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# Business Review

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### DIRECTOR'S NOTE

On behalf of the IBA community, I welcome you to the first issue of our Research Journal - The Business Review. As a multidisciplinary Journal, it cuts across various related disciplines being pursued at the Institute of Business Administration. It seeks to cover a wide range of issues in the areas of business, humanities, social and management sciences, administration and governance.

We at the IBA are inspired by Sigmund Freud's determination "to see things clearly. If we cannot see things clearly, we will at least see what the obscurities are." This is wonderful time for teaching and research in all related areas of business. The economy is growing. Increasingly all parts of the world are accessible gradually. Pakistan's economy is growing and is getting integrated into a global economic and intellectual system. These changes and trends have implications for everyone in our country. We feel we have a role to encourage efforts continuously to make business education more relevant and more effective. We have a responsibility also to encourage research and addition of knowledge about Pakistani business, industry and government working in all its various forms and to encourage application of the knowledge to our work.

We are committed to the highest values of truth, science and humanity and I hope this Journal will reflect and will be guided by these ideals.



**Danishmand**  
Director

## Editorial Perspective

A distinguished landmark in the history of Pakistan's academic culture, the Institute of Business Administration, IBA, is more than an institution. It is a place for learning, teaching and research. Devoted to the pursuit of excellence, it symbolizes the perennial quest for ideas and ideals. The IBA is a diverse community of enquiring minds, seeking their relevance by creating knowledge through teaching and research.

At the IBA we are committed to the notion that teaching without research is a barren activity; devoid of creative joy and excitement. We also believe that research without transfer of knowledge is a concept without percept, formless and slight, blind and empty. BUSINESS REVIEW is an expression of such a well founded pedagogical experience, rooted in the research culture of the Institute of Business Administration.

Today, the unprecedented speed with which knowledge flows demands that to remain current and effective in our chosen field of vocation, we must creatively transcend the traditional academic boundaries and departmental isolation. Today, more than ever before, what was only a concept until yesterday is becoming a fast emerging reality. In the corporate world, "the knowledge society," as Drucker has pointed out, "will inevitably become far more competitive than any society we have yet known--- for the simple reason that with knowledge being universally accessible there are no excuses for non-performance."

Looking ahead into the future, the most important issue clearly recognized by those who are confronted with the challenges of the present day academic anxieties is to enlarge our exclusively defined departmental concerns and to broaden our orientation to make room for inter-disciplinary and inter-departmental research oriented teaching methodologies.

The incorporation of relevant ideas from related disciplines into our field of interest will contribute to finding answers to the issues pertaining to our own field of investigation. It will add new perspectives to our specialized competence.

Once the thought has found roots in our academic climate, it is believed that interdisciplinary research will broaden the spheres of our specialization. This hopeful thought is the assumption underlying the *élan* and the creative vivacity of all genuine research and teaching methodologies. It is characterized by the movement of an inquisitive mind into deeper learning experience. Our inter-departmental and inter-disciplinary approach will make us see familiar things not only as they are and appear to be but also differently, as they are not but can be and therefore ought to be.

An institution of higher education is a community of the seekers of knowledge vying with each other and, in their own distinctively special ways, pursuing the ideal of excellence. The defining feature of such an educational institution is its research culture. Therefore, it's pedagogical and research orientation aims to benefit from

various disciplines, to explore not only the content but also the processes underlying various issues. Research means exploration. Research oriented exploration deepens our perception of the underlying assumptions, beliefs and ideas, involved in our acts of decision making.

Therefore, no serious student of research can afford to ignore or disregard the role played by moral, ethical and religious biases in the determination of our decisions, judgments and choices. In the corporate world, the institutions primarily concerned with the control and management of human behavior, determine the contours of social 'facts' and corporate reality.

A Greek philosopher, Protagoras, is known to have famously observed that "reality has many faces." To draw this observation into the fold of research and education, let us maintain that the ultimate purpose of research is the dissemination of authentic and verifiable knowledge. Education facilitates the assimilation and incorporation of knowledge into our attitudes and the positions we take *vis a vis* life and the world.

"Reality", indeed, has many faces. Besides being multi-faceted, "Reality" is also a cobweb of relations and inter-relationships. Once it is touched somewhere, it begins to quiver everywhere. Reality resides in its appearances and it shows its real face only when its appearances have ceased to appear. Research and education tend to demolish our cherished illusions and ill founded notions, confronting us with the naked truth and stark reality.

Education and research are iconoclastic by nature; they do not hesitate to destroy, what Bacon called, the "idols of the mind". Reality, as it is in-itself rather than as it appears in and through its appearances, is the quest of all genuine research and of all teaching methodologies.

We live in a world which is not necessarily the best of all possible worlds. Through his creative will, his choices, decisions and evaluations, man can give his world whatever sense and meaning he can. The world of man is a world of his own making and for this he alone is responsible. We should not forget that the most sublime ethical values can be trivialized by moral opportunism and hollow pragmatism. Under the impact of the Sophists and the devastating expediency of their subjectivism, the Greek society disintegrated and, like ENRON, came tumbling down because of its flawed sense of moral integrity and the schizophrenic disregard for character ethics, resulting in the easy compulsion to legitimize moral flaws.

Obviously, our research in this area of utmost national concern implies an intensive inter-disciplinary approach to many subjects, especially education and particularly to the concepts of teaching and learning. Our research in these areas will deepen our realization of the importance of increased collaboration among various disciplines in order to design courses and teaching methodologies to incorporate emerging research into our own field of specialization.

In nature and in life, reality is subservient to the law of change. “Only impermanence is permanence,” said Heraclitus, a well-known exponent of Greek wisdom. Modern concept of the world, including the academic and the corporate world, is characterized by the notion of flux; it is a world constantly in the process of becoming. In such a world not only the context but also the perspectives continue to change. In life, one of the hardest things to achieve is to incorporate into our world-view the reality of change. The principle applies equally to our concepts of education, culture and research. There is something intrinsic and essential about such knowledge; it helps us understand the nature of “social reality” and, more importantly, the nature of “social facts”. It is the kind of knowledge which reigns supreme in our corporate world. “For managers,” says Drucker, “the dynamics of knowledge impose one clear imperative: every organization has to build the management of change into its very existence.”

In research, the goal and the direction are inextricably intertwined. Research determines the direction in which we ought to be moving in order to approximate the goal of progress, development and growth. These two coordinates – the goal and the direction – are also the essential components of a creative and dynamic teaching methodology.

Therefore, as we move forward, we will be increasingly focused on the silent intimations of the future. And, directly in proportion to the level of our involvement and the strength of our commitment to the ideal of excellence, our research techniques will be guided by (1) the differential orientation and (2) the functionalist approach of the ideological components of our methodology. In other words, we will be moved, firstly, by the consideration of the difference our ideas make in our life, and, secondly, the instrumental value of our ideas in solving the problem we face as a consequence of our situated existence in the world. These two requirements define the essential nature of a philosophy of education. Teaching and research are its two fundamental features. Together they constitute the *raison d’être* of an educational institution. We cannot celebrate teaching nor can we glorify it with the joy of doing the right job without a strong research bias. Research should indeed be the second nature to a teacher. Clearly there is an overlap in these orientations. Teaching aimed at enhancing the requirements of the learning process must accommodate a research perspective in order to add a creative dimension to the aims and objectives of education. To our philosophical outlook, we must also add a sociological perspective. A philosophy of education is rooted in the existing realities of a society. At any given stage of its development, each society is subject to its own inner laws of development and these laws determine the range and the extent within which social progress and personal refinement can take place. From a developmental perspective, to outline and to highlight these laws is the ultimate purpose of research.

Again, it is not in vain that we look up to education to divine for us the possibilities of what we are capable of becoming and hope that genuine research, pursued in earnest, will liberate us from the mistaken notions of future, destiny and fate, above all, the insidious and idolatrous assumptions, the unexamined and taken for granted beliefs. That is what serious research does and that is what teaching must do to merit the

description of virtue it has always enjoyed because of its association with knowledge. So, in life, as in research, we will be guided not by the starry notions but by our rigorously examined beliefs and ideas and, more importantly, by our striving because in life man gets only what he strives for.

Education deepens our self-perception and the perception of the lived-world. Research lends meaning and significance to our situated existence. The “world concept”, as an all inclusive category to which all the senses and meanings of the world belong, does not exist. Apart from the phenomenologically conceived world, i.e., apart from the lived-world or the worldliness of the world, there is no such thing as the world. The world does not exist, only the worlds exist, yours and mine, ours and theirs, scientific and technological, progressive and retrograde, corporate, commercial, industrial, cultural, moral, religious etc. Research and education remind us that we should not grieve the loss of an out-dated world; rather, we should celebrate the worldliness of our world, secure in the knowledge that in life nothing is permanent and nothing abides, every thing, including the future, is subject to change.

Research begins when a paradigm ceases to work and a world-view begins to show foundational stresses. It begins with a question we did not ask before, an assumption we failed to examine and a hypothesis we took for granted. It is then that we start searching for the answers we do not have, trying new ideas and different methods, making new assumptions, wanting to know what difference will they make in our lives and our world-view.

It is very important to stress that research presupposes a well defined methodology which lays down the foundations on which research *ethos* is built. By methodology we understand three things. Firstly, it means an inquiry into the kinds of evidence which are cited for or against a hypothesis. Secondly, it refers to the types of arguments which are used to establish a given hypothesis and, thirdly, a methodology embodies the issues which are taken as central during the course of research. These requirements can be effectively employed to guide, analyze and inform our methodology which, in order to serve our objective, must be practical rather than conceptual, comprising of both, thought and action. In research, especially in the field of education, this should be the overriding concern of our research methodology.

An educated man, like a student of research, is always an incomplete man, continuously reinventing himself, seeking his own fulfillment. Such men are irresistibly lured into novelty by the beckoning transcendence. Isac Casanbon has beautifully expressed the passion of an invincible researcher. “In research,” he says, “the horizon recedes as we advance, and is no nearer at sixty than it was at twenty. As the power of endurance weakens with age the urgency of the pursuit grows more intense... And research is always incomplete.” The life of a researcher is a trial by existence. Metaphorically, like a mirage, the search for truth keeps a thirsty man always on the move. Mr. Nixon, the late President of the United States, once observed that “a man is not finished when he is defeated; he is finished when he quits.” Experience, especially the learning experience, does have consequences; it is fraught with existential implications. For

our teaching practice and methodology, its relevance is directly proportional to the difference it makes in our life. With a change of paradigm and with each relevant learning experience, we acquire a new perspective on the world and on ourselves; experiencing ourselves and the world differently. When a paradigm changes, we do not see a different world; we see the same world differently.

Therefore, in designing our research methodologies, we must always be guided by two considerations. Firstly, we must never lose sight of the empirical teleology concerning the necessities which determine our vision of the possible. And, secondly, to do justice to our humanistic vision, our research orientation must be free from the necessity and determinism we uncritically take for granted. These two requirements are not identical, although they sound strikingly similar to each other. They refer to the “factual” and “theoretical” considerations which are involved in a given framework of research methodology. More importantly, they relate to the paradoxical nature of the “given” relationship between our paradigm and the “facts” we relate to support the paradigm. The requirement cannot be sustained meaningfully without a radically rigorous analysis of the nature and scope of the stipulated “relationship” itself. Bertrand Russell’s admonition that “if the facts don’t fit the theory, change the facts” does not make the paradox less paradoxical. In fact the lightness of his remark is almost unbearable. But that is the burden of all genuine research. It shows that in the field of natural sciences and also in the domain of humanities, the most compelling need for analysis and investigation arises when facts do not fit the theory and seemingly it appears as if no big task is really involved. However, a deeper examination reveals that the discrepancy and the incongruence is a consequence of our unexamined assumptions, the inadequacies inherent in our taken for granted attitude and the mistaken and dubious orientation of our methodologies. They raise serious research questions and we are caught in an either / or situation. Truth must either be sought everywhere or no where at all.

A teacher, seeking the knowledge in its “fullness”, must, like a philosopher, see the life steadily and as a whole; seeing the world not only as it is but also as it can be and therefore ought to be. Like a phenomenologist, a researcher should avoid taking anything for granted, or committing himself to the unexamined knowledge claims. Pushing himself farther and farther still, standing at the threshold of the unknown, a scientist, a philosopher, a researcher, like a visionary, sees some thing which was always there, waiting to be discovered, wanting to be seen. That is the logic of discovery and the romance of research. Such is the story of teaching and the glory of education. He, who is touched by this experience only once, is never the same person again. But, research, so understood, is not a solitary affair.

A mature and responsible research culture is a collective responsibility of an educated community, striving for creative self-expression, aspiring for excellence, experimenting with ideas, anxious to find out the difference they will make in our private and collective life. Research creates knowledge and only research based knowledge can teach our students the much desired lesson that they too can make a difference in their “portion

of the world”. An educated man, seeking the limit of critical thinking and the height of creative passion is seeking all the time his own self-realization and fulfillment, striving, at the same time, for collective excellence.

When research is conducted with such a passion and with the joy and excitement of creative will in the hope and anticipation of a dynamic future, through its interpretative compulsion it creates knowledge and experience. That is also the passion of a teacher and that is what creative thinking is all about. In the corporate world this is what *learning organizations* do all the time.

## ARTICLE

## Training Impact Analysis

Applying the modified combined model of Kirkpatrick,,s and Phillips,, Training Evaluation to measure the Training Impact

Toshio Fujita

The most difficult area in practicing the effective training has been the establishment of practical model to enable to quantify the impact of training. No doubt, without the relevant evaluation of the Training Impact, the implementation of effective training, on which the organizational sustainability and success depend, would be totally unfeasible. Author has long been concerned with the lasting consequences of its effect. Significance of it is multiplied in the Public Sector which has even wider social ramifications.

The concern was culminated when author encountered the comment made by Mr. Hamdi Al-Taba'a, Chairman of the Jordanian Business Association on January 25, 1999, i.e., "Many officials are biased in the evaluation of their subordinates due to interference of personal factors and the absence of fairness in dealings with others. The absence of institutionalization, lack of job description, and the assignment of inadequate persons in public jobs contribute to non-compliance with the ethical values of public jobs." Which implies the grave influence on both Public Sector Reform and any Private Sector Restructuring effort.

The case introduced here has been derived from the work – **Training Impact Analysis Report to National Institute for Training (NIT) Jordan** – done by author together with staff of the Institute (NIT) in Amman, Jordan, with the special permission of Mr. Osamah Jaradat, Director General of the Institute, and Japan International Cooperation Agency (JICA) by which author was seconded to the Institute as a Senior Volunteer from April 2001 to January 2003. Author is specially thankful to NIT Team Members, Mr. Ziad ALLAN, Ms. Rand Al-HINDAWI, Mr. Moh'd Al-RA' OUD and Mr. Fares SABAHAAT for sparing their very scarce time.

### INTRODUCTION

This article provides you with the case of detecting managers' unconscious subjective evaluation to their subordinates who are participating in training course, and aims to design the effective training course through the process of analyzing the contradictory training effect perceived by managers and subordinates as written by William B. Werther and Keith Davis, "---supervisors may use training sessions as a means to banish troublemakers." in their book "Human Resources and Personnel Management, Fifth Edition". The Jordanian Civil Servants' Training Impact Analysis case introduced below reveals the hidden and impedimental problems to the Effective Training, and shows some recommendation to solve them.

## TRAINING IMPACT ANALYSIS REPORT TO NIT

### I. Objective:

Achieving the distinguished administrative performance of Jordanian Civil Servants by delivering the most effective/efficient *training programs categorized as one of the highest priority programs in Jordanian Administrative Reform Programs - through objective Training Impact Analysis (Measurement).*

### II. Aims & Methodology:

1. **Aims:** *Developing the Dynamic Training Programs to facilitate the Public Sector Workers the ownership of administrative change process, and to promote ongoing Jordanian PRS (Public Sector Reform).*
2. **Methodology:** Modified combined model of Kirkpatrick's "Four Levels of Evaluation" and "The Phillips Five Levels ROI (Return on Investment) Framework" has been applied to measure the NIT's Training Impact. In practice, questionnaires - mainly based on the above two models adjusted to fit the administrative performance evaluation and regional culture - to the past NIT training programs participants and their supervisors have been generated. Especially the fifth level of the Phillips model has been changed to measure *citizen oriented behavior* from the training ROI measurement originally designed for the training of private sector employees.

### 3. MODIFIED FIVE LEVEL EVALUATION CRITERIA:

- (1) **Reaction** – Trainees' satisfaction to the training amenity, such as training environment, course organization, contents of training, qualification and characteristics of NIT trainers, training facilities, and trainees' general perception of NIT Training Programs.
- (2) **Learning** – Acquired knowledge, skills, expertise required in Public Administration esp. in the fields of work procedure, basic behavioral theory, and communication skills.
- (3) **Behavior (a)** – Improved individual trainees' behavioral skills and positive change of attitude, esp. in the team work through "How to deal with others." on the job site.
- (4) **Behavior (b)** – Behavioral/Attitude Change when applying acquired skills/expertise, esp. "Improved Work Procedure" for the *better administrative performance of the organization. Increased coordinating skills with both colleagues and bosses through enhanced understanding of their institutions' culture, thereby promoting PRS.*
- (5) **Results** – *More Citizen Oriented Behavioral Change*, i.e., more increased awareness and responsiveness to the public interests, **thereby defending the public interests even under internal and external pressures, eventually achieving "Culture of Excellence"**.

- 4. **Total 47 questionnaires** (approx. 10 questionnaires for each level criteria) were sent to randomly sampled 800 government employees from *total 5,211* who had participated NIT training program through the year 2002 to July 2003 from *20 selected Ministries, Departments, Agencies and Institutions*, expecting *approx. 500 ~ 650* responses (sample size).

**III. Statistical Rationale for the Sample Size:**

**Applied Model:**

Sampling Model without Replacement from a Small (Limited) Population.

$$n = \frac{N z^2 \sigma^2}{(N-1) e^2 + z^2 \sigma^2} \dots\dots\dots (A)$$

Where:

<b>n</b>	: Valid responses (sample size).
<b>z</b>	: Normal deviate.
<b>N</b>	: Population size (in our case: 5, 2 11 i.e., total of targeted participants).
<b>σ</b>	: Standard deviation of population (In our case: reasonably assumed to be 1.0, since the grading points of each questionnaire ranges from 1.0 to 5.0).
<b>e</b>	: Tolerable error of the calculated sample mean from the actual population mean.

- 1. **In case we can receive 500 samples**, and assuming the probability that the calculated mean from the sample differs from the actual population mean by more than (e) is 0.05 (Risk), then corresponding normal deviate is found from “Normal Distribution Table” to be z = 1.96. Substituting these values into the above Model Formula III – (A)

$$500 = \frac{5211 (1.96)^2 (1.0)^2}{(5211-1) e^2 + (1.96)^2 (1.0)^2}$$

then e = 0.083

Ex. Suppose the calculated sample means from a certain questionnaire is 3.5, and then we can estimate the actual population means: μ will be within the range of,

$$3.5 - 0.083 < \mu < 3.5 + 0.083$$

$$3.417 < \mu < 3.583$$

i.e., difference from 3.5 is ± 2.37%, with 95% probability.

**2. In case we can receive 650 samples, likewise,  $e = 0.072$ .**

Ex. Suppose the calculated sample mean from a certain questionnaire is 3.5, then likewise, we can estimate the actual population mean:  $\mu$  will be within the range of,

$$\begin{aligned} 3.5 - 0.072 < \mu < 3.5 + 0.072 \\ 3.426 < \mu < 3.572 \end{aligned}$$

i.e., difference from 3.5 is  $\pm 2.06\%$ , with 95% probability.

From the above two cases: the population mean is estimated to be between 3.4 and 3.6 (which is only 2.37% difference from the sample mean: 3.5 calculated from the random sample) with 95% probability in case we can receive at least 500 responses from our 800 circulated questionnaires' sheet.

Actually 579 participants each responded to 47 questions, which were more than enough to estimate the credible statistical value of the population. Later we sent similar questionnaires to participants' bosses asking their evaluation – 17 questionnaires re. evaluation of participants and 11 questionnaires re. evaluation of non-participants. Each 51 and 57 responses re. participants and re. non-participants from approx. 200 concerned bosses, which were again more than sufficient to obtain statistically reliable results.

All of the above survey data have been statistically processed, i.e., frequency distribution, mean value, standard deviation, and variance were calculated for each question – 47 questions addressed to training participants, 17 questions to their bosses asking evaluation of participants, and 11 questions to bosses asking evaluation of their subordinates who had not participated in any training program at NIT throughout the year 2002 to July 2003 – then wherever appropriate and applicable, t-test, Chi-square test, and F-test were carried out to analyze the characteristic of each target group. Statistics, tables, and graphs are attached to this report.

#### **IV. ANALYSIS OF SURVEY RESULTS (REF. MAINLY APPENDIX 1.)**

**Level (1) Reaction** - Trainees' reaction at this level is excellent, especially trainers' style to lead the classroom discussion has been highly appreciated. This is verified by the highest evaluation ratings to the second part Question No. S-6, S-10 – S-14, S-16 by participants. – Appendix: 2.

However, the following two points should be noted;

1. The second part Question No. S-1, S-2 referring to the advanced media/methods usage in line with the program contents were moderately rated. – Appendix: 2.
2. The same part Question No. S-17 – S-19 which are related to the relevant timing

and period when implementing programs in line with the contents were rated relatively low. – Appendix: 2.

**Level (2) Learning** – Acquisition of knowledge, skills, expertise in Public Administration has also been highly appreciated by participants which is unquestionably proved by the highest ratings to all the related Questions No. F-1 & F-2 of the first part, S-3 – S-9 of the second part, and T-1 – T-4 of the third part to participants. – Appendix: 2.

**Level (3) Behavior (a) – The Training Programs relating to the improvement of participants' attitude towards jobs, and to the skills in dealing with others are highly appreciated by participants** (Ref. Question No. F-3, F-4 of the first part to participants), and their bosses reasonably recognize participants' increased teamwork skills (Ref. Question No. T-7 of the third part to participants and No. 2 to bosses' evaluation of participants' performance). – Appendices: 2, 3.

However, **in spite of the participants' increased confidence in teamwork skills, their bosses are not necessarily aware of participants' increased skills at the actual job site, for example, participants' reaction to other people's feeling etc.** (Ref. Question No. T-5, T-9 of the third part to participants and No. 1, 4 to bosses' evaluation of participants). – Appendices: 2, 3.

This becomes more obvious in the bosses' **very low rating to the participants' ability to avoid unnecessary conflicts, although the participants feel significantly confident after training in this skill** (Ref. Question No. T-12 of the third part to participants and No. 7 to bosses' evaluation of participants). – Appendices: 2, 3.

Consequently it is reasonably understandable that training effects to the communication skills and transfer of training contents to colleagues at the actual job site are just above the fair rating by bosses, but again rated high by participants (Ref. Question No. T-10, T-11 of the third part to participants and No. 5, 6 to bosses' evaluation of participants). Appendices: 2, 3.

**Bosses' evaluation of non-participants' behavior in this level, as it can be easily imagined, is generally higher than ratings by bosses' evaluation of participants** (Ref. Question No. 2, 5, 7 to bosses' evaluation of participants and Question No. 2, 3, 4 to bosses' evaluation of non-participants). - Appendices: 2, 3, 4.

**Level (4) Behavior (b) – Both participants' and bosses' evaluation of participants are noticeably high to the programs related to work procedures and to understanding of their institutions' culture.** Furthermore, bosses' evaluations of participants' performances in these two competences are – even surprisingly - exceptionally higher than bosses' evaluation of non- participants' (Ref. Question No. T-13, T-14 of the third part to participants, Question No. 8, 9 to bosses' evaluation of participants, and Question No. 5, 6 to the bosses' evaluation of non-participants). – Appendices: 2, 3, 4.

**However, bosses' ratings of the programs** related to the following competencies in respect of participants' change of behavior at their job site after training, which will have direct linkage with Organizational Development and/or Administrative Reform, are **significantly lower than other two evaluations**.

- 1. Making Decisions taking long/short-term consequences into consideration** and if necessary making decisions under insufficient information (Ref. Question No. T-16, T-18 of the third part to participants – to these Questions, participants' confidence in their acquired skill is high - and No. 11 to the bosses' evaluation of participants). – Appendices: 2, 3.
- 2. Convincing and coordinating with bosses to transfer the new skills and methods acquired from NIT Training Programs to their organization** (Ref. Question No. T-19, T-20 of the third part to the participants, and Question No. 13, 14 to bosses' evaluation of participants). – Appendices: 2, 3.

To the programs relating to the decision-making priority and problem-solving competencies, again bosses' evaluations of participants are of lower ratings than those of participants' (Ref. Question No. T-15, T-21, of the third part to the participants and No. 10, 15 to the bosses' evaluation of participants). – Appendices: 2, 3.

**Level (5) Results - The programs which are related to the Role of Civil Servants in delivering the public services are given significantly higher rating** by both participants and bosses, however, t-Test still reveals the significant difference between these two evaluations, i.e., bosses' evaluation is still significantly lower than participants'.

The evaluation of programs related to **the training to cope with the decision-making under internal/external pressures**, and to defend the decision effectively when faced with criticism are **significantly low rated by bosses even though highly evaluated by participants**.

**It can be noted that bosses are either not expecting too much from training or not perceiving participants' increased self-confidence after training** (Ref. Question No. T-17, T-22, T-23, T-24 of the third part to participants and No. 12, 16, 17 to bosses' evaluation of participants). – Appendices: 2, 3.

**These perception gaps among bosses and subordinates are too excessive to be slighted, since these causes serious obstacles, especially when Jordanian PSR is targeting Citizen Centered, Results Focused, and Transparent Government.**

**Comprehensive Analysis:**

In spite of all the above level by level analysis, the following points must be still reiterated taking the results of t-Test, i.e., - Null Hypothesis: no difference between two Mean values – into consideration;

- (1) **To all of the 17 questions, bosses' evaluation of participants' performance after training are significantly lower** (t-Test: Null Hypotheses: strongly rejected even though set at 99% confidence interval) **than participants' self evaluation, except increased understanding of participants' institutions' culture. – Appendix: 1.**
- (2) Comparison of bosses' evaluation of participants' performance with non-participants' again reveals that, **except institutions' culture understanding and work procedure**, to all the other questions bosses' evaluations of participants' performances when compared to non-participants' are either statistically of same ratings (t-Test: Null Hypotheses: accepted) or statistically of lower ratings (t-Test: Null Hypotheses: rejected) as already pointed out. – Appendix: 1.

Esp. **participants' competences stated below are significantly low rated by bosses when compared with non- participants'** as statistically verified by t-Test results (Null Hypotheses: strongly rejected).

- (a) **Ability to avoid irrelevant conflicts.**
  - (b) **Making decision taking long/short-term impacts into consideration.**
  - (c) **Effective coordination with bosses when introducing new methods or transferring training contents into the job site.**
- (3) **Summing up** the above two points, it may well be said that either of the following inference can be introduced;
- (a) **bosses' lack of confidence in the participants' competences, whether or not participating in training, compared with non-participants'** has been too much entrenched to give fair review to participants' enhanced performances even after training.

or

- (b) **participants' self confidence after training has been too much aggrandized to be rectified to the proper level.**

## V. RECOMMENDATION

### To the Level 1: (Training Environment)

1. More consideration should be given to the compatibility of advanced training Media/Methodology with the program contents.
2. More attention should be paid to the training timing/scheduling and the length of the training period depending on participants' convenience as well as the program contents.

### To the Level 2: (Acquisition of Knowledge, Skills and Expertise)

As far as the analysis of this survey concerns, any specifically imminent recommendation cannot be found.

### To the Level 3: (Trainees' Individual Behavioral Improvement)

1. **Both bosses and participants** should be urgently trained for “**Effective Communication Skills**” by applying the same training methods, which has already been successful for the program of “Dealing with Public”.
2. **Bosses should be more conscious of participants' improved confidence and initiatives** in dealing with others after training, and at the same time bosses should be strongly advised to acquire “**Motivation Skills**” as well as advanced skills of “**Performance Appraisal**”.

### To the Level 4: (Behavioral Change toward Organizational Change)

1. The following intensive training for **all the senior managers**, esp., of Category 1 & 2 should be carried out;
  - a. **Change Management** (Basic Organizational Theory, Leadership Models, and Case Studies of Other Countries' Public Sector Reform (PSR) in line with Delegation & Decentralization)  
Workshop and/or Seminar: 3 days for each session.
  - b. **Institutional Performance Appraisal** (If possible, Case Studies of Other Countries should also be included.)  
Workshop and/or Seminar: 3 days for each session.
2. To the subordinates, the following intensive training should be held immediately;
  - a. **How to Deal with Bosses** : (Case study 3 days)
  - b. **Problem-Solving** : (Case study 3 days)
  - c. **Decision-Making** : (Case study 3 days)

**To the Level 5: (Citizen Oriented Behavioral Change)**

1. **To all the concerned senior managers;**
  - a. **Workshop for Jordanian PSR** : (3 days)
  - b. **Workshop for Other Countries' PSR** : (3 days)
  
2. **To both bosses and subordinates;**
  - a. **Negotiation Skills** : (Case study 3 days)
  - b. **Stress Management** : (Case study 3 days)
  - c. **Strategic Decision-Making under Internal/External Pressure** : (Case study 3 days)

**FINAL COMPREHENSIVE RECOMMENDATION:**

**NIT in the current situation – in addition to normally required mission as a national training institute – has its unique mission different from any similar institutes of other countries, whether developed or developing, i.e., NIT must cope with the demanding needs for Civil Servants to be facilitated the real ownership of “Change”/PSR.**

**This can only be achieved through well thought-out training programs based on the perceived reality of Jordan.**

**In this context, the following five programs could be envisaged;**

1. **Currently ongoing Jordanian Public Sector Reform requires the immediate reactivation of the whole Public Sector Organization. NIT Training Policy shall, therefore, be directed to put more emphasis on Training of Trainers for each Governmental Unit.**
2. **Trainees' “Transfer of Training” to their organization through presentation of training contents on returning to their job site shall be institutionalized. Consequently, NIT is also advised to maintain almost day-to-day coordination in respect of HRD with each training unit of other Governmental Organization, of which procedures, if possible, should be legislated by Civil Service by Law.**
3. **More individually oriented Career Path Program in line with the NIT Training should be institutionalized to increase PSWs' morale and to enhance their initiative.**
4. **More practically oriented training program, such as “Hybrid IT-Work Simplification Program” linked with IT skill is recommended to support E-Government Reform policy.**

5. **In order to make quick breakthrough to reactivate Public Sector (or to initiate Administrative Reform), “Special Pilot Training Program” for limited numbers of senior staffs (approx. 150-200) from Government Organization should be institutionalized as an urgent necessity.**

**Conceivable training programs for “Special Pilot Training Program” are:**

- (1) **Case Studies on PSR in other countries** (3 days each for one session).
- (2) **Change and result oriented managements** (3 days each for one session).
- (3) **Motivation & Leadership** (3 days each for one session).
- (4) **Special Study/Analysis to remove the obstacles in promoting Jordanian PSR** (3 days each for one session).

**Recommendable Next Steps for Further Analysis of This Impact Survey:**

1. To carry out Chi-square test to test the null Hypothesis whether BRTP/BRTNP and BRTP/PE are identical or not, which supplement the results of t-Test reported in this document.
2. To carry out Analysis of Variance (ANOVA) to determine whether or not there are any differences among BRTP/BRTNP and BRTP/PE to further supplement and confirm the results of t-Test in this report.
3. The same statistical processing could be applied to analysis and identification of the differences among each Level of Five-Level Model of Evaluation Criteria, which could also be applied to the analysis of Department by Department Training Impact by making necessary modifications to each questionnaire for the design of more relevant customer-oriented NIT Training Programs.

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#### **ABBREVIATIONS**

NIT	National Institute for Training
HRD	Human Resource Development
ROI	Return on Investment
PSR	Public Sector Reform
PSW	Public Sector Worker
Re	Reaction
PE	Participants' Evaluation (of NIT Training Programs)
B RTP	Bosses' Reaction (Evaluation) to Participants' (Performance)
B RTNP	Bosses' Reaction (Evaluation) to Non-Participants' (Performance)

#### **APPENDICES**

- Appendix No. (1) Questionnaires in Training Impact Analysis Survey, Dated 1/12/2003 (Incl. T-Test Results)
- Appendix No. (2) Questionnaires Sheet to Participants
- Appendix No. (3) Questionnaires Sheet to Bosses' Reaction (Evaluation) to Participants' (Performance)
- Appendix No. (4) Questionnaires Sheet to Bosses' Reaction (Evaluation) to Non-Participants' (Performance)

## APPENDIX NO. (1)

**Questionnaires in Training Impact Analysis Survey****(Evaluation Rating System: Excellent 5, Very Good 4, Good 3, Fair 2, Poor 1)**

t- Test between PE &amp; BRTP and BPRT &amp; BPRNT

Confidence Interval 99%, Null Hypothesis: Mean - No Difference

Accept: 0      Reject: X

Mean Value Grading:

A  $\geq$  3.35    C  $\geq$  3.20    E < 3.15B  $\geq$  3.30    D  $\geq$  3.15

Above mean value grading is for convenience purpose only to make quick comparison among each mean value possible. Statistically significant differences among each mean value are tested by t-Test. F-, S- & T- denote Question Numbers of First, Second, Third part respectively of Questions to participants.

F: First Section S: Second Section T: Third Section	Suggested Training Courses	To the Participants (PE)	To the Bosses	
			Re.: Participants (BRTP)	Re: Non-Participants (BRTNP)
Level (1) (12 Qs.)		S-1    C+		
		S-2    B		
		S-6    A++		
		S-10   A++		
		S-11   A++		
		S-12   A++		
		S-13   A++		
		S-14   A+		
		S-16   A		
		S-17   D+		
		S-18   C-		
S-19   C-				
Level (2) (12 Qs.)		F-1    A++		
		F-2    A+		
		S-3    A+		
		S-4    A+		
		S-5    A++		
		S-7    A+		
		S-8    A++		

F: First Section S: Second Section T: Third Section	Suggested Training Courses	To the Participants (PE)	To the Bosses			
			Re: Participants (BRTP)		Re: Non-Participants (BRTNP)	
Level (2) (12 Qs.)		S-9 A++				
		T-1 A++				
		T-2 A+				
		T-3 A+				
		T-4 A+				
Level (3) (11 Qs.)	(1) Effective Communication Skills (2) Motivation Skills (3) Performance Appraisal	F-3 A <sup>+</sup>				
		F-4 A <sup>+</sup>				
		S-15 A	*1	*3	*2	*4
		T-5 A <sup>+</sup>	X ↓ 1	D <sup>++</sup> ↔	O	1 D <sup>++</sup>
		T-6 A <sup>+</sup>				
		T-7 A <sup>++</sup>	X ↓ 2	B ↔	O	2 A
		T-8 A <sup>+</sup>	X ↓ 3	D		
		T-9 A <sup>+</sup>	X ↓ 4	E		
		T-10 A	X ↓ 5	C <sup>+</sup> ↔	O	3 B <sup>-</sup>
		T-11 A	X ↓ 6	C		
		T-12 A <sup>+</sup>	X ↓ 7	E <sup>-</sup> ↓	X	4 B
		Level (4) (8 Qs.)	(1) How to deal with bosses (2) Problem-Solving (3) Decision-Making	T-13 A <sup>+</sup>	X ↓ 8	B ↑
T-14 A	X ↓ 9			A ↑	X	6 B <sup>-</sup>
T-15 A	X ↓ 10			C <sup>-</sup>		
T-16 A	X ↓ 11			E <sup>-</sup> ↓	X	7 D <sup>+</sup>
T-18 B						
T-19 C <sup>+</sup>	X ↓ 13			E <sup>-</sup>		
T-20 C <sup>+</sup>	X ↓ 14			E <sup>-</sup> ↓	X	9 C
T-21 B <sup>+</sup>	X ↓ 15			C		
Level (5) (4 Qs.)	(1) Workshop for PSR (2) Negotiation Skills (3) Stress Management (4) Strategic Decision-Making under Internal/External Pressure	T-17 A	X ↓ 12	E <sup>-</sup> ↔	O	8 E <sup>+</sup>
		T-22 A <sup>+</sup>	X ↓ 16	A ↔	O	10 A
		T-23 A	X ↓ 17	E <sup>-</sup> ↓	X	11 D <sup>+</sup>
		T-24 A				

**NOTES:**

- (1) All the above mean values for each question have been within 95% confidence interval by t-test.
- (2) \*1 : t-test results between PE & BRTP  
 \*2 : t-test results between BRTP & BRTNP  
 \*3 : Question Numbers to BRTP (Contents of lateral Question Numbers are all equivalent.)  
 \*4 : Question Numbers to BRTNP (Contents of lateral Question Numbers are all equivalent)
- (3)  $\updownarrow$  : Statistically higher mean value (t- Test Result, Confidence Interval 99%)  
 $\updownarrow$  : Statistically lower mean value (t-Test Result, Confidence Interval 99%)  
 $\leftrightarrow$  : Statistically no significant difference between two mean values (t- Test Result, Confidence Interval 99%)

APPENDIX NO. (2)

**Questionnaires Sheet to Participants**

Statement	Poor 1	Fair 2	Good 3	Very Good 4	Excellent 5
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**First:**

1	The training program provided good information for me.					
2	It helped me develop my skills at work.					
3	It improved my attitudes towards the job.					
4	It increased my competence dealing with others.					

**Second:**

1	Advanced training media were used in line with the training program content					
2	Modern training methods were used to relay information and ideas.					
3	My nomination to the program was based on my need at work					
4	Training content is convenient for the practical status.					
5	Topic of the program can be applied in practice.					

Statement	Poor 1	Fair 2	Good 3	Very Good 4	Excellent 5
6 The training content is interconnected in terms of topics.					
7 There is harmony between objectives of the training program and my real training needs.					
8 Objectives of the training program were clear to me.					
9 Objectives of the training program fit my academic level.					
10 The set time was completely used for training.					
11 I felt satisfied with the method of the trainer's dealing with participants. I am also happy to participate in the program.					
12 The Trainer gave time to ask questions freely.					
13 The trainer showed a good competence in the program topics and good knowledge of the scientific content.					
14 Relevance of content to levels of participants.					
15 If my immediate boss is provided with the training content, he'll cooperate with me to transfer the training impact to my work.					
16 The distributed content is set with logic and attractive layout.					
17 Relevance of the program timing to participants.					
18 Period of program is relevant to the program content.					
19 Timing of program is relevant to the application and practice of required skills.					

Statement	Poor 1	Fair 2	Good 3	Very Good 4	Excellent 5
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**Third:**

1	What I learnt from the program is adequate to the objectives and tasks of my job.					
2	The training program I joined fulfilled its objectives.					
3	I feel satisfied after the end of the program when I prepare some proposals relevant to the theme of the program.					
4	I feel satisfied with planning after the end of the program.					
5	The program helped me improve my feelings with others' thinking.					
6	My participation in the program helped me increase the degree of professional satisfaction.					
7	My participation increased the skills of my working team.					
8	The program helped me improve my ability to express others' feelings verbally and non-verbally					
9	My participation in the program helped me improve my ability to do the right job by expecting others' reactions towards this job.					
10	The program improved my ability to relay others' views accurately and clearly.					
11	The training programs helped participants transfer the training result to their colleagues at work.					
12	The training program helped me improve my ability to avoid irrelevant disputes.					
13	The training program influenced my competence to facilitate procedures of my work.					
14	The training program helped me comprehend the culture of my institution well.					

Statement	Poor 1	Fair 2	Good 3	Very Good 4	Excellent 5
15 The training program helped me define the importance of decision-making or not making in certain times.					
16 Now, I have the ability to make decisions taking into consideration the long and short-term impacts of such decisions.					
17 The training program influenced my ability not to revoke my decision upon alternative analysis in case this decision is targeted with criticism.					
18 Now, I have the ability to make decisions although information available is not enough in case of prompt decision.					
19 The training program helped me have a better ability to convince my bosses to allow me to apply what I acquired of skills at the training programs.					
20 The training program increased my ability to coordinate with my bosses to remove obstacles that prevent me from applying new skills and methods at work.					
21 I can solve problems at work by applying what I learned at training despite of obstacles at my institution.					
22 I have full comprehension now of the role of employee in delivering the public service to its receptor.					
23 The training program contributed to improving my ability to deal with internal and external pressures that affect my performance.					
24 The training program helped me improve my ability to make decisions while dealing with others in order to maintain a public interest in case there is a severe objection to this decision.					

## APPENDIX NO. (3)

**Questionnaires Sheet to Bosses' Reaction (Evaluation) to Participants' Performance**

Statement	Poor 1	Fair 2	Good 3	Very Good 4	Excellent 5
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**First:**

1	Training programs helped develop ability of participants to feel with others.					
2	Training programs contributed to enhancing professional team skills for participants.					
3	Training programs helped participants to express feelings of others verbally.					
4	Training programs enhanced the ability of participants to do the right job by expecting reactions of others towards this job.					
5	The program developed abilities of participants to relay others' points of view accurately and clearly.					
6	Training courses contributed to having participants transfer what they learnt to their colleagues at work.					
7	The training programs helped develop ability of participants to avoid irrelevant disputes.					
8	Training programs affected the competence of participants to facilitate procedures at work.					
9	Training programs helped develop the comprehension of participants of their institution's culture well.					
10	Training programs developed the ability of participants to define the importance of time when making decisions.					
11	Participants gained ability to make decisions taking into consideration long and short-term consequences of such decisions.					
12	Training programs helped improve ability of participants to defend their decisions based on alternative analysis in case such decisions were severely criticized.					

Statement	Poor 1	Fair 2	Good 3	Very Good 4	Excellent 5
13 Training programs contributed to the development of participants ability to convince their bosses to permit them apply what they learnt of skills at the training programs.					
14 Training programs increased the ability of participants to coordinate with their bosses to remove obstacles they face when applying new skills and methods at work.					
15 Training programs contributed to the development of participants' ability to solve problems at work by applying the training content they learnt.					
16 Training programs helped participants comprehend the role of the employee delivering the public service for its targeted groups.					
17 Programs contributed to the development of participants' ability to deal with internal and external pressures that affect their performance.					

APPENDIX NO. (4)

**Questionnaires Sheet to Bosses' Reaction (Evaluation) to Non-Participants Performance**

Statement	Poor 1	Fair 2	Good 3	Very Good 4	Excellent 5
<b>First:</b>					
1 The employee has a better feeling with others.					
2 The employee has better team skills.					
3 The employee is more capable of relaying views of others accurately and clearly.					
4 The employee is more capable of avoiding unnecessary conflicts.					

Statement	Poor 1	Fair 2	Good 3	Very Good 4	Excellent 5
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**First:**

5	The employee is more competent in simplifying the work procedures.					
6	The employee has a better capacity of understanding the culture of his institution positively.					
7	The employee is better at decision-making taking into consideration the long and short-term impacts of this decision.					
8	The employee is better at defending his decisions made upon the alternative analysis in case this decision is criticized.					
9	The employee is better at coordinating with his bosses to remove barriers that prevent him from applying skills and methods learnt to his work.					
10	The employee has a better understanding for the role of the employee in delivering the public service for those receiving such services.					
11	The employee is better at dealing with the internal and external pressures that affect his performance.					

*“The demands that corporations, especially larger ones, continue to expand their efforts to help society achieve its economic and social objectives are strong, growing and not likely to diminish. To meet these demands in an appropriate fashion, corporations will continue to perfect the institutional notion of the social point of view in their decision-making processes.”*

***Hewlett-Packard, Institutionalizing Social Concerns in Business: in Business Government and Society, a Managerial Perspective.***

**ARTICLE**

## Socioeconomic Status as a Predictor of Marital Adjustment in Working Women

Zeenat Ismail  
Kausar Ansari

**ABSTRACT**

*The purpose of the present research was to determine the extent to which Socioeconomic Status in Pakistani scenario can predict Marital Adjustment with special reference to working women. After detailed literature review it was hypothesized that Marital Adjustment would be more among working women of high Socioeconomic Status as compared to working women of low and middle Socioeconomic Status. Sample of the present research consisted of 150 married working women divided into three groups of subjects each consisting of fifty women. These groups comprised of low, middle and high socioeconomic classes. Dyadic Adjustment Scale was administered in order to measure Marital Adjustment of the entire sample. One way Analysis of Variance (ANOVA) was done to compare the difference in the level of Marital Adjustment of working women belonging to low, middle and high Socioeconomic Status. However the difference between the Marital Adjustments of the three socioeconomic groups was found to be insignificant.*

**INTRODUCTION**

Marital Adjustment is defined as 'the state in which there is an over all feeling in husband and wife of happiness and satisfaction with their marriage and with each other' (Sinha & Mukerjee, 1990). It therefore calls for experiencing satisfactory relationship between spouses characterized by mutual concern, care, understanding and acceptance. All the marriages are aimed at happiness in one or another way. Most couples become married filled up with expectations. Some of the expectations will be realistic while others unrealistic. This is due to the complex nature of marriage and each individual is as complex as a universe. Therefore, in marriage two universes come together.

Marital satisfaction appears to be an important determinant of psychological well-being. Marital distress has been associated with a host of psychological difficulties, particularly depression (Beach, Whisman, and O'Leary, 1994) and marital problems are the most common complaints of those seeking help from mental health clinics (O'Leary and Smith, 1991).

According to Spanier and Cole (1976), Marital Adjustment is a process, the outcome of which is determined by the degree of: a) troublesome marital differences, b) interspousal tensions and personal anxiety, c) marital satisfaction d) dyadic cohesion, e) consensus on matters of importance to marital functioning.

The question of what makes some people more adjusted in their marriages and others dissatisfied has been considered by many. The areas that have been explored are rather complex. Many powerful influences on marriage and family spring from the existence of clearly identifiable social classes. Our Socioeconomic Status is measured by factors such as the occupations of our parents, their education, where we live, what the family income is, the source of the income (salary, investments, a trust fund) and, if our parents have money, how long they have had it (Kahl, 1957; Warner, Weeken and Ecls, 1949).

It is an indisputable sociological fact that social class is one of the most important and defining characteristics of our lives. Social class influences quantifiable characteristics such as age at marriage, fertility and life expectancy. Furthermore, the position one holds in the social class hierarchy also determines life-style characteristics. Social class, like sex and race, is a variable that sociologists consistently examine in research on the family. In both quantitative and qualitative studies, family scholars try to assess the role that Socioeconomic Status plays in family structure and interaction. Most often social class is treated as an independent variable, where researchers try to assess the impact that class has on some family phenomenon such as marital satisfaction, childrearing practices, or sexual behavior. However social class also can be a dependent variable, in which researchers try to determine the impact that other variables such as race and gender have on social class. In virtually every study, researchers ask respondents to indicate their social class in some way, so that they can determine the relationship of social class to the topic under study. A discussion of social class is important also because the opportunities and expectations of individuals are shaped to a great extent by the social class in which they are raised. To a certain degree, family dynamics are influenced by Socioeconomic Status. The interest activities, marital expectations and parenting practice of families in different social classes vary somewhat. Sociologists are fascinated with the ways in which socialization experience are influenced by the resources to which families have access (Bidwell and Vander Mey, 2000).

How do couple's financial resources affect marital adjustment and family functioning? Neither financial stability nor wealth can ensure marital satisfaction. However poverty can produce daunting challenges and serious problems for married couples (Klebanov, Brooks-Gann, and Duncan, 1994; Voydanoff, 1990).

Without money, families live in constant dread of financial drains such as illness, layoffs, or broken appliances. Husbands tend to view themselves as poor providers and become hostile and irritable. Their hostility can undermine the warm, supportive exchanges that help sustain relationships. This problem is sometimes aggravated by disappointed wives who criticize their husbands. Spontaneity in communication may be impaired by an understandable reluctance to talk about financial concerns (Weiten and Lloyd, 2003).

Thus it is not surprising that serious financial worries among couples are associated with increased hostility in husbands, increased depression in wives, and lower marital

happiness in both husbands and wives (White and Rogers, 2001). Similarly, husband's job insecurity is predictive of wives' reports of marital conflict and their thoughts of divorce (Fox and Chancey, 1998). Moreover evidence consistently demonstrates that the risk of separation and divorce increases as husband's income declines (Ono, 1998; South and Lloyd, 1995).

Even when financial resources are plentiful, money can be a source of marital strain. Quarrels about how to spend money are common and potentially damaging at all income levels. Pittman and Lloyd (1988), for instance, found that perceived financial stress (regardless of family's actual income) was associated with decreased marital satisfaction. Another study examined how happily married couples handled their money in comparison to couples that eventually divorced. In comparison to divorced couples, the happy couples engaged in more joint decision-making on finances. Thus the best way to avoid troublesome battles over money is probably to engage in extensive planning of expenditures together (Schaninger and Buss, 1986).

The frequency of divorce is higher in the working and lower classes than in the upper and middle classes. There are probably many reasons for this finding, but a key one appears to be the greater financial stress in lower socioeconomic strata (Rank, 2000).

Financial hardship can increase isolation, emotional stress, depression and lower self-esteem, which, in turn, can generate or exacerbate marital tensions. It is possible that concerns about income or insecure employment may underline some of the stresses and tensions in the relationship that contributed to its breakdown (Kinnunen and Pulkkinen, 1998; Yeung and Hofferth, 1998).

Marriage counseling and family support agencies have suggested that financial strains have a negative impact on relationships and family life (House of Representatives Standing Committee on Legal and Constitutional Affairs, 1998).

Demographic and life course characteristics most frequently linked to the risk of marriage breakdown and divorce include early age at marriage, cohabitation and pregnancy prior to marriage, low education and income, parental divorce, non-traditional family values, previous marriage, and women's employment (Amato and Rogers, 1997; Glezer, 1994; Ono, 1998; Sarantakos 1994; White, 1990).

Some studies have attached great importance to financial problems as a reason for marriage dissolution (Burns, 1984; Cleek and Pearson, 1985, 1991). Carmichael et.al (1997) suggests that several of these demographic factors, such as young age at marriage, early pregnancy and low income, are interrelated. According to Kurdek (1993), in term of relationship dynamics, these demographic risk factors represent a general lack of preparation for or doubtful competency in performing marital roles or resolving interpersonal conflict constructively by either or both partners.

Other studies (Kitson and Holmes, 1992; Burns, 1984; Cleek, and Pearson, 1991) have associated lower socioeconomic status with alcohol and physical/emotional abuse as a reason for marital breakdown.

According to Tallman and Morgner (1970), where you stand economically will have a strong influence on your lifestyle and therefore on your attitudes towards courtship, marriage and the family. Traditionally, feelings of incompatibility, changed interests, unfair division of labour, or no longer feeling romantically attached as reasons for leaving a marriage were considered more likely to be the province of those in higher Socioeconomic Status positions while partners with lower Socioeconomic Status would require more dire instrumental reasons, such physical violence, alcohol abuse or lack of financial support, to leave a marriage.

Class differences in divorce rates illustrate the importance of stratification to family life. It was once commonly assumed that divorce was a luxury primarily available only to those who could afford it. Therefore, it was concluded, lower status people either separate informally or continue to suffer (Glick, 1957). But now that better data are available, it is known that the divorce rate varies inversely with the class level; that is, the higher the class level, the lower the number of divorces per capita. Indeed by 1967 it is reported that the lower class divorce rate is more than twice as high as that among the middle class (O' Neill, 1967).

There are important social class differences related to adjustment in marriage. This is true because the worlds in which marriage takes place are often very different. For example, lower class men and women have a greater tendency to live in separate social and psychological worlds with limited communication in marriage. But in the middle class there is generally a great stress placed on communication and shared activities and these are seen as closely related to adjustment in marriage. These differences are also reflected in what is felt to be important in marriage by social class (Bell, 1983).

Financial woes are a source of relationship strain, Vinokur, Price and Caplan (1996) studied 815 recently unemployed people and their partners. Financial strain made both individuals more depressed and led them to withdraw socially and to undermine their significant others.

Working women with young children in families in which both spouses' earnings are low are much more likely to report depression than married men, full-time homemakers, or employed married women who have no child-care or economic problems (Verbrugge, 1979; Gove, 1984; Anson, 1989).

Chilman (1975) has identified some basic problems of poor families as a whole. A majority of them are locked in by their particular situation, especially minority families and those family units headed by a woman. She notes a number of problems associated with being at the bottom of the income scale. These families have difficulty in moving to a city or state where they might have a better chance for work. They do not know exactly where to go and lack money resources to hang on until a new job comes along.

Some are old persons, who have great difficulty in getting jobs, or are past the retirement age. Poor families lack alternate incomes from savings, property, stock or other sources. Physical and mental health is often poor. There is frequent family breakdown as a result of separation, death and divorce. There is difficulty in effective family planning and these families cannot take advantage of educational opportunities, which are offered to them. All in all the entire picture is a very discouraging one. Family crises do not occur in these families, instead these families are in a constant crises state.

Money is a very common source of conflict. Arguments over money generally focus on how-- or how not-- to spend it. Conflicts over how money is spent may become particularly intense if a working wife has no input and feels that her husband's decisions are "unfair" (Blair, 1993). Income loss and insufficient financial resources are associated with family financial disputes and marital tensions (Nowak and Snyder, 1984).

Landis (1975) lists six areas of Marital Adjustment. They are religion, social life, mutual friends, in-laws, money and sex. Blood and Wolfe (1960) speak about eight areas of Marital Adjustment namely money, children, recreation, personality, in laws, roles, religion and sex. Mace (1982) sees ten areas of adjustment; values, couple growth, communication, conflict resolution, affection, roles, cooperation, sex, money and parenthood.

By observing two phenomenon i.e., economic problems and marital maladjustment in Pakistan, the question arises: whether there is any relationship between one's Socioeconomic Status and Marital Adjustment? The present research also investigated that whether the working women who belong to upper class would show better Marital Adjustment as compared to the working women coming from the middle and lower classes.

In the light of Literature review the following hypothesis was formulated:

Marital Adjustment would be more among working women of high Socioeconomic Status as compared to working women of low and middle Socioeconomic Status.

## **METHOD**

### ***Sample***

The present research study is based on a sample of 150 married working women. The sample was further stratified into three groups of subjects each consisting of fifty married working women. These groups comprised of low, middle and high socioeconomic classes. The ages of the subjects ranged from 25 years to 45 years with a mean age of 34 years. They were married for an average of 10 years with a minimum of 2 years and a maximum of 26 years. The mean monthly incomes of the subjects belonging to low, middle and high socioeconomic status were Rs. 10,482, Rs. 26,500 and Rs. 67,160 respectively. Their minimum educational level was graduation.

In order to avoid sampling error, respondents meeting the criteria but with these characteristics, were excluded from the sample a) respondents who did not complete questionnaires, b) respondents who were divorced, c) respondents who were not Pakistani nationals, d) respondents whose husbands were living abroad.

### *Procedure*

The present study is based on a sample of 150 married working women divided into low, middle and high socioeconomic classes. Based on the data contained in the Household Income and Expenditure Survey conducted by the Federal Bureau of Statistics (FBS) Government of Pakistan (April 2001) the average monthly household income was Rs. 5,770 and the categorization of income was in 11 groups, ten of these groups falling in an income bracket of Rs. 7,000 per month and below.

In order to formulate income groups for our present study we made an analytical study of the household expenditures as revealed by the household income and expenditure survey and found out that a correct categorization of low socioeconomic class would be based on expenditure pattern specially food. The expenditure on food among the lower socioeconomic class was as high as 37% to 50% as per Household Income and Expenditure Survey. In order to refine the data gathered from this source we also reviewed some data gathered from unpublished sources i.e. surveys conducted by commercial banks for their internal consumption. Out of the 11 categories of income given by the Household Income and Expenditure Survey, we have clubbed together certain categories and classified them in three socioeconomic classes i.e., high, middle and low (the definitions of these three classes are given under the heading of "Operational Definitions of Various Terms").

In the present study both partner's incomes have been taken into consideration while measuring the Socioeconomic Status. Traditionally, the income level of the primary earner, usually the husband determined the Socioeconomic Status assigned to the family. This conventional method of determining a family's social class works well when husbands are the sole earners in the family. However, few families today are comprised of a breadwinning husband and a full-time homemaking wife. Measuring the Socioeconomic Status of a dual income couple using the husband's income, alone is problematic. Failure to acknowledge woman's work contribution in dual income couples can also give an inaccurate picture of family's material life-styles.

Data was collected from various hospitals, commercial and educational institutions of Karachi. Formal permission for data collection was taken by contacting the subjects in their respective workplaces.

The subjects first completed the personal information questionnaire and then the Dyadic Adjustment Scale (Spanier, 2001).

### *Scoring*

After collection of data the answer sheets were scored. The Dyadic Adjustment Scale was scored according to the instructions given in the manual.

### *Statistical Analysis*

One-way Analysis of Variance (ANOVA) and Tukey's honestly significant difference test was done to compare the difference in the level of Marital Adjustment of working women belonging to low, middle and high Socioeconomic Status. Additionally one-way Analysis of Variance (ANOVA) and Tukey's honestly significant difference test was also done to compare the difference in the scores of the above three mentioned groups on the subscales of Dyadic Adjustment Scale.

### *Operational Definitions of Various Terms*

**Marital Adjustment:** is calculated by adding the total scores of the subscales of Dyadic Adjustment Scale. The four subscales as defined by Spanier (2001) are as follows:

**Dyadic Consensus:** assesses the extent of agreement between partners on matters important to the relationship, such as money, religion, recreation, friends, household tasks, and time spent together.

**Dyadic Satisfaction:** measures the amount of tension in the relationship, as well as the extent to which the individual has considered ending the relationship. High scores on Dyadic Satisfaction indicate satisfaction with the present state of the relationship and commitment to its continuance.

**Affectional Expression:** measures the individual's satisfaction with the expression of affection and sex in the relationship.

**Dyadic Cohesion:** assesses the common interests and activities shared by the couple.

**Low Socioeconomic Status:** (Households having a monthly income of Rs. 14,000 and below) – This income group is categorized as people spending a very high percentage of their income on food, transport and house rent. Their expenditure on items relating to personal appearance, cleanliness and laundry is minimal. For education they depend on government subsidized institutions.

**Middle Socioeconomic Status:** (Households having a monthly income of Rs. 14,000 to 30,000) – This group has a lesser amount of expenditure on food and spends more on personal appearance and education as compared to the lower socioeconomic group.

**High Socioeconomic Status:** (Households having a monthly income of Rs. 30,000 and above) – This class is categorized with people having a high emphasis on personal appearance, education and recreation as compared to the two above mentioned groups.

**Married Working Women:** The married working women in the present research are defined as those married women who are working outside their homes for which they are paid.

## RESULTS

**Table 1a**

**Analysis of Variance among Low, Middle and High Socioeconomic Status on the Variable of Marital Adjustment**

Source	SS	df	Ms	F	Sig.
<b>Between</b>	238.840	2	119.420		
<b>Within</b>	75845.320	147	515.955	.231	.794
<b>Total</b>	76084.160	149			

**F= .231, df (2,147), p>.05 indicates insignificant difference among low, middle and high Socioeconomic Status on the variable of Marital Adjustment**

**Table 1b**

**Tukey's HSD Analyses showing mean differences among the three Socioeconomic Classes on the Variable of Marital Adjustment**

(I) GROUP	(J) GROUP	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower	Upper
<b>Low</b>	<b>Middle</b>	-2.08	4.54	0.648	-11.06	6.90
	<b>High</b>	0.94	4.54	0.836	-8.04	9.92
<b>Middle</b>	<b>Low</b>	2.08	4.54	0.648	-6.90	11.06
	<b>High</b>	3.02	4.54	0.507	-5.96	12.00
<b>High</b>	<b>Low</b>	-0.94	4.54	0.836	-9.92	8.04
	<b>Middle</b>	-3.02	4.54	0.507	-12.00	5.96

Tukey's HSD indicates no significant mean differences among the three groups of Socioeconomic Status

**Table 1c**

**Table showing the Means, Standard Deviations and Standard Errors of Low, Middle and High Socioeconomic groups on the variable of Marital Adjustment**

Groups	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
Low SES	50	110.4600	27.0813	3.8299	102.7636	118.1564
Middle SES	50	112.5400	19.8394	2.8057	106.9017	118.1783
High SES	50	109.5200	20.5150	2.9013	103.6897	115.3503
Total	150	110.8400	22.5972	1.8451	107.1942	114.4858

**Table 2a**

**Analysis of Variance among Low, Middle and High Socioeconomic Status on the subscales of Dyadic Adjustment Scale**

Variables	Source	SS	df	Ms	F	Sig.
Dyadic consensus	Between	94.653	2	47.327	.382	.683
	Within	18229.620	147	124.011		
	Total	18324.273	149			
Dyadic satisfaction	Between	34.013	2	17.007	.244	.784
	Within	10258.680	147	69.787		
	Total	10292.693	149			
Affectional expression	Between	3.573	2	1.787	.217	.805
	Within	1210.000	147	8.231		
	Total	1213.573	149			

Table 2b

**Tukey's HSD, showing mean differences among the three groups of Socioeconomic Status on the subscales of Dyadic Adjustment Scale.**

Dependent Variable	(I) SES	(J) SES	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
DCN	1.00	2.00	-.2600	2.2272	.993	-5.4799	4.9599
		3.00	1.5400	2.2272	.768	-3.6799	6.7599
	2.00	1.00	.2600	2.2272	.993	-4.9599	5.4799
		3.00	1.8000	2.2272	.698	-3.4199	7.0199
	3.00	1.00	-1.5400	2.2272	.768	-6.7599	3.6799
		2.00	-1.8000	2.2272	.698	-7.0199	3.4199
DS	1.00	2.00	2.000E-02	1.6708	1.000	-3.8958	3.9358
		3.00	-1.0000	1.6708	.821	-4.9158	2.9158
	2.00	1.00	2.0000E-02	1.6708	1.000	-3.9358	3.8958
		3.00	-1.0200	1.6708	.814	-4.9358	2.8958
	3.00	1.00	1.0000	1.6708	.821	-2.9158	4.9158
		2.00	1.0200	1.6708	.814	-2.8958	4.9358
AE	1.00	2.00	8.0000E-02	.5738	.989	-1.4248	1.2648
		3.00	.2800	.5738	.877	-1.0648	1.6248
	2.00	1.00	8.000E-02	.5738	.989	-1.2648	1.4248
		3.00	.3600	.5738	.805	-.9848	1.7048
	3.00	1.00	-.2800	.5738	.877	-1.6248	1.0648
		2.00	-.3600	.5738	.805	-1.7048	.9848
DCH	1.00	2.00	-1.8400	1.0988	.215	-4.4153	.7353
		3.00	-.9400	1.0988	.668	-3.5153	1.6353
	2.00	1.00	1.8400	1.0988	.215	-.7353	4.4153
		3.00	.9000	1.0988	.691	-1.6753	3.4753
	3.00	1.00	.9400	1.0988	.668	-1.6353	3.5153
		2.00	-.9000	1.0988	.691	-3.4753	1.6753

1= Low Socioeconomic Status, 2= Middle Socioeconomic Status, 3= High Socioeconomic Status, DCN= Dyadic Consensus, DS= Dyadic Satisfaction, AE= Affectional Expression, DCH= Dyadic Cohesion

## DISCUSSION

The results of the research show that the difference between marital adjustment of the three groups is not significant,  $F = .231$ ,  $df (2,147)$ ,  $p > .05$ , (Table 1a). Tukey's Honestly Significant Difference test (Table 1b) also shows that there is no significant difference between Marital Adjustment of working women belonging to middle and high Socioeconomic Status ( $p > .05$ ), low and high Socioeconomic Status ( $p > .05$ ), and low and middle Socioeconomic Status ( $p > .05$ ). However (Table 1c) shows that working women belonging to high socioeconomic class (109.5) have a marginally lower level of Marital Adjustment as compared to women belonging to middle (112.5) and low (110.46) Socioeconomic Status. There is also no significant difference found between working women belonging to low, middle and high Socioeconomic Status on the subscales (Dyadic Consensus, Dyadic Satisfaction, Dyadic Cohesion and Affectional Expression) of Dyadic Adjustment Scale (Table 2a & 2b).

Money is the one thing that people say they argue about most in marriage, followed by children (Stanley & Markman, 1997). But, there is a lot of reason to believe that what couples argue about is not as important as how they argue (Markman, Stanley, & Blumberg, 1994). The way finances are handled in a marriage can represent underlying issues of power and authority in a relationship that may contribute to overall dissatisfaction.

The results of the research show that the difference between the Marital Adjustments of the three groups is not significant however working women belonging to high socioeconomic class have a marginally lower level of Marital Adjustment. The problems faced by married working women belonging to all three groups were quite similar. All the family members enjoy the economic advantages that their job brings, but dislike their changing role and status at home. They do not accept their neglecting traditional roles as result of their employment. A Pakistani woman gets more respect for her role rather than as a person. In few cases, however, working wives begin to think that they are not obliged to tolerate their "socially defined position" and believe themselves as capable as their husbands. This may hurt the male ego of Pakistani husbands, and thus bring multiple tensions to the marital relationship. Most of the respondents reported that they experienced an incompatible attitude of their spouses and other family members towards their multiple roles and status complex. This leads to less intimacy, sharing and talking on a daily basis.

According to Palen (1976), the situation of the upper class woman is rather different. Such women demand a high degree of independence while also expecting to find self-fulfillment in marriage. If they suffer disappointment on either of these counts or if the marriage interferes with their personal development or career, they may be more willing to consider divorce, since they are financially independent to afford it. This could be one of the reasons why the working women belonging to high Socioeconomic Status were not as adjusted in their marriages as the women belonging to middle and low class. Increased income can allay stresses caused by financial problems, but

tensions may increase when the division of household responsibilities is considered to be a burden on one spouse (Heaton and Blake, 1999).

In the present research the working women belonging to high Socioeconomic Status were highly educated and held a post-masters degree and had better incomes through their jobs. Therefore these women, in particular, increasingly reject the impersonal, tension-filled, and emotionally unfulfilling marriages that were taken for granted by some of our grandparents or even our parents. With education and occupation in their hands, these women do not need to rely on men for economic support, thus marriage is not an immediate concern anymore. One of the most likely reasons for their decline in Marital Adjustment is an increase in what they expect of marriage. Women belonging to high Socioeconomic Status expect greater levels of intimacy, emotional support, companionship, and sexual gratification, which eventually lead to discord and disappointment. One common assumption is that when wives increase their income, they are preparing for a divorce and independent living by reducing the economic barriers holding both spouses in the marriage (Levinger, 1976). Previous research provides support for the association between married women's economic resources and eventual divorce (Booth et al., 1984; Heidemann, Suhomlinova and O'Rand, 1998). Studying long-term marriages, Heidemann and colleagues indicate that increases in wives' employment or wages increase the probability of marital disruption.

The female interviewees belonging to high Socioeconomic Status believed that men think they are taking over male professional roles. This threatens men's sense of patriarchal power, and leads to marital disharmony. These working women also agree with their husbands that jobs empower women. The wives sense their husband's fear but surprisingly, these women themselves are not glad of it, due to the negative impact on their marital harmony. The women belonging to high Socioeconomic Status had similar income and education levels as their husbands. Kapur's (1970) data suggested that as long as the wife's job status, income, and total number of hours worked do not exceed their husband's, the degree of conflict may not be that acute. Like Kapur's work, the results of the present research also showed that the working wives who are superior to their husbands in educational and income levels, they are likely to suffer more tension and dissatisfactions in their married life. That means the more a working wife is successful in her job, the more she loses her success as a wife. Whereas, a successful man in his job will make him a desirable husband. It supports our traditional view that male to have a career and the female a job. Which implies that the males must have greater economic resources and powerful roles than the females.

An increase in wives' financial resources may affect subsequent marital quality by influencing marital power dynamics. Having more resources may encourage wives to initiate change in power relations, in the household divisions of labour, and in spousal roles more generally (Blood and Wolf, 1960; Blumstein and Schwartz, 1983). Although there is not a significant difference found in the Marital Adjustment of working women belonging to low, middle and high Socioeconomic Status, the results of the research indicate that women belonging to high socioeconomic class have the lowest level of Marital Adjustment.

Considerable shifts in power in the husband-wife relationship seem to occur when the wife is employed. In general the wife's power tends to increase. Thus, as the wife becomes employed she gains income independence and new contacts (resources) that increase her contribution to the marriage.

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*"If the feudal Knight was the clearest embodiment of society in the early Middle Ages, and the 'bourgeois' under Capitalism, the educated person will represent society in the post-capitalist society in which knowledge has become the central resource."*

**Drucker, P. *Post Capitalist Society*.**

## ARTICLE

## Why do Firms Manage their Earnings?

Zeeshan Ahmed

The topic of corporate earnings management has not only generated a great deal of media attention but it also has become a source of serious concern to regulators and policymakers. In the wake of the events that shook investors' confidence in the American financial reporting system in late 2001 and early 2002, the earnings management practices of firms have come under fire by shareholders groups, institutional investors and the financial press alike. To some extent, regulators have responded by proposing and enacting new rules and regulations<sup>1</sup>. Likewise, accounting and financial researchers are increasingly probing into this topic.

Prior studies identify several such incentives, which can be broadly classified as: capital market incentives, contracting incentives, and regulation-related incentives. This article covers a brief explanation of the sources and nature of these incentives along with summary of related research findings. But before we begin on incentives, we briefly present definition and nature of earnings management.

### Definition of Earnings Management

Below are some of the widely quoted definitions of earnings management found in the literature:

"... a purposeful intervention in the external reporting process, with the intent of obtaining some private gain (as opposed to, say, merely facilitating the neutral operation of the process)."... "A minor extension of this definition would encompass "real" earnings management, accomplished by timing investment or financing decisions to alter reported earnings or some subset of it." (*Schipper, K., 1989*)

"Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers." (*Healy and Whalen, 1999*)

Although earnings management is generally considered to occur within the framework of financial reporting, the first definition also accommodates earnings management through "real activities" such as timing asset sales, delaying maintenance, altering

<sup>1</sup>For example, the Sarbanes-Oxley Act of 2002, which President George W. Bush dubbed as "the most far-reaching reforms of American business practices since the time of Franklin D. Roosevelt".

R&D expenditure. While earnings can be managed through real activities, it is usually relatively more costly and less convenient for managers to do that. Also, it is methodologically difficult for the researchers to spot such manipulation. Researchers do not have a reliable mechanism to distinguish the real decisions undertaken to modify reported earnings from the ones undertaken solely for rational value maximization. For instance, if a firm sells assets near the end of an accounting year, it is difficult for the researcher to ascertain or demonstrate whether the primary motivation behind such a sale is to achieve an earnings target or operational efficiency. Therefore, most of the research in this area focuses on earnings management through pure accrual manipulation. In order to understand the true nature of earnings management, one needs to first appreciate the fine line between 'earnings management' and the legitimate application of accrual accounting.

### **Earnings Management and Accrual Accounting**

The primary objective of accrual accounting is to provide a better and more meaningful measure of a firm's current economic income and to be a better predictor of the firm's future performance than is available by examining cash flows. The idea is that the earnings number should be reflective of the economic substance underlying financial transactions rather than merely representing the cash receipts and payments for the period. But the analysis shows that the accrual process inherently produces a consistently smoother income number than cash flows. Expressed differently, earnings smoothing is an inherent property of Generally Accepted Accounting Principles (GAAP) based accrual accounting. Therefore, in practice, it is quite difficult to separate income smoothing arising from the implementation of GAAP based accrual accounting and that resulting from management of earnings. The definitions given above rely on managerial intent (as manifested in the words "with the intent of obtaining private gain..." or "...mislead...or to influence contractual outcomes...") to distinguish earnings management from faithful implementation of accrual accounting.

Both the definitions quoted above correspond to the opportunistic perspective of earnings management. The accounting literature takes two perspectives on earnings management: (1) an information perspective and (2) an opportunistic perspective. Under the opportunistic perspective, which has its roots in agency theory (see Jensen and Meckling, 1976), managers are assumed to manipulate earnings to mislead stakeholders or to maximize their (managers') personal benefit at the cost of other stakeholders' interests. "Information perspective", on the other hand, regards earnings management as a mechanism through which managers attempt to reveal their private information about future prospects of the company to the investors (see Holthausen and Leftwich, 1983). Most prior research in this area is based on the opportunistic perspective.

### **Earnings Management versus Fraudulent Reporting**

While not all attempts to manage earnings are outright fraud, many accounting irregularities that are later classified as fraudulent reporting by the SEC emanate from

seemingly naïve efforts of the firm to smooth income by engaging in earnings management. The National Association of Certified Fraud Examiners defines financial fraud as: “the intentional, deliberate, misstatement or omission of material facts, or accounting data, which is misleading and, when considered with all the information made available, would cause the reader to change or alter his or her judgment or decision.” Academics and regulators seem to agree on the notion that while earnings management can be exercised within the limits of GAAP accounting, fraudulent reporting necessarily entails overt violation of GAAP<sup>2</sup>.

### **Capital Market Incentives**

Although earlier earnings management research focused heavily on contracting and regulatory incentives ignoring the capital market motivations for managing earnings, recent studies have found capital market incentives to be a strong driving force behind managers’ attempts to manage earnings. Dechow and Skinner (2000) argue that “academic research should focus more on capital market incentives for earnings management”. The growing importance of capital market incentives in earnings management is directly related to the increasing sensitivity of managers to stock price movements.

Reported earnings are an important input for valuation decisions by investors, analysts, and other market participants. The fixation of market participants on earnings figures creates incentives for the managers to manipulate them in the direction which best serves their own interests. Several studies investigate whether or not firms manage earnings around various capital market transactions. These studies begin with analyzing managerial incentives to manage earnings in the context of such transactions. The analysis yields hypotheses about the direction of earnings management (income-increasing versus income-decreasing). Finally, parametric and/or non-parametric techniques are used to test the hypothesis about the presence, direction and extent of earnings management. The following paragraphs review selected studies falling in the aforementioned category.

DeAngelo (1988) and Perry and Williams (1994) analyze management buyouts and argue that in the presence of information asymmetries, managers acting in their own interest rather than in the interest of the shareholders would attempt to get a bargain price for the buyout. Accruals manipulation affords a convenient method for managers to understate earnings and thus the stock price. Although DeAngelo (1988) fails to find evidence in favor of her hypothesis, Perry and Williams (1994) document significantly negative discretionary accruals prior to a buyout.

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<sup>2</sup>*Examples of fraudulent earnings management include recording fictitious sales, and related receivables, deferring expenses that should be recognized in current period. A specific example would be WorldCom’s misclassification of a staggering \$3.8 billion of operating expenses as capital expenditures.*

Likewise, Teoh, Welch and Wong (1998 a and b) make a case for income-increasing earnings management prior to initial public offers (IPO's) and seasoned equity issues (SEOs). By engaging in income-increasing earnings management prior to these equity issues, managers can paint a favorable picture of a firm's prospects, thereby obtaining an attractive price for the newly issued stocks. They find that equity issuing firms typically have higher earnings prior to stock issues most of which is attributable to high discretionary current accruals. They also show that the post-issue underperformance is strongly predicted by the extent of upward earnings management at the time of issue. Further, the evidence indicated reversal of abnormal accruals in years subsequent to the equity issue. Rangan (1998) and Shivakumar (2000) provide similar evidence using quarterly data. Shivakumar (2000) uses a rational expectations explanation to account for earnings management and subsequent investor reaction. He contends that investors recognize and undo earnings management at the time of the announcement.

Similar incentives exist in cases of stock-for-stock mergers. The acquiring firm in such transactions has inducements to inflate the stock price around the agreement date, so that the purchase can be made by issuing fewer stocks. Therefore, it is in the interest of an acquiring firm to resort to income-increasing earnings management in periods before the merger agreement. Erickson and Wang (1999) show that not only are the discretionary accruals significantly positive prior to mergers, but their size has a significant relationship with the size of the merger. Louis (2004) shows evidence of acquiring firms using income-increasing current accruals in the quarter preceding a stock swap announcement. He relates post-merger underperformance of acquiring firms to the reversal of pre-merger earnings overstatement.

Beneish (1999), studying a sample of firms subject to SEC accounting enforcement actions, documents that managers are likely to sell their shareholdings and exercise stock appreciation rights when the earnings are overstated and share prices are inflated. Park and Park (2004) find that managers engage in income-increasing earnings management prior to the sale of shares by insiders. The degree of discretionary accruals prior to the sale was also found to have predictive power for stock underperformance after the insider sales.

Vafeas, Vlittis, Katranis, and Ockree (2003) find some evidence of relatively low discretionary accruals prior to self-tender offers. However, Chou and Lin (2003) observe that managers resort to inflating the stock price through the upward management of discretionary accruals around the share repurchase announcements. The authors argue that managers, through income increasing earnings management, attempt to enhance the credibility of the undervaluation signal sent to the market by the repurchase announcement.

Bartov and Mohanram (2004) document that managers overstate earnings before abnormally large stock option exercises in order to increase their payout. The post-exercise underperformance of the stock of such firms is reflective of the subsequent reversal of overstated earnings. Anthony, Bettinghaus, and Farber (2004) show that firms appear to increase discretionary current accruals around convertible debt offerings,

but fail to relate the discretionary accruals to the subsequent long-term underperformance of such issues.

Apart from the incentives spawned by the specific capital market transactions discussed above, strong incentives to manage earnings also arise in response to capital market pressures for meeting simple earnings benchmarks. Burgstahler and Dichev (1997) scrutinize the cross-sectional frequency distribution of earnings and changes in earnings and notice that the probability associated with observing small losses and small declines in earnings is lower than expected. Conversely, the incidences of small profits and small increases in earnings from the previous year are unusually high. In the absence of any purposeful managerial intervention in the financial reporting process, such statistical anomalies are highly unlikely. Therefore, the authors explain these distributional inconsistencies as arising from managerial motivation to avoid losses and earnings declines.

DeGeorge, Patel, and Zeckhauser (1999) present a hierarchy of benchmarks for quarterly earnings that managers attempt to achieve. Once firms have avoided losses and earnings declines, meeting analysts' forecasts becomes the next critical target. He provides evidence similar to Burgstahler and Dichev (1997) regarding distributional discontinuities around analysts' earnings expectations. Brown (1999) finds that over time the disruption in frequency distribution around these benchmarks has become even more pronounced. Kasznik (1999) shows that managers use discretionary accruals to increase income in cases where earnings are likely to fall short of management's forecast, and revise the forecast upward when earnings exceed their earlier forecast.

Myers and Skinner (1999), using a time-series approach, provide evidence that the firms manage earnings to show consistent earnings growth. In their sample, the number of firms reporting a continuous increase in earnings is unusually high. Further, they show that firms use special items and income tax provision for income smoothing.

### **Contracting Incentives**

Early research in earnings management focused on managerial motivations to manage earnings arising from firms' contracts with other stakeholders. Typically, terms of such contracts incorporated earnings figures as a key to certain payoffs to the parties involved (e.g., management bonuses) or as a mechanism for monitoring the compliance with contract terms (e.g., lending contracts). Managers enjoy a unique position in these contracts as they are, on one hand, a party to the contract (being affected by the outcome of earnings), and, on the other hand, perched at a vantage point to influence contractual outcomes by managing reported earnings. Under agency theory arguments, managers are expected to influence the earnings in a manner that would best serve their self-interest. Watts and Zimmerman (1978) identified managerial incentives to affect accounting choices in the context of bonus schemes, lending agreements, and taxes, as well as political costs. Below, we discuss major research works on earnings management related to two important contracts: earnings-based management compensation contracts and lending contracts.

**Compensation Contracts:**

Most companies tie managerial bonus awards to the reported earnings. Watts and Zimmerman (1986), using agency theory arguments, postulate that managers, acting to maximize the present value of their wealth, would attempt to choose those accounting procedures that would shift the reported earnings to the present period. Zmijewski and Hagerman (1981), in one of the earliest papers in this area, reported a significant association between management incentive contracts and income strategy (firm's accounting choices to arrive at income). Healy (1985), in a seminal work in 'bonus plan' research, documented a strong association between accruals and earnings-related incentives under bonus plans<sup>3</sup>. Healy (1985) treated the mean total accruals in the estimation period as a measure of non-discretionary accruals. Thus, discretionary accruals were defined as deviation from this mean. Specifically, the study found that managers tend to manage accruals downward when upper or lower bounds of their bonus plans are binding and upward when these limits are not binding. They also found evidence that adjustments in accounting methods are associated with modifications in the bonus schemes.

Gaver, Gaver and Austin (1995) extended Healy's work by using the Jones (1991) model and detailed proprietary dataset to gauge the behavior of discretionary accruals with respect to bonus schemes. Unlike Healy, they found that firms engage in income-increasing earnings manipulation when un-managed earnings fall short of the lower bound. Likewise, Holthausen, Larcker and Sloan (1995) confirmed Healy's findings of downward earnings management when the executive bonuses peak, but failed to find evidence for downward earnings management when earnings are below the lower bound. Guidry, Leone and Rock (1999) improved the methodology in this line of research by using business unit data rather than corporate level data. Consistent with Healy (1985), they find that business unit level managers for large conglomerate multinational firms are likely to resort to income decreasing accruals when the earnings target in their bonus plans will not be met and when they are entitled to the maximum bonuses allowed under the plans. Richardson and Waagelein (2002) showed that the firms having long-term performance plans engage in earnings management to a lesser extent than firms that have only short-term bonus plans.

Aside from bonus schemes, earnings management has also been linked to top executives' job security and other implicit incentives. DeAngelo (1988) shows evidence of income-increasing earnings management during proxy fights (a potential threat to managers' job security). Dempsey (1993) documents an inverse relationship between earnings management and managerial ownership. He attributed non-owner managers' job insecurity as a possible reason for this result. Gao and Shrieves (2002) relate the degree of earnings management to the design of compensation contracts. They show that earnings management is likely to be relatively more intense for firms having

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<sup>3</sup>Healy (1985) treated the mean total accruals in the estimation period as a measure of non-discretionary accruals. Thus, discretionary accruals were defined as deviation from this mean.

higher degrees of stock options or bonuses and lower proportions of salaries in the pay structure. Some evidence related to stock options is covered in the section on capital market incentives.

### **Lending Contracts:**

Debt contracts generally include accounting-based covenants for the protection of the lenders. Typically, these covenants require firms to maintain certain financial ratios (like leverage, working capital, fixed charge coverage, and related ratios), and impose restrictions on dividends as well as on borrowings. For those firms that are approaching the violation of accounting-based covenants, a tempting alternative to contravening the contract terms is to engage in income-increasing earnings management. Arguing along these lines, several accounting researchers investigated the earnings management behavior of firms facing covenant violation. For example, Press and Weintrop (1990) investigated the effects of accounting constraints of debt agreements on a firm's accounting choices. They show that accounting choices are significantly affected by both leverage and a leverage constraint indicator (a measure of the closeness to violating a leverage ratio covenant). More specifically, they find that firms resort to income increasing strategies in the presence of leverage constraints. Bartov (1993) documents a significantly positive relationship between the gains from asset sales and a firm's debt-to-equity ratio (which is a researcher's proxy for closeness to a covenant violation). DeFond and Jiambalvo (1994) provided evidence that the firms that eventually end-up violating covenants resort to income-increasing earnings management in the year preceding the violation. DeAngelo, DeAngelo and Skinner (1994) scrutinized the accounting choices of troubled firms (i.e., those firms with persistent losses and dividend reductions). They reported that such firms had significant income-decreasing accruals in the dividend-reduction-year and in the following three years, a time period during which these firms engaged in contract renegotiations with lenders, unions, and the government. Similarly, Sweeney (1994) finds evidence for income increasing accounting changes for firms approaching default. Furthermore, the covenant violators also managed earnings after the technical default, possibly to avoid future violations.

Thus the overall evidence on earnings management in the context of 'compensation' and 'lending contracts' suggests that these contracts induce managers to manipulate earnings to increase bonus remuneration and job-security and decrease the likelihood of technical default.

### **Regulatory Motivations**

Another potential source of earnings management incentives arises from government regulations. These incentives are more pronounced in cases where industries face heavier regulatory burden. Typically, regulators monitor certain accounting figures to ensure firms' compliance with industry-specific and anti-trust regulations, which in turn, motivates managers to manipulate accruals in the desired direction. These incentives are strong, especially when the firms are on the verge of violating the regulation. For instance, banks must comply with capital adequacy requirements. If

they fail to do so, they risk regulatory intervention in the form of restrictions on dividends, mandatory asset reduction, and ultimately, management dismissal. Therefore, banks that are near the minimum required capital are found to manage earnings upward to ward-off regulatory crackdown. Scholes, Wilson and Wolfson (1990) find evidence of earnings management from income from investment security transactions. Moyer (1990) shows that banks manage loan loss reserves and securities gains to manipulate earnings. Clinch and Magliolo (1993) show that bank managers use income from discretionary transactions (like miscellaneous gains and losses) to manage earnings. Collins, Shackelford and Wahlen (1995) find that loan write-offs, security issuances, and dividend payments are used to manage capital and loan loss reserves to manage earnings. Beatty, Chamberlain and Magliolo (1995) find that loan loss reserves, loan-write offs, and security issue decisions are jointly determined to manage primary capital ratios.

Apart from industry-specific regulations, incentives to manage earnings also stem from a host of other regulations. Specifically, firms facing adverse political consequences like anti-trust or anti-dumping investigations, have incentives to appear less profitable (Watts and Zimmerman, 1978). Similarly, firms seeking government subsidies or protection from foreign competition may attempt to win government sympathy by appearing to be financially weak. Jones (1991) documents that the firms undergoing import relief investigation by the U.S. International Trade Commission engage in income-decreasing earnings management so that they can obtain a favorable verdicts. Likewise, Cahan (1992) documents that firms that are under investigation for antitrust violations by the Department of Justice and the Federal Trade Commission manage earnings downward during the investigation period. Cahan, Chavis, and Elemendorf (1997) show that at the time when Congress was debating a proposal to impose environmental clean-up costs on the chemical industry, the firms in that industry exhibited income decreasing accruals. Key (1997) shows similar behavior on the part of cable television companies during Congressional investigations regarding industry deregulation. Han and Wang (1998) show that petroleum refining firms managed earnings downward around Iraq's invasion of Kuwait to hide excessive profits resulting from a steep surge in oil prices in order to avoid possible regulatory actions against them.

### **Big Bath Accounting**

One earnings management approach that deserves special mention when investigating firms' reporting behavior around adverse announcements (like product recall) is 'big bath' accounting. Under this approach, firms going through a particularly 'bad' year or quarter overstate their losses in an attempt to clean up their balance sheets and create a buffer which can be used to artificially inflate the earnings in future periods. Big bath accounting is manifested in sizeable asset write-offs as well as in income decreasing discretionary accruals.

Big bath behavior is encouraged by Wall Street's tendency to overlook large write-offs as one-time events and focus on future earnings. Firms can afford to overstate

their losses (i.e., take a big bath) because of the fact that investor reaction to adverse earnings news does not exacerbate proportionally to its intensity. Stated differently, the market reaction to an earnings announcement for a 15% shortfall in earnings may be only slightly more negative than the reaction to a 10% shortfall. Therefore, when the firms find that their earnings are far too short of market expectations so that even the plausible manipulation of discretionary items would not help them achieve the target, they might resort to taking a big bath instead. Remaining paragraphs in this section present a brief summary of prior findings on big bath accounting.

A typical context in which the big bath hypothesis has been most frequently explored is management changes. Moore (1973) investigated the prevalence of discretionary accounting decisions subsequent to management changes. He found the incidences of income decreasing accounting choices to be significantly higher in firms with management changes relative to firms with no management change. In a similar vein, Pourciau (1993) investigated firms' earnings management practices around non-routine executive changes. He found that incoming executives manage earnings downward and take large write-offs in the year of change and manage earnings upward in the subsequent year. Collins and DeAngelo (1990) provide similar evidence of income decreasing earnings management subsequent to management changes as a result of proxy contests.

Healy's (1985) work regarding bonus payments also lends support to the big bath hypothesis. Langer and Lev (1993) found that firms are likely to take large asset write-offs when earnings fall below the lower bound for bonus calculations. Abarbanell and Lehavy (2002) demonstrate that firms that receive unfavorable ratings (i.e., "Sell" recommendations) from analysts have weak incentives to meet earnings expectations. Consequently, these firms resort to taking a 'big bath' during such periods and they create hidden reserves that enable them to manage earnings upward in the future. This is evidenced by the presence of frequent and extreme negative discretionary accruals for such firms in those periods. On the other hand, firms that receive favorable analyst ratings (i.e., "Buy" recommendations), tend to engage in income-increasing earnings management to meet the analysts' expectations on a more frequent basis. Elliot and Shaw (1988) and Strong and Meyer (1987) provide evidence for association between large write-offs and firms' underperformance.

Overall, the empirical evidence is consistent with the theoretical framework developed by Kirschenheiter and Melumad (2002) where they show that both smoothing and big bath can coexist. They show that "for sufficiently 'bad' news, the manager under-reports earnings by the maximum, preferring to take a 'big bath' in the current period in order to report higher future earnings. If the news is 'good,' the manager smoothes earnings, with the amount of smoothing depending on the level of cash flows observed. He either over-reports or partially under-reports for slightly good news, and gradually increases his under-reporting as the news gets better, until he is under-reporting the maximum amount for sufficiently good news. This result holds both when investors are 'naïve' and ignore management's ability to manipulate earnings, and when they are 'sophisticated' and correctly infer management's disclosure strategy."

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***TWELVE QUESTIONS FOR EXAMINING THE ETHICS OF A BUSINESS DECISION***

1. *Have you defined the problem accurately?*
2. *How would you define the problem if you stood on the other side of the fence?*
3. *How did this situation occur in the first place?*
4. *To whom and to what do you give your loyalty as a person and as a member of the corporation?*
5. *What is your intention in making this decision?*
6. *How does this intention compare with the probable results?*
7. *Whom could your decision or action injure?*
8. *Can you discuss the problem with the affected parties before you make your decision?*
9. *Are you confident that your position will be as valid over a long period of time as it seems now?*
10. *Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?*
11. *What is the symbolic potential of your action if understood? If misunderstood?*
12. *Under what conditions would you allow exceptions to your stand?*

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**ARTICLE**

## Corporate Social Responsibility

Akbar Abdul Ali

**Abstract**

*This paper addresses fundamental questions of corporate governance that, why corporations need to accept responsibility for the social problems that plague our nation?*

*Discussion of corporate actions (i.e., mass layoffs, high CEO payoffs, discrimination in the work force) and how they are ultimately responsible for many of our social disorder (i.e., crime, suicide, alcoholism, domestic violence etc.). Article examines the corporate ethics and international business and how corporate law inhibits corporate social responsibility. I also discuss the philanthropic role of corporations to examine different perceptions of corporate ethics and its social responsibility which is generally lacking in Pakistan.*

**EXECUTIVE SUMMARY**

What is a corporation? While there are numerous definitions floating around, I think that a corporation most clearly can be defined as an invention of the state. That is, the state grants a corporate charter, upon request by an individual or group of individuals, which permits private financial resources to be used for public purposes. One of the main advantages to an individual “incorporating” his business is that in doing so he protects all of his personal assets and only that portion of the money that is invested in the corporation is at risk. In other words, creditors of the corporation cannot come after the individual’s private home and money to secure payment for the corporation’s debt. Sounds like a good deal, right? Well, during the early years, many believed the granting of corporate charters would assist in the expansion of the area in which the corporation existed. However, not everyone was in favor of granting corporate charters and viewed them as having the ability to attain great power and influence. In fact, one of the biggest victories for corporate power vests in the corporate law which stipulates that a corporation is an individual and, therefore, it is entitled to the same rights as a person. It was ruled that a private corporation is a natural person under the law, thereby entitling it to all the rights afforded to citizens of the country, including the right to free speech.

The ramifications of such a ruling are still felt today. By allowing the corporations these rights, we have effectively allowed them to influence government by lobbying legislators, use of the mass media, establish educational business schools, and donate money to political candidates. In essence, the corporations are allowed in all walks of government influence and have more power than an individual citizen who could never compete with the wealth and power of corporations.

### **What is Corporate Social Responsibility?**

Socially responsible businesses recognize that it makes good business sense to work in ways that demonstrate they care about the environment and the communities in which they operate. These organizations focus on the Triple Bottom Line. This is a measurement of business activity, which takes into account social, environmental and financial performance.

Now the question arises here that what are the benefits of socially responsible business practices? We live, work and trade in a global environment. This means that business operations have come under closer scrutiny by a growing number of technologically sophisticated and aware consumers who are increasingly concerned about their community, the environment and social justice. Large, successful corporations realize that a company's reputation is its key to business success. Information boom indicates that the socially responsible business practices have a positive impact on company's profits. Now finally the question which relates to corporate responsibility: What is Sustainability?

The past decade has witnessed a growing emergence of corporate reporting which has attempted to embody the sustainability concept. Sustainable development requires harmonizing the traditional focus of the financial bottom line with environmental and social aspects, with the underlying belief that the three spheres are interdependent and mutually enhancing. Corporations are adapting to 'sustainability' and developing new approaches to corporate reporting and accountability, recognizing the value of adopting the 'triple bottom line' approach.

Sustainability is defined as when your business delivers clothing, objects, food or services to the customer in a way that reduces consumption, energy, use, distribution costs, economic concentration, soil erosion, atmospheric pollution, and other forms of environmental damage. Sustainability adheres to the rule that "you should leave the world better than you found it, take no more than you need, try not to harm life or the environment, make amends if you do."

Aims of Ecological Sustainability: "redesigning organizations to contribute to sustainable economic development and the protection and renewal of the atmosphere." Aims of Human Sustainability: "building human capability and skills for sustainable, high level organizational performance and for community and societal well-being."

Emphasizing a company's economic goals does not mean forgetting social responsibility. Company should ensure people's health and safety, contribute to society, ecology, and human rights, be honest, be accountable, and actively consider stakeholders' needs (such as workers, consumers, investors, suppliers and local communities). It should pursue common interest with the stakeholders by making social responsibility part of its core mission. This can be described as "strategic philanthropic activity," and creates a Win-Win Business scenario in which both the company and the public benefit.

### **Ethics and Morality**

Ethics is the study of moral standards – the process of examining the moral standards of a person or society to determine whether these standards are reasonable or unreasonable in order to apply them to concrete situations and issues.

The ultimate aim of ethics is to develop moral standards that we feel are reasonable to hold – standards that we have thought about carefully and have decided are justified standards for us to accept and apply to the choices that fill our lives.

Morality is basically the standards that an individual or a group has about what is right and wrong, or good and evil.

Moral standards include the norms we have about the kinds of actions we believe are morally right and wrong as well as the values we place on the kinds of objects we believe are morally good and morally based.

Ethics is the discipline that examines one's moral standards or the standards of a society. It asks how these standards apply to our lives and whether these standards are reasonable or not. That is, whether they are supported by good reasons or poor ones. A person starts to do ethics when he or she takes the moral standards absorbed from family, religion, and friends and asks: What do these standards imply for the situations in which I find myself? Why should I continue to believe in them? What can be said in their favor and what can be said against them? Are they really reasonable for me to hold? Are their implications in this or that particular situation reasonable?

### **CORPORATE SOCIAL RESPONSIBILITY**

#### **The Issue**

What is the extent of a corporation's social responsibility?

Milton Friedman said that the “One and only one social responsibility of business [is] to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

In recent times, some people have come up with new ideas of corporate social responsibility. Sections of annual corporate reports are dedicated to social responsibility, universities have skillful chairs of corporate responsibility and mutual funds containing only “socially responsible” companies have been created, even though they consistently underperform. What then is required to be a good corporate citizen?

## **CORPORATE ETHICS AND INTERNATIONAL BUSINESS: SOME BASIC ISSUES**

### **Introduction**

Questions on ethical justification of human activity have occupied philosophers since ancient times. Whether Lao-tsu, Confucious, the writers of the good book, ethical thinkers: they all have comparable concepts of what is good and bad human behavior and what constitutes sensible human existence. Those of us wishing to discover suitable working principles can refer to Immanuel Kant, Max Weber, or Hans Jonas. One way or the other, no one today can claim that there are no interesting impulses for appropriate ethical reflection. However, anyone who examines the current social and environmental situation in the world is liable to disappointment on moral-philosophical practices.

Since the mid-seventies and increasingly since the beginning of the nineties, the ethical perspective has been moving more and more to the forefront of social thought. Every significant profession and every institution that thinks anything of itself has its "something ethics" to proclaim - environmental ethics, media ethics, research ethics, and even corporate ethics are the consequence. The latter has recently, along with environmental ethics, gained most in significance. There are now a great number of national and international books, seminars, symposia, professorships, ethics networks, and journals exclusively devoted to business ethics.

Why should this be so? Has there been a fundamental shift in social value systems and has the worth of ethical argument increased as a result? That would be an explanation, for when traditional ways of life and institutions are no longer taken for granted, philosophical ethics, guided by the idea of sensible human life, seeks generally valid arguments about good and just behavior in a methodical way. There is no need to point out that we are living in a time of great social change. If social change were to move in the direction of higher morals, then all social groups and institutions - including business enterprises - would be faced with new legitimation demands. Economic performance alone is no longer enough to give businesses legitimacy. Non-economic demands, e.g., the sustainable fulfillment of social and environmental responsibility in industrialized and developing countries, have been increasing their significance for legitimation for many years.

Or does the new interest in ethical debate stem from a publicly perceived violation of old "unspoken grounds for legitimation"? Is ethical thought so passionately in demand because existing morals are in such dire circumstances? There is at least the suspicion that those who talk a lot about ethics may be on a rather shaky moral footing themselves and are using ethical plausible excuses to soften a critical public. Looking over what has passed for "market economy" in many Eastern European countries following the demise of communism, one almost finds oneself agreeing with this argument.

Philosophical reflection is without doubt a fulfilling and intellectually challenging matter - also for those that bear responsibility in corporations. But if one wishes to do more than just get traditional moral philosophical knowledge over to people or preach romantic idealism, then ethics, including corporate ethics, must come down from its realm of “ideas” or “values” and establish itself in day-to-day reality. Acting responsibly would then not mean swearing faithfulness to higher notions of approvable behavior, but would emerge from a very worldly setting in which a corporation or individual's activity has to be justified in the light of different values in most societies. Such a debate will have to be based on real people with all their strengths and weakness, not on ideal people that we would all like to have but seldom meet.

Acting responsibly always and primarily means acting intelligently, i.e. carefully weighing up the benefits and harm that one's own actions can bring. All moral activity occurs on the basis of a balance between the realization of interests and the avoidance of physical, social, or even state sanctions. Here I share the view of the German philosopher and business consultant Rupert Lay “that people - privately, in corporations or other institutions - usually tend to act according to the principle of “marginal ethics”. In other words, they are prepared (consciously or unconsciously) to pay a mental, social, emotional, and financial price only in so far as they can expect a marginally higher mental, social, emotional, and financial return at least in the long-term. An institution's efforts to go beyond the level of marginal ethics lead to a higher common good, and that, in the final analysis, this again has positive effects for the institutions concerned.”

From this perspective, much of what is called “unethical conduct” is primarily unintelligent, occasionally even stupid behavior that focuses on supposed short-term advantages without considering mid- and long-term benefits. The inability of ethics is shown in the fact that most people choose to maximize their own benefits when economic and political decisions have to be made, and are only prevented from acting against the common interest by governments branching out into many walks of life. Intelligent action is acting in one's enlightened self-interest and thus compatible with the selfish tendencies in our societies. To assume that altruism and a holistic world-view are predominant human characteristics would be unrealistic.

There are two reasons that make it worthwhile to reflect on business ethics. One is that social change in the direction of a higher social and moral prescription is not only urgently necessary but also possible. The other is that moral enthusiasts who run the risk of originating when faced by institutional resistance are - at least in my view - the more attractive and lesser evil than thoughtless administrators of today. As per Hannah Arendt, who spoke of the “banality of evil” during the Eichmann trial in Jerusalem: I agree that “not demoniac evil, not unconscious hatred, biting rivalry, or destructive greed were the motives of the mass murderer - no, there were no deeper motives at all - just thoughtlessness, a failure to think, and dull observance of routine behavioral rules.”

So as not to be misunderstood - I am not comparing those in responsible positions in corporations and authorities with a mass murderer. But if there is a lack of thought in situations deciding the life and death of millions of people, how much more feasible is it in situations which are not of such vital significance? I presume that also today, the analysis of a situation in which an individual's action turned out to be "evil" will probably more often point to thoughtlessness, taking things for granted that should not be taken for granted at all, to self-justifications and clichés, than to circumstances where someone who really knew better was acting in an evil and destructive way.

## **THE PERCEPTION OF CORPORATE ETHICS**

### **Society's Perception**

If one consults the Holy Scriptures for the answer to the question of whether profit-oriented activity is compatible with behavior pleasing to God, then one will find little comfort in preaching, for instance, "A merchant shall hardly keep himself from doing wrong; and bargain shall not be freed from sin. Many have sinned for small matters." Even more modern commentaries on the compatibility of profit and morals are rather skeptical. It is said that the Austrian social critic Karl Kraus, in answer to a question from a student as to how one could study business ethics, declared that one could not, one had to decide on one or the other.

As regards the social acceptance of corporate ethics, too, matters look rather bad; in the last 10 to 15 years, society's image of private industry, and particularly of large corporations, has become shaped by skeptical unease. Many believe that a corporation cannot simultaneously have high principles and high profits. In fact, there is an increasingly common view that many corporations are ethically irresponsible, pursuing their profits unscrupulously at the cost of the environment and the safety and health of consumers.(1)

Another survey in 1990 focusing on business students brings little cheer either. In answer to the question "How ruthless are you prepared to be to get to the top of your chosen career?", 2% answered "extremely ruthless", 14% "very ruthless", and 39% "moderately ruthless". The same MBA students had a more than skeptical opinion of the moral state of the modern business world: 5% thought it had no morals at all, and 35% thought it had "very few" morals.

### **Executives' Self-Perception**

But evident problems emerge when management circles themselves are asked directly. In 1977, Brenner and Molander published a study (3) where 43% of the executives interviewed felt compelled to resort to practices they considered shady, but apparently found necessary for the survival of their companies and hence their own careers. One of the reasons underlying the sad state of affairs in this study was a performance appraisal system that concentrated almost exclusively on short-term financial results

criteria. Furthermore, Brenner and Molander report that most of the incentive schemes in operation primarily rewarded short-term cost-cutting, sales-boosting, profit-raising action irrespective of its long-term social and therefore also economic effects.

Various more recent studies of executives' moral perceptions of themselves confirm the existence of conflicts. (4) Executives often feel their decisions to be a choice between commercial necessity within the time limits of the profit and loss account and the demands of their conscience. A study by the Institute for Applied Marketing Science, (IFAM) revealed an interesting distinction: lower level executives or middle management often seem to feel more under pressure and to experience greater moral difficulties than upper level executives, who showed great interest in ethical questions.

An attitude familiar from the psychology of repression and projection is interesting in this connection: problems tend to be seen as having external causes (e.g., low moral standards in society), but positive solutions are sought internally, here from executives.(5)

### **Corporate Ethics as a Matter of Leadership**

Presumably, no one would argue that there should be an "either/or" relationship between ethical corporate conduct and the pursuit of profit. The words of former Federal Chancellor of Germany, Helmut Schmidt, had to say from a politician's point of view is also of great significance for executives: "We must all ask ourselves how we get from the state we are to the state we ought to be. Whoever tries to answer this question by proposing the shortest possible route from a purely ethical point of view runs a high risk of ending in practical catastrophe. Or, the other way round, whoever attempts the shortest possible route from a purely practical point of view can end in ethical disaster."

How can a business enterprise respond successfully to the day-to-day challenge of corporate ethics? In my view, with various instruments on three levels: firstly, "common sense" or "moral reason", secondly "corporate codes of conduct", and thirdly, "comprehensive personnel policies and holistic management development".

### **Moral Common Sense**

The following rules of thumb, referred to as moral common sense, are significant here (6)

- (a) Avoid harming others (b) Respect the rights of others (c) Do not lie or cheat
- (d) Keep promises and contracts (e) Obey the law (f) Prevent harm to others
- (g) Help those in need (h) Be fair (i) Reinforce these imperatives in others.

In order to be able to represent a point of view on a fairly firm footing, all the relevant facts have to be collected and illuminated and evaluated from different angles. This needs discussions on a broad basis to take account of all the pluralistic opinions and interests that there are. In view of the urgency and the complexity of many of today's

problems, thinking in old terms of right/left categories is no longer of much help. Ideological lines of demarcation or fundamentalist rejections do not improve the quality of solutions, on the contrary: prejudice acts like a wall, preventing our awareness of certain things.

If conflicting opinions (acceptable in form but hard in content) are considered a narcissistic offence in a company, then that company lacks more than just an opposition culture and ability to cope with conflict. Openness to pluralistic opinions is one of the essential conditions for the most comprehensive perception possible of reality. Especially for the social acceptance of industrial behavior, whose complexity and benefit-risk ratio is not easy for the lay public to grasp, the search for consensus in dialogue is vital for survival. A corporation that is not prepared to talk runs the risk of soon having no more to say.

Decision-making processes are difficult when they involve informed opinion outside the company that wishes to include its concerns and interests in solutions, but has other criteria than the economic and bases its judgement on other value systems. (7) On the one hand, dialogues are “open processes”, i.e., it cannot be planned how they will develop and the effects and consequences are visible only to a limited extent. On the other, dialogues do not automatically lead to agreement, and run the risk then of overflowing endlessly and getting involved in controversies that are less and less relevant instead of working out an acceptable practical compromise for both sides. Dialogues are particularly vulnerable if one or the other side sets itself up as morally superior or butts into other worlds normatively without sufficient expert knowledge.

Nevertheless, controversies must be argued out. Although the final decision on corporate policy lies within the corporation itself and cannot be transferred outside, the harmonization of controversial views is more sustainable through discussion than through power. All those involved must refrain from claiming superiority, think over their own positions, and if necessary revise them. Openness and pluralism are required, though not arbitrariness or cheap “tolerance” to avoid arguments. True dialogue, in this case, differs from manipulative persuasion and modern advertising by dealing critically both with the necessity of acting in an economically reasonable manner and with wider public interests.

Dialogue with various social groups and being prepared to listen to the opinions of people from a completely different world of thought who base their concepts of ethics on other systems of values can improve the quality of all types of solutions, not only those of corporate codes of conduct. Socrates' distinction between truth and certainty still has great meaning today: people can be very sure of their opinions and consider this subjective certainty to be the objective “truth”. The views of others who do not share this certainty are not “untrue” or “mistaken” - rather, one certainty is opposed to another.

### **Personnel Policy and Management Development**

At the beginning of this century, Max Weber, the eminent German sociologist, pointed out the particular responsibilities of leaders with the following words: "People who must make political or economic decisions on matters that affect other people's lives will, unless they have lost all reason, find themselves forced more and more to evaluate not only their ethical motivations, but also their decisions' likely consequences based on their knowledge and conscience." In a political context, Henry Kissinger pointed out that practical politics is always in danger of being overtaken by events and becoming thoroughly unprincipled, and declared that it was very difficult to carry out practical politics successfully without strong moral conviction. The same applies to managers in businesses and other institutions.

If we are convinced that profit, sales, or other commercial successes can never be ends in themselves but are only legitimate if they serve people and society, then the criteria for personnel recruitment and the content of management development should be extended idealistically. Yet another problem area has to be addressed: do institutions like corporations (or trade unions, parties, etc.) allow the people who work in them sufficient responsibility of their own? Or do they limit the development of their people, including their moral development, in an illegitimate way?

### **Good Ethics are Good Business**

Why should a company consider ethics in directing its behavior - on top of law, self-interest, and convention? The worst conceivable result of high moral standards would be competitive or other tangible loss because the special efforts and costs a company attaches to ethical consideration result in net disadvantages for it. There are a number of indications that the short-term profit from ethical conduct does not exactly burst into the limelight or even show clearly measurable financial disadvantage. It would be dishonest to exclude these effects as an option in action on corporate ethics.

On the other hand, there are many empirical examples in which unethical corporate behavior caused a great social outcry and intervention from the authorities, and presented no favorable options even in the short-term. In these cases it is easy to show that unethical conduct can be a burden on a corporation and that high ethical standards can be seen as an asset.

A second conceivable possibility is that financial disadvantages due to investments over and above those required by law (for instance in environmental, social, or safety areas) or withdrawing from sale for ethical reasons could be compensated and balanced out by non-financial advantages (e.g., the company's reputation). The problem here is that investments and falling sales are easier to measure than increased opportunities from an enhanced reputation.

At least for enlightened corporations, commercial success now means more than just how big the year's profit is. Profits to companies are like food to people: an absolute necessity, without which they die. But only a few - sick - people would consider eating to be the central or only purpose of life. The reputation of a company is one of its most valuable assets, even if it does not appear directly in the balance sheet (that's why most accounting bodies therefore suggest that "goodwill" should become a balance-sheet item). The verdict of the public depends significantly on the company's perceived contribution to socially valued ends. Meeting customer requirements in the extended sense, i.e., acting in a socially and environmentally responsible way and using energy and non-renewable resources wisely, are important blocks in the mosaic of commercial success.

A third possibility is that ethical dealing might be worthwhile from both the financial and non-financial points of view. I personally tend to see this as the most likely possibility, at least in the mid- and long-term, for the following reasons:

#### **Reduction in the cost of friction with the social environment**

First and foremost, ethical conduct brings reductions in the cost of friction with the social environment (for private individuals and institutions). For corporations, social friction costs arise where behavior which is legal but seen as illegitimate or unethical leads to calls for boycotts from religious or other social organizations. Whether a critically committed public demonstrates in front of the works gates, charitable organizations set up wailing walls, or the media "put on pressure" through critical reporting-for the corporation concerned, this means loss in social recognition. Whether this leads to a fall in the share price or physically measurable sales losses occur or not are of secondary importance. Criticism "from outside" generally means that management capacity is taken up with defensive activity and is therefore not free for the shaping of the future. Intelligent corporations forbid dealings that could provoke negative social reactions.

On the other hand, there is growing evidence that a corporation's "image" can become a competitive advantage because a "positive coefficient" arises. This can become a decisive market advantage where a corporation offers products and services that are comparable in quality and usefulness with those of other companies. In the USA, there are a number of indications that so-called "green consumers" represent an increasingly important niche in various sales markets, and companies that are environmentally exemplary and go beyond the minimum legal requirements can gain market advantages.

#### **Employees' Motivation**

Other costs can arise through friction with one's own employees. The fact that a company is the focus of public criticism (but also in a situation where employees see that colleagues are promoting their careers in an unethical way) can have disastrous results for morale and job satisfaction in a corporation. In the mid- and long-term, this

can lead to valuable employees looking for other work and leaving the corporation. As employees are a corporation's most valuable "capital", this alone is reason enough why unethical conduct cannot lie in a corporation's interests.

Various empirical studies reveal a positive correlation between ethical conduct in a corporation and job satisfaction. Where top management is seen as giving strong support for ethical conduct, job satisfaction increases together with the degree of employee identification with the corporation. Everything points to the conclusion that a positive reciprocal relationship exists between "job satisfaction" and "ethical conduct". Applied business ethics become a component of "corporate identity", the totality of value systems, thought and decision patterns, modes of behavior, and structures within a corporation that transmits a positive "**us-feeling**" to employees and thus boost motivation to work.

The fact that corporate behavior which is at least frictionless but wherever possible goes beyond marginal ethics also prompts customers to buy and motivates serious investors to purchase shares, and that the direct neighbors (residents, communities) look to the corporation with pleasure and pride reinforces employees' positive identification. What formulated for individuals also applies to whole corporations: they are not just what they are, but also what they have set themselves as ideals. Even if they do not emulate these one hundred per cent, a part of their being is marked by the mere fact of wanting to.

There are a number of indications that corporations whose ethical conduct is considered above blame are seen as more attractive employers than those which have been publicly criticized due to failure to recognize their responsibilities or even due to willful damage to the welfare of the community or the environment. A poll of business studies students carried out in 1990 by the Basel company Prognos AG revealed that 88% regard "work satisfaction", 67% a "good working atmosphere", and 66% a "job that makes sense" as an important criterion in choosing an employer. These are all factors, which can hardly be true of companies where Greenpeace demonstrates in front of the factory gates to call for a boycott.

Corporations are now no longer measured on what they produce, but on what they present. The strength of such trends can of course change again, especially when the labor market develops unfavorably for those seeking employment. But an increasing number of citizens, whether as employees or consumers, are taking ethical viewpoints seriously - more seriously than 10 or 20 years ago.

### **Protection of Commercial Freedom**

Many of those with responsibility in corporations are complaining about an increasing and already too dense jungle of laws, stipulations, and directives. Commercial freedom, the complaint goes on, can no longer exist within the ever-narrower straitjacket of state regulations - too many rules endanger the industrial success. There is a good deal

of evidence that such complaints have a grounding in reality in many respects, and that “less state” can have a promising effect on corporate commitment.

Freedom is, however, always freedom as ethical duty and may thus be demanded only as a correlate of responsibility. Anyone who wishes to help avoid further regimentation of the economy and correct inappropriate legal developments must offer plausible proof of ethically responsible conduct.

Ethically responsible corporate dealings mean dealings beyond the status quo, active shaping and forward-looking ethical equilibrium. Whoever maintains a running battle on the basis of current law to defend positions that might have been based on a consensus many years ago but which are now regarded as illegitimate and will be even more so in the future, is not being business like but negligent. Such companies support those social forces that demand more controls, narrower legislative chains, and thus more state bureaucracy.

### **Business Ethics as Comprehensive Competitive Advantage**

Innovation, efficiency, effectiveness, the ability to utilize market potential optimally, recognize the signs of the times, and the art of saving costs and expense in the right place at the right time will continue to be of greatest importance alongside all the other corporate virtues. However, an additional element will gain in significance: applied business ethics. It will become more and more a new, solid basis for competitive ability, breaching the limits of classical markets. The more affluent a society is, the more significant non-material values become. Corporations that act in a visibly ethical way will be preferred by informed consumers more and more. This fact will become a problem for those corporations that ignore moral aspects, and for others it will be an opportunity to get to the very top.

### **How Corporate Law inhibits Social Responsibility**

It is disturbing to realize that the many social ills created by corporations stem directly from corporate law. It dawned on us that the law, in its current form, actually inhibits executives and corporations from being socially responsible. Making people aware of this problem we must build consensus to change the law so it encourages good corporate citizenship, rather than inhibiting it.

The provision in the law I am talking about is the one that says the purpose of the corporation is simply to make money for shareholders. Every jurisdiction where corporations operate has its own law of corporate governance. But remarkably, the corporate design contained in hundreds of corporate laws throughout the world is nearly identical. That design creates a governing body to manage the corporation – usually a board of directors – and dictates the duties of those directors. In short, the law creates corporate purpose. That purpose is to operate in the interests of shareholders. The typical duty of directors in some Section of the Business Corporation act, which reads:

*.....the directors and officers of a corporation shall exercise their powers and discharge their duties with a view to the interests of the corporation and of the shareholders.....*

Although the wording of this provision differs from jurisdiction to jurisdiction, its legal effect does not. This provision is the motive behind all corporate actions everywhere in the world. Distilled to its essence, it says that the people who run corporations have a legal duty to shareholders, and that duty is to make money. Failing this duty can leave directors and officers open to being sued by shareholders.

These sections dedicate the corporation to the pursuit of its own self-interest (and equates corporate self-interest with shareholder self-interest). No mention is made of responsibility to the public interest. These sections and their counterparts explain two things. First, they explain why corporations find social issues like human rights irrelevant – because they fall outside the corporation’s legal mandate. Second, these provisions explain why executives behave differently than they might as individual citizens, because the law says their only obligation in business is to make money.

This design has the unfortunate side effect of largely eliminating personal responsibility. Because corporate law generally regulates corporations but not executives, it leads executives to become inattentive to justice. They demand their subordinates “make the numbers,” and pay little attention to how they do so. Directors and officers know their jobs, salaries, bonuses, and stock options depend on delivering profits for shareholders.

Companies believe their duty to the public interest consists of complying with the law. Obeying the law is simply a cost. Since it interferes with making money, it must be minimized – using devices like lobbying, legal hairsplitting, and jurisdiction shopping. Directors and officers give little thought to the fact that these activities may damage the public interest.

Lower-level employees know their livelihoods depend upon satisfying superiors’ demands to make money. They have no incentive to offer ideas that would advance the public interest unless they increase profits. Projects that would serve the public interest – but at a financial cost to the corporation – are considered naive.

Corporate law thus casts ethical and social concerns as irrelevant, or as stumbling blocks to the corporation’s fundamental mandate. That’s the effect the law has inside the corporation. Outside the corporation the effect is more devastating. It is the law that leads corporations to actively disregard harm to all interests other than those of shareholders. When toxic chemicals are spilled, forests destroyed, employees left in poverty, or communities devastated through plant shutdowns, corporations view these as unimportant side effects outside their area of concern. But when the company’s stock price dips, that’s a disaster. The reason is that, in our legal framework, a low stock price leaves a company vulnerable to takeover or means the CEO’s job could be at risk.

In the end, the natural result is that corporate bottom line goes up, and the state of the public good goes down. This is called privatizing the gain and externalizing the cost.

This system design helps explain why the war against corporate abuse is being lost, despite decades of effort by thousands of organizations. Until now, tactics used to confront corporations have focused on where and how much companies should be allowed to damage the public interest, rather than eliminating the reason they do it. When public interest groups protest a new power plant, or mercury poisoning, the groups don't examine the corporations' motives. They only seek to limit where damage is created (not in our back yard) and how much damage is created (a little less, please).

But the where-and-how-much approach is reactive, not proactive. Even when corporations are defeated in particular battles, they go on the next day, in other ways and other places, to pursue their own private interests at the expense of the public.

I believe the battle against corporate abuse should be conducted in a more holistic way. We must inquire why corporations behave as they do, and look for a way to change these underlying motives. Once we have arrived at a viable systematic solution, we should then dictate the terms of engagement to corporations, not let them dictate terms to us.

We must remember that corporations were invented to serve mankind. Mankind was not invented to serve corporations. Corporations in many ways have the rights of citizens, and those rights should be balanced by obligations to the public.

Many activists cast the fundamental issue as one of "corporate greed", but that's off the mark. Corporations are incapable of a human emotion like greed. They are artificial beings created by law. The real question is why corporations behave as if they are greedy. The answer is the design of corporate law.

We can change that design. We can make corporations more responsible to the public good by amending the law that says the pursuit of profit takes precedence over the public interest. I believe this can best be achieved by changing corporate law to make directors personally responsible for harms done.

Let me give an example of how directors' responsibility works in the current system. Under Companies & SECP Laws, directors are held personally liable for false and misleading statements made in prospectuses used to sell securities. If a corporate prospectus contains a material falsehood and investors suffer damage as a result, investors can sue each director personally to recover the damage. Believe me, this provision grabs the attention of company directors. They spend hours reviewing drafts of a prospectus to ensure it complies with the law. Similarly, everyone who works on the prospectus knows that directors' personal wealth is at stake, so they too take great care with accuracy.

That's an example of how corporate behavior changes when directors are held personally responsible. Everyone in the corporation improves their game to meet the challenge. Since the potential penalties are so severe, directors are on the side of caution. While this has not eliminated securities fraud, it has over the years reduced it to an insignificant percentage of the total capital raised.

I propose that corporate law be changed in a similar manner – to make individuals responsible for seeing that the pursuit of profit does not damage the public interest. To pave the way for such a change, we must challenge the myth that making profits and protecting the public interest are mutually exclusive goals. The same was once said about profits and product quality, like before Japanese manufacturers taught USA otherwise. If we force companies to respect the public interest while they make money, business people will figure out how to do both.

The specific change I suggest is simple: add 26 words to corporate law and thus create what I call the “Code for Corporate Citizenship”. This would mean amending some section to add the following clause. Directors and officers would still have a duty to make money for shareholders,

*.....but not at the expense of the environment, human rights, the public safety, the communities in which the corporation operates or the dignity of its employees.*

This simple amendment would effect a dramatic change in the underlying mechanism that drives corporate wrongdoing. It would make individuals responsible for the damage companies cause to the public interest, and would be enforced much the same way as securities laws are now. Negligent failure to abide by the code would result in the corporation, its directors, and its officers being liable for the full amount of the damage they cause. In addition to civil liability, the courts would have the right to criminally prosecute intentional acts. Injunctive relief – which stops specific behaviors while the legal process proceeds – would also be available.

Compliance would be in the self-interest of both individuals and the company. No one wants to see personal assets subjected to a lawsuit. Such a prospect would surely temper corporate managers' willingness to make money at the expense of the public interest. Similarly, investors tend to shy away from companies with contingent liabilities, so companies that severely or repeatedly violate the Code for Corporate Citizenship might see their stock price fall or their access to capital dry up.

Many would say such a code could never be enacted. But they're mistaken. I take heart from a 2000 Business Week/Harris Poll that asked people which of the following two propositions they support more strongly:

- *Corporations should have only one purpose – to make the most profit for their shareholders – and pursuit of that goal will be best for people in the long run.*

--or--

- *Corporations should have more than one purpose. They also owe something to their workers and the communities in which they operate, and they should sometimes sacrifice some profit for the sake of making things better for their workers and communities.*

An overwhelming 95 percent of people chose the second proposition. Clearly, this finding tells us that our fate is not sealed. When 95 percent of the public supports a proposition, enacting that proposition into law should not be impossible.

If business people resist the notion of legal change, we can remind them that corporations exist only because laws allow them to exist. Without these laws, owners would be fully responsible for debts incurred and damages caused by their businesses. Because the public creates the law, corporations owe their existence as much to the public as they do to shareholders. They should have obligations to both. It simply makes no sense that society's most powerful citizens have no concern for the public good.

It also makes no sense to endlessly chase after individual instances of corporate wrongdoing, when that wrongdoing is a natural result of the system design. Corporations abuse the public interest because the law tells them their only legal duty is to maximize profits for shareholders. Until we change the law of corporate governance, the problem of corporate abuse can never fully be solved.

### **Balancing Bottom Line Concerns with Social Responsibility**

Social responsibility must be inherent in an organizations' objective strategy, simply to aid the well being of society. However, without bottom line concerns, social responsibility cannot be implemented. In most cases, a company or organism must make a profit before it can contribute to a society in dyer need. Hence, when the business entity is profiting, social integrity can be regarded as preminent concern.

For example, the Vermont ice cream giants Ben & Jerrys, who pride themselves on philanthropy, donates 7.5 percent of their profits to charity. If more organizations engaged in this activity, society would be more equal, hence, more stable. However, without overhead being met, the super premium ice cream gurus wouldn't have a chance with secondary concerns such as monetary philanthropy.

According to Levi Strauss, Chairman and Chief Executive Robert Haas: "The organization needs to be an ethical creature - an organism capable of both reaping profits and making the world a better place to live."

The profits exist, hence in theory, Levi's can afford the practice of ethical concerns. For example, they do not conduct business with those who violate their stringent standards of work environment and ethics. The conglomerate pulled an astounding \$40 million worth of business out of a vast Chinese market. This act was in protest of human rights violations.

The laborious task of balancing bottom line concerns with social responsibility demands careful analysis. The firm concern of public relations and ethical integrity weighs substantially in the planning for a companies continued success.

### **Wise Management or Public Relations Strategy?**

The weight of Public Relations is tremendous. When a company performs philanthropy, people are impressed. This contributes to overall image, thus, sales of products and/or services can only increase.

For example, The Calvert Group, a mutual fund company, demonstrated social zeal in prohibiting investments in companies that produce guns, cigarettes and vodka. Hence, an angelic image was produced. This in turn increased overall business with other entities that appreciate what the mutual fund company did.

When the Body Shop decided to use simple, natural ingredients harvested without harm to the environment, and for the benefit of indigenous people, business escalated. Hence, the image of third world sensibility proved advantageous.

The concept of public relations seems to weigh higher than all things considered regarding the implementation of performing that which is utilitarian, or, the greatest good for the greatest number. For example, a company contributing money to clean harbors or to make drinking water healthier would certainly publicly announce the respective endeavor.

Societal improvement is drastically needed. Hence, it is imminent that corporations make a serious effort to incorporate this. However, there must be a pay back for the company or the philanthropy is not feasible. Ideally, there are ways that companies can contribute to society and be rewarded simultaneously. Theoretically, through corporate philanthropy, everyone is happy and quality of life increases.

### **Personal Philosophy**

Today, it appears as if there are more problems on a macro scale than ever before. Therefore, social responsibility by organizational entities is more important than ever. Governments are relied upon to allocate tax money to the well being of society. For example, lifestyles of the mentally ill and homeless could be improved. Also, the world's environmental conflict is currently exponential. This includes the extinction of flora and fauna.

Perhaps there is absolutely no way the government can do enough. Hence, organizations need to contribute. However, in doing this, the very important issue of public relations is improved. In addition, the company gains enormous tax benefits.

I still believe that more incentives are needed for corporations to help improve the future holistic entity of the earth. The overall issues at stake are the environment, and the human quality of life now, and in future generations.

Perhaps the greatest incentive to participate in social good is social good itself. People and organizations need to be aware of problems. This constitutes public relations campaigns by the government, profitable companies and even the non-profit sector. Although steps are currently being taken to improve life on earth, greater measures must be implemented in order for our species to increase its quality of life, rather than diminishing it.

## **RECOMMENDATIONS**

### **Corporate codes of conduct for sensitive matters**

Not everything that is legal is legitimate. An internationally active corporation, which has to function in different legal and social frameworks and which strives for uniform ethical standards, is well advised to develop codes of conduct for its sensitive activities. There is no prior harmony between corporate or individual profit and what is to be preferred from a social point of view. Indeed, there is a whole set of potential conflicts that a corporation needs to think about how to minimize.

Corporate codes of conduct are defined here as standards of behavior, which a corporation adopts without being compelled to by law, but which then become binding on all employees, in order to minimize potential conflicts arising from undesirable effects of normal business activity on society and environment. Such corporate codes of conduct make it clear that the management of the corporation is not indifferent to how business goals are achieved.

As a kind of negative ethics at least, corporate codes of conduct rule out what the corporation believes to be clearly unacceptable behavior. As Wilhelm Busch said, "All the good beneath the sun is always bad you haven't done."

Of some importance here is the question of whether one should almost imperialistically enforce one's own standards in cases of doubt, or whether one should opt more for an "ethical relativism" that argues for doing what the Romans do when in Rome. Even though one can concede that many traditional ways of thinking and behaving are based on sound assumptions, there are a number of situations where a corporation should have the courage to apply its own standards and philosophy and not that of the different social and cultural framework of the host country.

Sensitive areas might be, for instance, marketing, information policy, environmental protection, animal experiments, research policy, or other areas for other fields. Ethically acceptable maneuverability must be clarified and its effects on people, environment, and society analyzed. In a phase of evaluation and weighing up, the desirable and undesirable must be defined and formulated.

In practice, it happens again and again that types of behavior occur in a corporation, which the corporate codes of conduct in force would forbid. The following is a developed criteria, which can increase the practical effectiveness of internal codes of conduct.

**Criteria for the formulation of corporate codes of conduct**

- The principles of the code must be tailored to the specific corporate culture - merely taking over general codes is not enough.
- The code of conduct addresses those activities of the corporation which are particularly sensitive or which concern the greatest vulnerability (legal, socio-political, and other).
- Corporate codes of conduct have to be pragmatic, i.e., they must reflect the circumstances of the corporation and should only set standards which can reasonably be expected to be followed.

**Criteria for the implementation of corporate codes of conduct**

- Firstly, a communication program must ensure that all persons affected by the code of conduct actually know and understand it. It is not enough merely to distribute it, the content should be explained and someone made available to answer questions.
- There should be at least one person who may be approached in confidence (ombudsperson).
- Employees should certify in writing that they have read, understood, and complied with the code of conduct in their work.

**Criteria for the enforcement of corporate codes of conduct**

- Work with codes of conduct only makes sense if the managers concerned are accountable for its objectives.
- Audit committees, ombudspersons, a hot line or other means should ensure that employees could have their concerns taken up by the appropriate office.
- Violations of the code of conduct must be investigated and resolved. The message should be clear and leave employees in no doubt: violation of the code leads to penalties, including dismissal, and that irrespective of whether the violation had positive or detrimental consequences for the corporation.

As not only corporations but also probably all the world's institutions have a tendency to be self-referential, i.e., to live in a rather closed value and interest system, it is important that corporate codes of conduct are based on a broad social consensus. They should therefore not only reflect the philosophy of corporate management, but should, prior to their adoption, be seriously challenged by external, independent review and as far as possible result from a consensus based on dialogue.

In his discussion of the state (politeia), Plato state a hierarchy of behaviors by means of which “insight into things” can be gained or the way to truth be found. At the top is “understanding”, followed by “sense (thought)”, “belief (what is thought to be true)”, and then mere “supposition”. Even today, in many situations it seems valuable and appropriate to draw attention to this hierarchy.

## **CONCLUSION: A FINAL WORD**

### **Charitable Giving: A Corporate Responsibility?**

If you're lucky enough to live in a community that is vibrant and active, you're sure to be tapped to participate on a committee, sponsor an event, or contribute in some way to a non-profit organization. But how can you be a good corporate citizen without draining your resources? And, more importantly, why should you contribute?

Whether you're a one-person operation or have one million employees across three continents, you might want to pay attention to what your involvement—or lack thereof—says about you. Quite simply, to participate in your community is good business. It creates a good impression, and it's been known to bring in new business.

Now, let's take care of the nay (no) sayers. Some businesses claim that if they give to one, they would feel obligated to open the door to others. Others say they get calls everyday from someone asking for a donation, so they use the “Just Say No” philosophy.

But you don't have to break the bank to help out groups that ask for some kind of assistance. And there is no obligation to help out everyone who calls; you got to choose.

You can make it easy on yourself by considering some charitable giving in your yearly budget. (the company's marketing plan included the community relations component or donations). If you're particularly fond of a specific non-profit organization or community event you feel is worthwhile, you can target your donations in that direction. The corporation might also consider stretching out its contributions among several worthy causes, and you can vary these from year to year. That way, your community involvement is more widespread, and new groups or events have a chance at getting some funding.

Groups or organizations that rely on donations report that more and more donors are asking for recognition. So, in this day of the shrinking charitable rupees, organizations are becoming more creative in acknowledging donors. For the business owner, this could be a form of what I call “back door advertising”. If you can't give rupees, you should consider other ways to help. These are often called “services in kind”:

- Serve on a committee for a community event.
- Accept a board position for a local non-profit organization when asked.

- Encourage your employees to become involved in community organizations or special community events (and pay them for the time they're away from the job, if possible).
- Offer to run off event flyers (printed notice, handbill, etc.) on your copier. (You don't have to run off 5,000, but if you do 500 and other businesses run off 500, no one gets hit too hard.)
- Offer to make some phone calls to other businesses asking for donations or services in kind.
- Set aside a place in your store or window for community events flyers.
- Offer to distribute flyers to other businesses on your street.
- Shift the focus of your regular advertising by offering to place an ad about the event with your local media. For example: "ABC Company is proud to welcome Art Council's Annual Fireworks on February 5." You've killed two birds with one stone: you've gotten good exposure for your business, and you've connected it to a positive experience.

Just as in rupee donations, recipients of in-kind services should also acknowledge such contributions because, for a businessperson, time or resources translate into rupees.

Your business community also needs you to make decisions on issues that impact your neighborhood, your community and the economic climate. The fastest way to effect changes within a system is to get into a leadership position within it.

So, the next time upon receiving a call asking for donations, consider these scripts:  
1) "I'm sorry, but I've already committed to a number of community events this year, but if you'll send me a letter with your request, I'll give it consideration next year."  
2) "Sorry I can't give you money this year, but can I help another way?"  
3) "I've budgeted some money for donation this year. Tell me more about your group."

#### **NOTES & REFERENCES**

See Business Week of May 29, 1989, p. 29. According to a representative survey conducted by the Institute for Applied Marketing Science in the German Federal Republic in 1989, the large chemical companies seem to come in for particularly heavy criticism: one of the questions was "Which company is especially irresponsible, immoral, unethical?" 18.8% of those questioned named BASF, 18.2% Bayer, and 12.6% Hoechst. Nevertheless, there were some positive indications: 5.2% considered BASF "particularly exemplary"; Bayer achieved 2.4% and Hoechst 1.9% here.

T M Gautschi F H: Will the Ethics of Business Change? A Survey of Future Executives, *Journal of Business Ethics*, Vol. 7 (1988), p. 231.

Brenner S N Molander E Al. Is the Ethics of Business Changing?, *Harvard Business Review*, Jan/Feb 1977, pp. 57-71.

See for example, Vitell and Festervand 1987: *Business Ethics: Conflicts, Practices and Beliefs of Industrial Executives*, *Journal of Business Ethics*, Vol 6, (1987), pp. 111-122.

Goodpaster K E. *Ethics in Management*, Harvard Business School, Boston 1984, p. 6.

With all the differences in value systems, at least a minimal consensus about commonly accepted values is necessary, otherwise a dialogue can achieve no constructive results. Fundamentalist positions of “never” and “no way” can never lead to compromises.

*Concept and Cases in Business Ethics*. Prentice Hall, 2001.

George A Steiner and John F. Estiner. *Business, Government and Society, A Managerial Perspective*, 7th Edition, McGraw-Hill, International Edition.

*Social Responsibility means:*

*“The businessman’s decisions and actions taken for reasons at least partially beyond the firms direct economic or technical interest.”*

**Keith-Davis.** *“Can Business Afford to ignore Social Responsibilities?”*, *California Management Review*, Spring 1960.

## ARTICLE

## Random Walk Tests for KSE-100 Index: Evidence and Implications

Abdul Rashid

### Abstract

*The variance-ratio tests are used to test the random walk hypothesis for Pakistan's stock exchange. The evidence indicates that the stock prices generally do not follow random walk over the entire examined period. This piece of evidence is robust during the second sub-period. During the first sub-period, however, the stock prices do not behave non-randomly. The absence of a random walk is implying that profitable trading rules can be devised. The findings also show that the Karachi Stock Exchange falls back to normal after being dramatically affected by a shock.*

### 1. Introduction

The issue whether stock prices follow random walk or not has been hotly debated between finance practitioners and finance academics for a long time. The random walk hypothesis has also occupied an important place in modern finance. It is not, therefore, surprising that it has been widely tested resulting in a large empirical literature, which includes a small number of studies of the Pakistani equity market.

The random walk in stock prices implies that investors cannot foresee future prices using past price movements and earnings are completely a matter of luck. In contrast, if market does not follow random walk, there are sufficient profit opportunities to compensate investors for the cost of trading and information gathering. Thus, an investor can use available information about corresponding prices for predicting the future returns. Therefore, it is very important for investors, financial services providers, finance policy makers, and finance academics to know the behavior of stock markets. In addition, this analysis has very useful implications for both hedgers and speculators. Most hedgers do not employ continuous hedges. Instead, they select the times at which they want protection against adverse changes. Definitely, knowledge of market fluctuations can be used for effective hedging.

The core objective of this study is to investigate whether the Pakistani equity market behaves like a random walk vis-à-vis the market has a tendency to slip back/mean revert. To proceed with this, the study used variance-ratio tests developed by Lo and Mackinlay (1988). One main advantage of the variance-ratio tests is to report the average level of autocorrelations of increments. Since the variance-ratio minus one is approximately  $q-1$  times the weighted sum of the first  $q-1$  autocorrelation coefficients. Thus, they provide more robust results than any fundamental test of random walk. We find a negative autocorrelations of weekly increments in the KSE-100 index. According to Leroy (1973) and Locus (1978), however, the existence of autocorrelation in financial assets does not necessarily imply any market inefficiency.

Positive autocorrelation of stock returns implies a slow adjustment of stock prices to new information (both insider & outsider information). In contrast, negative autocorrelation of stock returns may be an indicator of departures from fundamental values. Moreover, the presence of negative serial correlation indicates that the risk factors involved in stock returns may vary overtime. One possible interpretation of the negative serial correlation in the return series is that market overreacts to “news”, that is, following the first dramatic reaction to a shock, the market falls back to normal. This view is consistent with the permanent/transitory components model, which basically says that stock markets are driven by a fundamental component that reflects the efficient market prices and deviations from efficiency and this component reverts to something that is close to zero in the long-term (Risager (1998)).

The remainder of this paper is laid out as follows: Section 2 presents the literature survey. In this section, the study also reviews some empirical studies on the Pakistani stock market. Section 3 demonstrates the data sources. The stock returns estimation, the random walk hypothesis and empirical methodology also discussed in this section. Section 4 presents the empirical results and finally Section 5 summarizes and provides concluding remarks.

## 2. Literature Review

Samuelson (1965) was the first study that seriously applied the random walk hypothesis to financial markets. The title of his article: “Proof that Properly Anticipated Prices Fluctuate Randomly”, itself provides a neatly summarized summary of his findings. In an informationally efficient market price changes must be unpredictable if they are properly anticipated.

Laurence (1986) tested the random walk hypothesis for Singapore and Malaysia Stock Exchanges. Using closing prices for 16 stocks and 24 stocks respectively from Malaysia and Singapore, he found that both stock exchanges are slightly far from random walks with 0.078 and 0.041 mean absolute serial coefficients respectively for Singapore and Malaysia. In addition, he reported that the distribution of equity returns is leptokurtic in both markets.

Lo & MacKinlay have designed the variance-ratio test in 1988 to test the random walk hypothesis (RWH)<sup>1</sup>. They compared variance estimators derived from data at various levels of frequencies for weekly stock returns in the New York Stock Exchange and American Stock Exchange for a period of over 32 years. They improved the variance ratio test by taking overlapping periods and corrected the variances used in estimating the statistic for bias. They also proposed a heteroscedasticity-robust variance-ratio test

<sup>1</sup>Before Lo & MacKinlay (1988), Campbell and Mankiw (1987), Fama and French (1987), and Huizinga (1987) have also estimated variance ratios in a variety of contexts; however, these studies do not provide any formal sampling theory as like Lo & MacKinlay (1988).

statistic to test the heteroscedastic random walk hypothesis. The analysis indicated that the random walk hypothesis strongly rejected for the entire sample period of 1962-85 and for all subperiods for a variety aggregate return indexes and size-sorted portfolios.

The study results also pointed out positive autocorrelation for weekly holding-period returns. The rejection of the random walk hypothesis by Lo & Mackinlay (1988) was mainly due to the behavior of small stocks; however, they cannot be attributed entirely to the effects of infrequent trading or time-varying volatilities. In addition, they reported that the rejection of the random walk for weekly returns does not support the mean reversion hypothesis.

Kim and Startz (1991) analyzed the random walk process of stock prices by using weekly and monthly returns in five Pacific-Basin stock markets. They found that the mean reversion in stock prices was only a phenomenon of the pre-World War II period. Moreover, their results based on variance-ratio tests indicated that there is a positive serial correlation in stock returns.

Pan, Chiou, Hocking & Rim (1991) used the variance-ratio test to examine the stock market behavior for five Asian countries including Japan, South Korea, Hong Kong, and Taiwan. They employed daily and weekly stock return for a five-year sample period. They rejected the null hypothesis of randomness for both daily and weekly returns for Singapore and Korea and accepted the null hypothesis in case of Japan. The null hypothesis for Hong Kong daily returns index and the Taiwan weekly returns index were also rejected. Furthermore, their results indicated that all the returns index based on the five market indices were positively auto correlated except for Japan.

Natividad and Santamaria (1997) tested the random walk hypothesis in the Spanish Stock Market. They used daily data on individual stocks from January 1980 to December 1992. Their results provide evidence against the random walk hypothesis. The results, based on simple correlation tests, show that there is a strong correlation with nonlinear dependence among daily returns. Furthermore, they used the variance-ratio test, which is robust to heteroscedasticity, and have urged that the rejection of the random walk hypothesis cannot be attributed completely to the effects of time varying volatilities. They concluded that the price changes can be potentially predictable at least in short time spans.

Risger (1998) investigated the mean reversion in Danish Stock Market. His study covers the period since World War I, from 1922 to 1995 with newly constructed Danish data set. The results based on variance-ratio test rejected the random walk hypothesis at 2-year horizons and accept the null hypothesis of randomness for both 3- and 4-year horizon returns. However, his results based on simple autocorrelation test supported the mean reversion hypothesis at all horizons.

Shiguang and Barnes (2001) used a simple serial correlation, runs and variance-ratio tests to test the weak-form efficiency hypothesis for both the Shenzhen and Shanghai Stock Markets. They use aggregate index and individual share data for daily, weekly, and monthly frequencies over the period from December 1990 to April 1998 for the Shanghai Stock Market and from April 1991 to April 1998 for the Shenzhen Stock Market. The findings rejected the weak-form efficient market hypothesis for both the said China's markets

Parameswaran (2002) employed variance-ratio tests to testing the random walk hypothesis. Using weekly returns derived from daily returns for a period of 23 years, he found that eight out of ten size sorted portfolios do not follow a random walk. In addition, he also examined that non-trading is not a source of serial correlation in the large sized firms.

#### **Previous Empirical Studies of the Pakistani Stock Market**

Khilji (1993) examined the time-series properties of the Pakistani equity market. His study used monthly indices. He employed more than one method namely an error-correction model, first-order autoregressive model, and the Kalman Filter technique to investigate the dynamic fluctuations of monthly stock returns. He reported that the stock returns in Pakistan do not follow normal distribution. The distribution of stock returns is generally positively skewed and leptokurtic. The findings also pointed out the linear dependence for some indices. In addition, he found that the expected stock returns are constant and equal to long-term expected monthly returns. However, as reported by the author, these results are surprising for a developing economy and there are needs to further investigate the behavior of stock returns in Pakistan by using weekly or daily stock returns.

Jun and Uppal (1994) employed a simple autocorrelation test to analyze the time varying aspects of the Karachi Stock Exchange. The study used the monthly IFC indices as well as monthly share prices for 20 companies. They reported that the autocorrelation coefficients are statistically significant at 5 percent level for indices. In contrast, the estimated test statistics do not provide any rejection of the independence hypothesis for 17 out of the 20 individual stocks. Therefore, the authors concluded that there is, generally, no serial dependence in the Pakistani market.

Khilji (1994) explored the nature of equity returns in Pakistan. He conducted BDS methodology, developed by Brock, Dechert, and Scheinkman on both returns derived from weekly indices and residuals from an autoregressive model. He reported a strong non-linear dependence in six out of the eleven indices. Moreover, the author suggested the use of non-linear stochastic models like 'GARCH' to estimate the returns.

Husain (1997) employed the simple serial correlation test and Ljung-Box Q-statistic to test the independence hypothesis as well as he examined the distribution of stock returns through frequency distribution. He used daily data adjusted for volumes,

dividend (cash and stock), and rights issues, for the general market index, 8 sector indices, and 36 individual stocks for the period January 1, 1989 to December 30, 1993. He concluded that the Pakistani equity market does not follow random walk. The study results provided evidence of the presence of strong serial dependence in stock returns and indicated the slow adjustment of the market to new information. Finally, he has claimed that the equity returns in Pakistani stock market cannot be characterized by the normal distribution.

Husain (1998) investigated the Ramadhan effect in the Pakistani equity market. The study covers the period from January 1, 1989 to December 30, 1993. His results based on GARCH model provided evidence that there is a significant decline in stock returns volatility in this month, however, the mean return indicated no statistically significant change<sup>2</sup>.

### 3. The Random Walk Hypothesis (RWH)

There are two fundamental implications of the random walk model:

1. Expected future returns are unpredictable in both short and long spans.
2. The variance of a sample is proportional to the sampling interval.

The testing of first hypothesis implies that the successive values of a time series are uncorrelated<sup>3</sup>. It means the series has a unit root. Thus, the information about historical changes of a time series is ineffective for prediction of future changes. This hypothesis has parallel importance for both investors and policymakers. As a series does not follow random walk then an investor may increase the expected returns by using a historical piece of evidence.

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<sup>2</sup>The literature reviewed clearly shows that there is conflicting evidence on the issue of stock prices behavior in Pakistan. Therefore, this issue needs further investigation. This study differs from those studies that examine the behavior of Pakistani stock market in a number of ways: First, it employs most recent financial data. Previous studies employed data for the period when Pakistani stock markets were underdeveloped (lack breath and depth). Second, this study employs the Lo-Mackinlay (1988) variance-ratio test separately under homoscedasticity and heteroscedasticity, which also reports the weighted sum of the first  $q - 1$  autocorrelation coefficients, and thus provides more robust results than fundamental tests of Random Walk Hypothesis. Third, Pakistan conducted nuclear tests on May 28, 1998. The stock market behavior might have been affected due to this structural change. Therefore, this study tests the random hypothesis for pre-tests periods and after tests periods separately.

<sup>3</sup>If the returns of two stocks,  $X$  and  $Y$ , are independent, but  $Y$ -stock trades less frequently than  $X$ -stock, then the price of  $X$ -stock will respond more quickly when news affecting both stocks arrives, as a consequence, the return on  $Y$ -stock will appear to respond with some lag to the return on  $X$ -stock, i.e., there will be cross-correlation between the returns on  $X$ -stock and  $Y$ -stock.

This hypothesis has been extensively tested in a number of ways. Examples include significance of parameters in a returns prediction model (for instance, a Q-test from an AR(k) model), technical analysis (see, for example, Neftci (1990) or Bessembinder and Chan (1995), filter rules (examples include Fama and Blume (1966) and Grier and Albin (1973), or through the serial correlation test (see for details, Husain (1997))<sup>4</sup>.

Second hypothesis deals with testing the variance of a time series' return is linear in the observation interval. It means the increments are uncorrelated. This hypothesis also has been tested severely. The first major among these is Lo & Mackinlay (1988). They investigated, based on Hausman (1978) results, that the sampling distributions of variance ratios over different sampling intervals and develop a test statistic based on this idea. The other studies including Peterba & Summers (1988), Richardson & Smith (1994), and Pan, Chiou, Hocking & Rim (1991) have also been tested this hypothesis.

This hypothesis has also several important implications for investors and researchers. It is very important, for an investor, to explore the risk of investment in securities. An investor has interest to know the possibility of profits and losses. Furthermore, it provides information about the pattern of returns. However, some earlier studies have claimed that the pattern of returns is as normal distribution (see, for example, Errunza and Losq (1985)). On the other hand, some studies have reported that returns distribution is leptokurtic (see, for instance, Hsieh (1988), and Contingency Analysis (1997)). A leptokurtic distribution's tails are slimmer or longer with a higher peak relative to a normal distribution.

This study focuses on testing second hypothesis for the Pakistani stock market. This is not only because there are some important departure from the random walk that unit root test cannot detect, also because the autocorrelation aspect may yield interesting implications for alternative models of stock prices. For this purpose, the Lo and Mackinlay's variance-ratio tests are employed.

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<sup>4</sup>However, these tests have several drawbacks that are given below:

1. Do not consider heteroscedasticity.
2. Do not have a standard normal distribution (asymptotically).
3. Do not report the average level of autocorrelation.

### Testing Methodology

The random walk null hypothesis suggests that the variance of a sample is linearly associated with sampling interval. Hence, the variance of the q-period return must be equal to the q times the variance of the one-period return:

$$\frac{Var(SR_t^q)}{q \times Var(SR_t)} = 1 \quad \{1\}$$

where q is any integer greater than one. The alternative hypothesis will be the ratio of the variance of the q-period return to the variance of the 1-period return divided by q is not equal to 1<sup>5</sup>. To explain the variance-ratio test, let  $SP_t$  be the natural log of a stock price at time t (i.e.,  $SP_t \equiv \ln(P_t)$ , where  $P_t$  is a stock price). A simple recursive relation as:

$$SP_t = \alpha + SP_{t-1} + \xi_t \quad \{2\}$$

where  $\alpha$  is an arbitrary drift parameter and  $\xi_t$  is the random disturbance term. Suppose that  $2n+1$  observation  $SP_0, SP_1, \dots, SP_{2n}$  of  $SP_t$  at equally spaced intervals are obtained and consider the following estimators for the unknown parameters  $\alpha$  and  $\delta_0^2$ :

$$\hat{U} \equiv \frac{1}{2n} \sum_{k=1}^{2n} (SP_k - SP_{k-1}) = \frac{1}{2n} (SP_{2n} - SP_0) \quad \{3\}$$

$$\hat{\delta}_a^2 \equiv 2 \frac{1}{n} \sum_{k=1}^{2n} (SP_k - SP_{k-1} - \hat{U})^2 \quad \{4\}$$

$$\hat{\delta}_b^2 \equiv 2 \frac{1}{n} \sum_{k=1}^n (SP_{2k} - SP_{2k-1} - 2\hat{U})^2 \quad \{5\}$$

The variance of  $\hat{\delta}_b^2$  is based on the differences of every other observation; alternative variance estimators may be defined by using the differences of every qth observation. Let us suppose the  $nq+1$  observation  $SP_0, SP_1, \dots, SP_{nq}$ , where q is any integral greater than 1. Define the estimators:

$$\hat{U} \equiv \frac{1}{nq} \sum_{k=1}^{nq} (SP_k - SP_{k-1}) = \frac{1}{nq} (SP_{nq} - SP_0) \quad \{6\}$$

$$\hat{\delta}_a^2 \equiv \frac{1}{nq} \sum_{k=1}^{nq} (SP_k - SP_{k-1} - \hat{U})^2 \quad \{7\}$$

$$\hat{\delta}_b^2(q) \equiv \frac{1}{nq} \sum_{k=1}^n (SP_{qk} - SP_{qk-q} - q\hat{U})^2 \quad \{8\}$$

<sup>5</sup>While this variance-ratio would be exactly equal to one only under homoscedasticity, it still approaches one under the specification of the heteroscedasticity in Lo & Mackinlay (1988).

On the base of equation (6–8), a more convenient test statistic is given as, which is called ratio of variance and denoted by  $J_d$ :

$$J_d(q) = \frac{\hat{\delta}_b^2(q)}{\hat{\delta}_a^2} - 1$$

Under the finite-sample properties, the  $J_d(q)$  test will convert in more powerful test:

$$M_r(q) = \frac{\hat{\delta}_c^2(q)}{\hat{\delta}_a^2} - 1$$

where

$$\hat{\delta}_c^2(q) \equiv \frac{1}{nq^2} \sum_{k=q}^{nq} (SP_k - SP_{k-q} - q\hat{U})^2 \quad \{9\}$$

This differs from the estimator  $\hat{\delta}_b^2(q)$  since this sum contains  $nq - q + 1$  term, whereas the estimator  $\hat{\delta}_b^2(q)$  contains on  $n$  terms. Finally, by using the unbiased variance estimators, the M-statistic as define<sup>6</sup>:

$$\bar{M}_r(q) = \frac{\bar{\delta}_c^2(q)}{\bar{\delta}_a^2} - 1$$

where

$$\bar{\delta}_a^2 \equiv \frac{1}{nq-1} \sum_{k=1}^{nq} (SP_k - SP_{k-1} - \hat{U})^2 \quad \{10\}$$

$$\bar{\delta}_c^2(q) \equiv \frac{1}{m} \sum_{k=q}^{nq} (SP_k - SP_{k-q} - q\hat{U})^2 \quad \{11\}$$

$$m = q(nq - q + 1) \left(1 - \frac{q}{nq}\right) \quad \{12\}$$

For an aggregate value  $q$  of 2, the  $\bar{M}_r(q)$  can expand as

$$\bar{M}_r(q) = \hat{\rho}(1) - \frac{1}{4n\bar{\delta}_c^2} \{(SP_1 - SP_0 - \hat{U})^2 + (SP_{2n} - SP_{2n-1} - \hat{U})^2\} \equiv \hat{\rho}(1) \quad \{13\}$$

<sup>6</sup>  $\bar{M}_r(q)+1 = \frac{\bar{\delta}_c^2(q)}{\bar{\delta}_a^2}$  is called variance-ratio and generally denoted by  $VR(q)$ .

Hence, for  $q = 2$  the  $\overline{M}_r(q)$  statistic is approximately the first-order autocorrelation coefficient estimator  $\hat{\rho}(1)$  of the differences. More generally, it may be shown that:

$$\overline{M}_r(q) \cong \frac{2(q-1)}{q} \hat{\rho}(1) + \frac{2(q-2)}{q} \hat{\rho}(2) + \Lambda + \frac{2}{q} \hat{\rho}(q-1)$$

where  $\hat{\rho}(k)$  is the  $K^{\text{th}}$  order autocorrelation coefficient estimator of the first differences of SP<sup>7</sup>. Hence, the variance-ratio can be written in terms of the autocorrelation function (ACF) for the returns – it is simply a declining weighted sum of the first  $q - 1$  autocorrelation coefficient estimators of the first differences (returns).

### Testing the Random Walk Hypothesis

The null and alternative hypotheses are defined as:

$$H_0: \frac{\overline{\delta}_c^2(q)}{\overline{\delta}_a^2} = 1 \quad (\text{series follow random walk})$$

$$H_a: \frac{\overline{\delta}_c^2(q)}{\overline{\delta}_a^2} \neq 1 \quad (\text{series does not follow random walk})$$

After deriving an asymptotic distribution of the variance ratios, two alternative statistics are derived to test the null hypothesis for different specifications of error term behavior.

#### a. The Homoscedastic Standard Normal Test-Statistic, $Z(q)$

This test statistic considers an independent and identical distributed normal error term. Therefore, the standard normal test statistic for homoscedastic increments is computed as follows:

$$Z(q) = \frac{\overline{M}_r(q)}{\{\eta(q)\}^{1/2}} \stackrel{a}{\approx} N(0,1)$$

where  $\eta(q)$  is the asymptotic variance of variance-ratio under homoscedasticity, defined as:

$$\eta(q) = \frac{2(2q-1)(q-1)}{3q(nq)}$$

<sup>7</sup>However, the Box-Pierce  $Q$ -statistic is a linear combination of squared autocorrelations with all the weights set identically equal to unity.

### b. The Heteroscedastic Standard Normal Test-Statistic, $Z^*(q)$

A rejection of the Random Walk Hypothesis because of heteroscedasticity would not be of much interest. Hence, to avoid this, the heteroscedasticity-consistent standard normal test statistic is employed, which relaxed the assumption of normality. The heteroscedasticity-robust test statistic is defined as follows:

$$Z^*(q) = \bar{M}_r(q) / \sqrt{\hat{\theta}(q)} \approx N(0,1)$$

where  $\hat{\theta}(q)$  is the heteroscedasticity-consistent asymptotic variance of the variance ratio:

$$\hat{\theta}(q) = \sum_{j=1}^{q-1} \left[ \frac{2(q-j)}{q} \right]^2 \hat{g}(j)$$

where

$$\hat{g}(j) = \frac{\sum_{k=j+1}^{nq} (X_k - X_{k-1} - \hat{U})^2 (X_{k-j} - X_{k-j-1} - \hat{U})^2}{\left[ \sum_{k=1}^{nq} (X_k - X_{k-1} - \hat{U}) \right]^2}$$

This study used both the homoscedasticity test statistic,  $Z(q)$  and heteroscedasticity-robust test statistic,  $Z^*(q)$  to test the behavior of stock prices<sup>8</sup>.

### The Data

To test the random walk in stock market prices, the study uses the KSE-100 index over the 450-week time span from January 1, 1995 to December 30, 2004. The weekly stock returns are derived from daily stock prices. The weekly returns are computed as the return from Wednesday's closing prices to the following Wednesday's close. If the following Wednesday's price is missing, then Thursday's price is used. If Thursday's price is missing, the return for that week is reported as missing. The data is obtained from the Vital Information Services (ViS) databases.

<sup>8</sup>If the Random Walk Hypothesis is rejected under homoscedasticity and is accepted under heteroscedasticity then one can say the series does not follow random walk due to heteroscedasticity. In contrast, if the rejection of the Random Walk Hypothesis is consistent under homoscedasticity and heteroscedasticity tests statistic, then the series does not follow random walk due to autocorrelations of increments.

#### 4. Empirical Results and Analyses

Using 1-week as our base observation interval, the Random Walk Hypothesis is tested by calculating the variance-ratio  $1 + \overline{M}(q)$ ,  $\eta(q)$ , and  $Z(q)$  for each of the cases  $q = 2, 4, 8$  and  $16$ . In addition, the heteroscedasticity-consistent variance-ratio test is also performed by calculating the  $1 + \overline{M}(q)$ ,  $\theta(q)$ , and  $Z^*(q)$  for each of the cases  $q = 2, 4, 8$  and  $16$ .

The actual variance ratios  $1 + \overline{M}(q)$  are reported in main rows and the variance-ratio tests,  $Z(q)$  and  $Z^*(q)$  statistics are given in parentheses in Table 1a and 1b, respectively. In Table 1a, the first row presents the variance-ratios and tests statistics for the entire 384-week sample period, and the next two rows give the results for two subperiods from January 1, 1995 to May 27, 1998 with a total of 174 weekly observation, and from May 28, 1998 to December 30, 2004 with a total of 276 weekly observation.

Table 1a reveals that under the maintained hypothesis of homoscedasticity, there is evidence rejecting the Random Walk Hypothesis at two values of  $q$  (when  $q = 2$  and  $4$ ) out of the four values for the entire sample period. For example, the  $Z$ -statistics associated with intervals  $q = 2, 4, 8$  and  $16$  are  $-3.25, -2.75, -1.03$  and  $-0.82$ , respectively. Compared with the conventional critical value (which is  $1.96$  for the five percent level), two out of these four  $Z$ 's indicate that the variance-ratio is significantly different from one at five per cent level. The Random Walk Hypothesis is therefore rejected for the market index for two out of the four interval lengths examined. Note that as shown in Lo and Mackinlay (1988), the variance-ratios associated with each  $q$  are not independent of each other. In fact, it is shown explicitly in Lo & Mackinlay that the variance-ratio (for each  $q$ ) minus one is approximately  $q-1$  times the weighted sum of the first  $q-1$  autocorrelation coefficients. Under this scenario, the probability of rejection when one of the four statistics is large and three of them are small (as in the case of the market index with entire sample) is not as high as when all four statistics are larger.

The estimates of the variance ratio are less than 1 for all cases (i.e., the variance ratios associated with the value  $q$  of  $2, 4, 8$  and  $16$  are  $0.89, 0.85, 0.84$  and  $0.82$  respectively). It implies that there is a negative serial correlation in stock returns<sup>9</sup>. However, the serial correlation is both statistically and economically insignificant and provides little evidence against the random walk hypothesis. For example, the largest average  $Z(q)$  statistic for market index over the entire sample occurs for  $q = 2$  is  $-3.25$  With a serial correlation of  $11$  percent; the smallest average  $Z(q)$  is  $-0.82$  with a serial correlation of  $-18$  percent. Market index over the entire sample occurs for  $q = 2$  is  $-3.25$  with a serial correlation of  $11$  percent; the smallest average  $Z(q)$  is  $-0.82$  with a serial correlation of  $-18$  percent.

<sup>9</sup> The serial correlation is  $-11$  percent,  $-15$  percent,  $-16$  percent, and  $-18$  percent when  $q = 2, 4, 8$  and  $16$  respectively.

As Table 1a indicates that the rejection of the Random Walk Hypothesis does not occur for the first sub-period, therefore, the Pakistan Stock Market follows random walk over the period from January 1, 1995 to May 27, 1998. However, quite opposed the case of the entire sample the average variance ratio for three values  $q$  ( $q = 2, 4$  and  $16$ ) out of the four are larger than 1. It means there is positive autocorrelation in stock returns except when  $q = 4$ .

The random walk null hypothesis is rejected for the period May 28, 1998 to December 30, 2004 when  $q = 2$  and  $4$ , however, the null hypothesis is accepted when  $q = 8$  and  $16$ . Furthermore, we find there is a negative serial correlation of weekly stock return over this period.

**Table 1a**

**Estimates of Variance-Ratios  $VR(q)$  & Variance-Ratio Test Statistics  $Z(q)$**

Variance-ratio test of the random walk hypothesis for weekly KSE-100 index, for the entire sample period from January 1, 1995, to December 30, 2004, and for two sub-periods from January 1, 1995, to May 27, 1998, and from May 28, 1998, to December 30, 2004. One-week is taken as a base observation interval. The variance ratios  $1 + \overline{M}_t(q)$  are reported in the main rows, with the homoscedasticity test statistic  $Z(q)$  given in parentheses immediately below each main row. Under the random walk null hypothesis the value of the variance ratio is 1 and the test statistics have a standard normal distribution (asymptotically). Test statistics marked with one asterisk and with two asterisks indicate that the corresponding variance ratios are statistically different from 1 at the one per cent and 5 percent levels of significance, respectively.

Time period	Number nq of base observation	Number q of base observations aggregated to form variance ratio			
		2	4	8	16
1-Jan-1995 to 30-Dec-2004	450	0.89 (-3.25)*	0.85 (-2.75)*	0.84 (-1.03)	0.82 (-0.82)
1-Jan-1995 to 27-May-1998	174	1.14 (1.87)	1.17 (1.18)	1.02 (0.10)	0.85 (-0.45)
28-May-1998 to 30-Dec-2004	276	0.76 (-3.48)*	0.64 (-2.73)*	0.60 (-1.89)	0.63 (-1.20)

Since the results obtained from these  $Z(q)$ 's are under the maintained hypothesis of homoscedasticity, the rejections of the random walk may either be due to heteroscedasticity or to serial correlation. To investigate this issue, a heteroscedasticity-robust variance-ratio test statistic,  $Z^*(q)$  is also performed. The test results, presented in Table 1b, point out that the Pakistani stock market at aggregate level follows random walk over the entire sample period as well as over both the sub-periods for all four interval lengths. This implies the variance-ratio is different from one, in the case of entire sample when  $q = 2$  and in the case of sub-period from May 28, 1998, to December 30, 2004 when  $q = 2$  and 4, due to heteroscedasticity rather than to autocorrelation. In other words, the random walk is rejected because of heteroscedasticity's presence in weekly stock price increments<sup>10</sup>.

**Table 1b**

**Estimates of Variance-Ratios  $VR(q)$  & Heteroscedasticity-Robust Variance-Ratio Test Statistics  $Z^*(q)$**

Variance-ratio test of the Random Walk Hypothesis for weekly KSE-100 index, for the entire sample period from January 1, 1995, to December 30, 2002, and two sub-periods from January 1, 1995, to May 27, 1998, and from May 28, 1998, to December 30, 2004. One-week is taken as a base observation interval. The variance ratios  $1 + \overline{M}_t(q)$  are reported in the main rows, with the heteroscedasticity-robust test statistic  $Z^*(q)$  given in parentheses immediately below each main row. Under the random walk null hypothesis the value of the variance ratio is 1 and the test statistics have a standard normal distribution (asymptotically). Test statistics marked with one asterisks and with two asterisks indicate that the corresponding variance ratios are statistically different from 1 at the one percent and 5 percent levels of significance, respectively.

Time period	Number nq of base observation	Number q of base observations aggregated to form variance ratio			
		2	4	8	16
1-Jan-1995 to 30-Dec-2002	450	0.89 (-0.61)	0.85 (-0.54)	0.84 (-0.46)	0.82 (-0.45)
1-Jan-1995 to 27-May-1998	174	1.14 (1.69)	1.17 (1.09)	1.02 (0.10)	0.85 (-0.45)
28-May-1998 to 30-Dec-2004	276	0.76 (-0.89)	0.64 (-0.87)	0.60 (-0.81)	0.63 (-0.64)

<sup>10</sup>Although all the results are based on nominal stock returns and nominal exchange rate series, it is apparent that almost the same results would obtain with real or excess returns. Since the volatility of weekly nominal returns is so much larger than that of the inflation and Treasury-bill rates, the use of nominal, real, or excess returns in a volatility test will yield practically identical implication.

## 5. Conclusion and Recommendations

This study contributes to the growing literature on random walk in stock prices by testing the random walk hypothesis for the Pakistani equity market. The random walk hypothesis is tested by adopting a variance-ratio test developed by Lo & Mackinlay (1988). The study uses weekly data for the KSE-100 index over the span from January 1, 1995 to December 30, 2004. The weekly stock returns are derived from daily corresponding returns. Furthermore, the same methodology is employed for the two subperiods from January 1, 1995 to May 27, 1998, and from May 28, 1998 to December 30, 2004.

The estimates of this study show that stock prices generally behave non-randomly under the assumption of homoscedasticity over the entire examined period. The same conclusion is drawn during the second sub-period. However, during the first sub-period, the null hypothesis of random is not rejected at common level of significance. The rejection of random walk model, although, is not robust to heteroscedasticity. It implies that the stock prices do not follow random walk due to changes in variances (heteroscedasticity) rather than to autocorrelation. The absence of a random walk in stock prices is implying that an investor can predict future movements of stock prices by using information about past price movements. Higher returns can necessarily be earned by using investment strategies based on past information of stock prices rather than investing in a portfolio consisting of randomly picked stocks

The negative serial correlation in stock returns implies that the stock prices in Pakistan overreact to insider as well as to outsider information. Therefore, the stock market falls back to normal after following the first dramatic reaction to a shock. This view is consistent with the permanent/transitory components model, which basically says that stock markets are driven by a fundamental component that reflects the efficient market prices and deviations from efficiency and this component reverts to something that is close to zero in the long-term.

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## ARTICLE

## Knowledge Entrepreneurship: A New Paradigm for Organizational Performance

S.M. Taha

Last decade of the twentieth century experienced cataclysmic changes in organizations' structure and their performance. Organizations are now considered as sentient being. They think through their systems; they plan through their functionaries; they perform through their resources (human and capital assets). Now they have become a basic building bloc of our today's corporate world. We can list several themes that brought changes in culture, design and environment of contemporary organizations all over the world. These include: globalization, interdependence and free markets economy. These trends forced countries and organizations to reshape their economic and business strategies. One factor, however that can rightly be counted as 'the factor' that alone altered the very nature of organizations, that is the 'Knowledge Boom'.

Knowledge Boom gave birth to the new economy in which brainpower has become more critical resource than the machine power. Microelectronic revolution breaks all possible barriers to knowledge and information. This flood of knowledge has brought significant change in organizations in developed countries and gave new impetus for global competition and new challenges to the weaker countries of the south. Pakistan is one of them. Pakistan's economy indicates positive trend in past five years but still not to be called as strong economy.

Pakistan's contribution in creating knowledge is minuscule in the global knowledge pool as compared to other developing countries with the same colonial history. In addition to that Pakistan's social and cultural milieu and value-based mindset is less responsive to knowledge and innovation.

This research focus on three queries:

1. How would we define knowledge in global and regional setting?
2. What are the changing demands that a 'knowledge based economy' poses on organizational function?
3. What are the implications of knowledge based economy on the present state of human resources in Pakistan?

To answer these queries we look at economies where knowledge entrepreneurs have changed the nature of organizations. Lets take a retrospective view of organizational change through knowledge management in United States. American business invested \$1 trillion to bring change in office automation during 1980s. Knowledge entrepreneurs set out new processes of redesigning organizations. This also led to a new thinking

that small size organization can perform more efficiently than large size. Managers concentrated their thinking that how small self-managed units may perform well-defined services? How intelligent information systems can integrate all operations into a working whole with the help of Local Area Networks (LANs)?

Working on these queries, management thinkers finally realized that small business units could be effective by developing a self-directed team of knowledge workers that is given almost total command over product design to manufacturing, sales, services, and disposal. This job enrichment process had profound impact on the nature of employment. Organizations gradually offered performance-based salary rather than position-based. Contractual employment increased that also increased healthy competitions not only among organizations but also among the knowledge-based workers.

Under these contractual appointments, workers' rights were linked with responsibilities. The interdependent link between rights and responsibilities ensures the success of participative management. If workers exercise freedom in performing the task without being accountable for desired outcome, the organization cannot survive. Contractual employment assured performance and provided enhanced opportunity for earning along with the desirable working conditions.

As information systems become user-friendly and inexpensive, they facilitated convenient ways to substitute traditional office management. Rather than permanent employees working 9 to 5 in the same building, electronically mediated working benign the previous restrictions of time and place and become a viable alternative to the real things, as information technology becomes increasingly convenient.

For instance, Compaq Computer automated its routine sales work in 1993 by offering clients toll-free information lines for inquiries, and then shifted its entire sales people into home offices to make them more effective. Each salesperson was provided state-of-the-art information systems, such as fax, copier, high-powered PC notebook, and cellular phone, as well as other needed support. Revenues doubled while the sales force dropped by one-third. IBM made the similar changes. This trend marked a major shift to an independent, more mature mode of self-employment. Contingent workers have become true knowledge entrepreneurs who take charge of their careers by running their own businesses or moving from company to company as contractors. They have their knowledge toolkit and companies call them, if they require their services.

These developments had taken place all over the world in the decade of 1990s. Pakistan's business environment is also vulnerable to these developments. Before defining the term 'knowledge economy' in local context, a brief analysis of Pakistani society seems pertinent to understand the nature and future of knowledge economy in Pakistan.

Pakistan has primarily an agricultural base economy. Its society divides on several lines that includes: provincial, sectarian, linguistic and classes. Sub national identities are realities of Pakistani society. In addition to that Pakistan's social milieu is composed

of feudal, tribal and local loyalties that are greater than the national loyalties. These divisions segregate the entire society and hamper the holistic growth of the national economy. It is why the national landscape sharply depicts a wide gap between developed and underdeveloped areas in Pakistan.

Side effects of these fault lines are devastating. Education system is one of the examples. These divisions in the society very unfortunately developed an education system that further segregates Pakistani society. This eventually produced class-based human resources years after years that are now evident in organizational culture in Pakistan. Organizations in Pakistan are dominantly hierarchical, boss-culture is common, dominance is desirable and subordination is required. In Pakistani society, class interest or identity interest (provincial, linguistic, and sectarian) had replaced the merit culture at the very inception of the country. Stereotypes, biases, nepotism and favoritism overwhelmed the organizational culture in Pakistan. Quality education is an expensive commodity in Pakistan that is available to few privileged classes that dominate destinies of unprivileged classes. This class gradually assumes the status of elite class in Pakistani society. Even with good education many people are marginalized in Pakistani society, leading to unemployment, crime and other disorders. What Charles Murray warns in his book *The Bell Curve* can be seen in Pakistan that 'cognitive elites' are ruling the country with a developed caste system. These elites formulizes into an effective power of status quo and resist change in the very structure of the state, society and economy of this country. But now they learn through the rampant and rapid globalization that the change is inevitable if not in the mindset but essentially in the way they run the businesses.

For the last five years Pakistan's policies are consistent that attracts foreign investors. Pakistan boldly accepted the challenge of international competition when it joined World Trade Organization in 2000. Pakistan's industrial growth rate and manufacturing sectors indicate positive signs during the last five years. There is no doubt that Pakistan's economy is growing but still it has to do a lot to compete with the developed world. And the best way to compete with, is to bring change in the mindset, in organizational designs, cultures and operations. These changes can only come through the knowledge acceptance, knowledge adoption and knowledge creation that cater the need of the local enterprises and effectively respond to global competition.

The business class in Pakistan now has realized that the organizations will need an exceptional degree of flexibility. Self-managed work teams are essential to increase production as well as improve management that may effectively meet a rush of demand for production and services or may radically restructure the organizations.

This research conducted surveys and interviewed number of people (employees and employers). I purposely selected three sectors where the change in organizational working and culture was evident. These are: banking sector, emerging services sector, and marketing strategies. In the banking sector, car financing units and credit cards units present altogether a new culture at workplace. Flexibility, job enrichment and product knowledge increase employees' motivation. In addition to that pay-for-

performance principle is associated with commission on each sale. This boost up the sales and eventually contributed in the overall performance of organizations. Top management expressed the view that now organizations are clustering into entrepreneurial units that with the passing of time will work together and form internal market within a corporate community. Top management from the banking and services sector is of the view that this internal market will integrate the interest of investors, workers, clients, business partners and the public.

This change in thinking is not because of altruism but because of the relentless advance in global competition and boom in information technology. Information boom pushes economies into a new phase that is rightly called as knowledge economy. Now the belief is getting strength in Pakistan that knowledge-based economy makes cooperation a competitive advantage.

Knowledge economy sets off and entails vibrant modification not only at the broader level of technology, science, and education policies, but also at the micro level represent by firms. Firms now are increasingly becoming players in a 'hyper-competitive' game and engaging in extensive knowledge sourcing from all sorts of knowledge producers — whether they be suppliers, customers and clients, universities or employees controlling critical knowledge to support the knowledge-based strategies that are appropriate for the 'new competition'.

Knowledge itself produces nothing unless it is processed into an operation. It is not only required in big business rather it works efficiently in small and medium enterprises. How knowledge-based innovation can be used in modernizing Pakistan's industrial and business structure is the critical question that we should not ignore now. Modernization cannot come without knowledge that developed societies have already built. An urge for modern management will convert knowledge from social ornament and luxury into the true capital of any economy.

We have little systematic empirical evidence that speaks directly to the issue of how the knowledge economy impacts on organization and strategy. Moreover, the existing theories in economics and business administration with respect to grappling with these issues are unclear. There is a diversity of perspectives. But this diversity is not contradictory to each other. They are rather complementary in theorizing the role of knowledge in modernization of management. The ongoing restructuring of management and organization practices designed to cope with an increasingly complex and rapidly changing knowledge-based economy has received increasing attention from scholars of diverse disciplines and fields.

Since 1985, the mode of the representation of knowledge has become more performative. In Pakistan, the key knowledge-making role has moved out of the universities into the professional firms. These professional firms and businesses would be the key player in transforming the organizational culture and performance. Performative knowledge is distinguished by the ideal that knowledge should be actionable and commercially useful. Pakistan's leadership has to realize that creating and seeking knowledge is an

unending process. It leads to new innovation and make the previous one less useful if not obsolete. So economies that are stagnant with the traditional style of production and management will be wiped out soon and will have devastating impact on the state and its citizens.

Management philosophers, university professors, industrial engineers and government personnel in Pakistan should sit together and frame a strategy that will give boost to the national economy. The vital questions before them are how to acquire or create knowledge? How to apply knowledge? And how to manage knowledge? There are three fundamental modes of thinking to pursue the knowledge:

1. A shift from an industrially based economy to knowledge or information-based economy demands a sophisticated knowledge management system that has capacity to secure a competitive edge and learning innovation.
2. The new source of wealth is knowledge, and not labor, land, or financial capital. It is the intangible, intellectual assets that must be managed.
3. The crucial challenge of the knowledge-based economy is to foster actionable innovation.

These critical ways of thinking will certainly lead to a change in operations and management practices in our organizations. Though we do not have empirical studies to substantiate this assertion, theoretically it seems very much logical that the following outcome will happen:

- Organization will go under redesigning and will adopt techniques and processes that create, protect and use known knowledge.
- Organization will create environments and activities to discover and release knowledge that is not known.
- Organization will articulate purpose and nature of managing knowledge as a resource and embodying it in other initiatives and programs.
- Instead of constantly reengineering and downsizing, organization will keep the talented people.
- The reuse of knowledge saves work, reduces communications costs and allows a company to take on more projects.

### **Organizational Change Through Knowledge Management**

Generating organizational knowledge invariably means converting the tacit knowledge of the individual into explicit knowledge accessible by all. Information technology is most effective when it enables this social process. Through the knowledge management system, organizations must think through their technological systems. Technology

such as Internets and advanced collaborative software are the best and proven techniques of Knowledge Management. Information Technology will blur the lines between departments and operating divisions, and will make a positive breach in the hierarchical system. Knowledge management system facilitates individual, team and group learning process that must become the true driver of organizational performance.

There are three fundamental processes that sustain profound changes such as the introduction of a knowledge management system: 1) developing networks of committed people; 2) improving business results; 3) enhancing personal results.

For achieving sustainability, there must be a focus on learning and learning how to harness the learning capabilities that lead to innovation. Hierarchical control must be put aside for sustainable change. Organizations have to develop informal networks so that people can share their knowledge and help one another. Horizontal management is much better to understand the value of intangible assets over tangible assets which is the essence of knowledge management. Vertical control becomes less important in organizations, while horizontal co-ordination becomes more important, and people increasingly co-operate across formal organizational boundaries. Industrial and business leadership need to examine the human and intellectual capital in Pakistan, which is the potential source of their performance.

### Understanding the Paradigm of Knowledge Management

The nature and structure of knowledge have gone through tremendous changes in last two decades. How to create, apply and manage knowledge is required to understand its nature and very structure. In my view, knowledge travels through a highly complex global web system that involves basic research, engineering and continuous innovation through a continuous feedback system. Figure 1.1 explains the domain of knowledge.

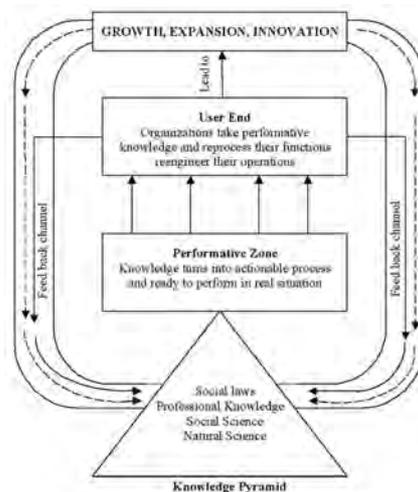


Figure 1.1: Knowledge-based Organizational Growth

The core of the process is the diffusion of knowledge. 'Diffusion is the process by which an innovation is communicated through certain channels over time among the members of a social system'. This process brings together the knowledge products from almost all field of studies. Simulation of knowledge produces performative products of knowledge and supply to the desired users. The pyramid in the above picture takes a continuous feedback that ensures continuous process of innovation and performance and sends it back to the desired users. The leading principle of every organization is its goals. The goals can be commercial, social or idealistic. Organizations decide how and which product of knowledge is useful for its goals. There are three fundamental questions organizations must think upon before taking decision of using knowledge products: how to use knowledge products efficiently and effectively? Do organizations have infrastructure to apply that knowledge? Do organizations have human resource to handle the operations of knowledge?

Information Technology may answer these questions. The convergence of telecommunication and computer technology has given rise to Information technology. IT has radically altered a number of aspects of both the way we live and the way we work. In today's working environment, an office without a personal computer (PC) is unthinkable. Information and communication technology plays an increasingly important role in making organizational goals explicit, in propagating them and above all in measuring them.

The Internet is an organizational 'force' providing a material base for working. It enables flexibility in networks because they operate within and outside existing firms. The network enterprise can assign goals to its networks. So, Internet may promote the decentralization in organizations. The Internet alters competitive advantages because innovation becomes a delicate blending of co-operation and competition. The competitive advantage is likely to be with those already wealthy nations whose social capital can accommodate the new organizational innovations in work and life-styles.

Organizational working now has become a complex process. This means that they are made up of large numbers of people and resources that interact and adapt to each other and to their environment. The implementation of IT is an inevitable option that may connect organizations' human resources to physical resources and environment. In the past organizations were able to operate relatively independently and concentrate on making a good and complete product or service with a limited number of people within their own setup. Nowadays, organizations can rarely manufacture a complete product on their own. Instead, organizations are working together to manufacture a product within a value system. Organizations focus on its core system and operational chain and leave the rest to suppliers and other parties involved in realizing a product or services. Thus, organizations are increasingly becoming units within a network that have to adapt to a rapidly changing environment. This kind of knowledge entrepreneurship enhances the interdependency among the organizations. This interdependency shows in figure 1.2:

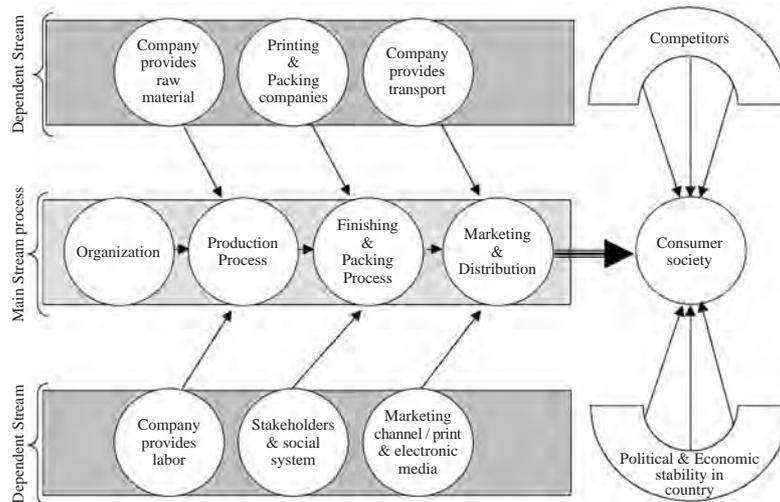


Figure 1.2: Model of Organizational Interdependency

According to a classic book by Micheal Porter (1980), an organization is a combination of primary and supporting processes. In these processes, values are being transformed, for instance from production via distribution to consumption, or from imported raw materials and production resources to end-products. In the overall value system Porter calls these processes value chains.

In the interests of competitiveness, public welfare, and governance, national governments have taken on the role of managing the knowledge resources that circulate globally in abstract forms in order to meet the changing demands of clients and publics in a multiplicity of the context-sensitive applications. The changing demands for knowledge in a fast-paced and global social and economic environment necessitate changes in the way knowledge itself is managed and the ways in which knowledge-workers and their work are organized. Bringing together diverse expertise and experts to solve practical client-centred problems as they arise requires flexible managerial responses as well as new recruitment and retention strategies. Coupled with the introduction of new information and communication technologies, the traditional contexts and places where key knowledge activities are done, styles of work, workplace values, practices, and norms, as well as career expectations are changing rapidly.

Under the changed environment organizations have started paying attention to new human resource management practices that may increase the economic performance of organizations. HRM scholars have argued that human resources are particularly likely to be sources of sustained competitive advantage and that HRM practices should therefore be central to any strategy (Barney 1995). In Pakistan, scant attention is being paid to new HRM practices that how they manage knowledge and its effective use.

There is one academic criticism on HRM that it lacks theoretical and empirical framework how new HRM practices accommodate the load of information management. How HRM turns knowledge into organizational productivity and improve financial performance.

This study confirms the criticism that theoretical base is lacking in the HRM practices but it is very much there in real situation. There is lot of work that needs to be done on the part of both academia and industrialist. Respondents' views, interviews with top management and our own observation during the survey of the selected sectors and literature available on HRM field strongly suggest a case for indigenous theoretical framework that caters the needs of HRM for accommodating the load of knowledge which is constantly growing. As a broader outline consciously suggest initial thoughts for theoretical construction:

1. Areas characterized by new forms of knowledge and knowledge management.
2. Key sectors within the knowledge-based economy.
3. Sector specific regulatory frameworks.

This approach includes studies on the evolution of the management strategies in Pakistan and HRM activities such as recruitment, internal mobility and retention. Outsourcing and organizational learning opportunities in our current business strategies should also be examined. Knowledge-HRM relationship should be established on Kaisen (continuous improvement) concept. A critical assessment of the relationship between governing institutions and a knowledge-based economy and its key sectors should be made that may be very helpful in the construction of theory on HRM and knowledge management.

This research traces flows of knowledge and the mobility of knowledge professionals within, into, and out of, organizations. This research reveals that the diverse organizational forms in which knowledge work is conducted, such as informal networks and temporary teams, are now assuming the role of computer-mediated 'virtual teams' and other forms of on-demand, need-based 'virtual organizing' in large organizations are growing. The concept of outsourcing is being applied in several organizations specially consultant companies. Recruitment and staffing are also outsourced in number of companies in Pakistan. Employment agencies create considerable number of temporary employment, providing flexible workforce in organizations.

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*“The Social responsibility of business encompasses the economic, legal, ethical and discretionary expectations placed on organizations by society at a given point in time.”*

**Archie B. Carroll *Business & Society; Ethics and Stakeholder Management*, Cincinnati, Smith-Western Publishing Company.**

## ARTICLE

## Mechanisms Underlying the Phenomenon of Cluster Formation in the Textile/Apparel Industry in Pakistan

Khadija Bari

### ABSTRACT

*The objective of this study is to analyze the ability of Pakistan's textile industry to broaden and upgrade its competitive positions in the face of increasing international competition. It suggests a conceptual framework of organisational characteristics influencing the process and formation of clusters. Clusters are a driving force in increasing exports and magnets for attracting foreign investment. The cluster concept represents a new way of thinking about national, state, and city economies, and points to new roles for companies, governments, and other institutions striving to enhance competitiveness.*

*The paper is based on empirical analysis of the organizational characteristics and intra-cluster interchange in the textile/apparel industry of Pakistan. It represents the results obtained from the information collected from 39 establishments by a structured questionnaire. It examines the institutional context with which the firms of the textile/apparel industry in Pakistan operate and analyses the local linkage pattern and cluster formation process of this industry in Pakistan. Some policy implications for the growth and sustained competitiveness of this industry in Pakistan are considered and discussed in this paper.*

**Keywords:** *Clusters, Competitive Advantage, Industrial Linkages*

### 1. INTRODUCTION AND BACKGROUND

The textile industry holds a prominent position in many Asian countries. It is an industry well suited to the early stage of industrialization as it requires neither a high level of technology nor a large amount of capital. Its labour intensive nature makes it a popular industry in the less industrialized countries which can make the most of their low wages.

Now global textile industry is passing through an interim phase of structural changes. Those changes are the consequence of expected changing in the global trade patterns under the open competition policy. What will be the expected share in global markets and how present ranking will be affected by the trade liberalization; it is an extremely important area that needs timely consideration.

Asian countries dominate the apparel markets of the world. Almost 45% of the total exports in the apparel markets originate from the Asian countries which include key

players like China, Hong Kong, Thailand, Turkey, Bangladesh, India and Pakistan. China's particularly unlimited supply of cheap labor gives it a big advantage in the labor intensive industry like clothing. China further more is almost self-sufficient in the necessary raw material - cotton, manmade fibers, silk, flax and ramie, dyestuffs and textile chemicals - also in textile machinery.

The textile industry is the mainstay of Pakistan's export trade and lies at the heart of its economy. It occupies an important position in generating profits in terms of foreign exchange earnings for the country. The cotton group accounted for more than 62% of the export earnings of Pakistan 2003-04. The textile and clothing manufactures together constitute approximately 70% of Pakistan's total exports.

WTO combined with technological developments as well as the changing market structure of the world textile industry is both a source of opportunity and threat for Pakistan.

The objective of this paper is to examine and analyse the institutional context with which the firms of the textile/apparel industry in Pakistan operate and assess the potential of this industry to grow to become a self-sustaining cluster of economic activity. The purpose is to construct a model which may be used to investigate the export performance and competitiveness of the textile/apparel industry in future. Some policy implications for the growth and sustained competitiveness of this industry in Pakistan are considered and discussed in this paper.

The plan of the paper is as follows: Section II gives brief review of literature on cluster approach to competitiveness. Section III presents analytical techniques and methodology. Results of the analysis are described in Section IV. It discusses the competitiveness of Pakistan's textile industry under the framework provided in Section III. Section V concludes the paper. It outlines several policy implications.

## **II. REVIEW OF LITERATURE**

Industry clusters are geographical concentrations of competing, complementary, or interdependent firms and industries that do business with each other and/or have common needs for talent, technology, and infrastructure.

The concept of cluster-based industrial development is not a recent one. Industrial agglomerations and clusters have been the focus of scientific research as long as modern national economics have existed. Over a century ago, Alfred Marshall developed his idea of industrial districts. Other related concepts that have now become significant to the cluster approach are Ronald Coase's theories of the boundaries of the firms, first published in the 1930s (Coase, 1937), and Joseph Schumpeter's views of the dynamics of competition also presented at that time.

Michael Porter popularized the concept of industry clusters in his book 'Competitive Advantage of Nations' (1990). Based on his research in several countries, he developed

the 'Diamond Framework', a model that offers insight into clusters and competitiveness. Porter contends that regions develop a competitive advantage based on their firms' ability to continually innovate, and that economic vitality is the direct product of the competitiveness of local industries.

Jacobs and De Man (1996) and Rosenfeld (1996, 1997) present an in-depth discussions of different definitions of industry clusters. Jacobs and De Man (1996, p. 425) argue that 'there is not one correct definition of the cluster concept.... different dimensions are of interest.' They include key dimensions like geographical or spatial clustering of economic activity, horizontal and vertical relationships between industry sectors, use of common technology, the presence of a central actor (i.e., a large firm, research center, etc.), and the quality of firm network, or firm cooperation (Jacobs and De Man 1996).

Rosenfeld (1997) emphasizes the role of social interaction and firm cooperation in determining the dynamic nature of a cluster. According to him an industry cluster is a geographically bounded concentration of similar, related or complementary businesses, with active channels for business transactions, communications and dialogue, that share specialized infrastructure, labor markets and services, and that are faced with common opportunities and threats.

Rosenfeld (1996), in particular, argues that information flow, is critical in an effective industry cluster, and, in order to facilitate information exchange, a social infrastructure is required. He emphasizes the importance of trust and a shared vision in order to create a dynamic nature of a cluster (Le Veen, 1998).

Porter (1998) has emphasized that underlying the phenomenon of clustering, is the exchange and flow of information about the needs, techniques and technology among buyers suppliers and related industries. Personal relationships, face to face communications and interaction among networks of individuals and institutions influence and accentuate the benefits associated with geographical concentration (Rosenfeld, 1997; Porter 1998).

This paper focuses on various formal and informal organizing mechanisms that play an essential role in the development and functioning of clusters. It limits itself to analysing the social environment under which the textile industry works in Pakistan. The emphasis is on capturing the mechanisms underlying the phenomenon of clustering.

### **III. ANALYTICAL TECHNIQUES AND METHODOLOGY**

The competitiveness of the industry depends upon the ability of its firms to produce efficiently and to discover new and better ways to compete. This depends on the organizational and relationship building mechanisms that bind the cluster participants together in a relationship essential for value added transactions. The scope of research concerned with industrial linkages and intra cluster interchange varies from individual

to individual. Intra cluster interchange refers to active channels for business transactions, communications and dialogue, sharing of specialized infrastructure, services and R&D etc., within the establishments of the industry.

A large number of factors influence the social environment essential for cluster development that leads to innovation and sustained competitiveness. These factors have been divided into three groups and in each group the establishments were asked to rate the importance they give to the particular factor on a given scale. The three group of selected factors relate to;

- a) Factors that influence the selection of suppliers  
Six factors were selected and analysed i) Price ii) Quality iii) Delivery in time iv) Credibility of the owner v) Brand reputation vi) Distance between firm and supplier
- b) Methods for attaining business information  
Five factors were selected and analysed i) Direct observation ii) Informal contacts iii) Family or personal relationships iv) Joint venture or other collaborative agreements
- c) Major sources of business information  
Seven factors were selected and analysed i) Rivals ii) Customers iii) Suppliers iv) Equipment suppliers v) Banks and financial institutions vi) News/media vii) Collage/universities

#### IV. STATISTICAL TESTS

The questions were designed to determine the 'degree' of importance given to various factors by the establishments. Pooled T-test has been used here.

- a) Pooled t-test

Pooled t-test is the estimation procedure for the difference of two means when random samples of size  $n_1$  and  $n_2$  are taken from two *independent* normally distributed populations with means  $\mu_1$  and  $\mu_2$  respectively. If the standard deviations of the two populations are equal, the random variable

$$t = \frac{(\bar{X}_1 - \bar{X}_2) - (\mu_1 - \mu_2)}{s_p \sqrt{(1/n_1) + (1/n_2)}}$$

has a t-distribution with  $df = n_1 + n_2 - 2$

$$s_p^2 = \frac{(n_1 - 1)s_1^2 + (n_2 - 1)s_2^2}{n_1 + n_2 - 2}$$

The null hypothesis states that the two population means are equal. For example in section 6.4.1 the hypothesis is

**Ho : No significant difference was found in the importance given to ‘Direct Observation’ by the establishments producing finished goods and intermediate goods (i.e.  $\mu_1 = \mu_2$  thus  $\mu_1 - \mu_2 = 0$ ).**

**Ha : Significant difference was found in the importance given to ‘Direct Observation’ by the establishments producing finished goods and intermediate goods.**

The equal-standard-deviations assumption is sometimes checked by performing a formal hypothesis test, called an F-test for the equality of two standard deviations.

F-test is extremely non-robust to deviations from normality: unless the populations are very close to normally distributed, the F-test may yield unreliable results (Weiss, p. 588). As the noted statistician George E.P. Box remarked: ‘to make a preliminary test on variances (standard deviations) is rather like putting to sea in a rowing boat to find out whether conditions are sufficiently calm for an ocean liner to leave port’ (as quoted in Weiss, 1995, p. 588).

In this study no F-test has been performed to test the equality of variances. Although in theory, the pooled t-test requires that the population standard deviations,  $\sigma_1$  and  $\sigma_2$  be equal. However according to Weiss (p. 603) if the population standard deviations are unequal but not too unequal and the sample sizes  $n_1$  and  $n_2$  are nearly the same then using the pooled t-test will not cause serious difficulties.

#### b) *P-value*

The P-value can be interpreted as the *observed significance level* of a hypothesis test. The P-value of a hypothesis test is equal to the smallest significance level at which the null hypothesis can be rejected, that is, the smallest significance level for which the observed sample data results in rejecting Ho (Weiss, 1995, p. 527). If the P-value is less than or equal to the specified significance level, then we reject the null hypothesis; otherwise we do not reject the null hypothesis.

## V. RESULTS

A number of issues need to be kept in mind when interpreting the findings of this study. First the data was collected from a limited geographical base. Secondly the investigation of the dynamic aspects of industrial linkages was limited because most of the historical data on industrial linkage was based upon personal recollection rather than records.

Examination of the structure of the network under which the textile/apparel industry operates reveals that the social relationships associated with geographical clustering of firms have not developed in this industry. Although geographical clustering has

created potential for economic value, the industry has so far failed to ensure the full realisation of this potential. For example proximity of suppliers and strong backward linkages have not been able to facilitate valuable information flow within the cluster.

*Factors influencing the selection of Suppliers (Statistical Appendix A)*

Five factors were analyzed for their influence on the selection of suppliers. These factors were i) Price of the products ii) Quality of the products iii) Delivery in time iv) Credibility of the owner v) Distance between the firm and supplier. The establishments were asked to rate the importance rate the importance they give to these factors on the scale of 1 to 5 (1 being not important at all and 5 being critically important).

Pooled t-test was used to determine whether the establishments producing finished goods and intermediate goods differ in the importance they give to the selected factors. The survey findings indicate that the selection of suppliers was primarily based upon the competitive nature of the products by the interviewed establishments. The quality and price of the products were considered to be critically important factor by a majority of the interviewed establishments for selecting the suppliers. This was particularly true in the case of establishments producing commodity products of intermediate nature. Among various factors, distance was ranked as one of the least important factors in finding suppliers. T-tests indicate that the establishments producing intermediate goods were more competitive in nature as far as price and quality were concerned.

*Methods of Attaining Business Information (Statistical Appendix B)*

Information plays a paramount role in the interchange within clusters. Five factors were selected to analyze how the informational interchange within the establishments in this industry takes place. These factors were i) Direct observation ii) Informal contacts iii) Family or personal relationships iv) Joint ventures or collaborative agreements v) Conferences and seminars. The establishments were asked to rate the importance they give to these factors on the scale of 1 to 5. The null hypothesis states that the relative importance given to a factor does not differ with the nature of the establishments. Direct observation was the single most prominent method of attaining business information.

Family/personal relationships play an essential role in the functioning of cluster linkages. The survey findings indicate that these relationships were still underdeveloped in this industry cluster although the establishments producing finished goods considered it significantly more important than the establishments producing intermediate goods. Neutral facilitators like conferences and collaborative agreements etc. can be an efficient source of communication where family or trust relationships are lacking. Nonetheless the survey indicates that a high proportion of interviewed establishments did not consider collaborative agreements or joint ventures an important method of business information. Conferences were considerably considered more important than collaborative agreements.

*Sources of Information (Statistical Appendix C)*

Seven factors were analysed to understand the social environment under which the informational interchange takes place in the industry. These factors were i) Rivals ii) Customers iii) Suppliers iv) Equipment suppliers v) Banks and financial institutions vi) News/media vii) Colleges/universities. The establishments were asked to rate the importance they give to these factors on the scale of 1 to 5. T-test statistic was used here to analyse whether the importance given to these factors differed with the nature of the establishments.

The survey results indicate that the customers were the most important source of information for the surveyed establishments. This is in line with the fact that the surveyed establishments were mainly export oriented firms that relied primarily on foreign machinery, technology and marketing services. Rivals were significantly a more important source of information for the establishments producing finished goods. This is because these firms were producing a range of products for foreign markets whereas the establishments producing intermediate products had confined themselves to few low priced products that had the potential of being consumed both in the local and foreign markets. In short the survey results indicate that customers/equipment suppliers provided an important mechanism for informational interchange in the industry.

The process of cluster development depends heavily on how the local educational institutions respond to the cluster needs. The research indicates that colleges and universities were not an important source of information for the establishments. This is not only because of the low percentage of students enrolled in professional colleges and universities but also the fact that these institutions mostly have a theoretical approach which is not in line with the needs of the industry. This strongly relates to the low R&D activities of the firms themselves. However the survey findings indicate that banks and financial institutions provided an important platform of informational interchange to the surveyed establishments.

**VI. CONCLUSION**

Although the research was limited in both geographical and sectoral scope, its findings may have considerable planning implications for the government and companies. Pakistan is stuck in low skill and low technical competence trap. The East Asian economies were able to achieve a successful transition to higher value added production by focusing on the vocational and technical skills required to meet the needs of the industry. Primary and secondary education in Pakistan should be accompanied by an expansion of vocational training to provide skilled labour for its export oriented industries. This can be an appropriate alternative to the bulk of Pakistanis who are unable to acquire academic qualifications for their working careers. The status and resources of polytechnics should also be improved so that they provide a true alternative to universities for both students and educators. Curricula should be developed with input from appropriate industry associations to ensure that relevant skills are developed.

Korea managed to improve the quality of its workforce through the establishment of Economic Planning Board (EPB). The main task of this EPB has been to work closely with ministries of education, labour and science and technology and to coordinate the education and training requirements of the economic development strategy. In Pakistan there are no close links between schools/universities and industry. There is an urgent need for a similar type of linking mechanism that could encourage schools, universities and industries to work closely together.

#### STATISTICAL APPENDIX A

##### Price of the Products:

(Percentages)

Scale	1	2	3	4	5
Finished Goods	5.88	0	5.88	35.29	52.94
Intermediate Goods	0	0	5.56	16.67	77.78

Scale: 1= Not important at all  
5= Critically important

##### Quality of the Products (inputs):

(Percentages)

Scale	1	2	3	4	5
Finished Goods	5.88	0	5.88	35.29	52.94
Intermediate Goods	0	0	5.56	16.67	77.78

Scale: 1= Not important at all  
5= Critically important

t-value : -4.353  
df : 33  
p-value : 0.000

##### Delivery in Time:

(Percentages)

Scale	1	2	3	4	5
Finished Goods	11.76	5.88	41.18	17.65	23.53
Intermediate Goods	0	0	0	27.78	72.22

Scale: 1= Not important at all  
5= Critically important

t-value : -4.283  
df : 33  
p-value : 0.000

**Credibility of the Owner:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	6.25	18.75	18.75	12.50	43.75
Intermediate Goods	5.56	5.56	22.22	11.11	55.56

Scale: 1= Not important at all  
5= Critically important

**Brand Reputation:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	5.88	29.41	17.65	11.76	35.29
Intermediate Goods	0	16.67	16.67	33.33	33.33

Scale: 1= Not important at all  
5= Critically important

**Distance between Firm and Supplier:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	23.53	41.18	17.65	17.65	0
Intermediate Goods	77.78	11.11	11.11	27.78	0

Scale: 1= Not important at all  
4= Critically important

t-value : 3.076  
df : 33  
p-value : 0.004

**STATISTICAL APPENDIX B****Direct Observation:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	10.53	0	5.26	10.53	73.68
Intermediate Goods	0	0	5.56	11.11	83.33

Scale: 1= Not important at all  
5= Critically important

**Informal Contacts:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	5.26	21.05	26.32	31.58	15.79
Intermediate Goods	33.33	27.78	5.56	27.78	5.56

Scale: 1= Not important at all  
5= Critically important

t-value : 2.084  
df : 35  
p-value : 0.045

**Family or Personal Relationships:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	0	15.79	36.84	21.05	26.32
Intermediate Goods	33.33	22.22	16.67	5.56	22.22

Scale: 1= Not important at all  
5= Critically important

t-value : 2.195  
df : 35  
p-value : 0.035

**Joint Venture or other Collaborative Agreements:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	0	21.05	31.58	31.58	15.79
Intermediate Goods	50	16.67	16.67	5.56	11.11

Scale: 1= Not important at all  
5= Critically important

t-value : 3.255  
df : 35  
p-value : 0.003

**Conferences and Seminars:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	10.53	15.79	15.79	15.79	42.11
Intermediate Goods	22.22	22.22	33.33	5.56	16.67

Scale: 1= Not important at all  
5= Critically important

t-value : 1.954  
df : 35  
p-value : 0.059

**STATISTICAL APPENDIX C****Rivals: (Percentages)**

Scale	1	2	3	4	5
Finished Goods	0	10.53	0	5.26	84.21
Intermediate Goods	33.33	11.11	27.78	0	27.78

Scale: 1= Not important at all  
5= Critically important

t-value : 4.251  
df : 35  
p-value : 0.000

**Customers: (Percentages)**

Scale	1	2	3	4	5
Finished Goods	0	10.53	15.79	15.79	57.89
Intermediate Goods	0	0	11.11	0	88.89

Scale: 1= Not important at all  
5= Critically important

**Suppliers: (Percentages)**

Scale	1	2	3	4	5
Finished Goods	0	5.26	26.32	42.11	26.32
Intermediate Goods	5.56	0	16.67	33.33	44.44

Scale: 1= Not important at all  
5= Critically important

**Equipment Suppliers: (Percentages)**

Scale	1	2	3	4	5
Finished Goods	0	0	31.58	47.37	21.05
Intermediate Goods	0	0	11.11	11.11	77.78

Scale: 1= Not important at all  
5= Critically important

t-value : -3.292  
df : 35  
p-value : 0.002

**Banks and Financial Institutions:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	0	10.53	5.26	42.11	42.11
Intermediate Goods	0	11.11	5.56	5.56	77.78

**Scale: 1= Not important at all  
5= Critically important**

**News / Media:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	11.11	0	11.11	55.56	22.22
Intermediate Goods	0	5.56	33.33	5.56	55.56

**Scale: 1= Not important at all  
5= Critically important**

**Colleges / Universities:****(Percentages)**

Scale	1	2	3	4	5
Finished Goods	21.05	21.05	26.32	10.53	21.05
Intermediate Goods	23.53	11.76	29.41	17.65	17.65

**Scale: 1= Not important at all  
5= Critically important**

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#### **THE MARKET ETHICS**

*"The principle was sanctioned in the world of commerce by Adam Smith in his Wealth of Nations. Implicit in Smith's description of market economy is the idea that selfish actions in the marketplace are virtuous because they contribute to efficient operation of the economy. This efficient operation is in turn responsible for the higher goods of prosperity and optimum use of resources. Decision makers may take selfish actions and be motivated by personal gain in their business dealings. They should ask whether their actions in the market further financial self-interest. If so, the actions are ethical.*

*This form of ethical guidance is applicable only in market situations. It is not useful in interpersonal relations and therefore is not a universal principle. Also, there are areas of market behavior where society has determined that the broad public interest is not furthered by selfish market behavior. Antitrust statutes are prime examples of legislated ethics here."*

**Steiner and Steiner. Business, Government and Society: A Managerial Perspective, p. 221.**

## ARTICLE

## Language and the Structuring of the Intellect: Towards the Realization of the Total Man

D.U. Opata

*“The limits of my language are the limits of my world.”*

**Ludwig Wittgenstein**

*“Mediate thought about language is an attempt to step outside one’s own skin of consciousness, a vital cover more intimately enfolding, more closely woven to human identity than in the skin of our body.”*

**George Sterner**

The critical definition of the concept, “the total man”, is encumbered by lot of difficulties – epistemic and pragmatic. First, a man *qua* man because he is a total entity, a complete *homo sapein*. However, the phrase “the total man” is used here in a stipulative sense to distinguish the liberally educated person from the pure specialist. Second, even in this contextual sense, the concept of the liberal-minded person is still a problematic. Is liberal-mindedness predicated on a person’s breadth of knowledge, even if in the process the person becomes the proverbial “rolling stone that gathers no mass”? Or is it a factor of a person’s critical and analytic disposition? In talking about a liberally educated person, are we solely concerned with the mind of the person, or are we also concerned with the person’s utilization of his mind’s state-of-being to relate to his external world?

Are we concerned with the character of the person, i.e., the totality of the internalization as well as the manifestation of values approved or disapproved by the society?

Thirdly, and on a different note, the use of the phrase “the total man” in contemporary educational context is prejudicial because it is limited to someone who has been to school. In this sense, the concept becomes as spurious as it is bourgeois for, within our traditional context, there is the idea of someone who has had a broad exposure to traditional educational disciplines. Even if the criterion of liberal education is not on breadth of exposure to knowledge but on character and analytic ability, we have that within our traditional contexts. So, who is a liberally educated person?

The concept of the total man is then seen as difficult to encompass, even in its limited application as being referentially synonymous with the liberally educated and, by implication, liberal-minded person. Fortunately for us, the focus of our attention is not on what is constitutive of the liberal-minded person, but on the role language plays in the formation of a liberal-minded person. Furthermore, what ever criteria are established as constituting the liberally educated person will not alter the role language plays or ought to play in the formation of the person. This is so because the extent to

which we can organize our world and postulate about such cognition is the extent to which we can understand and make use of language.

Language occupies a central place in the evolution of the human being. The commonsense definition of language as a means of communication does not distinguish between animal communication and human communication. In one of his Silliman Lecture series, Jacob Bronowski (1978: 30-36) argues that four factors distinguish human communication as distinct from that of animals in the following ways: (1) “human response to another human signal is rather slow compared to most animal responses”, (2) “prolongation of reference”, i.e., “the ability to use language so that it applies not only to what is going on now but to what went on or to what will go on”, (3) “internalization” – which enables “interior dialogue” to take place in man, and (4) “productivity or generativity of language” – which makes it possible for human beings to reconstitute words and stratify language. These defining characteristics of the language of human beings are important for our discussion because they throw light on the formation of consciousness in man. For example, the ability of man, but an important definitional criterion of man. Secondly, the ability to generate new sentence patterns from fundamental structures contributes significantly to the intellectual growth of man. These factors are some of the major determinants for man as a self - conscious being.

Rene Descartes, chiefly remembered for his philosophy of methodical doubt, was carrying out an interior dialogue with himself when he arrived at his famous *cogito ergo sum* – a statement which has since then remained a footnote to all rationalist philosophy. Givon (1979: 319), arguing on a different plane, postulates two axioms which are important not only for the affirmation of consciousness in man, but also for our discussion here. According to him,

If an individual is to construe – (i.e.) cognize a universe, that individual must perform exist.

If an individual is to construe a universe, then that universe must perform exist.

These axioms are not controversial. They are simply true. For Givon, “these two perception, and cognition: they are, in principle, not deducible from any other knowledge, being *precondition* of knowledge.” For our discussion, we need to add our axioms to the effect that:

The existence of a language or a pro-language is a pre-condition for any construal of the universe by an individual.

An individual must be capable of using such a language in order to make such a construal.

Other people can only know that an individual has any construal if that construal has been given verbal articulation, in other words, expressed in language.

With the foregoing, we have now established the four terms that are central to our discussion: man, *universe, thought, and language*. The attribution of the adjective “intelligent” to man is here supposed to be predicated on man’s ability to give a meaningful construal of this universe through conscious thinking and verbalization.

Man exists in time within his universe. Through language, he gives meaning to this universe, and also, through language, he comes to understand more about the universe. The individual’s *cognitive* – competence of himself, others, and the physical world constitute his intellectual world as well as his totalness as a person. Now, what is the composition of the human intelligence, and how does one come to become intelligent? In reviewing “two of the most influential approaches to understanding intelligence”, Robert J. Sternberg (1981 : 1–4), says that “Thurstone’s (1938) well-known theory of mental ability ... posits seven factors, namely, verbal comprehension, word fluency, number facility, spatial visualization, reasoning, perceptual speed, and memory.” Continuing, he says that the theories of

Anderson (1976), Newell and Simon (1976), and Shank (1980) ... explain Intelligence primarily in terms of complete language understanding (e.g. sentence and story comprehension) and problem solving (e.g., logical theorem-proving and chess performance). At levels in between these two extremes can be found theories such as Hunt’s (1978, 1980) ... which seeks to understand intelligence primarily in terms of reasoning and verbal comprehension (e.g., the solution of analogies and the figuring out of the meaning of previously encountered word in natural context, such as newspaper article).

What is evident from these quotations is that language processing ability is identified Thurstone Anderson, Newell and Simon, Shauk, Hunt, and Sternberg as being an essential component of the human intelligence. Thurstone includes “word fluency” – by which we may understand ease of reasonable speech-making or eloquence – as a factorial component of human intelligence. The omission of this factor by the other writers leaves a serious gap in their expositions because the effectiveness of any verbal or logical comprehension of language ought to include the fluency with which such comprehension ability is made evident to others, at least, for others to be in a position to regard a person as possessing such ability. This fluency of speech or eloquence is not merely verbal artistry, for according to Rainer Dietrich (1985: 75), “The art of speaking is not a matter of speaking in isolation, but of speaking meaningfully in situations with people, of saying what one means.” Hence, he goes further to argue that:

1. Eloquence, therefore, is knowledge.  
“Meaning” something will succeed the more the better one can make use of one’s knowledge by thinking and making deductions,
2. Ergo eloquence is thinking.  
“Speaking in situations” will succeed the more the greater the range of means of expression one disposes of.

3. Eloquence is language capacity or vocabulary.  
“Saying what one means” will be the more successful the more fluently one is able to select and actuate telling expressions from one's vocabulary.
4. Thus eloquence in speaking.  
“Speaking with people” finally will succeed the more the better one understands what they for their part think, feel and want.
5. Eloquence is understanding.  
Knowledge, thought, vocabulary, speaking and understanding – eloquence depends on these, both singly and taken together.

These deduction have been quoted at length because even when they can be summarised in a sentence, as indeed the author does in his fifth postulation, a summary would do damage to the process through which the conclusion has been derived, and I strongly feel that here both process and conclusion are equally important. What we are then saying is that verbal comprehension and eloquence are equally important indicators of human intelligence; for even “logical theorem proving” and “the solution of analogies” depend on the ability to produce and process language.

This latter point is very important because there is the erroneous impression that verbal comprehension and logical-theorem proving are very different things. Bronowski (1978: 43-63) argues that the symbolic expressions used in science and literature are “grammatical sentences” in their own right, that they are, in fact, a type of meta-language, or what Bronowski himself calls “logical formalizations”. According to him, Newton's law of gravity:

$$G = K \frac{m_1 m_2}{r^2}$$

is a grammatical sentence. Such a formulation is an instance of the language of science which has three features, Thus: there are, first of all, symbols which stand for concepts or inferred entities which have the character of the words in these sentences. Then there is a grammar which tells us how things are to be put together, so that for instance

$$G = K \frac{m_1 m_2}{r^3}$$

is a grammatical sentence. If you did not put  $r^2$  down but  $r^3$ , that would be ungrammatical and the sentence would not be allowed in the language.

This statement applies to algebraic equation as  $a + b = a + b$ , or  $a \times b = ab$ . With all this, the distinction between verbal comprehension and logical-theorem proving is a

slim one. It has to do with language production and language use. Given this again, we find that language is an important factor in considering the components of human intelligence.

It now remains for us to look at the relationship between language and thought. Without going through its history which dates back to Plato through Ocklam, Locke, Russell, and Austin, to mention only a few of the Philosophers who have concerned themselves with the relationship of thought to language, let it be said that the relationship is now best regarded as that between the egg and the hen. Karl - Otto Apel (1981: 86) supports Schleirmacher's and W.V.N. Humboldt's "tenets that language as a general system determines the individual thought as it in turn takes its origin in every act of speech through which individual thought realizes itself." And only last year, Rev. Fr. P. Odozor reiterated the same idea in his formulation that "ideas are words in their unspoken form." It is a belief in this formulation which has given rise to the popular definitions of language and thought as "thinking loud" and "silent speech" respectively, the latter being an equivalent of Bronowski's "interior dialogue". In this sense also, language is seen to have a direct bearing on human intelligence.

But it is not just that language is the most important factor in human intelligence, that language and thought are organically related, but also that language shapes and determines our perception of the universe and of reality - even though in a dialectical process our universe as well as our perception of reality also influence our language. Two scholars: Edward Sapir and Benjamin Lee Whorf have investigated this relationship to a considerable degree of success. According to Sapir as quoted in Mandelbaum (1949: 90-91),

It is the vocabulary of a language that most clearly reflects the physical and social environment of its speakers. The complete vocabulary of a language may indeed be looked upon as a complete inventory of all the ideas, interests, and occupations that take up the attention of the community, and were such a complete thesaurus of the language of a given tribe at our disposal, we might to a large extent infer the character of the physical environment and the characteristics of the culture of the people making use of it.

In a similar vein, Whorf (1956: 214) observes that because there is no "absolute impartiality" in the description of nature, even by scientists,

We are thus introduced to a new principle of relativity, which holds that all observers are not led by the same physical evidence to the same picture of the universe, unless their linguistic backgrounds are similar, or can in some way be calibrated.

A few years back, Terry Kit-Fong Au (1983: 55) summarized the view of what has since come to be called the Sapir-Whorf hypothesis by positing two tenets of this hypothesis in the following manner:

- (i) Linguistic Relativity - structural differences between languages will generally be paralleled by non-cognitive differences in the native speakers of two languages.
- (ii) Linguistic Determinism - the structure of a language strongly influences or fully determines the way its native speakers perceive the world.

Here again, it has been seen that language has a direct bearing on the shaping of our perception of reality. The way an individual perceives reality is part of his intellectual make-up and the extent to which he can carry on an analytical interior dialogue with himself about the world or universe is the extent to which he can be said as possessing of critical intelligence. In this way also, language contributes to the intelligence. In this way also, language contributes to the intellectual make-up of the person.

So far, all we have been able to accomplish is to demonstrate that language has a very significant role to play in the structuring of a person's intellect. But the role of language in that direction does not even stop at the levels we have seen. It plays a major role even in the "knowledge-acquisition process. Sternberg (1981: 5-6) talks of knowledge-acquisition components" which he defines as those processes involved in learning new information and storing it in the memory. He identifies "three knowledge-acquisition components" as necessary for any intelligent functioning, thus:

- (a) selective encoding, by which relevant new information is sifted out from irrelevant new information (for the specific purpose for which the learning is taking place), (b) selective combination, by which the selectively encoded information is combined in a particular way that maximises its internal coherence, or connectedness, and (c) selective comparison, by which the selectively encoded and combined information is related to information already stored in memory so as to maximise the connectedness of the newly formed knowledge structure to previously formed knowledge structure.

Thus we have come full circle to the conclusion that language plays an immense role in the structuring of the human intellect. Selective encoding here is possible because of the linguistic ability of human beings to delay response and selective combination no less than selective comparison is possible because of the prolongation of reference which is characteristic of human speech, a characteristic which is an indication of man's possession of foresight and hindsight.

All we have said so far can be summarized in the following manner:

- (i) articulate and reconstitutive use of language distinguishes man, at least linguistically, from other species.
- (ii) whatever criteria we identify as constituting the total man must include the ability to produce and process language.

- (iii) this language production and processing ability is the single most important indicator of human intelligence.
- (iv) language shapes and determines our perceptual reality of the universe.
- (v) in learning new information, language plays an important role.

With the foregoing, it is evident that language plays a major function in the intellectual formation of man. It is obvious too that whatever formulation we adopt of the total man can never be exclusive of the influence of language. It remains for us to discover how the use of English course can contribute to the realization of the total man.

The use of English and study skills course is both remedial and developmental. As a language-based course, it can contribute to the realization of the total man both in a general and in a relative sense. As a language course, it occupies a central role in the formation of the individual. Within that context, its contribution to the formation of the total man can be looked at from many perspectives.

First, total man in our contemporary literacy culture must, perforce, be literate. Literacy entails the ability to read and write in a language. English language is not only the official language in many countries but it is also the most nearly international language in the world. It is a well dominant language of modern technology. In higher institutions, the medium of instruction in almost all disciplines is the English language. The importance of the use of English course as a proficiency course in the use of English language is then really an immense one. For students to study effectively, their comprehension and production ability in English must be improved upon, and whatever they learn through the medium of English goes to the improvement of their intellectual make-up.

Second the non-instrumental mastery of English as a language is desirable in itself. Language is not empty of content, and language mastery implies the control of ideas and thought patterns. It further implies the ability to be analytic and discriminating in speech, but also presupposes a knowledge of a society's adequate communicative behaviour. Thus within our context in which English is the official language, the ability to understand and express ideas in English is not only good in itself but also necessary for effective comprehension of courses studied at the university.

Given this immense role of English in contemporary world, it is mandatory that the use of English course in our universities should be structured to meet up with these needs! We must not stop at merely the comprehension and production skills. Our aim should include that of improving their ability to think in the symbolic language of logic from which other science-based courses derive their meta-language. Undoubtedly, this would lead to a heightened sense in their understanding and appreciation of scientific formulations, and also contribute to their effective performance in verbal or written discourse.

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*"You know, we have a very peculiar situation. Young people, when they are in school, are extremely excited by the humanities, even the most traditional subjects. And five years after graduation, they will reject them, basically, and become totally vocational in their orientation. This imbalance isn't healthy in a long-range sense. As I look at our executive- management people who started out twenty or thirty years ago, I thought that these just-turned-45-year-old managers would ultimately come back to their schools and say, 'Now we need to understand little bit about ourselves and about life!' But the postgraduate education of our managers, from this perspective, has been a total flop."*  
**Drucker, P.F. *Managing in a Time of Great Change*, p. 295-296.**

## DISCUSSION

## Wavelet based SARIMA models for Forecasting Natural Gas Demand

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Major Afzal Saleemi  
Syed Akhter Raza

**ABSTRACT**

*Time series analysis has attracted a lot of attention of researchers in recent times due to availability of sophisticated computing facilities. In this paper wavelet transformation and seasonal ARIMA methodology have been used to analyze and forecast time series. First we analyze time series data for gas demand of Sui southern Gas Company (SSGC) of Pakistan and forecast with Box-Jenkins SARIMA models then we look at wavelet-based multiresolution analysis (MRA) and SARIMA models predictions using the compressed and de-noised signals. With the right choice of mother wavelets, this method is very successful in analyzing and forecasting time series. In the later part of this paper we compare forecast performance of the three models in consideration.*

**Key Terms:** Time Series Analysis, SARIMA, Wavelets, Multiresolution Analysis

**1. Introduction**

Modeling and forecasting the time series data present a number of challenges to business community. The various financial derivatives used to hedge exposure, to the often abnormally high and rapidly mean-reverting or non-stationary time series require an understanding of the process and the ability to accurately estimate and forecast future trends in the series. In this study to achieve this goal, we decompose our original series using a robust smoother wavelet transform. Further, we reconstruct the original series using wavelet shrinkage procedure to obtain filtered compressed series of gas demand.

We examine the gas demand series at different time locations and levels of resolution to reveal and differentiate between signal and noise. Further, we cleanse the data into the more fundamental levels of frequency resolution. As it is from these levels that we base the reconstruction of our filtered series, we need to ensure that they are minimum contaminated by noise. Using the filtered data, we explore time series models as possible candidates for explaining the demand process and evaluate their forecasting ability. These models include the Seasonal ARIMA and wavelet based compressed and de-noised models. What we find is that, models from the Wavelet class using the filtered data produce the best forecasts as compared to traditional SARIMA model using the unfiltered or original data.

Wavelet analysis in time series has attracted the attention of lot of researcher in recent past in the field of data mining [7], mathematics [5], statistics [3] and computer sciences [6][7]. Various methods, such as linear regression, Fourier transform based methods

and ARIMA models have been used to analyze time series. All these models are based on the primary assumption of stationarity and require transformations of nonstationary data for analysis. Both linear and non-linear models have limitations when it comes to analyzing nonstationary data. The most frequently used Fourier transformation is able to reveal the frequencies present in a signal but it is not possible to say when they are present. This was the starting point for the wavelet transformation. Using the wavelet transformation a time-scale representation of a time series signal is possible. That means wavelet analysis is the breaking up of a signal into its shifted and scaled versions.

## 2. Wavelet MRA in Time Series Analysis

The wavelet multiresolution analysis (MRA) is the process of decomposition of a discrete signal into approximate and detailed signals at each time scale through a series of scaling functions  $\phi_{j,k}(x)$  and wavelet functions  $\psi_{j,k}(x)$ , where  $k \in \mathbb{Z}$  and its reconstruction at the finest resolution[5]. These scaling and wavelet functions are obtained by dilating and translating the mother scaling function  $\phi$  and mother wavelet function  $\psi$  as under:

$$\begin{aligned}\phi_{j,k}(x) &= 2^{-\frac{j}{2}} \phi(2^{-j}x - k) \\ \psi_{j,k}(x) &= 2^{-\frac{j}{2}} \psi(2^{-j}x - k) \\ f(x) &= \sum_k c_k^{j_0} \phi_{j_0,k}(x) + \sum_{j>j_0} \sum_k d_k^j \psi_{j,k}(x)\end{aligned}\quad (1)$$

here  $f(x)$  is the function of approximations and details of discrete signal  $x(t)$ . The sum with coefficients  $c_k^{j_0}$  and  $d_k^j$  shows the approximation at the coarser scale and details at all scales respectively. It means the wavelet function is scaled and shifted along the axis and therefore the signal, too. This time-scale joint decomposition structure makes wavelet analysis interesting for time series analysis [2] [3].

## 3. Applications of Wavelet in Time Series

Wavelets offer a variety of possible applications on time series. Compression and De-noising are two its most popular functions.

### (i) Compression of Signal using Wavelets

Wavelet analysis is used for filtering and smoothing of data. A typical signal may have many large values spread out over time whereas its wavelet transformation may tend to have a few large coefficients that contain the maximum energy of the signal and many small coefficients, which are relatively unimportant. The DWT is defined in terms of a wavelet filter or mother wavelet and an associated filter known as scaling filter or father wavelet. These are band pass filters; hence the MRA and synthesis of a discrete signal  $x_t$  can be implemented using low pass and high pass filters [2][3]. The extraction of

estimated signal using inverse DWT from few selected coefficients greater in magnitude than a defined threshold is called compression or shrinkage of signal [3]. In wavelets maximum energy is concentrated in first few coefficients, hence the decomposed coefficients below a threshold are set to zero and a compressed signal is reconstructed on the basis of rest of the approximated and detailed coefficients. Our aim of this paper is to give a comparative study of the Box-Jenkins SARIMA models [4] with wavelet based SARIMA using compressed signal discussed in next section.

#### (ii) De-noising Using Wavelets

Many methods have been developed for smoothing a signal, in the hope that the noise can be suppressed and the significant patterns retained and revealed. These have ranged from simple moving averages or moving medians to methods of considerable mathematical complexity. Wavelets offer a smoothing approach, which is relatively simple to use, while adapting well and automatically to the form of the signal being smoothed. Here, we concentrate on one way in which smoothing using wavelets may be achieved i.e., by de-noising transformed signal using threshold. We used a de-noised signal for forecasting gas demand of SSGC and also compare the results.

#### 4. Box-Jenkins SARIMA Modeling

The steps in developing the ARIMA model include identification, estimation and then diagnostic checks on the identified model [4]. If the diagnostics do not endorse the selected model, the process is started over again. The most useful tools in model identification are the sample autocorrelation function and the sample partial autocorrelation function. The autocorrelation function is used to identify the autoregressive process (AR), and the sample partial autocorrelation function is used to identify the moving average process (MA). Mathematically the pure ARIMA model is written as

$$Y_t = \mu + \frac{\theta(B)}{\phi(B)} a_t \quad (2)$$

$Y_t$  = Response series

$a_t$  = Independent disturbance

$\phi(B)$  = Autoregressive operator

$\theta(B)$  = Moving average operator

We applied many seasonal ARIMA models on SSGC gas demand series and found SARIMA (0, 0,1)(0, 1, 1)<sub>12</sub> suitable[1].

#### 5. Data and Results

The time series used in this study was collected from Sui Southern Gas Company during the period from July 1999 to June 2004[1]. The observations in the series

are the average of daily demand of gas for a month. Among the various Wavelets used in this study we found db4 is the best, details are not given due to brevity. Fig. 1 shows the original signal and its decomposition using the multiresolution analysis for db4 [5].

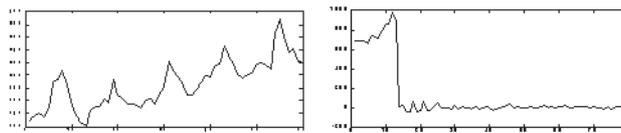


Fig. 1 Original and decomposed signals using db4

Analysts depending on the problem in hand generally choose the compression rate. We have compressed the original signal while using 16.46% of the transformed coefficients with compression rate of 0.167 (Fig. 2a). The compressed signal allows us to trade off a small amount of precision for very large gains in speed and retained 99.67% of total energy.

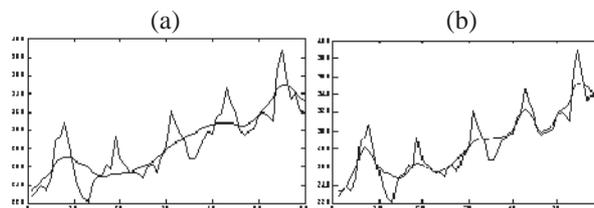


Fig. 2. (a): Original and compressed (b): Original and de-noised signal using db4

The comparison of the original and the filtered signal (Fig. 1) shows that the low frequency part is completely extracted. The compression process removed most of the noise from signal (Fig. 2a). De-noising is also a quite similar phenomenon to the wavelet filtering. After synthesizing the signal using approximation coefficients at coarser scale and detail coefficients at all scales, signal still contains the noise which can be extracted by threshold see [3]. Again we used a db4 wavelet and global threshold for transformation and de-noising a signal to get its smooth version. We removed the noise without compromising sharp details (Fig. 2b) of the signal, which is the strength of wavelet analysis and used de-noised signal for forecasting.

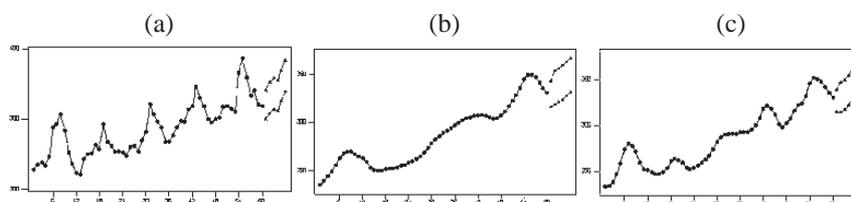


Fig. 3: Actual and forecast using SARIMA (a): On actual series (b): On compressed series by db4 (c): On de-noised series by db4 with 95% confidence intervals

## 6. Forecasting

We used the Box-Jenkins seasonal ARIMA model discussed in [1] for our comparative study of wavelet based SARIMA for both compressed and de-noised signals. Table 1 and Fig. 3 clearly show that forecasts using compressed and de-noised series have been significantly improved. Results show that SARIMA model on the de-noised signal is the best for series under study and gives minimum SSE, AIC, BIC and maximum value of adjusted  $R^2$ , however what is important is wavelet analysis with compressed model has given even better forecast than linear Box-Jenkins SARIMA Model which may prove very economical and speedy in future for large data bases applications. The forecasted values for next six months are given in Table 1.

Analysis	(a)	(b)	(c)	Period	(a)	(b)	(c)	Actual
R-Squared	0.753	0.764	0.907	61	320.054	329.542	326.765	333
Adjusted $R^2$	0.742	0.754	0.903	62	330.078	335.878	330.469	348
S.E.	9.244	8.91789	4.989	63	336.333	338.411	333.816	362
SSE	3845	3578	1120	64	333.314	341.300	338.229	363
Mean dep. var	19.208	19.208	19.308	65	347.118	344.837	345.879	353
S.D dep. var	18.183	17.966	15.996	66	361.307	349.070	356.803	431
AIC	7.346	7.274	6.229					
BIC	7.463	7.391	6.229					

Table 1: Comparative Results and Forecasts using  
(a) Original (b) Compressed (c) De-noised series along with actual values

## 7. Conclusion

We compared forecasts using traditional seasonal ARIMA model with wavelet based SARIMA models for natural gas demand data and believe that moving towards a wavelet based forecasting system would significantly improve the forecasting efficiency for nonstationary time series available through the traditional stationary models. We also conclude that compression of original time series signal using wavelets also improve the speed and efficiency of forecast model as compared to direct application of traditional time series analysis techniques.

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*Corporate Responsibility means:*

*“The obligations to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society.”*

**Howard R. Bowen. *Social Responsibilities of the Businessman*, New York: Harper and Brothers.**

**DISCUSSION**

## Perceptions and Attitudes of University-Going Young Adult Males about Metrosexuality: An Exploratory Study

Farheen Faiyaz  
Carissa P.S. D.,souza  
Nasir Ahmed Syed

**Abstract**

*The present research explores the awareness, acceptability, perceptions and attitudes of university going students towards Metrosexuality. The participants were university-going young adult males residing in Karachi. Data was collected through in-depth interviews. The findings revealed that though awareness is high, acceptability is relatively low. Metrosexuals are perceived as being professionally successful. Main factors influencing perceptions and attitudes were Media, Peer, Work Associates and Culture. Work associates were important in developing attitudes where as cultural norms acted as major deterrent in changing attitudes towards metrosexuality. Opening up of attitudes towards metrosexuality has provided an opportunity for marketers.*

**Introduction**

Metrosexuality, a term coined in 1994 by British journalist Mark Simpson, is a state of self-consciousness and concern of a man about his appearance and looks so much so that he uses means traditionally associated and used by women. Such men have a higher degree of concern about their physical appearance and need to look attractive.

Metrosexuals are generally urban males in touch with their feminine side. They have a strong aesthetic sense and spend a great deal of time and money on their appearance and lifestyle.

The authors developed an interest in this topic as they observed a growing trend towards personal grooming and fashion consciousness in the men of Karachi, along with considerable investment of time, effort and money in this. Introductions of men's fashion magazines and opening of exclusive men salons in recent times in the city is an indication of the increased attention men now pay to their grooming and appearance. (Dawood, n.d.)

The aim of this research is to provide an insight to the perceptions and attitudes of university going young adult males, between the ages of 18 to 25, about the personal grooming practices adopted by metrosexual males. This study is restricted to the urban Karachi population.

## CONCEPTUAL CONTEXT

Being a relatively new phenomenon, this topic does not have much research done on it. In order to develop a better understanding of the topic a conceptual map was developed. In this section we have discussed previous research related to the area of Grooming procedures and perceptions, perceived reasons for metrosexuality, and the channels of influence.

## GROOMING PROCEDURES AND PERCEPTIONS

Grooming behavior is a form of body language. Hair care occupies an important place in the routine morning grooming activities of young people (Rook, 1985). Hair care results in most happiness but it also causes frustration, when the effort put in does not result in satisfactory results. This frustration goes beyond just a mood change due to an activity's unsatisfactory performance.

Perception depends on three things – the idea of self-control as to the better a person looks and maintains their appearance the more control they have over life, the idea of a normatively acceptable body and thus the problematization of deviating conditions and finally the idea of the disciplinary eye of society that continually evaluates a person's appearance. The disciplinary gaze tends to focus individual's attention to aspects of their appearances that do not conform to the cultural and societal standards. Individuals monitor themselves by undertaking impression management to enhance their self-image. Fashion apparel and self-care practices are self-directed consumer choices that enable them to feel more contented with their lives (Thompson & Hirschman, 1995).

For the literature review, two broad categories were considered i.e., the perceived reasons for metrosexual tendencies and the channels through which these are communicated.

## PERCEIVED REASONS FOR METROSEXUALITY

Review of literature revealed the following possible reasons for metrosexuality which are pertinent to our study. "Work and success themes, deficiency in grooming leading to failure in job interviews, professional humiliation, and preparation for dating and sexual interactions, mechanism for overcoming introversion." (Rook, 1985).

### Self Concept and Body Image

**Research suggests that** "outward physical appearance is important for establishing and maintaining one's self concept. Cosmetic surgery, public body appearance and clothing concern were more highly correlated with the physical vanity trait" (Netemeyer, Burton & Lichtenstien, 1995).

Recent evidence indicates that body image is not only a concern for women; men too can be dissatisfied and preoccupied with their bodies (Choi & Pitts, 2003).

The body image of men has evolved over time. From era of the ancient Greeks to the modern day man the concern for appearance has changed. Previously it centered on Hair loss but today it encompasses the entire being of the metrosexual. The metamorphosis may be attributed in part to the mixing of the gay and straight culture (Luciano, 2001).

The Bem Sex Role Inventory (BSRI) in 1974 by Bem measures the degree of an individual's femininity or masculinity. Focusing more on gender schema than on the gender role behaviors themselves, its seen that individuals acquire and display traits, attitudes, and behaviors consistent with their gender identity. There are individual differences in the use of gender as an organizing principle. Gender identity serves as an organizing principle through which individuals process information about themselves and the world around them, although the ability of gender identity to have such an effect varies depending on whether or not an individual is sex-typed. A sex-typed person would be more likely to be influenced by their gender identity (Bem 1981, as cited in Smith, Noll & Bryant, 1999) Hence sex-typed individuals (as indicated by scores on the BSRI) were more likely to use gender as an organized principle than were androgynous individuals (Smith et al., 1999).

Individuals can be categorized into four gender role orientation groups on the basis of their self perception of traditionally masculine or feminine traits viz-a-viz sex-typed, androgynous, undifferentiated and cross sex-typed (Bern 1974, 1981 as in Lobel, Rothman, Abramovizt & Maayan, 1999). Compared to other gender orientation groups, feminine males have received relatively very little attention (e.g., Bem, 1981; Frable, 1987, 1989; Lobel, 1994; Miller, 1984, as cited in Lobel et al., 1999). This may partly because feminine males are relatively rare in the population, though that seems to be changing now. Women are considered to have higher clarity in their self concepts i.e. the extent to which an individuals self concept is clearly and confidently defined (Csank & Conway, 2004).

### **Conformity with Cultural Norms**

Body modification procedures (which may be seen as an extension of grooming) such as piercing and tattooing may either be seen as a return to tribalism or a transitory inscription of an ever-changing cultural journey on the human body (Featherstone, 2000). Body modification is not only related to this era, neither does it belong to any gender. People through out history have modified their body so as to fit into the prevailing era's ideal (Gilman, 1999).

### **Economic Variables**

Attractive appearances (basically the weight) also have a positive bearing on how one stands in their career life including how their income is influenced and how well

sought-after they are in terms of marriage (Averett & Korenman, 1995). Overweight women were more likely than overweight men to be underpaid or have more difficulty in getting a good position. Also in terms of life partners, such women were likely to have more difficulty in getting good partners. For men, there is less evidence of body mass (either underweight or overweight) on family incomes or marriage market outcomes. This highlights one aspect of appearance perceptions, that it does make a difference to look attractive and as close as possible to the ideal image created by media and society. It has no doubt been more pronounced for women than for men but this seems to be changing.

### **Attractiveness for the Opposite Gender**

In terms of female facial features, shorter lower jaws proportions, full lips and wide eyes are considered attractive (Johnston & Oliver-Rodriguez, 1997). This is similar across cultures. These observations are consistent with a sexual selection viewpoint on female facial beauty (based on fertility). A similar study of the sort can shed light into attractiveness of various masculine features in men and their contradiction or coherence with metrosexual tendencies. Men tend to report their ideal body shapes as more muscular than their current shapes and they believed that women would find a more muscular shape more attractive than women actually do (Grieve, Newton, LeVaun, Miller Jr., & Kerr, 2005).

A further concern is that of muscle dysmorphia in men. Muscle dysmorphia is a condition whereby the person wrongly thinks he has very little muscle mass and therefore tries to build it up by excessively working out and lifting weights. Male body image problems include muscle dysmorphia, eating disorders, and steroid abuse. It is a hidden syndrome that affects men and makes them obsess about their bodies (Pope, Phillips & Olivardia, 2000).

### **Personality and Psychological Inferences**

“Human grooming behavior is a form of body language communicating specific messages about an individual’s social status, maturity, aspiration and conformity.” (Rook, 1985).

A person’s perception of beauty seems to depend on their attitude towards life, thus beauty lying in the eyes of the beholder (Weller, 1987). Physically attractive individuals are assumed to have relatively more socially desirable attributes, but these apply only to the peripheral characteristics that are due to environmental impact. Such attractive people maybe considered having ego identity, egoistic behavior and the like all of which are core characteristics of personality.

Footballers and fashion models consider a good physical appearance (be it muscular physique or a slim beautiful figure and face) an important aspect. Models also relate their physical appearance as an achievement as is required in their profession. Physical vanity, clothing concerns and cosmetic attitudes are closely linked (Netemeyer et al., 1995).

## **PERCEIVED CHANNELS**

### **Work Place, Acquaintances and Colleagues**

Young adult grooming is motivated by a variety of forces such as individual identity and interpersonal intimacy, group narcissism and vocational pressure to look good. Appearance conscious men are seen as role models such as managers or sophisticated bachelors, even professional sports superstars. Women are described mostly as housewives, executives or college students. Further grooming has an important psychosocial function. It give the idea of a well-groomed man, as being one who made things happen, was powerful and proactive. Similar is the perceptions about women. Work and success were highly related to grooming practices as were aspirations for intimacy and preparation for romance and dating. Grooming is valued as a mechanism to overcome introversion (Rook, 1985).

### **Media**

Television has an influence on adolescents' body image and it contributes in similar ways to the minds of teenagers of both genders (Tiggemann, 2005). Girls tend to be more dissatisfied with their body image than boys, though boys are more conscious on drive for muscularity. A person's weight and shape related attitudes are established by early adolescence. The time spent watching TV is not relevant but the time watching particular genres is of critical relation. The watching of soap operas is correlated with the internationalization of cultural beauty ideals and drive for thinness in both girls and boys and a further drive for muscularity for the boys only. The impact of the media extends beyond adolescence and is most apparent in young adults. It is well known that mass media has had a huge influence on shaping the physical appearance ideals for females and having a negative influence on women's body image. The effect of such media exposure of male ideals does have a negative effect on males too (Agliata & Tantleff-Dunn, 2004). Images on TV of lean and muscular men lead to changes in mood and body disturbance. Males regardless of schematicity, do react to cues that relate to appearance. A cause of concern arising from this study is that in reality, people are exposed to media images over 150% more than what was used in the experiment; chances are the impact would be much bigger in reality.

The presence of women writers in primetime TV has increased the appearance comments made overall and in particular directed towards females (Lauzen & Dozier, 2002). Men are increasingly subject to similar appearance standards as women (Pope et al., 2000), but it does not apply to prime time TV in America specially season 1999-2000 which seemed had singled out women characters as targets of comments on physical appearance.

### **Gaps**

While developing the conceptual context it was found that not much research had been done on this particular research topic of metrosexuality. Most literature in this area pertains to body image of males and perceptions regarding them. The focus of these studies is usually on muscularity and physique. Metrosexuality is an entire philosophy. Self grooming is one aspect of it. In this study our focus is more towards the psychological aspects. Literature ignores the perceptions and attitudes of men regarding metrosexuality. It is important to explore how men, in general perceive metrosexuality and to gauge their attitudes.

There is little research conducted on metrosexuals and specifically Pakistani metrosexuals.

### **RESEARCH QUESTIONS**

In order to explore the topic, research questions were formulated which are as follows:

- Are participants aware of metrosexuality?
- What is their understanding of metrosexuality?
- What is the level of acceptability of the phenomenon among participants?
- What are the perceptions and attitudes of the participants regarding metrosexuality?
- Why do people view metrosexuality the way they do?

### **PARTICIPANT INFORMATION**

The participant population consisted of young adult males between the ages of 17 and 25, who are university-going students and who reside in Karachi. Four participants were interviewed for the research. The criterion for limiting the research to four participants was based on sufficiency and saturation of information (Seidman, 1998).

Purposive sampling was used to draw samples. It was felt that in a closed society like Pakistan it may be difficult for just any participant to discuss metrosexuality. A research conducted by Sohail and Kaazi (2004) suggested that participants had a negative association with the term as it rhymes with homosexuality. Homosexuality is disallowed in Islam. According to the international religious freedom report, 96% of Pakistanis are Muslims. We felt that it would be difficult for participants to discuss a topic in the open, which had negative connotations. It is with this intention that purposive sampling was chosen, since it allows the researcher to make judgments about the suitability of the participants (Fraenkel & Wallen, 2006). We chose participants who would feel comfortable discussing the subject. An assessment was made during the process of drawing informed consent. Participants who were hesitant about discussing grooming practices in men were not selected. The reason for this is that a participant who was uncomfortable in discussing grooming trends amongst men would find it even more difficult to discuss metrosexuality.

Also the sample size was chosen keeping in mind that in qualitative research the richness of data or quality relates to representativeness rather than quantity. (Sarankantos, 1994).

### **RESEARCH DESIGN METHODOLOGY**

The research is qualitative and exploratory in nature. We have chosen the qualitative paradigm since it offers a margin of flexibility, which is a requirement of this research, as this phenomenon is relatively recent and little research has been conducted on the topic (Maxwell, 1996).

The instrument used was in-depth interviews. In-depth interviews were chosen as we were interested in exploring meaning making in participants. In-depth interviews allowed us explore rather than probe (Seidman, 1998).

The interview schedule used consisted of five sections. The format recommended by Seidman (1998) was modified to fit our constraints. We conducted all three interviews at a stretch due to time constraints. The structure of the interview however was followed.

During the interview participants were also asked to comment on three pictures of men grooming themselves. This was done so as to get non-verbal cues from our participants. At the end the non-verbal cues were compared to the verbal output to develop a complete understanding of each participant.

The term 'metrosexuality' was used at the end of the interview and was elsewhere referred to by phrases such as 'extra grooming habits' and the like. This was done so as to avoid the problem faced by Sohail and Kazi (2004).

### **DATA COLLECTION**

Data was collected over a period of two months. Informed consent was taken verbally after informing the participants about the researchers, research use and their rights. The interviews were conducted at a business school

We chose to conduct the interviews within the premises of a business school since it is a neutral location. Also since the students were studying at the same university, it may have provided them with a sense of comfort.

### **Validity Threats**

A number of steps were taken to ensure validity and minimize the chances of misinterpretation of the findings. Validity was ensured by conducting member checks (Lincoln & Guba, 1985). Also data triangulation was used by incorporating the use of projective techniques (Cohen, Manion & Morrison, 2000).

## DATA ANALYSIS

At first, data was transcribed after which it was open coded. This was done in order to help in the categorization of data. The main findings have been presented under the research questions.

Are participants aware of metrosexuality?

The question aims to find out how well-aware the participants are of the phenomenon. It was found that all the participants were well-aware of metrosexuality in Karachi and grooming practices of metrosexuals.

What is their understanding of metrosexuality?

Participants had a very clear understanding of metrosexuality Their concept was an approximation of the actual definition:

They are concerned about their appearance .A bit too far though. It is not good or bad. You can do it if you want to feel good. (Participant No. 3)

Metrosexuals don't call themselves metrosexuals. It's just a new idea that's come in... metrosexuals are just people who just take care of themselves... [They think] There's nothing feminine about getting a manicure, pedicure, a facial or wearing bright colors. (Participant No. 1)

What is the level of acceptability of the phenomenon among participants?

This was assessed through direct answers and through comfort level with associates and friends of the participants and their degree of grooming practices.

It was found that the participants are not very comfortable with anything way out of the usual. The usual or normal includes shaving, showering and working out. Manicures and pedicures are slightly acceptable. Doing the eyebrows is considered unacceptable.

Waxing all over, I think that would be excessive. And plucking eyebrows, that one also. I have a couple of friends who thread themselves. (Participant No. 2)

All participants consider grooming a personal aspect of a person and say they are okay with it, as long as its not 'overdone'. According to Participant No. 1:

Overdone would be... going to the salon maybe more than once a week. Getting eyebrows done. Proper hygiene is one thing, but excessively doing something which has female connotations.

I think that would be overdone... shaving your chest. Those things are pushing it. (Participant No. 1)

As the interview progressed, participants revealed that concern for appearance depends on individual needs. They felt that men should take care of themselves for strong reasons. Reasons were either emotional or physical. Men having no strong reason for indulging in extra grooming were perceived negatively.

I think... umm... I really don't have an opinion because its up to them. What I said about plucking eyebrows before... if a guy thinks he needs it.... go ahead, get it done. If it makes you look good, if it makes you more confident and you are happy with yourself. (Participant No. 2)

Getting eyebrows done... THEEK HAI you have a uni-brow and you want to separate them that's something. But actually shaving them and arching them... shaving your chest. Those things are pushing it. (Participant No. 1)

I don't mind someone doing something for feeling good. Feeling good is important. (Participant No. 3)

Level of acceptance rises slightly if the metrosexual is from a different cultural setting and not in the immediate circle of the person.

If you are living abroad and you go to the beach often and if you are waxing your body fine, whatever. I mean that's up to you. (Participant No. 1)

This also indicates that cultural norms also play an important role in perception building and acceptance. This explores a reason as which affect perceptions.

Acceptability also rises if it is someone the person knows. Also as long as the procedures are done by the person themselves, participant 2 feels it's slightly acceptable. His tone of talking here (the way he tries to justify his friends actions) suggested that it was okay if the person did the grooming activities himself. Hence one can deduce that frequenting the salon is not something the respondent is comfortable with.

I have a friend who gives himself scrubs and manicures, but he does it himself. He doesn't go to salons or anything. (Participant No. 2)

### **What are the perceptions and attitudes of the participants regarding metrosexuality?**

In this domain, participants were explored for their perceptions and attitudes about

metrosexuality. Participants perceived that people who groom a lot are successful in their professions, extroverted but maybe self-obsessed as well.

A corporate banker... depends on your personality, normally extroverted people, people who like to go out, like to be the centre of attention... because they are aware that they need to sell themselves... and some people are just narcissists. (Participant No. 1)

A clear line cannot be drawn as such regarding personality traits of different people who groom more because it is a highly subjective thing. It's a spectrum of varying degrees and almost everyone does groom to some extent or the other. However some qualities that are supposed to be present in people who groom themselves are confidence, security, success, wealth and extroversion. Such people are also thought to be in control and hence powerful or influential.

Definitely a corporate type... has a lot of time... could be a banker, corporate sort. People who take care of themselves generally have money. They are in an environment... they are going to parties, they are going out. Or they are in a job situation like that. You find more people like that in X (an art school) or Y (a business school). (Participant No. 1)

Another interesting aspect of not grooming would be that the person has the confidence to be who he is.

But someone who doesn't groom himself, you could also say he has a lot of confidence, because he doesn't really give a damn [short pause] what he looks like. He's fine the way he looks. (Participant No. 2)

### **Why do people view metrosexuality the way they do?**

In this section, participants gave reasons why they had certain perceptions. This was done indirectly by using separate variables. These were media influence, peer group influence, work and acquaintances influence and culture. These were the factors identified as having had influence on attitude formation of the participants. The findings are as follows:

#### ***Media influence***

Media is a variable that has influenced perceptions regarding metrosexuality. But it isn't as yet to the extent that models and media figures are imitated entirely on the basis of their looks.

I have become more conscious about myself... I'm more aware that I need to look good because I know people are watching me. And people do take this into account. Even guys now... even guys are scrutinized now. (Participant No. 2)

Definitely... you see so many beards after DIL CHAHTA HAI... the goatee is in... yeah of course people get influenced by TV dramas and movies. (Participant No. 1)

Imitating of ideals is only as far as copying personality traits are concerned. Neither of the participants themselves have copied anyone for looks merely.

No. that doesn't work for me. It definitely doesn't... not model and things like that. Because they are just out there in front of the cameras... they are not like that in real life. (Participant No. 1)

I don't remember copying any actor for his hairstyle. (Participant No. 4)

### ***Peer group influence***

Peer influence plays a major role in altering as well as controlling attitudes and behavior. One participant's idea about well-groomed men contradicted with how his friend is, which lead to him changing his view about others as well.

But the friend I mentioned is not at all like that. He's very humble and kind. He's just conscious about the way he looks. (Participant No. 2)

Friends also play a role in determining group norms within which the individuals develop their attitudes and perceptions.

I think they would be fine with it. I think, some of them would be ... they won't actually object but they would be a bit taken aback if they discover someone is waxing himself. (Participant No. 2)

### ***Work and acquaintances influence***

Work experience and interaction in the corporate world has effects on perception formation and in turn also induces the person to try and copy these ideals.

When I was interning at ABC Bank, I saw really well-groomed people. Anybody who works in a good place normally has more money to spend... specially in public areas like marketing and banking which you have more of a human contact... then you are

going to be more conscious... you are going to see more ties at multinational banks... I did see... more flashier or meticulous dressing... and yeah you get affected. The bold ties, the nice shirts, you look at them and you are like okay once I have this kind of money then even I can afford them. (Participant No. 1)

### ***Culture***

As discussed under the head of level of acceptability, cultural norms also play an important role in perception building and acceptance. Something that may be considered okay in another culture, may not be so readily acceptable in ones own culture. Also the environment and situation a person is in also affects their standards of grooming.

For myself, it depends on the environment... I do go out I do make it a point that clothes should be pressed and polished... it should be a complete package. (Participant No. 4)

### ***Factors Motivating Grooming***

Several factors are thought to drive grooming practices, which in turn determine a person's perceptions.

Attention from the other sex is definitely one thing. You do want to look good for somebody out there. Personal satisfaction, if you are working then it can be to look well-groomed, to give a sense of this person is more in control. This person is... generally more meticulous about details... has an eye for details. (Participant No. 1)

Confidence for the other person, for the other sex, AUR professionally... AUR how you separate yourself from the people around you. To kinda stand out. (Participant No. 1)

If you are expecting others to look good for you, the least you can do is give something by yourself. Put in a little bit of effort. Besides you are not doing it for other people, you are doing it for yourself. There's a mirror and if you look there and you feel that you are looking good, you feel more confident, you feel more assured... you feel good. It's a very relaxed feeling, if you are dressed well. (Participant No. 1)

These suggest that grooming practices are undertaken for be popular with the other gender, to look professional, to stress one's individuality and intrinsically feel good about oneself.

Regarding whether men should or should not groom themselves so much, both participants felt that it should be done to feel good but there should be a clear boundary between grooming rituals for women and men.

### **DISCUSSION AND IMPLICATIONS**

The results of this investigation broaden the understanding of how young males view the new phenomenon of metrosexuality. It was seen that there is a fairly good awareness of the phenomenon amongst the participants. They however display a mixed attitude towards the phenomenon. This was evident from the slightly contradictory responses that were being given. Media has played an important role in forming attitudes and opening up the psyche to try and accept metrosexuality. This is still in the initial stage of the process as, though awareness level is high, comfort level is minimal. This further comes into conflict with the prevalent cultural (and religious) norms making the transition more slow as compared to other Asian countries. Nowadays (in Asia), the definition of masculinity is changing. Self-love or narcissism is growing owing to changing factors such as shifts in gender roles, economic growth, higher disposable incomes and efforts by the fashion and cosmetics industry to expand their market. Men can now longer demand to be accepted for who they are, as they are. Further influence from media and media figures such as David Beckham has made the Asian males more open to the idea of pampering themselves and feeding their self-esteem (Liu, 2005). However in Pakistan, there is a lag both due to cultural restraints as well as media influence.

The findings hold several implications for marketers and researchers in consumer behavior. It being a new and fairly untapped market in Pakistan, producers and marketers of cosmetics and fashion industry can use strategies that would change the attitudes of the potential consumers and also the masses. This also indicates that salons and gyms may be a lucrative investment if proper appeals are used.

Having identified the major factors that influence perception formation, targeting them and using appeals to cater to them will result in better marketing efforts. Stressing on professional success is the most interesting appeal that may be used. Individuality is also a good appeal.

### **FUTURE DIRECTIONS FOR RESEARCH**

This study is very basic in nature and will provide a base for extensions in research in this area. Further studies that can be done on this topic can be exploring the motivation behind grooming habits of metrosexuals, their buying behaviour, affects of culture and societal norms on such traits and stability of this potential market to invite large-scale marketing efforts. This study was conducted on Karachi males, and maybe replicated in other cities in Pakistan to study the level of awareness and its perception there.

It should be kept in mind that being a qualitative research the results can not be generalized to others even with in the same population parameters.

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**DISCUSSION****Influence of Foreign Media on Fashion  
in Young Adults in Pakistan**

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**Abstract**

*The extent of the influence of Indian media on fashion choices is studied by finding the underlying feelings and motives behind fashion product purchase decisions for young female adults. The results showed that the influence of Indian media on fashion choices is minimal and does not lead to an active search for a particular product. Rather, the exposure is used to make a decision when they are faced with a choice between a product seen on the media versus another product. Accessories are more easily adapted than clothes, which are too glamorized. The soap dramas are more popular among the masses than amongst females belonging to a higher social class. Hence, the latter's degree of adaptation is not as significant.*

**INTRODUCTION**

Consumer spending over the life span of today's 18 to 25 year old emerging adults will reach into the \$10 trillion range (Ige, 2004). This figure holds true for American young adults; for their Pakistani counterparts, this figure in our view must be hefty as well. With this amount of money involved, marketers, corporations, educational institutes and the entertainment industry can benefit from learning about the influences that affect the young adults of today. Among one of the major influence is the media, consisting of all the movies, dramas, fashion shows as well as advertisements. They are reaching audiences quicker than ever before through the cable industry, which is the fastest growing electronic medium of Pakistan (PEMRA, 2003). Thus the advent of more and more foreign channels brings in new ideas into the existing culture.

Television has been called an idiot-box in the past (Singer, 1981). Its influence is seen in many ways, from being an unhealthy past time (Bulck, 2000) to causing negative behaviors such as aggression (Kremar & Greene, 1999). The extent to which this holds true has to be judged and that is the purpose of this research: to judge the influence on fashion due to the advent of foreign (namely Indian) media. Doing this will help determine the extent to which Indian media has an influence on the purchase decisions of Pakistani youth.

**LITERATURE REVIEW**

The research has been conducted while considering several variables. Their operational definitions relating specifically to this study are explained below:

### OPERATIONAL DEFINITION

**Foreign Media:** All the programs on channels that cater to the Indian market (such as the *Star Network*, *B4U*, *Zee Network* and *Sony Television Asia*) which can be seen on the local cable television; Indian movies, songs and advertisements.

**Fashion:** The style followed by the participants in personal consumption products such as clothes, accessories (shoes, handbags, jewelry) and beauty products.

**Young Adults:** The people whose age ranges from 18 to 24. The study will concentrate only on females belonging to SEC A of Karachi.

**SEC A:** The socioeconomic class, which is the upper/upper-middle class of Karachi, residing in areas such as Defence, Clifton, PECHS and KDA. This is according to the researcher's own definition.

**Patiala Shalwar:** A new kind of fashionable baggy flaired shalwar (or trouser) worn by females.

**Sari:** The traditional Indian garment worn by females comprising 3 yards of cloth wrapped around the waist pleated in front and one end worn over a shoulder with a short blouse

**Kumkum Sari:** A kind of sari worn by an Indian actress with the screen name of Kumkum which is available in the market with this name.

**Kashish Baliya:** A kind of baliya or earrings worn by an Indian actress with the screen name of Kashish which are available in the market.

### PROBLEM STATEMENT

To study the influence of Indian media on fashion in Pakistani SEC A females aged between 18 and 24 living in Karachi.

In order to develop an understanding of the topic, the following areas were explored by reviewing the relevant studies.

### TELEVISION MEDIA

Television is seen to be the greatest development of the 20th century (Ige, 2004). Many arguments exist in favor of the influence of television on people as well as the personality factors that are seen as being common to television viewers. Television viewers are seen to want to know about the ongoing culture of society through the television and are less active than non-television viewers both in house chores as well as outside home activities such as going to museums and movies. They are able to achieve satisfaction with doing lesser number of activities than non-television viewers (Jackson-Beeck & Robinson, 1981).

Television, along with peers of consumers, appears to be an important agent in adolescent consumer socialization and increases interaction of adolescents with parents for consumption related queries (Churchill Jr. & Moschis, 1979), meaning that it could aid in increasing the influence of family in socialization. It also is seen to help in the construction of a mental picture of the real world (O'Guinn & Shrum, 1997). We might therefore come to believe how others live and behave without ever actually meeting them and because of the presence of more affluence in television programs, television viewers would believe that more affluence existed in the real world as well, and feel disadvantaged. Thus they might want to buy more fashion clothes as a result of watching television channels.

Television usage could also increase the awareness of the incidence of crime for television viewers (Wyer Jr., Shrum, & O'Guinn, 1998). Consumers might not think about the source of any information with regards to television and would in fact treat it as being true even though it might be false, unless they are made aware of a possible bias.

Television advertisements are also seen to have an impact on consumer role perceptions as well as sex-role perceptions (Moschis & Moore, 1982). Over a period of time, increased advertising exposure causes a person's behavior to be less socially desirable (Moschis et al.). It might make them buy products such as cigarettes which are of no social value. One thing to remember is that ads have to be placed in likeable programs to get more positive product impressions (Murry Jr., Lastovicka, & Singh, 1992). Therefore a good ad might be useless unless it is placed in the proper television time-slot of programming.

The influence of advertisements is shown through the use of premium offers along with the product itself (such as reusable containers or gifts), which is seen to influence consumers to like or desire the product (Shimp, Dyer, & Divita, 1976).

## **FEMALES**

Historically, consumer and market researchers have viewed women in the traditional roles of wife, mother, homemaker, and hostess, or single girl preparatory to these roles (Venkatesh, 1980). A Pakistani woman's place in society can be seen in light of this study on the changing roles of women, which although very old, would help shed light on adolescents views. In our view, the traditional Pakistani woman's role is reflective of the traditional American housewife of the 1960's and 1970's. Among the three categories listed by Venkatesh, the study on feminists is of particular interest since they are closest to our sample characteristics. They were found to be younger, better educated, and revealed a greater sense of independence in terms of how they perceived themselves within the household, more self-confident, and less prone to television viewing (Venkatesh et al.). Other studies have shown that females have a stronger orientation toward their peers than do males (Churchill Jr. & Moschis, 1979).

In a study on male and female processing strategies (Meyers-Levy, & Maheswaran, 1991), it was found that a female processing often entails substantial, detailed elaboration of message content, sometimes resulting in female's heightened sensitivity to the particulars of message claims (Meyers-Levy et al.).

### **ADOLESCENTS**

Youth is a crucial period for consumer socialization, a process that begins at an early stage and lasts through life (Lachance & Choquette-Bernier, 2004). Young people have less experience than adults and are more vulnerable because their low level of experience and their strong permeability to exterior influences like fashion and the opinion of their peers. It was interesting to note that if the subjects think they are competent consumers, their perception of other consumers are much less favorable.

Children's exposure to TV advertising of products which they would not even use may influence the perspective children have of the adult world (Gorn & Florsheim, 1985). Apart from television the mother seems to remain the most influential socialization agent but the father seems to play an increasing role. Young people's consumer socialization process is mainly achieved through communication, observation, and by learning through trial and error (Lachance et al.).

Childhood experiences are of great importance in shaping patterns of adult behavior. Marketers are primarily interested in understanding how young people develop consumer-related thoughts and actions (Churchill Jr. & Moschis, 1979), which later on form a basis of their choices during their adulthood. Young people have been recognized as a specialized segment of the market for a variety of products and services, and their behavior as consumers has received increasing attention among marketers, public policymakers, consumer educators, and students of socialization and consumer behavior (Moschis & Moore, 1979). Since the research is about young adults who were adolescents not too long ago, a closer look at adolescent's behavior needs to be taken.

Television may directly affect the youth's acquisition of expressive aspects of consumption. The amount of television viewing would be related positively to the adolescent's strength of social motivations for consumption and materialistic values, and to his/her frequency of interaction with parents and peers regarding consumption matters. (Churchill Jr. et al.).

Ages 18-25 is a unique stage of life called emerging adulthood (Ige, 2004). It's characterized by identity exploration, high levels of personal freedom and low levels of social responsibility. Present generation of young people can be classed as a hi-tech generation, extremely fascinated by innovation and advancements in technology (Ige, 2004).

Young people have acquired fairly sophisticated decision-making cognition skills by the time they reach early adolescence. Price and brand name were perceived as the

most important evaluative criteria. At the purchase stage, the adolescent's social environment is also likely to vary across different products. Emerging adults are immersed in peer-intensive social context thus peer norms strongly influence attitudes and behaviors of emerging adults (Ige, 2004).

There is also seen a link between education and age to watching television. As education and age increases, the use of television decreases (Bryant & Gerner, 1981).

Coming to advertising, it is powerful enough to influence social interactions. Advertising critics argue that advertising strongly influences youths and results in undesirable socialization, e.g., materialistic values and non-rational, impulse-oriented choices (Churchill Jr. et al.). Adolescents are greatly influenced by advertisements, and mimic a jingle of an ad or catchphrase or hold extended conversations over a particular advertising execution (Ritson & Elliott, 1999). Adolescents even feel left out or blank if they are unable to participate in such a conversation if they had not experienced the advertisements themselves (Ritson et al.). Adolescents even engage in mutual aid, where they help each other understand a certain ad (Ritson et al.). Thus adolescents are able to draw power by understanding ads better than their peers. Adolescents often describe ads in front of their peers to let their peers know their taste, which were endorsed by the larger group. There is a tendency however, on the part of male adolescents, to not understand ads that are inclined towards females. However, on the whole, adolescents are seen as forming views that are similar to the rest of the group because of the shared experiences as well as the similar background of the group (Ritson et al.).

#### **AFFLUENT SOCIAL CLASSES**

The socioeconomic class that a person belongs to would influence their attitude towards television commercials (Bearden, Teel & Wright, 1979). A developed cognitive structure is associated with a high social class level (Bearden et al.).

#### **FASHION**

Emerging adults are a powerful force in shaping demand for consumer products. The problem recognition style associated with emerging adults can help marketers understand this group of consumers and provide insight into what kind of products, services and messages will appeal to them as lifelong consumers (Ige, 2004).

Fashion is about novelty, proliferation of goods and mass consumption (Thompson & Haytko, 1997). All of this affects adolescents differently. Some of them may think of fashion as being practical, conservative as well as projecting the social construction of gender (Thompson et al.). Their fashion interpretations support their personal desire to be judged on the basis of their character, abilities and achievements as well as for positive moral virtues (Thompson et al.).

It was seen that consumers use fashion to develop their personal identity by contrasting their personal fashion orientation with others in their social setting (Thompson et al., 1997). Thus personal identity is seen as being continuously changing as a result of social relations. Some even associate fashion with continuous family and societal pressure to conform to a particular type of fashion. Some adolescents want to feel unique and non-conformist, by always contrasting themselves against an imagined conformist, so that they themselves do not become sensitive to the opinions of others (Thompson et al.). A prominent point noticed was that female adolescents are knowledgeable about fashion models (Thompson et al.). Overall, the adolescents reject or accept any fashion meaning on the basis of whether it works well with what their own personal beliefs and values are and not the social norms.

Fashion in adolescence, branded apparel in particular, is influenced by peers (Lachance, Beaudoin & Robitaille, 2003). During adolescence, clothing-related decisions are associated with an important social risk. Parents, peers and television are recognized as representing the major sources of interaction when it comes to consumption matters. The most important agent in developing brand sensitivity in apparel appears to be the influence of peers, confirming the huge importance of friends and pals during adolescence, and the role that clothes seem to play in their relationship with them (Lachance et al.). It was found that teens almost never wore selected clothes like those worn by persons in magazines and on TV (Lachance et al.). If this fact holds true for young female adults remains to be seen.

Men and fashion followers reflect a need-based approach to fashion problem recognition, whereas both fashion change agents and women reflected a want-based approach to problem recognition (Workman & Studak, 2005).

#### **GAPS**

All the different findings have to be reviewed cautiously because all journal articles selected have no data about Pakistan and no reliable studies could be located relating to Pakistan. Almost all articles that were used are based in U.S.A. and the rest in Canada. Hence the application of this past data to new one has to be done with caution because the different cultural settings and factors will have affected the results of these studies.

Certain articles also contain statistics relating to young people's online shopping habits in countries which are other than Pakistan. These results are reached after collecting the data from a non-Pakistani sample. Therefore, the study would miss out factors that might come into play as a result of our distinct culture. The degree to which they can be applied to Pakistan is questionable; although since the sample is of class A of Karachi sector, we believe that young people from this class mirror some of the characteristics of the young people in U.S.A. and Canada because of the amount of exposure they get through the foreign media.

Almost all the researches, barring a few, were based on quantitative method analysis, instead of the qualitative one that we are conducting in our research. Therefore, the results were difficult to correlate.

There are also studies that pertain both to males and females as well as other studies whose sample considered females whose age ranged higher or lower than our sample. Therefore, findings from these studies have to be sifted through to remove any that might contain results not relating to our sample directly.

Studies about American media creates a gap for the researchers since lack of data in this regard means that other articles have to be viewed in their context in order to be understood and that they can not be transferred to Pakistan fully.

There is also data that is quite old; hence some of the results might have changed. These results would not hold true even for the US. New factors introduced into the market might have changed certain behavioral patterns of people. More so, the behavioral patterns of our own society will not be covered in such a study. The studies do not reflect our social setup.

Certain articles also contain information which is irrelevant. Therefore, the task to find the data relevant to our research is again increased.

Even qualitative studies included here have their results based on the interpretations from a particular period and would not reflect on Pakistani young adults of class A, so certain differences might exist between the approaches of the two samples.

A study dealing directly with female fashion influences have a major shortcoming that the sample was small and non-Pakistani including males and is not representative of even the population of the country in which it was conducted. In some cases, the sample consisted of children, making the findings completely irrelevant for our research.

## **RESEARCH QUESTIONS**

1. Does Indian media influence the way young Pakistani girls make their purchasing decisions regarding fashion?
2. Is the Indian Media causing Pakistani girls to change the way they perceive themselves and how they feel they are perceived by others?
3. Is Indian media being viewed more and more in a positive light, even taking on the role of Pakistani channels for entertainment for Pakistani girls?

## **POPULATION OF PARTICIPANTS**

Our study focused upon 8 young unmarried females belonging to SEC A of Karachi whose age ranged between 18-24 years. Six participants were currently enrolled in

government medical colleges, one was enrolled in a private medical college and one participant had recently completed her studies and was currently employed. The sample was chosen because we felt that the group could express their views about fashion freely and give a broad perspective about the changing fashion scenario of Pakistan.

Our sample could not be probability based, due to time constraint as well as convenience. Therefore, the sample was non-random convenience based, where participants were acquaintances of the researchers who could be contacted easily. Along with this, two participants were included in the sample due to the snowballing effect.

### **RESEARCH DESIGN METHODOLOGY**

For this study, we felt that given the nature of the topic under consideration, a qualitative exploratory study would be the better option. The aim is to gauge the influence of Indian media on the purchase decisions of fashion products in Pakistani girls, so an exploratory study would aid in understanding the phenomenon better. Since no previous research based on this topic is available from Pakistan, the exploratory method would provide the initial work and provide further cause for future research on this subject.

Having decided to conduct a qualitative study, we felt that a focus group session with all participants would be the ideal way to gather data for this study. There were several reasons for choosing a focus group session. It was our understanding that fashion and the media is a topic young girls could freely discuss with each other and have a good knowledge of. Hence, group synergy would lead to more thoughts and underlying feelings and emotions emerging as a result of an interactive session rather than in-depth interviews. The participants in the study belonged to SEC A and were mostly students in well reputed medical colleges of Karachi, hence we assumed that their opinions would not be influenced by others during the focus group session and they would feel free in expressing themselves. This would lead to a better emergence of underlined ideas. Due to the time constraint factor, it was convenient for us to collect data through an hour long focus group session, and also convenient for the participants to spare an evening from their busy schedules.

### **DATA COLLECTION**

The data collection procedure was an hour long focus group session with 8 participants and was held in a comfortable home setting. The session video recorded after gaining consent from all the participants and was moderated by us. Before the start of the session, the consent form was read out aloud for the participants' benefit and any queries were answered satisfactorily. After all participants had signed the consent form, they were asked to fill a short pre-test questionnaire to gather basic information such as their media watching and shopping habits. This was followed by the actual focus group, which was conducted in two halves of 30 minutes each. An hour long refreshments and prayer break took place in between.

The pre-test questionnaire findings are as follows:

- Seven participants took a nap after reaching home from college and one surfed the Internet or flipped channels on television. Four of them indicated that they watched television to relax at home while others either read books or talked to friends on the telephone.
- The average amount of television watched per day was two to three hours. The popular television channels were Star World, B4U, AXN, Sony, ETC, and English movie channels like HBO and Movie Magic. Only one participant indicated that she watched news channels such as CNN/BBC and Business Plus, while another said she only watched the Disney Channel and Nickelodeon. Indian shows such as B4U, Just Request and Kaun Banega Crorepati were among some of the favorite shows, along with American sitcoms and talk shows such as The Opera Winfrey Show. One participant said that cartoon shows were her favorite.
- The participants' shopping trips frequency ranged from as high as once a week to as low as once in two months. One of the participants said that her mother did all her shopping for her. The most popular shopping malls were Gulf Way Shopping Mall, *Ashiana* and Park Towers. All participants wore mostly tailored clothes with only three wearing both tailored and ready-made clothes.

The video recorded session was later transcribed and the following key findings emerged:

- None of the participants could relate to the lifestyle shown in Indian dramas. It was considered "*too fake*", "*very superficial*" and too glamorized to be real. One participant said she could relate to the emotions but not to the extravagance.
- All participants knew about products available in the market such as "*Kumkum sari*" and "*Kashish baliyan*". According to the participants, these items are very popular in the masses but do not appeal to them.
- Participants indicated that their family and religious values affected the fashion adopted by them.
- When questioned on what changed fashion, everyone agreed that media was responsible for changing fashion. Participant 3 said that "*people first see the fashion on TV and copy it from there. Thus it [fashion] spreads.*" The participants described fashion as "*the latest trends in clothes and accessories*" and "*something which suits a person*" (Participant 3) and everyone agreed on its being very transitory. According to participant 6, "*Fashion is a vicious cycle and it is always changing. Patiala shalwars were the rage in my mom's generation as they are now.*"

- The environment and the people around were a major influence on what the six participants belonging to government medical colleges chose. They appeared to be extremely reluctant about standing out among the crowd in their college. Peers didn't appear to influence their choice of fashion as much as the surroundings did. However, outside the college, their choice reflected an influence of peers and their own personality. For formal wear, participant 7 said, "*We try to make them (formal clothes) different...to stand out*", and "*...in the dramas you think the saris are very pretty. I mean, you can't wear them around the house like they show in their houses, but maybe you could adapt the same thing when you are going to a party or something.*"
- For participant 6, who belonged to a private medical college, the major factor influencing her decision of what to wear to college was her own personality.
- All participants indicated that for casual wear, they were more likely to buy accessories seen on TV rather than apparel. "*At times the bags and shoes are pretty stylish and I won't mind buying them, but the clothes... I mean they just cross their limits sometimes.*" (Participant 5) "*Yeah... even though our culture is slightly similar, we really can't relate to it*" (Participant 3). "*We get more influenced with Indian culture because you know that its going to suit you... you see good hair styles and clothes in English movies but you can't relate to them.*" (Participant 6).
- They felt that fashion for casual clothes in India was a little too westernized, and therefore could not be adopted by them due to cultural and social constraints.
- The factors that affected the participants' decision as to which fashion they adopted were cost, one's own physique and decency.
- The extent of the influence of media also depended on age. Participant 4 recounted an anecdote where at the age of 15, she chose a Gucci handbag over another as she had seen Karishma Kapoor (a popular actresses at that time) carrying it in the Indian movie *Dil To Pagal Hai*. Now, however, she would not do the same. Her friends and she also copied a hairstyle off of an Indian movie for their A Levels farewell party "*since it looked so good in the movie*". Participant 5 recounted the time when Rani Mukharjee's smoky eyes makeup from her movie *Chalte Chalte* was very popular in girls.
- Five participants said that if they liked something on TV, they would not actively look for it in the shops. But if they came across it while out shopping and recognized it from TV, they would only buy it if they liked it. Participant 8 said that she would only buy it if she liked it and needed it.
- Pakistan's fashion is influenced by religion, geography and the fashion industry.

- Well-known fashion trendsetters are Rani Mukherjee and Sushmita Sen from India, Amin Gulgee, models Iraj, Eman and Sunita Marshall from Pakistan and Princess Diana from the West. Pakistani designers Rizwan Beg and Umar Sayied are also considered very fashionable.
- The movies identified as having started a fashion trend were *Devdas*, *Hum Dil De Chuke Sanam*, *Kabhi Khushi Kabhi Gham*, *Chalte Chalte*, *Kal Ho Na Ho*, *Mohabbatein*, *Dil Chahta Hai* and *Bunty aur Bubbli*.
- Watching TV did give ideas for fashion. Channels such as Star Plus and Zoom which covers all fashion shows in India should be watched. The time slot between 7:30 p.m. and 10 p.m. was considered ideal. Apart from TV, magazines and parties also give ideas for fashion.
- About the future of Pakistani fashion, participants 5 and 6 felt that due to the phenomenal increase in the number of Pakistani television channels on cable, it was possible that Indian fashion would be influenced by Pakistan. Participant 6 said that Pakistani fashion designers were now showcasing their apparel with Indian designers in fashion shows such as Bridal Asia so it was very likely that Pakistani fashion would be copied there. However, when asked about the continuing influence of Indian dramas on Pakistan's population, everyone agreed that it would probably grow in the foreseeable future.

#### DATA ANALYSIS

Our findings are consistent with Churchill and Moschis' (1979) views about television and peers being important agents of adolescent consumer socialization. However the extent of this influence differs in our sample where it was seen that religion, family values and social setup play a more important role.

O' Guinn and Shrum (1997) provided their finding of television helping consumers to construct a mental picture of the real world. This was inconsistent with our finding where all participants felt that Indian soap dramas were very extravagant and one of them felt that "...it is too fake!" while another said they are "...too glamorized to be real..."

Unlike some studies (Moschis and Moore, 1979), participants felt that their surroundings, family values and their personalities played a more significant part in influencing their purchase behavior. "*Fashion depends upon our personality.*" (Participant 3) One participant said that even a middle-aged woman could carry off a fashionable dress if she was comfortable with it.

Venkatesh's (1980) categorization of women into three categories and Bryant and Gerner's (1981) findings did not apply to our sample's personality traits and characteristics. Even though all of them were young, better educated and self confident making them feminists according to Venkatesh's definition, they were not less prone

to watching television. In our pre-test questionnaire, some of the participants indicated that they watched at least 3-4 hours of television in a day.

Consumer socialization is a process that begins at an early stage and lasts through life (Lachance and Choquette-Bernier, 2004). One participant recounted the time when at the age of 15, she had chosen a handbag over another because she had seen it in a movie. She further went on to say that now that she is older, she would not do the same.

Our interpretations were consistent with Gorn and Florsheim's (1985) that mothers remain the most influential socialization agent. One of the participants in our study felt left out and unable to contribute much since all her decisions regarding fashion products were made by her mother. This finding also correlates with Ritson and Elliott's (1999) that adolescents feel left out if they are unable to participate in a conversation. However, the role of the father is still unexplored and is cause for further research.

Moschis and Moore (1979) suggest that price and brand name are the most important criteria while purchasing any product. Our sample verified this fact and indicated other important variables such as social acceptability and their own personality in their decision regarding purchase of fashion products. Peer norms influencing attitudes and behaviors as suggested by Ige (2004) is consistent with our finding of participants feeling that they could only wear fashionable clothes outside their college environment, for instance while going out to a dinner with friends.

Our sample exhibited very practical and conservative choices when it came to their buying decision regarding fashion products. This is one of the categories defined by Thompson and Haytko (1995) as well. For most participants, Indian fashion was ahead of what they were used to and "*no match between what we are and what their fashion is*" (Participant 5). This related more to casual clothing rather than formal wear, where the Indian media portrays casual fashion as being greatly influenced by the Western values, which the participants felt they could not relate to.

Consumers use fashion to develop their personal identity by contrasting their personal fashion orientation with others in their social setting (Thompson et al., 1997). Some of the participants felt that fashion was molded by peers. "*If you see people wearing something around you, it grows on you and you also want to adopt it*" (Participant 3). Thompson and Haytko also feel that some adolescents want to feel unique and non-conformist. In our findings, only one participant felt that maybe she could start a new trend. However, this action would only be undertaken in an environment where the participant was reasonably certain that it would get accepted and not be "*looked at funny*" (Participant 5).

According to Workman and Studak (2005), women have a want-based approach to fashion problem recognition as opposed to men's need-based approach, which was partially consistent with our results where some participants felt they would buy a product if they liked it, while another felt that "*I would only buy it if I like it and I need it*" (Participant 8).

## FASHION INFLUENCES

Media plays an important role in the popularity of a fashion trend. *“People first see the fashion on TV and copy it from there, thus it [fashion] spreads”* (Participant 3).

Not only does media inform people about what new trends are being followed, it also spreads the trend over a wide geographical area. Participants recounted the popularity of certain trends which came from the media such as Rani Mukherjee’s smoky eyes from the movie *Chalte Chalte*, Prity Zinta’s black spectacles and the color combination of the dress she wore in the song *Mahi Ve* from the movie *Kal Ho Na Ho*, patiala shalwars from the movie *Veer Zara* and short, round ended shirts with collar along with mirrored handbags from the movie *Bunty aur Bubbli*.

Apart from media, a person’s personality also influences the fashion adopted. Fashion is *“something which suits a person”* (Participant 3), hence, if a person can carry something off and is comfortable with it and *“not too conscious”* (Participant 8) that defines their personal fashion sense. *“I will not wear something if I feel too conscious about it”* (Participant 8).

Peers are another variable in the fashion adoption process. *“If you see people wearing something around you, it grows on you, and you start liking it, and you also want to wear the same thing”* (Participant 3).

Peers play a role in affecting fashion decisions. People would want to adopt a new trend if they see that their friends have. However, they would only adorn the new apparel or accessory in a place where they know they *“won’t stand out like a sore thumb”* (Participant 3). They could also start a new trend on their own but where they wear it depends again on the occasion and surroundings.

## SOCIAL ACCEPTABILITY

One issue which greatly influenced what the participants chose to adopt in fashion, and which cropped up several times during the discussion, was social acceptability.

*“You have to dress according to the surroundings and the people around you and the occasion. I mean, I couldn’t carry a golden bag here!”* (Participant 5). The surroundings play a more important role in influencing what the participants chose to wear than do peers. *“Its not about peer pressure, it’s about your surroundings”* (Participant 7).

We felt that for the participants from government medical colleges, their surroundings played a major role in deciding what they wore to college. *“If you go to Dow [government medical college]... I wouldn’t feel comfortable wearing straight pants or bell bottoms there, or even jeans for that matter. But if I’m going to a formal party, or coming here, I wouldn’t mind wearing straight pants or something”* (Participant 5).

We felt that the government medical college students were very conscious about the sort of image they portrayed in their college and even something as simple as earrings or a nice handbag could make them stand out. Hence, the level of casual accessorizing seems very limited in that environment.

*“[The level of accessorizing] depends on your surroundings. If you were in CBM or some other institute, you would want to dress up more because the people around you are dressing up more. But in our own institute, in a medical college, no one actually dresses up”* (Participant 3).

*“You feel like you’re sticking out like a sore thumb because the people around you would be judgmental”* (Participant 3).

There are a lot of factors which are considered before deciding what should be worn. And being socially acceptable is a very important one. Before we conducted the study, we had some preconceptions about the sample that since the participants were from SEC A, their choices would be affected more by peers. However, the results lead to the conclusion that gaining social acceptability from those other than peers was the most important factor. We feel that the occasion and surroundings play the most significant role in shaping a fashion related decision. Secondary to these are personality and peers.

Religion and family values also play a significant role in shaping decisions. *The [casual Indian] clothes... I mean they just cross their limits sometimes”* (Participant 5).

*“Yeah... even though our culture is slightly similar [to India], we really can’t relate to it”* (Participant 3).

*“They [Indians] are very very forward than us [Pakistani]. There is no match between the way they are following their fashion industry and the way we are”* (Participant 7).

Even though the Indian culture is viewed as being similar to the Pakistani culture to a certain extent, people here can not copy all that the Indians do, since religious and family values play an important role in the decision-making process. The casual fashion in India is a little too westernized, thus can not be adopted by everyone due to cultural and social constraints. However, there are some segments in the Pakistani society where such fashions are adopted and appreciated as well.

*“There are sections in our society [that wear such clothes]... so its not that they are ahead or we are behind, we find all kinds of people here, they’re probably wearing the same stuff that they [Indians] wear”* (Participant 4).

### PERSONAL CHOICES

While the Indian media could be related to in terms of emotions, fashion was seen as “...something that suits you” (Participant 2) and that “*exposure is good to a limited extent*” (Participant 7). This implies that fashion is more about personal choices that suit you, meaning that it is very subjective and is not always influenced by the media. This is again recounted by the fact that several movies were recalled such as *Veer Zara* showing the “*Patiala Shalwar*” but, as one participant mentioned, it is not for everyone and has to be able to go with your own personality.

Weddings and other formal occasions were seen as being good places where new things could be worn in order to “*stand out*” (Participant 8). Participants did not actively go out and look for an Indian product, which they felt that they did when they were younger.

Thus participants did not feel compelled to buy any product and relied more on personal choices and preferences before making any personal fashion product purchase.

### SOCIAL CLASS INFLUENCE

The issue of social class did not emerge through the focus group discussion as the participants did not mention its influence on fashion and media. However, we felt it to be a valid connection. Participants appeared to have a preference for accessories shown in Indian movies as opposed to Indian soap dramas possibly because the latter were seen to lean towards being for the masses. Hence, a handbag shown in a movie would be purchased like the one shown in the movie *Bunty aur Bubbli*, as recounted by participant 5. This showed that accessories had more brand power if they were not shown on soap dramas and would be bought if they were perceived to be exclusive in nature by being shown in movies.

### LIMITATIONS

There were several limitations to the research. Firstly, time constraint meant that we could not discuss the government’s role in regulating access to the Indian media as well as the family communication aspect of consumer socialization. Both of these would have shed new light onto the subject.

Besides this, the sampling done was convenient sampling, which meant that the results might not be representative of the entire population. Using the focus group as a research instrument meant that group synergy, which might well bring out underlying feelings and emotions, might also have led to groupthink, making the participants agree with each other. All efforts were made to minimize and remove this; however this factor can not be ignored.

## THREATS

To better manage validity and reliability issues, descriptive validity was achieved through the use of video recordings to ensure that the data collected from the participants was accurate and complete. Along with this, note-taking was done the same day to ensure that interpretations were listed immediately.

To have interpretative validity, member checks were used where through out the focus group, participants were asked to elaborate and then confirm what they had said. This was done to give adequate importance to the participants' point of view.

To achieve theory validity, outliers were not left out from the key findings and no data collected was considered to be irrelevant.

Generalization internal validity was ensuring that no views expressed by one participant were generalized for the sample.

Reliability or the consistency of our results was checked through talks with other researchers who were in our class so that the interpretations were consistent.

## CONCLUSION

Based on our findings we feel that the influence of Indian media on Pakistani girls' fashion products choice is small but significant. If they come across an accessory which they like on television, they will not actively go out to look for that product. However, while out shopping, if they recognize a product from television, their decision to buy the product will depend on three factors: price, social acceptability and their own personality or choice. This would be true for casual everyday wear accessories such as handbags, jewelry and shoes.

In the case of apparel, they would be much more cautious in making their purchase decisions and would be reluctant to buy any cloth that did not match their personality or was not acceptable in their everyday social setting. The Indian media was not viewed in a positive light and its glamorous yet pretense nature was realized. Thus they would not be willing to buy anything that would be associated with the masses such as "*Kashish baliyan*" and would much rather buy accessories that are shown on movies. The extent of media influence is minimal and is controlled by more powerful forces such as social acceptability and social class.

Thus Indian media is becoming the prime source of entertainment for young female adults, although its influence on their fashion choices is limited.

## **FUTURE DIRECTION FOR RESEARCH**

There are several areas in which this study could be carried out further. Research could be carried out on the comparative influence of Indian media on females and males. The same study could also be carried out on other socioeconomic classes so that a larger panoramic picture of the influence of Indian media can be seen; the results could possibly vary from this current study such as the influence being more prominent in other segments of socioeconomic classes.

A further aspect of this could be a quantitative study carried to find out the number of young adults that watch Indian channels, which channels and time slots are most popular. All of this could help other agencies such as the government, MNC's and the academia.

The same research could also be carried out on a different sample such as business or arts students to determine the influence of such foreign media on them. The same could be carried out with middle-aged women whose characteristics would be completely different and the lifestyle associated would bring out different issues to light.

## **APPENDIX**

### **PRE-TEST QUESTIONNAIRE**

1. What do you do when you get home from college?
2. What do you do to relax at home?
3. Do you watch television every day?
4. How many hours of TV do you watch in a day on average?
5. What time do you generally watch TV?
6. Which channels do you watch mostly?
7. Which are your favorite channels and shows in particular?
8. Can you relate any of the material shown on TV to your life?
9. How often do you go shopping for clothes and accessories?
10. Which shopping centers do you visit mostly? Please name them.
11. Do you get tailored clothes or buy them from a boutique?

### **FOCUS GROUP DISCUSSION GUIDE**

1. Can you, as an average Pakistani, relate to any material shown on Indian channels to your life? If yes, How?
2. What is your opinion about the fashion shown on Indian channels and movies? In particular clothes, accessories?
3. How do you think the fashion scenario is changing in Pakistan?
4. Describe your personal fashion sense? What is fashion to you?
5. How do you decide what style clothes to make and which accessories to buy?
6. Can you identify any one factor which affects your purchase decision of fashion products?

7. Where does Pakistani fashion originate from?
8. Who is responsible for fashion? Who are the trendsetters?
9. Does fashion have an age attached to it?
10. Identify well-known people who you'd call fashionable.
11. Does watching TV give ideas for fashion wear?
12. What channels in particular should be watched?
13. Do you appreciate Indian fashion? Is TV the only medium that gives you access to Indian fashion? Which channels in particular?
14. Do fashionable people you know watch particular channels? Where do you think they get their influence from?
15. What is the best time for a woman to watch TV if she wants to watch it for fashion wear? Any channels in particular? Can you name any Indian movies which you think started a fashion trend?
16. Which Indian channels are most popular in your opinion? Why?
17. Do you think watching Indian TV channels and movies influence your choice of accessorizing (shoes, clothes, bags, make-up, hair style, jewelry)?
18. Do our shopping malls fulfill peoples' need for fashion wear? Which malls in particular?
19. What future trend do you foresee for fashion in Pakistan?

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**DISCUSSION**

## The Influence of Children on Family Purchase Decisions: A Phenomenological Approach

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**Abstract**

*This study was conducted to understand the influence of school-going children between seven to ten years of age on family's buying decision-making in the area of North Nazimabad. A sample of three children was chosen to be interviewed and were asked a number of questions related to their influence on purchase. Later, their parents were interviewed to counter-check their perceptions about their children's influence. The results showed that children did exert some influence on decisions, especially in cases where the product was for their own use. Another result was that the level of understanding of the children was high enough to understand their parents' point of view upon refusal of a demand.*

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**Introduction**

Recent changes in demographic and household structure have increased children's impact on purchase decisions (Ekstrom, Foxman, & Tansuhaj, 1989). Although these changes in Pakistan have been more gradual, they are noticeable. Children are more aware today than they were before. They have more television channels to watch than kids ten years back did. Also, more working parents means that children take more decisions on their own.

Pakistan does not have a very research oriented culture. The total amount of money approved for research is a meagre Rs. 322 million in a year (Mamoona Amjad, 2005). Although research has been conducted about adolescents in the West, it has the inherent problem of being ill-suited to the culture and environment of a developing country like Pakistan where the average incomes are lower, and family lifestyles are different. Given these limitations, we felt that a formal research effort needed to be exerted to find out about the degree to which children now have influence in the purchase decisions. We seek to find out the different product categories this influence operates in and then counter-check from parents about how they perceive their children's influence to be.

In order to achieve this, we conducted two sets of in-depth interviews: one with the children, and the other with their parents.

### **Conceptual Context**

Some research in related areas exists conducted by Western researchers. The majority of family studies have focused more on the consumer socialization of children and less on how the children influence purchase decisions (Ekstrom et al., 1989).

It would be useful to understand the way children think, the interplay among their emotions and the way they affect him/her. Some children feel bad after they do something that their parents do not want them to do. Others may feel happy since they did end up getting what they wanted. This perception is important in understanding whether the children will exercise their will in decision-making if it is against the desires of the parents. Kristin Lagattuta (2005) shares that if parents object, most children feel bad. So in this sense, indirectly parents may influence the type of influence the children have. For example, if parents do not like children to have a say in buying petrol, then the children may not exercise it. All children do, however, feel good after they have gotten what they wanted, according to the study.

Ego may determine the degree of influence exerted by a child. The research by Hauser, and Safyer (1994) states that children pass through different stages of their ego development. These stages are the pre-conformist, the conformist, and the post-conformist stages. Children in the pre and conformist stages are likely to exert influence for things they use to conform to peers and others whereas at the post-conformist stage, they may choose what they identify with themselves.

The research by Knafo, and Schwartz (2003) explains when and how the family values are perceived accurately by children. The more accurately children understand parental values, the greater they are likely to be influenced by them. The study states that accuracy in understanding occurs when the parental messages are consistent, when parents show warmth and there is agreement between parents about the family values. If we can understand what brand names mean to children and the degree to which they are conscious, we can understand the kind of influence they are likely to exert in order to get them. Results of Achenreiner and John's study (2003) show that children are brand conscious as early as 8 years of age. Children start to understand consumption symbolism as they reach 12 years of age. This may mean that they may start exerting greater influence at this age.

The degree to which one is materialistic determines to an extent our predispositions towards buying products. More materialistic people or children are likely to buy more things, and are likely to apply greater pressure on their parents to buy particular things than others. Goldberg, Gorn, Perachhio, and Bamossy (2003) found that more materialistic youth shop more, save less, are more interested in new products, and more responsive to promotional efforts. Materialistic parents tend to have children who are materialistic too.

The study by Ekstrom et al. (1989) reveals that influence of children in decision-making is perceived differently by family members. The parents perceive their influence

to be less than what the children consider it to be. It also states that children tend to have greater influence for products that are less expensive and are for their own use.

Meyer and Anderson (2000) explain that children aged 8-12 are influenced by their peers and parents in decision-making. It is important to understand all the factors that shape the children's choice and the way they use it. Although the children may be influencing or making decision, but these decisions may be affected by the values of their parents and peers. This suggests that children may want to have a say in decision-making just because their peer(s) who is considered an opinion leader also has it. As children grow older, the influence of parents diminishes, and the influence of peers grows. The study also explains that conformity may determine if the purchase is made independently or dependently. Individuals appear to act in a way that is consistent with social groups they identify themselves with. Although most children make purchases in the company of their parents, they exert influence over them according to what their peers think is fashionable and what they wear.

The study by Chiou, Huang, and Chuang (2005) reveals that children tend to want those things more that are endorsed by celebrities that they like. If they want something more, they are likely to try to influence the decision-making more. Also the greater control children have on their purchases (money, permission) the greater the likelihood of their being influenced by celebrities.

The operational variables we will be considering in our study are the influence which may be seen to have an effect on purchase decisions; family which means a social unit comprising of at least one parent/guardian and one child; purchase decision-making that is the actual act of deciding between alternatives and finally purchasing the product; parents or biological or surrogate guardians; needs which are the essential requirements of the child as perceived by the parent; and want is something that children could do without but perhaps like to have but parents would not like them to have it all the time.

### **Research Questions**

In this discovery-driven approach, we wanted to find out how the influence of children operates within the Pakistani social setting. Do the children have any degree of influence or not? What kind of products do they exert an influence on? Do the parents perceive the influence of their children in the same manner as the children perceive it to be? What happens if the children do exert influence but parents refuse to listen? In order to shed some light on these, we focussed on the following three research questions:

1. Do children's preferences influence parental purchase decisions?
2. What kind of product categories do they have influence in?
3. To what extent is the influence of children in purchase decisions known to parents?

In designing these questions, we assumed that it would be possible to obtain the answers to these questions through a single session of in-depth interviewing. Another

underlying assumption inherent in the questions is that the children themselves are aware about the influence they exert on the purchase decisions.

Researches on children have focused on different age groups. Achenreiner and John (2003) focused on children between 8 to 16 years; Anderson and Meyer (2000) have focused on children between 8-12 years; Kenneth D. Bahn (1986) focused on children between 4-9 years; and Carlson and Grossbart (1988) included children from 2-9. Given this and the fact not all researches are recent, there is limited cross-sectional alignability among each other and to our purpose. These reasons, along with others, justify conducting another study geared towards understanding the influence of children aged 7-10 years in purchase decisions.

### **Sample Characteristics**

Three children (2 boys, 1 girl) aged 8-10 years from a junior school in North Nazimabad, Karachi, were selected. According to the Principal of the school, all were above average students in terms of academic performance as measured by school examinations. Child 1 was from grade three and was nine years old, Child 2 was in grade three and eight years old, and Child 3 was in grade five and ten years old.

Parent 1, Parent 2 and Parent 3 were not employed at any institution, private or public.

We chose the school that we chose because we believed that gaining entry would be easier and greater cooperation could be enlisted since one of the researchers was an old student of the same school and had a good rapport with the Principal.

All the children selected lived in the same area as the school. This along with the fact that the researcher had previous rapport with the Principal may have to some extent skewed the results in some manner although care was taken to minimize such occurrences. Also, cross-sectional extrapolation of this study with other areas may not be suitable.

### **Design Methodology**

A qualitative research orientation has been employed since the focus of the study was to discover and understand rather than generalize and factualize. Under the qualitative paradigm, the phenomenological approach (Rick Houser, 1998) was subscribed to since it matched our purpose of gaining greater understanding about the influence of children. A case study could also have been a useful method if the children and their parents had consented to devote greater time and effort to the study and equal time was dispensable by the researchers.

The components of the research must form an interrelated set of interactive components, each affecting the other, as Maxwell (1996) has pointed out. The purpose of gaining understanding and the nature of research questions influenced the method of

phenomenology that was adopted as did the validity considerations that could be controlled to an extent in this research.

### **Data Collection**

The sampling of the school was based on convenience as well as judgement. We believed that given the available resources, the school selected would supply the richest information and best cooperation. Any drawback that may be pointed out in the sampling plan is most likely to be from the perspective of a positivist since the results may not be able to be generalized to the larger population of children. However, as far as this study is concerned, even that is a strength since it will allow us to understand in much greater detail the individuals and their decision influence than if we had used the post-positivist paradigm. Our focus is on depth and not on breadth.

The principal suggested 12 children out of which three were selected randomly. The sample size of three was also based on judgement about the number of interviews that would be completed in the time allowed to us by the school. The children were asked a number of questions related to their influence on the buying behavior of their parents. The children were provided an environment (the school premises) that they were familiar with and hence comfortable in. Given the favorable ambiance the children were encouraged to speak their minds without any external pressure. The interview lasted a span of 15-20 minutes with each child. Later, at least one parent of each child was contacted over the telephone and asked questions for validity and verification. Both the interviews of the child and the parent were then matched to ensure accuracy. The interviews were conducted primarily in Urdu so that the respondents could understand and reply in a better way.

A focus group discussion was not used since the young minds are impressionable and can easily be influenced by an assertive child.

Since the purpose of the interviews with the parents was just to verify whether they perceived their children's purchase influence in the same manner as the children, the duration was only about 10 minutes. The interviews with the parents were conducted over the telephone since otherwise they would have to be called to the school premises and that would have been difficult for the parents with busy schedules.

*Validity and Reliability:* Validity threats were minimized by applying two very important concepts. Firstly, all interviews were audio recorded so that nothing was missed out. The audio recording was then transcribed carefully so that all key insights are transferred accurately into a hard copy version. During the interview, care was taken by the interviewer to keep verifying the answers given by the participants to serve as a primitive form of member check, keeping in mind that measures for verification should be built into the research (Morse, Barret, Mayan, Olson, & Spiers, 2002).

“Research is only as good as the investigator. It is the researcher’s creativity, sensitivity, flexibility and skill in using the verification strategies that determines the reliability and validity of the evolving study.” (Morse et al., 2005, p. 10).

In line with this, effort was made to be as responsive as possible in the research process. The fatigue and responsiveness of the interviewer, that are vital for reliability (Anderson & Arsenaault, 1998) were also kept in check since the interviews never lasted for more than 15 minutes.

Secondly, after the preliminary interviews with the children, the parents of each child were also interviewed and relevant facts were gathered, to match the insights presented by both. Any discrepancy would have meant that the information given in the initial interview was dubious and lacked reliability. The idea was to uncover the degree to which children influence their parents’ buying decisions.

The fact that the children were interviewed without any prior intimation also added to the validity of the research. The children were not given ample time to think up on answers that were not genuine. Although the Principal was approached much earlier, the children had no intimation regarding the interview. The children caught unawares hopefully were honest when answering the questions.

Also both researchers acted as multiple analysts to fine-tune each others’ work giving the study some degree of “scorer reliability” (Cooper & Schindler, 2003, chap. 9, p. 316). The same approach was used to reduce validity and reliability threats in translation of insights.

Against our assumption, all of the children suggested by the Principal were willing to take part in the study. The questions were designed in as simple a manner as possible so that the children could easily understand. The questions were asked in Urdu so that they could reply freely and easily. This helped against non-response error.

### **Data Analysis**

For the sake of analysis, the findings of the interviews were classified according to the themes (Siedman, 1998) and the unit of analysis was taken to be the child (Houser, 1998).

*Findings:* The three children interviewed were given code names; Child 1, Child 2, and Child 3, and their respective parents as Parent 1, Parent 2, and Parent 3. The interview schedule prepared, had some sections according to which we shall report the findings as well.

When analyzing the data it is imperative that the research questions are kept in mind. The findings in data collection are then translated into a language that would answer all the research questions. The idea is to achieve what the research was being conducted for. For analysis purposes the following four domains are highlighted.

*Maturity Level of Child*

It was refreshing to find that the young children were very mature and understanding. Maturity has a lot to do with the level of intelligence as well. The children chosen were ones who were doing very well academically. This reflects a certain degree of bias on the part of the Principal since the children who were poor or even average performers were not given a chance. Therefore it can be explored that intelligence and maturity level are directly related (Larsson, Nordberg, Fried, Edbom, Ekman, & Rydelius, 2002).

All children did not expect their parents to ask them if they wanted to buy anything. In fact they always asked their parents without any inhibitions if they wanted to purchase anything.

I usually tell them what I want... otherwise why go? (Child 3)

According to the children, their parents always bought them the important things that they needed. Upon refusal to purchase a certain product the children's reaction was that of ultimate maturity since they did not feel bad and did not insist. However, Child 1 approached the older brother in event of a refusal from a parent, Child 2 saved part of his pocket money until the time he had enough to buy the desired product and Child 3 did not even try to buy the product. Child 3 refers to toys as "useless" items that have no practical use, are flimsy and break easily.

I might as well get a set of markers or colors that will last me a long time (Child 3).

This is a reflection on the child's level of understanding. All children understood very well why their parents may refuse to buy them a product. They knew that either the product was bad for their health or simply because the parents say "no" and parents know best. The children seemed very obedient and seldom argued with their parents.

It was pointed out by the children many a time that they all possessed those things that they needed. They were well-aware of their limits and they never tried to cross them. They knew that they could only get the more expensive items on a birthday or upon doing well in school. They were aware of the reward system where the parents told them to do well in school and they would buy them the toy they have wanted to buy for such a long time. The incentive giving seemed to work as all children stated that they would work hard to do well in school to get the reward in the form of a toy or any other product they wanted.

If I get good marks then they will get me the expensive item (Child 2).

Child 2 here is mature enough to understand that he would get the expensive toy only if he works hard and gets good grades. The child is learning the lesson of life, that nothing can be achieved without hard work. The child must learn the goal and reward game; the goal being good grades and reward, the toy.

Parents take an active part in their children's social communication process. Parental influence on the consumer behavior of their offspring is situation-specific (George P. Moschis, 1985). This statement was further reinforced, when the parents were asked to give an account of a recent episode where they had to refuse their child something.

He has recently been breaking many toys and he knows that he is not doing the right thing by doing so (Parent 2).

The fact that the parent had effective direct communication with the child, whereby the child understood the point of view of the parent reflects on the level of discipline and maturity.

#### *Child Preferences*

Children certainly had their own preferences in whatever they purchased and it is felt that parents encouraged this freedom. Parents tried not to impose a certain product on children. In fact parents had to give detailed explanations for making children consume a certain product or not to consume something.

We explain it to him... these days children want an explanation for everything. Even if I scold him over something he asks why he got a scolding. And he understands perfectly (Parent 2).

The degree to which one is materialistic determines to an extent our predispositions towards products. More materialistic people or children are likely to buy more things, and are likely to apply greater pressure on their parents to buy particular things than others (Goldberg, Gorn, Perachhio and Bamossy, 1978). This particular phenomenon was very obvious in the research conducted on Pakistani school children. After talking to the parents it was realized that children's desires for a particular product is directly related to the way they are brought up and the ideas that are instilled in them.

If it is an important thing for me then she (mother) will get it. If it is a useless thing then she will get it but then I can't ask for too many useless things (Child 3).

Here the child is aware of the fact that the parent will only purchase toys and games very seldom. The child knows about the limitations and has been brought up in such a way that unreasonable demands will not arise. Even though all the children do know that they must speak up in case of a need arising, they know that all their wants will not be satiated. Then the children may use an alternative means of getting a product they want. They may approach the mellow parent or an older sibling to purchase the product refused by one of the parents. Children seem to have preferences for different product categories.

### ***Product Category***

#### *Food Items*

According to the children, parents do not really indulge in food items such as toffees, and pizza. They all seem to enjoy home food, a favorite eating item being pizza, that two children said they liked. But the children are taken out to eat occasionally. Parents do let them eat everything but in moderation. Overindulgence is highly discouraged by all three parents. Children do not like to indulge in certain food items because of what they have learnt from experience. Child 3 had teeth problems so stays away from toffees and Child 2 had a tendency to gain weight so he stays away from fattening foods such as pizza.

I like pizza but parents say that I will get fat so they don't let me eat too much of it. But they let me eat it sometimes. We went to Pizza Hut day before yesterday (Child 2).

#### *Toys*

Being children they all had their preferences in the kind of toys they liked. Some liked Playstation, some Power Rangers yet others Teddy Bears. But they all knew that they could not get toys all the time. Buying toys is an occasional activity and that they will only get one on a birthday or when promised after fulfilling a promise to the parent. Children seem to be happy to fulfill the desires of the parents of getting good grades. It was not the fact that they were getting a toy that was the incentive but the fact that getting good grades will make the parents happy that drove the children to do well in school.

I will get them otherwise too but they are happier if I get good grades and I want to see them happy (Child 3).

#### *Clothing*

All children seem to have great deal of input in the kind of clothes they wear. They all go with their parents to shop for clothes and the parents always ask them what they like in the shop. Parents always responded by purchasing whatever their children liked. One of the reasons being that children otherwise would never wear what they do not particularly like.

I buy what I like. We go to the shop and I point at something that I like. My mother tells the shopkeeper (referred to as Uncle) to take it out. If I still like the item up close then she buys it for me (Child 2).

I do all my clothes shopping. I go with parents and choose my own clothes and they always buy me whatever I want (Child 1).

### ***Parental Buying Pattern***

There was perfect understanding of parental intentions to the child. The parents usually purchased those items that the children “needed”. But they drew the line when the item was an expensive one or one that provided only entertainment. Items that were “needed” by the children were stationery, books (even comic books and other fiction in addition to academia related books), and an occasional toy.

Parents claimed that they did not want their children to feel that they can always have what they desire.

...we want to tell them that they cannot get everything they want. We take them out for dinner once a month only so that they know that their parents have limited funds. We handle them very systematically. Now his birthday is coming up so his demands are in the air (Parent 2).

We do get them the essentials that we feel they need. For other things we do satisfy their demands but a little late so that they don't get used to getting whatever they demand. But his reaction is very cool (Parent 2).

### ***Degree of Influence on Parents***

All three children said that they were taken to the supermarket every weekend when they were home. The children seemed to believe that they were taken every weekend only since that was the time they were available at home, the rest of their week being spent at school. However Parent 2 said that she would rather not spoil her child by taking them out very often. According to her, everything must be done within limits. Parent 1 claimed that her child was new to Pakistani environment since he had just moved from the USA and that he had never gone out shopping in Pakistan. Influence of children in decision-making is perceived differently by family members. The parents perceive their influence to be less than what the children consider it to be. It also states that children tend to have greater influence for products that are less expensive and are for their own use (Ekstrom et al., 1989). This is exactly what was discovered in this particular research.

All children stated that they understood why their respective parents didn't buy them a particular item. Child 1 stated that whenever his parents refused to get him something, he saved his pocket money till he had enough collected to buy the item. Upon not being asked whether they wanted to buy something they did not seem to mind much.

How would they know we need something unless we tell them? (Child 3)

The more accurately children understand parental values, the greater they are likely to be influenced by them. A study states that accuracy in understanding occurs when the parental messages are consistent, parents show warmth, and there is agreement

between parents about the family values (Knafo and Schwartz, 2003). As children go through the consumer socialization process, the parental values are automatically instilled in them. As they watch their parents make daily purchases of goods, they are learning from them in some way.

### **Conclusion**

Children speak their minds without inhibitions but are well-aware of the fact that they must respect the sayings of the parents. Children do not think of parents as unreasonable when they were refused a certain item. Instead, they understand perfectly and know their place. The children have more of a say in products that are directly connected to them. Extravagance and indulgence is highly objected upon by parents. Children want to please parents by getting good grades meaning that they are not very materialistic. For them, being in the good books of the parents is more important. Parents do like rewarding their children and fulfill all promises made to them.

Some of the previous theories were supported. Knafo and Schwartz's (2003) study may hold true since unless the children understood parental values, they would not have understood reasons for refusal of demands.

Achenreiner and John's study (2003) states that children start to understand consumption symbolism as they reach 12 years of age when they exert greater influence. However, the children (aged 8-10 years) did exert influence. This may well be due to cultural or socioeconomic differences of the children in the two studies and warrants a further investigation.

### **Future Directions**

It is hoped that the study has some application in Pakistan. Potentially there are many; the study may be used by confectionery manufacturers, various schools, research firms, children apparel makers, or toy manufacturers to design their communications and promotion more effectively by keeping in mind the influence of their target child consumers. Since there are innumerable applications, a further study can be conducted in future so as to elaborate and expand upon the study already conducted.

This qualitative research was conducted on a small scale and the insights of only three children were included. However, this research can be taken a step further by carrying out in-depth interviews on a larger sample. A good sample size would be seven to ten children. However, "good" depends on the richness rather than number of respondents and the collection should be considered complete when additional interviews yield no new insights, or when there is saturation of information (Siedman, 1998). Making the interviews longer may not be advisable since children have shorter concentration spans and they may not sustain interviews longer than 20 minutes. Having a larger sample would bring richness to the data as more varied views are included as part of the research. Also, following the triad format of interviewing (Siedman, 1998) would perhaps be more suitable and enhance validity of the findings.

Although the interviewing at the school premise was assumed to put the children at ease, it may have had a negatively moderating effect and may have made the children more tensed than relaxed. A triangulative study conducted at the homes of children could be used to compare the reliability of the procedure.

Most research papers used for references used quantitative techniques. This study has used some of the research findings and tried to discover them through the phenomenological approach. This may be seen a triangulation procedure as well as a handicap.

Extending on the study by Chiou et al. (2005), a study may be conducted on the effect of cartoon and animated characters on the purchase decision of children. The findings were inadequate to prove Meyer and Anderson's (2000) theory that children are affected by peer preferences. Another study may be conducted to explore this theory.

Future research may be conducted to find out the relationship between the intelligence of the child and his/her maturity level.

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## APPENDIX

The interview questions were as follows:

### For Children

#### Ice breakers

- What is your name?
- Which class do you study in?
- How was your day today?
- What games did you play today?

#### *Research Related Questions*

#### Supermarkets

- Do you like going out with your parents?
- Where do they usually take you along? The supermarket?
- How often do you go with them?
- Do they ask you if you want to buy something once in the supermarket?
- How do you feel if they do ask you?
- How do you feel when they don't ask you if you want to buy something?
- How do you react to a product that you like?
- If your parents don't purchase that product for you, how do you feel?
- Do you understand your parents when they refuse a product purchase?
- Why do you think parents refuse?
- When you want to buy something, whom do you approach first- Father, Mother or Grandparent? Siblings?

### Product Category

#### Food items:

- What food items do you like that your parents don't let you have?
- Why don't they?
- Give an example of a recent episode.
- Why do you think you reacted that way? Why do you think your parents reacted that way?
- How aware are you about health concerns that your parents might have?
- Do you really enjoy the food you get at home?
- What would you do if you wanted to buy Chili Mili and you know that your mother will say no?

#### Toys:

- When are you taken to a toy store? Special occasions like birthdays?
- How often do you buy a toy?
- Is it a toy that you wanted for a long time?
- What do you do when you want an expensive item like a video game? Do you wait for a special occasions like birthday etc. or do you just ask for one?
- How do your parents react to your demand?
- How do you react to their reaction?
- Why do you think that at times they satisfy your demands yet at others they simply don't?
- Do your parents ask you to work towards a toy? Like chores around the house?
- Do your parents give you goals to win a toy from them? What are they?

#### Clothing and accessories:

- How much say do you have in the kind of clothing you buy?
- Are you fashion conscious?

#### Wrap Up

- Did you fast today?
- Would you like some candy?
- Did you enjoy yourself?

Thank you for your wonderful participation! You are a star!

### **For Parents**

#### Ice Breaker

- How are you today? Thank you for giving us some time from your busy schedules.

#### Research Related Questions

- How often do you take your child out for shopping at the supermarket?
- How does your child react to an unfulfilled demand?

- Does your child always ask you to buy him/her something every time you take them along?
- Do you ever ask your child if he wants something from the supermarket?
- Do you always prepare food/lunch that is preferred by your child?
- If you refuse to a child's particular demand, what are the reasons?
- Give an example of a recent episode.
- How do you handle a situation where your child really desires something and you think that he should not be given that product? Why?

#### Wrap Up

We thanked the parents for giving us their time. We explained to them the nature of our research and shared what their children told us so that they may know what their children thought about their role in purchase decisions.

*““Strategic management” is a term now in vogue. It describes the formulation and implementation of strategies that adapt a company to its changing environment. By “strategic management,” we refer to the formulation of company missions, purposes, and objectives; the policies and programs to achieve them; and the methods needed to assure that they are implemented. In the past, strategic management meant essentially adapting to the economic and technical environments. Now it means adapting also to the sociopolitical environment. Indeed, sociopolitical environmental forces are as dominant influences on corporate strategy as traditional market forces.*

*The concept of strategic management does not imply that managements formulate strategies only in response to current events. Quite the contrary, it means that managers try to anticipate future environmental forces so that they can take proactive measures to deal with them.”*

*Steiner and Steiner. Business, Government and Society, A Managerial Perspective, p. 15.*

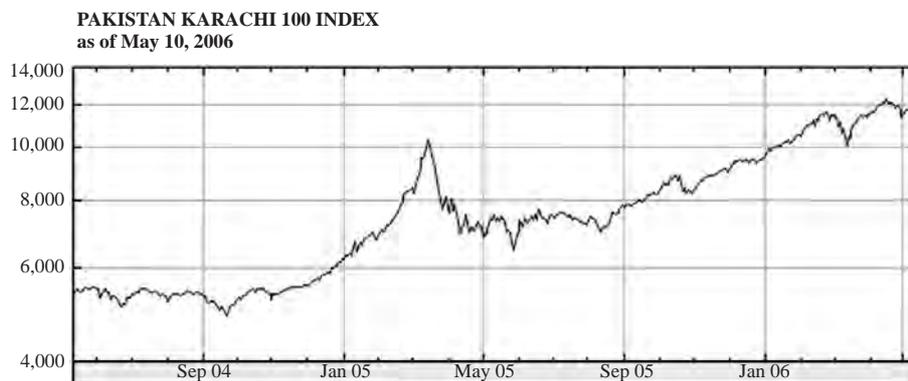
**FACT FILE**

## Have we missed the rally?

Talib Haider

Capital Markets across the world have made many rich and many poor. Though the number of people losing money appears to be somewhat more, this notion simply becomes relative if one looks at it from stock investment perspective, where one loses one day and gains on another.

KSE-100 index, the prime index in Pakistan, has been one of the best performing markets in the world. In just two years, the index has gained almost 8,000 points and market capitalization has crossed \$55 billion.



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The index gained through many factors that drove the market to new levels in just a small period. When the index started moving upwards at a very high pace in 2003-2004, many thought that it was simply a bubble, which will, like any other artificial boom, burst soon and similar situation of the stock market, like the one when the government had a nuclear test, resulted in the stock market taking a nosedive and touching all time low of less than 800 points, will occur. But this does not seem to be the case in the recent growth. Following are some of the major factors that have driven the KSE-100 to new heights:

### **PRIVATIZATION FOR PEOPLE**

The process of privatization which again gained momentum with the new government deciding to privatize the state-owned entities and use the inflows to reduce poverty and improve infrastructure. The privatization process became the main driver of the stock market; every news directly or indirectly fuelling the market. The share of the

companies to be privatized came into lime light. Massive activity thus started at KSE, where the average volumes improved and the investors' interest developed.

Privatization of PTCL and PSO has been the major trigger for the market. The news about the PTCL privatization remained in the limelight till Etisalat finally won the bid and took over as the new manager of the telecom giant. As of now, the management is transferred to the new employers though no development plans by the company have been announced yet.

Privatization of PSO which became lackluster after many delays by the privatization body, is now picking up pace as Prime Minister of Pakistan Shaukat Aziz has reportedly said that PSO's privatization will be completed by August '06.

### **The Information Age**

One of the major factors in this case is the growth of Media industry. With "freedom to media" slogan by the current government, many TV channels opened and gave the viewers a new world of information which they were deprived of since decades.

For the stock market investors, who used to wait for their brokers to give information about scrip expected to perform better, commonly known as a "tip", the starting of live shows covering the market became an instant hit. Everyday, these stock market programs started covering Big brokers, who were supposed to have the best information about the market and also were inaccessible to small investor, gave their views on the expectations of market going for a "Tezi ( market going up *aka* Bulls)" or "Mandee (market going down *aka* Bears)". Analysts were viewed giving reasons for a scrip about to make a mark on the index or how double digit profits are likely to be achieved. The increased supply of information resulted in massive interest in the business circles or with people who possessed millions but did not know where to invest; stock market thus witnessed many new investors entering the new investment arena.

### **PAKISTAN: NEW COUNTRY ON THE WORLD'S MAP**

In the last five years, the economic growth has been the pride of the government with GDP growth rate touching 8.35% in the year 2004-2005. Some of the major indicators highlighting the economic performance are provided below:

<b>Indicators</b>	<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 05</b>
GDP Growth	3.1%	5.1%	6.4%	8.35%
FDI (\$, million)	484.70	798	949	1,524
Import (\$, billion)	10.34	12.22	15.59	20.62
Export (\$, billion)	9.14	11.16	12.31	14.41
Workers' Remittances (\$, bn)	2.34	4.19	3.83	4.17
Forex Reserves (\$, bn)	6.43	10.72	12.33	12.61

The economic performance has been driven by growth in large scale manufacturing sector with service sector also going for better performance. In case of stock market, all the major sectors performed extremely well and registered huge gains, thus giving investors more incentives to continue investing in the stock market.

### KSE-100 index listed sectors' performance in 2005

#### Market Capitalization change in 2005

S.No.	Sector	%Chg	S.No.	Sector	%Chg
1	Commercial Banks	200%	18	Miscellaneous	29%
2	Cement	86%	19	Engineering	24%
3	O&G Exploration	54%	20	Textile Composite	23%
4	Refinery	53%	21	Paper & Board	15%
5	Transport	53%	22	Pharmaceuticals	13%
6	Power Generation	51%	23	Leather & Tanneries	9%
7	Tech. & Comm.	51%	24	Tobacco	8%
8	O&G Marketing	46%	25	Leasing Companies	7%
9	Insurance	45%	26	Textile Weaving	7%
10	Cable & Elec. Goods	44%	27	Chemicals	4%
11	Auto Assembler	41%	28	Modarabas	-1%
12	Jute	40%	29	Auto Parts & Access.	-3%
13	Fertilizer	39%	30	Glass & Ceramics	-11%
14	Investment Banks	37%	31	Textile Spinning	-16%
15	Close-end-Mutual F.	31%	32	Synthetic & Rayon	-18%
16	F & P Care Products	31%	33	Vanaspati & Allied Ind.	-24%
17	Sugar & Allied Ind.	30%	34	Woolen	-25%

### International Oil Prices

KSE-100 index is highly skewed towards oil sector. E&P sector constitutes more than 30% of the index. With such a weight linked to oil, changes in oil prices have a major impact on the index. Internationally, in just two years, the oil price has almost increased by 100% touching \$75/barrel recently. The prices have resulted in oil and gas exploration companies to increase their search for black gold. Though the cost of imports has shot up and is hurting the economy, the increase in oil prices is positive for the stock market.

**E&P sector price performance on KSE-100 in the last 2 years:**

SCRIP	30th Jan - 04 (Price, Rs.)	3rd Jan - 05 (Price, Rs.)	2nd Jan - 06 (Price, Rs.)	1st April - 06 (Price, Rs.)
OGDC	53.75	74.35	118.25	156.9
POL	225.45	246.00	429.15	642.00
PPL	-	141.10	210.35	275.00
<b>KSE-100</b>	4,841.33	6,220.28	9,672.47	11,573.94

**KSE-100 – The Current Scenario**

After evaluating the factors just mentioned, one can depict that the stock market boom is simply not a bubble about to burst, rather an actual growth story based on strong economic development in the country as well as growth of the capital market itself.

But will this growth be able to sustain? Lets look at the current issues prevailing in the market:

- After the major tussle between SECP (the regulators) and KSE (management), we are now seeing KSE board which for the first time in history has a Non-broker Chairman. The board is expected to initiate new projects and plans for market development
- International oil prices are again sky rocketing, with NYMEX crude oil price touching the \$75/barrel mark.
- Privatization of several public entities has been completed yet there are other companies still in the pipeline: PSO, SNGPL, SLIC, SSGC, etc.
- The government is targeting 6-7% GDP growth rate for the next five years.
- Current account deficit of the nation is soaring towards \$7-9bn for FY06.
- KSE-30 index is on the cards, but its launch seems to be getting delayed and likely to come in the market by July '06.
- CFS is to be replaced by a new product, which is expected to carry no financing cap and is likely to provide more liquidity to the investors.

Capital markets in Pakistan are now entering a new era with many players in the market, lots of new individuals putting their savings in this investment avenue. With so much growth happening, so many individuals getting hefty profits, one believes that growth of this industry is inevitable and the index will touch new heights, but with several index crashes in the past, one simply cannot be totally sure about its future outlook.

**FACT FILE**

## Why is a new index needed?

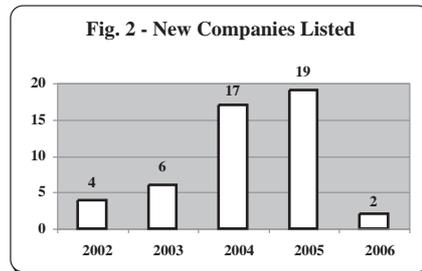
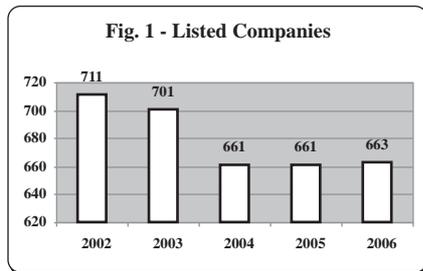
Shama Ahmed

The **Karachi Stock Exchange** is the largest of three stock exchanges in Pakistan. Generally the price trends in the stock markets are shown by an index which is also taken as a measure of the performance of the market. Initially to judge the performance of Karachi Stock Exchange, 50 shares index was introduced but it became non-representative with the increase in the market size. On November 1, 1991, KSE-100 was introduced which is the most generally accepted measure of the Exchange.

The KSE-100 is a capital weighted index and consists of 100 companies representing about 86 percent of market capitalization of the Exchange.

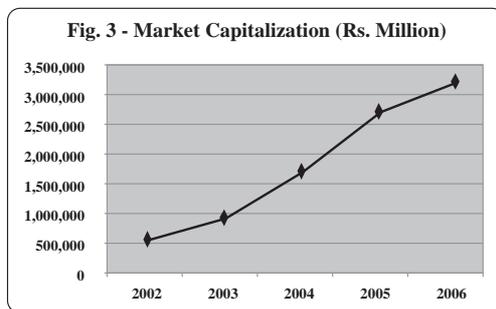
In 1995 to support the KSE-100 Index, the KSE-All Share Index was launched but KSE-100 remains the most acceptable measure of the market activity.

**Dynamics of KSE:**



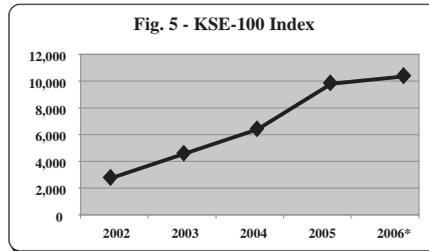
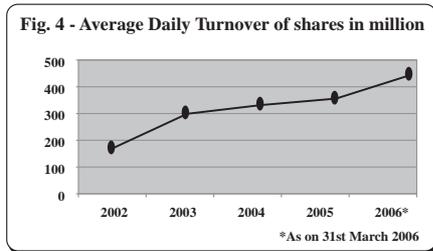
Source: <http://www.kse.com.pk>

As of May 2006, the number of listed companies is 663, which has been quite consistent over the years as shown in Fig. 1, with the addition of only 2 companies in 2006 depicted by Fig. 2.



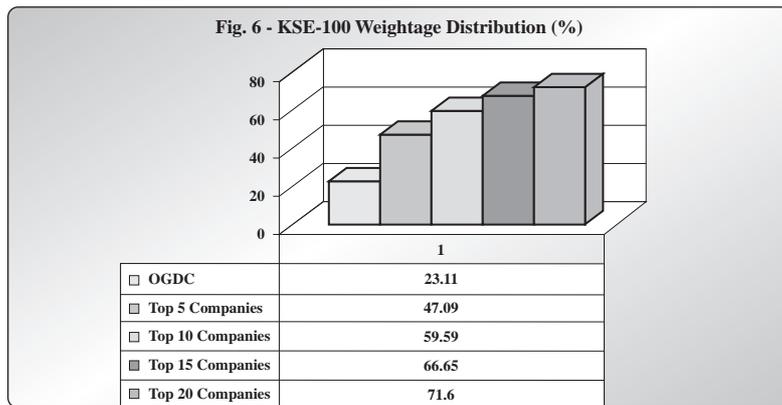
As depicted by Fig. 3, the market capitalization has increased phenomenally over the years which cannot be attributed to increase in the number of companies. The average daily turnover has also increased over the period.

**Why is the KSE-100 Index distorted?**



The KSE-100 Share Index has shown a marked improvement in terms of activity which is shown by the rising trend in the index points. The index weightage in the market is nearly 86%. As the index is based on market capitalization so the companies enjoying high market capitalization capture the index. The distribution of the companies' weightage in the index is given in Fig. 6 which clearly shows the distortions caused by the index calculation.

It can be seen from Fig. 6 that OGDC<sup>1</sup>, has the highest market capitalization and enjoys 23.11% of the total KSE-100 Index capitalization. This is too high a weightage given to one scrip and causes distortions in terms of market movements<sup>2</sup>. Top 5 companies, OGDC, PTCL, NBP, PPL and MCB, are representing almost 49% of total index weightage. KSE-100 index has been a target of criticism for its asymmetry. Even a trivial change in prices of a few of heavyweight stocks changes the direction of the market.



KSE-All Shares Index is not generally an acceptable measure of the market movement and hardly used to track market changes.

<sup>1</sup>Oil and Gas Development Company

<sup>2</sup>The data is for May 24, 2006 taken from KSE Website.

It can be concluded from the above cursory look at the indices dynamics that a new index is urgently needed which should be a representative of the market. A meeting of the board of directors of the Karachi Stock Exchange on Thursday, May 11, 2006 was conducted and decision was taken to implement the KSE-30 index from July 1.

The proposed index – KSE-30 Share Index is based on the following factors: as is seen from Fig. 6, that a few scrips draw investors' interest so an index with a smaller number of shares will be more representative of the market. An example of such an index is the Sensex – Bombay Exchange Sensitive Index – the benchmark index of the Bombay Stock Exchange. It is composed of 30 of the largest and most actively-traded stocks on the BSE. Secondly the market capitalization should be calculated on free-float. This is a variation of the market capitalization method, which instead of using a company's outstanding shares, uses its float, or shares that are readily available for trading. The free-float method, therefore, does not include restricted stocks, such as those held by company insiders that cannot be readily sold. The decision regarding running of the two indices parallel is still to be taken.

As on May 24, 2006

Symbol	Volume	Current Rate	Price Change	% Change	Index Weight-age (%)	Index Points	Outstanding Shares (million)	Market Capt. (million)
<b>Oil and Gas Development</b>	19,751,300	150.4	1.75	1.18	<b>23.11</b>	29.67	4,300.93	646,859.63
P.T.C.L.A	2,836,700	51.3	0.25	0.49	6.92	3.72	3,774.00	193,606.20
National Bank	17,953,700	253.15	4.6	1.85	6.41	12.86	709.07	179,501.38
Pak Petroleum	12,318,800	253.85	6.1	2.46	6.22	16.49	685.82	174,095.76
MCB Bank	5,287,600	242.2	2.7	1.13	4.43	5.45	511.84	123,967.46
<b>Top 5 Companies</b>					<b>47.09</b>			
United Bank Ltd.	797,300	148.25	4.25	2.95	3.43	10.85	647.5	95,991.88
Pak Oilfields	5,161,800	408.75	4.45	1.1	2.88	3.46	197.12	80,573.45
Fauji Fertilizer	132,500	127	0.3	0.24	2.24	0.58	493.47	62,671.22
P.S.O.	1,238,800	343.3	2.8	0.82	2.1	1.89	171.52	58,882.68
Sui Northern Gas	268,400	103.85	0.35	0.34	1.85	0.69	499.19	51,840.53
<b>Top 10 Companies</b>					<b>59.59</b>			
Allied Bank Limited	408,500	111	3.95	3.69	1.75	6.86	440.46	48,891.52
Nestle Pakistan	2,400	1046	-54.4	-4.94	1.69	-9.72	45.35	47,435.63
Kot Addu Power	102,000	42.6	0.1	0.24	1.34	0.35	880.25	37,498.79
Fauji Fert. Bin Qasim	2,882,000	35.55	0.2	0.57	1.19	0.74	934.11	33,207.61
Lucky Cement	3,568,500	116.15	-0.1	-0.09	1.09	-0.1	263.38	30,591.01
<b>Top 15 Companies</b>					<b>66.65</b>			
Engro Chemical	440,300	198.4	1.9	0.97	1.08	1.15	152.94	30,343.30
Faysal Bank	678,000	70.95	0.3	0.42	1.07	0.5	423.72	30,062.62
Union Bank	1,333,500	78.4	0.4	0.51	0.95	0.53	338.75	26,558.04
Dawood Hercules	14,200	319	6	1.92	0.94	1.96	82.87	26,434.33
P.I.A.C. (A)	363,500	14.15	-0.1	-0.7	0.91	-0.71	1,797.32	25,432.02
<b>Top 20 Companies</b>					<b>71.6</b>			

Source: <http://www.kse.com.pk>

## BOOK REVIEW

**Barbara D. Metcalf****Islamic Contestations.****Essays on Muslims in India and Pakistan****(Oxford University Press, 2004)****ppx 365, map, illustrations, index, Rs. 595**

This publication of the Oxford University Press is a collection of articles and essays which had been written by the well-known professor of Islamic history Barbara D. Metcalf during the last twenty-five years on the subject of Muslims in the South Asian subcontinent. They had been published in a variety of journals and books before they came together in this remarkable collection testifying about the persisting interest and work done by Barbara Metcalf on the subject.

There are 15 essays which are grouped together in four main categories. The first group deals with responses of Indian *ulema* to modern developments in the late 19th and early 20th century in British-India. The first article is on the *madrassah* of Deoband, the topic of Metcalf's doctoral thesis. It had been originally published in 1978 and is of considerable interest even today. Since much hue and cry has been raised lately about *madrassahs*, the author chooses this as her entry point. Beginning with religious education imparted to Muslims in different *madrassahs* down the ages, she tries to dispel the misconceptions about these seats of learning. In the course of her analysis she brings a very important fact to the readers notice: the fact that the so-called traditional Deobandi School, together with being firmly rooted in the revivalist thought of Shah Waliullah, was very much modern in its character and organizational set-up. Above that, it did share a common intellectual basis with the "modern" Aligarh School in the Indian revivalist thought of the 18th century on which both were drawing their intellectual roots. On the basis of Metcalf's finding, it is getting quite clear that the difference between Deoband and Aligarh is not so much the missing modernity of the one but the Westernization of the other which was firmly rejected by the Deobandis. A second essay on two religious rulings Deobandi *fatwas* of the late 19th century exposes the same revivalist spirit of the *ulema* who were recommending to go back to the Qur'an and the Hadith directly without consulting the commentaries of the four established schools of law in one case and apply their own reasoning and in the other pleading to treat British-India as *Dar-ul Islam*, a country where Muslims could profess their religion freely and where there was no need to migrate to another place. Both *fatwas* are ample proof for the reasonable attitude of Deobandi *ulema* towards the problems of their time. The last essay of this section deals with another representative of the Deobandi thought, Maulana Muhammad Zakariyya Kandhlawi (d. 1982).

The second section of the current publication illustrates the variety of Muslim cultural and political life in British-India prior to 1947. It includes an essay on the role of women as it has been depicted in the writings of three main groups of Muslim reformers:

*ulema*, westernized elite Muslims and Islamists. Another two essays deal with Hakim Ajmal Khan, an Indian Muslim nationalist and the last one focuses on the questions of nationalism, modernity and Muslim identity during the period between the two World Wars. The most interesting thing in this section is the author's findings about the role model for women in the different groups of Muslim reformers which had been originally published as early as 1982 i.e., more than twenty years ago. The women question being a hot issue until today it seems hardly anyone of the players in the women's movement or the writers on gender issues seem to have ever taken notice of Metcalf's conclusions at which she arrived after having studied and translated vernacular pamphlets and books related to the women's issue, the most important being Maulana Ashraf Ali Thanvi's *Bihishti Zewar*. Analyzing this guidebook for young girls and women as to what virtues were recommended by the Deobandi *Alim* at the beginning of the 20th century, she writes: "For all that, the teachings of the *ulema*, grounded in Qur'an and Hadith, were striking in the significant respect that they did not elaborate a difference between women and men. There was of course the crucial difference of role that placed women squarely in the home. But in terms of essential nature and potential, women and men were regarded as one." (p. 105) And later she writes: "The conclusive evidence that Thanavi enjoined a single standard of behavior for women and men was his response when he was asked to write a companion guide, a *Bihishti Zewar* directed to men. He replied that the existing book would serve perfectly well - he simply added an appendix describing practices such as the community prayer specific to men." (p. 106) The author rightly observes that there would have been hardly any European or American publication on women available in the early days of the 20th century which would even be recommended as a proper guide for men. It took the Western women half a century and a struggle which at times has been reminding a "holy war against men" to prove their equal abilities and get them more or less recognized by their male counterparts. Unfortunately, this remarkable attitude of Thanavi and likeminded *ulema* got submerged in the "civilizing mission" of the British who implanted together with all the other notions of European modernity their ideas about gender, gender relations and women's equality into British-India and created a westernized elite in Aligarh at that time and in the Pakistani and Western universities today who fully subscribe to that model. Few authors, like B. Metcalf, have been sensitive enough not to follow that trend but to have a close and unbiased look into what really was going on in the Indian Muslim community and to draw independent conclusions.

The third group of essays includes an article on religious nationalism in India, two on Islam and interpretations of Islam in Pakistan and one on the ideology of Deobandi activist movements like *Tablighis* and their respective attitudes towards state, politics and political power structures.

The last section titled "Islam, society and the imagination of the self" carries four articles. They deal with self-reflection of Muslims in India and Pakistan and their search for identity. The chapter starts with an essay on Iqbal's views on the self (ego) as expressed in his famous poem about the mosque of Cordoba which serves as a

symbol for the need of Muslim awakening. It proceeds with an interpretation of South Asian Muslim accounts about their pilgrimages. The last article in this collection is an essay on the biographies of three historical figures: A Mughal queen, a French adventurer in the princely state of Awadh in Northern India and a Muslim nationalist. Again, the article shows the self-reflections of individuals in an Indian surrounding.

The re-publication of these essays as “Islamic Contestations” by the Oxford University Press is a very laudable and timely effort from two points of view. In the first place, it is a document of the long-term and sustained effort of a prominent American scholar writing on an often neglected and even controversial subject: Islam and Muslims in India and Pakistan. The in-depth knowledge she provides about subjects like the Deoband movement, Muslim *madrassah* education, Muslim identity, role and place of Muslim women in society and many more very specialized and well-researched topics are an ample example of her scholarly interest in the subject over almost a professional lifetime. In a time when Western attitudes are under severe critique, it is timely to remember that there is no such unified “Western” attitude and that some of the “Western” scholars have made a real and sustained effort to understand and analyze such controversial subjects as Islam, and Islamic movements and ideologies happen to be. However, the insights and solutions which were published years and decades before have not entered into the mainstream discourse until today, neither in the scholarly nor in the public field of discussion. Therefore, the reproduction of these essays collectively in one volume may be a fresh effort towards the same objective: “to challenge the often negative stereotypes that are current” (Jacket) about Islam and Islamic movements, about Muslim women and so many others.

Bettina Robotka

*“Whether weak or strong, culture has a powerful influence throughout an organization; it affects practically everything – from who gets promoted and what decisions are made to how employees dress and what sports they play. Because of this impact, culture has a major effect on the success of a business.”*  
**Deal and Kennedy, Corporate Cultures**

‡And over each learned man there is one more learned. (XII:76)



## BUSINESS REVIEW

Research Journal

*of*

The Institute of Business Administration  
Karachi.

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*"Management in most business schools is still taught as a bundle of techniques, such as the technique of budgeting. To be sure, management, like any other work, has its own tools and its own techniques. The essence of management is to make knowledge productive. Management, in other words, is a social function. And in its practice, management is truly a 'liberal art'."*  
**Drucker, P.F. Managing in a Time of Great Change, p. 219.**

## A Word About The IBA



*Our logo reflects “our resolve to meet the future challenges with integrated and multi-disciplinary knowledge and its creative application in a changing global environment.”*

### Foreword

At the Institute of Business Administration we recognize the importance of both theory and application. In our teaching practices we celebrate a very strong sense of future, encouraging our students to welcome change, growth and becoming. By exposing them to the problematic issues and a wide variety of perspectives we invite them to see the world from the standpoint of the role they will assume tomorrow. Besides deepening their knowledge, by placing their specialized concerns in a broader perspective, we expect them to develop an understanding of our national issues in a larger global context.

In teaching we follow a research oriented methodology, characterized by both, passion and objectivity, revision and anticipation. As an academic and intellectual discipline, future oriented and goal seeking research and teaching methodology aims to focus on our core courses. These courses with well defined areas of specialization and integrative analysis aim at drawing various insights into the fold of a larger perspective of discovery. We believe that when teaching is pursued with such a pronounced bias, and discovery is made an integral part of our teaching methodology, skills and insights developed in one field become meaningfully relevant in many fields, enriching both the analytic and synthetic approaches to the perspectival unfoldment of our view of life. More importantly, it will deepen our interpretative approach, broadening at the same time our descriptive skills. Also, by combining the application of these skills with a broad and general view of education, fusing theoretical with practical, weaving the realities of the lived-world with the academic analysis in the class room, it will enrich both the theoretical and the applied components of our teaching methodology. As a radically pursued creative approach, such a pedagogical orientation is bound to result in a deeper appreciation of the nature and scope of the operational and strategic management of our corporate affairs. In the present day academic world, corporate concerns derive their relevance and significance from the specialized competence of various academic departments. Beside providing the material and insights, our departmental studies offer guidance and direction in the fields of teaching core and collaborative courses, conducting and promoting pure and applied research in the related fields of specialization.

In this focussed and yet diversified approach, as we engage in research, we experience the joy of *moving beyond the way things are towards the anticipation of the way they*

*can be and therefore ought to be.* With each perspectival variation and horizontal unfoldment we see the future expanding into a larger and still larger horizon, merging with the existing picture of the “given” reality, adding to it new dimension and new profiles, making it larger than the sum total of its parts. As members of the IBA community we celebrate the holistic approach and the *gestaltan* view of life and knowledge and truth.

We uphold the academic and the corporate concerns of the Institute of Business Administration. Essentially, our reflections in this regard converge upon two fundamental thematic concerns: *teaching* and *research*. Individually and in conjunction with all other factors that bear upon the process of education, these two concerns define our *forte* and our calling which is ours not by compulsion or imposition but as a consequence of the divine ordinance of our privileged choice. At the IBA, we emphasize the importance of making choices and decisions. We believe that he who is taught to be well educated knows that not to choose is also a way of making a choice and not to decide is also a way of making a decision. We are free to choose not to decide and we are free to decide not to choose. But our choices and our decisions have consequences. So, we can, if we will, decide to live creatively; we can and therefore we ought to live transcendently. These are matters of serious educational significance, inspiring the passion for authenticity, integrity and excellence.

The passion for excellence defines the creative and dynamic orientation of the IBA culture and its belief in the principle of growth and development. They who live in knowledge societies, for them the most critical idea is their belief in the creative principle of movement towards a higher and still higher stage of development inherent in their culture. They believe that they can disentangle themselves from the petrifying weight of necessity by becoming or wanting to become larger than who and what they are. We are not what we could have become; we are the possibility of what we are capable of becoming. By living the kind of life we decide to live, we assume a fate, a destiny and a character. They who live with that knowledge are, according to the Qur’an, “without excuses”.

At the IBA, we believe that research orientation, in varying degrees of emphasis, is always dominated by the *questions* we did not care to ask and the *answers* we carelessly took for granted. It is also dominated by our ability to creatively welcome the phenomena of change and more so, our ability to draw the principle of movement towards the future into our world-view. Therefore, we recognize the importance of change and emphasize the need to grow by outgrowing our selves. We trust to let education define the goal we ought to be seeking and to let research determine the direction in which we ought to be moving to reach our goal.

*Editor*

## **Introduction**

The IBA is the oldest business school outside North America. It was established with technical collaboration of U Penn’s Wharton School of Finance and later University

of Southern California. The IBA set the standards of educational and professional excellence.

It seeks to advance and encourage new ideas and to promote enduring values to guide the practice of management. Over the years, the IBA has built a reputation for producing graduates of unmatched professionalism and sound ethical and moral values. The IBA has an academic environment in which talented and outstanding young men and women are inspired to reach out to the farthest limits of their vision and capacities.

The IBA is proud of its nearly 7,000 accomplished alumni who are engaged in highly specialized and professional undertakings all over the world. Many of them hold demanding positions of administrative responsibilities in various fields of governance in Pakistan and abroad. We proudly celebrate their association with the IBA.

### **Mission**

At the IBA our mission is to provide education and training for management leadership in business and public sector in Pakistan. We aspire to be the best business school in Asia and amongst the best in the world.

It is our cherished mission to establish links with renowned business schools in the world and with business and public sector organizations in Pakistan and to try to introduce the knowledge, current and contemporary business culture and the work ethics for making Pakistan amongst the most competitive countries in the world.

### **Core Values**

We celebrate:

- Merit
- Creativity
- Truth
- Discipline
- Integrity
- Tolerance

as the creative dimensions of the “highest good” – *summum bonum* – of an ethically motivated academic life based on moral foundations.

### **IBA Philosophy**

Our philosophy is rooted in the creative urge to strive continuously to improve upon all constituents of our system: culture, people and infrastructure; and to turn bright students with leadership potential into outstanding human beings and business professionals and leaders for tomorrow.

### **Meeting the Challenges**

A fine blend of our educational environment, academic culture and the highly qualified and devoted faculty at the IBA, moulds bright and intelligent students with leadership potential into high performing entrepreneurs and professional managers.

### **The Goal Ahead**

The IBA is set on a path of constant improvement, introducing changes in all critical fields of its undertaking. Its recent partnership with MICROSOFT has given a new dimension to the Center for Computer Studies, enabling students and faculty to remain abreast with the most advanced technologies in software as well as hardware. It has entered into agreements with CBR to impart not only the quality education to its probationers but also to its senior members in the field of management in order to realize the government's policy to change the culture and the managerial practices of this sensitive department and to bring them to the accomplished level of modern-day needs and expectations.

### **Programs of Study at the IBA**

Our programs have been growing steadily in keeping with the needs of the society and the competence of the Institute of Business Administration.

We offer courses in the fields of :

- Doctor of Philosophy – Ph.D. (MIS/ ICT/ CSE)
- Master of Business Administration – MBA (Morning Program)
- Master of Business Administration – Management Information System MBA- MIS (Morning Program)
- MS (Economics)
- MS (Finance)
- Master of Business Administration – MBA (Evening Program)
- Master of Business Administration – Management Information Systems MBA- MIS (Evening Program)
- Postgraduate Diploma in Business Administration – PGD (Evening Program)
- Certificate Courses (Evening Program)
- Visiting Students Program (Evening Program)
- Master of Business Administration – Tax Management (Morning Program)
- Bachelor of Business Administration – BBA (Morning Program)
- Bachelor of Business Administration – Management Information System MBA- MIS (Morning Program)
- Bachelor of Computer Studies – BCS (Morning Program)
- Preparatory Program for Rural Students (Talent Hunt)
- Business English Program

### **Career Opportunities**

The Institute offers a flexible curriculum, diverse and focused, to the committed and *highly motivated students* who are willing to embrace change and ready to experiment with new ideas and thought patterns, anxious to assume the leadership role in the corporate world of today and tomorrow.

### **Center for Executive Education**

The Center for Executive education is a state-of-the-art learning and training center. It focuses on training the managers and providing them with educational opportunities aimed at the refinement of the skills and the attitudes they will need to succeed in the highly volatile, competitive and complex business environment of today's corporate world.

The programs designed by the center aim at helping organizations gain competitive advantage by developing their most important resource - the people. The center encourages activities designed to enhance organizational effectiveness of the professionals and their training in various areas of professional interest by providing them with the tools and knowledge to improve their managerial skills. The programs offered are designed to strengthen the participants' leadership skills with a focus on personal development, productivity improvement and strategic thinking. The Center Specializes in executive education and management development activities through 'open-enrollment' courses, client- specific programs, consultancy and applied research.

### **Research Center**

The Research Center at City Campus plays a key role in the development of industrial and financial sectors of Pakistan by providing useful research and evaluation guidance. The activities of the Research Center consist of both core and collaborative research to provide help to the federal and provincial governments, non-governmental organizations and the private sector.

The Center is a repository of the core research done by the IBA faculty, scholars and students. The research papers written are documented, archived and made available to other researchers and industry. The IBA faculty and students can access these research papers via the IBA internet.

### **High Profile Faculty**

The IBA faculty comprises of teachers with academic achievements as well as successful practical business management experience. The faculty ensures that the system of education at the IBA is a unique blend of the best in classroom instruction, case studies, role-playing, business games, research and practical training in business organizations.

### **High Achieving Students**

Our students have won acclaims and praises from foreign and local dignitaries for their confident, rational and mature discourse, organized team work and breadth of knowledge. The IBA students regularly organize seminars and conferences every year. As individual contestants our students have won awards in national and international competitions. Recently, one of our student was the only one chosen from Pakistan to

play in a management game by a major multinational company in Switzerland. Two of our students were chosen for the second round of Microsoft's Imagine Cup. We are happy for our own Asnia Asim; she won the World Bank Essay Competition against more than 1,300 contestants from 109 countries.

*“For most of history, earning a living was something you had to do because, after all, you had to eat. Life did not have that much leisure at all, in our sense of the word. Now, many people allow their work to consume their lives totally: that’s what they enjoy. But in the past for people to admit that they enjoyed their work were simply – I wouldn’t say it wasn’t done – it wasn’t expected... the idea that your work was supposed to be meaningful was not a topic of discussion in the past. That’s much different from today and even more different from the world of the future. Today more and more people simply expect and demand that their work and their jobs should be meaningful. I don’t think it would ever have occurred to most peoples a hundred years ago.”*  
**Drucker, P.F. *Managing in a Time of Great Change*, p. 295.**



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Research Journal  
*of*  
The Institute of Business Administration  
Karachi.

**Note for Contributors**

This journal is a biannual publication of the Institute of Business Administration, Karachi, Pakistan. It is a multidisciplinary Journal covering wide range of issues in the area of business, social and management sciences, administration and governance, mathematics and computer studies, finance, economics, psychology, business ethics, logic, history of ideas, and philosophy of comparative religion.

**GUIDELINES FOR AUTHORS**

1. Manuscript should be submitted to the Managing Editor, Business Review, Institute of Business Administration, University Road, Karachi, Pakistan.
2. Three copies of the manuscript should be submitted.
3. The text should be double spaced, on one side of the quarto paper allowing wide margins for referee's comments.
4. All illustrations, tables, etc., should be placed on separate sheets, included with each copy. Their placement should be indicated in the text.
5. Footnotes should be numbered consecutively throughout the text.
6. The first page of the manuscript should contain the following information: (i) title of the paper; (ii) the name(s) and institutional affiliation(s) of the author(s); (iii) a footnote should give the name, postal address, telephone and fax number, and an email address of the authors.
7. The second page must contain the title, an abstract not exceeding 300 words, a maximum of 5 key words or phrases and the appropriate JEL codes to be used for indexing purposes. The text will start on page number 3.

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