in this year t was the coordination with employees, understanding their concern about presentation of the company's projects and new products which can make company even more reputable. This has happened through talented HR managers who identified the right change agents in the company and brought numerous of positive ideas to the table. This only happens when employees are given total information about change, implementation and promotion opportunities.

1.4.3 Developing Analytical approach

GE is focused on market and competitors' analysis but also has trust on its potentiality to maintain the position. They focus on which changes are imminent ahead and how to come up with policies to navigate through them. GE's unique marketing strategies have earned better government policies and settlements. It has unique tools to explore and keeps a keen eye on current and future strategic analysis.

1.4.4 Focusing and coping up with information economy trends

GE focuses on required IT information which helps to coordinate and accelerate working efficiency at required demands. They have a good IT set up but do not opt for fancy electronic setups as it is not a business requirement. It has customized ERP vendors by which they coordinate and collaborate with government, suppliers, customers and employees as well. GE uses Information Technology in training the employees sometimes as well. It has a good focus on required trainings for some technical aspects.

1.4.5 Proven Management styles (Modern and Situational)

GE focuses on equity patterns, professional & situational management styles. GE believes that equity patterns are the most demanded & supported kind of management style by its employees. GE is also following professional management style where all the employees behave and work as required by the company. It also has a vast pool of counseling sessions but do not indulge in a lot of trainings as they believe that their employees are absolutely talented in their areas and training is not the need of the hour.

1.5 Coca-Cola

1.5.1 Setting a culture

Coca cola is a very successful company and is very popular amongst its customers due to its way of working and customer focused culture. The company has a very business minded culture and has proved to be number one in beverages business and stood out as a giant wall for other beverages competitors. Coca cola believes that their employees are trained by HR managers to achieve company's' objectives.

1.5.2 Bringing a change

Introducing varied products is the biggest change Coca Cola has come up with. They change because of the changing preferences & changing behavior of customers and offer unique packages so as to retain them. This is possible through the efforts of marketing managers and HR managers who select the change agents very carefully and provide them with the required information and a sense of belonging to the company. Coca cola's strength ins motivating employees and convincing them that they are the most important icon of the company.

1.5.3 Developing Analytical approach

Coca Cola managers are very analytical and that is the reason, the company is enjoying such an over whelming response in specially in North & South American, European &Asian region. It is serving the world with the finest beverages which no other company has been able to offer and this has been made possible through the market analysis, competitive analysis, changing preferences and futuristic focus of beverages business. Coca Cola's HR managers have a very unique collaboration and rapport with government officials which works out well in their favor.

1.5.4 Focusing and coping up with information economy trends

Coca cola is maintaining all required information on economy trends especially its customized ERP modules which helps in coordinating with the employees, dealers, suppliers and customers in particular. They require only customized and flexible IT domain for the smooth working styles to be connected and remain updated with the changing patterns of other companies. Employees are highly trained in the marketing, IT, finance and HR domain to cope up and keep up the pace with fast changing technological advancements.

1.5.5 Proven Management styles (Modern and Situational)

Coca cola maintains a high profiled counseling, situational and participative management style for the purpose of maintaining and creating cordial atmosphere at the company. The company maintains professional management style which helps employees to be more committed to the work

2 ASIAN COMPANIES

2.1 Toyota

2.1.1 Setting a culture

Toyota is one of the leading companies from Japan and has millions of customers all around the world. The company believes that employees own the company. This is the only company who initiated an idea of sense of ownership. At Toyota, employees are motivated to the extent that they say, "we don't work for Toyota, we are Toyota". Toyota has strong customer focus as well. They help customers in various ways and this has helped Toyota earn business around the globe.

2.1.2 Bringing a change

Toyota brings change only when they get a signal from the customers. They do it through the support of HR managers and marketing managers to gather evidence regarding customer opinions and after that they select the best workforce. Marketing and HR personnel always think of changes which should be better than competitors. Toyota, being number one in sense of ownership always apprises employees about all the things that happen in the company.

2.1.3 Developing Analytical approach

Toyota's analytical managers have always sensed the market potentiality and competitor's possible strategies and have suggested for better strategies for Toyota. It focuses on current and futuristic happenings and that has made the company very successful. The company maintains a very cordial relationship with government efforts, customers and other important public members which are directly involved in the promotion of the company.

2.1.4 Focusing and coping up with information economy trends.

Toyota focuses on similar IT systems as other companies do follow in the same domain. Toyota uses technical support for the purpose of manufacturing plants where robotics is required. The company also uses high IT systems which are required to coordinate and consult with HR, Marketing and other employees of the company. It has a very flexible and customized ERP module that reaches the customers, government and employees in particular.

2.1.5 Proven Management styles (Modern and Situational)

Japanese companies always follow parental and caring management style and Toyota follows the same but also uses some other styles such as participative and professional. Such a system and style keeps changing from country to country as cultural contexts vary.

2.2 China Mobile

2.2.1 Setting a culture

China mobile is focused on its vision & profitability. It has a very successful and disciplined culture at work, professionalism and a sense of ownership with the company. Company's profitability vision shows its business mind culture but this company never compromises on quality. The customers of China Mobile have a conviction about the quality and care for the company's products, promotions and unique services. The customers are frequently asked about the services and products to keep up to date with the current and futuristic trends.

China mobile has given a tough time to its competitors. It maintain sigh ethics in all areas of business and keeps a check on operations from time to time.

2.2.2 Bringing a change

China mobile's biggest change is that the company diversifies in to different countries. They bring the change according to different cultures of the countries. China mobile also has programs for corporate social responsibility, such as providing free airtime, collecting abandoned batteries, and sometime providing help to government and customers. The company maintains good rapport with the government.

2.2.3 Developing Analytical approach

China mobile is always on the hunt for a pool of talented workforce at the company. China mobile staff is very analytical, innovative and good at developing work strategies to beat the competitors. The most important strategy of their managers is to intimidate competitors by designing ways that the competition cannot imitate. China mobile always wins the race over the competitors.

2.2.4 Focusing and coping up with information economy trends

The company does not believe in IT systems but still has the best IT systems placed in the company. The company has such systems installed to coordinate and be connected with customers and employees. The company takes initiatives for the employees to cope up with customers in a flexible manner to maintain the company's image. The company also trains its employees using technological interfaces.

2.2.5 Proven Management styles (Modern and Situational)

At China Mobile, they maintain a professional management style which shows everybody's responsibility is clearly defined and shared with the employees which prove the company's success. For this reason, all the employees not only have a focused approach but also minimize the wastage of company's resources.

2.3 TCS

2.3.1 Setting a culture

TCS focuses on customer database and designs strategies to achieve business minded activities in all domains. The company is very responsive to customers. TCS is a very ethical company and has shown utmost care and guidance for its customers. All divisions are working smoothly and the workforce is satisfied with the company's position.

2.3.2 Bringing a change

TCS has maintained the change processes in a varied format, sometimes particularly done for the customers, sometimes promotion fairs for employees, and sometimes, best services, quality products, timely delivery and much more were kept as the main focus. TCS has a work force which is very motivated and hard working. The HR managers always select good people to train the employees and guide them to achieve company objectives.

2.3.3 Developing Analytical approach

TCS managers are talented and analytical in identifying their competitor's plans. They launch good promotion schemes before the competitors hence are quite proactive. TCS has an accurate focus on understanding the changing preferences of customers as it offers packages for students and special packages for Eid, Valentine's Day and other such festivals. TCS focuses on every aspect of current and future to maintain its reputation as the leading courier service of Pakistan. TCS follows all regulations identified by the government.

2.3.4 Focusing and coping up with information economy trends

TCS has maintained a very accurate and apt IT system and has implemented a very high ERP module as well as other IT systems to keep track on the customer shipments and coordinate with customers and employees. TCS also has a strong IT system to coordinate with different embassies for passport delivery services.

2.3.5 Proven Management styles (Modern and Situational)

TCS follows a participative management style which gives more confidence to TCS employees. Such sense of recognition and ownership to employees makes them more motivated to come up with innovative ideas for achieving company's success. TCS also follows some other management styles based on situational requirements.

2.4 Airtel

2.4.1 Setting a culture

Airtel has an impressive culture of working. It is customer oriented & business related in nature. Airtel is a very business oriented company and has helped India with increasing the number of jobs available, offering good products to the customers and is popular for its ethical communication system.

2.4.2 Bringing a change

All companies bring changes but Airtel faced a major structural change when they merged with Google to give their customers better options. . Airtel is expert in sensing the results and this helps them get a larger chunk of the market. Airtel believes that the credit goes to the marketing & HR managers for giving understanding the business to such depths and helping the company succeed.

2.4.3 Developing Analytical approach

Airtel is very successful in India and has a very clear vision and focus on the market potentiality. Its competitors are working very hard to beat Airtel but have failed in front of very proactive approaches of Airtel. Airtel has earned much respect in Asian market and continues to do so because of its HR managers' innovative market readings in current & futuristic domains. Airtel also maintains good coordination with the respective governments in terms of their policies.

2.4.4 Focusing and coping up with information economy trends

Airtel has focused on IT flexibility which is demanded by the customers. Airtel has acoordinated and customized IT network set up which helps Airtel to connect & have flexibility.

Airtel has proven to be very responsive in training the employees for understanding Airtel's future plans.

2.4.5 Proven Management styles (Modern and Situational)

Airtel follows participative management style in which they recognize their employees and and this in turn helps employees put in more effort in order to grow with the market. Airtel's HR managers believe that the participation style of management has become very successful at Airtel.

2.5 SingTel

2.5.1 Setting a culture

Singapore Telecom is one of the leading companies in the telecom sector and has earned a lot of respect due to its culture. It has a versatile business approach in which customer care and guidance is imperative. The workflow in SingTel in highly standardized keeping the employees motivated where they feel as if they own the company.

2.5.2 Bringing a change

The company brings in change to motivate the employees to help management achieve the company's successive position. The HR managers possess the talent to sense the imminent threats and opportunities for the company and help to coordinate with the marketing and finance department to smooth the work process. HR personnel help the company to select the right people who fit perfectly for the job. .

2.5.3 Developing Analytical approach

The company has collected the talent from every corner of the world to create and innovate in strategies for the company and this is the reason that the company has maintained a very good reputation in the minds of the customers around the world. They always update themselves with the changing preferences of the customers. SingTel has a very stalwart support from the government to implement their practices for the local and international customers.

2.5.4 Focusing and coping up with information economy trends

The company is equipped with the world's best IT systems to reach customers in order to coordinate with service packages. It has the best infrastructure, innovative ERP modules for smooth working conditions and accelerated workflow automation. Employees are trained in many domains which are concerned with the company. SingTel is number one in identifying the needfor training and systems for the customers.

2.5.5 Proven Management styles (Modern and Situational)

SingTel maintains equity patterns and parental management style which is more towards independence of the employees. SingTel believes that its employees are highly Trustworthy and this has helped them achieve profitability for the company

Comparative Analysis

Comparatively, all sampled companies follow similar strategies in most of the cases. The companies' HR managers have reported that HR managers' roles in changing management practices are very important at all levels of the organization. The overall response was very positive and HR managers supported all questions asked with positive opinions. On the basis of such analysis the CMP model was generated to check the role of HR managers in changing management practices with special reference to different categories mentioned in the model.

Training is one of the strategic HRD tools which companies are using these days. Training enhances the performance as indicated by Saks in 2002. The model has also covered some aspects of training based on its importance in modern companies. Microsoft has followed it for understanding customer needs but in a competitive way, IBM has followed it by keeping a futuristic vision, Google has followed it by making sure it is the only one providing something very unique, GE has followed the customer & employee centered approach to keep everything intact while Coca Cola has followed an approach that reaches the customers and consumers in a novel way.. The last category environment is the Asian context where China mobile used the model to entice customers with the best quality & service. In a similar fashion, AirTel and SingTel have done a lot for the customers and employees. AirTel has provided all modern and state of the art technological systems to customers in India and abroad while SingTel has maintained its customer database very effectively and is still growing where they have adopted the bankable opportunity and approach. Toyota is a different industry category but the sense of ownership towards the company is the most successful approach as proved above. TCS has applied the model from all aspects to bring success to the company and the employee centered approach remains very successful. Finally, research found that all of the above strategies and approaches were very dependent on the role of HR managers in current environment and forthcoming situations.

Research Methodology

The study is primarily on the field of HR, its changing management practices and modern organizations which are identified in the selection of companies in this case study paper. The research is purely basic &the case study methodology was adopted. The results are explained from the structured & unstructured questions asked from the managers. To conduct the research on such companies in varied formats, qualitative case study approach was the best option and this remained fruitful after collecting the relevant information to serve the purpose of the research. On the basis of such approach, CMP model was developed and introduced and applied on the sampled companies in this research. Through this methodology, the basic and exploratory objectives of this particular research are achieved. As Strauss & Corbin argued that a qualitative approach is particularly adequate for explorative aims. Van Maanen, 1983:10) "the aim is directed towards increasing the contextual understanding which implies the qualitative assumption that the research need to gain more or less intimate knowledge of a research setting (Van Maanen, 1983:10).

All the companies mentioned in this research adopt the modern and new mandate for human resources which is quite credible as mentioned by Ulrich, D.O.,1998, "*A new mandate for human resources",* Harvard Business Review, Vol.76 No.1, pp.124-34.The purpose of this research is to investigate the role of HR managers in changing management practices which is based on the functions and roles of the managers. For this purpose, an exploratory and a qualitative case study method is appropriate to understand the role of HR managers in CMP model.

Limitations

Few limitations came across from the response of some companies but after repetitive visits, telephone calls, emails to authorities, review of literature survey and exploration made it possible to collect enough information to meet the objectives. This made the response satisfactory and helped in the collection of relevant data. While sending out emails and conducting telephone calls, a major challenge faced by the research team was of delay but persistent reminders made it possible to get the response on the time.

Case Findings & Recommendations:

This case research has found that proposed functions in the CMP model will be beneficial for the companies who want success in modern paced time. The proposed functions were evaluated and applied at all companies mentioned in the research. This comparative case study found that companies want to adopt CMP model as it is less complicated. After the findings, following recommendations were also added:

- Since time, technology, diversity & change push companies to stiff competition, the companies must adopt the proposed model and analyze it with technologically based system in the organization. Organizations should specifically follow and train high level staff as they can later be oriented to other staff members.
- The proposed CMP model should be a benchmark for the companies that are stuck with the all too familiar HR issues at the moment. Companies in any country can benefit from such a model and translate it according to the requirement of the company or culture.
- The study recommends that HR managers should be involved at all levels of management functions to identify the talented manpower and guide them to achieve organizational objectives with special reference to modern approaches.
- Modern Organizations are using many management styles which are situation oriented in nature and HR managers play an important role in coordinating with other managers to keep an eye of organizational developments .The study submits further recommendations of understanding modern management practices of evaluating competitors' success and predict the processes which competitors have adopted and been successful in.
- Finally, HR managers' role is not only to carry out required activities but to keep exploring more innovative ideas to support companies.

Conclusion

Organizations are in great search to hunt intellectual capital which is not easily accessiblebut HR professionals and their role has made the organizations fill such hiatus through accurate and modern training for employees. The major purpose of this training and development is saving companies from big losses. The study concludes that organizations need to be cautious in selecting models, framework or any analysis to bring required development. The model like CMP is the easiest and flexible to bring required change to move towards success. The role of the HR managers needs to be understood and generalized to other departments as well. The research concludes that HR managers favor technological updates to accelerate coordination and provide flexibility to employees in workflow automation and help customers to be in touch with the company at any time. The study has submitted that HR managers mostly believe that the function of HR has increased in scope and responsibility in Multinational Corporations and also believe that playing an important role as a change agent in modern organizations is equally important.

Most of the HR managers of modern companies mentioned in this research supported that the role of HR managers will keep changing in future. The proposed CMP model will generally be compatible with all forthcoming changes in modern companies.

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Acronyms used in the paper

- CMP (Changing Management Practices)
- HRM (Human Resources Management)
- HRD (Human Resource Development)
- OD (Organizational Development)
- TQM (Total Quality Management)
- BPR (Business Process Re-engineering)
- IT (Information Technology)
- MIS (Management Information System)
- IBM (International Business Machines)
- G.E (General Electric)
- ERP (Enterprise Resource Planning)

It was a grand trait of the old Roman that with him one and the same word meant both honor and honesty.

Advance

BOOK REVIEW

The New Entrepreneurial Leader: Developing socially, ethically, economically and environmentally sensitive leaders: A literature review of recent trends from three leading writers

In the past few decades the words used as synonyms for leadership were confidence, strategic planning, and a focused mindset. The business schools claim to produce managers and leaders with the above mentioned qualities that are required to manage and run the present day corporations.

There is a lot of emerging criticism that the business schools have changed the art of management in to science. Management is considered to be an art rather than science. When management art is mixed with craft or experience, it becomes a practice. Inexperienced students cannot appreciate the practice of management, so they focus on the science, or analysis, that is the basis of most MBA programs. Management is treated like a profession that can be learned without experience and then applied in every situation. Management on the other hand is actually a facilitating activity that depends on the immediate context.But today's fast, every increasingly complex and globalized world requires different kind of leadership which is socially, ethically, economically and environmentally sensitive. This review discusses the recent literature and presents a synthesis of various view points on this topic.

Shoshanna Zuboff (2009), one of the first tenure track professor at Harvard Business school who spent quarter-century as a professor at HBS, including 15 years teaching in the MBA program states, "I have come to believe that much of what my colleagues and I taught has caused real suffering, suppressed wealth creation, destabilized the world economy, and accelerated the demise of the 20th century capitalism in which the U.S. played the leading role. We weren't stupid and we weren't evil. Nevertheless we managed to produce a generation of managers and business professionals that is deeply mistrusted and despised by a majority of people in our society and around the world. This is a terrible failure(Zuboff2009)".

She continues to state that this failure has contributed to the decline of American business. Margins have shrunk and return on sales for the Fortune 500 has been declining. Most companies opted for cost reduction strategies to find new ways. The Harvard Business School and other business schools, came up with new concepts and jargons: outsourcing, off-shoring, downsizing, reengineering, and finding new overseas markets for old products.The obsession to the shareholder value maximization concept led the firm to another area "financialisation". Since the 1980s, manufacturing firms have made more of their revenue and profits from finance than from selling their products(Zuboff 2009).

The business school managers have to rethink the MBA programs to prepare future managers which can run complex global organizations in a rapidly changing world. According to Srikant (2010) "business schools need to take a broader view of their graduates' responsibilities to multiple stakeholders, and to provide their students with a deeper understanding of such phenomena as globalization, leadership, and innovation, as well as the ability to think critically, decide wisely, communicate clearly, and implement effectively".

An important point raised by Srikant (2010) is the “two cultures” problem i.e. business school research and business practice. The Ford Foundation and Carnegie Corporation submitted a report in 1959 recommending the business schools to incorporate more and more analytical courses, to enhance the research orientation of the faculty and the incorporation of traditional disciplines such as mathematics, statistics, economics and psychology with more focus on theory. Over a period of time these reforms have created a huge gap between theory and practice.

Mintzberg(2005) claims that the business schools choose the wrong people to train as future business leaders. The business schools try to create managers out of people with no experience or demonstrated leadership. Leadership is a natural quality which is time and context dependent. To teach leadership to someone who has never managed is like teaching psychology to someone who has never met another human being.

Management is an art rather than a science and when mixed with craft or experience it becomes practice. An inexperienced person cannot understand the practice of management and therefore focuses more on the science and analysis part. Most of the business schools consider the aspect of science and analysis to be the foundation and basis of the MBA programs. They consider management as a profession that can be learned without experience and then applied in every situation.

Many business schools on average require a work experience of four years for admissions in the MBA program so that the students bring some managerial experience. On the contrary their experience is very basic in non-serious activities and rarely managerial.This age group is typically in search of a quick career progression and freedom from family to fulfill their ambitions. This mindset is in contradiction with management that focuses on accepting responsibility rather than throwing it off to others. Most of the MBA applicants are impatient, analytical and controlling who self-select to apply to have a quick career progression and move up. In many cases they move out of their area of expertise and core competence.

The GMAT admission test has a bias for science and analytical thinking. The business schools prefer students with higher GMAT scores rather than good management experience. Mintzberg adds that the people having a zest for business (to get the most out of resources) but not the will to manage are the problem. Such people are abundant in the MBA programs. These people turn out to be good investment bankers, financial analysts or consultants. The world needs leaders with human skills, not professionals with academic credentials. Once the wrong people are admitted in to the program, there is no right way to develop them. These business students receive a false sense of management and they carry and disseminate it in organizations. This ill-conceived pedagogy becomes so ingrained that even when the right people are sent to executive MBA programs, they learn the wrong things.

The first graduate studies in business started at Dartmouth in 1900, followed by the first MBA program at Harvard in 1908. With the passage of time, the focus of the business education became academic. Case studies emerged and became popular with students for their practicality; interest in business research began to decline. In the 1950s, interest in academic research picked up again, and the focus was on business rather management. Business programs used to teach distinct functions, such as finance, entrepreneurship and marketing, not management. Management was eventually introduced in the form of “strategy,” course. Instead of viewing it as a synthesizing and integrating course of various functions, it became another function to analyze.

Managing by analysis was narrowed to decision making, and became the norm. In reality much of decision makinginvolves soft skills to identify problems, consider options, and set up holistic solutions. Professors either can't or don't want to teach soft skills, and the students are not ready to learn them either. The business school programs focus on what they can do i.e. evaluate choices :a very narrow view of management. Students are encouraged to analyze by learning generally applicable techniques, but not by taking responsibility..

Mintzberg defines the present day management education in business schools by this equation

CONFIDENCE – COMPETENCE = ARROGANCE

The curriculum in the business schools is based on building a confidence. The MBA pedagogy consists of primarily four components i.e.

1. Lectures: Professors stand before the students and tell them how the real world is, but unfortunately the real world is experience.
2. Case Studies :Students read a 10- to 20-page discussion of a business situation with a protagonist at a crossroads, having to make a decision. This method promotes too much sitting around and talking — not action.
3. Business Games : Teams of students make decisions about pricing and production for simulated businesses on computers, but suffer no consequences if they are wrong.
4. Projects : Students conduct fieldwork projects and consulting assignments in real companies, but without commitment or responsibilities, the projects are meaningless.

In a typical MBA two years program the students go through 400 to 600 case studies. The case studies are mostly success stories and discuss the matter in a very superficial and shallow way. The students focus more towards class participation rather than learning. They are not exposed the hard work and sleepless nights spent by the protagonists in making the company a success. The students learn the jargons, key words, and very generic information and feel themselves in the shoes of a corporate executive. Competence can be defined in two ways i.e. execution capability and peoples skills. The graduating students are very low in both of these as they have the least amount of focus during the MBA program. Confidence minus competence breeds arrogance.

The effective people have confidence and competence, the sad ones neither. The unfortunate people have competence but lack confidence. They are worth worrying about, however they are treatable as a small boost in confidence can have great benefits. The dangerous people, especially in this hyped up society, are the remaining group: those whose confidence exceeds their competence. These are the people who drive every one else crazy. MBA programs not only attract significant numbers of such people but encourage their tendencies, by boosting their confidence to manage while providing little competence to do so.

This mindset has resulted in business schools training elitist leaders in analysis and communication skills and promoting them on fast tracks which in turn have led to the corruption of the educational process.

Corruption of the Educational Process

Although business schools claim to teach business skills their main focus becomes to filter and prepare the students on fitting in and competition. Students try their best to enter in to the best business schools for the sake of networking and reign over management. The obsession to increase shareholder value triumphs over customer needs and product quality. Even with the increase of more and more ethics classes, the MBA graduates are least concerned with the environmental, social and ethical businesses.

The MBA program gives them a lot confidence without enough competence. The business schools create a breed of arrogant students who want to jump to the executive suite in a short time, but are ill equipped for that position. The combination of the suspect education with the mindless drive to market MBA degrees like action films disables the business schools to develop responsible like action managers, business people and citizens.

Corruption of Managerial Practice

As many MBA graduates reach senior positions, this mind set has an enormous effect on the practice of Management. Some of the commonalities of the MBA career path are

1. Gateway to the Real World: Due to the race to move ahead very quickly, MBAs typically leap directly into consulting or investment banking where they have great opportunities for analysis and techniques, but little responsibility for implementation or direct management. The MBA is a status symbol giving student’s money and their hiring employers a way to screen for interest in business, if not loyalty.
2. End Run Around Management. Increasing numbers of MBAs get into managing by going around it, straight into executive positions. They are never involved in making or selling anything and just involve themselves in functions that are not industry specific. The people holding these degrees are often impatient, aggressive and self-serving. Launching them into important positions without context only encourages them to rely on this behavior.
3. Managing Out of Balance. MBA training should be a balance and combination of the techniques and experience of craft, the art of insights and vision, and the science of analysis and assessments. Traditionally, the training is light on craft and art, leaving science to take over and propagate a calculating and dehumanizing environment.
4. Performance of Prominent MBA CEOs. Though they can get to high positions, MBAs cannot necessarily perform there. MBAs constitute approximately 40 percent of CEOs in Fortune 100 companies, but familiar lists of the most admired business leaders — Buffett, Kelleher, Dell, Gates, Welch and Winfrey — do not include MBAs. In fact, CEOs with MBAs tend to have poor execution and people skills, exactly where their selection and training are weakest.

MBAs tend to gravitate toward and do best in industries where they can control and fiddle with old technologies, such as marketing consumer goods. They can apply the same techniques to several products. The problem with MBAs is that they are apt to focus on one aspect — marketing, finance, or development — and throw the whole company off balance.

MBAs and Entrepreneurship

Many business schools have embraced entrepreneurship and have slogans like “we produce entrepreneurial leaders”, but like all other disciplines, it is taught assuming that the uninvolved CEO is responsible for everything. Entrepreneurs are in general very artistic and visionary, and they rarely attend MBA programs. MBAs are not known for their success as entrepreneurs. They may start their own low-tech businesses in consulting, real estate, or financial services, but they are rarely capable of the dedication and risky behavior inherent in entrepreneurship.

As the entrepreneurial organizations grows, the entrepreneurs find it difficult to run their organizations properly and this is the time when professional managers are brought in and they introduce bureaucracy of formalization and centralization.

MBA programs by their very nature promote centralization. As the graduates spread throughout the economy, they are responsible for the rise of bureaucratic management in a time, especially in high-technology industries, when we need to nurture teamwork, collaboration and networks.

Corruption of Social Institutions

The destructive effects of this education spill over to the society at large. The members of the professional or business class become the leaders of the economic entities while they do not command respect from the society. Society is becoming stratified into a credentialed class and an experienced class, when in fact leaders should be varied and chosen for their qualities beyond credentials and affiliation.

The corporations ignore social responsibility in favor of narrow shareholder value, and regards CEOs as the sole generators of economic performance.These managers and heads of business are in powerful positions to make decisions to either thwartsocial needs or consider them.

Alternatives and Solutions

Mintzberg argues that instead of starting with what untrained youths are taught in management education, we should start with what leaders and managers need to know. Conventional education hinders learning, and something more engaging and less controlling is needed to educate the right people for management in the right ways to achieve the right consequences. Mintzberg has come up with eight propositions to fix what’s wrong in management education:

1. Management education should be restricted to practicing managers. Instead of having students selfselectinto business school and then emerge onto the fasttrack, organizations shall choose their most promisingmidcareer leaders who are old enough to have experience,but young enough to benefit from education.
2. The classroom should leverage the managers’experience. Managers should remain on the job whilethey learn in school so that their experience is as majora force in the classroom as the instructor’s teaching.
3. Insightful theories help managers make sense oftheir experience. Managers have to be exposed to theories so they canlearn to be thoughtful and express themselves.
4. Thoughtful reflection on experience in the lightof conceptual ideas is the key to managerial learning.Learning is not doing. Learning is reflecting on doing. Itinvolves wondering, probing, synthesizing and connectingall in a struggle to do things better the next time.
5. “Sharing” their competencies raises the managers’consciousness about their practice.Competencies such as leadership or negotiating are hardto teach and therefore hard to fit into management education.They are best learned on the job. But if managersin a classroom share how they have practiced differentcompetencies and what worked or failed, they canlearn from comparing their experiences.
6. Beyond reflection in the classroom comes learningfrom impact on the organization. In order for managementeducation to approach leadership, it must encouragemanagers to get beyond the benefit for themselves. Ifan organization sends an individual for education, theobligation and commitment go both ways. The learnerswho go away should return as management teachers.

7. All of the above should be blended into a process of “experienced reflection.” The managers bring experience to the classroom, where faculty members introduce concepts, theories and models, and reflection occurs. The resulting learning is carried back to the job, where it impacts behavior, providing further experience for reflection back in the classroom.
8. The curriculum, the architecture and the faculty should be shifted from controlled designing to flexible facilitating. The idea that teaching should be divided into discrete chunks i.e. operations, human resource, ethics, etc. is ridiculous. Programs should weave together values and attitudes, stories and ideas, and use engaging methods of learning to hold participants responsible for reflecting together on their experience. Instead of controlling the process, faculty members should collaborate and learn as well.

Solution by Srikant et.al(HBS Faculty)

Srikant et.al (2010) suggests that the business schools need to focus on three things to rebalance the MBA program

1. The Knowing component: revaulate the theories, frameworks and facts being taught
2. The doing component: develop skills and capabilities that are central to the practice of management
3. The being component: the values, attitudes and beliefs that form managers world views and professional identities

These three things are the core ingredients as without doing skills knowledge is of little value. Without being “being” skills, it is very hard to act ethically or professionally.

The authors researched various MBA programs and identified eight important areas that need to be focused Exhibit 1. Most of them are related to the doing and being components.

Solution by Shoshan Zuboff: Rules for a New Era

Zuboff (2009) argues that focus of business on finance rather than manufacturing has moved the US economy’s locus of control towards abstract and risky financial instruments. A long term solution requires rebirth of business based on new rules. The old rules preached and taught by business schools invented a hundred years ago were to supply mass produced products to consumers at affordable prices. These rules have a mismatch with the values of the present day consumer who wants to live their lives based on their choice and personal control.
Zuboff (2009) suggests some new rules as follows

New Rule No. 1: Race to I-Space
The old rules had a focus on creating economic value. Harvard Business School students have been trained for a century in the "administrative point of view." The manager was developed to oversee and control what was inside the organization space and to view the company as "my company." Everything else was a disturbance. This point of viewis focused on selling a product and to operate from the organization space to maximize the company’s efficiency and serve its interests.

The old rule is a world of boundaries: who's in and who's out; who's up and who's down. It's a world of producers vs. consumers, my company vs. your company, us vs. them. Businesses are no longer just about the product. They have become complex and seek solutions for the individual. Economic value is concealed in consumers' unmet needs and is released by providing people with the means to fulfill those needs. To realize this new value, you need to get out of the organization space and into the subjective space where individuals live. This is what Zuboff calls the "I-Space." This means leaving the "us-them" mentality. In the new context everyone is an insider. Amazon and eBay are interesting examples on how they moved into I-space and made billions of dollars in new value in just a few years. Microfinance institutions achieved extraordinary results by reinventing banking, a model that is spreading from the third to the first world.

New Rule No. 2: Advocate, Don't Alienate

The old perspective was, "What is my product or service, and how can I sell it to you?" This point of view promoted a sort of confrontation into the buyer-seller transaction. The new rules are reformed and ask, "Who are you? What do you need? How can I help?" This mindset leads to a culture of encouragement and mutual accountability. Zuboff (2009) argues that the more trust you build, the more value you release, and the more wealth you create. These new principles are vital in I-space, but old attitudes are difficult to unlearn.

New Rule No. 3: Collaborate and Federate to Compete

The I Space mindset forces you to collaborate and federate to provide the support to individuals.This is a challenging task and cannot be done alone because the individuals needs do not conform to existing organizational and industry boundaries. The manager has to learn how to manage what you don't control or own. Zuboff (2009) states that these economies of trust are becoming more important than economies of scale. The emphasis shifts from contracts and legal agreements to trust and transparency as companies work together, aligned with their customers' interests—sharing core values, business practices, infrastructure, and systems.

Solution by Greenberg et.al from Babson College

Profit maximization and shareholder value creation, long considered an adequate basis for business are no longer sufficient (Porter and Kramer, 2011).Maximizing the common good and minimizing social injustice and environmental impact is the order of the day. Entrepreneurial leaders through an understanding of themselves and the contexts in which they work act on and shape opportunities that create value for their organizations, their stakeholders and the wider society. They work on simultaneously creating social environmental and economic opportunities.
The authors suggest that rapid change and increasing uncertainty require leaders to be “cognitively ambidextrous,” able to shift between traditional “prediction logic” (choosing actions based on analysis of known trends) and “creation logic” (taking action despite considerable unknowns). Guiding this different way of thinking and acting is a different worldview of business and society, where simultaneous creation of social, environmental, and economic value is required. Entrepreneurial leaders also leverage their understanding of themselves and their social context to guide effective action.They are undiscouraged by the lack of resources or by high levels of uncertainty.

Conclusion

The business schools have to seriously look in to this matter and try to come up with a model which is producing managers which are environmentally, socially, ethically sensitive and have a high spiritual orientation. The business schools have to reflect on their mindsets and the business school faculty has to embrace the change them by coming out of their comfort zones. Management education has to consider as an art supported by analysis and the scientific method. Cognitive ambidexterity has to be embedded in to the curriculum. Emphasis on values, ethics and soft skills in leadership, negotiations has to be made. The business schools have to work on the intake and to admit those having a managerial experience and the potential to work hands on. The new MBA class will have its own case studies, group discussions, exercise and strong values to serve the society. Only then the Mintzberg equation can be rewritten as

CONFIDENCE + COMPETENCE = HUMILITY

Shahid Qureshi
Institute of Business Administration,
Karachi, Pakistan

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Exhibit 1: Eight Important Areas that need to be focused

Important Areas	Details
Gaining a global perspective	Integrating both theory and practice on how best to manage when faced with economic, institutional, and cultural differences across countries.
Developing leadership skills	Understanding the leadership role and responsibilities; investigate alternative approaches to inspiring, influencing, and guiding others; learning people skills such as conducting a performance review and giving critical feedback; and understanding the impact of one’s actions and behaviors on others.
Improving integration skills	Thinking about issues from diverse angles and have to a holistic thinking capability. Training to make decisions based on conflicting functional perspectives; and to exercise judgment and intuition during messy and unstructured situations
Understanding the role, responsibilities, and purpose of business	Simultaneously balancing financial and nonfinancial objectives while dealing with diverse constituencies such as shareholders, employees, customers, regulators, and society.
Thinking creatively and innovatively	Finding and framing problems and research questions; collecting, synthesizing, and distilling large volumes of un clean data; engaging in lateral thinking; with continuous experimentation and learning.
Recognizing organizational realities and the challenges of implementation	Influencing others and getting things done in the context of hidden agendas, unwritten rules, political coalitions, and competing points of view
Thinking critically and communicating clearly	Developing and articulating logical, coherent, and persuasive arguments; arranging supporting evidence; and distinguishing fact from opinion.
Understanding the limits of models and markets	asking tough questions on underlying assumptions and emerging patterns and seeking to understand what might go wrong; understanding the tension between regulatory activities aimed at preventing social harm and market-based incentives designed to encourage innovation and efficiency; and teaching students recognizing the imperfections of models and frameworks

“The Two Rivers”

“ Midnight! The outpost of advancing day!

The frontier town and citadel of night!

The watershed of Time, from which streams

Of yesterdays and To-morrow take their way,

One to the land of promise and of light,

One to the land of darkness and of dreams!

It is the mystery of the unknown

That fascinates us; we are children still,

Wayward and wistful; with one hand we cling

To the familiar things we call our own,

And with the other, resolute of will,

Grope in the dark for what the day will bring. ”

Longefellow

BUSINESS REVIEW

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businessreview@iba.edu.pk
tufail.qureshi@gmail.com
tqureshi@iba.edu.pk

All enquiries should be addressed to the Editor, *Business Review,* Research Journal of The Institute of Business Administration, Karachi, Pakistan.

Institute of
Business Administration
Karachi-Pakistan

Main Campus: University Road, Karachi. Tel: (92-21) 38104700 Fax: (92-21) 99261508
City Campus: Garden/Kiyani Shaheed Road, Karachi.
Website: www.Iba.edu.pk Email: tqureshi@iba.edu.pk

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