

ISSN 1990-6587

Volume 9 Number 1

January - June 2014

Business Review

Leadership and Ideas for Tomorrow



RESEARCH JOURNAL
of
THE INSTITUTE OF BUSINESS ADMINISTRATION
KARACHI-PAKISTAN



BUSINESS REVIEW

Volume 9 Number 1

January - June 2014

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Editorial Perspective**World within World: Adjacent Realities**

. . . the world does not merely have one meaning, the one disclosed by the sciences. The meaning of the world disclosed by the sciences is merely one among many. This meaning clings to the questioning attitude that is specifically proper to the sciences. The everyday world of life (*Lebenswelt*) however, is infinitely richer, for man is involved in the world through innumerable attitudes, so that innumerable many meanings impose themselves upon him.

Luijpen, W.A. *Phenomenology and Metaphysics*, p. 62

In his autobiography, *World within World*, Stephen Spender writes: “I do not know whether it is usual to teach philosophy as I was taught it.” . . . (p. 36). It is a fraught question, if it is a question, not so much for academic reasons as for political ones. It is a vexing question, not for political reasons but for pedagogical ones. In any case, it is a good question and the answer depends on whom you ask. In *Corporate Pakistan*, for instance, it will be more appropriate to ask whether in our institutions of higher education philosophy is taught at all. In our barren academic landscape to find one good student of philosophy is good luck, to find two is very good luck but to find more than two is witchcraft. In 66 years of our chequered history, how many leaders have we produced? They we could admire and respect as men of wisdom and sagacity, knowledge and virtue, dignity, integrity and character?

We have not produced many because we do not need any. And yet our corporate landscape is so overcast with adroit minds, excited gibberish and animated vulgarity. We live in times of celebrations, celebrating our liberation from rational, civilized and cultural, ethical and moral constraints. These are the times to mourn the sad demise of discourse, the times when intellectual leaders and mentors dither and dare not to think, much less to speak. In times such as these, caution and expediency puts us to sleep, rather than rousing us from dogmatic slumber. We do not ask many a questions, for fear of painful answers. We need to wake up:

To find that the utmost reward
Of daring should be still to dare

Trial by Existence: Robert Frost

To find, by reimagining the Corporate World, that in such visualization experiences, many layers exist in a single image, converging upon a wide variety of subjects – family and school, ethics and morality, politics and culture, present and future, fate and destiny, life and death, acquiescence and creative rage – layers within layers, world within world.

The world we have been thinking about and rambling through is the romanced world of a philosophically minded Corporate Thinker. It is a world of sharply nuanced narratives, both in verbal and figurative sense. The discourse, comprising of these narratives, is spread over the entire corporate landscape. Corporate reality has many faces and each one of these narratives adds to the *gestalt an* unity, which, we are aware, transcends any given profile of the corporate world.

Our Corporate Functionary does not feel very comfortable with such descriptive expressions as “world within world.” He thinks these are imaginative or poetic metaphors. He is right. But, it is also true that, in fact, his observation reflects the paucity of the corporate language, bereft of ideas and ideals, existential predicaments and humanistic intuitions. Corporate language is replete with numbers, percentages, ratios, proportions, symbols, figures, charts and diagrams etc. In the corporate world, *کاروباری دنیا* children are born in *fraction*, they live, suffer and die piecemeal; they are numbers not humans.

The word play in **World within World** is inspired by the phrase’s evocation of folding in on itself. That is what makes it such an effective metaphor, like,

آئینہ در آئینہ، افسانہ در افسانہ
اے ہدمِ دیرینہ، اے محرمِ بیگانہ

But there is a logical paradox inherent in the evocation, similar to the belief that the world of tomorrow will boomerang and rebound past the barriers and adversities and change the world of today. Such a belief may not change the past the future but when it fuses into our own identity, scripting an autobiographical narrative, it is likely to reflect *reality* and *truth* and quite powerfully condition what we desire, even if it is not desirable. Let us call it the **pragmatic paradox**. The conflict between *desire* and *desirable (as value)* converges upon human nature with the subterranean forces submerged in human consciousness. These forces, if they are not creatively, morally and transcendently managed and used for remaking man and *man’s-being-in-the-world* and if they are not predicated on truth, can destroy man many times over. The hyphenated phrase comes from Martin Heidegger’s *Being and Time* p.78, and it must be seen as a compound expression. It is intended in contrast to the specialized notions about human nature, held by various sciences, that man’s-being-in-the-world is an existential predicament and almost a moral condition.

That is the domain where **Corporate Executive** is bound to feel his existential solitude. That is the time when his interface with himself makes it more vibrant and daring. That is when he understands the anguish of “a moral person living in an immoral society.” It is a lonesome life, as that of a “long distance runner”. In the teaching and in research too, it is a lonely endeavor; almost pedestrian. But to go anywhere at all, you must go all the way, alone.

Pragmatism rest upon its central thesis that *whatever works is true*. The Pragmatist measures the meaning of truth on the success scale of *workability*. A little reflection reveals that it is not just a pragmatic proclivity; it is also Machiavellian temptation for *expediency* and a nuanced Darwinian narrative on *survival* of the fittest. To be a pragmatist, however, one must demonstrate acceptance of its thesis with regard to the place of truth and value in corporate discourse.

Equally paradoxically, in the worlds dominated by “*scientism*” and “*behaviorism*” reality is measureable and quantifiable reality; it is what the thermometer can record and not the distress you feel when you are suffering from high fever. A behaviorist is not interested in the lived-world; little does he know about experienced reality. Observable facts and overt behavior is all that we need to know to theorize about man and his nature. James E. Royce, in his book *Man and His Nature*, has asked the question: “How can you tell whether a being is human or not?” (P.4). It is a question that reverberates throughout 398 pages of the book.

The answer?

A more inclusive and flexible paradigm of human nature is called for if it is man in his infinitive mystery that one wants to fathom.

ابھی تو کچھ مشورہ طلب ہے، یہ کاروبار نظام ہستی
نقاب فطرت الٹنے والو بھرم نہ کھل جائے آدمی کا

Human nature is a broad term. It includes logical, instinctive and socio-cultural tendencies. It involves moral and aesthetic values that are an integral part of human personality. Our understanding of human nature involves the time honored way of developing a sense of how these forces play out in the life of man. The ontogenetic evolution of man extends beyond the biological evolution into the realms of music, art, poetry and literature as the essential components of a well-rounded personality. So, how natural is human nature, is a question that must be answered with certainty if our understanding of the World within World is going to have any meaning at all. It is an aspect of man’s being-in-the-world as a human being. It is a heroic moral search for the meaning of man’s being *in* the world. As a human being, man has his being in the world in the mode of becoming in the manner of transcendence. He is *in* the world not the way a chair is *in* the room. A chair cannot think, decide, choose, or desire to be something else, better than a chair or walk out of the room, to be somewhere else. A chair is condemned to remain a chair and in the room, forever. The search for the meaning of human nature converges upon the sense of the *preposition in*. Therein lies the whole mystique of the two worldviews. If the *Corporate World* goes to pieces, it will not be because all the *Enrons* collapsed but because we failed to formulate a satisfactory concept of the nature of man; as a human being.

The paucity of corporate language and the quantitative and measureable concept of reality in the corporate worldview is responsible for a great deal of obfuscation and dehumanization of human nature. In the Corporate World, which exists within our world as an adjacent reality, life is measured in terms of “profit and loss”, contrary to our belief that life, as it is lived, surpasses and transcends such mundane considerations. Life, as an existential predicament, is a radical self-understanding and self-becoming in an absolutely non-adventitious consciousness of life.

بر تراز اندیشہ سود و زیاں ہے زندگی
ہے کبھی جاں اور کبھی تسلیم جاں ہے زندگی

But we must respect the Corporate Functionary for being a good disciple of Wittgenstein, the exponent of linguistic philosophy and the author of *Tractatus Logico-Philosophicus*. “The limit of my language,” said Wittgenstein “is the limit of my world”. Indeed. Our construction of reality and our imagination of the world, as Piaget has amply

demonstrated, depends upon the language we speak and the way we intend the meanings of the words we use and that human nature, in the concrete, is a product of socio-cultural and linguistic development.

الفاظ و معانی میں کچھ فرق نہیں لیکن
مُلا کی اڑاں اور مجاہد کی اڑاں اور

The second aphorism of Wittgenstein's reflections on the relationship between language and the world is that "whereof we cannot speak, thereof we must remain silent." Of course, this is not an excuse for mysticism; rather, it is an expression of our knowledge and understanding of the worldliness of *the world*. **The world** does not exist; only **the worlds** exist. *The world* is a vacuous concept; empty and without percept. It does not belong to anyone and no one belongs to it. It has no adjectival qualification. It is not yours or mine, ethical or moral, progressive, dynamic, retrogressive, good or evil just or cruel . . . Not *the world* but *the worlds* exist and corporate world is one of these many worlds. Hence the pluralistic idiom. Only the worlds exist and the worldliness of each world, existing within *the world*, is a relative fact, relative to the world as a lived world. It is a contingent possibility and not a permanent reality.

In our very simple epistemology, corporate world covers the totality of man's **being-in-the-world**. Corporate is an adjective and its meaning is not very easy to articulate. It is a word added to the world, i.e., to the noun. As such it describes a quality or modifies a meaning. Hence, not just the world but the corporate world. The noun or prefix changes the meaning of the world. The world, therefore, has no meaning and does not exist without an adjectival qualification. We live, each one of us, in a world which belongs to us and to which we belong. We, all of us, live not in different worlds but in the same world differently, in worlds within the world.

That is the context in which our thinking about man and the world must take place. Each world, including the corporate world, is subject to its inner laws of development and these laws, in addition to the coefficient adversities of the surrounding circumstances, determine the range and the extent within which an individual can become what he is **capable of becoming**. The emphasis on **capability** is meant to put in perspective the "freedom of will" and "the way we ought to act".

The critical premise here and the underlying sentiment is the convoluted belief that *we are free to act in whatever way we like*. It is a narrative that must be challenged with the full force of creative imagination and the will to truth. Let us take it for granted and let us show that we have the creative ability to transform the *is* into *ought* and the *fact* into *value* to know the difference such a mindset will make in our being in the world. Let us live dangerously, i.e., creatively and find out how much damage it can do to our being in the world. So, the "world within world" is not such an offensive phrase after all. It is a nuanced and biased motif of our Corporate Thinker who is a phenomenologically biased person committed to *rethink* his thoughts and *reimagine* the world. As a methodological device, such a radical attitude is necessary to face our subjective impediments and the adversities of our existential situation to become wiser to the world. Our Corporate Functionary eschews thinking and has no patience for retrospective wisdom. He has not constructed an official narrative which may be considered a methodological device for engaging in a radical critique

of the way the corporate world *is* and a radically justified knowledge of the way it *ought to be*. It is a question of unified and unifying vision, transcending both, the *thus it is* and *thus it ought to be* towards the *yet to be*, in search of the *world to be*. The Corporate Functionary need to construct a narrative which has both in-depth meaning گہرائی and open ended perspective. گہرائی

Professionalism demands a radical change in our attitude towards the existing corporate paradigm, if we hope to enlarge and deepen our corporate worldview. To this end, we need a language that can sustain the dynamic variations of a constantly changing world; its permanence in change. A language that is, as a spoken language, prone to acquiescence and *status quo*, creates the feeling that life is on hold and transcendence, movement, meaning, value, change and growth have all withdrawn and fled from *the world*. Little wonder, we feel as if we are living in an environment which, in its surrounding, is a linguistically determined world. What our Corporate Functionary has to do as a professional imperative, is to construct a personal narrative with a pluralistic idiom and with the whole fabric of his thoughts, ideas and emotions, creatively woven around his motif, with all his intended rationalizations built into the imaginative vision of the world.

ہر آواز ہر چہ اندر سینہ داری
سرد، نالہ، آہ، فغانے

Remembering that only worlds exist and these worlds are adjacent realities, existing within *the world*; each one of them a world within world. It is a substantive phenomenological observation that none of these worlds have fixed or permanent boundaries or demarcations, other than those drawn by creative imagination. They overlap and intercede dialectically enriching and being enriched incrementally by participating in the shared meaning structures, value judgments and moral order. These worlds are constantly changing in a changing world, acting and being impacted upon each other, struggling to enlarge their sphere of influence by narrowing down or ignoring altogether, the territories and the landscape that belongs to the adjacent world or worlds. Frictions arise and conflicts emerge when the worlds clash and intrude into the adjacent worlds. The primary causes of cognitive dissonance, emotional aberrations, attitudinal dispositions, biased assumptions, prejudiced and unexamined beliefs and ideas are inherent in their nature and flawed worldview.

The *world* is an inclusive category; it embraces the *worlds*, including the corporate world within its fold. It has a much larger nomenclature than any of the *worlds* which are circumscribed within as in an environment, like circles within circle. Diagrammatically, we find their symbolic exposition in deductive logic in the form of categorical syllogism. Corporate world invites generalizations and our Corporate Thinker is not averse to the notion that the *reality* philosophers have been searching for, has become, with the passage of time, Corporate Reality. In the realm of political and social action, it sounds like a thought from P.D. Ouspensky's *In Search of the Miraculous* (Chapter 1), but we need not venture to step into any mysterious domain. In search of the possible contours of the possible world, *the world as it ought to be*, *the world to be*, mere enthusiasm, idealism mystifications, good intentions or metaphysical flights are not enough. In search of the *Corporate Reality* they cannot point the **right path** and not even the **right direction**, in our search for the desired goal and in our quest for the desired end. Therefore, instead of indulging in metaphysical flights, we must remain true to the earth, as Nietzsche and Iqbal would like us to do. In search of a new perspective on *corporate world*, we need to make ourselves understand that due to

our complacency, the forces, compulsions and propensities inherent in the *taken for granted* attitude have taken over our narrative by incorporating the linguistic and ideational structures conceptual and symbolic terminologies into “*it goes without saying*” discourse. More significantly, as we see in the *Corporate Pakistan*, the conflicts, contradictions, mutually exclusive and seemingly categorical structures coexist and overlap the interdependent and relatively independent meaning structures – not metaphorically but actually and literally. A radical examination and a phenomenological reduction of the naturalistic attitude is an extremely engagement situation and an onerous task, taxed with the burden of reconstructing the corporate world, while living in it as a world within world. It is hard but there is something heroic about the search for the moral meaning of *thus it ought to be*. It is a contentious task the Corporate Functionary has to face today. To retrieve and refashion the terminology that has already absorbed the biases and prejudices by being part of the language of the “given” corporate world is an onerous but extremely creative task. Our Corporate Functionary needs to radically examine the conceptual and meaning structures of words, terms of reference, relation category . . . to restore the corporate discourse to its unified dimension, free from fragmented and departmentalized tendency institutionalized in teaching and in research in the institutions of business education. We need to liberate our narrative from the bondage of naturalistic ramifications.

Once again, it is an arduous task: to construct multiple narratives with relative contours and nuances by putting the “naturalistic” and taken for granted attitude in *parenthesis* for radical phenomenological reduction, to transcend its nominal concerns and to find meaning in wealth and riches, profit and personal gains, glory and fame, power and authority. Legitimization of power is illegitimate if it does not enjoy moral authority and power destroys itself if it is not predicated on truth. That is where the Corporate Thinker comes in; to assume the role that is his: “tell the stories, invent the narratives, revive the discourse and dream on.”

However, given the overwhelming temptation awakened by the lure of mindset, generated by acquiescence – will such a dream come true? It is a forlorn hope. “Hope is a waking dream” (Aristotle). It unfolds a World within Word. It demands a culture that is not risk averse, a culture that promotes the will to truth, encourages the desire to think creatively, inspires the passion for innovative ideas and enlightened leadership, firmly entrenched in the thoughts of usable past, is propelled by the futuristic and transcendental vision.

That is the context in which we need to see *the corporate world as it is*, holding the promise of the world *as it ought to be*, *the world within world*, a *dream within a dream*, a *circle within a circle*. It is a reality with all its flaws and imperfections, ready to embrace the *world to be*, waiting to be awakened by the breath of love and loving care of education; above all, by the creative imagination and the will to truth. Let us hope that someday, ages and ages hence, miles and miles away, this world will glorify the realm of possibility and make our dream come true. That will be the day, and what a day will it be, when, after a long last the *world to be*, will manifest itself as a fulfilment of man’s socio-cultural needs, ethico-moral propensities, political and economic aspirations. That will be the day when we will know, and for the first time, that this world has always been there, for the taking; but we will not have it. This world within the world in which we live, has always been there waiting for an imaginative interpretation by our creative will, to be rescued from its anonymity, to be awakened from its slumber.

In this undertaking, apathy, lassitude, acquiescence, false sense of reality and feigning ignorance about it, fear, hatred, jealousy and prejudice, greed and resentment are venomous antithetical forces. These subjective impediments must be fought out to the end and absolute victory. The engagement produces a mindset with enormous consequences and dire moments of distress. With each failure and ineptitude, *status quo* consolidates its resources, enlarging its territories in the corporate landscape. Conceit, deception, lies, bad faith and greed become more and more stratified into significant and rampant adversities with all-consuming resolve to remain untainted by the questioning look. However small the victory and victory is never small by any measure, especially if it is on the battle field chosen by your adversary.

The renewed and the fiercest combat is now in defense of your *mindset*. In your mind, the goal is set with well-defined objective; the path to be taken and the direction too; forward and onward to the finish. “A man is finished not when he is defeated; he is finished when he quits.” (Mr. Richard Nixon)

As a narrative, it is an inflection point, reached as a consequence of our thinking and rethinking about the Corporate World – not piecemeal in a partisan make shift manner, or with the help of borrowed scaffoldings. But radically, co-creative and inter-subjectively; it is a constituency for change, reform, reconstruction and reconstitution, both as a coalesced silent minority and a vocal and articulate majority. This constituency is the reason, the meaning and the measure, of what the given world ought to be. They are the ones who live in the world within world and the dream they are dreaming offers an opportunity to craft a narrative that entails promises to be kept, barriers to be crossed, songs to sing. They live the task of confronting *status quo* by pushing the exclusive category “thus it is and it cannot be otherwise” to its farthest limit and hiding place. As a point of creative inflection, they impose upon the Corporate Functionary the task of negotiating between “thus it is” and “thus it ought to be” in our quest for the *world to be*.

Paradoxically, however, acquiescence, world weariness and benign indifference comes laden with an extremely powerful sense of certainty that future does not hold for you more than who you are and more than what you have. Hence, the “thus it is and it cannot be other than what it is.” For some, it is far better than the painful certainty of knowing that you will always remain incomplete and unfulfilled. For man, as a journeying self, is it not better not to have embarked on the journey, knowing that after all the journeying, you are destined never to ever arrive, that you will always have “miles to go before you sleep”? The lure of such a mindset is hard to resist. Its charm works insidiously. It has a fascination hard to defy. It has its own logic and its tacit assumptions work mysteriously; in the silence of man’s heart. They who are moved by it are forever encumbered by change. They love self-sameness; they celebrate permanence.

In dismay and despair, they who venture to enter the battlefield are the critics of such a world-view and mindset. They have noted that without yearning and a passionate desire for the *world to be*, we shall solve very few of our problems if we turn our back on change and movement in the corporate culture. Such an attitude leads to stagnation. It arrest the movement of a dynamic, creative, and progressive image of perfection that transcends the *given* world as it is, expanding our imagination of the way it ought to be. What is needed

therefore is the creative discontent of human consciousness and the need to strengthen its internal movement towards the *yet to be*.

تو ابھی رہزور میں ہے، قید مقام سے گزر
مصر و حجاز سے گزر، فارس و شام سے گزر

The internal movement of thought in Corporate Culture and the transcendental movement of consciousness both suggest that the “yet to be” extends beyond the “given”, into the anticipation of its perspectival unfoldment – the “not yet”, the occluded, the hidden and the obscure. It follows that no limit can be prescribed to it. It cannot be stigmatized into “it cannot be other than what it is.” Its transcending nature follows an impulse which is always urging and beckoning us to something further and farther still. That is its strength but, from the naturalistic point of view, also its weakness. It sets up, an infinite ideal which, it is said, is impossible to realize.

ہر لحظہ نیا طور نی برق چلی
اللہ کرے مرحلہ، شوق نہ ہو طے

But, when we realize that man is a creature who has his being in the manner of becoming, it is bound to result in a radically altered attitude and a mindset with regard to our understanding of his being-in-the-world. It adds a new meaning to his hyphenated relationship to the world. With this radically changed outlook, man inhabits the world transcendently, redefining the meaning of his being-in-the-world, pushing the limits of the *worldliness* of the world, farther and farther beyond the horizons of the “given” world. Now, with this new meaning of what it means to be in the world, acquiescence, world weariness, resignation to uncritical, unquestioning “thus it is and it cannot be otherwise” become simply matters of acceptance, rather than creative and evaluative judgments. Now, nothing goes without saying and nothing is taken for granted.

With this phenomenological attitude and the operative constitutive intentionality of man’s consciousness of being-in-the-world, it becomes clear that consciousness is not only the *consciousness of something*, (the world, a person, a belief, an assumption, etc.), it is also, and at the same time, *consciousness of something, as something*, (as moral, or human, good or evil, just or unjust, etc.) In that point of intersection between the *objective* and the *subjective* is rooted the phenomenon of interpretation. All *experience*, like all *consciousness*, is interpreted experience. It is experience *of something as something*. In that moment of encounter are hidden the multiple narratives pertaining to *truth* and *reality*, *value* and *judgment*, *thought* and *emotions* . . . and the whole gamut of man’s being-in-the-world, highlighted and underplayed, by man to keep the changing variations in perspective. That is when we see not a different world but the same world differently. What we see now is the “given” world *as it can be* and therefore *ought to be*. That is the meaning we give to the *world to be*.

Now, his being incomplete does not cause man to grieve or to lament; rather, it results in a joyous wisdom and a shared sense of his being a human being. He does not feel embarrassed over his not being what he is capable of becoming. Rather, he draws courage and strength from his consciousness of human predicament and an inborn and intrinsic sense of his being a member of the community of ends, dialogically and inter-subjectively, engaged in creative and co-creative acts with due respect for the humanity of man and the frailties of human nature.

A new man is born with a new worldview, a new mindset and the consciousness of what it means to be a human being. It unleashes tremendous creative energy, freedom and liberty, a restlessness of being in the manner of becoming.

موتیم کہ آسودگیء ما عدم ماست
ما زندہ از آنیم کہ آرام نہ گیریم

In its influence, it is a momentous discovery and an event of tremendous significance. After the event, neither the life of man, his worldview or his place in the world is ever the same again. It is like the revelation of “*I am*”.

“Only that truly exists which can say ‘I am’? It is the degree of the intuition of ‘I amness’ that determines the place of a thing in the scale of being.”

Iqbal, M. *The Reconstruction of Religious Thought in Islam*, P.45

The maladies of Corporate Executive are many and deep and the virtues he embodies are very few and superficial. His maladies are rooted in the field of his consciousness and his world-view is flawed with grave and fatal problems. Among others, they pertain to the

- Loss of center of value
- Loss or a diminished sense of selfhood and, a
- Gradual eclipse and disappearance of transcendence from the worldliness of his world.

In this context, the need to reshape and redefine the corporate narrative gains an added urgency. It can be delayed at the cost of grave consequences. It cannot be postponed indefinitely without minimizing the role of the institutions of business education in crafting public attitudes and without undermining their corporate ethos. It is of utmost importance for us, teaching in the schools of business education, to have a clear perspective on how the corporate discourse addresses these issues by developing the concepts of virtue, nobility and character, particularly in relation to *decision* making, and the exercise of *power* and *authority* in the corporate management. It is therefore important to remember that whosoever exercises authority and power in the Corporate System, decide, by his own will, to act as “a member of a Kingdom of ends” and a stake-holder in a shared ‘moral order’. Equally important for us is to have a clear view about how our corporate narratives can help us transcend *accumulative* calculus and *quantitative* expansion of self-interest and profit motive. Equally important is an understanding of the ontological flaw inherent in the role of propositional logic in corporate thinking. Propositional logic is based on propositional statements. It is concerned with the logical and linguistic validity of proposition, without making any existential claims. But, “sugar is sweet” is not a sweet proposition. And yet, “he who has tasted, knows”, is a refrain from Imam Ghazali. Knowledge is the taste of knowing. Knowledge as an instrument of a social action and education a vehicle of cultural change are both integrally related as aspects of man’s ontogenetic evolution. In life, it is the ontogenetic aspect of knowledge (*Knowing* as *Being*) that matters. Such knowledge is an existential event a challenge to man’s creative will and an apotheosis of his moral and ethical valor. It imposes upon our students, as seekers of knowledge, the heroic task of proving to themselves, that man is not a Leviathan, by living in contradiction to

“Man is a wolf to his fellow man.”
(Hobbes)

Education in its intellectual, ethical, moral and imaginative intensity must, ultimately, lead to the revelation that art, philosophy, liberal ideas and humanistic proclivities do not grow in isolation. Together and in conjunction with others, each one of these components of the corporate culture deepens and enlarges the unified and unifying existential and experiential view of knowledge. A transcendental perspective helps us realize that each element should be understood separately and together as a *gestalt*, to craft public attitudes. It impresses upon the mind and the heart of the corporate executive that “**stewardship is of total management**”. Ethical development and the politics of corporate experience too, used as the indicators of change, determine the nature and scope of corporate governance. They make us see how they impact upon each other and, together, how they can be used to make lasting and positive changes in the totality of the corporate system and in any one of its components. Thus, using change and movement as the dominant metaphors, juxtaposed in unison with the transcendental view of life and corporate reality, Corporate Functionary can arrive at a radically whole new way of looking at man’s being-in-the-world. This will provide him an insight into *human nature* and how the *worlds exist within worlds* and **how the worlds exist within the world**

Alexis Carrel wrote *Man, the Unknown* in 1935. A remarkable book, for more than many reasons. In the first chapter: *The Need of a Better Knowledge of Man*, Carrel says:

“Naturally, all these sciences arrive at a different conception of their common object. They abstract only from man what is attainable by their special methods. And these abstractions, after they have been added together, are still less rich than the concrete fact . . . Man, as known to the specialists, is far from being the concrete man, the real man . . . But he is also the poet, the hero, and the saint . . . also the tendencies, the conjectures, aspirations of humanity.”

Much later, on p.286, in the Chapter on *The Remaking of Man*, Carrel says:

“Why should not some individuals sacrifice their lives to acquire the science indispensable to the making of man and his environment? . . . The weakness of many of the scientists whom we meet in universities and laboratories is due to the mediocrity of their goal and to the narrowness of their life. Men grow when inspired by a high purpose, when contemplating vast horizons. The sacrifice of oneself is not very difficult for one burning with the passion for a great adventure. And there is no more beautiful and dangerous adventure than the renovation of modern man.”

This is how all great men live. In his *On Heroes, Hero Worship and the Heroic in History*, Thomas Carlyle calls them “beginners”. “A great man is a beginner precisely because he sees further than others and desires things more strongly than others.”

Carlyle’s *Hero* belongs to two worlds and dwells in a world within World. He has a clear vision of what needs to be seen; our dimly visualized ideas. He feels more intensely; e.g., our half felt emotions, the things we love or do not hate. He is the medium. He does not gloss over the present fault lines while searching for the future possibilities.

Carlyle's *Hero Worship and the Heroic in Human Affairs* converge upon the lives of those who believe and are inspired by an ideal larger and superior to their circumstances in life. By their mindset, they are galvanized into a perpetual struggle between their creative will and the forbidding adversities of their being-in-the-world. Their creative will, e.g., the will to truth, renders obsolete the belief that things grow better continuously and constantly. How many times have we been betrayed by the belief in linear progress as a constant improvement over the previous and past stages of development? To believe that the future or human destiny is predetermined by the "moving finger" is to believe *fait accompli*. It is taken for granted, as irrevocable.

Carlyle's Hero is the medium and it is his historic role in and through him are meditated and facilitated the tensions and distresses, conflicts, hopes and despair of his time. "Carlyle wrote emotionally his language expressed passion; love, hate, enthusiasm, or scorn; nothing left him unmoved, not even death."

Carlyle constructed his discourse on Heroes and Hero Worship in dire contrast to personality cult to make the nobility of their character, invincibility of their self regard and pristine and distinct perception of their *own-ness*, their defense against inauthentic modes of being, particularly the temptation to capitalizing on the inheritance of the culture of patronage and nepotism. They are not, by virtue of their heroic attitude and mindset, share holders in any enterprise built upon adulation, psychopancy and beaurocratic temptations of our times.

Like immoral Kant, Carlyle was a staunch critic of Pure Reason. He had no taste for *scientism* and its objective acting culture. He detested intellectual obstructions and philosophical aloofness. Reality, he believed, must have a human face and our being-in-the-world must beautify the human metaphor. Our Corporate Thinker believes that it will not be a rash assumption to say that it is Carlyle's narration on corporate reality with strong reservations about abstract, speculative metaphysical thinking, detached from the "world making" and "world shaking" acts. Like Nietzsche and Marx, Carlyle believed that the first, and primary task of a philosopher is to think that the thoughts about changing the world to make it better. To phrase it with Iqbal's admonition

اگر نہ سہل ہوں تجھ پر زمیں کے ہنگامے
مُری ہے مستیء اندیشہ ہائے افلا کی

and the eloquence of Faiz:

الم نصیبوں، جگر نگاروں
کی صبح افلاک پر نہیں ہے

To this end and for that reason Carlyle's philosophical writings and narratives are strikingly different from those of Locke Hume, Macaulay, Pope and Fielding. He lived in the same world with them but differently; in his own way. Reverence for truth and love of wisdom are the criteria of judgment and the standard of criticism of all socio-cultural, ethical and moral, politico-economic, existential and religious criticism. Class distinctions, religious sectarianism, ethnic stratifications, partisan politics, corporate exploitation, trade unions are, one and all, "artificial products of human arrogance." The *worlds* within the *world* are inhabited by those who walk like angels and talk like angels but are devils in disguise.

Human condition can be made better and human situation must be improved as an imperative but not through such artificially and arrogantly construed “misfortunes of modern life”. Our salvation lies in the continued spiritual refinement and increased educational development of the masses.

Carlyle writes:

We have undertaken to discourse here for a little on Great Men . . . What ideas men formed of them, what work they did; . . what I call Hero- Worship and the Heroic in human affairs. For, . . . the history of what man has accomplished in this world is at bottom the History of the Great Men who have worked here. . . all things that we see standing accomplished in the world are properly the outer material result, practical realization and embodiment of Thoughts that dwell in the Great Men sent into the world: (Lecture1).”

Today, what ideas do we need from our “*Great Men*” and the “work they did” and the things they accomplished if we look at the Corporate Pakistan or the corporate world from inside out or outside in. We see a great deal of clutter outside and too much rot within. Who will do all the mopping and cleaning? Our corporate world is full of things that need to be undone; it is full of empty spaces that need to be filled with memories and fleeting moments of thoughts and ideas for tomorrow, if tomorrow comes. But, who will do the thinking and imagining? Who will dare to ask painful questions? Who will sing the sweet songs which tell us of saddest thoughts?

What kind of people do the kind of things we have done to ourselves? What kind of people are they who do not do to themselves, the things we have denied to ourselves? Who should we ask?; our Heroes. Our Great Men, our leaders, our teachers, our mentors, our guides, our parents – dead or alive? There, in that crone, over there, attended by years of neglect and discards rest out heritage – remains of the years of wasted youth, intelligence, discovery and culture; accumulated sorrow, grief, resentment, regret and shame, remembrance of the things we did not do but could have done and things we did but have forgotten to remember. Here, over here, rest and assortment of legacies and heresies: legacy of a hero who gave us PIA, our National Flag Carrier, the great people used to fly with. Not anymore. The man who gave us wings to fly through the wooly clouds and immense skies, to the far off places beyond the hills and high mountains, rain forests and thirsty deserts, lands and places beyond the last horizon, we never thought existed, that men, is gone. He is long gone but his legacy lingers on.

پرواز ہے دونوں کی اسی ایک فضا میں
کرگس کا جہاں اور ہے شاہین کا جہاں اور

It is so long now that we have been heading in the wrong direction, even in those rare times of our journey, when, perchance, we were on the right path, moving in, what we thought, was the right direction. We never thought wrong detours can make the journey longer many times, time wise, and that in life, time is our scarcity. We never tried to understand our failing into the *yet to be*. To embark on the journey, it is necessary to know that the shortest distance between the two points is the straight line. Journeying is an adventure. In life, it is not wise to laugh at things which can make us cry, if we take time to think a little live a little to die a little to cry a little. Today, if we look at ourselves from

where we are standing, to think our thoughts and to sing our song, we may in anguish and sorrow, realize the importance of retrospective wisdom.

راستہ ہے کہ کٹھا جاتا ہے
فاصلہ ہے کہ کم نہیں ہوتا

We live in two worlds, the world we are trying to escape from and the world we are dreaming of. This overriding moment of transcendence, however brief, is a flicker of light, resulting in the eclipse of naturalistic perspective and the advent of the “world to be”. This moment of transcendental orientation is an experience of a lifetime. He who is touched by it is never the same person ever again. It is an experience the Zen Buddhist call *Satori*. It provides a new framework and a new paradigm for our being-in-the-world. It brings into focus the yet unknown profiles of our being a human being, a new way of looking at things and new ways of doing what needs to be done can be done and therefore ought to be done.

Tufail A. Qureshi

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

George Santayana

ARTICLE

A Study of Environmental Constraints faced by Public Private Partnership (PPP) in India and The Road to a Framework for Successful Implementation of PPP Project

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Abstract

Infrastructure development is the key to continued and sustainable growth for any developing economy of the world in general and India in particular. It will make India globally stable, sound, prosperous, competitive, raise standard of living, enhance profits for government and private sectors, bridge rural-urban gap and simultaneously will help in increasing the number of employment opportunities. The most vital criteria for a continued growth rate of an economy lie on the provision of a high and rich quality of infrastructure. As per the statement of planning Commission, an approximation of 8 percent of the Gross Domestic product (GDP) need to be invested in infrastructure in order to give Indian economy a mega boost. For meeting such a huge demand, it is quite natural to Promote Public private partnership (PPP) at continuous basic on all levels. Up gradation of all modes of transport (Roads, Railways, Air, Sea), Power and urban infrastructure is therefore seen as critical and important element for sustaining India's economic growth along with improved quality of life, increase in employment opportunities, and progress toward the alleviation of poverty. However information project are always critical and complex, capital Intensive, time consuming, need high class of skill and resources. Infrastructure project are characterized by non-recourse or limited recourse financing, i.e. lender can only be repaid from the revenues generated by the project. The scale and complexity of an infrastructure project financing a touch challenge. This challenge is further compounded by a combination of high capital costs and low operating costs which implies that initial financing costs are a very large proportion of the total costs. Infrastructure project financing call for complex and varied mix of financial and contractual arrangements amongst multiple parties including the project sponsors, commercial banks, domestic and international financial institutions (FIs), and government agencies. Infrastructure project involve a variety of environmental constraints which includes financial, regulatory, institutional and fiscal constraints. These constraints need to be addressed by the central and the state government through a proper regulatory framework, guidelines and policies and taking measures to overcome the various constraints faced by PPP's if India has to become a developed country through consistent economic growth supported by robust infrastructure system. This paper attempts to find out the way and

means to upgrade the infrastructure and bridging the gap between public and private sectors.

Key Words: Public Private Partnership (PPP), Constraints, Regulatory Framework, GDP

Introduction

India is the fastest growing economy along with China and Brazil with a dynamic and robust financial system. A stable, sustainable and mature policy environment is guaranteed by its democratic status and its independent institutions guarantee the rule of law. This highly diversified economy has shown rapid growth and remarkable resilience since 1991, when economy reforms were initiated with the progressive opening of the economy to international trade and investment. This period is marked as the period of LPG (Liberalization, Privatization and Globalization). Presently the country is targeting an annual GDP growth rate of 7-8% and has been successful in achieving the rate of growth so far. The highest quality of infrastructure is not only crucial but also pivotal for continued and sustainable economy. According to the Planning Commission, an approximation of 8% of the Gross Domestic Product needs to be invested. This would help in acquiring a prospective economy as stated in the 11th five year plan. Fund investment of over US \$ 494 billion has been conceived of according to the 11th five year plan with effective from 2007 to 2012. The investment sectors under consideration including telecommunication, electric power, transport, road, rail, air, water supply as well as irrigation amount to about Rs. 2027169 crore as per 2006-2007 prices. In order to meet such demands, various Public Private Partnerships or PPPs have been promoted for implementation of infrastructure projects. PPP is often described as a private business investment where two parties comprising government as well as a private sector undertaking form a partnership. Government embarking on PPP programs has often developed new policy, legal and institutional framework to provide the required organizational and individual capacities. These go beyond the needed to originated and financially close PPP deals, as they must also ensure that these the deals are affordable to users and public sectors and provide ex-post evaluation of the success of PPPs meeting their objectives. This framework needs to be in place in India to ensure a robust and successful PPPs program.

Objective of Study

The basic objective to study the environmental constraints face by Public Private Partnership (PPP) in India and the road to framework for successful implementation of PPP projects.

Sub-objectives

1. To study the role of Public Private Partnership (PPP) in boosting infrastructure development of India.
2. To study the various Institutional, policy and legal frameworks of Public Private Partnership at present in India.
3. To study the financial constraints faced by Public Private Partnerships (PPP).
4. To study the road to a framework for successful implementation of PPP projects.

Research Methodology

The data has been collected through secondary sources.

Secondary data collection

This has been collected through the following sources:

- 1) Books
- 2) International and National Journals
- 3) World Bank Reports, Department of economic affairs reports, planning commission reports.
- 4) Magazines.
- 5) Internet.

Public Private Partnership (PPP)

Definition

Public Private Partnership (PPPs) broadly refers to long-term, contractual partnerships between the public and private sector agencies, specifically targeted towards financing, designing, implementing, operating infrastructure facilities and services that were traditionally provided by the public sector.

In India context, “Public Private Partnership (PPP) Project means a Project based on contract or concession agreement, between a Government or statutory entity on the one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges”.

PPPs do not reduce responsibility and accountability of the government. They still remain public infrastructure project committed to meeting the critical service need of citizens. The government remains accountable for service quality, price certainty, and cost-effectiveness (value for money) of the partnership. Government remains actively involved throughout the project’s life cycle.

Under the PPP format, the government role gets redefined as one of facilitator and enabler, while the private partner plays the role of financer, builder, and operator of the service or facility. PPPs aim is to combine the skills, expertise, and experience of both the public and private sectors to deliver higher standard of services to customers or citizens. The public sector contributes assurance in terms of stable governance, citizens’ support, financing, and also assumes social, environmental, and political risks. The private sector brings along operational efficiencies, innovative technologies, managerial effectiveness, access to additional finances, and construction and commercial risk sharing.

Need for PPP’s

Globally, governments are increasingly constrained in mobilizing the required financial and technical resources and the executive capacity to cope with the rising demand for roads, electricity supply, water supply, etc. Rapid economic growth, growing urban population, increasing rural-urban migration, and all-round social and economic development have compounded the pressure on the existing infrastructure, and increased the demand-supply gap in most of the developing world. Countries and governments, especially in the developing world, are experiencing increasing pressure from their citizens, civil society organizations, and the media to provide accessible and affordable infrastructure and basic services. While the infrastructure gap is rising, government budgetary resources are increasingly constrained in financing this deficit. Rising costs of maintaining and operating existing assets, inability to increase revenue, and rising constraints on budgets and borrowing,

do not allow government to make the required investments in upgrading or rehabilitating the existing infrastructure or creating new infrastructure.

The emergence of PPPs is seen as a sustainable financing and institution mechanism with the potential of bridging the infrastructure gap. The foremost benefit of adopting the PPP route is the ability to access capital funding from the private sector. PPPs deliver efficiency gains and enhanced impact of the investments. The efficient use of resources, availability of modern technology, better project design and implementation, and improved operations combine to deliver efficiency and effectiveness gains which are not readily produced in a public sector project. PPP projects also lead to faster implementation, reduced lifecycle costs, and optimal risk allocation.

Indian Scenario

Rapidly growing economy, increased industrial activity, burgeoning population pressure, and all-round economic and social development have led to greater demand for better quality and coverage of roads, seaports, power supply, railways, airport, water and sanitation services. Increased demand has put the existing infrastructure under tremendous pressure and has outstripped its supply.

Up gradation of transport (roads, railways, airports, and ports), power, and urban infrastructure is therefore seen as critical for sustaining India's economic growth, along with improved quality of life, increase in employment opportunities, and progress towards the elimination of poverty. India's global competitiveness remains constrained and is adversely affected by lack of infrastructure, which is critical for improved productivity across all sectors of the economy. Poor infrastructure is also a major barrier to foreign direct investment (FDI). Infrastructure is now seen as the necessary condition for growth and poverty alleviation. Studies by the Asian Development Bank and others have confirmed a strong linkage between infrastructure investments, economic growth, and reduction of poverty.

India had a few notable PPPs as early as the 19th century. The Great Indian Peninsular Railway Company operating between Bombay (now Mumbai) and Thana (now Thane) (1853), the Bombay Tramway Company running tramway and Calcutta (now Kolkata) in the early 20th century are some of the earliest examples of PPP in India.

Infrastructure development is the key to sustainable growth in India in the following ways:

- (a) It makes India globally competitive,
- (b) It raises standard of living ,
- (c) It means enhanced profits for government,
- (d) It bridges rural-urban divide,
- (e) Increases level of Employment,

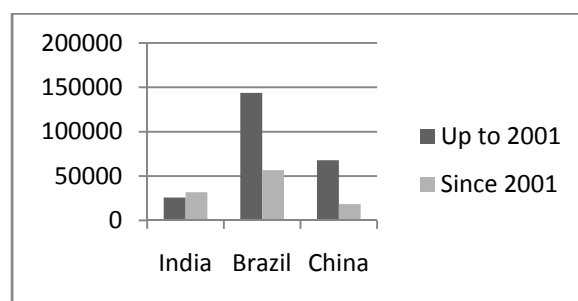
India has had policies in favor of attracting private participation in the infrastructure sectors since economic reforms were introduced in 1991. These initiatives have met with varying degrees of success, but real progress has been made in some sectors, first in telecommunications, and now in ports and roads, and with individual projects in other sectors. The Central government and the States are hoping to build on this progress, both in sectors where few private projects have been realized as well as sealing up their use in sectors where progress has already been made.

The public private partnerships (PPPs) can help meet the infrastructure gap in India, but are not a panacea. They represent a claim on public resources that needs to be understood and assessed. They are often complex transactions, needing a clear specification of the services to be provided and an understanding of the way risks are allocated between the public and private sector. Their long-term nature means that the government has to develop and manage a relationship with the private providers to overcome unexpected events that over time can disrupt even well designed contracts.

The significance of Public Private Partnership (PPPs) projects in India is highlighted through reduced life-cycle costs, better risk allocation, faster implementation, improved service quality, additional revenue streams, reduced burden on government exchequer and emerging voter's mandate of "Bijli-Sadak-Paani" from the erstwhile "Roti-Kapda-Makaan".

India has, since the early 1990s, been looking to the private sector to fill investment gaps in infrastructure. Investment here did not initially grow as rapidly as in Latin America or East Asia, as policy reforms here were slower. However, with the increasing emphasis, over time, on public private partnerships in key sectors, such as telecom and transport, India has seen a trend increase in investment with none of the corrections seen elsewhere. The years 2004 and 2005 saw the highest levels of investment to date. This success in attracting investment has meant that over the period 1990-2005, India attracted US\$57.5 billion of investment in infrastructure projects with private participation. Since 2001, India has attracted approximately 9% of all investment in these projects for low and middle-income countries, and is second only to Brazil, and above China (Figure 1 below).

Figure 1: Investment Trends in Brazil, China and India (2005US\$ mn)



While India's performance in increasing investment is encouraging, it is also worth noting that since 2001, about two thirds of this investment has gone into the telecommunications sector. Investment in energy has not picked up noticeably. This reflects differing success in reforming these two sectors, with the structural and competitive reforms introduced in telecommunications leading to a rapid market expansion and surge in investments. In the transport sector, thanks to successful PPPs in roads, and ports, India realized more investment in 2004 and 2005 than had been realized from 1990-2003.

India's Infrastructure Investment Needs

The Eleventh Five Year Plan document articulated the need for adequate, cost effective and quality infrastructure as a pre-requisite for sustaining the growth momentum since inadequate infrastructure has been recognized and a major constraint on India's growth potential.

Accordingly, the Eleventh Five Year Plan has set an ambitious target of increasing the total investment in infrastructure from about 5 percent of GDP in the Tenth five Year Plan to 9 percent of GDP by the terminal year (2011-12) of the Eleventh Plan. In absolute terms, this implies an increase from Rs.9,06,074 crore in the Tenth Plan to Rs. 20,54,205 crore during the Eleventh Plan.

To return to the 9% plus annual growth rate & to counter the slowdown, massive investments in infrastructure is envisaged. Investments of over USD 500 billion are needed in various infrastructure sectors over the Eleventh Five Year Plan (2007-12). As per Planning Commission estimates, investment sources will be 65% from Government (Centre & States combined), 23% from private sector and 12% from multilateral/bilateral agencies.

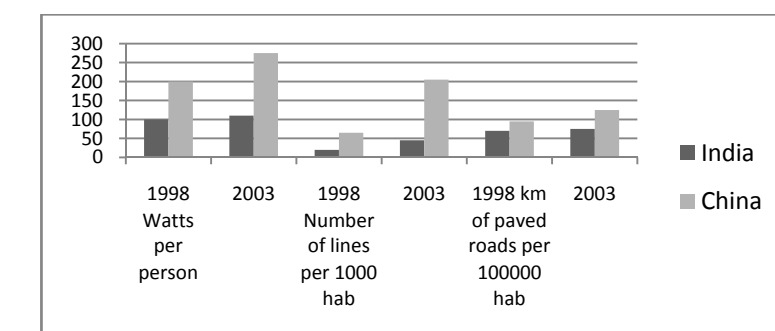
Substantial investments in new infrastructure stocks are required to build the infrastructure platform to sustain an annual GDP growth of above 8% and to increase access to modern infrastructure by rural and poor households. The debates on infrastructure and growth have also spurred efforts to look at infrastructure investment needs (Easterly and Serven 2004, International Monetary Fund 2005).

One approach looks at the investment effort needed to obtain the infrastructure stocks of competitors or comparators (Easterly and Serven 2004). A comparison of India and China both shows the investment challenge as well as explains the gaps in infrastructure performance between the two countries. In 1980 India actually had higher infrastructure stocks – in power, roads and telecommunications – but China invested massively in infrastructure, overtaking India by 1990 and are widening the gap. From 1990 to 2000, China's installed power capacity increased by 136%, compared to an increase of 51% in India. China has been investing annually around 8-10 times India's level in highways since the mid 1990s. The gaps accelerated from 1998 to 2003, as China invested around 7% of GDP in infrastructure, far higher than India's rate.

In power, India increased watts per person by 16%, whereas China increased it by 35%. Kilometers of paved road per habitat increased 13 percent in India, and 33 percent in China over the same time period. The gap in infrastructure stocks is now so large, that for India to catch up with China's present levels of stocks per capita by 2015, it would have to invest 12.5% of GDP per year.

Figure 2: Indicators of infrastructure stocks in 1998 and 2003, India and China,

Infrastructure stocks have grown faster in China than in India



Source: World development indicators

A second approach to estimating infrastructure investment needs was developed by Fay and Yepes (2003). Under this approach, infrastructure investment needs are forecasted using past levels of infrastructure stock, growth, urbanization and other factors. A recent paper applies this approach to estimate the investment need for South Asia and for India (Chatterton and Puerto 2006). They find that India would need to invest almost 8% of GDP over the period 2006-2010 to sustain GDP growth at near 7.5% per annum and replace old capital stocks. The Planning Commission has in the Approach Paper to the 11th Plan estimated that India would need to increase infrastructure investment to around 7-8% of GDP, if it is to meet target growth rates of 8.5-9%.

Table 1: India would need to spend 12.5% of GDP per annum to reach China's present infrastructure stocks by 2015
(% GDP per annum, per sector)

Electricity generating capacity	Length of paved roads	Telecoms, mainlines and mobiles	Water and sanitation	Total
5.90%	3.83.81%	2.32%	0.55%	12.6%
Source: World Development Indicators, Bank staff estimates.				

Tables 2: India's expected annual expenditure needs per sector, 2006-2010

	Investment		Replacement		Total	
	US\$ Bn	% GDP	US\$ Bn	% GDP	US\$ Bn	% GDP
Electricity Generation Capacity	18.9	2.13%	6.4	0.73%	25.3	2086%
Paved Roads	19.1	2.15%	4.2	0.47%	23.3	2.62%
Rail Routs	0.9	0.11%	0.7	0.07%	1.6	0.18%
Telephone Mainlines	2.5	0.28%	2.0	0.23%	4.5	0.51%
Mobile	3.2	0.36%	1.7	0.19%	4.8	0.55%
Improved Water	1.8	0.18%	2.8	0.28%	4.6	0.46%
Improved Sanitation	3.1	0.31%	2.2	0.21%	5.3	0.52%
Total	49.5	5.52%	20.0	2.18%	69.5	7.70%
Sources: Chatterton and Puerto (2006)						
Notes: US\$ are in 2004 prices. Total may not add up due to rounding.						

Constraints Faced By Public Private Partnership In India

Infrastructure project are complex, capital intensive, long gestation projects that involve multiple and often unique risks. Public Private Partnership is the emerging trend in infrastructure development in India. However, Public Private Partnership in India faces a number of environmental constraints. These are discussed below:

1. Approvals, Red tapism and Inadequate Administrative Capacity in Government

Almost all infrastructure projects in India suffer from unacceptable delays. These are caused due to inadequate regulatory frameworks. A major cause of this delay is inefficiency across virtually all approving agencies. Given below are some of these barriers.

(i) *Multiple clearances*

Infrastructure projects require multiple clearance at Centre, State and Local levels. This is a time consuming process not only due to the large number of approvals but also because clearances are sequential, and not concurrent. For example, when Sify was setting up internet cafes in different States, it involved over 50 different clearances. According to most developers and financiers, the time taken to obtain all the requisite approvals for an infrastructure project can vary between a low of eighteen months to as much as four to five years.

(ii) *Lack of coordination between government ministries /departments*

Most infrastructure projects involve dealing with multiple ministers. One of key reasons for projects not taking off at the pre-financing stage is that the actions and policies of different ministers are not coordinated and often at variance with each other.

(iii) *Problem in contract negotiations and delays in the awards of contracts*

This is pervasive across all infrastructure sectors. For instance, it took Kakinada port four years to achieve financial closure. In the power sector, four gas-based power projects, which had achieved financial closure in early 2004 with an investment of over Rs. 50 billion are today on the verge of closing down due to flawed fuel supply contracts. While the gas supplier Gas Authority of India Limited (GAIL) has said that it has no gas to offer to these plants, projects sponsors find it impossible to penalize GAIL due to one-sided fuel supply contract that they were forced into.

1. Fiscal Barriers to Private Financing of Infrastructure

A conducive fiscal environment is a pre-requisite for attracting private sector players to Public Partnerships. The Government of India has introduced tax concessions and Viability Gap Funding (VGF) for infrastructure projects. Tax concession help increase returns and hence in certain situation can help stimulate private investment.

In this context, there are some fiscal issues that need to be worked on in order to give further boost to infrastructure sectors. Some of these are identified below:

i. *High customs duties on infrastructure equipment*

The import duty concessions available to imports used for infrastructure development are largely selective in nature. For instance, while equipment for mega-power project can be imported against zero or low duties, the same facility is not available for capital goods used in roads.

ii. Section 10 (23G) of the Income Tax Act

This clause exempts tax on income from dividends, interest and long term capital gains from any investment made in an enterprise engaged in the business of developing, maintaining and operating an infrastructure facility – and has been of great help in facilitating infrastructure investments. However, three issues still cause problems.

- (i) First, the borrowing infrastructure company needs to get annual approval and certification of its “infrastructure status” from the Central Board of Direct Taxes (CBDT). This process often takes considerable time which leads to delays in getting the concessions.
- (ii) Second, an enterprise qualifies for the benefits under section 10 (23G) if it is wholly engaged in the business of developing, maintaining and operating any infrastructure facilities. The catch lies in the word “wholly”. This problem can be resolved by either eliminating the word “wholly” or substituting it with “substantially”.
- (iii) Third, the benefits of section 10(23G) do not flow down to retail investors. Had that been possible, the tax benefits of this provision could have been leveraged to create more dedicated infrastructure mutual funds where the retail investors would have been additionally attracted by the tax incentive.

iii. Poor state government finances

Nearly all states suffer from serious fiscal imbalances and are ridden with huge debt obligations. The debt to GDP ratio of states has increased by over 7 percent in the last five years to 29.1 percent (31 March 2004). In 2003-04 interest payments on debt accounted for over 25 percent of revenue receipts. Clearly, in such a situation, states are not the most bankable business partners for private sector participation in infrastructure.

2. Financial, regulatory and institutional barriers

(i) Constraints to equity and quasi-equity financing

Raising adequate equity finance tends to be the most challenging aspect of infrastructure project financing, as equity typically shoulders the greatest level of operational, financial and market risk. The infrastructure projects are operationally complex and also involve complexities in terms of contracts, legal structures, etc. Consequently, investors, especially retail investors, find it difficult to understand the true risks involved – and are wary of investing in such issues. However, at present, equity financing and quasi-financing by financial investors is constrained by the following factors:

a) Limited exit options constrain equity participation:

The best route for financial investors to exit from an infrastructure project is to sell their stake to the sponsors, through a ‘put option’, which involves an upfront agreement between the financial investor and sponsor, including agreement on the minimum price at which the financial investor could sell the equity stake to the sponsor at a future date. However, in India, the regulations

do not allow such agreements to be reached upfront between financial investors and sponsors of an unlisted company.

b) Additional constraints:

Additional constraints to equity investment include a shallow capital market and corporate governance issues (primarily minority shareholder protection rights).

For construction companies and equipment suppliers, revenues from these activities exceed the returns provided by equity. For a financial investor, the only return on equity is provided by the revenues generated by the project. Therefore, there is a severe conflict of interest between the project developer and the financial investor. The financial investor, who is in a minority position in such projects, loses out in such situations.

c) Limited mezzanine financing

In the developed world, many infrastructure projects are part-funded through ‘mezzanine finance’, which is a hybrid of debt and equity. Mezzanine finance is debt capital with fixed payment or repayment requirements, but with the right to convert to an equity interest in a company. It attracts investors by offering a rate of return which is higher than that of senior debt. Unfortunately, there is no infrastructure funding entity that has actively explored mezzanine financing in India in any sizeable amounts. There is lack of a sufficiently large and varied pool of infrastructure projects. So, there is a preference for funding institutions to opt for more straightforward loans than hybrids.

(ii) Restrictions on ECBs

Given the risk aversion and/or relative inexperience of many financial intermediaries in India in the area of infrastructure financing, external financial resources (ECBs, mezzanine, equity, etc.) can potentially play an important role in meeting funding gaps.

However, revised ECB guidelines do now allow (i) companies to access ECB for undertaking infrastructure investment activity in India, (ii) borrowings under the approval route by FIs dealing exclusively with infrastructure.

(iii) An underdeveloped corporate bond market and lack of longer term financing

Most infrastructure projects fructify into profit making entities 10 to 15 years after the initial investment and hence require longer tenor financing (with long drawn out repayments) to ensure financial viability of the project. The availability of a developed bond market is an important backbone to project financing for infrastructure. Unfortunately, India still does not have a wide or deep enough corporate bond market for such paper.

The lack of size and depth in India’s corporate bond market may be attributed to three broad sets of issues viz., development of government securities market, lack of market infrastructure and innovations in the corporate debt market and regulatory issues.

(iv) Regulatory and institutional issues constraining higher participation of FIs and Commercial banks

It is widely accepted that insurance companies and pension funds are ideal candidates for supplying long tenor financing given the long tenor nature (15 years or more) of their liabilities. But with a few notable exceptions, in recent times, most insurance companies and pension funds have not focused on funding infrastructure.

Among the various term-lending institutions, LIC (the largest insurance company in India that is also state-owned) has emerged as the biggest player, with its disbursements for infrastructure projects exceeding the combined disbursements of IDBI, IFCI, IDFC, IIBI and SIDBI. However, most of the involvement of the State-owned insurance companies, including LIC, is in infrastructure projects of the central and state governments' SOEs backed by government guarantees. These are often not based on credibility or the detailed economics of the project.

In fact, in the past, state governments have raised funds from the insurance SOEs ostensibly for financing infrastructure, which have then been diverted to the state's consolidated finances. Commercial banks have only been marginal players in terms of their share of infrastructure financing in the recent past, though the segment has registered strong growth in the last two years.

(v) The role of regulatory uncertainty and risk in limiting FI participation

A fundamental factor limiting the participation of all types of FIs in infrastructure financing relates to regulatory uncertainty, which raises the risk-profile of infrastructure sectors, and increases the risk-aversion of FIs towards infrastructure financing. Even in cases where project are being 'regulated through contracts', the inability to enforce the contract conditions and threat (and actual experience) of reopening of these contracts by government, greatly increases the risk profile of the projects.

The risk-aversion of FIs in financing infrastructure projects further manifests itself in their reluctance to enter project at the early stages, where project risks are concentrated. One of the main reasons cited for viable projects not reaching financial closure quickly enough has been the lack of financial support at the initial stage of a project's life cycle. Commercial banks, of course, rarely take equity positions in infrastructure projects.

(vi) Restrictive government policies and regulatory guidelines

Restrictive government policies and regulatory guidelines have further constrained the ability of insurance companies and pension funds to participate in infrastructure financing. For commercial banks, the flexibility of banks to become more active in infrastructure is constrained by RBI's regulations that prevent banks from participating in the credit derivatives markets. This precludes banks from taking on higher credit risk with the option of hedging these risks to the extent needed through these products.

The investment guidelines of insurance companies specified by IRDA requires them to invest not less than 15 percent of their investments in infrastructure and social sectors. It is understood that most of the investments in infrastructure and social sectors. It is understood that most of the investments by insurance companies in infrastructure are made to State-owned specialized FIs such as National Thermal Power Corporation (NTPC), Power Finance corporation (PFC) (which have AAA rating) as also to housing sector which qualifies under infrastructure investments. This clearly indicates the low risk-taking outlook of the insurance companies. Pension and provident funds, both Employees Provident Fund (EPF) and PPF, are also repositories of large amount of long-term finance. However, as a legacy of government regulations, pension funds remain a notionally funded scheme. Under the existing stipulations, these funds cannot be drawn out for deployment in other avenues and, thus, remain a “black-hole”. The investment profile of pension funds are highly regulated with a massive bias towards government securities. This precludes the largest source of longterm funds from bridging the financing gap in infrastructure.

(vii) Insufficient knowledge and appraisal skills

An insufficient knowledge and appraisal skill related to infrastructure projects is another constraint, increasing the risk perception of insurance and pension funds towards infrastructure projects. The banking sector, too, lacks the specialization and experience to appraise the risks and returns associated with large and complex infrastructure projects.

(viii) Lack of a reliable interest-rate benchmark

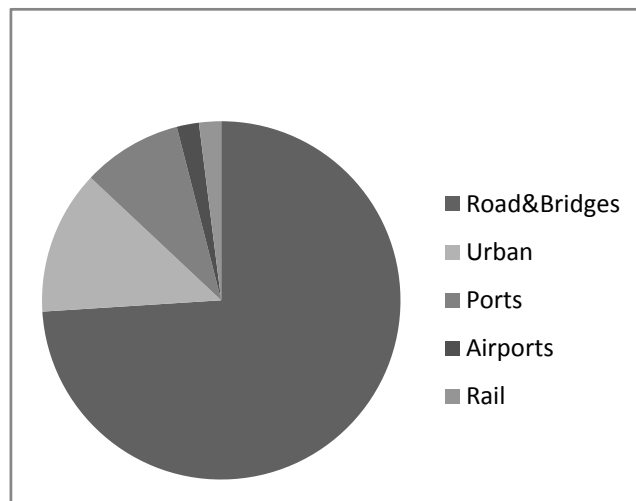
In India, the Mumbai Inter Bank Rate (MIBOR) has been in existence for some time now but has not yet attained the reliability and acceptance to serve as a benchmark for such project finance syndications. The absence of such a benchmark would limit flexibility and would reduce the incentive for FIs and banks to participate and thus the probability of success of syndication for infrastructure finance.

The Role of PPPs so far

In a survey conducted by World Bank in 2006 across Indian states and central agencies, there were at least 86 PPP projects in our main sectors of focus where a contract had been awarded and projects were underway. Over 70% of these were in the roads sector. The other transport sectors have seen much fewer projects, with 8 ports (4 major and 4 minor ports), 2 airport and 2 rail projects underway. In the urban infrastructure sector, 11 PPP projects had been awarded, with 8 solid waste management, 2 water and sanitation and 1 bus terminal projects.

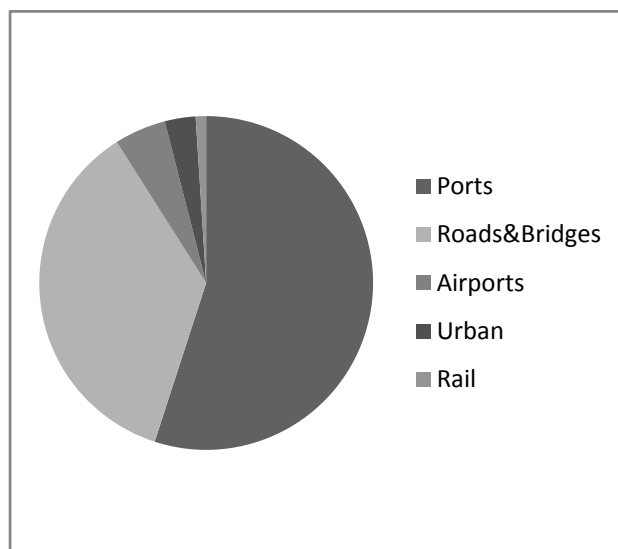
When looking at the total estimated project cost of PPPs, we see that road projects account only for 36 percent of the total because of the small average size of projects. Ports, with a much larger average size of project, account for 56 percent of the total. It is noteworthy that if ports and central road projects are excluded from the total, there is in fact a relatively small value of deal flow, at only Rs 30 bn in infrastructure PPPs to-date, suggesting a significant potential upside for PPP projects across sectors where states and municipalities have primary responsibility.

Figure 3: Number of awarded PPPs By sector (Total =86)



Source: PWC analysis

Figure 4: Project cost of awarded PPPs by sector (total=Rs.339.5 bn.)



Source: PWC analysis

According to World Bank Report (2006), across states and central agencies, the leading users of PPPs by number of projects have been Madhya Pradesh and Maharashtra, with 21 and 14 awarded projects respectively, all in the roads sector, and the National Highways Authority of India (NHAI), with 16 projects. The other states or central agencies that have been important users of PPPs are Gujarat (9 projects) and Tamil Nadu (7 Projects), Karnataka (4 Projects) and Ministry of Shipping, Road Transport and Highways (MOSRTH) (4 Projects).

However, looking at a breakdown by estimated project size, we see that MP becomes significantly less prominent due to the large number of relatively small-sized projects in its portfolio, falling to 3 percent of total project costs. Gujarat accounts for 48 percent of total project costs due to its four large port projects. NHAI (17%) and MOSRTH (12%) are the other significant players. Karnataka accounts for 7 percent of total project costs given that its one awarded PPP project, the Bangalore-Mysore road corridor (currently under construction) had a reported project cost of Rs 22.5 billion.

The Road to a framework for successful implementation of PPP

(i) Streamlining Approvals, Cutting down on Red Tapism and Enhancing Infrastructure Regulation

Governments need to assure potential investors that there is an intention to lay out clear policy frameworks for each sector and reduce uncertainties arising out of policy implementation and arbitrary action in contractual commitments of the governments. The following steps need due consideration:

- i) All infrastructure projects involve multiple clearances from different Ministries and Departments – which contribute to significant delays. In order to mitigate this problem, the GoI needs to set up sufficiently high-level Inter-Ministerial Groups (IMG) for road, power, telecom, ports and airports. It would be useful for these groups to be formed under the aegis of the Planning commission, and for them to meet one every 45 or 60 days to discuss and resolve all outstanding Inter-Ministerial issues.
- ii) Infrastructure is an urgent national priority. To give it the importance it deserves, there has to be a clear signal that the ownership lies at the highest level of government. Therefore, it would be advisable for the Prime Minister's office (PMO) to have a dedicated infrastructure secretariat to monitor the status of projects in different sectors and to ensure consistency in policy formulation and implementation for various infrastructure sectors.

(ii) Stimulating Public Private Partnerships – Building Government Capacity

Developing domestic capabilities to manage, participate in and finance private infrastructure projects is important to broaden the constituency of PPPs, enlarge the pool of funding, and mitigate foreign exchange risk. To encourage PPPs, the Government of India has announced that it will provide viability gap financing for selected infrastructure projects which are socially and economically necessary. According to the policy, up to 40 percent of the financing needs of such projects could be met through VGFs. This is a step in the right direction and could help to hasten the financial closure of many infrastructure projects.

Assuming that the viability gap funding policy is credible, its success will require, among other things. Strengthening the institutional capacity of government to manage, participate in, and monitor PPPs. Capacities for identifying, procuring and managing PPPs could be strengthened in India so that they can make a larger contribution to meeting basic infrastructure needs. The steps that the Centre could take to achieve this are:

- i) Issuing a policy statement on the use of PPPs, including rationale and benefits expected. A clear policy advocating the use of PPPs, as well as the rationale for their use, provides political commitment and support for the program. Policies can also provide clarity on other aspects, such as the approach towards risk transfer, procurement, financing, and the need for transparency;
- ii) The creation of a national level PPP unit for information dissemination and guidance functions, plus transactions advisory support to central agencies and ministries in their PPP programs;
- iii) At the State level, a dedicated PPP unit can both broaden the PPP program by transferring lessons and experiences across sectors, as well as improve the quality of PPPs by bringing to bear better transaction skills;
- iv) At the State level, consideration should be given to the development of cross-cutting PPP legislation. One of the benefits of cross-cutting PPP legislation is that it allows the consolidation of relevant legal provisions into single law, and also allows the government to legislate the use of certain processes for the development, procurement and regulation of PPP projects.

(iii) Fiscal measures to support private financing of infrastructure and financial market innovation

If there is to be an increased use of PPPs the Center should work to strengthen oversight their fiscal costs. PPPs can involve substantial contingent liabilities as well as long-term purchase obligation. Fiscal Responsibility Acts passed at the Central level and by the States of Karnataka, Uttar Pradesh, Punjab and Kerala all include statements on fiscal prudence and treatment of contingent liabilities that are relevant to PPPs. Nonetheless, implementing this may not be straightforward. Although fiscal concessions are not necessarily desirable, per se, they might help in increasing returns and hence, investment. The following fiscal measures are needed:

- i) The Ministry of Finance could consider reducing the customs duty on capital goods and machinery that are critical for roads, ports, airports, power, railways, telecommunication, oil and gas pipelines and supply and distribution of water. This fiscal incentive would significantly reduce the cost of many infrastructure projects.
- ii) The fiscal benefits given under section 10(23G) should be approved at one shot for the stipulated 10-year period, instead of the present practice of the companies or SPVs getting annual approval from the CBDT. Also, the government ought to consider making the benefits of 10(23G) available to retail investors, who could then invest in dedicated infrastructure mutual funds which would use the finances so obtained to offer longer term credit facilities to infrastructure projects.

(iv) Facilitation equity financing

In the longer-term, equity finance from financial investor – including private equity funds such as venture capital funds and other institutional investors, which include dedicated infrastructure funds sponsored by a consortium of insurance companies, pension funds, government sponsored funds, commercial banks, development banks, private fund managers and other privately-held companies – is essential for increasing private investment in infrastructure. The priorities are to:

- i) Improve exit policies to make it easier for investors to exit:
In this context, a key priority is for RBI introduce enabling regulations for the use of put options as an exit mechanism for investors in unlisted (privately held) companies. At present, the regulations do not allow financial investors to reach an upfront agreement with sponsors on the terms of a put option, if the sponsor company is unlisted. This would broaden the investor base and with successful closing of projects it would increase investor confidence.
- ii) Other factors that would help increase equity investment in infrastructure projects include better corporate governance, with a particular focus on minority shareholder protection rights.

(v) Encouraging the use of more innovative financing instruments like mezzanine takeout financing

- Removing interest rate caps on ECBs could encourage foreign investors to use instruments like mezzanine and take out financing for infrastructure investment.
- Extending fiscal concessions, such as those under section 10(23G) to venture capital and private equity funds that invest in infrastructure, could also help encourage mezzanine financing.
- Rationalization of stamp duties would facilitate the use of takeout financing and securitization in states where these duties remain high. High stamp duties levied at as valorem rates are barriers to securitization as well as take-out financing. Given that stamp duties are state subjects, the Central Government can, at best, play a persuasive and demonstrative role.

(vi) Developing a longer term corporate bond market

A well developed government bond market is a critical prerequisite to the development of the corporate bond market. Hence, there is an urgent need to increase the depth and the breadth of the government bond market, through the following measures:

- i) Recalling the existing illiquid, infrequently traded bonds and re-issue liquid bonds.
- ii) The existing regulation that requires institutional funds such as pension funds and insurance funds to hold till maturity all government securities should be removed and they should be allowed to actively trade in the market.

- iii) To bring in more retail investors to the government bond market there is a need to introduce an element of marketability and price discovery, which can only be brought in by making securities trading screen based more transparent.

(vii) Encouraging participation by FLs in infrastructure financing

The authorities should look at the existing investment norms prescribed for insurance, EPF and PPF with a view to relaxing them so that these institutions can commit significantly larger amounts of long-term funds for infrastructure. The main areas which need attention in this respect are as follows:

- The investment guidelines for insurance companies need to be modified to allow investment in instruments with a rating of less than AA. At present these investments are counted towards ‘unapproved’ investments. This, in conjunction with development of credit enhancement products should enable insurance companies to invest in infrastructure projects.
- Investment guidelines for pension funds should be modified to allow them to invest in infrastructure projects, which have a guarantee from the central government or multilateral agencies. The cost of such funding will also be lower since these will not carry any currency risk.
- There exists an urgent need for specialized infrastructure financing institutions such as IL&FS and IDFC to participate at the design stage of a project. First, it would make it easier for project developers to obtain finance from other sources. Second, it would provide the developer with the opportunity to use the expertise of such institutions in project designing and financial structuring.
- There is a need to create a debt recovery mechanism for pension and provident fund on the lines of the Debt Recovery Tribunal (DRT). While the need for such a tribunal is not felt at present due to the restricted investment profile, it will be critical if pension and provident funds are to have any significant exposure in the infrastructure sector.
- In order to provide an active incentive for banks to scale-up financing, the RBI could consider classifying infrastructure as one of the priority sectors. Moreover, as far as banks are concerned, liabilities created by the sale of long term infrastructure bonds may be kept outside the purview of SLR and CRR.

(viii) Project development funds

The use of PPPs for the delivery of basic services by state and municipal governments can be stimulated by the provision of central funds to support their payments under PPPs. Any additional funding of PPPs should be complemented by a more rapid development of capacities to monitor the fiscal costs of PPPs. A national PPP unit could oversee the project development fund. A substantial matching contribution from the state/municipal government contracting for the PPP would be important to provide commitment to the project and indicate that the project was a priority.

(ix) The Growing Pool of International Financial Investors

Financial investors, from India as well as abroad, have welcomed the Indian government's commitment to embrace PPPs, and see this as an exciting business opportunity. India can take advantage of the growth of the heightened global interest in infrastructure assets. In addition to investors from Canada and Australia, who are already active in this segment, investors from Europe, the Middle East and North America are increasingly looking for opportunities in infrastructure. However, in order to be able entice these investors, India's PPP program should offer a sizeable pool of infrastructure concessions that are up and running, with a reliable stream of cash flows. To be able to do this, it has to first transition from the present state, which is characterized by contractor-led growth and the dominance of trade players. Also, it has to increase the role of financial investors in PPP projects.


Conclusion

In India, rapid economic growth growing urban population, increasing rural-urban migration, and all-round social and economic development have compounded the pressure on the existing infrastructure, and increased the demand-supply gap. While the infrastructure gap is rising, government budgetary resources are increasingly constrained in financing this deficit. The political economy of infrastructure shortages, constrained public resources, and rising pressure from citizens and civil society have combined to push governments and policymakers to explore new ways of financing and managing these services. Governments have been pushed to exploring new and innovative financing methods in which private sector investment can be attracted through a mutually beneficial arrangement. Since neither the public sector nor the private sector can meet the financial requirements for infrastructure in isolation, the PPP model has come to represent a logical, viable, and necessary option for them to work together.

Governments embarking on PPP programs have often developed new policy, legal and institutional frameworks to provide the required organizational and individual capacities. These go beyond that needed to originate and financially close PPP deals, as they must also ensure that these deals are affordable to users and the public sector and provide ex-post evaluation of the success of PPPs in meeting their objectives. This framework needs to be in place in India to ensure a robust and successful PPPs program.

PPPs often involve complex planning and sustained facilitation. Infrastructure projects such as roads and bridges, water supply, sewerage and drainage involve large investment, long gestation period, poor cost recovery, and construction, social, and environmental risks. When infrastructure is developed as PPPs the process is often characterized by detailed risk and cost appraisal, complex and long bidding procedures, difficult stakeholder management, and long-drawn negotiations to financial closure. This means that PPPs are critically dependent on sustained and explicit support of the sponsoring government. To deal with these procedural complexities and potential pitfalls of PPPs, governments need to be clear, committed, and technically capable to handle the legal, regulatory, policy, and governance issues.

The major suggestions on the basis of our findings can be summarized as

- The PPP has to be accepted as a matter of fact and has to be encouraged on regular basis.
- The area of PPP is to be broadly widened and has to be spread to the small and medium sized sectors also.
- Efficient, skilled and adequate human resource is to be used for proper functioning of the projects under private public partnerships.
- Government interference is to be minimized
- More and more private sectors are to be encouraged to invest and should be made stake holders.
- All the bottlenecks at the government levels (Political bottlenecks) have to be reduced.
- Equal partnership and ownership theory is to be encouraged.
- Legal assistance has to be quick and fast. 

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ARTICLE**Determinants of Trade Balance: A Comparison between Pakistan and India**

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Abstract

This study investigates and compares the determinants of the trade balances of Pakistan and India. In this research the impact of gross domestic product (GDP), foreign direct investment (FDI), exchange rate (ER) and the remittances on the trade balance of India and Pakistan have also been considered. For this, time series data from 1981 to 2010 is used. The results of the study are based on the regression analysis, and granger causality test. Regression analysis showed that the GDP of India and Pakistan both have significant positive impact on the balance of the trade, FDI has significant negative impact on TB of Pakistan and significant positive impact on the TB of India, this negative relation in case of Pakistan is due to multiple reasons, such as security concerns, political unrest, the different wars, corruption and improper utilization of labor and capital. ER has significant negative impact on both India and Pakistan's TB and remittances have significant negative impact for Pakistan and significant positive impact for the TB of India. Granger causality result showed bidirectional causal relation in Indian model, and unidirectional causal relation in Pakistani model.

The outcome recommends that local currency needs to be stronger in order to improve the trade balance of both the countries, also for Pakistan a more comprehensive research is required in order to identify the factors which are responsible for the negative effect of both FDI and Remittances on the trade balance.

Key words: Trade Balance, Regression, Remittances, Exchange Rate, FDI, Granger Causality.

Introduction

The trade balance is a measure that reflects the competitive strength of a country, the lower the trade deficit, the country have the greater competitive strength and has more rapid growth of the economy¹. International trade, economics and economic growth are manipulated greatly by the global trends of trade movement and policies². Too many factors are there which are affecting the trade balance of a country. Most of them had been studied in

¹ Trade deficit: Causes and Consequences by Gould and Ruffin (1996)

² Mohamad (2010)

past. The majority of the past studies³ have focused on the factors that are affecting the trade balances of different countries individually, whereas this study is a comparison between the determinants of the trade balances of Pakistan and India.

At the time of independence, a small number of industries were inherited by Pakistan because of which Import Substitution Industrialization (ISI) strategy was implemented by government. To persuade export, Export Bonus Scheme (EBS) was established by government in 1960's. Most of the countries that have large trade surpluses, also have negative investment situation⁴. Trade deficit by most of the people is understood as a bad condition but it is not that bad. Sometimes economies need to reduce the value of their domestic currency (devaluation) to improve their exports. Many studies have explored that devaluation develops the balance of trade in long run and provide competitive advantage⁵.

A large number of industrialized countries are facing the deficits in the trade like United States of America (USA), Portugal, United Kingdom, Australia etc⁶. Pakistan is going through the phase of trade deficit since independence except three years which are 1947-1948, 1950-1951, and 1972-1973, India is also facing the trade deficit since 1947 except two years, 1972-1973, and 1976-1977 and deficits are increasing day by day. The continuous deficit in trade is not good for developing economies like Pakistan and India.

Background

Like an engine of growth, trade has performed essential role at different stages of development for countries. Imbalances in the trade are acknowledged as the trade deficit or trade surplus. The trade balance demonstrates improvement by a reduction in exchange rates.

Pakistan is facing the trade deficit since 1947 except three years. In 1947-1948, Pakistan had a surplus of Rs. 125 million, and the reason was high amount of export. The trade surplus of Pakistan in 1950-1951 was Rs. 176 million, and the reason was the excess export of the cotton and jute from East Pakistan (Bangladesh) and the reason of excess export was the Korean War. The reason of surplus in 1971-1972 was the devaluation of the currency (Pak Rupees) from Rs. 4.76 to Rs. 11 per dollar. The amount of surplus in 1972 was Rs. 124 million⁷.

Pakistan is majorly an agricultural base country with major exports of rice and raw cotton. A major reason of trade deficit in Pakistan is that high amount of food grains and food items are being imported due to mounting population. Another reason of deficit is the reduction in foreign investment because of terrorist activities and worsening law and order situations in Pakistan. Along with foreign investors, the law and order situations and political instability are discouraging local investors too.

Import and export of Pakistan with India were considerable for many years after independence, attaining 30 percent export and 10 percent of the imports. After some time,

³ Ray (2012), Awan et al, (2011), Mohamad (2010), Rehman & Uddin (2009), Zhung et al, (2007), Duasa (2007)

⁴ Falk (2008) inflow of FDI is less than the outflow FDI

⁵ Mohammad and Hosain (2010), Falk (2008), Mohammad (2010).

⁶ Falk (2008)

⁷ All values have been gathered from the state bank of Pakistan and economic survey of Pakistan.

both reduced to an average of below five percent. After two decades in 1990's the amount of trade improved and the average amount almost doubled. But still, the quantity of trade between two countries is very low as compared to their potentials⁸.

Research Objective

The primary objective of this research is to conduct a comparative study of determinants of trade balance between India and Pakistan. The main objective of this study is to analyze the relationship between the gross domestic product, trade balance, foreign direct investment, remittances and exchange rate. And to find out that the variables which influence the trade balance of Pakistan, either they also affect the trade balance of India or not. This study is going to refine the previous studies and will present new interpretation about the factors effecting trade balance of Pakistan in comparison with India.

Literature Review

Theoretical Background

The divergence between the fiscal value of exports and imports of a country over a definite time period is known as the trade balance. If the imports of a country are more than the export of the country, it is called trade deficit and if imports are less than exports it's called as trade surplus. It is one of the leading sections of any balance of payments of a country. Foreign aid, Import, domestic spending abroad, and domestic investment abroad are the stuff of debit side of trade balance and the credit side of trade balance includes foreign spending in the domestic economy, export, and foreign investment in domestic economy. Trade balance shows only the trade of visible things or we can say merchandise⁹.

Trade deficit refers to the imbalances of debit and credit side of the balance of payments. It is a condition where out flow of domestic currency is more than the inflow of foreign currency in an economy. The trade balance shows improvement with depreciation in real exchange rate; however responsiveness of trade balance to the movement in exchange rate is low for those countries who's trade balance is negative or have a positive net foreign direct investment with huge amount¹⁰. The higher trade deficit could be attributed to a rise in petroleum, oil, and lubricants as well as non-petroleum, oil and lubricants components in imports¹¹.

Exchange rate is a very important factor which influence in examining a country's trade balance. It is the price/rate, upon which one country's currency can be expressed in another currency. It plays a very important role in making policies. It helps in determining of the trade flows, FDI, inflation, international reserve and remittances of a country. Theoretically, there is a positive significant relation between exchange rates (ER), and the trade balance of a country. A fall in the real effective exchange rate shows that the cost of goods manufactured domestically is reduced and as result competitiveness in export has boosted¹².

⁸ State Bank of Pakistan

⁹ Modern Economy Theory by K. K. Dewett (2005)

¹⁰ Falk (2008)

¹¹ Ray (2012)

¹² Falk (2008), trade balance and real effective exchange rate in Malaysia By Dr. Mohammad B. Yusoff, Aziz (2008)

Further considerable variables which influence the balance of trade are inflow of foreign cash through foreign direct investment (FDI) and the remittances. Foreign direct investment (FDI) is a measure that tells the foreign possession of assets like land, mines, and factories in a country. Theoretically foreign direct investment (FDI) has two types, inward and outward remittances. The remaining of these remittances (may be positive or negative) is called net FDI. To speed up socio-economic development, FDI is a very strong and important mechanism. An increase in FDI leads to increase in manufacturing import substitution products locally, which as a result reduce imports and improves the balance of trade¹³.

Worker's Remittance is a transfer of money to family members in home country from international migrants. For developing countries, it is one of the major sources of financial flows¹⁴. For Pakistan, in fiscal year 2010-2011, percentage change in Remittances was 17.72% and this percentage increased to 21.54% in 2011- 2012 at amount of \$7,435.98. According to World Bank, in 2011 the amount of remittances to home countries will reach \$353 billion for developing countries and \$483 billion for overall world. In developing countries, India is on the top of the list with \$58 billion.

Gross domestic product (GDP) is an indicator which shows the health of an economy. It is the market value of all final goods and services produced in a country within a year. Gross domestic product (GDP) is a measure of national income. There are three approaches to calculate GDP 1) income method, 2) output method and 3) expenditure method. GDP of Pakistan is worth 175 billion or 0.28% of the world economy¹⁵.

Empirical Studies

Ray (2012) analyzed the role of FDI, real effective exchange rate, domestic consumption, and foreign income on long and short run behavior of trade balance in India. For sample data collected covering period 1972 to 1973 and 2010 to 2011. Statistical techniques OLS regression, augmented dickey fuller test, Johansen co integration test, and VECM are tested on sample data. The results showed that long and short run causality do exist between variables. There is a significant positive impact of FDI and foreign income on trade balance while domestic consumption and real effective exchange rate have a significant negative impact on trade balance of India.

Awan et al, (2011), analyzed the impact of fiscal deficit, exchange rate, and terms of trade on the external debt of Pakistan. The main objective of the study was to investigate the association between exchange rate, external debt, deterioration of terms of trade, and fiscal deficit. For sample, secondary data was collected covering period from 1974 to 2008. Unit root test, co integration, and Vector Error Correction Model (VECM) tests were applied on sample data. Four variables selected for the research are consolidated fiscal deficit, external debt, terms of trade and nominal exchange rate. The results showed that there is a long term significant relationship between exchange rate, external debt and deterioration of terms of trade and insignificant impact of fiscal deficit on external debt. They recommend that the government of Pakistan should not follow aid strictly and must follow the policy of trade. Consistency of Exchange Rate (ER) is essential to reduce the undesirable results because of external debt.

¹³ Ray (2012)

¹⁴ Do worker remittances promote economic growth? By Barajas et al, (2009)

¹⁵ All figures have been taken from State bank of Pakistan

Waliullah et al, (2010), investigated the short run and long run relation among the income, trade balance, real exchange rate, and money supply for Pakistan. For this purpose, annual data from 1970 to 2005 was collected. Statistical techniques error correction model and cointegration were tested on sample data. The results showed long term, steady relation among the income, trade balance, real exchange rate, and money supply. Further they explored that a strong role is played by money supply and income in determining behavior of trade balance. They recommended that by using policies for income and money supply, complication of trade balance should be reduced.

Shahbaz et al, (2010) examined the relationship among changes in the trade balance indicators of Pakistan and real exchange rate. For sample, quarterly data covering period from 1980 to 2006 was collected. Co integration, unit root test and auto regressive distributed lag (ARDL) techniques were tested on sample data. The variables used in the research were effective exchange rate (fixed), trade balance, floating exchange rates, and terms of trade. The results showed a significant positive relationship among the trade balance, real exchange rate, and trade balance, and significant negative relation between currency depreciation and trade balance. They suggested that import substitution policy must be introduced to reduce addition of import.

Mohammad & Hussain (2010) examined the effects of exchange rate depreciation on trade balance of Pakistan and for this purpose sample data from 1970 to 2008 was collected. Statistical technique, Johansson co-integration test, OLS regression, and augmented dickey fuller test were applied on the data. The variables used in the research were balance of trade, real effective exchange rate, domestic GDP (gross domestic product), and gross domestic product of the World (world industrial index). The result showed long term positive relationship between real effective exchange rate, real income, trade balance and negative relation with real domestic income. They recommended that exchange rate depreciation has a positive impact on trade balance and is in favor of the export of Pakistan.

Mohammad (2010) analyzed the long and short term determinants of trade deficit of Pakistan. For this, sample data covering period 1975 to 2008 was collected. Johansen co integration and vector error correlation model (VECM) techniques were applied on the data. The five variables selected for study were foreign direct investment (FDI), trade balance (TB), foreign income, real effective exchange rate (REER) and domestic consumption (DC). The results explored that there is a significant positive affect of domestic household consumption, real effective exchange rate (REER) and foreign investment (FI), on the trade deficit. They recommended that Pakistan government need to focus on subsidization like many other countries. And also need to sort out problems of SME's because they are playing a significant role in Pakistan's export.

Falk (2008) examined the factors affecting the aggregate trade balance in industrialized countries. For this, panel data of 32 economies were collected from period 1990 to 2007. The variables used in the study were real effective exchange rate, trade balance, GDP per capita, real domestic, foreign direct investment, and foreign income. The results were gained by using fixed effects model and linear mixed models. The result explored that a significant positive relation exist between the government budget balance and the TB (trade balance). A significant positive relationship was found between trade balance and real foreign GDP of trading partners and a negative relation between real domestic GDP and trade balance. The trade balance shows improvement with depreciation in real exchange rate;

however the sensitivity of trade balance is minor for countries with a negative trade balance and/or a large positive net foreign direct investment.

Duasa (2007) studied the relationship among trade balance, real exchange rate, income, and money supply in Malaysian economy. For sample purpose, annual data was collected from period 1974 to 2003. The techniques Co integration and error correction modeling was tested on data. The variables selected for the study were real effective exchange rate (REER), gross domestic product (GDP), income and money supply, and the trade balances. The results are estimated, additional assumptions are presumed using variance decomposition and impulse response functions (IFR). The results discover long term relation between trade balance, income and money supply. And between real effective exchange rate (REER) and trade balance, no long term relation was found. They suggested that the monetary approaches should be used for Malaysian trade balance rather than exchange rate regime.

Zhung et al, (2007) explored that these are reasons of growing US trade deficit in consumer oriented agricultural products. For this purpose 16 years panel data covering period of 1989 to 2005 is selected from 28 different countries. The variables used in their research are FDI, CPI, population, total trade and total GDP. Generalized Least Square, and unit root test were applied on sample data. The results showed that per capita income in US is very important for the growing US trade deficit. A negative effect of US FDI overseas and exchange rate has seen on the US trade balance. They suggested that to improve the US trade balance, a raise in per capita income and trade liberalization is required.

Babar (2006) studied that imports of intermediate and capital goods have vital contribution in the export production of Pakistan. For sample, annual data covering period 1973 to 2005 was collected and ordinary least square technique was applied. The variables selected for the study were quantum index of export, capital imports, index of imports, relative price index, industrial raw material imports, nominal effective exchange rate, USA domestic output index and cotton production index. The results showed a significant long term relationship among exports and imports of intermediate and capital goods. They suggested that policy makers must put spotlight on importing those items that are directly used in export production.

Stucka (2004), analyzed impact of change in exchange rate on the trade balance in Croatia and for this purpose long and short run effects were estimated. For sample, quarterly data collected covered period from 1994 to 2002. Co-integration, Augmented Dickey-fuller (ADF) test, and unit root test were applied on the selected data. The five variables used in the research are trade balance, domestic GDP, foreign GDP, real effective exchange rate, real effective exchange rate PPI, and CPI. In result, the F-statistics and Wald test's significance showed co integration between variables. They suggested that after a permanent devaluation/depreciation, progress of the trade balance is very narrow.

Grube & Samanta (2003), examined the impact of uncertainty of exchange rate on Mexican foreign trade and for this purpose sample data collected for time period 1980 to 2000. Auto-regression, unit root test, augmented dickey fuller test and t-statistics are tested on sample data. The variables used in their research are exchange rate, Mexican export, and real gross domestic product of United States. The results showed that negative relation among exchange rate (ER) and other economic factors of the Mexican economy. They recommended

that Mexico should take advantage of its export potential and increase binding with US and other trading partners.

Lal & Lowinger (2002), analyzed the short term and long term determinants of trade balance of five south Asian countries. For this purpose quarterly data was collected covering period 1985 to 1998. Augment Dickey-Fuller (ADF) test, Unit root test, Co-integration and error correction model was tested on the selected sample. The variables used are trade balance, nominal effective exchange rate, foreign exchange reserve of country, and real GDP. The results showed that the long and short run association does exist relating trade balances and nominal effective exchange rate.

Calderon et al, (1999), studied the determinants of current account deficit for developing countries and for sample, panel data of 44 developing countries for the time period 1966 to 1995 was collected. Regression analysis and correlation was tested on the sample data. The variables selected for the study were persistence, domestic growth rate, industrialized output growth rate, private and public saving rates, export, black market premium on foreign exchange, terms of trade, BOP restrictions, real exchange rate (RER), and real interest rate. The results explored that there is reasonable consistency in current accounts, a large current account deficit is generated by rise in domestic output growth, there is a positive impact of temporary increase in both public and private savings on current account, and the current account deficit is reduced in developing by both, either high rate in industrialized economies or large international interest rates.

Prasad & Gable, (1997) analyzed the association between the international trade and the fluctuations of macroeconomic variables in industrial economies. Quarterly the data from period 1970 to 1995 was gathered as sample period. Vector auto-regression models were tested on the data. Variables selected for the study were real export, real import, trade balance, real GDP, and nominal and real effective exchange rates (REER). The result showed that trade balance improves in short run by monetary expansions. They concluded that various macroeconomic variable's fluctuations can affect the dynamics of international business trade in different ways.

Methodology

The research approach used for this study is quantitative. This approach is generally used to inspect the research questions and tests the theory¹⁶. The research design of this study is co-relational. In co-relational research, the variables are inspected in their natural environment and it doesn't encompass healings that are enforced by the researcher. It is exercised to inspect the relationship between two or more variables¹⁷.

The source of data is secondary. There are three main sites from where the data of India and Pakistan has been collected. The data of Pakistan has been gathered from the State Bank of Pakistan¹⁸ and the World Bank¹⁹ and Indian data has been collected from the web site of the World Bank and Economic Survey of India 2010-2011. For sample, annual time series data of Pakistan and India is collected. The period 1981 to 2010 has been collected and used as sample period. OLS regression has been used for this research. It is a kind of

¹⁶ James Neill (2003)

¹⁷ Owen Emlen 2006

¹⁸ www.sbp.org/pk

¹⁹ www.worldbank.org

technique that is used to identify with relationship between the dependent and independent (explanatory) variables. It explains that, how a change in one independent variable influences the dependent variable²⁰.

Model

$$TB_{Pak} = \alpha_0 + \alpha_1 GDP + \alpha_2 ER + \alpha_3 FDI + \alpha_4 REM + \varepsilon$$

$$TB_{Ind} = \alpha_0 + \alpha_1 GDP + \alpha_2 ER + \alpha_3 FDI + \alpha_4 REM + \varepsilon$$

Whereas; TB_{Pak} is Trade balance of Pakistan, TB_{Ind} is Trade balance of India, ER is exchange rates, FDI is Foreign direct investment, GDP is Gross domestic products, and REM is Remittances.

Data Analysis

The foremost component of the research is analysis and its interpretation. This research has two models to test. First model is of Pakistan and the other model is to test Indian data. Regression analysis is applied for testing the relationship and the results are explained below. The study is done to divulge the relationship between the GDP, trade balance, FDI, exchange rate, and Remittances for India and Pakistan. Independent analysis will be executed to discover the impact of all the variables on the trade balances of India and Pakistan.

Summary Statistics

The descriptive statistics of data of determinants of the trade balance of Pakistan has been defined below in the table of descriptive statistics.

Table 4.1.1 Descriptive statistics

Variables	Model of TB_{PAK}				Model of TB_{IND}			
	Mean	Max	Min	Std. Dev.	Mean	Max	Min	Std. Dev.
Constant	0.957	2.06	0.03	0.505	0.452	1.18	-0.53	0.371
GDP	523.9	1727	190.5	398.6	70.85	176.9	28.1	43.74
FDI	0.274	1.63	-1.52	0.707	-0.13	0.59	-0.99	0.365
REMI	0.884	1.73	0.35	0.476	0.396	0.99	0	0.266
ER	1.425	1.69	0.94	0.26	39.31	58.19	9.9	22.33

Source: Authors' Estimations.

To find out the basic properties of the data, the descriptive statistics are used. Maximum and minimum show the ranges of variables, and the range of trade balances of Pakistan is between 0.03 and 2.06. Standard deviation describes the deviation of a variable from its mean.

²⁰ Multivariate Data Analysis 7th ed. by Joseph, William, Barry and Rolph

4.2.1 Parameter estimates for TB

Variables	Model of TB _{PAK}			Model of TB _{IND}		
	Coefficient	t-stats	Prob.	Coefficient	t-stats	Prob.
Constant	0.263	2.629	0.014	1.666	6.162	0.000
GDP	0.026	8.497	0.000	0.001	2.663	0.013
FDI	-0.250	-1.720	0.098	0.281	3.499	0.002
REMI	-0.720	-3.230	0.003	0.583	2.141	0.042
ER	-0.040	-8.860	0.000	-1.12	-3.970	0.001
Adj. R²	0.801			0.903		
D-W stats	1.805			1.801		
F-stats (prob)	30.219 (0.000)			68.212 (0.000)		

Source: Authors' Estimations.

For Pakistani model, the value of adjusted R^2 showed that this model is 80.10% accurate and significant with p value 0.000. It means that a healthy amount of change in trade balance is predicted by the GDP, FDI, ER, and Remittances.. The F-static of this model is 30.219 with p-value 0.00 which is smaller than 0.10 which means all the independent variables are good predictor of the dependent variable.

The constant value, also referred as the Y intercept, is 0.263 which shows the altitude of the regression line when it touches the Y axis. It is the forecasted value of Trade Balance where all the regressors are 0. The results explain that GDP has significant positive impact on trade balance which is consistent with the theory that when economy grows, trade balance is improved as well. Result of FDI shows that it has a significant negative impact on the trade balance of Pakistan²¹, which means that when FDI increases, it worsens the trade balance. Negative FDI shows that to utilize FDI in productive manner we have to import heavy machineries and other things because of this, our balance goes into deficit.

Remittances show significant negative impact on the trade balance of Pakistan²² which represents that an increase in remittances leads to worsen the trade balance of Pakistani economy²³, remittances have negative impact because although a big amount of remittances is received but these remittances are not been utilized in productive manner. The exchange rate

²¹Khan & Hossain, (2010), Mohammad (2010), Falk (2008), Zhung et al, (2007)

²²Zhung et al, (2007)

²³Remittances and Reverse Flows in Developing Countries by Anupam Das and John Serieux 2010, The Jordanian Workers' Remittances Impact on the Main Macroeconomic Variables by Jihad and Suleiman 2010.

showed a significant negative impact in the trade balance. It means that when ER increases TB moves towards deficit and the trade balance moves towards surplus when exchange rate decreases (other variables remain constant).

$$TB_{Pak} = \alpha_0 + \alpha_1 GDP + \alpha_2 ER + \alpha_3 FDI + \alpha_4 REM + \varepsilon$$

$$TB_{Pak} = 0.263 + 0.026 GDP - 0.035 ER - 0.249 FDI - 0.717 REM + \varepsilon$$

The second model that is of Indian data The model is 90.3% accurate and is significant with p value 0.000. It means that a healthy amount of change in trade balance is predicted by the GDP, FDI, ER, and Remittances. The outcome explored that the GDP has significant positive impact on the trade balance of India which indicates that a growth in economy leads towards the improvement in trade balance too. Furthermore, FDI has significant positive relation with the trade balance that is steady with the previous studies²⁴. Remittances show significant positive impact on the trade balance of India and the exchange rate showed significant negative relation with the trade balance of India which denotes that increases in the exchange rate direct towards the imbalances in trade.

$$TB_{Ind} = \alpha_0 + \alpha_1 GDP + \alpha_2 ER + \alpha_3 FDI + \alpha_4 REM + \varepsilon$$

$$TB_{Ind} = 1.666 + 0.001 GDP - 1.116 ER + 0.281 FDI + 0.583 REM + \varepsilon$$

Figure 3

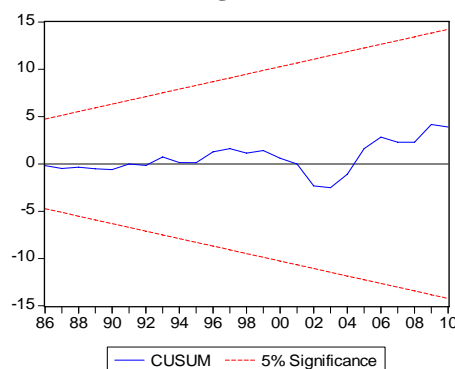
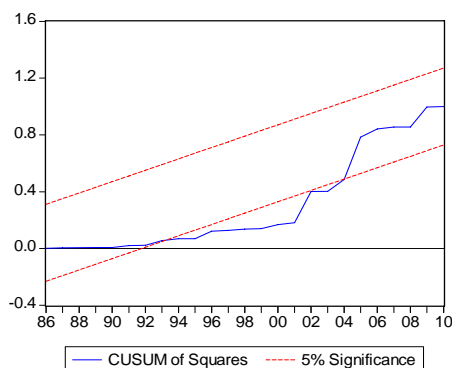


Figure 4



²⁴Ray (2012), Mohammad (2010)

Table 4.3.1: Co integration Test Results of TB Of India and Pakistan:

Models	Hypothesis No. of CE(s)	Trace statistics	5% critical values	Max. Eigen value statistics	5% critical values
Model 1 TB_{PAK}	None	142.7780	69.81889	0.958864	33.87687
	At Most 1	56.62477	47.85613	0.646117	27.58434
	At Most 2	28.57747	29.79707	0.441678	21.13162
	At Most 3	12.84137	15.49471	0.349181	14.26460
	At Most 4	1.244236	3.841466	0.045037	3.841466
Model 2 TB_{IND}	None	170.9489	79.34145	0.978023	37.16359
	At Most 1	67.86997	55.24578	0.712232	30.81507
	At Most 2	34.23879	35.01090	0.518195	24.25202
	At Most 3	14.52296	18.39771	0.385256	17.14769
	At Most 4	1.386142	3.841466	0.050043	3.841466

Source: Authors' Estimations.

Table 4.3.1 reports rejection of null hypothesis at five percent level of significance, for both the Trace statistics and the maximum eigen value statistics, in favour of alternative that there are two cointegration vectors for both models. Therefore, based on the results it is concluded that long run relationship exists between the considered variables.

Granger Causality Test

In this section Granger causality analysis has been performed to find the causal relationship among the variables GDP, FDI, Remittances, ER and trade balance. Standard Granger (1969) structure has been used. Jones (1989) expresses that ad hoc selection method for lag length in Granger causality is better than some of the statistical method used to determine optimal lag. Consequently two lag lengths are assumed for the whole model. The results of Granger causality are represented below.

TABLE:4.4.1
Model of TB of India

Null Hypothesis:	Obs	F-Statistic	Prob.
FDI does not Granger Cause TB	28	9.58096	0.0009
TB does not Granger Cause FDI	0.37616	0.6906	

GDP does not Granger Cause TB	28	5.13649	0.0143
TB does not Granger Cause GDP	2.48630	0.1053	
ER does not Granger Cause TB	28	10.4130	0.0006
TB does not Granger Cause ER	2.85019	0.0784	
REMI does not Granger Cause TB	28	4.83781	0.0176
TB does not Granger Cause REMI	3.12830	0.0628	

Source: Author's estimations.

Note: Lag length in each case is two as per Akaike Information Criteria(AIC). Critical values for F-statistics can be found in Gujrati (1995),p.814.

From the first table 4.4.1 it is clear that the GDP , REM and ER have a bidirectional causality with respect to trade balance. However unidirectional causality is found in case of FDI(from FDI to TB).

TABLE:4.4.2
Model Of TB of Pakistan

Null Hypothesis:	Obs	F-Statistic	Prob.
FDI does not Granger Cause TB	28	7.65896	0.0028
TB does not Granger Cause FDI		0.53189	0.5945
GDP does not Granger Cause TB	28	7.78466	0.0026
TB does not Granger Cause GDP		1.25424	0.3041
ER does not Granger Cause TB	28	9.53875	0.0010
TB does not Granger Cause ER		0.19456	0.8245
REMI does not Granger Cause TB	28	1.71046	0.2030
TB does not Granger Cause REMI		1.11087	0.3463

Source: Author's estimations.

Note: Lag length in each case is two as per Akaike Information Criteria(AIC). Critical values for F-statistics can be found in Gujrati (1995),p.814.

In the table 4.4.2 there is no bidirectional causality between any of the variables, however uni directional causality exists from FDI, GDP and ER . this means that all of these variables can be used to predict the TB.

Conclusion & Recommendation

Conclusion

A number of researches have been performed on trade balance and its determinants, but few have conducted a comparison between two neighboring countries. This study investigates and compares the determinants of the trade balances of Pakistan and India. In this research the impact of gross domestic product (GDP), foreign direct investment (FDI), exchange rate (ER) and the remittances on the trade balance of India and Pakistan have also been considered. For this, time series data from 1981 to 2010 has been used. The results of the study are based on the regression analysis, Granger causality, and co integration. The results of regression analysis showed that the GDP of India and Pakistan both have significant positive impact on the balance of the trade, FDI has significant negative impact on TB of Pakistan and significant positive impact on the TB of India, this negative relation in case of Pakistan is due to multiple reasons, such as security concerns, political unrest, the different wars, corruption and improper utilization of labor and capital. ER has significant negative impact on both India and Pakistan's TB and remittances have significant negative impact for Pakistan and significant positive impact for the TB of India. Granger causality result showed bidirectional causal relation in Indian model, and uni directional causal relation in Pakistani model.

Future Recommendations

- It is recommended to policy makers that the local currency needs to be stronger in order to improve the trade balance of both the Pakistan and India.
- Government should impose heavy taxes on the import of luxury items so that the amount of remittances can be saved and need to motivate the people to use remittances in a productive way.
- We need to improve the quality of domestic productions so that use of foreign goods can be reduced.
- The outcome recommends that for Pakistan a more comprehensive research is required in order to identify the factors which are responsible for the negative effect of both FDI and Remittances on the trade balance. As comparing with India both these variables have shown a positive relationship, by conducting a more thorough research into this Pakistan can also use these two variables in its advantage.

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Those things that hurt, instruct.

Benjamin Franklin

ARTICLE**THE IMPACT OF NATIONAL AND ORGANIZATIONAL CULTURAL DIFFERENCES ON INTERNATIONAL JOINT VENTURE PERFORMANCE**

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Abstract

The purpose of this study is to theoretically explore how national cultural differences, organizational cultural differences and trust between partners can influence IJV performance. Findings from previous studies have been mixed, and this study attempts to address the relationship and performance issues by theoretically advancing a model to explain the inconclusive results found to date. Based on previous research, the findings of this study are as follows. Firstly, in terms of the relationship between national cultural differences and IJV performance, differences in the national cultures of IJV partners adversely influence IJV performance. Secondly, in the case of the relationship between organizational culture and IJV performance, differences in organizational culture between IJV partners create organizational problems that adversely influence IJV performance. Thirdly, with regard to national versus organizational cultural differences and IJV performance, organizational cultural differences represent the visible differences between, as opposed to the latent effects of, cultural differences, and these may cause greater interaction problems between the IJV partners. Fourthly, in terms of partnership trust and IJV performance, partnership trust positively influences partner interaction and venture performance. Finally, in the case of national culture, partnership trust and IJV performance, it is argued that national and organizational cultural differences adversely influence process- based trust producing mechanisms, or partnership trust. It is also empirically established that partnership trust significantly influences IJV performance. Therefore, partnership trust mediates the relationship between cultural differences and IJV performance through a chain of interactive processes.

Introduction

Growth in global markets and technologies has resulted in a dramatic increase in the number of International Joint Ventures (IJVs) (Alter & Hage 1993; Geringer & Woodcock 1989; Harrigan 1988; Hergert & Morris 1988; Pothukuchi 1999), even though JVs are considered to be risky due to high failure rates (Blodgett 1992; Geringer & Hubert 1989; Harrigan 1985; Parkhe 1993c; Porter & Fuller 1986). An estimated 37% to 70% of IJVs are reported to suffer performance issues leading to very costly failures (Deloitte, Haskins & Sells International 1989; Fedor & Werther 1995; Harrigan 1985; Janger 1980). Fedor and Werther (1995:36) conclude that “an analysis of the partner’s culture before structuring the cooperative venture appears to be extremely uncommon, even though this failure may lead to costly and disruptive upheavals”. A common theme in the cross-cultural literature is that ventures between culturally similar partners are more likely to be successful than ventures

between culturally dissimilar partners, and that partners should, therefore, try to avoid cultural dissimilarities (Fedor & Werther 1995; Harrigan 1985; 1988; Killing 1983; Lane & Beamish 1990; Pothukuchi 1999). Some studies found a positive relationship between national cultural differences and IJV performance (see Park & Ungson 1997), others found a negative relationship (e.g., Killing 1983; Harrigan 1985; Lane & Beamish 1990; Geringer & Herbert 1991), and still others found no relationship at all (e.g. Benito & Gripsrud 1992; Sharma & Johanson 1987; Terpstra & Yu 1988). In all, empirical findings have been mixed and inconclusive in terms of cultural differences and their role in IJV performance. These contradictory findings increase the need for further theoretical and empirical research, and this study attempts to clarify our understanding of these complex relationships. The purpose of this study is to theoretically examine how national cultural differences, organization cultural differences and trust between partners can influence IJV performance. More precisely, it attempts to develop a theoretical framework and empirical support for two aspects of IJVs performance: first, the influence of national and organizational culture differences on joint venture performance, and second, the influence of national and organizational cultural differences on partnership trust and, consequently, IJV performance. A focus on partnership trust suggests a process-oriented theoretical approach to this study. It has been argued (Lane & Beamish 1990; Pothukuchi 1999) that understanding the behavioural processes affecting inter-organizational relationships is central to successful performance. If organizational and national cultural differences affect performance through a mediating variable, then understanding the nature of this mediating variable is critical.

This study differs from the previous research in two aspects. Firstly, of consistency in previous results may be attributed to inadequate theoretical and empirical development. Researchers have limited their focus to only selected dimensions of cultural difference and have tended to ignore other dimensions that may have significant influence. For instance, previous studies (e.g. Hennart & Larimo 1998) focused on the influence of national cultural differences and ignored the role of organizational cultural differences. Harrigan (1988:222) notes: “comments from interviewed managers lead me to suspect that cultural homogeneity among sponsors is more important to venture success than symmetry in their national origins”.

Secondly, previous studies paid little attention to the behavioral processes involved in cross-cultural interactions, even though these processes are considered to be critical to joint venture performance (Lane & Beamish 1990; Parkhe 1991; Ring & Van De Ven 1994; Pothukuchi 1999). For example, studies on cross-cultural joint ventures have not considered how partnership trust influences venture performance. Lane and Beamish (1990:88) note: “We believe that the behavioral and cultural differences contributing to successful or unsuccessful cooperative ventures have not yet been fully explored or understood”. A study on how cultural differences affect joint venture performance is important because it has been extensively argued that cultural differences between joint venture partners elicit conflicting behaviors that may lead to joint venture failure (Alter & Hage 1993; Geringer & Herbert 1989; Harrigan 1985; Parkhe 1993c; Pothukuchi 1999). This study that attempts to create a theoretical construct, based on empirical data that explains how national cultural differences, organizational cultural differences and trust between partners can influence IJV performance.

The present study proceeds in the following order. In the next section the theoretical and empirical literature on joint ventures will be summarized and the influence of national cultural differences, organizational cultural differences and partnership trust on the

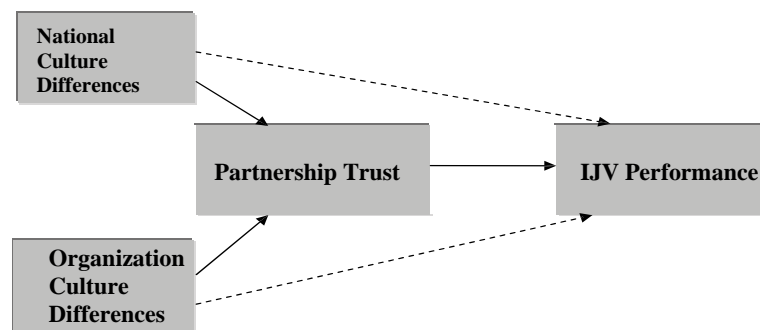
performance of international joint ventures will be discussed. The summary and main conclusions of the study will be presented in section three.

Theory and Hypotheses

Cultural differences and IJV performances

Culture is defined as the transmitted patterns of values, ideas and other symbolic systems that shape behavior (Kroeber & Kluckhohn 1952), and IJV partners may vary based on national culture and/or organizational culture. In an empirical study of 40 countries, Hofstede (1980) found that a national culture varies along four dimensions: Power distance, Uncertainty avoidance, Individualism and Masculinity. Power distance refers to inequality among people in areas such as prestige, wealth and power, and countries differ in the value they attach to status in these areas. Uncertainty avoidance refers to the tolerance for uncertainty and ambiguity, and individualism, refers to the degree of focus on the individual, as opposed to the collective or group, prevailing in a given country.

Figure 1: The framework for the present study



Masculinity represents the extent to which people in a country endorse goals typically ascribed to men such as competitiveness and assertiveness. Subsequent to Hofstede's original study, work with Michael Bond resulted in the addition of a fifth dimension: Confucian Dynamism (Adler, 2002). This is the degree to which a culture focuses on traditional values and is prepared to put off meeting immediate needs to access other benefits at a later stage. It is sometimes described as long and short-term focus.

In Hofstede's model, national culture has been modeled on the five values described above. In further studies, organizational culture has been modeled on six organizational practices (Hofstede, Neuijen, Daval & Sanders 1990). In a study that spanned 10 organizations (20 organizational units) located in two countries (Denmark and Netherlands), the researchers surveyed cultural factors such as symbols, heroes, rituals and values. They concluded that organizational culture is represented by six core management practices that differentiate organizations in their management orientation. These orientations are: (1) Process versus Result Orientation; (2) Employees versus Job Orientation; (3) Parochial versus Professional Orientation; (4) Open versus Closed System Orientation; (5) Loose versus Tight Control Orientation; and (6) Normative versus Pragmatic Orientation. The first dimension process versus result orientation differentiates organizations based on their concern with means (process-oriented), versus concern with goals (result-oriented). The second dimension

employee versus job orientation differentiates organizations on the basis of their concern for people (employee-oriented) versus a concern for getting the job done (job-oriented). The third dimension parochial versus professional differentiates organizations *on the basis of employees who derive* their identity largely from the organization (parochial) as opposed to from their type of job (professional). Based on system theory, the fourth dimension, open versus closed system orientation, differentiates organizations on the basis of the level of interaction within, and external to, the organization. Often, this dimension has been associated with measuring the communication climate within the organization (Poole 1985). The fifth dimension, loose versus tight control, refers to the amount of internal structuring in the organization, and finally, the sixth dimension normative versus pragmatic differentiates organizations based on their customer orientation.

National Cultural Differences and IJV Performance

Researchers have argued that differences in partners' national culture are problematic because they can cause interaction problems that ultimately adversely influence performance (Adler 1986; 1989; Goldenberg 1988; Harrigan 1988; Parkhe 1991; Tallman & Shenkar 1994). Cross-national joint ventures have been reported to suffer from communication, cooperation, commitment and conflict resolution problems caused by partners' behavioral differences.

Communication between cross-national partners is often cited as problematic (Adler 1986; Anderson & Weitz 1989; Camerer 1988; Sawyer 1965; Pothukuchi 1999). National cultural differences are seen to cause communication problems based on misperceptions, misinterpretation and misevaluation caused by underlying differences in values and practices (Adler 1997). In culturally diverse settings communication problems are exacerbated since perceptions, interpretations and evaluations differ, and the meaning of what is communicated is beyond words (Adler 1986; 1997). Values and thinking patterns associate underlying meaning to the words, in addition to non-verbal communication, and these underlying differences can lead to miscommunication.

Cooperative behavior (the propensity to cooperate) is seen by some researchers to vary based on differences in national cultures and ethnic grouping (Adler & Graham 1989; Chen, Chen & Meindl 1998; Cox 1993; Pothukuchi 1999). DeVos (1980) offers a theoretical explanation for the differing propensities to compete and cooperate. DeVos further argues that Anglo Americans tend to have a cognitive style that is "field-independent," a style that encourages autonomous decision-making and individual competition in social interaction (linking closely with Hofstede's *individualism* dimension). By contrast, Mexican Americans and Black Americans tend to think and respond in a "field-dependent" manner, leading them to employ more interdependent and cooperative styles (linking more closely to Hofstede's *collectivism* dimension). Likewise in the context of IJVs, it has been argued (Parkhe 1993d) that diversity along each cultural characteristic can be instrumental in erecting significant barriers to effective cooperation.

Commitment-generating mechanisms are different among different cultures, and the differences make it difficult to generate commitment in joint ventures (Agarwal 1993). Cullen, Johnson and Sakano (1995), for example, found that though both U.S and Japanese partners related their level of commitment to perceived benefits (satisfaction and economic performance), the partners differed in their perception of satisfaction. The Japanese partners perceived long-term organizational performance as a measure of satisfaction and emphasized

the nature of relationship as an important factor for commitment, while their western counterparts are concerned with immediate results (linking with Hofstede's *Confucian Dynamism* dimension). Therefore, as with cooperation, when commitment generating mechanisms differ from country to country, commitment between cross-national partners is affected by their national cultural differences.

Finally, conflict resolution is found to be problematic because conflict resolution methods vary across cultures (Henderson 1975; Sakano & Onzo 1990; Shenkar & Zeira 1992). For example, US managers prefer to use direct and confrontive legal tactics in dealing with other firms when other methods fail, whereas Japanese managers prefer flexibility in responding to unfolding problems and avoid using formal detailed contracts that stress strict performance and enforcement (Henderson 1975). Similarly Johnson, Sakano & Onzo (1990) studied the role of cultural differences in conflict resolution between U.S and Japanese firms, and found that aggressive influence, as practiced in western channels, is not effective with the Japanese counterparts. Based on previous studies, it can be argued that differences in national cultures of partners caused communication, cooperation, commitment and conflict resolution problems and these interaction problems are found to adversely influence joint venture performance. Hence,

H1 National cultural differences negatively influence international joint venture performance.

Organizational Cultural Differences and IJV Performance

The organizational culture dimensions outlined by Hofstede and colleagues (1990) identify practices followed in organizations, and these are typified by a set of desirable and expected behaviors. Accordingly, typical practices and behaviors exhibited by partners reflect behaviors considered appropriate for the functioning of their respective organizations. When partners in a joint venture differ in their practices, these differences result in conflicting behaviors, leading to misunderstanding and interaction problems. The following discussion highlights how each dimension of organizational culture is grounded in a management principle upon which partnership differences may lead to interaction problems.

Process versus Result Orientation Dimension

Hofstede et al. (1990) stated that process-oriented organizations are concerned about the means by which organizations achieve a goal as opposed to the achievement of the goal itself. On the other hand, task-oriented organizations, according to Harrison (1972), consider the achievement of the super-ordinate goal as the ultimate objective of the organizational members. Altman and Baruch (1998) added that task oriented organizations allows members flexibility in communication and choosing allies. Monge and Eisenberg (1987) concluded that process-oriented and task-oriented organizations differ in their communication networks. Joint ventures typically face a complex environment, and a more decentralized (as opposed to centralized) communication network, therefore is likely to achieve both high performance and, potentially, high morale (Baskin & Aronoff 1980). However, when partners differ in the nature of their communication networks, poor communication networks can develop along with ineffective communication and, ultimately, a lack of commitment (Jablin 1987a). Thus, differences along this dimension lead to communication and commitment problems between partners and these can adversely influence IJV performance.

Employees versus Job Orientation Dimension

This dimension examined the attitudes an organization holds towards the employees. Hofstede et al. (1990) compared this dimension to that of Blake and Mouton's (1964) managerial grid. Blake and Mouton (1964) proposed that in job-oriented organizations leaders are more focused on the task at hand, whereas in employee-oriented organizations, leaders are more concerned about their subordinates or employees. The employee-oriented organization's reason for existence is fulfillment of employee's needs where helpfulness and caring are vehicles for managing the employees in the organization. The emphasis is on cohesiveness, participation and teamwork, where interpersonal relationships hold the organization together. The role of manager in such organization is that of a facilitator and a mentor. In the context of joint venture, it has been argued (Jablin 1987a; 1987b) that the differences in opposing styles of superior-subordinate interaction result into conflicting communication methods and, ultimately, organizational commitment problems.

Parochial versus Professional Orientation Dimension

This dimension refers to the identity of the employee. Parochial cultures comprise employees who derive their identity from the organization, whereas employees from professional cultures derive their identity from their jobs (Hofstede et al. 1990). Hofstede et al. (1990) also note that these two characteristics have been well known in the field of sociology, where they have been referred to as local versus cosmopolitan, contrasting their frame of reference (internal or external). Poupert and Hobbs' (1989) participative culture is similar to that of parochial culture, and employees in the participative culture derive their identification from the mission of the organization. Poupert and Hobbs (1989) also suggested that certain organizations are professionally oriented. The identification of employees in such organizations is related to their profession rather than the organization.

Open versus Closed Systems Orientation Dimension

This dimension of organizational culture refers to the perception of employees about the communication climate in their organizations. Open systems refer to a healthy communication climate between organization members whereas a closed system refers to a secretive and closed communication climate in the organization. Poupert and Hobbs (1989) stated that bureaucratic organizations tend to be closed due to formalization of the information. Information flow in bureaucracies seems to be vertical and distorted (Poupert & Hobbs 1989) as opposed to information flow in participative or entrepreneurial organizations. When communication is strained due to incongruent practices between partners, mismatching expectations lead to strikingly conflicting behavior, resulting into commitment problems (Jablin 1987b).

Loose versus Tight Control Orientation Dimension

The fifth dimension mentioned by Hofstede et al. (1990) referred to the internal structuring of the organization. Tightly controlled organizations tend to be strict with respect to employee dress code, punctuality and cost-consciousness. O' Reilly et al's (1990) dimension of attention to detail is similar to that of Hofstede et al's (1990) tightly control organizations. O' Reilly et al. (1990) suggested that detail oriented organizations tend to be precise in their operations and analytical. In the context of a joint venture, if the partners perceived each other to be practicing differing levels of control, it may be a reflection of inadequate or unresponsive communication between the partners. Differences along this

dimension represent a mismatch in the level of organizational control and corresponding differences in the communication practices.

Normative Versus Pragmatic Orientation Dimension

It categorizes organizations into rule oriented (normative) versus customer orientated (pragmatic) based on Peters and Waterman (1982)'s maxim: staying close to the customer. The obsession with customer orientation often results in different, differentiating practices between organizations within the same industry. In the context of a joint venture, when partners differing on this dimension team up, they differ in terms of acceptable practices, in the execution of these practices and in expectations of performance. The resulting differences will be all encompassing, influencing member behavior in all aspects of the business (Peters & Waterman 1982).

To sum up, differences in partners' organizational cultures represent opposing management practices that result in conflicting expectations and behaviors. Interaction problems are both the drivers and results of communication and commitment problems. When partners conflict in any one area, this may lead to problems in other areas of communication, cooperation, commitment and conflict resolutions management (Anderson & Narus 1990; Baskin & Aronoff 1980; Jablin 1987a; 1987b; Pothukuchi 1999). In other words, differences in organizational practices result into interaction problems between partners, and these, in turn, adversely influence joint venture performance. Hence,

H2 Organizational cultural differences between partners negatively influence international joint venture performance.

National versus organizational cultural differences and IJV performance

Several earlier studies (e.g. Fey, Beamish & Makino 1995) have found conflicting or non-significant findings in terms of how national cultural affects merger and acquisition performance. However, traditional IJV scholars (e.g. Schuller, Dowling & Cieri 1992; Brown 1990) have suggested that national and cultural similarity positively affect IJV performance. Their reasoning is that they perceive national cultural homogeneity to be less important as a determinant of IJV performance than is organizational cultural similarity (Fey 1997). Similarly Brown, Rugman and Verbeke (1989:237) hypothesize that in IJVs "the compatibility of organizational cultures is more important than similarity of national origin." However, the relative influence of national versus organizational culture differences on joint venture performance has not been examined extensively in the literature (Hofstede et al. 1990). Considering that these two constructs possess different characteristics, it is of theoretical and practical significance to explore which of these two have more influence on the performance of IJV.

As noted above, whereas national cultural differences represent values that are latent, subtle and, as such, are not observable, organizational culture differences are reported to represent the visible and striking aspect of common practices: symbols, heroes and rituals that represent a discrete number of independent dimensions are well rooted in organizational theory (Hofstede et al., 1990). There are, therefore, basically two reasons to believe that the organizational culture differences are more directly related to IJV performance than the national cultural differences. Firstly, organizational cultures represent management practices that are directly relevant to IJV performance, as opposed to national cultures that are rooted in societal values and are, therefore, related in a more indirect way. In other words,

the influence of organizational culture is more context-specific to joint venture performance than national culture. Secondly, from a social learning theory (SLT) perspective (Bandura 1977), it has been argued that when partners begin to interact, they observe only the visible and striking behavior differences as opposed to unobservable latent differences (Black & Mendenhall 1991). Therefore, by definition, since organizational cultural differences represent the visible differences, they cause greater interaction problems, thus leading to adverse influence on IJV performance. Similarly Black and Mendenhall (1991) argued that partners encountering a new culture tend to pay attention only to those elements of the new culture that are similar to their home culture, or they super impose familiarity on anything that even resembles familiar clues.

This selective cognition results in a honeymoon period during which cross-cultural joint ventures survive in spite of cultural differences. There are three reasons for such a behavior. First, a lack of familiarity with new cultures and an inability to recognize negative cues as instances of negative feedback. Second, a propensity to protect prior self-concepts and ignore recognizable negative feedback in order to maintain the prior self-concept. Third, relatively little time during the initial encounter may limit the partners' ability and compulsion to recognize negative consequences. Consequently, these factors lead partners to perceive each other's cultures selectively and observe only those factors that are either common to both or are strikingly different (Black & Mendenhall 1991).

Fichman and Levinthal (1991) also provide a complementary theoretical explanation for understanding the honeymoon period. Partners start a joint venture with an initial stock of assets in form of favorable prior beliefs, trust, goodwill, etc., and these reduce the risk of the venture dissolving even if the initial outcomes of the relationship are unfavorable. To sum up, these theories suggest that partners are selective in their perceptions and have good will in the initial stages of the interaction. Therefore, during this phase, they observe only behaviors that fit positively into pre-existing paradigms, or they notice visible and strikingly conflicting behavior, which, in reality, may or may not culminate in interaction problems later. Importantly though, it is the organizational culture differences that are noticed in terms of positive and/or visibly conflicting behaviors. The less obvious and latent effects of national culture differences are not noted in these early stages. Therefore,

H3 Organizational cultural differences affect international joint venture performance more significantly than national culture differences.

Cultural Differences, Partnership Trust and IJV Performances

"Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another." "Partnership trust", as opposed to "trust" is more relevant in the joint venture context, and is not yet sufficiently understood, but it continues to draw scholarly attention (Rousseau, Sitkin, Burt & Camerer 1988). Since partnership trust appears to be essential for long-term success, and cultural differences are argued to influence partnership trust, it is necessary to examine the role of culture in terms of building and maintaining trust, and to identify the role of partnership trust on IJV performance.

Partnership Trust and IJV Performance

Trust is a very important concept in IJVs, and the establishment of trust is seen as fundamental to effective cooperation and successful partnership building. Further, trust

reduces, or manages complex and uncertain realities far more quickly and economically than prediction, authority or bargaining. Many definitions of trust exist in the literature. One of the most useful is Gambetta's (1988:217): "Trust is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action both before he can monitor such action and in a context in which it affects his own action. When we say we trust someone or that someone is trustworthy, we implicitly mean that the probability that he will perform an action that is beneficial or at least not detrimental to us is high enough for us to consider engaging in some form of cooperation with him." Trust has been acknowledged in transaction cost theory to be the most efficient mechanism for overseeing transactions (Ouchi 1980, Fey 1997). Trust can act like the glue that holds together and stabilizes a relationship, and it accomplishes this stabilization by inducing reciprocity and coordinating action (Fey 1997; Ouchi 1980; Blau 1964). Trust begins to develop when one partner exercises forbearance, and this, in turn, creates the opportunity to develop some reverse goodwill through reciprocity that, it leads to more trust building (Fey 1997). Additionally, the stock of goodwill can be used at a later time when the need arises. Thus, trust can be said to facilitate tolerance of unavoidable short-term inequities that, in the absence of trust, could be a source of potential conflict. Trust fosters this tolerance by creating a long-term orientation in which partners might expect reciprocal behavior and greater benefits. Having trust in the partner allows for a looser formal contractual relationship since trust can partially replace such a contract. It has been argued that trust is advantageous because it strengthens inter organizational ties (Fichman & Levinthal 1991), speed contract negotiations (Reve 1990), reduces transaction costs (Bromiley & Cummings 1993; Parkhe 1993d) and breeds repeated ties (Gulati 1995). Studies have found that partnership trust positively influences communication, cooperation, commitment and conflict resolution between partners, thus improving partner interaction and venture performance (Anderson, Lodish & Weitz 1987; Anderson & Narus 1990; Anderson & Weitz 1989; Parkhe 1993d; Roberts & O' Reilly 1974).

IJV scholars (Hebert 1994; Parkhe 1993) have asserted that trust reduces the incentives for opportunistic behavior, and thus reduces transaction costs in IJVs by inducing the partner to take a longer-term view. These actions results in the long-term viability and efficiency of IJVs (Beamish & Banks 1987).

Previous empirical studies have found a statistically significant direct relationship between partnership trust and IJV performance, and have found partnership trust to be a fundamental factor in the formation, stability and survival of IJV (Inkpen, Currall & Hughes 1995; McAllister 1995; Mohr & Spekman 1994). Mohr and Spekman (1994) found that partnership trust positively influences IJV performance. Further, Zaheer and Venkatraman (1995) found partnership trust to be a required characteristic for the functioning of a partnership, and Inkpen, Currall and Hughes (1993) found that partnership trust influences venture performances through forbearance as a mediating variable. Building on the above discussions and past theoretical work (e.g. Gulati 1995; Madhok 1995; Parkhe 1993; Beamish 1984) and empirical work (e.g. Hebert 1994; Inkpen 1992; and Subieta 1991), it is asserted that trust is of central importance for IJVs to perform well. Thus,

H4: Partnership trust positively influences international joint venture performance.

National and Organizational Cultural Differences, Partnership Trust and IJV Performance

If partnership trust is central to the functioning of joint ventures, it is of interest to identify how cultural differences influence partnership trust. More specifically, it is of interest to focus on partnership trust (as opposed to multiple layers of trust) and how it is developed.

In an inter-organizational context, Zucker (1986) identified several mechanisms that result in inter-organizational trust and classified them into three modes. First *characteristics-based trust* may develop based on similarity of characteristics such as family background, ethnicity, sex or nationality. In cases like this, background understandings are presumed to be held in common, smoothing out or eliminating negotiation over terms of exchange and making it more likely that the outcome of the exchange is satisfactory (Zucker 1986). In the context of IJVs, similarity of nationality serves as this index. Empirical studies that focused on international strategies of firms found that similarity of nationality has been a positive factor in terms of future investment and expansion (Davidson 1980; Kogut & Singh 1988; Shane 1994). Characteristics-based trust then is closely linked to national culture.

Second, *process-based trust* is developed based on the interaction between the partners whereby communication, cooperation, commitment and conflict resolution problems associated with cross-cultural interaction play a significant role (Pothukuchi 1999). In the business world, mechanisms such as reputation (a symbolic representation of past exchange history) and brand name (a deliberately constructed proxy for reputation), are proposed as indicators of process based trust (Zucker 1986). Gulati (1995) found that repeated alliances between the same partners breeds interfirm trust based on mutual experiences. Process-based trust then appears to be more closely linked to organizational culture. Finally, *institutional-based trust* is embedded in formal mechanisms rather than in overt cultural characteristics, or in the past history of exchange. Zucker (1986) notes that institutional-based trust can be person or firm specific (e.g., medical doctors), or based on intermediary mechanisms (bank supervision of escrow accounts).

In the context of IJVs, Parkhe (1993d) identified mechanisms such as certification, credentialing or professional associations (such as New York Stock Exchange) as examples of firm specific institutional mechanisms. Parkhe (1993d) also identified holding, mutual hostages, reciprocal agreements, contractual provisions in formal partnership agreements and inflicting penalties for omission of cooperative behaviors as examples of intermediary mechanisms. Both national and organizational cultural differences, then, have an adverse influence on partnership trust. As discussed earlier, national and organizational culture differences cause interaction problems between partners in the form of communication, cooperation, commitment and conflict resolution. It has been argued (e.g. Anderson, Lodish & Weitz 1987; Anderson & Narus 1990; Anderson & Weitz 1989) that communication is an important instrument in influencing trust between partners. In an empirical study of 690 relationships involving manufactures and their sales agents, Anderson and Weitz (1989) found very strong relationship between trust and communication wherein both the variables positively influenced each other. In another empirical study of manufacturing and distribution firms, Anderson and Narus (1990) found strong empirical support for the relationship between communication and trust. They found that communication affects cooperation in the partnership, and that, in turn affects trust.

Similarly, researchers concluded (Anderson & Narus 1990; Axelrod 1984; Parkhe

1993d; Ring & Van de Ven 1994) that cooperation between partners influences trust between partners. A growing and successful history of cooperation results in an increased potential for the future relationship, and creates a positive reputation for both firms as trustworthy partners (Axelrod 1984). From the perspective of symbolic interactionism, trust, interpersonal cooperation and teamwork intertwine in ways that mutually influence each other (Jones & George 1998). Anderson and Narus (1990) empirically found that cooperation affects trust in inter organizational partnerships.

Researchers (Anderson & Weitz 1990; Parkhe 1993d; Ring & Van de Ven 1994) propose that commitment and trust between partners are interactive and necessary for successful alliance formation and performance. There are arguments that highlight the interdependent relationship between trust and commitment. Parkhe (1993d) points out that one of the functions of trust is to generate cooperation between parties involved in the exchange. Partners create positive exit barriers that reduce fear of opportunism, while trust induces assurance about other's intentions and relationship's viability. Ex ante measures of commitment seek to enhance trust through a show of good faith, and lock the partners into delivering expected performance for fear of losing valuable resources (Parkhe 1993d). In an argument emphasizing the reciprocal relationship, Anderson and Weitz (1990) argued that building commitment involves undertaking genuine risks on the part of both parties, and that assuming risk in turn deepens one's commitment fueling a process of signaling and reciprocation. Trust between the parties enables them to undertake these risks, and thereby facilitates commitment.

Researchers also argued that trust is at the center of preferred mode of conflict resolution (Peterson & Shimada 1978; Sullivan, Peterson, Kameda & Shimada 1981). If parties trust one another, then re-negotiation of the formal contract or the use of arbitration is unnecessary (Ballon 1978; Peterson & Shimada 1978). In a study that explored the relationship between conflict resolution and trust involving Japanese-American joint ventures in Japan, Japanese managers perceived a higher level of future mutual trust when disputes are resolved through conferral, except when Americans are in-charge of operations (Sullivan, Peterson, Kameda & Shimada 1981). This implies that the level of trust in the partners influence the choice of conflict resolution mechanism.

Interaction processes between potential partners is a dynamic two-way process that requires trust. However, adverse interaction processes negatively affect process-based trust that in turn might negatively affect partner selection. The opposite is also true wherein positive interaction reinforces partnership trust that in turn promotes appropriate (mutually amicable) behaviors (Pothukuchi 1999). This two-way relationship between communication, cooperation, commitment and conflict-resolution processes and partnership-trust highlights the importance of these interaction processes as trust producing mechanisms (process based).

As discussed earlier, national and organizational culture differences adversely influence these interaction processes. Cumulatively, these arguments imply that national and organizational cultural differences adversely influence process-based trust-producing mechanisms, and through these mechanisms, negatively affect partnership trust. It has also been argued, and empirically established, that partnership trust significantly influences IJV performance. Thus, partnership trust mediates the relationship between cultural differences and IJV performance through a chain of interaction processes.


H5: National culture differences adversely influence international joint venture performance through partnership trust as a mediating variable

H6: Organizational culture differences adversely influence international joint venture performance through partnership trust as a mediating variable.

Summary and Conclusions

The purpose of this study was to theoretically explore how organizational cultural differences, national cultural differences and trust between partners can influence the IJV performance. In previous studies, it has been argued that cultural differences have a negative influence on the IJV performance; however, empirical findings have been confusing and contradictory. Some studies have found a positive relationship between partner's cultural differences and IJV performance, while other found a negative relationship, and yet others found no relationship between the two constructs at all. These contradictory findings continue to confuse the nature of the relationship between cultural differences and IJV performance. This study proposes a theoretical construct to examine these complex relationships. The findings of this study are as follows. First, in terms of the relationship between national cultural and IJV performance, it is found that differences in the national cultures of IJV partners may cause communication, cooperation, commitment and conflict resolution problems, and these interaction problems are found to adversely influence IJV performance. Secondly, with regard to the relationship between organizational culture and IJV performance, it can be concluded that differences in organizational culture of IJV partners' results in conflicting expectations, behaviors and interaction problems, and these adversely influence IJV performance. Thirdly, in the case of national versus organizational cultural differences and IJV performance, it is argued that organizational cultural differences represent the visible differences as opposed to the latent effects of national cultural, and they cause greater interaction problems between the IJV partners. Thus, it can be concluded that organizational cultural differences between the partners affect the IJV performance more significantly than the national culture differences. Fourthly, in the case of partnership trust and IJV performance, it is found that partnership trust positively influences communication, cooperation, and commitment and conflict resolution between partners, thus improving partner interaction and venture performance. Finally, in terms of national culture, partnership trust and IJV performance, it is argued that national and organizational cultural differences adversely influence process- based, trust-producing mechanisms and thus, partnership trust. It is also empirically established that partnership trust significantly influences IJV performance. Therefore, partnership trust mediates the relationship between cultural differences and IJV performance through a chain of interaction processes.

This study has a number of limitations. The present study primarily relies on Hofstede's (1980) and Hofstede et al. (1990) dimensions of national and organizational cultures. While these measures are used in this study as they represent the most empirically accepted and used dimension of culture, they do not represent a comprehensive list of cultural dimensions used by previous studies. For instance, low and high context communication dimensions have been theoretically proposed to influence the nature of communication and cooperation between partners (Chen, Chen & Meindl 1998; Gudykunst 1994; Gudykunst & Ting-Toomey 1988). There are also other measures including value orientations (Kluckhohn & Strodtbeck 1961), pattern variables (Parsons & Shils, 1951),

structural tightness (Boldt, 1978) that have not been used in this study. The scope of this study, then, is limited to the representativeness of Hofstede's (1980; 1990) dimensions. Future studies can explore and test the usefulness of other culture dimensions. 

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Individual executives who have developed specific skills create superior organizational performance. Excellence doesn't happen miraculously but springs from pacesetting levels of personal effectiveness and efficiency. Great business, government, and nonprofit organizations owe their greatness to a few individuals who mastered leadership skills and passed those skills on to succeeding generations of executives and managers.

Creating Excellence

ARTICLE**Interdependence of Value Chain Links: A Tale of Three Cities**

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Abstract

Most of the products in the world are produced and delivered by value chains which are the sum name of value adding activities performed in a sequence by different firms working in different countries. And in most of the cases value chain actors belong to both developed and developing world and adding different amount of value to value chain for producing and distributing products. Some value chains are driven by buyers and other work under the leadership of producers. Those who hold the intangibles gain more than those who hold tangibles in a value chain because intangibles .e.g. brands, designs etc provide more sustainable competitive advantage and are more difficult to imitate than tangibles .e.g. machines, buildings etc.

The role of developing country firms is maximum original equipment manufacturer and minimum job processors but the role of original brand and design manufacturer is mostly performed by developed country firms. Members working in developing countries are mostly SMEs and exist in clusters. Most of SME clusters in developing countries are linked with global value chain and in some cases with global value chains. These SME clusters are spontaneous and have emerged without any policy support but for upgrading they do need policy support at all levels.

SME clusters in developing countries consist of sub-clusters and may involve more than one cities forming different links of value chain. Different studies show that SME clusters in developing countries are confronting different issues .e.g. lack of sufficient energy sources, lack of training centers, poor quality of inputs etc. On one hand these issues are restricting them to be innovative and on the other hand reducing their competitiveness. To transform from static and dynamic clusters to innovative clusters they obviously need some solid demand driven policy measures at every level.

Introduction

This study focuses on the value chain links of surgical instruments manufacturing cluster of Sialkot, Pakistan which involves three cities, Gujranwala, Daska and Sialkot of Punjab, Pakistan and the global market for the instruments which consists of USA, Europe in particular and the world in general. The main focus of the study is the surgical instruments global value chain links within Pakistan with special focus on the surgical instruments forging units in Daska as it forms important value chain link but remains unexplored as far as its issues, type and structure, the way they are integrated at forward and backward end and their

relationship at horizontal end, is concerned. Previously Nadvi (1999; 2005) has studied the surgical instruments cluster of Sialkot to which Daska and Gujranwala are two important links but his main focus was manufacturing exporters of Sialkot and their external links with global market. As Nadvi (1999) recommended that the cluster needs to upgrade in the value chain which in our opinion is not possible without upgrading the backward linkages of the cluster therefore the study will explore the issues, types and structure of surgical forging units working in Daska which act as supplier to the firms operating in Sialkot.

Purpose

Purpose of the study is to explore the characteristics and value chain dynamics of surgical forging industry/ sub cluster/value chain link of Daska.

Methodology

For this study purposive sampling has been used to collect data from 25 surgical forging firms of Daska out of total population. The estimated population size is around 50, as per the figures provided by the President of Informal Association of surgical Forging firms in Daska, so we have collected data from 50% of firms. In addition to surgical forging firms data were also collected from two stainless steel furnaces, one rolling mill, one stainless steel scrap dealer and regional office of (TDAP) Trade Development Authority of Pakistan, Sialkot, research officer of SCCI (Sialkot Chamber of Commerce and Industry, Sialkot) . Purposive sampling technique has been used because exact sampling frame was not available and data was collected on the opinion of president of the association and the researcher. According to Zikmund (2003) for a study in which respondents have certain characteristics and study aims at specific objectives purposive sampling is suitable and same is argued by Kothari (1990) and Babbie (2004). Structured interviews have been used to collect data from surgical forging firms of Daska and unstructured interviews were used to collect data from steel furnaces, steel rolling mills, and scrap dealer, TDAP, Sialkot and SCCI, Sialkot. Personal structured interview technique was most suitable in our study as respondents were uneducated and required explanation of questions to respond on one hand and on the other hand specific and gathered information was required to complete the study. Use of personal structured interviews has been recommended by Kothari (1990) in descriptive studies. Aaker, Kumar and Day (1998) argued that personal interviews are suitable when large amount of information is required. (Bremner & Bell, 2003; Babbie, 2004) discussed that through structured interviews replies of interviewees can be aggregated in a reliable way.

Literature Review

Value chain is the sequence of value adding activities involved in the production and distribution of a product (Schmitz, 2005), it includes conception, design, production and marketing of a product (Kaplinsky and Morris, 2000) and all value added activities of a value chain are linked as a string (Gereffi, 1994 ; Kaplinsky and Morris, 2000 ; Schmitz, 2005). The value chain is also known as commodity chain (Gereffi, 1994), Value system (Porter, 1985), value stream (Womack and Jones, 1996). In global context the same concept is called global value chain (Kaplinsky and Morris, 2000; Humphrey and Schmitz, 2000; Schmitz, 2005; Nadvi and Halder, 2005) which involves more than one country, region or continent. Value chain is understood as because many products used in the world are the result of a sequence of specialized production activities performed in different countries. Each activity in the value chain adds some value and forms a link of whole value chain and links within a value chain are interdependent (Kaplinsky and Morris, 2000).

Before proceeding further there is need to address two questions, what is difference between generally understood concept of value chain and Micheal Porter's concept of value chain?, And what is difference between value chain and supply chain?

According to Porter (1985) value chain is the sum name of all the value adding activities performed by a single firm to produce and deliver value in the shape of product to end user and Porter's value chain involves primary value adding activities e.g. inbound logistics, operations, outbound logistics, marketing and sales and after sale services, and support activities e.g. firm infrastructure, human resource management, technology development and procurement, whereas it is argued that it is not necessary that a single firm performs all the activities to produce and deliver a product to end user for example see Kaplinsky and Morris (2000, p.7). In reality production of many products involves different firms of same or different countries (Gereffi, 1994; 1999; Humphrey and Schmitz, 2000; Giuliani, 2005; Nadvi and Halder, 2005) therefore it can be inferred that general concept of value chain is broader than the concept of Porter's value chain and Porter's value chain is termed as corporate value chain (Sorensen, 2008) which is restricted to the value adding activities within a firm and Porter calls generally understood concept of value chain as value stream which is the result of the vertical integration of different corporate value chains.

What is then, the difference between value chain and supply chain? Sturgeon (2001) argued that supply chain is the part of value chain because supply chain involves all value added activities that lead to and support the end use of a set of related products, less the activities of the lead firm whereas if activities of lead firm are included the stream of value added activities is called value chain. Lead firm is the powerful actor who governs the chain (Schmitz, 2005) and its position may be different depending upon the nature of value chain (Gereffi, 1994) as it may be transnational producer in case of producer driven value chain, and mega retailers in case of buyer driven value chains.

It has been learnt that global value chains involve processing factories located in different developed and developing countries (Gereffi, 1994; Nadvi, 1999; Humphrey & Schmitz, 2000; Mytelka & Farinelli, 2000; Kaplinsky & Morris, 2000; Nadvi & Halder, 2005). It is interesting to note that all value chain links, each level in value chain forms a value chain link, add different amount of value. It is argued that developing countries add physical value and developed countries add intellectual value and resultantly the latter gains more than the former (Schmitz, 2005).

In the literature there is a common understanding that there are two types of value chains, buyer driven value chain which is mostly found in consumer goods industries such as garments, footwear, toys etc, and producer driven value chain which is found mostly in capital and technology intensive industries such as auto mobiles, aircrafts, computers, heavy machinery etc. Buyer driven chains are led and coordinated by large retailers, marketers and brand manufacturers which act as lead firm whereas producer driven chains are governed by large transnational manufacturers acting as lead firm (Gereffi, 1999; Kaplinsky and Morris, 2000; Humphrey & Schmitz, 2000).

In most of the industries/products, global value chain is organized as it is governed by the lead firm in developed country which outsources its activities to developing country SMEs which act as job processors or original equipment manufacturers for the lead firm and are mostly clustered in sector specific regions. Some of the developing country clusters which

are the part of global value chain of their respective industry are Sinos Valley foot wear cluster, Brazil (Schmitz,1995; 1999), Tiruppur Cotton Knitwear Cluster, India (Cawthorne, 1995), Ludhiana Woolen Knitwear Cluster, India (Tewari, 1999), Shoes Cluster in Guadalajara and Leon, Mexico (Rabelloti, 1995; 1999), Agra Footwear Cluster, India (Knorranga, 1999), Blue jeans Cluster in Torreon, Mexico (Bair and Gereffi, 2001), Sialkot Surgical Instruments Cluster, Pakistan (Nadvi, 1999) as discussed in Schmitz and Nadvi (1999) and Thompson (2005) and Sialkot Sports Wear Cluster, Islamabad Marble and Granite Cluster, Wazirabad Cutlery Cluster, Pakistan (SMEDA and UNIDO, 2006) .

Discussion

1.1 Geographical Location & Brief History of Sialkot Surgical Instrument Cluster

Surgical instruments cluster is located in the industrial district of Pakistani Punjab which is known as Sialkot and famous world over for its surgical, sports and leather goods. The city of Sialkot is situated in north-east of Pakistani Punjab at the edge of great mountains of Kashmir. It is near to Jamu and 125 KM north-west of Lahore, the capital of the province Punjab. Total population of Sialkot is about 3 million and consists of mainly Punjabi, Kashmiri and Pashtuns. The people are strongly embedded in family and *bradri* system which also influence the business environment (Nadvi, 1999).

History of the Sialkot surgical cluster dates back to 100 years, the last decade of 19th century. The emergence of the cluster is considered as historic accident (Porter, 1990; Krafman, 1991; Ghani, 1996) as after knowing the fact that Ironsmiths & Blacksmiths of Sialkot were engaged in metal working such as manufacturing of swords, shields, daggers and knives etc since the time of Mughal Empire, the British doctors of local hospital got repaired surgical instruments to their satisfaction. The American Mission Hospital established in the district in the last decade of nineteenth century also got repaired its surgical instruments from the local Ironsmiths. Being impressed from the craftsmanship and skills of artisans the dean of the American Mission Hospital ordered the local Ironsmiths to manufacture some of the surgical instruments which they did to the hospital's satisfaction. Gradually more and more orders were placed both within and outside the Sialkot. Till 1920 Sialkot was supplying instruments to all parts of sub-continent (Nadvi, 1999; Ghani 1996; SIMA, 2010). The cluster emerged in the real sense when the British decided to take the Sialkoti Ironsmiths as an alternative source of supply of surgical instruments for war purposes, as on one hand World War II increased demand of surgical instruments in Britain and on the other hand Germans cut the supply line of allied forces. The British developed in 1940's the surgical development center known as MIDC (Metal Industry Development Center,1942) with the mandate to monitor quality and provide guidance to local informal sector firms engaged in manufacturing of surgical instruments (Ghani,1996; Nadvi,1999 ,2005 ; TDAP,2010 ;SIMA, 2010).

The cluster attracted the interest of German based Tuttlingen surgical cluster, the world leader in exports of surgical goods, in 1970's and developed long term relationships, this was the time Sialkot surgical cluster became the part of global supply chain. Over the years Sialkot firms gained the status of OEM (Original Equipment Manufacturer) from job processors and over took the German cluster in the production of traditional hand held surgical instruments (Nadvi, 1999; 2005; SIMA, 2010; TDAP, 2010).

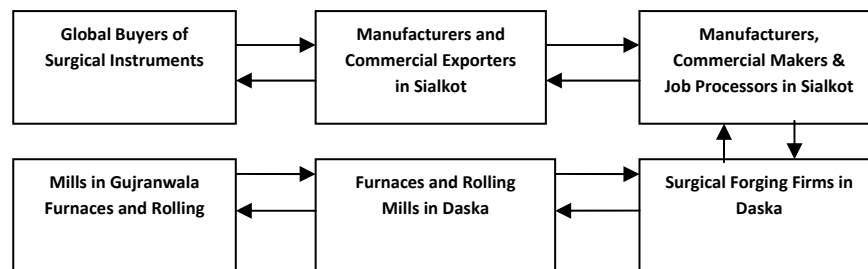
In 1982 USA increased the demand of disposable instruments from Sialkot which really helped cluster to progress. In 1982 SDPTL (Sialkot Dry Port Trust Limited) was established to handle the customs affairs and provide warehousing facility to the cluster firms

by the Sialkoti firms through their trade and industry associations as a private sector venture, this effort is considered the evidence of joint action,(Nadvi,2005 ; TDAP,2010; SIMA, 2010).

In mid of 1990's whole of Sialkot surgical instruments cluster faced quality restrictions imposed by FDA, USA (Food & Drugs Administration) and EU (European Union) for not conforming with ISO 9001 & USA Good Manufacturing Practices Standards which were well responded by the joint action of cluster members initiated and organized by Sialkot Chamber of Commerce and Industry (SCC&I) (Ghani, 1996; Abnoyi, 2001; Scmitz, 2005; Nadvi, 2005; TDAP, 2010).

Although emergence of cluster was accidental yet many other factors contributed to its success such as the availability of skilled labor, inputs suppliers, repair facilities and other support industries in the region. It is interesting to note that major part of the skilled labor Pakistan received at the time of its independence was due to the transfer of population across the newly born states, Pakistan & India (Khalid & Rahim, 1986). Another important point is noted that the cluster progressed without the deliberate support of public sector and its success is mainly attributed to the collective efficiency gains produced by passive external economies and active joint actions of cluster players (Nadvi, 1996; 1999; 2005; Mytelka & Farinelli, 2000; Thompson, 2005).

Figure 1.1
Sialkot Surgical Instruments Value Chain



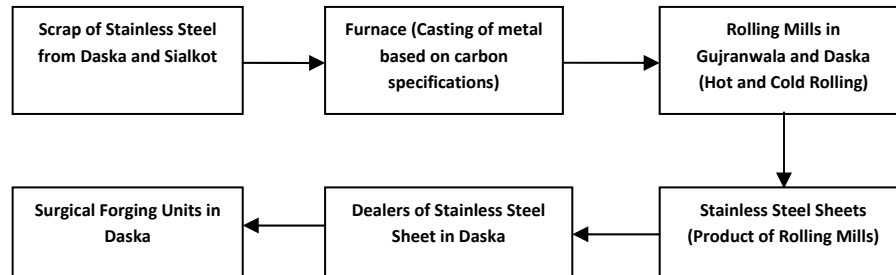
Source: Author Survey, 2010

Two way arrows in figure 1.1 has a purpose as arrow from left to right starting from Global Buyer of Surgical Instruments shows the flow of order from international buyers to local cluster actors and arrow starting from Furnaces and Rolling Mills in Gujranwala shows the flow of production activities involved in the production of surgical goods to international buyers.

1.2 Value Chain Links of Sialkot Surgical Instruments Cluster

Gujranwala: This is a well known industrial district of the Punjab, Pakistan which is the house of light engineering products like fans, utensils, electric motors and many more. It is clear from the figure 1.1 that furnace and rolling mills working in Gujranwala form the first link of surgical instruments value chain as this supply stainless steel to the forging firms in Daska as inputs for the forging of instruments. About 15 to 20 furnaces and rolling mills are working in Gujranwala and 10 are working in Daska. It has been noted during survey that some furnaces and rolling mills are under single ownership and working together while some are owned by different owners and are physically apart from one another.

Figure 1.2
How does a furnace and rolling mill works to produce sheets of stainless steel?



Source: Author Survey, 2010

In the value chain, the job of a furnace mill is to cast metal based on carbon specifications as per customer's requirements.

It is clear from the process shown in figure 1.2 that furnaces of stainless steel first get scrap both from local and international sources, according to the product specifications, test their composition to know the percentage of carbon; then they put the scrap and other alloys into the electric furnaces which melt the scrap for one and half hour at heat produced by 1000 KW/h of electricity to cast the metal of a particular specification. It is important to note that there is a considerable difference between locally produced steel and imported steel as local steel can only be used for the production of disposable instruments which are used once.

During the melting process metal fluid is tested three times in the laboratory and every time more scrap and alloys are added to get the metal of desired specification by removing the carbon deficiency. After the satisfaction of desired composition of metal fluid, it is poured into moulds either manually or mechanically to give it a shape of steel blocks, locally called "Gooli". Furnaces send metal blocks to rolling mills which convert it into stainless steel sheets according to buyer's (forging firms) specifications by applying hot and cold rolling process. The former process refines the metal sheet and the latter refines it finely. Rolling mills deliver steel sheets to forging firms in Daska. Author's survey show that steel furnaces working in Gujranwala and Daska are of different sizes but those working for surgical segment range from 250 kg to 1 ton of size and size of the furnace is based on the weight of the furnace as mentioned. Most of the furnaces work in two shifts and production capacity of a medium size furnace is 13 tons per day in two shifts, this classification is based on the explanations by local industry experts, author also learnt that any furnace which has per day production capacity up to 5 tons of steel is considered small but it could not be learnt that which range a large furnace size starts from. In Gujranwala electric furnaces have replaced the mechanical furnaces, as per local industry experts there are two main differences between electrical and mechanical furnaces, the latter requires furnace oil for working and is less cost efficient but in the former heat is produced by electricity and is more cost efficient. Electric furnace is more cost efficient as on one hand oil is more expensive and on the other hand performance of electric furnace is better.

These furnaces buy scrap from their customers (forging firms), from Sialkot & Daska, from local scrap dealers who buy scrap from local and international sources, and then cast the scrap according to the buyer's specifications. According to the furnace owners they have long and healthy relationships with their customers and often sell on credit, discuss the issues, visit and are visited by them. Author has found no knowledge linkages between furnace and forging firms. It has also been observed that there is no inter firm cooperation at horizontal level rather there is intense rivalry based on prices. Furnace owners informed that they don't receive any institutional support. Industry experts informed that most of them are not using bank finance and their major problems are lack of infrastructure, power failures, lack of managerial skills, lack of planning, lack of technology and technical knowledge and lack of formal institutional support. The information was supported by author's survey of three furnace owners and two bankers.

Four types of employees are working in furnaces, supervisor (lower management), furnace operator (Semi-skilled), Molder (Low skilled) and unskilled helper. Furnaces working in Gujranwala and Daska play an important role as a first value chain link and other chain links depend on their performance.

These furnaces have spontaneously emerged without any policy support. The entrepreneurial profile is not very strong as most of the entrepreneurs fall into the category of artisan entrepreneurs. Their level of education is low and they are informally trained and use traditional ways of business management. It was also noted that most of the furnaces are family owned and fall into the category of informal sector firms.

1.3 *Daska: A Sub Industrial District*

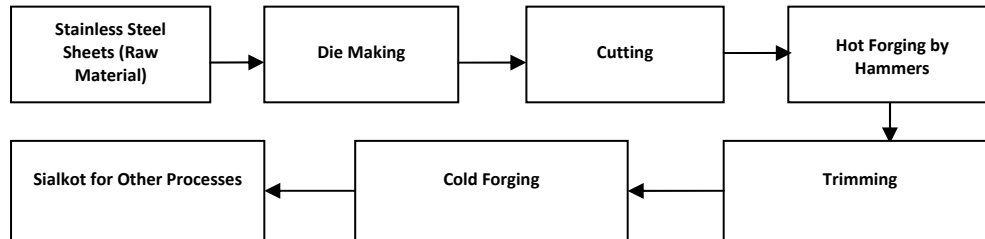
A sub industrial district situated exactly in between Gujranwala, Sialkot and Samrial, well known for its metal working and craftsmanship. Historically its small scale engineering industry earned a name in the production of tube wells from 1960-1974 (An interesting case study of the emergence, growth and decline of an industry over the span of 15 years as it was discussed by Aftab and Rahim (1986,1989). Daska is also famous for its production of agricultural implements and washing machines. Currently, in Daska different industries are working in SME sector such as agro-engineering, surgical forging, automotive parts etc. In nutshell it can be written that Daska is the house of small scale engineering industry which is feeding different value chains. Here our point of focus is surgical forging firms which feed the surgical manufacturers and exporters in Sialkot. Daska forms the second link of surgical instruments value chain.

1.4 *Emergence of surgical forging industry in Daska*

The history of surgical forging in Daska can be traced back to 1950s when Mr. Haji Sardar shifted from Sialkot to Daska and started manual forging of surgical instruments in 1958. After this startup some other entrepreneurs of Mughal caste background also started forging at small scale, this is the same way generally industries emerge in a geographical area as discussed in Solvell (2009). The business did not get impetus unless in 1978 hammer forging technology replaced the manual forging. 1980s was the same period when tube well (slow speed diesel engine) industry was at its decline so many of the entrepreneurs shifted to surgical forging business as it was growing and demand for surgical instruments was increasing in international market. Since then industry is growing with a reasonable pace and most of the firms in the industry were started in 1990s. The industry went through major technology change in 2004 when manual die making was replaced by spark vision machine

which made die making very convenient, as manual die making was a long and painstaking activity, and enhanced its quality. Currently, it is an industry of reasonable size as there are more than 40 firms linked with international market through Sialkot surgical export firms. According to industry experts Daska forges 40% of all scissors and 90% of all forceps which are exported to international market by Sialkot export firms after further processes.

Figure 1.3 How do forging units work?



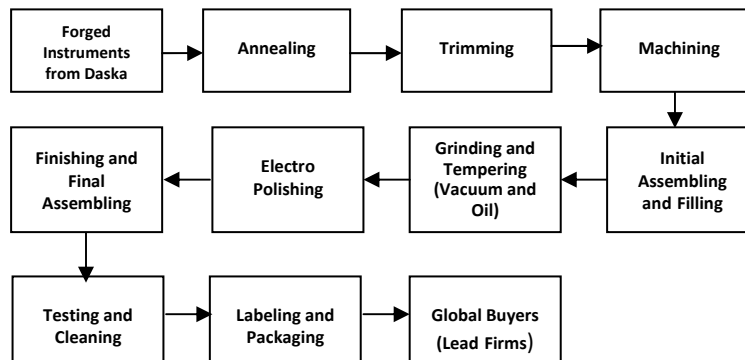
Source: Author Survey, 2010

The figure 1.3 above shows the working process in a typical forging unit. The process starts when forging units receive steel sheets as a raw material, and then they make dies, cut the sheets and forge them through hammers, trim to remove unnecessary metal from the forged instrument pieces and finally use cold forging process and deliver the pieces to Sialkot for further processes.

1.5 Sialkot: An Industrial District

An important and leading export oriented industrial district of Pakistan which is the house of different industrial clusters like sports goods, leather goods, and surgical goods etc. All the industrial clusters working in Sialkot are of international repute and contribute a considerable amount to the export earnings of Pakistan as according to TDAP (Trade Development Authority of Pakistan) the exports made from Sialkot in the year 2007-2008 were US \$ 255 million. Sialkot has a history and tradition of metal working since the times of Mughal Empire or even before. The surgical instruments manufacturing cluster emerged back in 1890s when local ironsmiths repaired and manufactured instruments on the request of local mission hospital. After this historical accident the cluster emerged and grew over the years and became a leading exporter of hand held surgical instruments made of stainless steel

Figure 1.4 Processes after forging in Sialkot



Source: Author Survey, 2010

1.6 *Current Profile of Sialkot Surgical Cluster*

According to TDAP (2010) presently about 2400 small, medium and large size surgical instruments manufacturing and exporting firms are working in Sialkot which are supported by thousands of vendors, specialized in different surgical processes, and forging firms working in nearby town Daska. The surgical firms working in Sialkot are also supported by institutions like MIDC (Metal Industries Development Corporation), VTI (Vocational Training Institute), ATC (Apprentices Training Centre), NIDA (National Institute of Design and Analysis), SMEDA (Small and Medium Enterprise Development Authority), SIMTEL (Surgical Instruments Material Testing Laboratory) and associations like SCCI (Sialkot Chamber of Commerce and Industry) and SIMAP (Surgical Instruments Manufacturers Association of Pakistan).

The firms in surgical instruments manufacturing industry can be classified as under:

1. **Manufacturing Exporters:** These are firms which manufacture instruments and export to global buyers/markets either directly or through agents working in foreign markets. According to TDAP, SIMAP and SCCI these are of three types:
 - a. **Large size Firms:** Around 25 to 30 large firms perform 70% to 80% in house manufacturing of instruments and rely upon other medium and small firms and job possessors for the remaining 20% to 30% jobs.
 - b. **Medium size Firms:** About 1000 medium size firms perform 40% to 70% in house processes and outsource the remaining part to makers and vendors.
 - c. **Small size Firms:** Around 1200 small size firms perform 30% in house process and outsource remaining to vendors and makers.
2. **Non Export Manufacturers:** These are in a large number and only perform different manufacturing processes in house as a subcontractor for export firms according to latter's specifications.
3. **Commercial Makers:** These are also in a large number, they don't have own manufacturing facilities or at maximum a facility with one or two last processes like polishing and packaging. They receive order from export firms and get it manufactured from vendors and non export manufacturers.
4. **Vendors:** There are a large number of vendors working in Sialkot. They are specialized in one or more instruments manufacturing processes like annealing, milling, grinding etc. They work as process subcontractors for makers and export firms.

According to TDAP the non export manufacturers, commercial makers and vendors are about 2000 in number.

1.7 *Product Profile*

The surgical instruments cluster manufactures over 2000 different types of precision instruments mostly from stainless steel which are used in all branches of medical, surgery, dental and veterinary (Nadvi,1999), these include mainly scissors, forceps (200 types), scalpels, needle holder, surgical knives, specula, clamps & retractors (Nadvi,1999; Board of Investment, Government of Pakistan, 2006).

According to the recent diagnostic study (TDAP, 2010), Pakistan mainly produces two types of instruments, disposable Instruments and Re-usable instruments. Disposable instruments are made for one time use only and are mainly exported to USA; while the Re-usable instruments can be used for 10-15 times after sterilization and mainly exported to European market. The difference between two types is of metal quality, in disposable instruments local made steel is used but in re-usable instruments imported steel is used, and not of technology. Both types of instruments are of low value added category and a product of low tech. According to Nadvi (1999, 2005) the surgical instruments industry is divided into two segments .i.e. Mature Product Segment (Traditional), there are 2000 different types of classical hand-held instruments within mature product segment like scissors, knives, forceps, scalpels etc mainly made of stainless steel. These are standardized products for which technical specifications are known and blueprints are available. Technology and skills of appropriate steel, die making, forging, grinding, milling and filling of metals to high level of precision are required which are held by Sialkot surgical cluster firms and new products segment, these include Minimum Invasive Instruments, Endoscopes & Surgical Implants. In addition to metalworking skill the knowledge of optical lens, electrical, miniaturized image enhancing lights and video technology is required which is absent in Sialkot surgical cluster but present in its forward partner German based Tuttlingen surgical cluster. Sialkot surgical cluster is lacking new product development skill because of lack of high knowledge absorptive capacity (Giuliani, 2005) and also lack strong forward linkages with end users and high tech industry.

1.8 Dynamics of Cluster

The Sialkot surgical cluster is connected with the Global Value Chain through main global firms of western origin which act as lead firms (Schmitz,2000), drive the cluster and form the forward part of cluster vertical integration (Nadvi,1999). In terms of backward linkages, cluster is linked with a large network of vendors, subcontractors and suppliers of material, labor and machinery (Nadvi, 1999; Ghani, 1996). Sialkot surgical cluster enjoys the benefit of collective efficiency from both external economies and joint action (Ghani, 1996; Nadvi, 1999; Mytelka & Farinelli, 2000; Schmitz, 1999; Giuliani, 2005).

1.9 Vertical and Horizontal Ties of the Cluster Firms

Vertical integration: Vertical integration has two dimensions backward and forward, in backward ties the instruments manufacturing firms are closely connected with their vendors and suppliers. There is found evidence of close cooperation both in bilateral and multilateral terms (Ghani, 1996; Nadvi, 2005; TDAP, 2010). Manufacturers and exporters provide specifications to their subcontractors, vendors and suppliers. In forward ties, being the part of GVC (Global Value Chain) firms in Sialkot are connected with OBM (Original Brand Manufacturers) and lead firms of international origin. Process of order flow and specifications starts from the buyers who order and specify the product after that manufacturing process is monitored. It is noted that firms in Sialkot cluster only have knowledge using capabilities and knowledge changing capabilities are missing (Nadvi, 1996; 1999; 2005; Giuliani, 2005).

According to Nadvi (2005) Sialkoti firms mainly use following four channels to access international market:

1. Foreign buyers who purchase complete instruments from Sialkot and supply to the world market through retailing and wholesaling.

2. Foreign particularly German producers who subcontract all or part of their production.
3. Independent Pakistanis based in foreign.
4. International sales offices of Sialkoti firms

Horizontal Integration: there are two types of horizontal ties observed in Sialkot, bilateral ties and multilateral ties; former exists between two firms dealing in the same product. It is noted that such ties are rare in Sialkot mainly because of mistrust and fierce competition among firms (TDAP, 2010; Nadvi, 2005; Thompson, 2005) and latter exists among more than two firms to achieve mutual goals. There is strong evidence of multilateral horizontal ties among firms in Sialkot surgical cluster in different occasions such as formation of SDPTL in 1980s, facing challenges of quality restrictions imposed by the west in 1990s and development of SIAL(Sialkot International Airport Limited) through SIMAP and SCCI (Ghani, 1996;Nadvi, 1999; TDAP,2010).

There is cut throat competition among firms in the cluster. Most of the firms are producing low tech products. The organizational structure of small firms is “Poor floor-shop organization” and operations are either run by entrepreneur himself or by a low level supervisor called Munshi (TDAP, 2010; SIMA, 2010; SCCI, 2010). Entrepreneurs are not equipped with modern management and technical skills which are one of the causes of low international competitiveness of the sector, moreover we neither find any managerial nor technical skills development certificate and degree awarding institute of quality (Ghani, 1996; Nadvi, 2005; TDAP, 2010).

The success of local firms is attributed to the externality gains of clustering because of well developed local market of inputs, services and skilled labor helped ensured inputs at competitive prices (Nadvi, 2005).

1.10 Common problems faced by the cluster

According to a recent diagnostic study by TDAP (2010) common problems faced by the sector are Cut-throat price competition among the firms, Unwillingness of entrepreneurs to develop themselves, increasing costs of raw materials, high cost of labor, shortage of skilled labor, Lack of trust among entrepreneurs, No proper human resource department, One man show practices, financial problems for medium and small enterprises, lack of new technology awareness in SMES. Nadvi (1999, 2005) has identified following three challenges faced by Sialkot Surgical Instruments Cluster:

1. Cost based competition in international market
2. Advances in medical technology and surgical procedures
3. Greater pressure of compliance with international standards

1.11 The Flow of Work Orders

Only the manufacturing exporters have links with global buyers. They receive orders directly and indirectly through their foreign agents from global buyers. The global buyers specify the type, quality, quantity and design of the instruments by a sample after negotiating price and delivery time. Export firms after receiving orders, according to their size subcontract the different manufacturing processes to non export manufacturers, makers and vendors. As noted earlier mostly the processes after forging are performed. For the forging of instruments orders are placed to the forging firms working in Daska which in turn get the


stainless steel sheets of particular specification from furnace and rolling mills working in Gujranwala and Daska.

For some instruments imported steel is also used which is provided to forging units by Sialkoti firms. It is important to note that mainly two types of instruments are produced in Sialkot, disposable instruments and reusable instruments. Sialkot is the final value chain link within Pakistan which is linked with global buyers who act as OBM (Original brand manufactures) and ODM (Original design manufacturers).

Entrepreneurial profile of Sialkot is mixed but mainly weak (Nadvi, 1999; TDAP, 2010) as most of the first generation entrepreneurs are uneducated but second generation entrepreneurs are well educated. In non export and vending firms owners are uneducated and informally trained. Organizational structure in export firms is better but in vending segment is traditional floor shop. Most of the firms are family owned generation after generation. There is evidence of vertical cooperation but without knowledge sharing and there is no strong evidence of cooperation and trust at horizontal level. The cluster is mainly facing problems of lack of skilled labor, effective institutional support, lack of training, lack of brands and own designs and lack of planning and vision. Mistrust and lack of cooperation at horizontal level is a common feature at all supply chain links within Pakistan.

Conclusion

It can be concluded from the study that currently value chain links of surgical instruments industry in Pakistan are facing the following problems of Lack of formally skilled labor, Lack of formal education, Informal sector organization/firms, Low wage rates, High labor turnover, Insufficiency of skilled labor, No capacity building, No R&D/No in house knowledge generation, Lack of formal quality assurance system, Lack of horizontal and vertical knowledge linkages, No formal industry association, No cooperation at horizontal level, Lack of trust: There is mistrust everywhere in the forging industry, Lack of quality raw material, No formal planning, Passive learning, Poor physical infrastructure, Lack of management and general training institute, Lack of government support, Poor supply of power/energy, Increasing prices of inputs, Lack of collective vision, Contentment of the entrepreneurs, Lack of formal source of finance.

These issues may be addressed by taking these measures of Establishment of training and research centre, Establishment of a mini steel mill, Establishment of formal industry association, Networking of firms, Linking forging firms with industry benchmark, Linking forging firms with end users, Introduction of formal quality assurance system, Industry specific Islamic banking products. 

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It is the unique privilege of the leader to strength men. Nowhere else in contemporary industrial society does that Privilege come to grips with opportunity so directly as in the organizations in which men work. To exercise the privilege demands sensitivity to subtlety and forthrightness of action, that *creative fusion* of aggression and affection which summons forth the highest human talents. The man whose leadership is the product of such fusion in the service of an ideal is aptly called the exceptional executive.

Harry Levinson

ARTICLE**PERCEIVED IMPORTANCE OF JOB ANALYSIS INFLUENCING
MOTIVATION AND COMPETENCIES AMONG BLUE-COLLAR AND
WHITE-COLLAR EMPLOYEES**

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Abstract

Job analysis is pivotal in identifying the tasks that new recruits are expected to undertake. It is useful to examine whether or not existing job descriptions, person specifications or competency profiles are appropriate for future needs. The study explored perceptual differences of job analyses significance within blue-collar employees (BCEs) and white-collar employees (WCEs) in a manufacturing firm. Data were obtained based on structured questionnaire. Results indicated significant positive relationship of performance appraisal with competencies in case of white-collar employees. In contrast, training was positively related to competencies with regard to blue-collar employees. Other dimensions including selection process, rewards and job description have no relationship with motivation and competencies. The findings commend that investigating these dimensions in similar or different manufacturing settings might provide firms with the potent to improve motivation and competencies significantly.

Keywords: Job Analysis, Performance Appraisal, Training, Motivation, Competencies.

Background

Job analysis refers (Armstrong, 2002) to the process of collecting, analyzing, and setting out information about the contents of job in order to provide the basis for a job description and data for recruitment, training, job evaluation and performance management. Job analysis is the most useful tools for gathering information and developing content valid and legally defensible selection procedures for a wide variety of jobs (Harvey, 1991). A fundamental assumption of traditional job analysis is that the information about a job as it presently exists is useful for developing selection procedures because the job will be similar in the future (Schneider and Konz, 1989). Unfortunately, current trends in organizations (e.g. downsizing and reorganization) often result in the creation of new or re-designed jobs (Howard, 1996). In these situations, the assumption of job stability may often be untenable and traditional job analysis techniques may neither be possible nor be appropriate. As a result, there is a need for job analyst to develop new methods for identifying the key tasks and the knowledge, skills and abilities (KSAOs) that are required for jobs that are changing (Landy *et al.*, 1995). Broadly defined, job analysis involves collecting data about observable job behaviors, and delineating the knowledge, skills, abilities, and other characteristics needed to perform the job (Cascio and Aguinis, 2005).

Strategic job analysis is a systematic process of identifying and describing the important aspects of a job and the characteristics a worker needs to do his or her job well (Phillips and Gully, 2009). It ensures that randomness is reduced and learning or behavioral

change takes place in structured format. Employee selection is the process of putting right person on right job. It is a procedure of matching organizational requirements with the skills and qualifications of people. Effective selection can be done only when there is effective matching. Competencies are the measurable or observable knowledge, skills, abilities, and behaviors critical to successful job performance (Mullen, 2005). Choosing the right competencies allow employers to plan how they will organize and develop their workforce, determine which job best fits their business needs, recruit and select the best employees, manage and train employees effectively and develop staff to fill future job performance.

The research focuses on factors affecting perception of job analysis in a manufacturing company of Bangladesh. Aspects like performance appraisal, reward, training, job description, selection process, motivation and competency are linked with the success of a company and interdependent on each other for initiating and sustaining a company's success. The objective of the study is to carry out a quantitative study of how the company is affected by the perceptual variation of two cohorts e.g., blue-collar employees and white-collar employees and subsequently moderating job analysis. The antecedents of job analysis would influence motivation while leveraging human capital. As well as the study would contribute to the existing literature and put forward new direction to manage human resources.

Literature Review and Hypotheses

Performance appraisal usually involves 'evaluating performance based on the judgments and opinions of subordinates, peers, supervisors, other managers and even workers themselves' (Jackson and Schuler, 2003). Dubinsky, Skinner, and Whittler (1989) contend that appraisals can be used to determine rewards, provide managerial feedback, help to monitor the effectiveness of human resource management decisions, help to evaluate training and development needs, and provide human resource planning and budgeting information. An organization's performance appraisal system is an important, but often neglected, tool for managing the effectiveness and efficiency of employees (Ilgen and Feldman, 1983; Erdogan, 2002).

Bitter and Gardner (1995) reported the tendency of supervisors to attribute the cause of poor performance to low motivation. Motivation represents an employee's desire and commitment to perform and is manifested in job related effort. It is the factor that keeps the human active and makes them feel good about their job. Competency is the combination of knowledge, skills and behavior used to improve performance; or is the state or quality of being adequately or well qualified, having the ability to perform a specific role. Motivation is a driving force behind a successful employee. If there is no motivation employee might lose enthusiasm. If manager's assessment is incorrect and poor performance is related to ability rather than motivation, the response to increased pressure will worsen the problem. If poor performers feel that management is insensitive to their problems-that they lack resources, adequate training, or realistic time schedules-they may respond counterproductively to any tactics aimed at increasing their efforts. Motivation is important not only to increase productivity but also to elevate competencies of employees in the organizations.

The use of competencies to identify high-performing people, or outstanding employees, has gradually become widespread in human resource management (Lawler, 1994; Ulrich, 1997). Those characteristics that set these employees apart provide the basis for recruitment, selection, and development strategies that are effective and provide a high return on investment. In rapidly changing business environments, organizations are recognizing the

value of a workforce that is not only highly skilled and technically adept, but more importantly, a workforce that can learn quickly, adapt to change, communicate effectively, and foster interpersonal relationships. These characteristics, or competencies, are critical to organizational survival, productivity, and continual improvement. Using competencies as the basis for staffing provides the flexibility needed to select and place individuals where they can best serve the organization. One of the strengths of competency models is that they are often linked to the business goals and strategies of the organization (Rodriguez *et al.*, 2002). As scholars (Howard, 1996; Cascio, 1996) have indicated, the changing nature of work requires evaluating worker competencies that are different from those evaluated in the past. Predictions are that work will become more difficult, more fluid, and more interconnected. As a result, the competencies needed by future workers will change. Employees will require to be smart, to be able to learn and grow, but at the same time be adaptable, responsible, and able to work with others.

Performance Appraisal

The efforts of employees can determine the success and survival of an organization (Drucker, 1994; Barney, 1995), and appraisal is potentially one way in which those efforts can be aligned with the aims of an organization, employees can be motivated and their performance managed (Cook and Crossman, 2004). As Moravec (1996) puts it: 'effective performance management can serve as the key lever of change that boosts individual and team accomplishment'. Performance appraisal is a process that identifies, evaluates and develops employee performance to meet employee and organizational goal. It focuses on employee's performance improvement. It is the process of obtaining, analyzing, and recording information about the relative worth of an employee to the organization. Periodic reviews help supervisors gain a better understanding of each employee's abilities. The goal of the review process is to recognize achievement, to evaluate job progress, and then to design training for the further development of skills and strengths. Performance appraisal typically involves measuring how well an individual employee is doing their job against a set of criteria. It also helps to judge who need promotion, training and so forth.

Dowling *et al.* (1999) state that international performance management is a strategic HRM process that enables the MNCs to evaluate and continuously improve individual, subsidiary unit and corporate performance against clearly defined, pre-set objectives that are directly linked to international strategy. Performance appraisal is considered as one of several key elements of performance management. Cardy and Dobbins (1994) define performance appraisal as the process of identifying, observing, measuring and developing human resources in organizations. An effective performance appraisal system encourages individual performance by reinforcing organizational objectives. This is accomplished by establishing personal performance objectives that are congruent with overall organizational goals. In turn then, encouraging individual performance through performance appraisal promotes overall organizational performance (Katsanis, Laurin, and Pitta, 1996). Performance appraisal is an important process for influencing both the extrinsic and intrinsic motivations of employees and their attitudes towards companies. Thus it can be proposed that,

Hypothesis 1: Perception of effective performance appraisal practice is positively related to motivation and competencies within WCEs and BCEs.

Rewards

Rewards, compensation and benefits are critical organizational tools whose sphere of influence reaches beyond the periphery of the individual processes. This reward is a key factor which helps employers motivate employee performances (Stone, 2002). Rewards program is designed to encourage employees to make a performance difference either individually or through teams. Taking time to recognize achievements helps staff to understand how their performance contributes to the overall objectives of the organization. Reward systems can a number of HR processes and practices, which in turn impact on organizational performance (Lewis, 2006). Rewards impact recruitment and retention (Guthrie, 2007). High wages attract more applicants, which allow greater choice over selection and hiring decisions, which in turn may reduce labor turnover (Lawler, 2000). The way in which employees are rewarded has a major influence on corporate culture. For example, reward systems that provide benefits for long-serving staff are likely to shape the existing culture into one in which loyalty is seen as central to the corporate ideology. Employees see reward systems as signaling the importance the employer places on various activities or behaviors. Therefore, reward systems have a motivational impact and must be integrated with the corporate behavior being sought. So, it can be proposed that,

Hypothesis 2: Rewards are positively related to motivation and competencies within WCEs and BCEs.

Training

Training has long been a fundamental concern in organizational contexts. As the nature of work changes, employees are increasingly required to develop a wide, mutable set of skills that are essential to the success of their organizations. Yet few workers possess the cultural competence, interpersonal skills and technological proficiency required for these changing work demands (Salas and Stagl, 2009). Training is focused on producing permanent cognitive and behavioral changes, and on developing critical competencies for job performance. Organizations make increasingly large investments in training because it serves as a powerful tool for producing the targeted cognitive, behavioral and affective learning outcomes essential for their survival (Salas and Stagl, 2009). Effective training can yield higher productivity, improved work quality, increased motivation and commitment, higher morale and teamwork, and fewer errors, culminating in a strong competitive advantage (Salas *et al.*, 2006).

Training and employee development are vital contributors to organizational success and will continue to be so in the foreseeable future. Changes in economic forces and globalization point to the importance of human resources and skilled “knowledge workers” as key sources of sustainable competitive advantage (Drucker, 1999). Every indication is that the need for training will continue given increasing demands on organizations to boost productivity, keep pace with technological advances, meet competitive pressures, use team-based decision making and problem solving, reengineer processes, and satisfy employee development and retention requirements. With this emphasis on learning and skill development, employers hope expenditures will yield a favorable return on their investment. Studies suggest that many training and development activities are implemented on blind faith in the hope that they will produce results (Arthur *et al.*, 2003; Robinson and Robinson, 1989). One study found that employers who were in the top quartile of their peers relative to the average training expenditure per employee experienced 24 percent higher-gross profit

margins, 218 percent higher income generation per employee, and a 26 percent higher price-to-book value of company stock price relative to those employers in the bottom quartile (Wells, 2001). Thus, it can be proposed that,

Hypothesis 3: Training is positively related to motivation and competencies within WCEs and BCEs.

Job Description

Job descriptions provide recruits with essential information about the organization and their potential role, and without them people would apply for jobs without any form or realistic job preview (Marchington and Wilkinson, 2008). Having to outline critical job results areas or accountability profiles can help managers decide whether or not it is necessary to fill a post, and if so in what form and what level. On the other hand, vague and flexible accounts of what is needed in a job may only store up trouble if there are subsequent concerns about performance and whether or not people are doing what is expected of them. Job descriptions are lists of the general tasks, or functions, and responsibilities of a position (McNamara, 2000). Typically, they include to whom the position reports, specifications such as the qualifications needed by the person in the job, salary range for the position, etc. Job descriptions are usually developed by conducting a job analysis, which includes examining the tasks and sequences of tasks necessary to perform the job. The analysis looks at the areas of knowledge and skills needed by the job.

Typically, job descriptions are used especially for advertising to fill an open position, determining compensation and as a basis for performance reviews. Not everyone believes that job descriptions are highly useful. A job description is usually developed by conducting a job analysis, which includes examining the tasks and sequences of tasks necessary to perform the job. The analysis considers the areas of knowledge and skills needed for the job. Job descriptions help employees understand the tasks for which they are accountable so they can prioritize their work based on which duties are more critical than others. Moreover, a manager can compare an employee's performance with the job description's standards and suggest specific tasks the employee can perform better. Employers decide how much to pay employees by determining the monetary worth of their professional abilities and responsibilities. Job descriptions allow employees to reflect on their own work and ensure they are meeting a company's standards prior to undergoing a performance review with a manager. Job descriptions give managers the standards they should look for when hiring new employees. Employers typically include full job descriptions in job postings to attract qualified candidates. Companies use job descriptions to help plan which positions they can trim through a layoff or how to change the structure of a business, which affects employees' job duties. Therefore, it can be proposed that,

Hypothesis 4: An appropriate job description is positively related to motivation and competencies within WCEs and BCEs.

Recruitment and Selection

Hiring competent people is of paramount importance and this is dependent on effective recruitment and selection procedures, which aim to select the 'right' individuals and reject the 'wrong' ones. The importance of this should not be underestimated because a poor requirement decision can cost an employer an amount equal to 30 per cent of the employee's first-year earnings (Hacker, 1997). These costs can include: lower productivity; potential loss

of clients; training costs; advertising costs; recruitment fees and redundancy packages (Smith and Graves, 2002). Recruitment and selection involves making predictions about future behavior so that decisions can be made about who will be most suitable for a particular job. Predictions must always be couched in terms of probabilities because the future is unpredictable (Bach, 2005). In addition, employee selection is the process of putting right person on right job. It is a procedure of matching organizational requirements with the skills and qualifications of people.

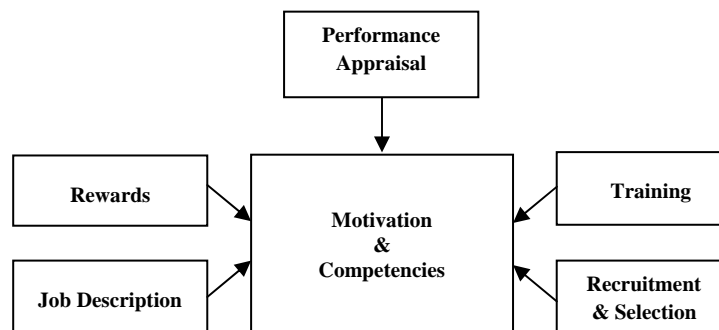
Effective selection can be done only when there is effective matching. By selecting best candidate for the required job, the organization will get quality performance of employees. Moreover, organization will experience less of absenteeism and employee turnover problems. By selecting right candidate for the required job, organization will also save time and money. Proper screening of candidates takes place during selection procedure. Selection process helps an organization to effectively select the right people for the organization. It is very important for the recruitment process to be unbiased, free of discrimination and to maintain equity. A good selection process reduces the cost of re-recruitment. So, it is a vital part of an organization. Successful organizations of the future will attract, engage, develop, and retain the best and brightest employees. Success will belong to those organizations who define return on investment not only in terms of profit and loss but also as the development and aggregation of human and intellectual capital (Rich, 2000). Therefore, it can be proposed that,

Hypothesis 5: Right and timely recruitment and selection process is positively related to motivation and competencies within WCEs and BCEs.

Conceptual Model

Most research studies have an explicit or implicit theory, which describes, explains, predicts or controls the phenomenon under study. Theories are linked to conceptual models and frameworks; whereas a conceptual model is more abstract than a theory and a theory may be derived from a model, the framework is derived deductively from the theory (Burns and Groves, 2001). A model is developed (Figure 1) which is derived from the review of the literature by integrating theory and research relating to different components of strategic job analysis and competency. It includes performance appraisal, rewards, training, job description, and selection process as independent variables and their relationship with motivation and competencies of the employee as dependent variables.

Figure 1: Research framework



Methodology

Sample size was 100 including white-collar employees' body of segment head in the factory (top level), officers (mid level) and the technicians (frontline) from the white-collar employees (WCEs) and blue-collar employees (BCEs) altogether. Participants were the current employees of a leading battery manufacturer in Bangladesh. The name of the firm is promised not to disclose due to ethical obligations. Of them, 50 were from WCEs and 50 were from BCEs. As this is a production firm so as most of the employees were male. Employees' age ranges from 34 years to 50 years. The average tenure of their job was 5 years and the lowest was 1 year. Questionnaire was divided into seven sections and designed to be scale rated. The items of each section were in the form of statements that were direct, simple and concise. The participants had to tick in the boxes provided beside each item according to the extent of their agreement (scale provided at the beginning of the questionnaire). Scale rating provided was: 1='Strongly Disagree', 2='Disagree', 3='Neutral', 4='Agree', 5='Strongly Agree'. The dependent variables are motivation and competencies and independent are performance appraisal, rewards, training, job description, and selection process. Data obtained is analyzed with SPSS for Windows 11.5. To measure the reliability of the survey tool, Cronbach's alpha value was calculated. In order to test the hypotheses the analyses of Pearson Correlation and linear regression were used.

Factor Analysis

After obtaining data, reliability test (Table 1a and Table 1b) was conducted. This helped to know the degree to which the items in each section were consistent with each other. This is vital as reliability is a prerequisite for validity which is a measure for the degree of relation between the items assessed and actual results. By considering an alpha value of 0.8 and above, inconsistent items in the questionnaire were eliminated and the reliability test was rerun via factor analysis. The reason for such high alpha value for the other variables may have been due to the consistency in the results for each item which ranged from neutral (3) to agree (4) in most cases. Factor Analysis using data reduction was carried out to eliminate the inconsistent items with low coefficient values and to have alpha value greater than 0.8.

Findings

Descriptive Statistics

The mean value of each variable (Table 1a and Table 1b) shows that results varied mostly from 'Neutral' to 'Agree'. With respect to WCEs, performance appraisal has the highest mean of 4.6 with the least standard deviation, and competencies as 4.1 with the highest standard deviation of 0.82. This shows that WCEs are keener on their achievements being recognized and are highly motivated and driven to work harder. Hypothesis 1 (Table 1a and Table 1b) states that perception of effective performance appraisal practice is positively related to motivation and competencies within WCEs and BCEs. As displays across table 1a & 1b that performance appraisal is significantly positively related with competencies ($r=.43^{**}$) alone but not with motivation with regard to WCEs and it has no relationship either competencies or motivation with regard to BCEs. Hypothesis 1 is partially accepted.

Table 1a. Mean, standard deviations, correlations and reliabilities of WCEs

Variables	Mean	SD	1	2	3	4	5	6	7
1. Performance Appraisal	4.6	.44	(.81)						
2. Rewards	4.2	.61	.02	(.8)					
3. Job Description	4.1	.66	-.41**	.04	(.81)				
4. Training	4.3	.71	.4**	-.07	-.13	(.82)			
5. Selection Process	4.1	.77	.21	.01	-.11	.41**	(.81)		
6. Motivation	4.4	.61	.07	.16	.03	.01	.04	(.8)	
7. Competencies	4.1	.82	.43**	-.03	-.03	.24	.24	.01	(.8)

N=50, ***p*<.01

Hypothesis 2 states that rewards are positively related to motivation and competencies within WCEs and BCEs. Rewards have no relationship either with motivation or competencies with regard to both cohorts. Thus the Hypothesis is rejected. Hypothesis 3 states that training is positively related to motivation and competencies within WCEs and BCEs. Job descriptions have no relationship either with motivation or competencies with regard to both cohorts. Thus the Hypothesis is rejected. Hypothesis 4 states that an appropriate job description is positively related to motivation and competencies within WCEs and BCEs.

Table 1b. Mean, standard deviations, correlations and reliabilities of BCEs

Variables	M	SD	1	2	3	4	5	6	7
1. Performance Appraisal	4.2	.91	(.8)						
2. Rewards	4.2	.61	-.19	(.81)					
3. Job Description	4.1	.63	.12	.06	(.81)				
4. Training	4.3	.66	-.14	-.13	.05	(.82)			
5. Selection Process	4.4	.72	.25	.001	.17	.002	(.81)		
6. Motivation	4.2	.76	.05	.09	.12	-.04	-.09	(.8)	
7. Competencies	4.3	.79	.05	.12	-.17	.28*	-.12	-.03	(.8)

N=50, **p*<.05

Training has no relationship either with motivation or competencies with regard to WCEs but it is significantly related with competencies with regard to BCEs. Thus the Hypothesis is partially accepted. Hypothesis 5 states that right and timely selection process is positively related to motivation and competencies within WCEs and BCEs. Selection process has no relationship either with motivation or competencies with regard to both cohorts. Thus the Hypothesis is rejected.

Regression Analysis

Hypothesis 1 (Table 2a and Table 2b) predicts that performance appraisal is positively related to motivation and competencies with regard to WCEs and BCEs employees. Regression results for WCEs partially accepted for motivation and fully accepted for competencies where, $\beta_1=.07$, $\beta_2=.43$ the changes in the variables are affected. For BCEs, the

alternate Hypothesis is partially accepted for motivation as well as competencies where, $\beta_3=.05$, $\beta_4=.05$, the changes in the variables are affected.

Table 2a. Regression results of job analysis affecting motivation and competencies of WCEs

Variables	Motivation				Competencies			
	β_1	T	F	AR ²	β_2	T	F	AR ²
Performance Appraisal	.07*	5.4	.29	.02	.43*	3.3	11.13	.17
Rewards	.16*	8.5	1.3	.01	-.03*	5.2	.05	.02
Training	.03*	8.4	.06	.01	-.03*	5.8	.04	.02
Job Description	.01*	8.3	.01	.02	.49*	2.6	15.4	.22
Selection Process	.04*	9.7	.09	.01	.24*	4.9	3.04	.04

$N=50$, * $p<.05$

Hypothesis 2 predicts that rewards are positively related to motivation and competencies with regard to WCEs and BCEs. Regression results for WCEs, the alternate Hypothesis is fully accepted for motivation but rejected for competencies where, $\beta_1=.16$, $\beta_2=-.03$, the changes in the variables are affected. For BCEs, the alternate Hypothesis is partially accepted for motivation and fully accepted for competencies where, $\beta_3=.09$, $\beta_4=.12$, the changes in the variables are affected. Hypothesis 3 (Table 2a and Table 2b) predicts that training is positively related to motivation and competencies for WCEs and BCEs. Regression results for WCEs, the alternate Hypothesis is partially accepted for motivation but rejected for competencies where, $\beta_1=.03$, $\beta_2=-.03$, the changes in the variables are affected. For BCEs, the alternate Hypothesis is accepted for motivation but rejected for competencies where, $\beta_3=.12$, $\beta_4=-.16$, the changes in the variables are affected.

Table 2b. Regression results of job analysis affecting motivation and competencies of BCEs

Variables	Motivation				Competencies			
	β_3	T	F	AR ²	β_4	T	F	AR ²
Performance Appraisal	.05*	8.4	.15	.02	.05*	8.5	.16	.02
Rewards	.09*	6.2	.46	.01	.12*	6.4	.66	.01
Training	.12*	5.1	.69	.01	-.16*	7.2	1.4	.01
Job Description	-.04*	6.1	.07	.02	.28*	4	4.2	.06
Selection Process	-.09*	6.7	.42	.01	-.18*	7.5	7.5	.02

$N=50$, * $p<.05$

Hypothesis 4 predicts that job description is positively related to motivation and competencies with regard to WCEs and BCEs. Regression results for WCEs, the alternate Hypothesis is partially accepted for motivation and entirely for competencies. There is positive relationship between motivation, competencies and job description where, $\beta_1=.01$, $\beta_2=.49$ the changes in the variables are affected. For BCEs, the alternate Hypothesis is not accepted for motivation but totally accepted for competencies where, $\beta_3=-.04$, $\beta_4=.28$, the changes in the variables are not affected. Hypothesis 5 predicts that recruitment and selection process is positively related to motivation and competencies for WCEs and BCEs. Regression results for WCEs, the alternate Hypothesis is partially accepted for motivation but wholly accepted for competencies so it proves first Hypothesis. There is positive relationship


between motivation and selection process where, $\beta_1=.04$, $\beta_2=.24$. For BCEs, the alternate hypothesis is not accepted for motivation and competencies where, $\beta_1=-.09$, $\beta_2=-.18$, the changes in the variables are not affected.

Discussion

The study found significant correlations of performance appraisal and training with competencies with regard to white-collar and blue-collar employees respectively. It means an increased level competency is positively related with performance management. Besides, training is also related proportionately with competencies of employees in the studied firm. This was congruent with research outcome reported by Glazerman (2010). In fact, objective performance management can heighten competencies that might work as a source of self-motivation. Job description is an organization's process of defining strategy, or direction, and making decisions on allocating its resources to pursue the strategy including its capital and employees from the job and the job responsibilities. The positive results in regard to the job description from both cohorts ($\beta_2=.49^*$; $\beta_4=.28^*$) provide notion to reshuffle existing job while undermining less important task. The study discloses ($\beta_2=.24^*$) that selection process is important to inculcate competencies for white collar employees. It is vital for firm to attract large talent pool at the outset of recruitment process. Rewards and promotion are inevitable to enhance employee's performance ($\beta_1=.16^*$; $\beta_4=.12^*$) and if employees perform well then that would be deemed as a source of competitive advantage for the firm in the long-run. The result indicates that training affects competencies with regard to blue-collar employees which lead towards the initiative taken by firm to create avenues for more training and development. Though motivation is an important criterion and recognized well by the employees of the firm. White collar employees could be more flexible to let the blue collar employees understand about the positive effect of the motivation. The study reports that the variables are interdependent and both cohorts acknowledge the positive perception of job analysis to capitalize knowledge, skills and abilities to sustain business in the studied firm. By and large, the study found significant perceptual differences in terms of performance appraisal and training with regards to white-collar and blue-collar employees. Other variables like rewards, selection process and job description have no relationship with motivation and competencies.

Conclusion

It is observed from the study that maximum influence on motivation and competencies are caused by performance appraisal, and training since both white collar and blue collar employees accorded it substantially. On the other hand, rewards, selection process and job description have less effect on competencies and motivation. Therefore, perception of job analysis irrespective of position is very crucial to pursue everyday's task and to carry out most important job frequently rather than casual tasks. It is recognized when objective performance appraisal is being practiced, rewards and training are involved rather than job description and motivation. White collar employees especially top management could equally render due attention to illustrate job description and refocus selection process because workers may not perceive the importance of job outright but in future it would contribute better performance. The study skims off more rooms to spare for research. It identifies perceptual differences and relationship of performance appraisal, reward, training, job description, and selection process with employee's motivation and competencies. More research may examine strategic integration of all these determinants to human resource management. Besides, other internal as well as external factors might trigger perception of job analysis with motivation and competencies of the employees which was beyond the

present study. Though the study was confined to a single firm in manufacturing industry and the sample size was small ($N=100$), to have comprehensive idea sample size could have been bigger. Future research may consider not only using multiple stakeholders to increase data reliability but also to undertake more firms both in manufacturing and service industry alike. 

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Abbreviations used

BCEs: Blue-collar employees

WCEs: White-collar employees

MNCs: Multinational Companies

**Earlier version of the paper was presented in 6th International Knowledge Globalization Conference (IKGC) hold in Pune from January 5-7, 2012 and jointly organized by Flame University, India with Suffolk University, Boston, USA.*

“Remaking the world is an insignificant task.... It is not world that must be remade, but man.

Albert Camus

DISCUSSION**Educational Poverty by Design
A Case of Mismanagement of National Resources**

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Abstract

The purpose of this paper is to review and evaluate the causes of educational poverty in less developed countries. The basic intent in carrying out such a study is to define and derive the role of governing agencies in deliberately creating educational poverty in the country to safeguard the private interest of the rich and powerful ruling class of the society.

This study is of major interest because majority of people living in less developed countries are poor in spite of the fact that almost all these countries own ample human and material resources and they have accumulated huge amount of external debt to finance economic development projects to enhance economic wellbeing of the society. However, the common man in these countries is continuously suffering and has been denied access to basic amenities of life including education, health and social services.

The study found sufficient evidence to prove that educational poverty is the cause and consequence of income poverty. The rich and powerful ruling class in less developed countries is designing policies and strategies to keep the masses uneducated, unaware of their legitimate rights so that they can safeguard their own private interest.

The paper advocates a complete reversal in economic growth policies of the poor countries so that top priority is given to those projects and programs that directly benefit the common man in the society. Looking at the successful experience of highly progressive countries of the world, the study lays down a consistent plan to empower the common man and to alleviate poverty in less developed countries. The author calls for awareness among the people to exercise their economic and social rights so that the people of all strata can share equally the fruits of growth and prosperity.

Key words: Reversing Priorities, Incentive Payments, Competence, Define and Derive Basic

Introduction

The historical record shows that most of the poor countries in the world have remained poor in spite of the substantial amount of financial and material help contributed by the donor countries of the world. We also find very many rich families living in less developed countries, owning huge wealth in the form of land, factories, palatial houses and large bank balances, while majority of the population living side by side, and they are unable to afford even very basic amenities of life. There is a substantial evidence to suggest that the

common man has been neglected and denied all the possible economic welfare programs to keep him intentionally dependent on the rich and very powerful ruling class of the society.

The Western economic growth theories propagated by economists to explain the ways and means to overcome poverty in developing countries have proven ineffective so far. The trickle down effect of “Big Push” (Rosenstein- Rodan)¹ argument and “Balanced Growth” (Ragner Nurske)² theory rather promoted greater income inequalities, corruption and incompetence among the people living in less developed countries. Following the economic growth policies of the western world, the donors and the technical assistance giving agencies while collaborating with the ruling class in less developed countries picked up projects which directly benefitted the rich and affluent class of the society. Thus we see heavy investment gone into the construction of many monumental projects, such as dams, motorways, airports, weaponry and so on. Consequently, the decision makers in these countries paid little attention to very basic needs of the common man and therefore nothing much seems to have been spent on education, health and social services in order to alleviate poverty among the poor people in less developed countries.

To set the things right, the decision makers in the developing countries, are to reverse the economic growth priorities. The distribution of national resources is to be made more equitable to serve all the sections of the society without discrimination. We need to change the direction of our attention. Instead of giving all the attention to the most prestigious projects to maximize rate of return in the long run, it is more beneficial to pay attention to the immediate needs of the majority of people in the developing countries. For example employment for the entire workforce, quality primary education for all the school age children, basic health facilities for all the nationals and skill learning institutes to promote productivity and quality among the workforce to remain competitive in the job market.

The majority of workforce in less developed countries is facing unemployment of some kind. In fact, even those who are employed in these countries, they are working far less than their potential. Due to inadequate education and skills, a part of the work force in less developed countries is dropped out from the competitive job market, while those who are educated and skilled seem to be migrating to other countries where they can find better economic prospects. Population is the most valuable resource for less developed countries to compete in the international market. However, the useful and competitive ability of the population depends on its quality and productivity content. An unskilled workforce commands far lower value than an educated highly skilled workforce. Thus educated and skilled workforce is the primary requirement for turning around the economic performance of less developed countries.

Apparently, it is a case of educational poverty by design and the intent of the ruling class is such that the poor people are forced to live on subsistence wages at the best. Keeping a major proportion of the population uneducated serves the elite class of the society very well. People are hired at low wages for all kinds of jobs which is the main advantage for the high-income earners in poor countries. Poor countries are getting poorer largely because the people in the poor countries are denied their right to have proper education and skills to compete in the market to earn respectable living in the society.

Thus the main focus of this study is to highlight the extent and seriousness of the issues relating to educational poverty in less developed countries. It is largely a data based analysis of the facts collected from the secondary sources in respect of highly populous

countries of the world (top ten). In order to learn actual economic growth experience of rich, not so rich and poor countries, specific role model countries were identified for in depth analysis. In the light of detailed discussion and actual experiences of the role model countries, the study has presented basic guidelines for turning around the plight of the common man in less developed countries.

Extent of Educational Poverty

The international agencies like IMF, World Bank and Asian Development Bank have made special efforts to assist less developed countries in their planning, formulation and execution of projects and programs for promoting economic growth, but not much seems to have been achieved by the recipient countries. Many of these countries have remained poor since long and the common man has received very little in terms of basic amenities of life for a dignified living in the society. In fact, the outcome of all these efforts by the international bodies has been disappointing and failure. Instead of loaning to make motorways and to construct airports in these countries they need to go for projects directly benefiting the common man.

First thing first, a country must have a good quality of people to ensure that they spend their available time very efficiently to receive maximum return among various possible options to use their time. This is apart from the physical and financial assets a country may have to invest to produce those goods and services where it can make maximum profits. Again, a country needs to have well qualified professionals to make better use of the physical and financial resources of the country. However, to provide opportunities to do all these things we need to have well educated people to elect and select people to govern the economy to make intelligent decisions to run the national affairs.

Human poverty is the consequence of educational poverty for every society, may be it is as rich and resourceful as Pakistan, where plentiful human and material resources are there, but majority of its people are uneducated and denied gainful employment. Singapore and Japan are the examples where material resources are almost non-existent, but their people are of high quality and these countries are placed among the richest countries of the world. Similarly, China, South Korea and Malaysia are becoming role models to show the way human and material resources are to be used to secure an enviable place in the top class world economies.

Underdeveloped countries are to remain poor, even though they are provided with donations/aid of all kind and external loans to enable them to takeoff in the way Rostow⁴ described in his growth model. Even the Big Push growth theory of Rosenstein Rodan failed in Pakistan, because according to him there will be a trickledown effect of heavy investments in spreading industrial giants in the country. But all this never happened in Pakistan (1960-70) and the entire investment concentrated in the hands of a few families. It was highly beneficial for Pakistan even if quarter of that investment was used up to strengthen basic education system to ensure a quality primary education for all. Lack of education during all these years in Pakistan has derailed the economy and turned its valuable human and material resources fruitless.

Educational poverty is thus becoming a primary cause of poverty in the less developed countries where education has not been taken as a serious concern and the national resources are diverted to provide a comfortable life for the rich and powerful ruling class.

Taking world's most populous poor countries the extent of educational poverty is described below – see Table 1.

Table -1
Educational Poverty among Populous Countries

Countries	Population (Million)	Literacy Rate (% of Population)	Population Living (Below Income Poverty Line)
Bangladesh	151	43.1%	39.7%
Nigeria	155	68.0%	69.7%
Pakistan	176	49.9%	23.9%
India	1,189	59.5%	25.0%
Brazil	203	88.6%	26.1%
China	1,337	91.6%	2.8%
Indonesia	245	90.4%	13.5%

Source: ⁵CIA Word Fact books: 18 Dec. 2003 to 28 March 2011. Retrieved from <http://www.NationMaster.com>

In Table- 1, high literacy rate and economic wellbeing of the population seems to be presenting a very strong evidence to prove that the education plays a primary role in promoting national welfare. On the same lines the countries like Bangladesh, Nigeria, Pakistan and India seems to have given very low priority to education and therefore as a consequence the people living below poverty line is quite high.

The educational standards are growing much faster due to globalization and media revolution in the world. People no matter whether living in developed or underdeveloped world are striving for higher learning to compete and earn better living. The literate population in the world is increasing and more countries are achieving 100 percent literacy rate. In fact, more than half of the countries in the world have achieved almost hundred percent literacy rate (90 to 100 %), while 21 % of the countries are still lagging behind with less than 70 % literacy rate. (see Table-2)

Table-2
Education Statistics: Literacy Levels in the World

Range (Class Interval)	# of Countries		Cumulative Total	
	Total	%	Total	%
99-100	45	21	45	21
90<99	77	36	122	57
80<90	31	14	153	71
70<80	17	8	170	79
<70	44	21	214	100
Total	214	100	--	--

Source: CIA Word Factbooks: 18 Dec. 2003 to 28 March 2011. Retrieved from <http://www.NationMaster.com>⁵

Methodology

The Study is primarily undertaken to address a basic economic issue which has very wide spread Implications for molding and motivating a major segment of the society, covering nearly 80 percent of its total population. The author of this study is confident that this very basic issue has been deliberately left unattended.

In this study the entire emphasis is laid down on the data relating to economic performance of countries of different income levels, to see how far education has contributed in improving the welfare of the society. To find a workable solution for eliminating educational poverty, the study examined in depth the main causes of denying access to quality education to the people as a deliberate policy of the ruling class in several developing countries.

To discuss and analyze the subject of the study three model countries were identified from among top ten highly populous countries of the world. These three countries represented one each from, low income level countries, medium income level countries and high income level countries.

The study made specific recommendations of valuable significance for the developing countries where access to quality education has been limited to those who can afford it while leaving education of the majority of people in the hands of public sector management. Due to poorly funded public sector agencies such schools have poor infrastructure and largely untrained teachers.

Discussion and Analysis

The top ten highly populous countries in the world contain some 4 billion people (Year 2011 Population Statistics), which represent nearly 58 percent of the total world population. But all these countries are not economically well off. Interesting enough some of them are very poor and others are among the richest countries of the world. This indicates that population by itself is not necessarily the cause or consequence of poverty. In fact, income poverty is somehow linked with education levels. This study makes an attempt to find out how far education has contributed in explaining the income differentials among the top ten countries so that a realistic priority policy package can be drawn for turning around the economic performance of low-income countries. To initiate further discussion in this regard a brief account of the top ten countries describing their income differentials is given in Table-3.

Table.3
Extent of Income Differentials Among
Top Ten Highly Populous Countries

Country	Per Capita Income (Year 2007)	Population (Million-2011)
Bangladesh	\$1, 400	151
Nigeria	\$2, 300	155
Pakistan	\$2, 500	176
India,	\$2, 600	1,189
Brazil	\$4, 700	203
China	\$7, 400	1,337
Indonesia	\$11, 500	24
Russia	\$ 14,800	139
Japan	\$ 33,500	126
USA	\$ 45,700	312

Source: World Development Indicators database, World Bank, July 1, 2008.

Note: Per capita values were obtained by dividing the Total GDP data by the Population data.

In Table -3, the per capita income differentials are made basis to combine the countries in three convenient groups viz. rich, not so rich, and poor countries with the following distribution:

Rich	577 million people	14%
Not so rich	1785 million people	44%
Poor	1671 million people	42%
Total	4033 million people	100%

The above three defined income groups reflect actual amount of effort of the countries to attain the income status they have achieved. The study while examining the income differentials between various income level groups came to the conclusion that to eliminate educational poverty among less developed countries, it will be desirable to compare the economic performance of these three income level countries to prescribe useful guidelines for the poor countries so that they can be pulled out of poverty. However, to make an in-depth study of the important features of these countries, three representative countries were selected as follows:

Low Level Income Countries:	Bangladesh, Nigeria, Pakistan and India :
Representing Country:	Pakistan
Basis of Selection:	Having all the potential to perform better
Medium Level Income Countries:	Brazil, China and Indonesia
Representing Country;	China
Basis of Selection:	Showing excellent performance
High Level Income Countries:	USA, Japan and Russia
Representing Country:	Japan
Basis of Selection:	Achieved high recognition in productivity

Educational Poverty -- Pakistan:

The very first indicator of the level of educational poverty in a country is reflected by its literacy rates attained by different sections of the society. The latest estimates depict the following picture (see Table-4)

Table-4 Rate of Literacy-Pakistan

Year	Literacy (male)	Literacy (Female)	Overall Literacy Rate
2009/10	69.5%	45.2%	57.7%
2008/09	69.3%	44.7%	57.4%

Pakistan Economic Survey 2011/12, pp.138-40, Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad www.finance.gov.pk

From Table-6 it is quite evident that literacy rate in Pakistan is far less than the rate achieved by progressive countries (close to 100%) of the world. In fact, even the literacy rate by its very definition is not sufficient base to call people educated. Hence the actual level of

educational poverty is much deeper than the data presented in various reports. To be called educated, every person needs to have completed primary education of an acceptable quality. The primary education enrolment data in this respect shows a very similar picture (see Table -5)

Table-5
Primary School Enrolment- Pakistan

Year	Enrolment Male	Enrolment Female	Overall Enrollment
2010-11	60%	53%	56%
2008-09	61%	54%	57%
2007-08	59%	52%	55%
2006-07	60%	51%	56%

Source: Pakistan Economic Survey 2011-12, Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad, pp. 138-40.

In Pakistan the primary school completion rate in the year 2010 was about 63%, indicating that the dropout rate and failure rate was close to 37%. Thus if we add children who did not enroll plus those who dropped out/failed, the educational poverty at primary school level is critically very high and this evidence fully supports the fact that primary education has been deliberately neglected by the government at primary school level which ultimately affected ability to get gainful employment and hence income to live gracefully in the society.

The most important means to eliminate education poverty in any country is the availability of funds to pay for the school infrastructure, salaries to the administrative and teaching staff and to provide incentive payment to the parents, who cannot afford to send their children to school. So far the public expenditure on education is extremely low (see Table-6):

Table-6
Public Expenditure as a % of GDP-Pakistan

Year	Public Expenditure As a % of GDP
2009/10	2.05%
2008/09	2.10%
2007/08	2.47%
2006/07	2.50%
2005/06	2.24%

Source: Pakistan Economic Survey 2011-12, Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad, pp. 138-40.

In Pakistan, the public expenditure on education (covering all levels of education) over the years has not changed very much, rather there is a declining trend noticeable in the information given in Table-6. In fact, a major proportion of the education budget is spent on higher education, while the funds released for running primary school system is far less than the amount needed to run a good quality primary are grossly inadequate. The precise share in the public expenditure for running primary school system in Pakistan is far less than the amount needed to run a good quality primary education for a reasonably longer duration, say for seven years and so.

Latest information released by Sustainable Development Policy Institute in their report “Clustered Deprivation: District of Poverty in Pakistan” show that Pakistan has some 58.7 million people (Year 2012) living below poverty line. This further supports the concern that in Pakistan people have been denied education, employment and hence income and are left to survive on their own. This phenomenon has promoted crime in Pakistan. Apart from unreported crimes of minor nature, such as snatching of mobile phones, vaults and purses, a large number of crimes of very serious nature are increasing and security problems in big cities have made life of the people miserable in Pakistan. In fact, crimes, such as target killing, bank robberies, house breaking, rarely heard before, are becoming common feature in almost all the big cities.

Japan and China: Rich and Not so Rich

The countries like China and Japan, have been recognized as highly progressive countries among the top ranking countries of the world. A brief comparison of their unique performance vis-à-vis Pakistan is given below to establish some of the crucial factors which created income differentials between the poor and the rich countries (see Table 7)

Table-7
Rich, Not so Rich and Poor Countries
Basic Factors Causing Income Differentials

	Rich Countries Japan	Not so Rich China	Poor Countries Pakistan
Population (Millions)	126	1,337	176
Per Capita Income (US \$)	33,500	7,400	2,500
Population Living Below Poverty Line	15.7%	2.8%	24%
Literacy Rate	99%	91.6%	49.9%
Duration of Compulsory Education	10 Yrs	9 Yrs	5 Yrs
Primary School Enrolment	Not Reported	100	56%
Primary School Duration	6 Yrs	9 Yrs	5 Yrs
Primary School Completion	102%	Compulsory	67%
School Children Out of School (Primary Level) Countries	6,844	Not Reported	6.3 million --- Ranked 1 in 149
Average Years of Schooling –Adults	9.5 Yrs	6.4 Yrs	3.9 Yrs
Public Spending On Education--% GDP	3.6%	Not Reported	1.8%

Sources: UNESCO Institute of Statistics, Education (all levels) profile- Pakistan”
UNESCO Institute of Statistics, Education (all levels) profile- China”
UNESCO Institute of Statistics, Education (all levels) profile- Japan”

Source: Pakistan Economic Survey 2011-12, Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad, pp. 138-40.

The comparative picture presented in Table-7 is self-explanatory. However, a strong linkage between education and economic wellbeing of the society is established from the data presented in the Table-10. Given all the information in various sections of the study it is now a well established fact that educational poverty is the cause and consequence of poverty. Countries denying sufficient funds to run a quality primary education of reasonable duration are deliberately keeping their people poor for their own private interests.

Conclusions and Recommendations

There is a sufficient amount of statistical evidence to support the fact that less developed countries are poor because they failed to make best use of their available human and material resources. Nigeria quite rich in oil, still has majority of its people living below income poverty line. Singapore, without having any material resources of her own, made best use of its human capital and is now counted among richest countries of the world. In fact, people make all the difference in making their economies rich or poor.

The available record of economic performance of many of the less developed countries do suggest that poor countries are poor because they mismanaged and misused their own national resources and neglected their people and denied them their rightful access to education, employment, income and hence of basic amenities of life. Recently (Former Chief Economist of the World Bank) in his keynote presentation in the "Poverty and Inequality" development dialogue series organized by the World Bank concluded with the remark that redistribution of accumulated resources like education, health services, and access to credit among the poor was the least cost approach to attaining more equality.

Pakistan, a poor country, presents a model case of exploitation by the rich and powerful ruling class of the society. Since its independence in 1947, the country has deliberately maintained a low literacy rate, poor primary school system and provided very little funds for running the entire education system in the country (about 2% of GDP). The workforce by remaining without adequate education and skills cannot aspire for higher jobs and therefore, majority of the population lives on subsistence wages.

China is an excellent example to serve as a role model for Pakistan. In fact, China very carefully invested in the welfare programs of its people. All this has been done to improve the quality of its workforce to stand highly competitive in cost and productivity. China's system of education looks exactly like a pyramid, larger share to basic education smaller share to higher education. China also directed its local governments not to pursue middle-school education while primary school education was still developing.

After World War II Japan rebuilt its economy with the help of its human resource. A highly efficient workforce was made to compete in the international market by creating his own work ethics. It was all investment in people, which brought revolution in the product market at international level. The newly adopted systems, such as JIT and vendor industry, are to promote participation of the workforce to earn better living as an independent entrepreneur.

China and Japan provide sufficient evidence to show that primary education of longer duration (9 to 10 years) is to be made compulsory so that a competent workforce is developed as a national asset. In fact, countries like Pakistan, can transform their economies

from low income to highly efficient progressive nations of the world by following the track record of China and Japan. Spending on things other than people is less productive in the long run. The national investment priorities have to be reversed. All projects and programs directly benefiting the common man must be on the top of the list. In the list of common man's economic welfare program the priority ranking must be of the following order:

First Task


Employment for the entire workforce. This is to ensure a minimum level of income for every family to make them live respectfully and to minimize the crime rate in the society. This is likely to have immediate effect on the people's morale and it will reduce income disparities.

Second Task

Very strong drive to enroll all school age children for 8 to 9 years quality primary education where students are given academic as well as technical/professional training to enable them to do highly skilled jobs.

Third Task

Developing highly competitive vendor industry to share production process with the help of skilled workforce coming out from the primary schools. The best examples is auto industry, where several components are produced by the vendors and gained competitive ability in the international markets.

All other priority programs can follow to take care the rest of the responsibilities of governing the economy. 

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Truth will make you free

“The truth which makes man free is for the most part
the truth which man prefer not to hear.”

Herbert Sebastian

DISCUSSION**Learning New Management Viewpoints: Recontextualizing Strategic Leadership in Global and Regional Context**

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Abstract:

This paper makes a theoretical critique of the current paradigm on strategic leadership and proposes an epistemology of managerial practice as unfolded in the business contexts. It is argued that there exist diachotomic views of managerial practice based on profit-logic versus responsibility-logic throughout the corporate world. The strategic leaders, instead of practicing one of these logics, should try to synthesize best of the both at the cognitive level and then apply them into the business and management environment. The rapid technological changes coupled with the profound cultural heterogeneity at the workplace have also created the determinants of humanly responsive and socially aware strategic leadership, which must respond sensibly to the hyper-transformative forces both at the regional as well as global level. Therefore, this paper suggest that strategic leaders in business, society and industry must cultivate a culture of courage, vision and will to transcend the established strategic straitjackets and usher into the new brave world of strategic opportunities and alliances.

Key words: Strategic Leadership, Epistemology, Managerial Practice, Profit Logic, Responsibility Logic.

Context of Strategic Leadership

The hyper transformative business markets of the world have created conditions, which impress upon the local as well as international business leaders, to think and lead their firms strategically. As described by Hitt et al (2003), “strategic leadership is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary”. The emerging competitive scenarios of international finance, trade, communications technologies, and business have set the stage for a new kind of strategic leadership in the arena. Because of the unfolding complexity and fluidity of the business firm’s global environments, strategic leaders must demonstrate an ability to interact across divergent behavioral and cultural recipes, and of course, in an unpredictable environment. They must demonstrate skills, personal and visionary in nature, which can influence the behaviors, thoughts and feelings of those with whom they work (Peters 2001).

Managing the human capital may be the most critical skill of strategic leadership (Collins, 2001; Finkelstien et al, 1996). In the new millennium, intellectual capital, including a dynamic knowledge resourcefulness and an ability to create and commercialize innovation, can affect a strategic leader’s success very significantly (Teece, 2000). Business contexts are also important in the effectiveness of strategic leaders performance. The competent strategic leaders also establish the context through which stakeholders can perform at peak efficiency

(Kets de Vries, 1995). The firm without leadership may be a rudderless ship, wavering amongst the changing market winds and stormy business environment. The effects are experienced both within the firm and outside. The employees within the firm may suffer crisis of confidence, resulting in lower productivity, coupled with the stake holder's fears about the security of their investments. The primary focus of the strategic leadership happens to be its ability to manage the firm's operations effectively and sustain high performance overtime (Maccoby, 2001).

The locus of strategic leadership happens to be multidimensional in its nature. The strategic leaders are primarily concerned with managing large enterprises through others. They are not interested in managing the small business units (Hitt et al, 2003) They focus on rapid business and economic changes which may affect their business enterprise and its competitiveness as well as performance in the dynamic global environments. The failure of the strategic leaders, to respond quickly to the changing global business realities can weigh heavily upon the firms' strategic competitiveness and earn above average returns (Hitt et al, 2003). The global business competition is not just a competition between company versus company, or product versus product. It is also as Hamel and Prahalad (1993) have commented a case of competing, "mindset versus mindset, managerial frame versus managerial frame". The strategic leaders must know how mindset of the firm be aligned with the mindset of the diverse global competitors, in order to retain the competitiveness and business advantage of the firm. The ability of strategic leader to interact across the cognitively complex competitive situations, demand from him the application of five interrelated competencies of, " foresight, systems thinking, visioning, motivating, and partnering"(Hammer and Stanton,1997).

Several strategic actions can be identified which characterize the structure of strategic leadership. As they have to execute the strategic intent of the firm in order to realize its strategic vision, understandings borne out of the analysis of internal and external environment of the firm constitute a prerequisite for the success of strategic leaders. Apart from this they should be capable enough of taking what Hitt et al (2003) have identified key strategic actions, which include *interalia*, "determining strategic direction, establishing balanced organizational controls, exploiting and maintaining core competencies, developing human capital, sustaining an effective organizational culture and emphasizing ethical practices". These strategic actions necessitate a higher order managerial skill from the strategic leaders. The effectiveness of the strategic leadership largely depend upon the fact that how far they can see into the futuristic market developments, how far they can make courageous yet calculable decisions in the midst of volatile global markets, and how far they can steer and maintain the sustainability of their firm in the unfolding strategic business realities (Lasserre, 2003; Hitt et al, 2003). Moreover, strategic leaders dealing with hyper transformative contexts in business, economy and technology, must demonstrate managerial skills to interact across different cultures and be able to respond to the diverse emotional and cultural needs of the stakeholders (Dreskey,2003;Schein,1985). Strategic leaders in many ways can change the organizational culture of the firm and transform it into social capital through which the competitive advantage of the firm in the marketplace can be retained. In the process strategic leaders have to formulate effective business strategies through a consultative partnership of the employees, peers, and superiors and desire to seek, what Hitt et al (2003) describe as a , "corrective feedback" about their, "difficult decisions and vision". This helps the strategic leaders to foster alliances and partnerships, both internally and externally for their firms, in order to materialize the broader features of their strategic vision (Hammer and Stanton, 1997).

The top management of the firm holds the basic responsibility of strategic leadership, particularly the CEO (Hitt et al, 2003). Other significant position holders of strategic leadership within the firm may include members of board of directors, top management team and divisional general managers (Wright et al, 1996; Hitt et al, 2003). Apart from their routine organizational responsibilities, strategic leaders have considerable decision-making powers which cannot be delegated (Finkelstein and Hambrick, 1996). As Hitt et al (2003) have commented very aptly that, “strategic leadership is an extremely complex, but critical, form of leadership. Strategies cannot be formulated and implemented to achieve above-average returns without effective strategic leaders”. In the hyper transformative global economic scenario, effective strategic leadership needs to cultivate a mastery of technological innovation coupled with cultural imagination, to decide strategically and reach across the cultures to secure the financial and business advantage of their firms in a responsible manner (Deresky, 2003).

Recontextualizing Global and Regional Managerial Practice

The managerial practice of strategic leadership appears to be divided in two types of logic. There is one school and perhaps a dominant one in the management sciences, which takes managerial practice as rational, based on the analysis of ‘forces’ effecting strategic decisions, consequently leading to the competitive advantage of the firm. The strategic leader can lead his organization to sustained profitability and growth by rationally calculable and tangible business results (Friedman, 1962; Porter, 1979; Filbeck, 1996; Larson, 2004). The managerial practice remains justified unless it can lead to tangible growth and above average profits for the firm whatever the social, environmental or human consequences may be. The hallmark of strategic leadership is shown by its ability to apply strategy as a competitive advantage and value creating instrument which should lead the firm to tangible profits and financial gains in the marketplace (Hitt et al, 2003; Wright, 1996). The logic of business enterprise is driven by a rational instrument, objectively, regardless of emotional, cultural and moral consequences of the profit making. The logic of profit maximization as a sole motive of business and economic enterprises is in itself a sufficient moral justification of ‘competitive’ operations in the market place. The notion of profit as a competitive advantage, culminating in a strategic decision, internalized by rational human actors is raised to the level of universal economic ethic. All strategic actions which terminate in measurable business profits have full ‘moral’ justification. One can see the simple law of profit logic operating underneath the myriad labyrinth of free (we may add blind and objective) rational market forces. Either your enterprise make sustainable competitive profits or you perish and languish in the marketplace. This crave for profit and competition as strategically plausible end has created an ugly mess of corporate exploitation of human as well as material resources having no regard for the human and moral costs of such actions. Several cases of corporate crime have been reported in the management literature, such as Enron Scandal, Union Carbide gas leakage at Bhopal in which thousands died and still thousands suffering, sexual and human abuses of particularly woman workforce by Nike contractors in Vietnam, sacrilegious shoes marketed in Bangladesh by Footwear International and Child labor malpractices in hand stitched footballs in Pakistan, stare at the face of ardent advocates of business as profit logic (Deresky, 2003; Hitt et al, 2003; Lassere, 2003).

The alternative to this view of business as profit logic is offered by responsibility logic. The proponents of responsibility logic argue that economic and business enterprise holds profound social responsibility towards the society and its moral concerns. The business

enterprise must satisfy the emotional, moral and social needs of the society. The strategic leadership must formulate business strategies keeping in view the social contexts in which they operate. Several researchers have shown that a business firm can still yield profit, when it takes into consideration the environmental, social and moral contexts of the business into account (Mintzberg, 1994; Curcio et al 1996; Hall et al 1998; Baldrige et al, 2004; Liljenquist et al, 2004). The relevance of responsibility logic as interpreted in moral and ethical terms has now assumed an indispensable significance in the managerial strategic leadership. The rapid global interdependence of business and technology has caused the managers to interact with diverse ethical and cultural values. As underscored by Dreskey (2003), “managers today are usually quite sensitive to issues of social responsibility and ethical behavior because of pressures from the public, from interest groups, from legal and governmental concerns, and from media coverage”. We find several instances, in corporate world, where, profitability of the enterprise have been strategically realigned with ethical and human consequences of global strategic business engagements. For example, Reebok, a global athletics sports and fitness company have made clear commitment to human rights in carrying out its business across the globe with its contractors, subcontractors, suppliers and other business partners. They have what they call a, Reebok Human Rights Production Standards. Some of its important elements include, a healthy and safe work environment, refusal to do business with firms who indulge in child labor (under 14), refusal to work with firms that use forced labor motivated by political coercion or holding different political views, and a preference to do business with those firms who observe a 48 work week (Dreskey, 2003).

The activities of firm cannot be seen in isolation from the larger social, ecological, moral and cultural implications (Allenby and Graedel, 1995). From manufacturing of a product to its marketing and eventual disposal have serious and tangible human social consequences. The MNCs’ must develop a systemic view of their business and economic pursuit in the regional and local host countries. They must take note of the moral and cultural diversities across the globe and how these are going to be affected by them. The economic profitability must be balanced against the ecological and social consequences of such actions. As commented by Dreskey (2003) that, “MNCs must take the lead in dealing with ecological interdependence by integrating environmental factors into strategic planning. Along with an investment appraisal, a project feasibility study, and operational plans, such planning should include an environmental impact assessment”. The strategic leaders must fully know that the secret of sustainable business growth lies in realizing the strategic interdependence of business, economy, society and ecology. The real challenge for managerial strategic leadership in executing their strategic business goals across a culturally and morally diverse and unpredictable global business environment, reside in cultivating a uniform and worldwide posture on social and ethical responsibilities and see as to how it is implemented. (Dreskey, 2003)

Apart from the ecological dimensions of strategic business venture; the issues of corporate corruption, kickbacks, and business malpractices have raised serious concerns about the role of strategic leadership in handling the corrupt practices in their corporations. According to Mr. Peter Eigen, Chairman of German based non-governmental organization, Transparency International which keeps an eye on the corruption culture in the world, “The scale of bribe-paying by international corporations in the developing countries of the world is massive” (cit in Dreskey, 2003). Although US and other countries have enacted laws (e.g. Foreign Corrupt Practices Act of 1977) to check the corrupt practices in business and economy, nonetheless, it remains a menace which continuously engages the attention of


global leaders. International corporations indulge in unethical practices in order to retain their competitive advantage over the rival companies in the local and regional markets. Even a company like IBM have not escaped the trap of corrupt practices in securing business with the largest commercial bank in Argentina, Banco de la Nacion (Dreskey, 2003). The international managers in order to make correct decisions in strategic business deals, with sound ethical considerations, must ponder whether a business decision or transaction is of questionable nature and therefore illegal and secondly, how the transaction could be made without indulging into scandalous business profits. They must integrate local moral structures on bribery and corruption with the international ethical code on business practices. The moral implication of the firm's business deals must be considered at the strategy formulation stage (Dreskey, 2003). The unabated desire to accumulate wealth as a social symbol of power and success have plagued a charade of politicians, bureaucrats, brokers, investors, soldiers and corporate leaders to connive and plunder the monetary, natural and human capital of societies across the world.

In the complex global business scenario, strategic leadership assumes a very significant, yet critical role. It is significant, because they formulate strategic business vision and critical, because they have to make courageous and difficult decisions to materialize it in the real world. Change and volatility is inherent in the strategic conditions. But, we must hasten to add that competitive business advantage at the cost of ethical, environmental and social abuses of human being is not justifiable under any kind of contingency or emergency. Business heuristics must corroborate into strategic paradigm the human consequences of strategic managerial decisions, synthesizing profit with ethical responsibility and accountability. We find a host of MNCs emanating from North America and Europe, which include, Reebok, Liz Claiborne, Wal-mart, Avon, Sainsbury Plc, Otto Versand, who has implemented anti-sweatshop Code of Conduct and Social Accountability 8000 to oversee that their business partners across the world strictly observe the ethical and moral aspect while fulfilling their business commitments. They take a strong note of child labor, human rights abuses, and forced labor at the work place and monitor closely the enforcement of ethical standards in the conduct of business by their global partners (Dreskey, 2003). Other developing economies of the South Asian region and Far Eastern region need to follow the suit and improve human conditions of business environment in a more elaborate way, because these regions are facing massive human rights and labor standards violations along with a high standing on the corruption index of Transparency International (cit. in, Dreskey, 2003).

The end of Cold War and ensuing 'technoglobalism' have unleashed complex cultural forces, which have created new strategic economic realities which demand from the local and global strategic leaders to shape their business and economic priorities in a flexible and creative fashion taking into full consideration the human consequences of their business agendas (Dreskey, 2003, Lassere, 2003). The one notable trend which has emerged very strongly is that of forming regional and bilateral strategic alliances in business and economy. NAFTA and ASEAN are two significant examples of strategic economic alliances. EU has also rapidly emerged as a strong strategic economic and business alliance. In the South Asian context, SAFTA is fast growing strategic economic reality, with only one setback, that is of India-Pakistan 'strategic straitjacket' fixed in a long standing political issue of Kashmir. Strategic leadership from both countries need to demonstrate sufficient courage, vision and will to transcend this 'strategic straitjacket', in order to facilitate and help unearth the economic and trade genius of one of the largest segments of human populations on the face of earth. Apart from SAFTA shaping into a powerful regional economic alliance; another

economic strategic alliance can be visualized between the trio of China, India and Pakistan. These three coming together can make a strategic difference in the global business chunk. The realization of a free trade partnership between China, India and Pakistan can radically alter the traditional economic and trade realities of not only these close neighbors but also change the future course of the strategic global business and economic developments. The strategic economic alliance of these three countries can save its populations from the negative impact of globalization as currently experienced by them through MNCs and formulate a common strategic response to meet the economic and trade challenges of this century. This could be a trilateral strategic economic and trade partnership, making a historic difference in the lives of its peoples and transforming the whole region into unparallel economic prosperity. For the realization of this goal, leadership, political and economic have to grow out of the inherited 'strategic straitjackets' borne out of pseudo-historical and cultural misconceptions conditioned by a West European colonial experience. If the strategic leadership of these three neighboring states fails to respond creatively to the new global economic realities, this great region of tremendous economic potential may precipitate into economic failure, consequently being exploited by economic forces, which may not be under their control.

Concluding Remarks

Strategic leadership is more than a managerial practice; it's a kind of visionary *dejavu* emanating from a deep sense of working towards the collective betterment of business, society and people at large. Those who show a will to transcend the narrowness of 'strategic straitjackets'; have dreams and visions can, transform risk into advantage. The secret of sustainable growth lies 'within' firms, organizations and economies and not 'outside' the system. Only visionaries can feel and unlock that region of 'within' and make it into collective betterment of the humanity at large, what to speak of a business firm. The strategic leaders in contemporary corporate world must temper their strategic vision of business seeking to acquire competitive advantage over their rivals, with a clear commitment towards moral and social responsibility, reinforced through a realization to protect the essential spiritual basis of managerial practice. If business loses touch with the spirit of vast majority of human beings, it can only lead to bitter conflicts, wars and intercultural rivalries. Rationality, moral responsibility and spirituality should go hand in hand in shaping the kind of strategic leadership, necessary to respond to the culturally and spiritually diverse workplace of the 21st century. One unthoughtful strategic action in business, economics or politics can cause havoc for the save and secure environment in which prosperity and growth make strides. 

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CASE STUDY**Lays: Halal/Haram Crisis**

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The following case revolves around Frito Lays which is a highly popular Snack-food Company in various Muslim nations. One of Frito Lays biggest brands, Lays Potato Chips, is a major competitor in the Pakistani Snack-foods market. However in 2009, Lays faced a major controversy when it was targeted with a campaign saying that an ingredient found in the manufacturing is Haram (prohibited for Muslims). This claim proved to be disastrous from Lays as it meant a loss in the consumer base as well as a dent onto the Brand's image amongst its wide base of Muslim consumers. The case further goes on to explain the background, the controversy as well as the strategy, Lays' Brand Managers formulated in order to deal with this dilemma in a fashion that was both tactful and strategic in nature.

Key lessons to be extracted from this case study for brands dealing with consumer goods are that Pakistani companies need to:

- *Chalk out a PR strategy/system to prevent the assortments of media from defaming brands and their respective products.*
- *Have a system in place where edible consumer items are validated and certified as Halal (Allowed for Muslims) as this would guarantee absolutely no 'Brand-Assassination'.*
- *Have in place an effective and efficient Public Relations Department which can strategically handle and consequently resolve controversies similar to the one that Lays faced in 2009.*

Literature Review

The literature review regarding consumer attitudes and preferences across the Muslim world indicates that with increasing religious awareness among Muslims across the world the need for Halal Certification of products has become more meaningful than even ISO or similar certifications. (Shafie & Othman, 2006). In the UAE, there is a rising concern regarding the labeling and certification of Halal Products as awareness rises (Ireland & Rajabzadeh, 2011). According to (Ireland & Rajabzadeh, 2011):

“Halal food comes from religiously acceptable food categories, is safe and not harmfully prepared. Prohibited food includes swine and all products derived from swine, blood, alcohol and intoxicants of all types. Some exotic prohibitions are carnivorous animals with fangs, birds of prey with talons, land animals without external ears (generally reptiles and amphibians), carrion, food dedicated to idols and all insects except locusts. Animals must be slaughtered by a Muslim who pronounces the name of Allah as he kills the animal using Islamic methods (Zabiha) that kill painlessly as they remove all blood from the carcass.

Humane handling must also be practiced and animal suffering minimized. Foods are also prohibited if they are contaminated or contain any of the “questionable ingredients” which include a number of pork-derived food additives including gelatin, glycerin, emulsifiers, enzymes and many flavorings. Preservatives are also questionable, as well as other products used in the production of food including processing aids, lubricants, cleaning agents, and packaging material.

For any product to be labeled as Halal it must run through a comprehensive application and testing program. Many countries have their own halal certification programs, in due course the Halal certification authorities of certain countries have become Key Sources of Halal Certification internationally. Particularly the Malaysian Halal authority (JAKIM) for central and east Asian countries, South African National Halal Authority (SANHA) in the African continent and the Islamic Food and Nutritional Council of America (IFNCA) for North-American have become internationally acclaimed as leading authorities for Halal Certification.

In general, The Halal Certification process is a step by step procedure where an organization must apply to a certification authority for the halal certification of its products. The Authority then evaluates the information and procedures used to ensure halal production of the product. They may require the organization to disclose further information the given data seems insufficient. After complete disclosure of production processes, inspections are organized to ensure complete compliance with Halal Requirements. Finally the Certification Authority permits the company to use its seal of approval on the company’s products. The Halal Certification Authority may then conduct audits of the applicant in the future to ensure ongoing compliance with Halal Procedures.(SANHA)(Halal Authority Board, 2012)

Objectives

Lays¹ is a very popular edible consumer product in many countries, including Muslim countries like Pakistan and Saudi Arabia. It owns 4 leading brands, Lays, Cravy’s, Cheetos and Kurkure, with a total of 14 different Stock Keeping Units (SKUs) in its portfolio. Lays chips may be a relatively new player in Pakistan, but since it entered the market in 2006 and until the start of 2009, it has managed to make a name for itself among the leading potato chip brands such as ‘Super Crisps’, a brand of TrippleEm (Pvt.) Ltd.; ‘Kurleez’, brand of *Snack City* Ismail Industries (Pvt.) Ltd. and ‘Slanty’, brand of K.S Sulemanji and Esmailji (Pvt.) Ltd Pakistan. Priced at a point of a mere five rupees, it seems that Lays was able to extend its market well beyond its traditional, urban 16-24 year old target segment and instead reach mass appeal.(Exhibit 1) (Brand Manager, 2012)

Having invested \$50 million in its Sundar plant, Lays began its local production in 2007 and was on a spree for high growth when it seemed like it received a hard hit from one of the medical research institutes of Pakistan. This massive blow revolved around overcoming a heavy controversy that deemed Lays to contain pig fat (an ingredient forbidden for Muslims.)(Haque, 2009)

Henceforth, Frito Lays had to resolve two highly significant dilemmas:

1. *Religious barriers:* Being a Muslim country, such a report was to receive harsh criticism for Lays with a devastating impact on its sales volume. Not only was the older age group (35 and above) concerned by such news but the younger population took it seriously as well and this perception had to be tackled and completely removed from the minds of Lays' consumers.
2. *Political barrier:* Furthermore, Pakistan being a country quite known for its political instability and riots meant that the population here is extremely violent about such grave issues and might even come out on the roads to protest. In such cases, the government might altogether ban the production and sales of 'Lays', leading to total boycott of this high sales generating product.(SK, 2009)

Furthermore, in the month of April 2009, Dr. Amjad Khan of the "Medical Research Institute, USA" claimed that Pakistani-manufactured Lays chips contained the ingredient E631 which, he claimed, was derived from pig fat. Dr Khan went on to label the brand as haram and hence unsuitable for consumption by Muslims.

The news spread like wild fire through text messages and blogs until retailers and people involved in the distribution network of Lays started sending threats for boycotts (Exhibit 2). By August 2009, the nation had staged protests, many religious scholars had been interviewed and the protests were covered by a number of TV channels across the country. Even Lahore High Court had issued a letter to the company inquiring the authenticity of the reports and famous channels like 'Al Huda', 'Aaj' and 'Express' had given it adequate coverage, further defaming the company as well as its sales.(Brand Manager, 2012) In reality, E631 is a flavoring ingredient which can be made using multiple methods including animal fat or plant material, and the E631 ingredient used in making Lays chips is derived from tapioca starch (plant material). It is also worth mentioning here that many other products in the market, including soups and chicken cubes use E631.(E631 : Sodium inosinate, 1999) Continuous tracking of Dr. Amjad Khan's claim was carried out by persistent efforts through South African National Halal Authority and the Islamic Food and Nutritional Council of America. Absence of any results suggested that the email could have been nothing but an orchestrated attack on the brand.(Haque, 2009)

The following objectives were set to meet these challenges:

1. *Clarify through communication:* Hire a PR agency with an effective communication strategy to convey to people that the pig fat controversy was wrong and inapplicable in this case.(Exhibit3&4)
2. *Retain customers:* Many people wanted to play it safe Henceforth a breakthrough strategy like a celebrity endorsement perhaps had to be effectively worked with.

Initial Strategy

Speaking about this dilemma, the Head of Marketing for PepsiCo Foods in Pakistan and Afghanistan, Muhammad Saad Khan informed that "...it was high time something was done about this since there was already a 30% decline felt in the sales of Lays, after \$12million had been spent in August 2009 to raise the capacity."(Khan, 2012) Not only that, Muhammad Saad also stated in the interview that the demand for Lays had lowered tremendously over this particular period as assortments of educational and civil institutions

were unwilling to buy their product. To top it all, even the distribution vans were forced to stop the delivery. Not only that, multiple delivery vans were stopped from operating in Karachi, Lahore, Rawalpindi and Islamabad and about 25 stores in these metropolitan cities were attacked for selling Lays. Such a negative propaganda had a spillover effect on other brands of Pepsi and it was high time something was done otherwise Pepsi might have to pull out of Pakistan entirely.

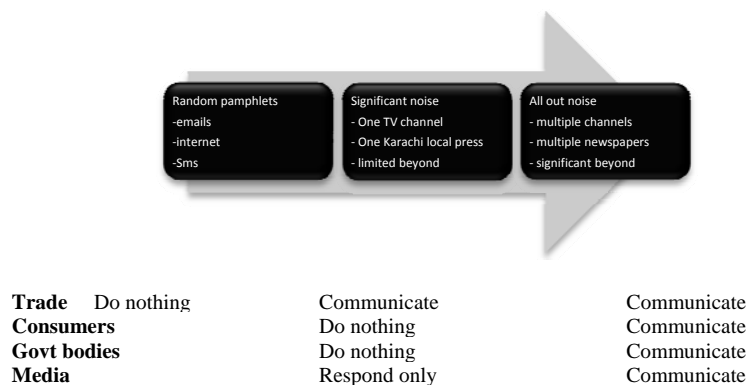
The initial strategy was to form a crisis management team (CMC- Corporate and Marketing Communications) on the PR front and to have an advertising agency such as 'Interflow Communications' to spearhead the advertising front. The role of this team was to communicate that contrary to rumors, the brand was not haram.

In around mid-May, Frito Lays made available to the press a series of endorsements it had obtained from international and local scientific and religious authorities clarifying that Lays chips were halal in nature. In conjunction with these efforts, Lays released a small-scale print right on the front page of Dawn saying 'Lays comply with the Shariah Council requirements and are therefore 100% Halal.' Such advertisements were having a backward spiral effect on the company as many people who were previously unaware of the controversy were now aware of it and got to know about this substantial issue. (Exhibit 4)

Also, none of these advertisements mentioned the very ingredient E631, which was the root cause of the problem. The print ad should definitely have mentioned this, and then the online version would have delved into the intricacies of this compound and why it isn't Haram in detail.

The TV and poster campaign that focused on these endorsements. In addition, letters were mailed to retailers and distributors refuting the allegations made in Dr Khan's email.(Exhibit5)

Also, Muhammad Saad along with his Marketing Department went further to hire a reputable law firm so that it can effectively handle the in-court cases while the Marketing Team strategized to bring the sales percentage back to its original point. In addition to this, to tackle this problem further, Lays got an endorsement from PCSIR and SANHA and got it printed onto its packet. This addressed the First Moment of Truth as the consumers immediately referred to the contents at the back. (Brand Manager, 2012)



Creative approach

Many people, ranging from the young to the old, wanted to believe that these chips they have come to relish are really Halal and hence all that they needed was the official assurance that the chips were in no way Haram. The core of the problem had to be reached. Consequently, in the year 2009, *Junaid Jamshed*- a former singer turned Born-again Muslim² was very much on the upswing and was gaining popularity with his *bayans*³ and religious sermons. People had grown up with his music and many started following his example. Just to give a glimpse of his popularity, hundreds of people would throng to have a look at him when he would be invited to mosques for his sermons.

Seeing Jamshed's fan following, Frito Lays decided to hire him to endorse their chips and hence to prove to the public that Lays was indeed an edible product and fit to be consumed by Muslims. A TVC was thus shot showing Junaid Jamshed, in his bearded attire, munching on a bag of chips. It was to show that Lays was fit to be consumed by Muslims and thus bears no ingredient which can be deemed Haram.(SK, 2009)

Furthermore, building up on the above formulated strategy, Muhammad Saad Khan opined that "It cannot be denied that Lays has gone through a lot of obstacles with regards to this controversy. However, on a positive note, our Marketing Team has rolled out a new marketing campaign where Junaid Jamshed is endorsing this brand. I am pretty confident that this campaign would bring Lays back on its track".


Effects

The brand specialist of Lays were initially a bit skeptical about hiring Junaid Jamshed in their endorsement plan but ultimately the doubts vanished as with Jamshed's approval, Lays was once again able to recover its market share and Pepsico's Frito Lay Division now has the 2nd highest Market Share in the snack-food market.(Euromonitor International, 2014)

Pepsi Lays in Pakistan would have never thought of faced by such an issue and misconception, but being a Multinational Organization it should have adapted its marketing tools specifically through *public relations* to grapple with Halal/Haram conundrum.

Pepsi really needs to do some soul searching about its PR responses. Maybe now is the time to hire a new PR agency and a PR manager who is agile in monitoring the news surrounding the brand in every media and then quickly responding to any potential PR fiasco. (Haque, 2009)

Also, there are a number of clear lessons and learnings for FMCG firms in Pakistan today. These include the fact the awareness that there is no Central body in Pakistan to ensure Halal Certifications on edibles and the government isn't well equipped to handle malicious propaganda. Quite surprisingly, Pakistan also has no proper system to prevent electronic and print media from defaming companies and business groups in Pakistan.

(Brand Manager, 2012) 

² Leaving Music in 2004 Jamshed had started sporting a beard & gave talks regarding his religious transformation.

³'Bayans' in Urdu language means *religious talks*

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Exhibits



Exhibit 1: Different Chips manufactured by Frito-Lays (Khan, 2012)

SMS

AOA Muslims. Please don't eat LAYS chips because its NOT HALAL. You'll find printed food code as E631 on back. It is sodium inositrate obtained from pig fat. Type "E631 PIG FAT" is on google for proof. Inform as many Muslims as you can

Exhibit 2: A SMS portraying the Halal Controversy revolving around Lays (Khan, 2012)



Lays is produced in the Islamic Republic of Pakistan using 100% Halal ingredients

We assure our consumers and customers that Lays Shacks Pakistan uses only 100% Halal ingredients in all its food products. Some news reports from a small section of the media suggest otherwise, and are absolutely false.

All our ingredients (including flavor enhancer E631 that is used in Lays Masala, and imported from Thailand) are compliant with strict quality manufacturing and are 100 %Halal. E631 is produced from tapioca starch which is extracted from a plant called cassava. **Pakistan Council of Scientific & Industrial Research (PCSIR), an established government body, has certified that Lays is free of all animal meat fat (i.e. it only contains vegetable fats). Jamia Ashrafia of Pakistan has also declared Lays as 100% Halal.** E631 is also certified by the raw material supplier, as well as the Central Islamic Committee of Thailand, as Halal (and the latter has also specifically endorsed the use of the legend "Halal" for such flavor).

Lays chips are produced in Pakistan from the best quality natural potatoes. As a company proud of its superior quality products and best industry practices, Lays Shacks Pakistan is a responsible corporate citizen. We strictly adhere to the local food laws which include only using certified halal ingredients in all our products.

Lays Shacks are sold in many other Muslim countries including Saudi Arabia, Egypt, UAE and Malaysia. In Pakistan, we employ over 1000 people in the fields of agriculture, production and distribution and are contributing to various social causes like education and health.

For further information, feel free to contact Mrs. Saima Arshad, Research & Development Head for Lays Shacks Pakistan at the following email: pak.customerservice@ntl.pepsico.com.

Exhibit 3: A public message regarding Lays Ingredients (Khan, 2012)

Lay's Pakistan is 100% halal

Lays is produced in Pakistan using 100% halal ingredients from the best quality natural potatoes. Lay's Shacks Pakistan is a responsible company aware of and adhering to local food laws that include only using certified halal ingredients in all products.

Lays Shacks has been covered in the agriculture of Pakistan with a long-term view of sustained growth. A team of 175 experts and more than 6,000 potato field workers are the backbone of Lay's potato farms spread over 3,400 acres in Northern Punjab and North West Frontier Province. In addition to Pakistan, Lay's Shacks is the leading potato brand in major Asian countries including Saudi Arabia, Egypt, UAE and Malaysia.

What the company says: Lays Shacks Pakistan uses only 100% halal ingredients in all its food products. The company has explained that E631 is used as a flavor enhancer and is derived from Tapioca starch extracted from a plant called Cassava. Lay's has stated that no animal meat fat has ever been used in the product. Lay's has also stated that E631 is from known sources and is an established halal ingredient.

Muslim countries. It is also used very commonly by other food manufacturers.

PCSIR offers an animal meat fat: Pakistan Council of Scientific and Industrial Research is an established government body.

SAHMA certifies Lay's halal: The Saudi Arabian Standardisation and Metrology Authority is an internationally recognized organization and an acknowledged authority on all matters pertaining to the general application of the Islamic Shariah law.

Jamia Ashrafia certifies Lay's halal: Jamia Ashrafia is a premier seat of Islamic learning in Pakistan, affiliated with the Pakistan Madaris Association, a Board of Islamic Education for over 7,000 Madaris (schools) in Pakistan. Jamia Ashrafia serves as an authentic source to confirm practices in Islam, its principles and values, keeping in the spirit of the view that if the manufacturers and the concerned authorities have verified that the ingredients included in the product have been derived from plants and an animal meat fat is used, the consumption of the Lay's product is permitted and is acceptable to Islam. Jamia Ashrafia endorses the tagging of the product as halal, clean and suitable for consumption.

Central Islamic Committee of Thailand certifies Lay's halal: The Central Islamic Committee of Thailand certifies Lay's halal.

SAHMA has conducted an inspection: SAHMA has conducted an inspection of the Lay's plant in Lahore and investigated the ingredients used. Lay's Pakistan has confirmed that the ingredients are halal compliant. The authority has confirmed that the E631 used by Lay's Pakistan is derived from Tapioca starch, a plant-based raw material which has been verified halal.

Jamia Ashrafia certifies Lay's halal: Jamia Ashrafia is a premier seat of Islamic learning in Pakistan, affiliated with the Pakistan Madaris Association, a Board of Islamic Education for over 7,000 Madaris (schools) in Pakistan. Jamia Ashrafia serves as an authentic source to confirm practices in Islam, its principles and values, keeping in the spirit of the view that if the manufacturers and the concerned authorities have verified that the ingredients included in the product have been derived from plants and an animal meat fat is used, the consumption of the Lay's product is permitted and is acceptable to Islam. Jamia Ashrafia endorses the tagging of the product as halal, clean and suitable for consumption.

Central Islamic Committee of Thailand certifies Lay's halal: The Central Islamic Committee of Thailand certifies Lay's halal.

Exhibit 4: A press release saying that "Lays Pakistan is 100% Halal". (Khan, 2012)



Entire Portfolio shown

Trade Opinions



Doctor/Religious Scholars' opinions

Pepsi Name and Visual Used Once

Exhibit 5: Other modes of advertisements (Khan, 2012)



Exhibit 6: Soft Phase in Packaging to Address the 'First Moment of Truth'
The packaging includes SANHA as well as PCSIR Endorsement. (Khan, 2012)



Exhibit 7: Central Islamic Committee of Thailand Certification (Khan, 2012)



Exhibit 8: Poster Advertisements (Khan, 2012)

BOOK REVIEW***The African Genius : An Introduction to African Cultural and Social History, Basil Davidson***

(An Atlantic Monthly Press Book, Brown and Company, 1969, pp. 367).

This book consists of essays which fall into two groups, concerned respectively with the cultural and social history of the African peoples. The two themes are neatly connected, however, in that the study of African Genius can be seen to correct many a historical misconceptions and distortions. Unlike most historical accounts, Davidson approaches the African world as the African world-view as a lived-world, the *Lebenswelt*, in the manner suggested by the contemporary philosophical approaches to history.

Part one of the book is devoted to a study of African World where Davidson critically examines the colonial vision of African humanity that arose essentially from the categories of “race” and “class” (26).^{*} The colonial vision portrayed African societies as “without history” and African life as a “perpetual vacuum of experience”. Colonial writers, such as Burton, attributed the arrested development of African to some “fatal deficiency of their nature”, such as “diminished frontal lobes”, “insufficiently reliable supragranular layer of cortex”, and “their brains being too small for civilized development”. Davidson rejects all such notions as *Just Plain Nonsense* (23-28). In contrast to such culturally biased notions of the Victorian man, Davidson offers a diachronical study of African societies based on universal assumptions of logic and morality. He contends that although “the forms have been different ... but not the principles of intelligence and apprehension, not the essential content”(27). He argues that *The Formative Origins* (28-32) of the African civilization lie in the peculiar mood and temper of the African people and their optimism which comes from the living on a frontier, on the edge of ‘somewhere else’, on the verge of ‘something different’, “where anything may be possible as long as human courage and endeavor are prepared to make it so” (30-31).

He reinforces his arguments by setting his observations against *The Physical Problems* (32-36), i.e., the ecological problems of African environment where the physical confronts the spiritual in an idiom perfectly at one with the African World-view.

Unlike the historians and philosophers who have celebrated the Greeks for overcoming the utter lack of precede “Davidson attributes the epithet to the originality of the African mind and spirit (37). Isolated by the desiccation of the Sahara around 2000 B.C., the African Genius is reflected in the creative legends of the Dinka, the Akran, the Mosi and the cattle folks in Uganda and Zululand, for and Dogon, all of whom celebrated the cosmological symbolism of dialectical principle of *Unity and Variation* (36-41). A striking parallel exists in the early Greek philosophy. The principle of Unity and Variation, as conceived by the Africans, deals with the “conception of the universe that is based, on the one hand, on a principle of variation of matter and, on the other, on a general movement of the universe as a whole”. Thales, Anaximander, Anaximenes, Pythagoras, Heraclitus, Empedocles and Anaxagoras, one would recall, were the Greek philosophers to have dealt with the problem of substance and change. The Africans believed principles that the opposite principle support each other in an equilibrium which the individual conserves in his being.

Davidson takes issues with Dean Farrar who described the features of the Africans as “invariable and expressionless”, marked by the “dead and blank uniformity” of their mind. The Africans, said Farrar, have never “originated a single discovery”; they have never “promulgated a single thought”, “established a single institution” or “hit upon a single invention”. Sir Charles Eloit described the mind of the East Africans as *tabula rasa*. Hence the colonial paternalism, raised to the position of dominion. In the affiliation and continuity of the African, demonstrating the *tabula piena* of their ancestral knowledge, with an accent on the social and political wisdom of the past.

Davidson argues that the Africans conceived their social needs in religious terms and envisioned their religious needs lying at the heart of social evolution. Thus the social fabric of the African experience derives its dynamics from *Balance with Nature* (54-67) the *elan vital* which runs through the ancestrally chartered system offers spiritual legitimation, sanctioned law and order, psychological security and personal identification. A man outside his clan, according to the Kongo, is “a grasshopper which has lost its wings”, reflecting, politically, the tension and relief, anxiety and security of the tribal situation. Thus, economically and in its jural and moral assumptions, “extended family” constitutes the antithesis of the “free enterprise individualism”. According to the Tallensi of northern Ghana, the individual has the rights by virtue of the obligations he fulfills to the community. Therein lies the ideal pattern of social and political growth. The pattern demands that no matter how empirical in nature, innovations lose their socio-political significance if or when they cannot be absorbed and drawn into the ancestral system. In the Dinka material culture, nothing which outlasts a single life-time is of any importance. In contrast to the modern acquisitive predilection, the Pondo and the Dinka detested the pushing egotism and the desire for personal wealth and power for it imperils the precarious balance with nature. In addition to the ecological factors, such as the logic behind the practice of “shifting cultivation” or, as it is contemptuously called, “slash and burn”. Enough is enough, according to Bemba ethos. “To find one beehive is good luck, to find two is very good luck, to find three is witchcraft”. Such egalitarian conceptions and norms constituted the fabric of the *Moral Order* (67-80) of the materially simple and technologically backward African societies which were marked culturally by a highly developed awareness of the limits of the Possible.

The principle of limitation by alternatives permeates the African consciousness and generates an inner tension which finds its creative expression in a controlled freedom visible in African dancing and experiments in sculptural form.

Placed within the hierarchical structure of the African traditional political culture, these polarities reflect the tension between lineage loyalty and the welfare of the community. The roots of the history of Chiefs (as among the Amba and the Nuer) lie in that. Implicitly, it touches upon the power structure of the traditionally stratified polity, subsumed under the domain of moral order. The Lozi of Western Zambia, like the Tallensi, conceptualized power in terms of the structural equilibrium, in which the rights and duties are harmoniously sustained. When the equilibrium, demanded by the Spirit of the Earth, is disturbed, ancestors turn away and chaos reigns the earth. Thus the Earth-priests, the Zande cult of ancestors and the sub-cultural behaviour patterns of the Konkomba, based on the ancestral wisdom, celebrate the harmony between the knowledge of facts and attitudes, between behavioural and affective goals. Davidson distinguishes between *Societies with Government* and *Societies without Government* (80-91) and contrasts the aristocratic societies of the Wolof of Senegal and the Yoruba of Nigeria with the egalitarian systems of the Tallensi and Konkomba.

In the *Age-set Training* (80-106), the author offers instructive educational examples of the manner in which power was assumed and realized at the successive development stages through cultivation of socio-culturally approved patterns of behavior based on moral assumptions. The salient characteristic of such training, hierarchical and quasi-political in nature, is reflected in the degree of socio-cultural stratifications well developed among the Daudi Lmbadu of the Tirki, Kipsigi and Nandi of Kenya, the Bantu of South Africa and the Karimojong of Uganda. As part of political education, it supports the idea that in the African context, political 'ideologies' have developed out of socio-cultural situations and that politics in Africa has always been intimate and immediate, rather than remote and faceless. Emphasizing participation and resisting alienation of the individual through socio-cultural mechanisms rooted in the communal life and experience. Thus African political behavior finds its vitality in the culturally oriented perception of the lived-world. It also shows that, corresponding to the thematic variation of African societies, the patterns of self-rule were not limited to numerically small groups. In the clamorous and personal democracy of the Ibo in Nigeria, the dispersal of authority was achieved through an individuals right to speak and the unanimity of decision.

In the African world-view, religion was a social fact and, from the cultural point of view, it was a *Science of Social Control* (109-120) Horton rightly observes that in the African apprehension of reality religious concern aims at discovering and influencing the phenomena of everyday world "by discovering constant principles that underlie the apparent chaos and flux of sensory experience", a theme that engaged the attention of early Greek philosophical reflections. Although rooted in the ancestral custodianship of axiomatic moral values, based on its mandatory and explanatory nature, as for the Karanga, African thought is based on the model making process, concerned with prediction based on observation. It is evident from the Kalabari model of reality, consisting of a triangle of forces, representing the spirits of "founding fathers," the spirits of "lineage segments" and the "free-lance spirits" of the water-people, embodying the individualistic and competitive aspirations. The social control mechanism is as well inherent in the "tabos" and "totems" which either threaten or strengthen the structure of social reality. By excluding or promoting certain events, totems and tabos reflect the desire and conviction to reconstruct the social reality.

It is equally true about those rites and rituals which were connected with the endowment of authority and power.

Whenever the emperor of Oyo died in old Yorubaland, appointed officials are said to have cut off his head, cleaned his skull, and taken out his heart. During installation rites, the next emperor was "given a dish containing the heart of his predecessor which he had to eat". A little later he was called on to swallow a potion of corn gruel from his predecessor's skull. These dramatic rites were occasioned by the need 'to open his ears to distinguish truth from falsehood', to give his words compelling powers and to assign to him alone the authority to execute criminals and his enemies at home, and to make war on his enemies abroad. The point lay not in the gruesomeness, but in the mobilizing of chartered power behind the granting of a solemn office, thus guaranteeing legitimacy and imposing accountability on its power exercise. (119)

Same observation applies to beliefs about *Witchcraft and Sorcery*, (121-130). Metaphysically grounded and morally interpreted, such beliefs were central to the African social control mechanisms. African culture makes due allowance for Evil but only with reference to man's frailty and failure. African religions have generally supposed only one force capable of acting, depending on the circumstance, either for man's good or his woe. In the African comprehension of reality, the limits of the imagined never exceed the limits of the real. Therefore, for purposes of discussion, the imagined activity may be called witchcraft and the real sorcery. The "witch within the ancestrally sanctioned charter, stands for the subversive norms, the impulse to disorder: in short, for the anti-moral which presupposes the moral". (129) In Zande morality, "it is witchcraft" means "it is bad. The Nupe, in Nigeria, identifies the witch with the person who has set aside social values and denies what the society thinks and desires as good.

The Lugbara in north-western Uganda, judges between Good and Evil in terms of his affinity or distance from family cluster and lineage groupings. "The farther away people live, the worse they become. Near strangers may be witches and sorceres ; far away strangers are altogether horrible". Thus, those who live outside the Lugbara moral universe are "upside down" (130-137) people. The evil man, stranger or Lugbara himself, is a witch.

Beliefs about witchcraft are both explanatory and mandatory. The Hehe of central Tanzania believes that no man should depart too greatly from traditional tribal life and that "no man must be too much in advance of his neighbours, or there is danger that a jealous warlock will kill him by witchcraft". (135) The Chewa of Malawi conceive of those who oppose the conservation of ideal social and moral order as possessed by evil. "Nothing, in their philosophy, is without an ultimate cause beyond its immediate cause. (137) Davidson argues that *Explanation and Prediction* (137-142) are as much present in African culture as in those which have institutionalized science. Temperamentally, the African mind disbelieves in coincidental and explains the accidental with reference to the "inner workings of life". Interruptions in the ideal flow of life are due to breakdown of moral order which has human and therefore controllable explanation. Thus , through particular conjunctions of cause and effect, the system protects itself against predictive failure. It is not therefore surprising that the Tallensi, the Chewa and the Lele do not believe in "natural death". They cannot accept or absorb death into their system without a causal explanation. "The Chewa man who neglected his wife died *because he had offended the social norm.*"

Conflict seeks its own resolution. If resentment is internalized and words are kept in the chest, it opens the gates to the entry of Evil. Therefore, *The Danger Within*. (143-146) is far more real than the external danger. The Amba does not fear the witches of other villages, he fears the witches of his own village. According to the Lugbara, malevolent magic comes only from within and the Azande expresses the force of Evil in the idiom of witchcraft. Hence the concealed psychological relationship between witchcraft and the socio-moral order.

It means that the beliefs in witchcraft were, after all, *Useful Magic* (146-150) and that rested on the supremacy of man and his power to control and influence his own fate and destiny. The Africans respected their spirits but saved their deepest admiration for man. *Onipa ne asem*, it is mankind that matters, says the Akan. The African cultures made spirits the servants of living man.

Social behavior in Africa has always been empirically diversified and ideologically marked by thematic variations. In such a situation it is not always easy to disentangle objective reality from subjective perception. Structures of social sciences are hard to purify of all ideological connotations. The situation becomes all the more complex when societies and cultures derive their vitality and resilience from imperative morality, enthusiasm and solidarity with the ancestral spirit. Psychology requires resolution of socio-cultural tensions within the ancestrally approved chartered and a reconstruction of generalized sense of their “capacity to externalize, publicly accept, and treat anxiety by open rituals carrying sufficient power of therapeutic relief”. Therein lays the *Africans Answer to Anxiety*. (150-160)

Arts, devoid of existential meaning degenerate and die out. Thus, in the African perspective, dances and religious rituals, witchcraft and magic, carvings and masks have no meaning or relevance outside the context of life. In the African Cultures, social content and moral connotation is never without existential perspective. In the African cultures, art has always been an expression of and a statement about Africans and their identity. Hence the African notion of *Art for Life's Sake*. (160-167)

In their rain festivals, dance and music, the Dinka people do not intend to “magic rain out of sky”. Rather they affirm their relationship with the “right and the natural”. The social content and moral connotation is never missing in the African's conception of Art.

The African cosmology, ontology and the African concept of Being is marked by extreme subtlety, internal coherence and secret wisdom. Davidson gives a philosophical account of *The Dynamics of Reality* (168-190), conveying the meanings behind its symbols. The cosmogony of the Dogon, which is neither simple nor linear, shows an interpenetration of material and immaterial, of form and content, the immediate and the enduring, all held together dialectically in the fusion of conservation and change.

The Bambara celebrates the symbolism of a “concert of opposites” which lies at the heart of life and growth. The dialectical relationship between Pemba (i. e. the being of things) and Faro (i. e. the shaper and reorganizer of the world) implies both conservation and change, Being and Becoming.

Bambara welfare demands respect for each: for the ‘given order’ guarded by the ancestors, but also the power of change, dynamic impulse of Pemba-Faro, which advances the affairs of men.
(173)

The cosmogony of the Diola of Southern Senegal rests on three primary concepts: (1) participation, i. e., the principle of Being which represents a totality where ‘everything belong’, (2) the principle of interaction, i. e. Becoming and (3) a philosophical optimism “resulting from a dialectical relationship between Being and Becoming.”

The dynamic nature of such a world-view does not permit the use of static categories. It offers a synthetic view of Being-in-Becoming which owes its dynamism to the underlying life-force which, like time, moves on, projecting the past into the future. Things acquire their being in and through becoming; matter takes form in motion.

Accepted as a fact- of life, integrated into one's conception of reality, the idea is bound to have vast social and cultural implications. However, the African approach to reality is not a purely theoretical activity; it is connected to practical use and community relations, embracing total human activity, providing ideological support to socio-moral charters of a

specific form and content. “Thus, in the Congolese conception of social reality, the individual was not only integrated within his community; but he was also systematically opposed to it in the manner of a ‘concert of opposites’ which made the stuff of daily life.”(176)

Such a view necessitates full recognition of the “accidental” and the “failure” have Davidson argues that the African Systems fared well in their persistence and resilience to meet the challenge posed by the “Winds of Change”. He cites the Yoruba system as an illustrative example.... Philosophy , theology , politics, social theory, land law, medicine , psychology concatenated in (Yoruba) system so tight that to abstract one item from the whole is to paralyse the structure of the whole. (178)

However, the ideal internal consistencies of African societies were subjected to severe strains by the pressure of population growth. Under the force of circumstance, “kinship continuum” suffered serious disequilibrium. The direct simplicities of everyday life were severely injured. The situation called for effective leadership that could ensure socio-economic adjustments to new alternatives. *Transition from Elders to Kings* (183-189) became inevitable. Institutions of personalized government began to emerge in tropical Africa around the middle of the first millennium A.D. In Kanem-Bornu, the Sayfawa Dynasty , the central kingdom of the Mossi, the great Keita rulers in Mali and the Mwana-mutapa in central Africa constitute illustrious example of the modifications that occurred in the Kingship authority pattern of their peoples. Islam brought a strong shaping influence and the Arab conquest of North Africa trading opportunities. in the 17th and 18th centuries opened new vistas of trading opportunities. Kingship of Ghana emerged and on the east coast, political structures of the Central African Shona appeared. The city-states of the Swahili and of Niger Delta served as trade links with the Eastern and Western Worlds. These factors visibly altered *The Nature of Kingship* (190-211) The Kings, although no longer considered ‘Divine’, were still the repositories of the ancestral charters. For the Jukun, the office of the King was no longer identical with the person of the king (202) The Mossi made a distinction between the king’s ‘body natural’ and ‘body politic’. They buried the King’s ‘body natural’ but preserved his ‘body politic’. The founding traditions of the Zanj, like the Jukun of Nigeria, reflects the revolutionary character of chapter 16 of Magna Carta. It is enshrined as their constitutional right to rebel against the King and to overthrow him, if he ruled cruelly.

Long distance Trade and Islam (211-224) accelerated the process of change. Egypt the center of this world-wide trade system was, by way to the coasts of Kufra , linked with the Western Sudan and Lake of Chad region. On the East coast, the first Muslim trading settlement is dated about 800 and in the civilization of Swahili we come across the African variant of Muslim culture. It was gold trade which mattered most. Ghana, Kanem-Bornu, Mali and Songhay channelized trade to the north and on the north-western frontier. Muslim civilization spread in southern and central Spain and southern Morocco held a key position. Caravans passed from Sijilmasa through Kairouan, Tripoli, Tlemsen and Fez to Egypt and the political activities in these cities decided the rise and fall of empires and dynasties in the Magrib. The king of the Niger city Gao and the Kings of Kanem-Bornu embraced Islam. The Burber influence opened the road to Islam in Senegal. Nothing was considered more prestigious than a pilgrimage to Mecca.

The pilgrims returned with more than prestige. They brought new ideas and fashions from the East. Schools of learning were established. Scholars traveled back and forth. Royal courts acquired clerks and chanceries. The fame of Sudanese Kings spread out across the Muslim land. (218) But pagan beliefs were still mixed with Islamic faith. In Kanem-Bornu,

Even the innovating emperor Musa, who is said to have meditated ending his days in Mecca , applied Muslim policies and customs with tentative hand, performed the rites and ceremonies of Mandinka religion... He was regularly required to preside over traditional courts and settle witchcraft cases. (219)

However, as Islam exercised a deepening influence, equivocations developed, enlarging the conflict between Islam and traditional religions . And the same emperor Musa, with all his caution and care for compromise ... extended the application of Islamic law, placed a Qadi at the side of every provincial governor and the central machinery of the state became even more emphatically Muslim. (219)

Long distance trade also introduced new socio-economic pressures and the unities of 'tribal life' were weakened to the breaking point. Growing interest in accumulation resulted in exploitation of those who lived within 'subsistence economy', raiding for slaves were rampant. Rulers, notably King IdrisAloma in Bornu and the rulers of Songhay empire, developed churning passion for wealth consuming splendour. In 1450, Abdullahi Burja , the Hausa King of Kano, had twenty one settlements of country folks working for him. His successor, Rumfa, 1465-99, for whom al-Maghili, then teaching in Kano, wrote the *Risalat al Muluk*, The Obligations of Princes, proved even more ambitious.

Stratifications became more and more stronger, diminishing social equality and social justice and when Uthmandan Fodio called for holy war upon the Hausa Kings in 1840, he was able to strike a social as well as religious note, damning the kings as profligates 'whose purpose is to obtain delights and acquire rank' at the cost of ordinary people.(234) New constitutional reforms become imperative and in the Hausa state of Zaria, administrative notifications in power structures were achieved by counterposing merit to right of birth, resulting in the administrative division of capital city between the Madawaki and the Galadima to ensure efficient administration . The king was elected by the elector's council consisting of mallams who were debarred from political office. The Madawaki and the three Rukuni, Galadima, Wombai and Dallabu . if all these agreed on the course to be pursued , the King could not resist their advice and in fact the power of the state would be against him if he did. (224)

Long-distance trade produced specialists and thus the division of labour determining the structure of *Power, Rank and Privilege* (224-234). It is best seen in the Swahili city-states which by the 13th century were strongly Muslim in their tone and temper. The balance of power of Chiefs and Kings shifted towards trade and revenue. Increasing density of population demanded more land necessitating radical adjustments in traditional farming which were bound to affect the ecological balance. Slave trades flourished. Offensive and defensive wars got interlocked, since buying of guns and selling of captives got interlinked. Such pressures added weight to the already deepening crisis of structure, demanding new strengths and new forms of organization. Hard structural changes were required. At this stage *The Crisis Deepens* . (235-243) In the Sudan , attempts at recovering the sociopolitical unities of the past were made by outstanding leaders, working mainly in the central Muslim tradition,

such as the western Fulani leader, al-Hajj Umar bin Said, the Eastern Fulani leader Uthmandan Fodio and his far more political son, the Amir-al Muminin Muhammad Bello; the Mahdi of the Eastern Sudan, Muhammad Ahmad ibn Abdullahi, whose conceptions went as far as unity for the whole Sudan; the Almamy Samori Turay in the region of the Niger Senegal and lesser figures such as Ma Ba and Mamadu Lamine. (241)

“Much of Africa was now involved in a process of socio-economic change and although the ancestral charters were very still as vital as before, the new problems could not be contained in the old frameworks; the old systems were powerless to meet the brusque and rending challenge of industrial production”. (243)

Yet the Africans continued to grow and to adjust; even in the cultural suffocation of the ‘settler colonies’. However, as it is illustrated by the wars of 1960 against Portuguese rule in Guinea Bissau, Angola and Mozambique , and during the Congo revolts of 1964 the resistance offered by the Africans to the colonial pressure provides cognitive maps that determined various levels of reaction in different directions of thought and action.

A radical shift (not change) in their ideological perspective has already occurred. During these wars, no village African believed that he could turn away the Portuguese bombs or liquify the bullets to water by his spells. The old magic was gone. “Now they had learned that it is better to take good cover and shoot back straight” , comes a statement *From a Guerrilla Diary*. (247-250)

In *The Great Transition* (250-256), Davidson discusses the African’s perception of their situation in relation to ancestral charters and modern ideologies, at different levels of consciousness and different forms in different regions.

By 1950, African resistance to colonial occupation acquired a nationalistic tone and accent, as in Belgian Congo. To honor their ancestors, the nationalists in Rhodesia named their land Zimbabwe and called their war ChiMurnga, as they had done in their resistance of 1896-7.

Political self-affirmation was reflected in the formation of political parties, and the concept of nationhood. To discourage the African trends toward self-affirmation and nationhood, the colonial powers reduced many hundreds of pre-colonial states to some four dozen colonies and then to four-dozen nations. Yet the process could not be halted. (256-264)

The Kings joined in the procession of revolutionaries and gods; they too resisted and became historical. “He who makes the powder”, observed a king of Dohomey, “wins the war”. Structural changes in form and content, were reflected in the innovations of Asante ruler and his equally progressive predecessor, OseiKwadow. OseiBonsu imported Muslim functionaries from the north and completely demolished the policy of hereditary membership to the council of ‘Kings’ men’ by appointing people to the offices. In Sudan, after 1840s, al-Hajj bin Said tried to contain the colonial influence through accommodation “The whites are only traders. Let them bring merchandise in their ships, let them pay me with a good stipend and I will live in peace with them.” But the French, occupied with the thoughts of conquest, scoffed at such a policy.

Umar's son, Ahmadu, continued with his father's policy. But he also could not contain the imperialist appetite for Colonialism. It is best reflected in his acute psychological observation. "I like the French," he remarked, "but do not trust them while they trust us but do not like us." In 1890, the Voulet and Chanoine campaigns in Sudan unmasked the "cruel, violent, undisciplined and degraded nature of Colonial rule". (261)

A new awakening to reality was reflected in the writings of al-hajj Umar of KeteKrachi ; a poet and pedagogue. In 1893, in the *Twilight of the old Gods*, (264-275) the Ndebele (or 'Mat abele') was invaded by troops of British South African Company and in three years virtually the whole area passed into the hands of Rhodes agents. In Mashonaland, the Rhodes agents, who had come seeking gold, turned into farmers demanding more land and labor. Soon the Shona people were reduced to "cowardly and miserable niggers" in their own land. If the chiefs refused to pay the hut tax, "the police boys . . . burnt down all the Kraals they came across until the whole atmosphere was dense with smoke of burning rapoko and other corn and grass, while the white passed the time in a pig-sticking match on foot and horse-back." (266)

In 1896 the Ndebele rose and the Shona joined in the revolt. The awakening to reality proved harsh. In 1904 the Herero took to arms and the guerrilla leader Jacob Morenga emerged. In 1905-7 the MajiMaji war occurred in Tanganyika. In 1913 the Kenya Luo gave birth to the cult of Mumbo and its followers revived the slogan, coined by the non-conformists in Nyasaland in 1890s, AFRICA FOR THE AFRICANS. Their leader, OnyangoDunde , denounced the Christian religion as "rotten".(272)

The years passed by and Christian notions and beliefs partly displaced traditional religion and became blended into political framework. The framework acquired a more consciously modern context in language as well as deployment of ideas. The separatist Christian Churches and Christian God became African and with an intensely activist and native mood and temper, the "new churches . . . became, in territory after territory, the foster-parents of the politics of later years". (274-75) However, the political implications of African Christianity could not avoid a rash conflict with the colonial set-up. This constituted the burden of the *New Redeemers*. (275-288)

In 1921, Pastor Enoch Mgijima's Children of Israel built a settlement in the Ciskei area a forbidden land to them in the apartheid Africa and General Smuts cleaned the area, sending the survivors into prisons and Native Reserves. Readjustments in political thought occurred in the form of an African Christianity. "Ethiopian Movement", symbolized the separatist African Christian reaction, clearly political in content, independent of European Pastors and culture, making a passage from prophets to leaders.

Kenan Kawana of Malawi founded the Watchmen's Society. "People must not be afraid to break government's laws, "he taught, "nobody should remove his hat to the provincial commissioner or the District Commissioner. These gentlemen . . . are pretenders". (282)

Christian-pagan symbiosis gave rise to ideological synthesis. In a picture and at the request of Simon Kimbangu, a Congolese, Christ was shown as handing over the keys of power to an African political leader. Marcus Garvey, a Jamaican, founded the Universal Negro Improvement Association, established the African Orthodox Church, published the *Negro World* and proclaimed himself the Provisional President of Africa. Kenya's rebels such as Harvey Thuku, drew their inspiration from prevalent ideas and the European-educated few

to conceptualize African's problems in non-colonial and then in anti-colonial terms. Out of their teachings, a new resistance emerged, now firmly set in *The Modern Context*. (259-293) The educated minority, European by adoption, found itself antithetically opposed to the cultures from which it sprang. New respect for native cultures, and stronger echoes of an intellectual revolt against European paternalism were resonant all over the continent. The national Congress of British West Africa was founded in 1920.

But politics still revolved around the intellectuals who, curiously enough, were far removed from the village masses, the workers and the traders. The conservative lawyer politicians were still linked to traditional ruling groups. But, after 1945, Sekou Toure, with his *Rassemblement Democratique*, Kwame Nkrumah in Ghana (with his Convention People's Party) and Nnamdi Azikiwe in Nigeria, with their mass political organizations, left the lawyer far behind to lead where the "cautious respectable" did not dare to tread. Their success was linked with the mass movements simmering in the back ground of colonial life. Conversely, the mass movements found their way ahead because they had acquired leaders with an adequate nationalist theory and strategy. At this stage, *The Masses React* (293-311). The First World War altered the global realities and gave the political consciousness of 1920s and 30s a more practical turn. A proto-nationalism emerged. Harry Thuku rejected European moral teachings and in 1921 founded a dissident political organization the Young Ikuyu Association.

After the Second World War and its grueling enlightenment, Kenya nationalism reached the mass political dimension, urging the masses to fight their way to clarity through familiar categories of thought. Men like Edward Blyden (well known for his concepts of 'African Personality' and 'negritude') George Padmore and Clements Kadalie helped shape the African consciousness in their own ways. External influences, such as the Indian National Congress, landed moral support to the political aspirations of the African National Congress. Anti-racist and anti-colonialist movements all over the world, revolutionary socialism, legalization of trade-unionism, brought into sharp focus the impending issues of African independence. Nothing, however, aroused the masses more than the factors internal to the colonial process "the sickness of the beast itself". These factors transformed the colonial condition into a major social upheaval and economic disaster, revealing the fatal contradictions inherent in colonialism. But by this time colonialism had eaten deeply into the fabric of ancestral charters disrupting the traditional structures. "Even where this presence reinforced the power of rulers, as in the emirates of Northern Nigeria, it did so at the cost of weakening those checks and balances by which the old Systems had controlled the abuse of power, and so in turn prepared the way for change. (298) The process acquired a dynamic of its own. It was a time of great cultural stress, ideological confusion and profound anxieties.

The growth of primary and secondary education contributed to the process of 'great transition'. Curiously, however, it abruptly turned away from the teachings of the past, creating alienated and dispossessed young people. In the flux of rural emigration, traditional beliefs and patterns of social interdependence were undermined by frantic individualism and the urban values of 'free enterprise'. Old respectabilities and servitudes were thrown away and the gravitas of family life were assaulted by the rootless folks and emancipated women. The city life of Congo Africans could no longer keep a pace with the socio-cultural mechanism. To the afflicted ones, the option was plain and simple: To act for good meant to oppose the agents for evil. In political terms, it meant to act against authority.

By 1950s, the educated few had mastered the complexities of Westminster and Palais Bourbon and grasped the ideological alternatives more firmly. It was time, they argued, to move from the politics of reforms to the politics of revolution, i.e. the politics of self-rule, the right of the Africans to determine their own destinies. However, the political and social models of these elites were based on the ideology of nation-state, far removed from rural Africa. With the passage of time, these intellectuals, the Wabenzis, lost their bearings and became shallow and rootless symbols of decolonization. Unwittingly, the reformist elites got sucked into the colonial policy, whether English or French, of building an 'indigenous middle-class', the inheritors of political power. Ironically, the reformers found it sensible to turn their backs on historical Africa, as though this was a world which had passed away, or, if still surviving, one that need no longer much concern them. (309)

Three years after Lumumba's murder, in 1964, Mulele's revolt occurred. In his reliance on Traditional as well as modern ideas, Mulele cut away from the Belgian as well American models. He rejected the 'middle class' reformism and worked out a synthesis of the old and new ideologies, blending the moral and military maxims of Mao Tse-tung into the power that flows from traditional developments. In three years' time, his followers cleared half their countryside of Portuguese army and administration. In Guinea-Bissau, Angola and Mozambique, except for those educated in Lisbon, the masses had already launched their armed revolt. Now the reformist and political elites had to learn what divided or might unify the many ethnic groups in each of these territories. They had to understand at what points the old systems still held firm, and where these systems had degenerated into mere agencies of colonial rule. (312)

Davidson concludes his book by asking a few practical questions in the AFRICAN DESTINIES (313-317) These questions revolve around:


WHAT KIND OF AFRICA MAY NOW EMERGE: WHAT MODERN VARIANT OF AN OLD CIVILIZATION.

The upheavals of 1960s were not accidental; they reflected a crisis of institutions on a continental scale. Initiated by colonialism, the crisis was deepened by the dismantlement of the colonial period itself, leaving behind nothing but catastrophic cultural and institutional dislocations.

Contrary to the "cheerful school" of colonial historians who have deluded themselves into believing that colonialism ushered a new and constructive era and conducted African into the modern world, Davidson believes that "all that emerged from colonial periods, in a structural sense, was an institutional void concealed for a while behind a political safety curtain painted with parliamentary symbols of European provenance, a mere façade of order on lines drawn by alien cultures". (314)

Looked at from another standpoint, Africa faces a crisis of growth. By the year 2000 the total population of Africa will have redoubled. This means that productivity in food supply will call for major changes in socio-economic structures and thus in rural attitudes. Unless the rural millions are enthused and energized and thus integrated into structures of politico-economic participation, creative powers of the African people will still remain latent and dormant.

What is needed is a bold vision that will reorient and reconstruct the national awareness of the African people. Borrowed and inherited from Europe, the concept of nation-

states had been in trouble since 1960. “The one great attempt at federation in Nigeria had gone far towards ruin through the rivalry of its constituent elites. Manifestly, federation still held the key: just as clearly it would have to be federation on a structural basis far more popular than elitist rule could apparently provide”. (316) 

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“Only that truly exist which can say ‘I am’. It is the degree of the intuition I am that determines the place of a thing in the scale of being.”

Iqbal



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The Road Not Taken

Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as far as I could
To where it bent in the undergrowth;

Then took the other, as just as fair,
And having perhaps the better claim,
Because it was grassy and wanted wear;
Though as for that, the passing there
Had worn them really about the same,

And both that morning equally lay
In leaves no step had trodden black.
Oh, I kept the first for another day!
Yet knowing how way leads on to way,
I doubted if I should ever come back.

I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I –
I took the one less travelled by,
And that has made all the difference.

- Robert Frost