Research

Sindh’s Unwitting Involvement In All-India Politics: Indian Leaders Calculated Initiatives To Make Sindh A Mere Pawn In The Game Of Indian Power Politics (1923-1934) (II)

Sahib Khan Channa

Freedom, Power and Capitalism: From Disciplines to Biopower

Ali Muhammad Rizvi

Inter-Sectoral Differences in the Determination of Capital Structure: A Case Study Based On the Experience of Non Financial Companies (2001-2008)

Saif Ullah

Impact Of Debt Financing On Firm’s Investment Decisions: Empirical Evidence From Textile Sector

Saif Ullah

Usage Of Netspeak Among Pakistani Youth - With Regard To Self-Esteem, Gender And Educational System

Sarwat Nauman & Muhammad Ajaz Rasheed

Intuition as a Critical Success Factor in Effective Business Risk Management

Linah Askari, Muhammad S. Askari & Ammar Baig

Discussion

Cost of Healthcare Management In Pakistan: An Empirical View

Javed Ahmed Chandio

Effective Change Management

Murtaza Abbas
## Contents

### Research

<table>
<thead>
<tr>
<th>Title</th>
<th>Page No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sindh’s Unwitting Involvement In All-India Politics: Indian Leaders Calculated Initiatives To Make Sindh A Mere Pawn In The Game Of Indian Power Politics (1923-1934) (II)</td>
<td>459</td>
</tr>
<tr>
<td>Sahib Khan Channa</td>
<td></td>
</tr>
<tr>
<td>Freedom, Power and Capitalism: From Disciplines to Biopower</td>
<td>490</td>
</tr>
<tr>
<td>Ali Muhammad Rizvi</td>
<td></td>
</tr>
<tr>
<td>Inter-Sectoral Differences in the Determination of Capital Structure: A Case Study Based On the Experience of Non Financial Companies (2001-2008)</td>
<td>518</td>
</tr>
<tr>
<td>Saif Ullah</td>
<td></td>
</tr>
<tr>
<td>Samina Riaz</td>
<td></td>
</tr>
<tr>
<td>Usage of Netspeak Among Pakistani Youth - With Regard To Self-Esteem, Gender And Educational System</td>
<td>561</td>
</tr>
<tr>
<td>Sarwat Nauman &amp; Muhammad Ajaz Rasheed</td>
<td></td>
</tr>
<tr>
<td>Intuition as a Critical Success Factor in Effective Business Risk Management</td>
<td>586</td>
</tr>
<tr>
<td>Linah Askari, Muhammad S. Askari &amp; Ammar Baig</td>
<td></td>
</tr>
</tbody>
</table>

### Discussion

<table>
<thead>
<tr>
<th>Title</th>
<th>Page No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Healthcare Management In Pakistan: An Empirical View</td>
<td>638</td>
</tr>
<tr>
<td>Javed Ahmed Chandio</td>
<td></td>
</tr>
<tr>
<td>Effective Change Management</td>
<td>653</td>
</tr>
<tr>
<td>Murtaza Abbas</td>
<td></td>
</tr>
</tbody>
</table>
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PAKISTAN BUSINESS REVIEW OCT2012
SINDH’S UNWITTING INVOLVEMENT IN ALL-INDIA POLITICS
INDIAN LEADERS CALCULATED INITIATIVES TO MAKE SINDH A MERE PAWN IN THE GAME OF INDIAN POWER POLITICS (1923-1934)

(II)

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Abstract
This study does not aim at giving a detailed account of Sindh’s quest for freedom from the British imperialism; for it excludes the analysis of the early and continued resistance to the British rule in forms that are not easily recognisable (instances are on record of the rampage of political desperados glibly described as dacoits) along with militant efforts and attempts at the overthrow of the British rule. Significant among these outbursts of resentment that the British had to encounter in Sindh in the nineteenth century were the Thar uprising (1846), the Nangar Parkar revolt (1859), and the Hur revolt (1896-1900). The twentieth century, however, saw many forms of resistance to British rule by Sindh patriots, including their unwitting participation in Indian anti-British struggle, with special reference to: Swadeshi Campain, Komagata Maru Incident and Ghadr Party, Reshmi Rumal Tahrik, Satyagraha Movement, Khilafat Movement, Hijrat Movement and Civil Disobedience Movement.

Thus, this study is, on the whole, confined to the role of Sindhi intelligentsia and people in Indian anti-British struggle conducted, as it was, within the limits set by the colonial masters. As a result, Sindh was unconsciously entrapped in all-India politics and its destiny was gradually intertwined with the global politics in general and geopolinomics (geography + politics + economics) of the region(s) of ‘South, South-West and Central Asia’ in particular.

Key Words: Chatti (punitive) police, geopolinomics (geography + politics + economics), hartal (literally, shutting shops), lathi charge, martial law, militant struggle, parliamentary initiatives, patriotism, political movement, and political desperados.

JEL Classification: Z000
Further Developments

Though the people of Sindh were active participants of all anti-British ferment, they had still not advanced from the nascent stage of their national struggle to impart to the question of Sindh’s separation from the Bombay Presidency the same militant revolutionary zeal. In fact, the question continued to remain what it had always been—a point of discussion/debate, rising at times to the level of half-hearted parliamentary initiatives.

One such initiative was made in 1920, when Sarma, a representative from Madras, moved a resolution in the Imperial Legislative Council to the effect that the headquarters of the Government of India should be permanently located in one place (instead of the then two places of Delhi and Simla) and that a suitable centre should be selected for the purpose. (“Imperial Enclave,” Daily Gazette, Karachi [hereafter referred as D.G.], 30 January 1920, p. 6.) The resolution came up for discussion in the House in February 1920. A lengthy debate followed, in the course of which no less than 13 sites (e.g. Calcutta, Pachmarhi, Allahabad, Betul) were suggested. Shah Nawaz Bhutto of Sindh, an Additional Member of the Governor General’s Council, suggested Karachi for the purpose. In his opinion “from a geographical, climatic, industrial, and what is more from a strategical point of view the city of Karachi stands second to none should the Government of India decide to remain in one place.” (D.G., 23 February 1920, p. 5; speech in the Council, reproduced under caption “Karachi as the Permanent Capital.”) The Daily Gazette on the request of “several readers” made out a strong case for “Karachi’s claim to be selected for the honour.” (“Sindh as an Imperial Enclave,” D.G., 4 February 1920, p. 6.) In the course of a leading article, the paper observed:

“But if there is to be any such change which very many people will consider a desirable change—it may be taken for granted that the claims of Karachi will
be very strongly advocated, as the nearest port to Europe, and the future great air port in India on the Empire route, to say nothing of the possibility of almost unlimited expansion and the availability of desirable sites for a new capital in immediate proximity to the City without interfering with present amenities.” (“Imperial Enclave,” D.G., 30 January 1920, p. 6.)

However, neither Karachi was converted into imperial capital nor the capital of India was changed to any other place. Sarma’s resolution was put to vote and lost–other amendments to the resolution were either withdrawn or were defeated in the House. (D.G., 19 February 1920, p. 8; proceedings of Imperial Legislative Council reported under caption “Imperial Legislative Council: Seeking a Permanent Capital.”)

Another initiative came in 1921, when I. S. Haji, a Sindhi gentleman who represented Bombay City on the Bombay Legislative Council, gave notice of a resolution under clause 15 (i) of the Government of India Act, 1919, which entitled the representatives of a sub-province to demand the constitution of a sub-province into an independent province. Haji sought appointment of a committee to take steps to separate Sindh from Bombay and to make it a Lieutenant Governor’s province. This initiative also did not materialise. (Moulana Muhammad Irfan, “A Brief History of the Movement of the Separation of Sind,” Alwahid, Karachi, ‘Sind Azad Number’ 1936, p. 53.)

The masses of Sindh showed no interest in any of the parliamentary initiative.7 They, however, remained very actively associated with the anti-British struggle reflected through the Satyagraha, the Khilafat, the Hijrat, and the Civil Disobedience movements.
The political situation at the time went through a rapid transformation. The period marked the beginning of a new phase in the development of the revolutionary advance all over India—from the economic strikes of 1918 to mass actions involving broad strata of the urban population and occasionally reaching the militant form of struggle, i.e., armed uprisings of 1930.

Alarmed by the revolutionary anti-imperialist trend in Indian politics the British imperialism and the Indian leaders connected with it took to cleaving the political movement of India on communal basis.

This divisive activity was the logical aftermath of the provisions of the Act of 1919, which by retaining the system of communal electorate strengthened the British policy of setting Muslims against Hindus. Making wide use of this system, the British colonialists started to fan hostilities between the two communities. This served to galvanise into action the religious communal parties, i.e. the Muslim League and the Hindu Mahasabha. The League which had played second fiddle to the Khilafat Committee and toed the Congress line, separated itself again. In opposition to the Muslim League, the Hindu Mahasabha (set up in 1915) raised its head. An important landmark in the spread of Hindu chauvinism was its session in 1925, at which appeals were made for the forcible conversion of Indian Muslims to Hinduism. The response of the Muslim religious leaders and communal organisations to this was fanatical anti-Hindu propaganda. It was in these conditions that the British, with the help of the communal organisations of these two religious groups, were able in the period 1923-27 to provoke a series of Hindu-Muslim clashes and mass killings. The bureaucracy in many a case subtly engineered them and then gloated over the display of disunity. Besides, most communal riots were in reality isolated instances of class struggle fought in communal guise. Anyhow, the cooperation between the two religious groups which had
been established during the Khilafat and Civil Disobedience movements had now been undermined. The Hindu-chauvinist Shuddhi and Sangathan, and the Muslim Tabligh and Tanzeem campaigns well manifested the communal hysteria of the period.

This communal hysteria also affected the people of Sindh although to a lesser extent. Branch of Bhartia Hindu Shuddhi Sabha was opened at Karachi (March 1923). Nau Muslim Conferences were held (1923-27). A campaign of persuasion was launched to convert Sanjogi Shaikhs back to Hinduism (1923-27). Targeted banditry were committed against Hindus in some areas who were in certain cases forced to recite *Kalma* as a sop to the bandits’ religious frenzy (1923-27). Hindus and Mussalmans clashed at Rato Dero, Laki, Hyderabad, Bagirji, Larkana and other places of Sindh (1923-27). Communal colouring of news items and publication of columns in the press satirically humiliating the other community and upholding the past ‘heroes’ of their own community was started (1923-27). Books, including novels and dramas, humiliating the other community and upholding the past ‘heroes’ of their own community were brought out (1923-27). First Sindh Hindu Conference (October 1925) and first Sindh Muslim Conference (May 1926) were organised. Communal *hartals* (literally–shutting shops) and agitations were observed in Larkana on the calls of the Hindu Panchayat Larkana (March-April 1927) and the Sindh Muhammadan Association (13 January 1928).

The movement for the separation of Sindh, which had hitherto remained secular, nationalistic and local too was imbued with communalism and capitalised together with other Muslim majority areas in the political bargaining between Muslim and Hindu communalists.

This tonal change, initiated by the All-India Muslim League through its resolutions passed at its annual sessions of 1925
and 1926, found its final expression in the “Delhi Muslim Proposals” of March 20, 1927, when thirty Indian Muslim leaders offered to accept joint electorates provided, \textit{inter alia}, Sindh was “separated from the Bombay Presidency and constituted into a separate province.” (\textit{The Indian Quarterly Register}, Calcutta, January-June 1927, pp. 33-34.) These “proposals were communicated to the Congress, and the Congress Committee the very next-day passed a resolution appreciating the decision of the Muslim Conference to accept joint electorates and trusting that a satisfactory settlement would be arrived at on the basis of these proposals.” (All Parties Conference 1928, \textit{Report of the Committee Appointed by the Conference to Determine the Principles of the Constitution for India} [frequently referred to as Nehru Report], Allahabad, 1928, reproduced in the \textit{Indian Quarterly Register}, January-June 1928, p. 11.)

The reaction of Hindu chauvinists in Sindh was sharp and quick. At the Sindh Hindu Provincial Conference, also known as Second Sindh Hindu Sammelan, opened at Sukkur on 1\textsuperscript{st} May 1927, the above proposal for the separation of Sindh was strongly opposed, as it was in their opinion “injurious to economic, political and educational interests of the province and especially of the Hindu community in Sindh.” (\textit{The Indian Quarterly Register}, January-June 1927, p. 435.)

Opposition was also voiced by some prominent Sindhi leaders particularly to making it a Muslim proposal and using it as a commodity in the communal bargaining. Harchandrai Vishindas, the most seasoned Sindhi politician, wanted the proposal to be considered on merits alone:

“The determining factor in the question of separation of Sind should be the welfare of the people of the province and not the fulfilment of communal aspirations or the satisfaction of narrow parochial or provincial sentiment. To divide a historic presidency merely to give a particular
community a majority in a certain number of provinces is to accept a vicious principle which will lead to endless demands by other communities for its extension and cause the country in the near future endless trouble. To reshape the map of India with a view to make a minority in one province hostage for the good behaviour of a majority in another province is to court war between communal provinces. The only sound principle for redistributing provincial areas is to attach more importance to the welfare of the people as a whole than to the demands of a particular community.”
（D.G., 19 July 1927, p. 10; press interview with date line Simla published under caption “Separation of Sind: Joint Electorates a Distinct Issue.”)

Prof. H. L. Chablani was “not prepared to support any demand for redistribution of provinces with a view to increase the number of Provinces in which the particular community which demands separation shall be in the majority.” He regarded it “very undesirable and even dangerous to divide India into Muslim India and Hindu India.” (Prof. H. L. Chablani to Chairman of the All Parties Conference at Delhi, D.G., 12 March 1928, p. 5; letter published under caption “The Separation of Sind: Professor Chablani’s Dissent.”)

Khan Bahadur Shah Nawaz Bhutto opined that “by making it a ‘Muslim Proposal’, the Muslim leaders who assembled at Delhi have merely helped to bring the militant Mahasabhas to the forefront to shed crocodile tears at the great ‘loss’ they are to suffer by the separation of Sind from Bombay.”12 (Shah Nawaz Bhutto, D.G., 10 June 1927, p. 5; speech as Chairman of Sindh Muhammadan Association in public meeting held at Hyderabad.)

It was regretted by some Muslim leaders of Sindh that if the separation of Sindh was not made a Muslim condition in
what were called the “Delhi Muslim Proposals” the Hindus of Sindh would have themselves urged for separation as vehemently as they had done at the time of Montagu-Chelmsford Reforms. But communalist Hindus had now taken advantage of the Muslim offer and were propagating an idea that separation was to benefit the Mussalmans alone and were putting impossible conditions, thereby making the separation question more complicated than ever before. (D.G., 5 November 1928, p. 7; speeches of Sindh leaders at public meeting of Mussalmans held at Hyderabad on 31 October 1928 under presidency of Hakim Shamusuddin, proceedings published under caption “The Nehru Report: Sind Muslim Leaders’ Attitude.”) In fact “the framers of ‘the Delhi proposals’ by asking for the separation of Sind and adopting it as a ‘Muslim proposal’, clearly lost sight of the fact that the separation of Sind would do incalculable good to the Sind Hindus, who, considering their political, economic and official power in Sind, must remain masters of the situation and that the Sindhi Hindu was bound to agitate, in his own interests, for the separation.” (Shah Nawaz Bhutto, D.G., 10 June 1927, p. 5.)

The All-India Congress Committee, meeting in Bombay in May 1927, unanimously adopted the resolution passed earlier by the Congress Working Committee with certain alterations. “The principle change suggested on behalf of the Hindu leaders present was that Sind should not be separated on communal grounds but on general grounds applicable to all provinces.” A change in the wording of the resolution removed this objection and “it was passed unanimously.” (Nehru Report, reproduced in The Indian Quarterly Register, January-June 1928, p. 11.) Thus, the All-India Congress Committee in a sense endorsed the Muslim proposals, including Sindh separation.

This resolution of the Congress Committee was confirmed by the Madras session of the Indian National Congress held in
December 1927. (Moulana Muhammad Irfan, “A Brief History of the Movement of the Separation of Sind,” Alwahid, ‘Sind Azad Number’ 1936, p. 54.) Thus, despite Sindhi leaders’ strong reservations and resentment, the question of the separation of Sindh became in real sense an All-India question in 1927.

In February 1928, charged with the task of drawing up a judgement upon India’s fitness for a further instalment of reforms, the all white Statutory Commission, better known as the Simon Commission, came to India. The Commission was boycotted not only by the All-India National Congress and the All-India Trade Union Congress but also by the All-India Muslim League (even at the cost of split, for a section, representing mainly the Punjab, under the leadership of Sir Muhammad Shafi and Sir Muhammad Iqbal broke away and offered its cooperation), the Hindu Mahasabha and the Liberals; few but the traditionally staunch loyalists cooperated with it. Sir John Simon and his colleagues met, instead of welcome, with hostile demonstrations everywhere including Sindh; and police lathi charged injuring even top leaders. In the hartals and massive demonstrations of that year organised working class took a very large part. In Sindh the loyalist protagonists and antagonists of the separation proposal, on the pretext to counter the machinations of the other side sent deputations to wait on the Commission and plead their separate cases. The deputation of the protagonists represented the Sindh Muhammadan Association and consisted of Khan Bahadur Muhammad Ayoob Khuhro, Khan Bahadur Wali Muhammad Hassanally, Mir Ayoob Khan and Abdur Rehman Bar-at-Law while the deputation of antagonists represented the Sindh Hindu Association and consisted of Rai Bahadur Hiranand and Prof. H. L. Chabiani.

The period that the Simon Commission had been at work (1928-30) witnessed the Indian national liberation struggle spearheaded by the Congress reaching new levels; from protest
demonstrations and mass rallies to strikes and non-payment of taxes, from non-cooperation movement to armed uprisings. The colonialists were staking their hopes on a split in the national forces in view of religious and caste factors, on the consolidation of the influence of conservative, feudal social groupings.

Finding that it could not effectively contain the revolutionary upsurge with force, the colonialist regime changed its tactics and decided to ignore the recommendations of the Simon Commission and host a Round Table Conference (which met in three sessions at London from 12 November 1930 to 24 December 1932) for resolving the Indian political problems.

During the period between March 1930 to the end of British rule in India, the patriots of Sindh were active in a new phase of the Hur Movement initiated by Syed Sibghatullah Shah Pir Pagaro. Besides, during the period between April 1930 to May 1934, a sizeable portion of the people and public leaders of Sindh were active in Civil Disobedience Movement, launched by the Congress under the leadership of M. K. Gandhi, which was halted only for a short period (March 1931-December 1931) in consequence of a temporary truce between the All-India leadership of the Indian National Movement and the colonial regime reached at in the shape of “Irwin-Gandhi Pact” of March 1931.

During this period the people of Sindh violated a number of laws, including the Salt Law, and created law and order situation at numerous places. They boycotted foreign cloth, picketed liquor and foreign cloth shops, and boycotted the Government’s educational institutions.

They boycotted also the official receptions. When Lord Willingdon, the then Governor General and Viceroy of India (1931-1936), came to Sindh in January 1932 for performing the opening ceremony of the Lloyd Barrage and Sindh Canals at Sukkur;
receptions in his honour were not only boycotted but the people of Sukkur staged a hartal and in Karachi a protest meeting was held. (“Addle-pated Congressmen of Sind,” D.G., 14 January 1932, p. 6.)

On 16th April 1930, as a result of the police firing on unarmed people, in front of Karachi City Court, who came to hear the trial of their political leaders, two persons were killed and 36 injured including renowned political leader Jairamdas Daulatram—the number of injured by bullets as well as by lathi charges, which took place several times, went over a hundred during the whole period of the Civil Disobedience Movement.

Massive demonstrations, hartals and mass strikes were organised wherein young and old, men and women, braved police tyranny. Police officers on duty were abused by the people, and magistrates were insulted and driven to hold their sittings in the prisons in Karachi, Hyderabad and Sukkur.

Strict censorship was imposed, securities were demanded from the dissident papers. As a protest against the Press Ordinance some vernacular papers, like the daily Hindu, Hyderabad, and the weekly Hindu Jati, Karachi, stopped their publication for short periods. Both of them were ultimately seized by the Government. Before the seizure of the Hindu its proprietors, Vishnu Sharma and Lokram Sharma, and a number of its editors including Hiranand Karamchand, Dr. Vishindas Shivadasani, Hassomal Isardas and Mansingh Chauharmal were arrested one after the other and sentenced to different terms of imprisonment. After the seizure of the Hindu, a new newspaper the Sindhu was issued from the same press. When the Government repression made it impossible to continue the Sindhu, it was stopped and again new newspapers with different names were issued from different presses to continue the struggle against colonial regime. Besides, illegal Congress Bulletins were
sold. About a dozen of persons were arrested on this charge. A number of Sindhi books, booklets, pamphlets, even poems, were proscribed by the Government.\textsuperscript{31}

The Government banned non-cooperation movement—51 defiant political and semi-political organisations in Sindh were declared by the Bombay Government illegal, their presses banned, their funds, property and premises confiscated. (\textit{D.G.}, 11 January 1932, p. 5; news item “51 Unlawful Political Bodies in Sind: Official List.”) These organisations included the National Congress Committees, Congress Democratic Party, Bharat Naujawan Sabhas, Vidyarthi Mandalas, Naujawan Mitra Mandalas, Vidyarthi Samagams, Boycott Committees, Satyagraha Camps, Mahavir Dals, Sunder Sabhas, Sunder Sewak Sabhas, Sudhar Sabhas, Shewak Mandlis, Prem Shewak Mandlis, Naujawan Brothers Mandalas, Shri Krishna Shewak Mandalas and Shewa Mandalis. (\textit{Ibid.})

About four dozen of persons were served with a notice under the Emergency Power Ordinance calling upon them not to take part in any way in the Civil Disobedience Movement nor to leave their hometowns for a certain period. Some of them were required to report themselves to the police on certain fixed days every week. Some persons were served with a notice to leave immediately certain towns. In some cases orders were not obeyed and the persons either went underground or were arrested. \textit{Chatti} (punitive) police was quartered in certain villages, like Pir-jo-Goth, at the cost of the inhabitants.

To face the unrest Government opted for wholesale violence, physical outrages, mass-scale arrests, detention, imprisonment, seizure of property, fines and sentences of young and old, men and women; the number of women including young girls arrested and convicted was around 75. The women and even young girls were sentenced to 2-year term of rigorous imprisonment. The
number of persons arrested, detained, fined, imprisoned or sentenced on political grounds was around two thousand. Some Sindh patriots including the staunchest anti-imperialist leader of militant Hurs, Syed Sibghatullah Shah Pir Pagaro, were arrested and sentenced on criminal instead of political grounds.

It appears proper to conclude by recalling the fact that Sindh was not only the first but also the only independent state located in the Indian subcontinent that was kept by the British imperialism under Martial Law Rule for more than four years (March 1843-September 1847) when, after its two consecutive military defeats in 36-day sequence, respectively, at Miani and Dubbo (the latter was desperately fought with the most celebrated war cry: marvesoon par Sindh na desoon, ‘Die we shall but give up Sindh we never’), Sindh was made part of the British Indian empire. This was indeed an attempt, albeit abortive, to use the name of Sindh, the homeland of Sindhis, as a rallying point—a unique incident in the history of the Indian subcontinent. It signaled the subsequent growth of national consciousness among the people of Sindh. Similarly, the above referred Hur Movement was indeed the continuation of the traditional Sindhi spirit of patriotism. It is self-evident from the Sindhi Hur freedom-fighters combat cry: Watan ya Kafan, (“Free Homeland or Death”). The British authorities were unable to overwhelm the Hur insurgents by the use of civilian machinations. They were, therefore, constrained to resort to use of brutal force for achieving their long-term objectives. Consequently, in view of the utter failure of the civil administration, Martial Law was promulgated on 1st June, 1942: the area under Martial Law covered thirty thousand square miles of the Upper Sindh Frontier, Sukkur, Khairpur, Nawabshah and Sanghar districts. (Tanvir Ahmad Tahir, Political Dynamics of Sindh, 1947-1977, Karachi: Pakistan Study Centre, University of Karachi, 2010, p. 90.) This sizeable area of Sindh remained under the ruthless Martial Law Rule for more than five years, i.e., till the end of British Indian empire.
Sindh is indeed a unique political unit throughout the Indian subcontinent where the mighty British invaders even at the peak of their prestige and power found it necessary to impose Martial Law Rule for many a year immediately after their entry in as well as before their departure from this land of selfless patriots. Thus, by their matchless military tactics and political strategy par excellence, they were eventually able to keep Sindh within the framework of both Pax Britannica colonial set-up and Pax Americana neo-colonial structure, as and when their global interests demanded the same.

Notes

1. For details see Sahib Khan Channa, “Role of Sindhi People in Indian Anti-British Struggle: Sindh’s Unwitting Involvement in All-India Politics (1905-1922),” *Pakistan Business Review*, Karachi: Institute of Business Management, Vol. 13, No. 1 (April, 2011), pp. 6-35 (part I of this article).

2. As early as 12th November 1887, the Sindh Sabha, the pioneer non-sectarian organisation formed by Sindhis in 1882 to voice and safeguard the interests of Sindh, in an address presented to Lord Dufferin, the then Governor General and Viceroy of India (1884-1888), had also suggested for exalting Karachi to the position of capital of the whole of the Indian empire. (*Sind Gazette*, Karachi, 15 November 1887, p. 5; reproduced under caption “Karachi as the Permanent Capital.”)

3. However, as before, the proposal to make Sindh an autonomous province remained an important theme of public debate in the press. In this connection study of the files of the Karachi papers is worthwhile. The *Daily Gazette*, a European owned
paper basically in favour of Sindh’s merger with the Punjab, also published a number of letters written by different persons (including renowned public figures like E. L. Price and Wali Muhammad Hassanally Effendi), often in pseudonymls, in favour of the proposal in 1920 and 1921. Letters of Wali Mahomed (30 October 1920), Faizullah Khan (9 November 1920 and 23 September 1921), Principles [pseud.] (16 November 1920), W. M. Hassanally (13 December 1920), E. L. Price (11 August 1921 and 29 September 1921), A Wide Awake Citizen [pseud.] (20 September 1921), Separatist [pseud.] (22 September 1921) and K. B. Shahani (24 September 1921) need special notice. Similarly, a series of articles published in the Sind Observer, Karachi in 1920 deserves special mention. In one of the article, published on 16 December 1920, it declared: “Those who say that between two powerful rivals like the Punjab and Bombay, Sind will be crushed merely draw a red-herring across the path. They have not adduced one argument to show how Sind could be crushed in that way. Assam was not crushed by being made a separate Government and Bihar has not been crushed between the U. P. and Bengal by being made a Governor’s unit, and Orissa has not been crushed by being separated from Bengal. And if there is such a fear of being crushed what is the Government of India for?”

4. In the Sindh, during the period, the decades old struggle of its people came to fruition and the Government of Bombay finally gave its go-ahead for the Sukkur Barrage Project in 1923. This project proved to be a turning point in the Sindh’s struggle
for self-determination. Accelerating the pace of struggle it added new dimension to it, by introducing a new progressive element in Sindh politics. For the first time Sindh witnessed the publication of literature on scientific socialism. In 1926, Jethmal Parsram published his book *Samiavad* (Communism). In the next year, Vishnu Sharma brought out his book *Bey Insafi Kian Dur Kajey* (How to Remove Injustice?). Both of these books were published from Hyderabad. The formation of the Sindh Hari Association in 1930 was a direct result of the Sukkur Barrage Project. As a result, millions of new acres of cultivable land were to be colonised, besides, thousands and thousands of new jobs were to be created. Like the thriving port of Karachi, this project had its own lure for Punjabis, who wanted to round off their control of the north-western railway under any disguise whatsoever. The Barrage land disposal policy, as announced by the Government in the later half of 1920s, was designed to benefit the jagirdars and zamindars of the Punjab and Sindh. Fearing for the local Hari rights well-wishers of the landless and small peasantry of Sindh started the struggle with plough as the symbol and “Hari Haq-dar” as the motto.

5. “The Hindu Mahasabha was founded in 1915 as a political party by Punjabi Hindus resentful of the extra weightage given to Muslims in the province by the system of separate electorates introduced in 1909.” (Surjit Mansingh, *Historical Dictionary of India*, New Delhi: Vision Books, 2005, p.173.) In 1925, the Hindu Mahasabha started actively functioning on all-India basis under the leadership of Lala Lajpat Rai, then known as the ‘Lion of
Sindh’s Unwitting Involvement in All-India Politics

Punjab’. It “declared its larger goal to be ‘the maintenance, protection and promotion of the Hindu race, Hindu culture and Hindu civilization for the advancement of the Hindu Rashtra [nation]’. To that end it projected India as a Holy Land, adopted Hindi as its language, . . . and encouraged an active program of Shuddhi, or purification, and ‘reconversion’ of Christians, Muslims, and Sikhs to the Hindu fold.” (Ibid., pp. 173-74.)

6. The number of “serious” communal riots rose steeply. There were eleven in 1923, eighteen in 1924, sixteen in 1925, thirty-five in 1926 and thirty-one up to November 1927. The death-roll for those five years was about 450, and at least 5000 people were injured. (Reginald Coupland, The Indian Problem, 1833-1935, 5th imp.; Oxford: Clarendon Press, 1968 [1st published in 1942], Part I, p. 75.)

7. Such as at Amri, which became a subject of newspaper columns. (“Raz Niaz,” Alwahid, Karachi, 5 January 1926, p. 4.)

8. In this respect “Hindu” the weekly Mirpurkhas Gazette, Mirpur Khas, and the monthly Arya Veer, Hyderabad; and “Muslim” the weekly Mussalman, Mirpur Khas, and the monthly Tauhid, Karachi, played a prominent role.

9. There was a curious contradiction in the proposals. On the one hand, weightage was proposed to the minorities in the three Muslim majority provinces of Sindh, the North-West Frontier Province (now, Khyber Pakhtunkhwa) and Balochistan, on the other hand, no such provision was made in the case of the remaining two provinces viz. the Punjab.
and Bengal because both of these provinces opposed it as they had done previously in the case of Lucknow Pact (1916), belatedly, declaring it to be against the interests of the Muslim majorities of their provinces.

10. The Hindu and Sikh reaction to these proposals in the Punjab was also extremely unfavourable. The intensity of their reaction can be judged from the fact that many of their leaders considered the Muslim demands, particularly that of the separation of Sindh from the Bombay Presidency, as calculated to partition of India into two parts—Hindu India and Muslim India. (Inqilab, Lahore 7 June 1928, quoted in M. Rafique Afzal, Malik Barkat Ali: His Life and Writings, Lahore: Punjab University Press, Publication No. 16, 1969, p. 19.)

11. On account of strong communalism of Mahasabha workers the Hindu Sammelan did not accept veteran Sindhi statesman Jethmal Parsram’s proposal to appoint a Committee to consider the question of separation of Sindh. The daily New Times, Karachi (owned and edited by a Hindu gentleman, T. K. Jeswani), in its leading note criticised the decision and observed: “The decision will give an idea to the outside world that the Hindus of Sind are prejudiced, and are afraid, as a minority, to even discuss the question whether on its own merit or as a matter of compromise.” (Quoted in Abdullah Haroon’s statement before Sir Purshotamdas Committee, reproduced in Ahmad Shafi, Haji Sir Abdoola Haroon: A Biography, Karachi: Herald Press, n.d., p. 72.) The same attitude was also expressed by the Hindu chauvinists in a public
meeting of Hindus, held at Khaliqdina Hall, Karachi, in June 1927, wherein a similar amendment brought forward by some Hindu leaders was rejected and a resolution against the separation of Sindh was passed. (D.G., 24 June 1927, p. 7; proceedings published under caption “Separation of Sind: Public Meeting of Hindus.”)

12. Shah Nawaz Bhutto candidly reiterated this stance of Sindhis, on the issue, at every appropriate occasion and in every important forum including the Round Table Conference. In the said Conference opened in London on 12th November, 1930, the question of the constitution of Sindh into a separate province was raised in the Minority Committee and referred to the Business Committee which set up a Sub-Committee, better known as Sub-Committee No. IX (Sind), which dealt with the problem elaborately. Shah Nawaz Bhutto, at this juncture also found it necessary to put the record straight by stressing the Sindh’s viewpoint courageously and “protested to the Prime Minister that this ought not be considered as one of the demands made by the Muhammadans, because it is not a minority demand; it is a demand made by the Sindhis.” Bhutto restated this stand in the Round Table Conference’s Sub-Committee No. IX: “This demand should be considered as a demand of the Sindhis, and not as a communal question. When this question was taken up by the Muslim League, in my public speech at Hyderabad, presiding over ten thousand people, I protested and said it was not fair to us at all. It is we Sindhis who want this question considered on its own merits. It is a demand of the Sindhis,

13. This resolution proceeded on the basis of the Muslim proposals but was more detailed and dealt with some other matters also.

14. Like the ‘Delhi Muslim Proposals’ (see note no. 9 *supra*), this resolution, passed with the explicit claim of endorsing the above ‘proposals’, contained a curious infringement. It was, therefore, denounced by some Sindhi Muslim leaders on the basis of that flagrant discrepancy as well. The Sindh Muhammadan Association in its meeting held at Hyderabad on 5th July 1927 passed a resolution wherein they expressed “their regrets that the All-India Congress Committee” had “by their resolution obscured the important question of the separation of Sind by mixing it up with questions of the separation of other provinces” and had “thereby strengthened the opposition to the most important part of the Muslim demand.” (*D.G.*, 12 July 1927, p. 7; proceedings published under caption “Sind Mahomedan Association: A Meeting at Hyderabad.”)

15. The Sindh Muslim Political Conference, held at Karachi, by a special resolution, enjoined “Sindhi Mussalmans to completely boycott this Commission.” (*D.G.*, 9 July 1928, p. 4; proceedings...

16. Their respective cases were elaborately put forward in the memoranda submitted to the Commission by the Sindh Muhammadan Association and the Sindh Hindu Association. The former strongly urged that “Sind should be separated from the Bombay Presidency and given its own executive and legislative machinery.” They emphasised that “the final goal of administration in India should be the ultimate creation of a United States of India within the British Empire, the future constitution of the Federal States being on the lines of the United States of America, the Central Government possessing only such powers as may expressly be reserved by it and all the ‘Residuary Powers’ being vested in the individual States.” The latter strongly opposed the separation of Sindh from the Bombay Presidency and *inter alia* demanded the establishment of a strong Central Government, recruitment in the services on merit alone, the conferment on the Central Government of the right to prevent internal disruption and intolerant communalism, and the abolition of communal representation. (*D.G.*, 7 July 1928, pp. 3-4; memorandum of Sindh Muhammadan Association published under caption “Sind Muhammadans and the Simon Commission”; and *D.G.*, 12 November 1928, pp. 3-4 & 17-18; memorandum of
All Sindh Hindu Association published under caption “The Future of Sind Hindus: Memorandum to the Simon Commission.” Henceforth, all the deliberations on the Sindh separation problem were conducted by loyalists with the Government or in the different bodies appointed by it, including the Round Table Conference Sub-Committee No. IX (1930), the Expert Financial Enquiry Committee (1931), the Sindh Conference (1932), the Parliamentary Joint Select Committee (1933-34) and the Sindh Administrative Committee (1934). The final fate of Sindh in the coming reforms was thus decided in consultation with the staunch loyalist leaders. Sindhi patriots and anti-imperialist political activists, the former reflected the traditional militant form of resistance to British rule in Sindh and the latter embodied a combination of various modern peaceful forms of broad-based and large-scale middle-class resistance to bring an end to the British imperialism throughout the Indian subcontinent, including Sindh, were respectively busy either in anti-imperialist Hur Movement led by Syed Sibghatullah Shah Pir Pagaro or in anti-British Civil Disobedience Movement (1930-1934) launched by the All-India Congress, fully supported by those Sindhi political activists who were slowly and gradually but, in due course of time, deeply embedded in all-India politics.

17. At Peshawar, Chittagong and Sholapur in April-May 1930. Among these uprisings the most significant for the whole future was the “mutiny” of the Garhwali soldiers at Peshawar.
18. As far as the communal split is concerned, they were successful to a great extent in Sindh, where the struggle was sporadic, and limited to urban areas, with Muslims, the general masses as well as the middle and upper classes, by and large, keeping aloof. Communal passions were heightened in the wake of continuing deadlock over the communal problems. The period witnessed communal riots in Jacobabad (April 1929) in which ten persons were murdered; targeted gang-robberies/dacoities in Sukkur and Jacobabad districts numbering about a hundred in one month alone (August 1930) and involving about 200 villages (subsequently about a thousand “gang-robbers” were arrested by the authorities) and Hindu-Muslim riots in and around Sukkur (August 1930) in which about thirty persons were murdered, three hundred wounded, ladies were molested and property worth about ninety lacs was looted, besides the houses that were burnt to ashes. This, naturally, heightened the communal colouring of the separation question and widened the gulf between the separationists and the anti-separationists. As a result a virtual propaganda war was launched by both sides, each putting its case for mass approval. Important booklets published on the subject of separation of Sindh in 1930 alone were:

i) A Story of the Sufferings of Sind by M. A. Khurho.

ii) Sind a Separate Province: Have Sindhis Asked for It? by Jairamdas Daulatram.
iii) Financial Aspects of the Separation of Sind by Prof. H. L. Chablani.

19. Known from the names of Lord Irwin, the then Governor General and Viceroy of India (1926-1931) and M. K. Gandhi, the leader of the Civil Disobedience movement.

20. In order to continue the struggle against imperialist authorities, in place of these newspapers, the Hindu and the Hindu Jati bulletins were illegally issued from the secret presses of Hyderabad and Karachi, respectively.

21. Following of these, published during the period (1930-11934), have been preserved in Sindhi Section of the India Office Library, London:

1) Dharasan ti Kah (n.p., n.d. [? 1930]), 47 pp. 19 cm. (An account of the police brutalities against the Satyagraha marchers.)

2) Dwarka Prashad Rochiram. Inqilab Zindahabad (Hyderabad: Author, n.d. [?1932]), 16 pp. 16 cm. (Swaraj Malha, 1.) (A story of the heroism of an imaginary freedom-fighter.)

3) Hindu (Monthly, Hyderabad), Tilak Number, 1 August 1931. (Articles on B. G. Tilak, Satyagraha, Swadeshi campaign, and the British violence against the Satyagraha marchers.)

**Sindh’s Unwitting Involvement in All-India Politics**

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<th>Pages</th>
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<th>Notes</th>
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<td>(2 Vols; [2nd ed.]; Karachi: Rejhumal Pavandas Agnani, n.d.), illus. 18 cm</td>
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<td>____________. <em>Phasi Gitmalha</em></td>
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22. During the first phase of the movement (April 1930-March 1931) the persons arrested and sentenced to various terms of imprisonment numbered about 724, excluding those who were arrested but were soon released without trial. Areawise details were: Karachi 254, Shikarpur 100, Hyderabad 90, Sukkur 80, Mirpur Khas 60, Larkana 40, Jacobabad 40, Nawabshah 30 and Sahti (presented-day Naushahro Feroze) 30. During the second phase (December 1931-May 1934) at least 1,204 persons were convicted to different terms of imprisonment. Areawise details were: Karachi 628, Hyderabad 191, Sukkur 98, Shikarpur 68, Dadu 55, Larkana 46, Nawabshah 32, Jacobabad 30, Sahti 30 and Tharparkar 26. (Motiram Satramdas Ramwani, Raten Jaut [in Sindhi], Karachi: Herald Press, 1958, Vol. II, pp. 724, 749.)

23. According to a Sukkur newspaper, when the Pir was being taken to the prison, he asked his followers not to engage a lawyer to defend him, as, like the members of the Indian National Congress, he did not wish to make any defence. The Pir was alleged to have stated: “India would get Swaraj the moment I am sent to jail.” (“Sind Sensation: Pir Pagaro Arrested,” D.G., 29 March 1930, p. 7.) Pir was tried within the precincts of Sukkur jail instead of in the ordinary open Court of Law. On 28th August 1930, he was sentenced to eight years imprisonment for
confining a boy, named Ibrahim, and for illegal possession of 12 rifles, 3 guns, 2 revolvers, 25,000 rounds of ammunition, and apparatus for manufacturing ammunition. Having served his sentence (with remission) in Indian jails, the Pir returned to Sindh in October 1936. Later on, he was tried by a Military Court under Martial Law on charges of conspiring and preparing to wage war, and abetment of waging war, against the British Government; found guilty, and executed on 20th March, 1943. H. T. Lambrick, *The Terrorist* (London: Ernest Benn Ltd., 1972, pp. 31n & 179n.)

24. Indeed, it was the continuation of the ages-old Sindhian spirit of patriotism. As early as 326 BCE, the initiators of the Sindhian uprising, against the Macedonian domination over their motherland, declared in unequivocal terms before their subjugator, Alexander the Great, that they had risen in open revolt and had incited the people and the ruler to defend their motherland because they wanted “to live with honour or die with honour.” (Plutarch, *Life of Alexander*, chap. LXIV, comp. R. C. Majumdar, *The Classical Accounts of India*, Calcutta: Firma K. L. Mukhopadhyay, 1960, p. 201.)

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Sindh’s Unwitting Involvement in All-India Politics


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Sind’s Unwitting Involvement in All-India Politics

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FREEDOM, POWER AND CAPITALISM: FROM DISCIPLINES TO BIOPower*

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Universiti Brunei Darussalam, Brunei

Abstract:

In this paper I propose a framework to understand the transition in Foucault's work from the disciplinary model to the governmentality model. Foucault's work on power emerges within the general context of an expression of capitalist rationality and the nature of freedom and power within it. I argue that, thus understood, Foucault's transition to the governmentality model can be seen simultaneously as a deepening recognition of what capitalism is and how it works, but also as a recognition of the changing historical nature of the actually existing capitalisms and their specifically situated historical needs. I then argue that the disciplinary model should be understood as a contingent response to the demands of early capitalism, and argue that with the maturation of the capitalist enterprise many of those responses are no longer necessary. New realities require new responses; although this does not necessarily result in the abandonment of the earlier disciplinary model, it does require their reconfiguration according to the changed situation and the new imperatives following from it.

Keywords: Foucault, Capitalism, Freedom, Power, Disciplines, Governmentality, Biopower, Population

JEL Classification: Z000

Acknowledgements

*An earlier version of this paper was presented at the XXV. World Congress of Philosophy of Law and Social Philosophy Frankfurt am Main, 15-20 August 2011. The author would like to thank the participants of the special workshop on Biopolitics for their feedback.
1. Introduction

There is a theme running throughout Foucault’s analyses of governmentality, biopower, the changing nature of state and its relation to society, and neo-liberalism. The theme is particularly clear in the contrasts he makes between governmentality and the arts of government in previous centuries (the reason of state and the theory of police, etc.), biopower versus disciplinary power, and the modern state versus the early modern state (and medieval state). The theme is that of freedom: the nature of freedom, and its relation to other notions such as power, rationality, etc. Foucault wants to reject a certain notion of freedom. Let us call it a negative notion of freedom, expressed in terms of the absence of something else, something it is not: A way out.¹ Specifically, negative freedom is seen as absence of repression and domination, notions that are in turn associated with power. Hence, negative freedom becomes absence of power, and the way to freedom is a way out of power relations. In this view, power is domination. The assumption is that where there is power there is no freedom, and where there is freedom there is no power. Let’s call this the ‘exclusory’ hypothesis;² power and freedom, according to this hypothesis, are mutually exclusive. But this, Foucault argues, is to misunderstand the nature of modern freedom and power, and the way they operate in modern societies. Such notions of freedom and power might have some relevance to early modern and medieval societies, but they are quite inadequate in understanding our contemporary societies.³

One of the insights of the analysis is that freedom is a great managing power (and not just a liberating force), and power is not necessarily something bad (it can lead to either domination or freedom). Freedom, and a particular positive notion of freedom, is the paradigm of the new techniques of government, the new art of government. Freedom is meant here not as an ideology (although that is important as well, even though much less important than is normally thought), but simultaneously as the principle (mechanism) through which the system works. Freedom in this sense is not to be understood primarily as the property of will (in the tradition of human rights and legal discourses), but as the freedom of movement and freedom of circulation – freedom to
develop, grow, enhance – and is applied to both people and things (that is both to physical and human capital). The new art of government is not primarily based on prohibitions and exclusions, but is “carried out through and by reliance on freedom of each” (Foucault 2007, p. 49).

Now, Foucault’s studies into the nature of biopower and governmental rationality, although evidently connected to the phenomenon of capitalism, were carried out in relative isolation and without explicit attention to the concept of capitalism. This was so for at least three reasons: First, Foucault, from a methodological viewpoint, wishes to avoid universals (Foucault 2008, pp. 2-3, Foucault 2007, p. 118, Foucault 1998a, p. 461). His method explicitly concentrates on understanding different practices and rationalities involved in them. Second, he wants to eschew concentration on the concept of capitalism for strategic reasons: Foucault once said that “experience has taught me that the history of various forms of rationality is sometimes more effective in unsettling our certitudes and dogmatism than is abstract criticism. For centuries, religion couldn’t bear having its history told. Today, our schools of rationality balk at having their history written, which is no doubt significant” (Foucault, 2002, p. 323). Similarly, it seems to me that Foucault prefers to disrupt certain assumptions about capitalism through historical investigation into different forms of powers and their genealogy in the West, rather than through direct conceptual analysis of it. Third, Foucault stresses the need to understand the phenomenon one is studying in its specificity; it involves, among other things, understanding things/objects/concepts in their own terms (paying utmost attention to differences), which in turn requires paying close attention to the particularity of the phenomenon under consideration. Referring to universal terms like ‘capitalism’ blurs the crucial particularity of a specific form of economy. There is no ‘Capitalism’ with a capital ‘C’ for Foucault (Foucault 2008, pp. 164, 174). But it would be wrong to infer from this that one cannot talk about capitalism in general. Generality should not be confused with universality; generality can respect specificity in a way that universality cannot. Therefore, it would be wrong to infer from Foucault’s insistence on studying specific ‘capitalisms’ in their own right that we cannot learn some general ‘truths’
about capitalism. In this paper I will step aside from issues of interpretation and try to investigate the conceptual advances made by Foucault’s analyses, how some of his conceptual tools can be used in understanding capitalist rationality, and how this rationality can help deconstruct certain traditional myths about capitalism.  

2. Freedom, Power, and Capitalism

Freedom and power are two important elements around which Foucault’s analysis revolves; however, power is the explicit object, while freedom (at least until his later writings) remains a background condition of power. Freedom is not only presupposed by the sort of power Foucault is interested in analysing, it is also its positive mechanism: “[P]ower is exercised over free subjects, and only insofar as they are free” (Foucault 1983, p. 221, emphasis added). Foucault is not after a theory of power. Nor is he interested in discovering the essence of power. His investigations are aimed at discovering the defining features of specific forms of power he has studied in his different projects. But: a) The fact that Foucault studies specific forms of power does not mean that he is not interested in general features of power; b) in general, denying that one is interested in a theory of power does not mean one is not interested in general features of power. Power is a relational concept. It is something that arises out of human relations. Power presupposes materiality (force for example), but is not reducible to it. Power is not force. Force is something physical; power is a social (or, to be more precise societal) notion. Physical force might play a role in a particular power relation; it does not define power, or even forms, generally speaking, its essential feature. Power is an aspect of any relation between two, or more than two, human beings (in fact even a relation of self to itself involves power, and a crucial topic of investigation in Foucault’s later writings). The particular form power takes depends on a type of relation, the purpose of a relation, and other related factors. For example, friendships, love, and family are all relations, but they presuppose different types of power and different strategies and techniques of power. Power involved in love relations, for example, cannot be understood using the model of power involved in economic relations. Power and
domination are obviously related concepts. Domination is related to the ends (telos) of power, but domination cannot be regarded as essential to all forms of power without compromising the specificity of different forms of power.\(^\text{7}\) It would be odd, for example, to say that the purpose of love relation is domination (even though such a relation may give one person potential dominance over the other, which may or may not be exploited by the possessor of such a power).\(^\text{8}\)

There are various instruments and preconditions of power relations, viz. freedom, knowledge, charisma, and charm,\(^\text{9}\) to mention a few. Let us suppose I want to control your life; the question can arise only if you are free and only to the extent that you are free; if you are not free (e.g. if you are chained, or are enslaved),\(^\text{10}\) I do not need to control your activities. In this specific sense, freedom is the general condition of any power relation, and it is also a general condition of governance. Similarly, knowledge of the object/person one wants to govern also seems to be a general condition of power relations as well as governance. However, the active, positive role of freedom, as well as knowledge, beyond this minimal sense changes depending on the nature of power involved, the specific object of governance, etc. Now, if you are free, and if I need to control your activities (and control may or may not involve repression), I need to have some sort of power over you. I need to have a certain strategy in place to govern, restrict, and streamline (depending on the context) your (possible) actions. Various factors can influence such strategies. If, for example, my purpose is just that you do not become too powerful relative to me, then my purpose is entirely negative. I have no positive interest in managing your life (or at least, only to the point that it is necessary for the negative purpose of stopping you from usurping my privileges). My interest in positively governing you (restricting, managing your actions or conduct) exists only to the extent that it is related to the negative task of limiting your power over me. On the other hand, if my interest in governing you is positive, it will require much more elaborate techniques, and the nature of governance will vary according to the purpose, objectives, and level of techniques available.
All things being equal, negative governance involves much less work than positive governance.\textsuperscript{11} If you are more knowledgeable, physically robust, and resourceful, it is more difficult to govern you. Generally speaking, the freer she is, the harder it is to govern her, which paradoxically may mean that freedom potentially requires much more intervention on the part of the governor, and not less. Finally, if I want you to live in certain ways (that is, govern you positively), it is much more convenient (if possible) to persuade you of the worth of living in that way, rather than threaten you, bribe you, and then constantly monitor you to see if you comply or not. Self-discipline, self-subjection, and self-governance are thus more efficient ways of governing people. Generally speaking, the strategy of governance, especially when it involves freedom as a technique of governance, is much more efficient when it relies on strategies of self-governance.

Foucault defines ‘government’ as “the structure (ing) of the possible field of action of others” (Foucault 1988, p. 221). For the art of government that aims to govern positively, the end is not primarily to make rebellion impossible, but it has other positive aims – for example, the welfare of the population. Specific purposes can change, but there must be some positive purpose. The goal of positive governance is to manage things (including people) for specific ends. It requires a detailed knowledge of the governed (the people, things, and territory, etc.). The level of knowledge (its type and complexity) required for a particular regime of governance will vary according to its positive telos. Generally speaking, capitalism can be differentiated from negative modes of governance, whose purpose is simply to ward off the possibility of rebellion (for example), irrespective of whether such a regime is a historical reality or simply a useful abstraction. Capitalism requires positive governance; even though the particular telos – how it defines itself (or understands and justifies itself) – may change, generally speaking a capitalist state cannot be understood as a minimal state that is simply interested in maintaining order and warding off any possible rebellion. A capitalist state is by definition not such a state, and cannot be such a state.\textsuperscript{12} Every capitalist regime of governance has a positive telos, and in this it is like any other regime of governance with a
positive telos. However, capitalism is a specific regime of governance (differentiated from other possible and actual positive regimes) due to the specificity of its telos. Furthermore, since a specific understanding of the positive telos of capitalism (within overall generality) has been changing throughout history, so its specific mode and strategies of governance have also been changing throughout history.

The positive telos of capitalism in general is freedom. The freedom here is to be differentiated from freedom in the minimal sense, in which it is the condition of the possibility of all power relations; freedom is also the precondition of the modern capitalist form of economy (and lifestyle in general), but what differentiates capitalism in general from other positive regimes of governance is that freedom is its positive telos as well (Foucault 2001, pp. 48-49). But that is not what is essential in Foucault’s analysis of capitalist modes of governance. For Foucault, the greatest insight is the discovery of what may be termed the double character of freedom – the discovery that freedom can simultaneously be the principle of maximisation as well as the principle of minimisation. In other words, freedom is not only the telos of the system as a whole, it is also the principle through which each element in the system is governed (managed) – the principle which, while achieving the positive telos, also makes sure that the system is governable in a way that does not reduce the positivity of the system as a whole. Freedom, within the capitalist mode of governance, is not the anti-thesis of government (and management); it is in fact the technology of government, in the sense of not only providing the condition of governance but also the way, the tool through which people (and things) are actually (positively) managed. The way to govern (manage) things is not to put limits on their circulation but to increase that circulation as much as possible; and the way to govern (manage) people is not to put limits on their desires (ibid., pp. 72-73) their freedom, but let them do whatever they want as much as possible. The very act of maximising freedom of circulation and fulfilment will in the end provide the best way of managing things and people (as well). Hence freedom is central for the functioning of a capitalist system not only as the precondition for enhancing utility and diversity, but also for
imposing singularity on multiplicity (Foucault 1983, p. 221). Foucault’s claim is that in capitalism the governance of diversity is maintained through freedom itself, and not (primarily) through repression. Capitalism’s interests are not fulfilled by curbing and limiting per se. Capitalism has evolved as a system of government whose condition of operationalisation is freedom and immanence. Thus, from the fact that freedom is the telos of capitalism in general, it should not be construed that non-interference as such is also an essential characteristic of the capitalist modes of governance. Quite the contrary: In fact, as mentioned above, the more the people are free, the more the need for interference (in order to manage them). What differentiates capitalism from other regimes of governance is not non-interference, but the type of interference, the techniques of interference, and how interference is justified. Again, speaking generally and schematically, capitalism justifies interference itself in the name of freedom, uses freedom as technique of interference, and makes sure that interference is efficient and minimally costly, and applied only as much as is absolutely necessary. In fact, one of the points Foucault makes in this regard is that capitalism has beguiled its critics (especially Marxist critics) precisely because they erroneously thought that interference per se was essential to capitalism (Foucault 1981, pp. 120-122).

3. From Disciplines to Biopower

This understanding of capitalism is at the heart of Foucault’s analysis from the start. The mutation that we see in the actual development of historical capitalism, as well as in Foucault own analysis, is internal to this understanding (and not the discovery of some new principle or some additional insight, as has been suggested sometimes). Thus, in Discipline and Punish he describes the purpose of disciplines in the following terms:

Discipline produces subjected and practiced bodies, ‘docile’ bodies. Discipline increases the force of the body (in economic terms of utility) and diminishes these same
forces (in political terms of obedience). In short, it dissociates power from body; on the one hand, it turns it onto an ‘aptitude’, a ‘capacity’, which it seeks to increase; on the other hand, it reverses the course of the energy, the power that might result from it, and turn it into a relation of strict subject.

(Foucault 1978, p. 138)

Disciplines, as “the ‘techniques for assuring the ordering of multiplicities’” and enhancing governance, have the purpose of increasing “both the ‘docility’ and the ‘utility’ of all the elements of the system” (ibid., p. 218). But even at this stage Foucault is well aware that reduction of the body as “a ‘political’ force” is to be carried out “at the least cost” (ibid; p. 221). It is understood that Foucault studies the strategies of the accumulation of men (the political problem of subjection referred to in the quote above) as the function of the problem of governance, but what is seldom understood is that Foucault treats the problem of governance not in isolation but in relationship to the problem of the accumulation of capital. The problem is not just governance but the type of governance that provides the space in which hindrances to capital accumulation are the least, while its possibilities are being utilised to the maximum. Hence the problem is not just one of producing docile bodies, but one of producing docile bodies which are also useful. The purpose of producing docility is to maximise utility; docility that hampers utility is unacceptable.

It is true that Foucault partially retracts his earlier statement in Discipline and Punish that the eighteenth century had “made such a strong demand for freedoms, had all the same ballasted these freedoms with a disciplinary technique that . . . provided, as it were, guarantees for the exercise of this freedom” (Foucault 2007, p. 48). Why did he retract the statement? At least for the following reasons: First, he now thought that he had to a certain extent wrongly opposed freedom and discipline. Freedom involves self-discipline, and the notion of freedom without conditions presupposes the negative conception of freedom Foucault was now trying to overcome. In his critique of the repressive hypothesis he was also engaged in a self-criticism.
Disciplines are the necessary condition of freedom. Second, he now realised that the conception of freedom employed within disciplinary techniques was restrictive, as it revolves around the figures of ‘prohibition’ and ‘norm’ – even if negatively. Foucault’s mistake at this point was that he did not sufficiently realise the contingency of certain restrictive techniques employed within the overall political economy of capitalism at a particular time and space.

Generally speaking what changed along the line were three interrelated things: a) The realisation that the former principles and ideals were either too restrictive (given the positive commitment to freedom) and/or are no longer necessary (and even might be detrimental in the long run) to the freedom of circulation. Some principles or restrictions were important at one stage (for example, for the creation of the subject of capital in the first place), but were no longer necessary once that object had been achieved to a certain minimal level. The latter is particularly true for restrictive disciplines Foucault studied in his various works, but particularly in Discipline and Punish; b) changes in the epistemological stances about what can be known about people, their desires, and reality at large (especially the economic reality). The discovery of the epistemological impossibility of knowing the object of governance completely lays bare the necessity of constant dealing with uncertainties and working with probabilities (though it is interpreted as positivity in the Kantian way, where the finitude is in fact the necessary condition of freedom); c) consequently, the model is now not the artificially constructed transparent reality but the messy reality, which we cannot ever know completely and hence are obliged to interact with on a continuous and precarious basis.

The emergence of the new art of government in Europe from the seventeenth century onwards represented an advance in terms of the development of capitalism precisely because it was a mode of governance which went beyond the limiting principle of governing negatively. That is, governing basically to limit rebellion and transgression – essentially on the model of letting live or taking life (Foucault 1981, pp. 136ff.). The newly emergent modes of governance were all aimed at positive
governance; they had positive ends. But positivity is only part of the story, as positivity in itself does not make any regime a regime of capitalist governance. The Catholic Church ruled populations (and individuals) positively as well, but its positive end or principle of governance was guidance, not freedom (Foucault 2002, pp. 309-311). The new arts of government, however, were further related to capitalism in that their positive principle of governance called for a substantial commitment to freedom. Mercantilism, cameralism, reasons of state, theory of police, and disciplinary techniques developed by great administrative states (and governmental regimes) of the eighteenth century all involved not only freedom as the justificatory principle of governance but also as a technique of power and governance. However, all these models have limits from the perspective of capitalism, as they limit freedom not only externally but also internally.

The limiting principles are varied, and we cannot go into the details here, but an example is in order. With mercantilism, for example, the concern of governance is positive, and the aim of governance is productive (for example, accumulation of wealth, etc.). Thus, for example, mercantilism saw population as a source of wealth, as a productive force, etc. (Foucault 2007 p. 69). But the mercantilist objective of accumulating wealth in order to build a strong state or make the country strong, puts limits on the accumulation of wealth (and the accumulation of men related to it), which is not an internal limit on capital but an external limit (the wealth is not accumulated for its own sake but in order to make a country strong; thus the primary purpose is not accumulation in itself, but to support the country or the king). Therefore, mercantilism as a system poses problems, in the long run, which for capitalism must be overcome, even though mercantilism provides an important phase (perhaps even necessary phase) in the development of capitalism in Europe. For Foucault, “mercantilism was blocked and halted precisely because it took the sovereign’s might as its essential objective”. Within the overall paradigm of sovereignty, “the art of government could not develop in a specific autonomous way” (ibid., p. 102). Similarly, we can argue that although mercantilism provides a necessary step in the emergence of capitalist modes
of governance, it ultimately proves an obstacle to be overcome so that capitalist modes of governance can evolve in “a specific autonomous way”. According to Foucault’s genealogy this is precisely what happened at different levels, and progressively through the emergence of biopower and arts of government related to it.

To recapitulate, the analysis of power in Foucault corresponds to the period in which capitalism emerged in Europe and underwent different phases in its development. The transition from different forms of power – from juridico-legal, to disciplinary, to biopower – and the arts of governance related to them can be roughly matched with different phases in the development of capitalism: Nascent capitalism, imperialism, and late capitalism, etc. As we go from one phase to another, one constant theme that emerges is the lessening of repressive measures in the crude forms of prohibition and exclusion, and the corresponding expansion of freedom not only as a space of possibility for individuals and groups, but also as the main technique of power. Society moves from being that of repression to that of control.

Several provisos are in order here: The account does not imply that in societies of ‘repression’ and ‘order’ freedom is not important. Not at all! But the overall emphasis changes. Exclusion and prohibition do not go away, but they do not remain the model or the primary technique of governance. Conceptually speaking, the primary shift occurs in transition from negative, minimal regime to a positive regime of governance. Not every positive mode of governance is necessarily capitalist, but many techniques developed in an historically positive mode of governance will be found congenial to capitalist modes. Once the mode of governance shifts from governing negatively to positively, the conditions are minimally (but not deterministically) set for the emergence of capitalist modes of governance, in order to maximise utility and diversity in such a way that the system remains manageable as a whole. However, at the start, as is to be expected, such a task is beset with anxiety and set in an alien world; capitalism has to create a world in which it will be at home (and destroy those elements of the previous world in which it was not at home). Such a process requires oppression and
exclusion; the process required to create a capitalist subjectivity from scratch, for example, cannot be understood via a model that presupposes the idea that capitalist subjectivity is already a norm. The former surely would require more elaborate methods of observation, surveillance, and normative training than the latter. The general lesson which emerges from the genealogy is that capitalism is not essentially repressive; its positive principle is freedom not repression, inclusion not exclusion, maximisation not minimisation, diversity not singularity, etc., and the latter concepts are to be achieved through the former as much as possible. The proof for this, according to Foucault, is that capitalism was able to gradually lift restrictions that were no longer indispensible.

Historically speaking, the shift from negative to positive modes of governance was at least partially due to changes in the logic and mechanisms of the new emerging economy itself. The freedom of movement and circulation inherent in the logic of capitalist economy soon created a scenario which outstripped the old mechanisms of power that presupposed closed walls and exclusion and simplistic repression. As Foucault writes:

… an important problem for towns in the eighteenth century was allowing for surveillance, since the suppression of city walls made necessary by economic development meant that one could no longer close towns in the evening or closely supervise daily comings and goings, so that the insecurity of the towns was increased by the influx of the floating population of beggars, vagrants, delinquents, criminals, thieves, murderers, and so on, who might come, as everyone knows, from the country… In other words, it was a matter of organizing circulation, eliminating its dangerous elements, making a division between good and bad circulation, and maximizing the good circulation by diminishing the bad.

(Foucault 2007, p. 18)

In a sense, this encapsulates the whole problem of governance in the age of capitalism, which in a way is still with
us. The example of a town here is important for several reasons. Capitalism as a movement emerges in free towns, away from the shackles of early modern (feudal) sovereign territorial states. Foucault at one point says that “the town was par excellence the free town” (ibid., p. 64), and that “the town was always an expansion within an essentially territorial system of power founded and developed on the basis of a territorial domination defined by feudalism” (ibid.). For a feudal, territorial state the problem is entirely negative, that is, of “fixing and demarcating the territory”; the problem of the newly emerging, positive art of government on the other hand is: “(A)llowing circulations to take place, of controlling them, sifting the good and the bad, ensuring that things are always in movement, constantly moving around, continuously going from one point to another, but in such a way that the inherent dangers of this circulation are cancelled out” (ibid., p. 65). In governing open, fluid multiplicities without hindering the fluidity – in other words, managing the space of governance in such a way as to maximise opportunity and minimise dangers (possible disruptions to the positive task) – fluidity, openness, and inherent ungovernability are seen not just as dangers (conceptually speaking), but as opportunities. The task of the newly evolving arts of government (which of course would draw upon all the present and past available resources) is to evolve techniques, strategies, policies in order to do just that: “It is simply a matter of maximising the positive elements, for which one provides the best possible circulation, and of minimising what is risky and inconvenient, like theft and disease, while knowing that they will never be completely suppressed” (ibid., p. 19). This last point is very important. Whence comes this realisation that ‘risk’ can only be ‘managed’ but never ‘completely suppressed’? I submit that this is (at least in part) due to the realisation of the role of freedom in the whole game. If the purpose is to maximise ‘opportunity’, ‘utility’, or ‘positivity’ (whatever you want to call it) then freedom is essential to the system as a whole; and, if freedom is essential, risk and uncertainty are also essential, as they are part and parcel of freedom. Risk cannot be abolished without abolishing freedom, and hence the system itself. It also follows from this that such a strategy of governance is
primarily positive (as it is based on positivity par excellence – freedom) and only secondarily negative (aimed at reducing risk).

It is clear that for the fluidity and openness described above in their nascent form, with reference to the eighteenth-century town, the disciplinary model is unsuitable in the long run. The disciplinary model has two aspects to it: a) On the one hand it is the model for the creation and sustenance of the capitalist subjectivity; b) on the other hand it is also a model for managing capitalist spaces. The model has problems at both levels. The first problem is to do with the domain with which it deals. Generally speaking, the disciplinary model is the model of individuation. With the emergence of new objects of concern for capitalist governance – for example, the phenomenon of population – the model of individuation is naturally inadequate because population is conceived not as the sum total of individuals, but as a quasi-natural phenomenon with its own norms and laws, which are to be studied in their own right and cannot be arrived at through knowing the multiplicity of individuals comprising the population. Hence, a separate set of techniques, knowledge, and methods is needed to govern population. So, at this stage, we have modes of governing individuals (modes of individuation) and discourses related to them on the one hand, for which the disciplinary model still remains a model, while on the other hand, there is a new domain of objects and discourses emerging relating to this new domain of objects (population and related phenomena). This will slowly lead to the development of a new set of knowledges, and new modes of governance (Foucault tentatively calls the regime that of security, but the name here is not important). The phenomenon of sex, at least at the initial stages, will provide the link (Foucault 1981, pp. 25-26 & 145, Foucault 2003, p. 252) between the modes of individuation and the modes of massification (or socialisation).

On the second level, even on the plane of individuation it is realised that the disciplinary model, if not entirely obsolete, is inadequate in various ways, even in its own domain. To start with, once capitalist society has matured and capitalist subjectivity has become a norm, the techniques related to the
early stages of capitalism for the creation and sustenance of capitalist individuality are no longer necessary. The limitations – training regimes associated with the early disciplinary model – are now seen as excessive given the guiding principle that repression, exclusion, etc. are permissible only as long as they are absolutely necessary. Hence, many of those harsh and imposing procedures can just fade away. It is also necessary to get rid of those procedures that have become a hindrance to the development of a fully-fledged, creative, and innovative capitalist individuality by enforcing unnecessary limits, or even by not providing maximal opportunities without any unnecessary limits. Moreover, the newly emerging discourses related to population governance techniques would also lay bare the inherent incompatibility of the internal logic of the disciplinary regime with the freedom of development and circulation ideally needed for a regime committed to the maximisation of freedom. Foucault in this context talks at length about disciplinary techniques and their inherent limitations, and contrasts them with the mode of governance related to population discourses and the security regime evolving in the wake of it (Foucault 2007, pp. 18-49). From an epistemological perspective, the disciplinary model, to start with, is built on the idea of static, artificially constructed space(s),\(^25\) which can be completely circumvented, and hence completely regulated.\(^26\) The completeness principle is quite contrary to the very nature of freedom (not essence – i.e. the minimal materiality inherent in the concept); it is not only impossible in the long run, it is also undesirable. It is deemed impossible once it is realised that the early modern dreams of conquering nature completely, and hence abolishing its arbitrariness entirely, are chimerical. Nature remains, and even though we can tame it, we can never overcome it entirely. Human society cannot be built on and cannot be understood using the model of artificiality, completeness, and absence of arbitrariness. One has to work with the amalgam of artificiality and naturalness (and hence the inevitability of arbitrariness and risk).

But it is also undesirable given that the fulfilment of the dream of completeness will rob the system of its very core, i.e., freedom. Disciplines aim to annul reality, while the new art of
government deals with the historical reality and works within (and with) it. The aim is not to control everything, know everything, and guide everything, but to work with an impartial, incomplete, probable understanding of things, let things be, and guide them, regulate them, and manage them only to the extent that it is absolutely necessary. Again, the argument is that it is not possible to know everything, but also in the wake of new discourses related to population studies (probability, statistics, etc.), it is discovered that things can be managed without having exact and complete knowledge of them (only if one abandons the completeness myth of complete knowledge, and complete control). It is discovered that one can work with probabilities and manage things, and that one can reduce risks (and live happily with them) without eradicating them. Beyond the epistemological point, it is also realised that it is undesirable to know everything, to manage things completely, to eradicate risks completely, to guide things in complete and full detail (even if for the maximisation of utility) because it is against the principle of freedom, the core principle of the system.

Finally, although the disciplinary paradigm is not essentially negative in the sense that the legal paradigm is, like the legal paradigm it is ‘codificatory’, as it tells us what must be done at each and every moment. This is limiting and negative: It is limiting in the sense that everything is laid down in advance – it leaves no room for creativity and imagination. It limits essential freedom. It is also negative in the more mundane sense that, since it guides everything in minute detail, what it does not give direct guidance about is prohibited. New arts of government, on the other hand, are more open-ended, and provide room for freedom: Unlike the legal code or the disciplinary model they do not provide detailed guidance for action. Within the general legal framework and the rules of the game, things are left to their own devices as much as possible. The technique of governance ‘stands back sufficiently’ and lets reality unfold as much as possible without harming or risking the system as a whole (ibid., pp.46-47). In the new regime of government through freedom, the idea of the government of man does not primarily revolve around what one should do and what one should not do, or what are the correct ways of actions one should choose, but primarily on “before all else the man’s
freedom” of “what they do, of what they have an interest in doing…” (ibid., p. 49). The government of man requires freedom:

… not only as the right of individuals legitimately opposed to the power, usurpations, and abuses of the sovereign or the government, but as an element that has become indispensable to governmentality itself. Henceforth, a condition of governing well is that freedom, or certain forms of freedom, are really respected. Failing to respect freedom is not only an abuse of rights with regard to the law, it is above all ignorance of how to govern properly. The integration of freedom, and the specific limits to this freedom within the field of governmental practice has now become an imperative.

(Ibid., p. 353)

The positive character of new modes of governance can be explored with reference to the concept of ‘desire’. The sovereign (for example) “is the person who can say no to any individual’s desire” (ibid., p. 73). The starting point of the new arts of governance is not saying ‘no’, but saying ‘yes’. And the problematic is ‘how’, and not whether ‘yes’ or ‘no’ (which is of course ‘yes’) – how to promote the desires of each and every individual in such a way as to maximise desire-satisfaction of the population as a whole in a way that is compatible with the reduction of pain (including any disruption to the system). The way is to make desire maximisation itself the principle of governance. Desire is the source of action. One can do nothing against desire. It is futile to suppress desire. This is still negative. What makes it positive is the assertion that it is a good thing to fulfil desires (ibid., p. 72). Hence the importance of utilitarianism, not just as the principle that legitimises the pursuit of desires, but also as a technique of government. Here we can clearly see the distinction between disciplinary governance and biopolitics even at the level of individuals. Disciplinary techniques, unlike sovereignty or the legal model, of course, do not say ‘no’ to desires, but, being techniques of detail (Foucault 2003, p. 249), they ideally rely on (and aspire to) knowing the reality of each and every desire and decoding them to make sure – not suppressing, but discriminating between good and bad desires,
and providing ultimate guidance as to which desires should be pursued (as congenial to utility maximisation), and which desires should not be followed (as detrimental to utility maximisation).

Such a model would require detailed, constant surveillance, which was the hallmark of the panopticonic utopias, early psychiatric models, and policies regarding schools, factories, and family life during the eighteenth century. This is both undesirable (being too costly, and ultimately detrimental to the very freedom one is yearning for), and impossible. It is undesirable, and, in the end, futile to micro-manage desires.

The model of security, on the other hand, manages desires on the macro level, providing space for desires to flourish and bloom (even spurring them on). People will be incited to discourse about their desires (sexual discourses for example) (Foucault 1981, pp. 44-49); on the other hand, those desires are managed from a distance of anonymity – it is not this or that desire which is important, not your or my desire, but the general mechanism and the logic of desire. Knowledge of individual desire allows management of desire from a distance, culminating in the interests of the population. It is realised that “this desire is such that if one give it ‘free play’, it will lead to the general interest of the population” (Foucault 2007, p. 73). The technique of government no longer concerns itself with the desire of each and every individual, but with what is desirable for the population as a whole. Policy initiatives concentrate on making sure that these interests are served and maximised, and if they have to intervene in the individual life (which will be not infrequently of course), that it will be in the name of safeguarding the interests of the population based on discourses and expertise developed in the area, and not in the name of guiding the individual in her private life. Managing desires from the distance of interest provides a better model of desirability, efficiency, and feasibility. This should all ideally lead to a reformulation of disciplinary techniques according to the new model of population and security discourses.

It is worth repeating that legal and disciplinary paradigms do not totally go away. First, legal and disciplinary paradigms are historically the conditions of the possibility of new arts of
government. Second, they are part of the new system, even though no more as paradigms of the way the system is governed. Third, they can still be applied to the fringes of a capitalist society where capitalist values have not yet penetrated or become norms.

4. Conclusion

In this paper I have developed a framework for understanding the transition from disciplines to biopower within capitalist forms of governance using Foucault’s discourses. I have arrived at the following tentative conclusions:

- Disciplinary techniques have been historically (and perhaps also conceptually) indispensable for the creation of capitalist subjectivity. They have been also important for organising capitalist space, especially in early capitalism.

- While the principle underlying disciplinary techniques (the principle of simultaneous maximisation and minimisation) remains operative in more mature capitalism, the different forms it takes undergo various transformations either due to the fact that the techniques needed specifically for earlier phases are no longer necessary, or certain techniques which were deemed optimal at one point might not be deemed so later on.

- With the maturation of capitalism, biopower supplements the disciplinary model and also leads to the transfiguration of and transformation of the model.

- Biopower supplements the disciplinary model in that population (not as the sum of individuals) but as an entity in its own right is recognised as capital and thus requires disciplines of its own. The discourses originating with this new form of power in turn pose problems for the disciplinary model and discourses associated with it in the light of the principle of capital accumulation.

- Epistemologically it is realised that the disciplinary ideal of complete knowledge of the object and complete transparency is a chimera. One needs to learn to live with incomplete
knowledge, and only partially circumventable reality. But this also leads to the positive insight that completeness is not only impossible but also undesirable, given that the fulfilment of the dream of completeness will rob the system of its core value, i.e., freedom.

- With all the above, the contingent and counterproductive aspects of the disciplinary model need to allow for more lax techniques. For example, although the general education system for creating the maximal subject of capital remains, much of the regimentation associated with its early expression is discarded.

- Abandoning the myth of complete knowledge and complete transparency in turn requires a detailed reconfiguration of the disciplinary techniques and the disciplinary model as a whole.

This is of course a theoretical model, and no claim is made about the reality of existing capitalism and their historical development. The efficacy of the model however is to be tested by undertaking various studies applying it to understanding the reality of present-day capitalism and the development of different capitalisms in the last three hundred years.
Notes

1- Foucault’s most sustained critique of the notion of freedom as a ‘way out’ is developed in terms of his critique of the so called repressive hypothesis, which also implies that the notion of freedom as a way out is intimately related to a negative notion of power in which power is regarded as domination and as absence of freedom (Foucault 1981, pp. 17-49); also see Rose 1993).

2 - As noted above, the acceptance of the ‘exclusory’ hypothesis is part and parcel of the acceptance of the repressive hypothesis.

3- For Foucault’s critique of the negative conception of power, and its inadequacy for understanding modern capitalism and his critique of legalistic models in general, see Foucault 1981, pp. 85-91 and 136-139.

4- For some very suggestive comments on this, see Foucault 2008, pp.187-188. Foucault here takes to task different critiques of the state that do not respect the “specificity of analysis” (188).

5- Foucault rejects the Marxist notion of a single (economic) logic of capital primarily because for him capitalism is not merely or even primarily an economic phenomenon but a political one, which, although it has its own singularity, does not have any deterministic logic; as a political phenomenon it opens up a field of possibility which takes many different forms, for example, according to the specific historical situation and the political will of the actors involved.

6- Although the latter is not the explicit aim of my paper, it will rather only be implied by my analysis; the explicit articulation will have to wait for another occasion.

7- What Foucault rejects is the simplistic notion of domination according to which domination is almost epiphenomenal to,
if not the necessary effect of, all forms of power, and absence of domination is equivalent to freedom and liberation. Foucault also wants to differentiate between different forms of domination and understand them in their specificity. A typical form of capitalistic domination (at least in mature capitalism), for Foucault, is subjection (Foucault 1983, p. 212), which is quite different from domination understood as “appropriation of bodies” (Michel Foucault 1978, p. 137).

8- For a detailed discussion of Foucault’s notion of domination and its relation to other forms of repression, see Rizvi 2007, pp. 56-64.

9- A recent book on Stalin describes his influence within the communist party as follows: “The foundation of Stalin’s power in the Party was not fear: it was charm” (Montefiore 2004, p. 49).

10- Servitude is a “constant, total, massive, non analytical, unlimited relationship of domination established in the form of the individual will of the master, his ‘caprice’” (Foucault 1978, p. 137). Slavery on the other hand involves (requires) “appropriation of bodies” (ibid.).

11- Thus, for example, if Americans make war against Afghans or Iraqis (or any number of people they are at war with) just to make sure that there are no possible dangers to American hegemony (or internal security), then what it needs to do is to simply bomb its enemies and install regimes which are not hostile to it (irrespective of what those regimes positively believe in and how they will govern). On the other hand, if the purpose is not just negative but positive, that those regimes are democratic, capitalist, etc., it will require much more than just bombing; it will involve things like national reconstruction, educational plans, etc. Obviously the latter necessitates much more work than the former.
12- What Patrick Carroll-Burke calls “premodern minimalist regime states” (Carroll-Bruke 2002, pp. 75-114; here pp. 105 and 114 n. 139).

13- Of course, within the general framework of the law and the rules of the game.

14- Although, as I say below, Foucault was at the same time criticising some of his own earlier claims.

15- In addition, cost is to be primarily understood in terms of cost to utility, ‘diversity’, and freedom, and not as cost of freedom (the latter is also a concern, but only secondarily).

16- In the broad sense of both human and ordinary ‘economic’ accumulation. The primordial relation between capital accumulation in the economic sense and capital accumulation in the political sense is not entirely clear at this stage in Foucault’s work. For a detailed analysis of this, see Rizvi 2006, pp. 23-33.

17- Foucault’s original statement occurs in Foucault 1978, pp. 221-224.

18- Or governing properly at all, given the maxim that “the king reigns, but he does not govern” (Thiers’s famous phrase, quoted by Foucault 2007, p. 76).

19- ‘Necessary’ in the historical sense understood by Foucault.

20- This does not contradict the claim that freedom is also emptiness par excellence.

21- That is, individuation of multiplicities (ibid., p. 12). The locus of disciplines is the body (Foucault 1981, p. 139). The disciplinary model should be understood as techniques of power developed during the eighteenth century around the practices related to prisons, army, schools, and factories, as well as discourses about

PAKISTAN BUSINESS REVIEW OCT 2012
them and the disciplines they gave rise to. These disciplines and discourses drew on confessional techniques developed in Christian monasteries (but separated them from their ascetic background or ends), and they were very important in creating the modern subject (the subject of capital) (ibid., pp. 58-60).

22- “… the population as a collection of subjects is replaced by the population as a set of phenomenon” (Foucault 2007, p. 52). Individuals are no longer the object, but only “instrument, relay, or condition for obtaining something at the level of population” (ibid., p. 42).

23- At the earlier stages of the development of his insights about the emergence of biopower, Foucault saw the techniques of power related to governing populations and techniques of power related to governing human bodies as entirely complementary (see for example, Foucault 1981, p. 139 and Foucault 2003, pp. 250-25), but in his later discussion he seems, at least at times, to think that techniques of governance related to population have, at least as a model, entirely overcome or replaced the whole regime of governance related to disciplinary power (Foucault 2007, pp. 55-67). In my interpretation I have tried to combine these two by basically hypothesising that the two regimes of governance are indeed complementary, but also that the techniques developed related to biopolitics and insights resulting from them are in turn used to reform the disciplinary model (which as a consequence does not remain ‘disciplinary’ in the strict restrictive sense of its ‘original’ meaning). I also emphasise that lessening of disciplines is the result of the maturity of capitalism itself. Space constraints mean I have to leave the elaboration of this interesting discussion for another occasion.

24- Disciplines deal with “man-as-body” while biopower deals with “man-as-species” (Foucault 2007 p. 243). It should be noted, however, that biopower, by analysing population, provides the space for intervention which ultimately also individualises, but
in a way different from disciplinary models (ibid., 245); however, biopower does this through focusing on population as the object of study and intervention, thus individuation is indirect in this case (ibid., 246, 248; also see Foucault 1981, p. 26).

25- “Discipline works in an empty, artificial space that is to be completely constructed” (Foucault, 2007, p.19).

26- “… discipline regulates everything. Discipline allows nothing to escape. Not only does it not allow things to run their course, its principle is that things, the smallest things must not be abandoned to themselves” (ibid., 45).

27- In this it is the exact opposite of the legal paradigm, in which whatever is not prohibited is essentially permitted. In this sense, the legal paradigm is non-interfering in a way that the disciplinary model or any other capitalist modes of governance can never be.
References


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Abstract
This study contributes to the literature of capital structure by investigating the inter-sectoral differences in the determinants of capital structure of the non-financial firms listed at the KSE for the period 2001-2008. The objective of the study was to identify the inter-sectoral differences in the determinants of capital structure. Profitability ratio, asset’s tangibility, sales growth, firm’s size, and non-debt tax shield are used as independent variables while gearing ratio is used as the proxy of capital structure and dependent variable for the study. For analysis purpose descriptive statistics and Multiple Regression analysis are used. The result implies that profitability, asset’s tangibility, sales growth, firms’ size, and non-debt tax shield are valid determinants of capital structure. Differences in the values of these determinants across sectors also confirm that there exist inter-sectoral differences in the determinants of capital structure.

Keywords: Capital Structure, Profitability, Firm Size, Earning Volatility, Non Debt Tax Shield, Non-Financial Companies.

JEL Classification: G390
1. Introduction

The role of capital structure in corporate firms is considered by social scientists vital. An optimal capital structure promotes growth and expansion of the firms by inducing their profitability. Therefore, the ways and means of optimal capital structure have been widely discussed in the literature. Essentially, capital structure is the mix of firms financing arrangements represented by debt, preferred and common stock. The mixing of these financing ingredients varies with the variation in their cost for a given level of output. These ingredients in association with other physical factors determine overall level of output of firms and their future growth and expansion.

This study is addressing this issue by examining inter-sectoral differences in the determinants of capital structure of non-financial firms. The logic is that each sub-sector in the non-financial sector has its own characteristics that differentiate it from other sub-sectors. These inter-sectoral variations have important implications for all stakeholders, which needs systematic investigation.

These differences in inter-sectoral characteristics arise from different realities. In some sectors products are of seasonal nature; while in other sectors, raw material is available only for a specific period. Hence, firms in different sectors have different required level of capital. This is because they have to purchase a huge inventory; they have to hire a huge number of workers for short period, and have to pay for other expenses that create differences in their capital requirements. There are also variations in the collection period of revenue between different sectors. In some cases, firms get revenue in a Lump sum and in other sectors firms get revenue in parts during the whole year. Therefore, firms in a specific sector have to set a capital structure different from other sectors to operate efficiently.
Additionally structure of assets and liabilities are also different from sector to sector. Working capital needs also vary from sector to sector. In some sector, high levels of fixed assets are required while in others more current assets are preferred. Therefore, determinants of capital structure cannot be the same across different sectors.

Many studies in the context of developed countries have researched the potential determinants of capital structure. However, in the context of developing countries two particular studies, which have examined Pakistani data, are Shah and Hijazi (2004) and Qureshi & Azid (2006). Shah and Hijazi (2004) in their study tried to identify the determinants of capital structure of non-financial firms listed on Karachi Stock Exchange for the period of 1997 – 2001. They demonstrated that tangibility and size is positively correlated with debt, while profitability and growth are negatively correlated with leverages. Similar work is done by Qureshi & Azid (2006). They identified the differences in the determinants of capital structure of public and private firms listed on Karachi Stock Exchange. They verified that firms in public sector use more debt financing then the private sector. The main reasons for this are different tax shield, risk behavior and accountability between them. Moreover growth had positive impact on debt in case of public sector and size has negatively related with leverages in both sectors.

Both these studies are comprehensive in respect of size. They included all non-financial firms listed on Karachi Stock Exchange. However, they ignored the fact that each sector has some identical characteristics that differentiate it from other sectors. Therefore, determinants of capital structure cannot be the same across different economic sectors. To the best of our knowledge, this is the first study that is filling this gap.
In this study, we are interested in investigating empirically the extent to which a firm’s capital structure is different from other firms across different sectors and identify the possible sources of variation in the capital structure.

**Problem statement**

This study was undertaken to identify determinants of capital structure for each sector listed on Karachi Stock Exchange of Pakistan, for the period ranging from 2001-2008 and of the firms having non-financial nature and then their inter-sectoral differences in the determinants of capital structure in the non-financial sector of Pakistani firms.

**1.1. Objectives of the Study**

The basic intention of this study is to find out inter-sectoral differences in determinants of capital structure of non-financial firms listed on Karachi Stock Exchange for the period of 2011 to 2008. The objectives are:

- To identify the determinants of capital structure of each sector
- To quantify the impact of different determinants of capital structure on the capital structure for each sub-sector from the non-financial sector
- To find out inter-sectoral differences in the determinants of capital structure by comparing the determinants of capital structure of each sector
- To derive policy implications for the financial managers, bankers and other stakeholders
1.2. Hypothesis of the study

The goals of the study are achieved scientifically through suggesting a number of hypotheses and then their empirical testing. The hypotheses are:

- **H<sub>1</sub>**: Profitability has inverse relationship with gearing ratio.
- **H<sub>2</sub>**: Asset’s Tangibility has positive relationship with gearing ratio.
- **H<sub>3</sub>**: Sales growth has direct relationship with gearing ratio.
- **H<sub>4</sub>**: Size of the firm has positive relationship with gearing ratio.
- **H<sub>5</sub>**: Earning volatility has inverse relationship with gearing ratio.
- **H<sub>6</sub>**: Non-debt tax shield has inverse relationship with gearing ratio.
- **H<sub>7</sub>**: The values of profitability, asset’s tangibility, sales growth, size of the firm, earning volatility and non-debt tax shield are different across sectors.

2. Literature Review

The Modigliani – Miller theorem that is proposed by France Modigliani and Merton Miller forms the basis for the modern thinking on capital structure. Modigliani and Miller (MM theory) proved in 1958 that total value of the firm would remain same no matter what the financing mix used. They states that a company’s value is unaffected by how it is financed but it holds
true only when there is absence of taxes, no bankruptcy cost, and asymmetric information, and in an efficient market. By defining the circumstances under which capital structure does not affect firm value, they separated the factors that do affect the firm’s value.

Modigliani & Miller (1963) reviewed their capital structure irrelevance principle by including taxes and keeping other assumptions same. They proved that the use of debt leads to optimal capital structure that minimize the cost of capital and thus increase the operational efficiency. MM theorem holds true only under efficient market hypothesis and it is not possible to obtain efficiency hundred percent. That is why there emerged a new theory called trade-off theory.

Myers (1984) introduced the Trade off theory of capital structure. The trade-off theory of capital structure describes that the companies are generally financed by both equities and debts. This theory gives the idea that how much debt finance or equity finance should be used by the corporations to obtain balance between the cost and benefits associated with different sources of capital structure. This theory also talks about the advantages and disadvantages of financing either by equity or by debt. This theory allows the bankruptcy cost of exist. According to this theory, optimal capital structure can be obtained at the level where benefits obtained by debt financing i.e. tax benefits are equal to the debt related costs like financial distress and bankruptcy. The firms may often experience a dispute of interests among the management of the firm, debt holders and shareholders due to financial distress. Due to these disputes, agency problem arise that give birth to agency cost.

Jensen & Meckling (1996) showed that agency cost arise from the separation of ownership and control of firms. They further showed that mangers tend to maximize their own utility
rather than the value of the firm. Agency cost may also arise from the conflicts between equity investors and debt providers. These conflicts may arise in a situation where there is a chance of bankruptcy of corporations. At that time, management has incentives to take more risk. That is because, if the project is successful, shareholders get all the positive cash flows and in case of unsuccessful, debt holder bears all the losses. Other possibility that may raise the agency cost is a situation where reputation of company is good and debt is risky, in that case, management has incentives to reject the project. Conflicts may also arise when management takes incentives before the payment of debts. These conflicts give birth to another theory that is known as pecking order theory.

In 1984, Steward C. Myers and Nicolas Majluf introduced the Pecking Order Theory. This theory states that companies prioritize their sources of financing from internal financing to equity according to the law of least effort, or of least resistance. This theory explains the inverse relationship between profitability and debt. According to the theory, firms prefer internal financing and when they are not available, debt is issued keeping in mind that debt is cheaper and can be easily availed. In addition, in the last, if it is not possible to obtain debt, then equity financing is used. Issuing equity for financing gives a wrong signal to the stock market.

Titman & Wessels (1988) examined the recent theories of optimal capital structure by using the data from 1974 to 1982. They used three measures of debt i.e., short – term, long – term and convertible debt. They implied factor – analytical technique that minimize the measurement problems encountered while working with proxy variables. Smaller firms use more Short-term debt than larger firms do. Debt ratios are not related to a firm’s expected growth, non-debt tax shields, volatility, or the collateral value of its assets. Profitable firms have relatively less debt
relative to the market value of their equity. Their results proved that firms with unique or specialized products have relatively low debt ratios. It is also concluded that smaller firms tend to use significantly shorter – term debt than larger firms. They further find some support that profitable firms have relatively less debt relative to the market value of their equity.

Rajan & Zingales (1995) identified determinates of capital structure by analyzing financing decisions in the major industrialized countries from 1987 - 1991. These include United Kingdom, United States of America, Italy, Japan, Germany, France, and Canada. They used simple regression analysis. They measured the impact of tangibility, size, profitability, and Market to book ratio as independent variables on book and market value of leverages. They proved that tangibility is positively correlated with leverages in all countries. The market to book ratio has a negative coefficient and is always significant. Size is positively correlated with leverages except in Germany and profitability is negatively correlated with leverages in all countries except in Germany.

Chen & Hammes (1997) conducted their research in seven countries Canada, Denmark, Germany, Italy, Sweden, United Kingdom, and United States of America to find out the determinants of capital structure. They used regression mode to find out the impact of tangibility, market to book value, profitability and size on the market capital ratio, book capital ratio and book debt ratio that are used as a proxy of leverages. They proved that size, profitability, tangibility, and market to book ratio have significant impact on the capital structure choices of firms. Tangibility and size are positively related to leverage while profitability has a negative association with leverages. In addition, their findings also exhibit that all the seven countries are consistent with the findings of traditional capital structure theories.
Shah & Hijazi (2004) attempted to find out the determinants of Capital Structure of non-financial companies listed on Karachi Stock Exchange from the period of 1997-2001. This is the first study, which is done in Pakistan to find out the determinants of capital structure of non-financial companies. They used Balance Sheet Analysis of Joint Stock Companies, which is published by State Bank of Pakistan as the main data source. They used pooled regression analysis to find out the impact of tangibility, profitability, growth, and size of the firm on debt to equity ratio of the firm. The study found that Tangibility is positively correlated with debt but this relationship is not statistically significant. Profitability is negatively correlated with leverages but is the most important determinants of capital structure. Size is positively correlated with leverages and Growth is negatively correlated with leverages.

Hijazi & Tariq (2006) described the determinants of capital structure of cement industry of Pakistan. They took 22 firms from the cement sector listed at the Karachi Stock Exchange (KSE). The Basic Balance Sheet analysis of Joint Stock Companies published by the State bank of Pakistan is taken as data source. The pooled regression analysis model is applied to prove the impact of size of the firms, tangibility, sales growth, and profitability on the debt financing. The result showed that size of the firm, profitability is negatively correlated with leverages while asset’s tangibility and sales growth are positively correlated with leverages.

Qureshi & Azid (2006) discussed capital structure of public and private sectors in Pakistan. The main objective of the study is to find the various determinants of capital structure and to find any relationship between capital structure choices and ownership structure. They used the data from the balance sheet analysis of joint stock companies listed on the Karachi stock
Exchange, which is published by the State Bank of Pakistan. They used different ratios like liquidity ratios, leverage ratios, activities ratios, coverage ratios, and profitability ratios to find out their results. They showed that agency costs are inversely related to leverage in case of public sector organizations. They proved that the public sector firms had a different governance structure as compared to private sectors. Public sector firms inclined more toward debt structure than private sector. It is due to different tax shield, risk behavior, and accountability between them. They further proved that growth had a positive impact on the debt in case of public sector and firm size is negatively related with leverages in both sectors.

Shah & Khan (2007) tried to find the determinants of capital structure of non-financial companies listed on Karachi Stock Exchange for the period 1993-2002. The basic Balance Sheet Analysis of Joint Stock Companies that is published by the State Bank of Pakistan is the main data source. Constant coefficient model and the fixed effects models are applied with the assumption that there is no industry or time effect. In their study, they tried to find out the relationship between debt to total assets ratio and tangibility, size, growth, profitability, earning volatility and non-debt tax shield. Their study proved that tangibility had statistically significant positive relationship with debt, Size has a positive coefficient but insignificant, Growth is significant at 10% level but negatively related to leverages, Profitability is significant and negatively related to leverages, and earnings volatility have no effect on the decision about capital structure.

Rafiq, Iqbal & Atiq (2008) attempted to determine the capital structure of listed firms in the chemical industry of Pakistan. They analyzed the companies that are listed on Karachi Stock Exchange during the period of 1993 – 2004. Balance sheet analysis of Joint Stock companies is the main data source, which is issued by State Bank of Pakistan. They used pooled regression
analysis to find out the impact of firms size, tangibility of assets, profitability, income variation, non-debt tax shield and growth on leverages. Their study showed that 90% variation in leverages is due to these variables. Tangibility is not a significant determinant of capital structure. All other variables are significantly related with leverages.

Tahir & Ullah (2009) identified the determinants of capital structure of the textile sector companies listed on Karachi Stock exchange. The duration of the study was 2002 – 2007. They used Basic Balance Sheet Analysis of Joint Stock Companies which is issued by State Bank of Pakistan as a data source. They used pooled regression analysis to find out the impact of profitability, asset’s tangibility, sales growth, size of the firm, earning volatility and non debt tax shield on capital structure which was measured by gearing ratio. They study showed that tangibility, size and growth has significant positive relationship with gearing ratio while profitability and NDTS had reducing effect on gearing ratio and earning volatility has no effect on the capital structure of the textile sector firms of Pakistan.

All these researchers used profitability, assets tangibility, firm’s size, sales growth, earnings volatility and non debt tax shield as the determinants of capital structure. So in this study we used profitability ratio, asset’ tangibility, firm size, sales growth, earnings volatility and non debt tax shield as valid determinants of capital structure.

3. Research Methodology

This section lays out the research methodology that facilitates us in drawing results from the data in a systematic way. It consists of various steps: identification of variables; data sources and model used for estimation purpose.
3.1. Identification of variables and Their Expected Behavior

Dependent Variable

The major goal as mentioned earlier of the study is the identification of inter-sectoral differences in determinants of capital structure of non-financial firms. Therefore, capital structure is our dependent variable, and gearing ratio is used as its proxy. Gearing ratio is used to measure debt as a percentage of total capital structure. With the increase in gearing ratio, the level of leverages also increases.

Independent Variables

Profitability (PF)

The Pecking Order Theory states that firms prioritize their sources of financing (from internal financing to equity) according to the law of least resistance. Following the pecking order hypothesis, in case of need of funds, companies prefer internal funds, when that is depleted, debt is availed, and when it is not sensible to issue any more debt, equity is issued. Keeping in mind the literature on profitability, we expect negative relationship between profitability and gearing ratio. This relationship implies that with the increase in profitability, gearing ratio decreases. It means profitable firms prefer to use retained earnings. We measured profitability as the ratio of net income after taxes divided by total Assets.

Asset’s Tangibility (AT)

Assets are the economic resources of the firms that are financed by the capital structure. Firms with substantial amount of fixed assets can borrow at relatively lower rate of interest by providing the security of these assets to creditors. Because the
firm can get debt at a lower interest rate, so a firm with higher percentage of fixed assets is expected to borrow more than the firm having inferior amount of fixed assets. According to trade-off theory, higher ratio of fixed assets serves as guarantee for new loans, favoring debt. However, firms with large amount of fixed assets can issue equity at fair price easily, so they do not need to issue debt to finance new investment. Thus in this study, it is considered that assets tangibility has direct relationship between gearing ratio. Asset tangibility is measured as a ratio of fixed assets divided by total assets. Value of fixed assets is taken after deducting accumulated depreciation.

**Sales Growth (GT)**

Most investors are risk averse in nature. They want more return by taking less risk. According to agency theory, the growing firms have more agency cost because creditors fear that the firm may go for new risky projects in future. Therefore they are more interested in safe investment and charge more interest for growing firms as risk premium. On the other hand, growth opportunities do not provide revenue so companies may be reluctant to take on large amount of long term debt.

In most of the studies the relationship between growth opportunities and leverages is positive. However (Titman & Wessels, 1988), (Shah & Hijazi, 2004), (Rajan & Zingales, 1995) find a negative relationship between growth opportunities and leverages. We assumed that companies with rapid growth have more needs of funds, so they use debt more. So in this study, we expect a positive relationship between growth and gearing ratio. Different research studies used different measures of growth; like market to book value of equity, research expenditure to total sales and annual percentage increase in total assets, and percentage increase in sales. In this study, growth opportunities
are measured as a percentage increase in Sales. We expect a positive relationship between growth and leverages.

**Size of the Firm (SZ)**

If the size of a firm is large, then the firm can obtain debt easily at lower rate of interest. That means there is positive relationship between size and debt. One reasons for this is that the larger the firm size, the lower the risk of bankruptcy. Large firms do not consider the direct bankruptcy costs as an active variable in deciding the level of leverage. Larger firms, being more diversified, have less chances of bankruptcy. Following this, one may expect a positive relationship between size and leverage of a firm. We expect direct relationship between size and gearing ratio of firm. Size of the firm is measured by taking the natural log of the total assets.

**Earning Volatility (EV)**

Earning volatility is a result of inefficient operations of a firm or a result of inefficient management practices. It is the variation in returns. Investors perceive earning volatility as a sign of risk and therefore demand risk premium from firms whose earnings is volatile. According to pecking order theory of capital structure, a firm will first use internally generated funds and then outside funds. In case of earning volatility, a firm cannot finance his positive net value projects with earnings. So firm will avail debt to finance his projects. This suggests that earning volatility is negatively correlated with leverage. In this study, we expect negative relationship between earning volatility and gearing ratio. In this study, earning volatility is measured as a percentage change in net income from the previous year.
Non-Debt Tax Shield (NDTS)

Non-debt tax shield include depreciation and investment tax credits. Depreciation plays an important in calculating the free cash flows. Depreciation is a taxable item it lowers down the taxable income. Everything else being equal, the greater the depreciation charges, the lower the tax paid. Depreciation is a non-cash expense; it does not affect the firm’s cash flow directly. A firm can use non-debt tax shield as a substitute for the tax benefits of debt financing. A firm with large amount of non-debt tax shield is expected to use less debt. We expect negative relationship between non-debt tax shield and gearing ratio. Non-debt tax shield is calculated by dividing annual depreciation charges by the total assets.

<table>
<thead>
<tr>
<th>Determinant</th>
<th>Measure (Proxy)</th>
<th>Expected Effect on Capital Structure (Gearing Ratio)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>NI/TA</td>
<td>Negative</td>
</tr>
<tr>
<td>Asset's Tangibility</td>
<td>FA/TA</td>
<td>Positive</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>(ST-ST-1)/ST</td>
<td>Positive</td>
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<tr>
<td>Size of the Firm</td>
<td>Ln(TA)</td>
<td>Positive</td>
</tr>
<tr>
<td>Earning Volatility</td>
<td>(NI_NI-1)/NI</td>
<td>Negative</td>
</tr>
<tr>
<td>Non Debt Tax Shield</td>
<td>Total Depreciation Expense /Total Assets</td>
<td>Negative</td>
</tr>
</tbody>
</table>
3.2. Data used in Study

The study has used secondary data which was pooled from the Basic Balance Sheet Analysis of Joint Stock Companies listed on Karachi Stock Exchange for the period of 2001-2006 and 2003-2008. The duration of the study is from 2001 to 2008. Two of our variables require the computation of yearly change and because of that, one year had to be dropped. Thus, we are left with 7 years excluding 2001. Initially all companies are included in the study but companies with negative equity or companies that are de-listed or newly listed companies during the study period and companies who have not provided proper financial data or who have not started their sales have been excluded from the study. Microsoft Excel 2007 and Statistical Package for Social Sciences (SPSS) 17 have been used in the study for mathematical computations. The entire sets of variables used in the study are based on the book values. Variables used for analysis include Profitability, Asset's Tangibility, Growth, Size, Earning Volatility, and Non Debt tax shield as independent variables and Gearing Ratio as dependent variable.

3.3. Model Used For estimation

A Multiple linear regression model is used of the following form:

\[ GER_{it} = \alpha + \beta X_{it} + \epsilon \]

\( GER_{it} \) = The measure of leverage of firm \( i \) at time \( t \)
\( \alpha \) = The intercept of the equation
\( \beta \) = The rate of change in \( X_{it} \) variable
\( X_{it} \) = The independent variables for gearing ratio of a firm \( i \) at time \( t \)
\( i \) = The number of firms (Vary sector to sector)
\( t \) = The time period (\( T = 8 \))
Since we are proposing six independent variables and after induction, the variables in equation it takes following form:

\[ \text{GER}_t = \alpha + \beta_1 \text{PF}_t + \beta_2 \text{AT}_t + \beta_3 \text{GW}_t + \beta_4 \text{SZ}_t + \beta_5 \text{EV}_t + \beta_6 \text{NDTS}_t + \varepsilon \]

- GER = Gearing Ratio
- PF = Profitability Ratio
- AT = Assets tangibility
- GW = Sales Growth
- SZ = Size of the Firm
- EV = Earnings Volatility
- NDT = Non Debt tax Shield

This equation is estimated through common effect model.

**Expected Signs of Coefficients**

- \( \beta_1 < 0 \)
- \( \beta_2 > 0 \)
- \( \beta_3 > 0 \)
- \( \beta_4 > 0 \)
- \( \beta_5 < 0 \)
- \( \beta_6 < 0 \)
4. **Findings**

This section presents calculated results. The data covering textile, cement, sugar, and allied industries, chemicals, transport and communication, fuel and energy and engineering sectors of the Pakistanis economy for the period 2001-2008 is used in the multiple regression model.

Table 4.1 shows the calculated results. It shows the values of coefficients, Beta of the variables and R Square. R Square shows the total change in dependent variable (gearing ratio) due to selected independent variables. The values of R square are 0.168, .527, 0.655, 0.627, 0.849, 0.821, 0.919 and 0.999 for the Textile Sector, Chemical Sector, Engineering Sector, Sugar and Allied industries, Cement Sector, Fuel & Energy, Transport and Communication and Paper & Board Sector respectively. The value of R Square is above 0.5 in all the sectors except in textile sector where it is below 0.5. This indicates the presence of other variables that are not included in the study but they have significant impact on the gearing ratio of textile sector firms.

A negative sign of the profitability is according to our expectations as mentioned earlier. Different magnitudes of this coefficient across sectors are pointing the different behavior in profitability determinant in different sectors. For example, the value of estimated coefficient varies between -245% that is minimum in the transport and communication sector while it is 0.4% that is maximum in the cement sector.

A positive sign with the coefficient of asset’s tangibility in all the sectors is according to our expectations as mentioned earlier except in transport and communication sector where its coefficient is negative. Different magnitude of this coefficient across sector is pointing out the different behavior of asset’s tangibility determinants in different sectors. For example, the
### Table 4.1
Inter-Sectoral Differences in Determinants of Capital Structure

<table>
<thead>
<tr>
<th>Sector</th>
<th>PF</th>
<th>AT</th>
<th>GW</th>
<th>SZ</th>
<th>EV</th>
<th>NDTS</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile Sector</td>
<td>-14.7%</td>
<td>73.2%</td>
<td>-2%</td>
<td>3.5%</td>
<td>0%</td>
<td>-38.4%</td>
<td>.168</td>
</tr>
<tr>
<td></td>
<td>(-1.37)*</td>
<td>(6.17)**</td>
<td>(-3.2)**</td>
<td>(2.05)**</td>
<td>(0.03)</td>
<td>(-0.71)</td>
<td></td>
</tr>
<tr>
<td>Chemical Sector</td>
<td>-57%</td>
<td>25%</td>
<td>2%</td>
<td>2.7%</td>
<td>0.2%</td>
<td>-64%</td>
<td>.527</td>
</tr>
<tr>
<td></td>
<td>(-5.48)**</td>
<td>(5.07)**</td>
<td>(0.47)</td>
<td>(3.97)**</td>
<td>(0.90)</td>
<td>(-1.76)**</td>
<td></td>
</tr>
<tr>
<td>Engineering Sector</td>
<td>-51%</td>
<td>68%</td>
<td>-3%</td>
<td>3%</td>
<td>-0.1%</td>
<td>-393%</td>
<td>.655</td>
</tr>
<tr>
<td></td>
<td>(-3.04)**</td>
<td>(9.47)**</td>
<td>(-0.67)</td>
<td>(3.75)**</td>
<td>(-0.86)</td>
<td>(-5.82)**</td>
<td></td>
</tr>
<tr>
<td>Sugar and Allied industries</td>
<td>-214%</td>
<td>128%</td>
<td>1%</td>
<td>-4%</td>
<td>2%</td>
<td>-113%</td>
<td>.627</td>
</tr>
<tr>
<td></td>
<td>(-4.43)**</td>
<td>(4.57)**</td>
<td>(0.31)</td>
<td>(-0.71)</td>
<td>(16.43)**</td>
<td>(-0.34)</td>
<td></td>
</tr>
<tr>
<td>Cement Sector</td>
<td>0.4%</td>
<td>38.2%</td>
<td>1.2%</td>
<td>4.3%</td>
<td>0%</td>
<td>28.2%</td>
<td>.849</td>
</tr>
<tr>
<td></td>
<td>(.04)</td>
<td>(6.40)**</td>
<td>(0.51)</td>
<td>(3.97)**</td>
<td>(-0.69)</td>
<td>(1.77)**</td>
<td></td>
</tr>
<tr>
<td>Fuel &amp; Energy</td>
<td>-24%</td>
<td>43%</td>
<td>1%</td>
<td>2%</td>
<td>0%</td>
<td>-7%</td>
<td>.821</td>
</tr>
<tr>
<td></td>
<td>(-2.06)**</td>
<td>(9.08)**</td>
<td>(1.11)</td>
<td>(3.58)**</td>
<td>(-0.53)</td>
<td>(-0.18)</td>
<td></td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>-245%</td>
<td>-44%</td>
<td>22%</td>
<td>8%</td>
<td>30%</td>
<td>0%</td>
<td>.919</td>
</tr>
<tr>
<td></td>
<td>(-9.67)**</td>
<td>(-1.61)*</td>
<td>(1.19)</td>
<td>(5.50)**</td>
<td>(0.17)</td>
<td>(3.34)**</td>
<td></td>
</tr>
<tr>
<td>Paper &amp; Board</td>
<td>-91%</td>
<td>30%</td>
<td>35%</td>
<td>2%</td>
<td>0%</td>
<td>-89%</td>
<td>.999</td>
</tr>
<tr>
<td></td>
<td>(-2.74)**</td>
<td>(2.39)**</td>
<td>(1.59)*</td>
<td>(0.99)</td>
<td>(-0.11)</td>
<td>(0.78)</td>
<td></td>
</tr>
</tbody>
</table>

*Significant at 90%
**Significant at 95%
value of estimated coefficient varies between -44% that is minimum in transport and communication sector while it is 128%, which is maximum in sugar and allied industries.

A positive sign with the coefficient of sales growth in all the sectors is according to our expectations as mentioned earlier except in the textile and engineering sector where it is negative. Behavior of sales growth is different across sectors. For example, the value of estimated coefficient varies between -3% that is lowest in the engineering sector while it is highest in paper and board sector that is 35%.

A positive sign with the coefficient of firm’s size in the entire sector is according to our expectations as mentioned earlier except in the sugar and allied industries sector where its coefficient is negative. Different magnitude of this coefficient across sectors is pointing the different behavior in firm’s size determinants in different sectors. For example, the value of estimated coefficient varies between -4% which is minimum in the sugar and allied industries while it is 8% which is maximum in the transport and communication sector.

A negative sign with the coefficient of earning volatility is according to our expectations in the entire sectors except in textile, chemical, transport and communication where coefficient of earning volatility is positive. There are no major differences in the coefficients value of earning volatility across sectors except in transport and communication sector.

A negative sign with the coefficient of non-debt tax shield in the entire sectors is according to our expectations as mentioned earlier except in cement and transport and communication sector where it is positive. Different magnitudes of this coefficient across sectors are pointing the different behavior in non-debt tax shield in different sectors. For example,
the value of estimated coefficient varies between -39.3% that is minimum in the engineering sector where it is 28.2%, which is maximum in the cement sector.

The foregoing regression results and their discussion lands support to accept our hypothesis that profitability, asset’s tangibility, sales growth, firm’s size, and non-debt tax shields are our valid determinants of capital structure and they play different roles in determining the capital structure in the different sub-sectors of the economy.

5. Concluding Remarks And Policy Implications

This study has tried to explain inter-sectoral differences in the determinants of capital structure of the firms in the non-financial sector of Pakistan’s economy. The explanation has used financial data of the firms listed on Karachi Stock Exchange for the period from 2001 to 2008. The gearing ratio of firms is used as a proxy for its capital structure whereas profitability, asset’s tangibility, sales growth, size of the firm, earning volatility and non-debt tax shield are used as independent variables.

The regression results shows that profitability, assets tangibility, firm size, sales growth, and non-debt tax shield are valid determinants of capital structure, as they have been found statistically significant. The validity of these determinants is shown by two ways: one each of these variables is showing expected signs and second the overall regression model is showing reasonable R square.

Table 4.1 clearly shows the inter-sectoral differences in the determinants of capital structure in the various subsectors of the economy. The inter-sectoral differences are shown both
in terms of magnitude of estimated coefficient as well as differences of their sign in some sectors of the economy.

The findings of the study provide important insight to investors, lending institutions and financial managers. The results provide some important information to the investors about the determinants of capital structure. As this is the first study of this kind, which talks about the differences in the determinants of capital structure across sectors. Investors can take guidance from this study. For example, if a firm is profitable, then the firm will use retained earnings to finance future projects and will try to minimize the level of debt in their capital structure. The firm will not pay dividend to investors. Investors keeping in mind the personal needs can make decision to invest in this firm or not. Because investors are of two types: some wants to earn short-term profits and other are interested in long term benefits. Therefore, they can decide the sectors in which they have to invest to earn short-term gain or identify the sectors in which they will gain long-term benefits.

The study also talked about the behavior of lending institutions. In some sectors, they perceive earning volatility as a measure of risk and in that sector give debt at a higher interest rate. While in some sectors they do not perceive earning volatility as a measure of risk. Same case is with the growth. In some sectors, they think that the rapid growth of sales of the firms can leads the firms towards the risky investments.

The study is making recommendations for the policy makers, lenders, and investors. It proposes that a single plan or policy cannot work well in all sectors. Each sector has some distinct characteristics that differentiate it from others. Each sector has different level of inventories, different working capital requirements and nature of products is different. So while making any policy, keep in mind the differences in the determinants of capital structure.
References


IMPACT OF DEBT FINANCING ON FIRM’S INVESTMENT DECISIONS: EMPIRICAL EVIDENCE FROM TEXTILE SECTOR

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Abstract:

This paper examines the impact of debt financing on the investment decisions of 144 textile companies listed in the Karachi Stock Exchange (KSE) Pakistan, during the period 2007-2009. These textile companies have been divided into two groups: Low Asset Sized Companies (LASC) having asset base of up to one billion and High Asset Sized Companies (HASC) having asset base of over one billion. Multiple regression technique has been used to analyze the impact of debt financing on the investment by taking asset-liabilities ratio, ROE, cash flows, sales revenue to total assets, LN of total assets and Tobin’s Q as independent variables and investment as dependent variable. The results show that debt has significant impact on investment in low asset sized firms than those with high asset sized firms.

Key words: Debt financing, investment decisions, Tobin’s Q
JEL Classification: G190
I. Introduction:

Investment is an essential economic activity that leads to the country’s economic development by providing employment in the country. This paper examines the impact between debt financing on the firms’ investment decision in the textile industry in Pakistan. Textile industry plays an important role in the country’s economic and industrial development and trade. It demands capital for financing the company’s assets. The assets that the firm invests for long term purpose are termed as fixed assets. To finance these assets, the firm can raise money from two sources bonds (to raise debt) and common stock (to raise equity). Funds for Debt can be raised from investors or financial institutions by promising investors to pay a fixed claim (interest payments) on the cash flows generated by the assets. When making an investment and financing decision the ultimate objective is assumed to maximize the value of the business. It stipulates that businesses invest only in projects which usually reap a return that surpasses the hurdle rate which is mostly known as, ‘Minimum rate of return on the investment’. The financing principle proposes that the best financing mix for a firm is one that maximizes the value of investments.

The investment and financing decisions are interdependent because the investment decision is taken in connection to the financing source level but the option to invest is also critical in order to calculate the level of financing capitals and the need for finding their sources.

Modigliani and Miller (1961) were on the opinion that in a perfectly efficient and complete world markets, debt financing seems extraneous to a company real investment varieties and total market value of the firms. In modern era practical studies boosted up to inspect the relevance of the firm’s debt financing and capital investment behavioral theories. Lang and Stulz (1996)
examined the investment with leverage and found a negative relation. One more important extraction comes from Lang (1996) study that was based on the data of industrial companies in the United States from 1970-1989. He concluded that the negative relationship between investment and leverage only happens in low-growth company, while it does not exist in high-growth company. Whited (1992) found in his study that investment is more sensitive to cash flow in firms with high leverage as compared to firms with low leverage. Cantor (1990) found that investment is more sensitive to earnings for highly levered firms. Kopcke and Howrey (1994) have utilized balance sheet variables as separate regressors in the investment equation and argued that these effects are not important.

Aivazian (2005) unfolded very basic postulate that no matter whatever the growth is high or low, debt always has negative effects on investment. In fact, the adverse effects always on the low-growth company have stronger.

The objective of this study to investigate the impact of debt financing on the investment decisions for Pakistani textile firms listed in Karachi stock exchange. Most researchers and prominent scholars have completed in-depth studies on the association of investment and debt financing and drawn varied conclusions by using different approaches.

II. Literature Review

Li shi&wang (2010) examined the influence of debt financing on 60 Chinese real estate listed companies from 2006-2008. The companies were rearranged by the first three years average Tobin Q value to split the whole group into three subgroups: high growth, middle growth and low growth. They analyzed the relationship between debt and investment in the above mentioned three types of segregated companies and also
investigated the ‘correlation coefficient’ between debt and investment in the high-growth companies and state-owned companies. After using regression to analyze the variables’ investment scale with respect to time ($I_{i,t} / K_{i,t-1}$) investment $I_{i,t}$ is reflected by t-year’s fixed assets, long-term investments, and the construction in progress. Capital accumulation $K_{i,t-1}$ is the total asset of previous year (year $t-1$), asset-liability ratio in year $t-1$, cash flow ($CF_{i,t}$), enterprise value (Tobin Q value) $Year_{i,t}$ (liability+stock price*number of tradable share+net asset per share*number of non-tradable share /assets’ book value), sales revenue ($S_{i,t}$), investment level in year $t$ ($I_{i,t}/K_{i,t-2}$), net assets yield ($ROE_{i,t}$) and the company size ($LNSIZE_{i,t}$). It was concluded that debt is negatively related to investment in both firms with low-growth opportunities and high-growth opportunities. There is a stronger negative effect for firms with low-growth opportunities than those with high-growth opportunities. There is a positive relationship in mid-growth firms between debt financing and investment behavior. As to the high growth company, higher level of debt can induce the impulse in asset substitution. They invest in high risk projects for high profits, though risk of bankruptcy, exists there which can restrict the investment behavior to some extent. As far as mid-growth companies are concerned they have sound risk management and are good at capturing investment opportunity. They can get external financing more easily. There is a positive relationship between investment and debt financing in state-owned holding companies while in non-state-owned holding companies there is a negative relation between investment and debt financing exists.

Virouj, Ying and Jiaping (2008) studied the impact of financial leverage on the firms’ investment decisions by using data of 863 major Canadian industrial companies from 1982 to 1999. To test the relationship between leverage and investment in the low-growth company and high-growth company two alternative measures of leverage are used. $Leverage1 = Total liabilities /Total assets$ and $Leverage2 = Long term debt /Total assets$. 

**PAKISTAN BUSINESS REVIEW OCT2012**
By using regression on investment it was determined that for Canadian firms leverage has a significantly negative impact on investment and that it has a stronger negative impact on firms with low growth opportunities comparatively with high growth opportunities.

Mohun and Hemant (2008) investigated the effect of financial leverage on investment decisions of 27 firms listed on the Stock Exchange of Mauritius (SEM). They analyzed the data from 1990 to 2004 to test the relationship between leverage and investment in the low-growth companies and the high-growth companies. To segregate the firms on the basis of growth opportunities, price-to-operating-earnings (P/E) ratios have been calculated and firms with high P/E ratio (i.e. above the median P/E ratio) are categorized under high growth opportunities firms and firms with low P/E ratio (i.e. below the median P/E ratio) are categorized under low growth opportunities firms. By using regression on leverage, sales growth, profitability, Tobin Q, liquidity and cash flow, it was concluded that there is a significant negative relationship between leverage and investment for low growth firm. And insignificant relationship was found between leverage and investment for high growth firms as well.

McConnell and Servaes (1995) investigated the investment and leverage relationship in the non-financial United States firms listed in 1976, 1986 and 1988. They found that for firms with high growth, there is a negative relationship between investment and leverage whereas that the relationship is positive for low growth firms.

Franklin (2011) analyzed the impact of leverage of 25 Indian pharmaceutical companies investment decision. These companies are listed in Mumbai stock exchange during the period from 1998 to 2009. To measure the impact of leverage on firm’s investment decision, pooling regression, random and fixed effect models are used by taking, leverage, cash flow, sales return on
Impact of Debt Financing on Firm’s Investment Decisions

asset, liquidity, Tobin’s Q, and retained earnings as independent variables and investment as dependent variable for three types of firms (i) small firms, (ii) medium firms and (iii) large firms. The smaller size is obtained by subtracting mean from standard deviation of total asset and larger size is obtained by adding mean value of asset to standard deviation. The medium sized firms are those firms which do not belong to both categories of the firm. The results revealed that there is a significant positive relationship between leverage and investment for small and large firms and the impact is stronger for small firms, while a negative relationship between leverage investment for medium firms and results also revealed an insignificant relationship between the investment and leverage for medium and large firms.

Odit and Chitto (2008) analyzed the impact of leverage on firms’ investment for 27 firms that are listed on the Mauritius stock exchange for the period 1990 – 2004. They found that there is a significant negative impact of leverage on investments, while the negative relationship persist for low growth firm.

As the previous studies have established the relationship of investment and debt, this paper is an attempt to study the impact of debt on the firm’s investment decision for the textile companies in Pakistan.

III. Research Methodology:

III.1 Sample

Textile companies listed in the Karachi Stock Exchange from 2007 to 2009 were selected, but due to incomplete and non-availability of data, only 144 firms were included in the sample. The annual data of these firms were taken from the various issues of “Balance Sheet Analysis” published by the State Bank of Pakistan and the companies financial statements. On the basis of size of assets the sample is divided into two groups, LASC up to
1 billion and HASC is above 1 billion investments. The following hypotheses have been constructed:

\( H_1: \) There is significant impact of debt financing on firm’s investment decisions in LASC.

\( H_2: \) There is significant impact of debt financing on firm’s investment in HASC.

### III.II Explanation of the variables

The following variables have been chosen for the study:

**Dependent variables**

**Investment (I2009/K2008)**

Li, Shi & Wang (2010) defined investment to total assets ratio as fixed assets, long-term investments, and the annually change in construction in progress, depreciation)/total asset in year-1. For the textile sector the ratio of investment to total assets includes t-year’s fixed assets and long-term investments to total asset of previous year (year t-1).

**Independent variables**

**Debt-Asset Ratio**

It is a ratio of the book value of long-term debt to the book value of total assets (Mohun 2008). Lang (1996) defined that leverage is the ratio of total liabilities to the book value of total assets. For this study it is the ratio of total liabilities to total assets in year t-1. This variable, to a great extent, explains that how much portion of liabilities has been paid-off within
the firm. It also shows that whether new financing is required to run the businesses and to what extent any firm’s assets actually play the part in debt-servicing. Although this paper focuses on the impacts of debt financing on investment, there are some other variables contributing to the investment activity.

**Control Variables:**

**Return on Equity**

It is revenue before tax/net asset (Li, Shi & Wang 2010). This performance measure is superior to profit because it accounts not only for earnings but also for the assets pumped in to get those earnings i.e. net assets yield for the company.

**Cash Flow**

For any financial undertaking by any firm in the industry, cash flow is a very important aspect. If any firms hold on unnecessarily cash, they might be losing a return that could be earned by investment. It helps in deciding the best time to incur and pay back debt through forecasted cash flows, probability of running out of cash, maturity of debt, and ability to borrow. The cash flow is measured as the total of earnings before extraordinary items and depreciation (Mohun 2008). Fraklin (2011) defined that cash flow is measured as the total of earning before extraordinary items and depreciation and is an important determinant for growth opportunities. It also provides evidence that investment is related to the availability of internal funds. Cash flow may be termed as the amount of money in excess of that needed to finance all positive net present value of projects. The purpose of allocating money to project is to generate a cash inflow in the future, significantly greater than the amount invested. That is the objective of
investment is to create shareholders wealth. Lehn and Poulson (1990) measured cash flow by taking the book value of assets.

**Operating Revenue to Total Assets (S2009/K2008)**

The inclusion of this variable in the data analysis was due to the fact that it simply identifies how proficient the firm is before leveraging (hence raising debt). The operating efficiency of the total funds over investment of a firm is shown by operating revenue Franklin (2011)

**Asset Size (LN size)**

This variable shows the size of assets any firm has. The data used for textile firms have been closely scrutinized and then it was decided to break the data file into two groups. Group 1 includes Asset Size up to 1 billion and Group 2 includes over 1 billion.

**Investment in t-1 year (I2008/K2007):**

Investment includes Year t-1 (fixed assets, long-term investments, and the annually change in construction in progress and depreciation / total asset in year t-2 (Li, Shi & Wang 2010). For textile sector it is the ratio of investment to total assets includes t-1 year’s fixed assets and long-term investments to total asset of year t-2. Previous year’s investment also affects the firm’s future financing decisions.

**Tobin’ Q**: Tobin’s Q is used as a proxy for growth opportunities and calculated as the market value of total assets of the firm divided by the book value of assets (Varoug 2005). Mohun (2008) defined Tobin’ Q as a substitute for growth opportunities and calculated as the market value of total assets of the firm divided by the book value of assets. Wiles (1994) defined that Tobin’s Q is calculated as (market value of firm+ liabilities / book value of assets) market value of the firm is the sum of total liabilities, the value of equity shares and the estimated value of
Impact of Debt Financing on Firm’s Investment Decisions

Preference shares. Tobin’s Q would be 1.0, if it is greater than 1.0 then the market value is greater than the value of the companies recorded assets. This suggests that the market value reflects some unmeasured or unrecorded assets of the company. High Tobin’s Q values encourage companies to invest more in capital because they are “worth” more than the price they paid for them. On the other hand, if Tobin’s q is less than 1, the market value is less than the recorded value of the assets of the company (Franklin 2011). For the textile companies it shows the growth prospects for the firm and has been calculated as = total liabilities + Market value of shares/book value of assets.

IV. Modeling Framework

The following model has been constructed:

\[ \frac{I_{i,t}}{K_{i,t-1}} = \alpha + \beta_1 DA_{i,t-1} + \beta_2 ROE_{i,t} + \beta_3 (\frac{I_{i,t}}{K_{i,t-1}})_{t-1} + \beta_4 (\frac{CF_{i,t}}{K_{i,t-1}})_{t-1} + \beta_5 LN SIZE_{i,t} + \beta_6 S_{i,t} / K_{i,t-1} + \beta_7 TQ_{i,t-1} + \epsilon_{i,t} \]

Where

- \( I_{i,t} / K_{i,t-1} \) indicates investment
- \( DA_{i,t-1} \) is Debt to asset ratio in time t-1,
- \( (I_{i,t} / K_{i,t-1})_{t-1} \) is investment in time t-1,
- \( ROE_{i,t} \) is net assets yield,
- \( CF_{i,t} / K_{i,t-1} \) is cash flow from business activities,
- \( S_{i,t} / K_{i,t-1} \) is operating revenue,
- \( LN SIZE_{i,t} \) is the log value of total,
- Tobin’s Q is the ratio of total liabilities + Market value of shares/book value of assets,
- \( \epsilon_{i,t} \) is error term,
- I indicates company and t indicates time.

V. Empirical analysis:

By using multiple regression the following results are generated for both the groups.

Group 1 (Asset Size upto 1 Billion)
The above table provides the usual descriptive statistics for all variables shows that the N 65.

The correlation matrix shows the correlations of the other variables with the investment and that; DEBT ASSET RATIO, I2008/K2009 and ln of size are significantly correlated with the investment in low asset sized firms since their significance values are less than 0.05.

PAKISTAN BUSINESS REVIEW OCT 2012
The model summary table shows that the multiple correlation coefficient using all the predictors simultaneously is $R = 0.857$ and the adjusted $R^2$ is 0.735, meaning that 73.5% of the variance in I2009/TA2008 can be predicted from the all independent variables.

The ANOVA table shows that $F$ value is 22.5 and it is significant. This indicates that the combination of the predictors significantly ($p < 0.05$) predict investment.
The coefficients table shows that Debt to asset ratio and I2008/K2007 are significant. Since their significance values are less than 0.05. In this Group analysis, there is a no multicollinearity problem because all the variables have the VIF values below 2. It is important to note that all the variables are being considered together when these values are computed. Therefore, if we delete one of with the predictors that is not significant, it can affect the level of significance of other predictors. It provides the following empirical model:

\[ \frac{I_{i,t}}{K_{i,t-1}} = -0.71 + 0.63 DA_{i,t-1} + 0.433 \left( \frac{I_{i,t}}{K_{i,t-1}} \right)_{t-1} \]

**Group 2 (Asset Size over 1 Billion)**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>I2009/K2008</td>
<td>.7396</td>
<td>.24246</td>
<td>79</td>
</tr>
<tr>
<td>DEBT ASSET RATIO</td>
<td>.6915</td>
<td>.15637</td>
<td>79</td>
</tr>
<tr>
<td>RETURN ON EQUITY</td>
<td>3.0709</td>
<td>107.05847</td>
<td>79</td>
</tr>
<tr>
<td>I2008/K2007</td>
<td>.8471</td>
<td>.27460</td>
<td>79</td>
</tr>
<tr>
<td>CASH FLOW 2009</td>
<td>.8071924</td>
<td>8590.29900</td>
<td>79</td>
</tr>
<tr>
<td>S2009/K2008</td>
<td>.0674</td>
<td>.13205</td>
<td>79</td>
</tr>
<tr>
<td>LN OF SIZE</td>
<td>8.0706</td>
<td>.85414</td>
<td>79</td>
</tr>
<tr>
<td>Tobin Q</td>
<td>1.6352</td>
<td>1.09720</td>
<td>79</td>
</tr>
</tbody>
</table>

Dependent Variable: I2009/K2008
Significance value: 0.05
The above table provide the usual descriptive statistics for all variables shows that the N is 79.

Table 7: Correlations

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1.000</td>
<td>0.270</td>
<td>-0.057</td>
<td>-0.768</td>
<td>-0.042</td>
<td>-0.021</td>
<td>-0.218</td>
<td>0.133</td>
</tr>
<tr>
<td>DEBT ASSET RATIO</td>
<td>0.270</td>
<td>1.000</td>
<td>0.036</td>
<td>0.210</td>
<td>-0.001</td>
<td>0.039</td>
<td>-0.022</td>
<td>-0.046</td>
</tr>
<tr>
<td>RETURN ON EQUITY</td>
<td>0.057</td>
<td>0.036</td>
<td>1.000</td>
<td>-0.024</td>
<td>-0.015</td>
<td>0.075</td>
<td>0.048</td>
<td>0.016</td>
</tr>
<tr>
<td>2008/K2007</td>
<td>-0.768</td>
<td>-0.042</td>
<td>-0.001</td>
<td>1.000</td>
<td>-0.264</td>
<td>-0.019</td>
<td>-0.294</td>
<td>0.074</td>
</tr>
<tr>
<td>CASH FLOW 2009</td>
<td>-0.042</td>
<td>0.039</td>
<td>-0.015</td>
<td>-0.264</td>
<td>1.000</td>
<td>0.000</td>
<td>0.010</td>
<td>0.125</td>
</tr>
<tr>
<td>S2009/K2008</td>
<td>-0.021</td>
<td>-0.001</td>
<td>-0.015</td>
<td>-0.264</td>
<td>1.000</td>
<td>0.000</td>
<td>0.010</td>
<td>0.125</td>
</tr>
<tr>
<td>LN OF SIZE</td>
<td>0.039</td>
<td>0.048</td>
<td>-0.294</td>
<td>0.010</td>
<td>-0.020</td>
<td>1.000</td>
<td>0.148</td>
<td>-0.035</td>
</tr>
<tr>
<td>Tobin’s Q</td>
<td>0.133</td>
<td>0.046</td>
<td>0.016</td>
<td>0.074</td>
<td>0.125</td>
<td>0.071</td>
<td>1.000</td>
<td></td>
</tr>
</tbody>
</table>

The above correlation matrix table shows the correlations of the other variables with 2009/K2008 and that debt to asset ratio is not significantly correlated at 0.05 significance level and 2008/K2007 and Ln of size are significantly related to the investment at the 0.05 significance level.

Table 8: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.792*</td>
<td>0.627</td>
<td>0.59</td>
<td>0.15518</td>
</tr>
</tbody>
</table>

b. Significance value: 0.05
The model summary table shows that the multiple correlation coefficient using all the predictors simultaneously is $R=0.792$ and the adjusted $R^2$ is 0.590, meaning that 59% of the variance in $I_{2009}/K_{2008}$ can be predicted from debt to asset ratio, return on equity, $I_{2008}/TA_{2007}$, cash flows, $Opert Revenue to total assets$, $Ln$ of size and Tobin's $Q$.

Table 9: ANOVA*

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regession</td>
<td>2.876</td>
<td>7</td>
<td>.411</td>
<td>17.061</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>1.710</td>
<td>71</td>
<td>.024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.585</td>
<td>78</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Tobin Q, RETURN ON EQUITY, DEBT ASSET RATIO, LN OF SIZE, CASH FLOW 2009, $S_{2009}/K_{2008}$, $I_{2008}/K_{2007}$

The ANOVA table shows that F value is 17.06 and it is significant at 0.05. This indicates that the combination of the predictors significantly ($p < 0.05$) predict $I_{2009}/K_{2008}$.

Table 10: Coefficients*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>t</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>0.01</td>
<td>.210</td>
<td>.004</td>
</tr>
<tr>
<td>DEBT ASSET RATIO</td>
<td>1.74</td>
<td>.116</td>
<td>.112</td>
</tr>
<tr>
<td>RETURN ON EQUITY</td>
<td>9.677E-5</td>
<td>.000</td>
<td>-.043</td>
</tr>
<tr>
<td>$I_{2008}/K_{2007}$</td>
<td>6.85</td>
<td>.072</td>
<td>.776</td>
</tr>
<tr>
<td>CASH FLOW 2009</td>
<td>3.816E-6</td>
<td>.000</td>
<td>.135</td>
</tr>
<tr>
<td>$S_{2009}/K_{2008}$</td>
<td>.019</td>
<td>.135</td>
<td>.010</td>
</tr>
<tr>
<td>LN OF SIZE</td>
<td>.002</td>
<td>.022</td>
<td>.007</td>
</tr>
<tr>
<td>Tobin’s Q</td>
<td>.014</td>
<td>.016</td>
<td>.064</td>
</tr>
</tbody>
</table>

a. Dependent Variable: $I_{2009}/K_{2008}$

b. Significance value: 0.05, 0.1
The above table indicates the standardized beta coefficients, which are interpreted similarly to correlation coefficients or factor weights. Independent variable indicates whether that variable is significantly contributing to the equation for predicting $I_{2009}/K_{2008}$ from the whole set of predictors. Thus debt to asset ratio is not significant at 0.05 level and $I_{2008}/K_{2007}$ is significantly adding to the prediction when the other variables are already considered. It is important to note that all the variables are being considered together when these values are computed. Therefore, if we delete one of with the predictors that is not significant, it can affect the level of significance of other predictors. Since the VIF values are less than 2 so that in this Group analysis, we do not need to be concerned about multi collinearity. If we delete one of with the predictors that is not significant, it can affect the level of significance of other predictors.

V: Conclusion

It has been concluded from the analysis that debt has significant impact on firm’s investment decisions for low asset sized companies than those with high asset sized firms.

Acknowledgement:
I would like to thank to Allah Almighty, my family and friends, Dr. Javed Ansari for providing invaluable guidance and Mr. Kamran Rabbani for his assistance.
References


Does Financial Leverage Influence Investment Decisions?


This research was conducted to evaluate how netspeak (a form of English language without stringent language rules) is being used by Pakistani youth and also to understand its influence on self-esteem. Data was collected through a questionnaire given to 100 youngsters aged 15 to 25. To accumulate quantitative data, convenience sampling was employed to study this phenomenon. The statistical techniques used to obtain the results were Pearson’s Correlation Coefficient and Independent Sample student’s t-test. The results show that there was no relationship between self-esteem and netspeak among Pakistani youth. However, there was a visible difference between self-esteem of youngsters (15 to 19 years of age) and young adults (20-25 years of age); where the self-esteem of young adults was more than that of youngsters. It was also observed that self-esteem of those belonging to The Cambridge school system was more than those from local matriculation system in Pakistan. It also disclosed that gender and educational system have no influence on netspeak.

Keywords: Netspeak, Self-esteem, Cambridge System, Matric System

JEL Classification: Z000
Literature Review:

The term ‘Netspeak’ is an alternative to ‘Netlish’, ‘Weblish’, ‘Internet language’, ‘cyberspeak’, ‘electronic discourse’, ‘electronic language’, ‘interactive written discourse’, ‘computer mediated communication’ (CMC), and other more cumbersome locutions. The language of computer technology has now become a part of everyday communication. It seems remarkable that the people all over the world, within a decade, have adapted their language to suit the need of the day and are everyday creating new expressions from their previously existing knowledge of the language. We, ‘homoloquens’, have used our language abilities to the maximum in netspeak. Netspeak is an easy version of the English language in which we use the ‘Non-standard spelling, heavily penalized in traditional writing’ (Crystal, 2001) and also ‘New meanings are now more freely created by composing them from known words through the use of conjoining, abbreviating, and metaphoric strategies … [and] terminology has come to rely on recycling the existing resources of the language by using available words to produce new ones in the form of acronyms, blends, analogies, metaphors and, most typically, compound’ (Fandrych, 2008). Netspeak, therefore, is a skill which is easy to learn and use and which may even affect one’s self-esteem. Self-esteem is seen in some individuals as a trait whereas others see in self-esteem with a change. This change may occur over a long time period or on a short term basis; it can also be situational also (Harter and Whitesell, 2003). Therefore, self-esteem can change with time due to various factors.

McCroskey et al (1977) in their research reached the conclusion that more there is apprehension to orally communicate lesser is self-esteem. They found out that there was a negative correlation between self-esteem and the ability of oral communication. They elaborate that, ‘a clear delineation of the communication apprehension construct must take into account the various types of communication apprehension and their differential degree of association with self-esteem.’
Usage Of Netspeak In Pakistani Youth-In Regard To Self-Esteem

Netspeak has also influenced Pakistan where there is a parallel elitist system of education, in which, all the subjects except Urdu are taught in English (Rehman, 2004). There are, therefore, young people who have taken the place of the earlier Anglicized elite that were once active in preserving the domination of the English language. Acquiring the English language is akin to acquiring authority in this polarised Pakistani society. The inability to communicate with competence in the English language gives rise to low self-esteem as self-esteem in the Pakistani society is directly linked with the acquisition of the English language, as the masses are not proficient in the English language in the country. Awan and Sheeraz (2011) studied code-switching at a Pakistani university and came to the conclusion that even at the university level the teachers have to use Urdu language to explain complex ideas and to bond with the Pakistani majority of students. Netspeak provides such youth an outlet through which they can enhance their self-esteem. The easy usage of netspeak plays a vital role in its adaptation by youth who are not so proficient in the English language. Netspeak becomes a tool for those with low self-esteem, as one way of achieving this desire is to first perceive one's own self positively and to block out all the negative images attached to oneself. When the task ahead is difficult and one's willpower is lacking, a strategy of active self-esteem maintenance, “looking on the bright side,” avoiding “negative” thoughts and people, as advocated in numerous “self-help” books, can be useful (Bénabou and Tirole, 2002).

Also Rau, Gao, and Wu (2008) proved that when students were given technology to use, their motivational level increased as compared to those who were given only oral instructions. Similarly Shaw and Gant (2002) proved showed that the Internet would have positive effects on those using technology for social purposes. Depression and loneliness were expected to decrease over the course of the study, while self-esteem and social support were predicted to increase over a period of time. In addition, Weisband and Atwater (1999) found that Computer-Mediated Communication (CMC) users over-estimate their contribution to discussions compared to FtF(face-to-face), suggesting that they might experience heightened private self-focus (Joinson, 2001). It was also discovered that as the interaction through the
CMC between individuals progressed, the positive impression was also magnified because the communicators wanted to enhance their positive image before their partners (Joinson, 2001). We may therefore say that if not directly then at any rate indirectly, CMC or netspeak helps people to elevate their self-esteem. We must also keep in mind that people with low self-esteem have problems approaching others; such problems can easily be dealt by using the social network sites (Steinfeld, Ellison and Lampe 2008).

Steinfeld, Ellison and Lampe (2008) proved that students with low self-esteem gained more from the social network sites as compared to those with high self-esteem because those with low self-esteem can reach out to the people which otherwise is not possible for them. We see therefore students using netspeak to improve their peer approval as ‘the level of approval they are receiving from others are directly linked to their global self-worth’ (Harter & Whitesell, 2003). In Pakistan, ‘in recent years with more young people from the affluent classes appearing in the British O’ and A’ level examinations; with the world-wide coverage of the BBC and the CNN; with globalization and the talk about English being a world language; with stories of young people emigrating all over the world armed with English—with all these things English is a commodity in more demand than ever before’ (Rehman, 2004).

The youth with good English language skills are able to easily coin new words from their existing vocabulary and use the ones that are new addition to the language with ease. Netspeak for them is a medium through which they can show their mastery over the language. Netspeak is full of creativity, as the users of netspeak are continually experimenting with the language and creating new words to describe experiences and to go beyond the boundaries of communication in technology. The rate at which these new words that are being coined is overwhelming (Crystal, 2001). “The New Generation is exceptionally curious, self-reliant, contrarian, smart, focused, able to adapt, high in self-esteem, and has a global orientation,” (Tapscott 1999 as cited by Herring 2008).

There is a growing perception that the youth of the 21st century is using netspeak for communication purposes. As long as netspeak is fulfilling the purpose of the youth to stay in touch, it will be a part of the youth-culture. Out of all the communication tools of
technology, it was found that Short Message Service (SMS) was used and liked the most by the youth (Rau, Gao, and Wu, 2006). As the youth are using SMS to stay in touch; the language they are using is netspeak. These youth do not take pride in learning the technology at hand only but they learn the language also. Carroll et al (2002) explain, “Although some features of mobile technologies were perceived as difficult to learn, they did not appear to impede adoption of mobile technologies.” Even these difficult features are taken as a challenge for those with high self-esteem. Herring (2008) draws a parallel between the previous and this generation that young people today use technology available to them in the same manner as the generation before them used technology that was available then. Today youngsters use the text, instant or email messages in the same manner as the Baby Boomers used the telephone, to connect with friends. The previous generations manipulated the handwritten messages whereas this generation creates the online language to set their own identity. They flirt online and show their antagonism and concern through blogs whereas those before them flirted on the phone and kept diaries to express themselves. Today’s youngsters take all the pain to carve their portfolio for a social site, so that they may be socially acceptable and desirable; very much in the same manner in which those before them took all the care to be dressed according to the trends then and to be present with the right type of people at right places.

The use of technology to enhance self-perception and self-esteem is a norm of the day. “The purposes for which young people use mobile technologies form the criteria for appropriating mobile technologies into their everyday lives. Mobile phones and especially text messaging are essential for participants’ social lives: ‘Meet here’, ‘Contacting friends when I’m out’ and ‘Keeping in touch’ (Carroll et al 2002).” They are using netspeak because it’s in vogue and because it more conveniently fulfils the purpose of communication. The youngsters assert themselves through using netspeak. As opposed to face-to-face communication, they say what is on their mind through netspeak which in turn gives them confidence and elevates their self-esteem. They use emoticons to conceal harshness of their words. As Crystal (2001) puts it that the presence of emoticons is purely pragmatic force
Usage Of Netspeak In Pakistani Youth-In Regard To Self-Esteem

Regardless of the research paradigm that we draw on, boys and girls grow up differently. They have different experiences, different expectations and different opportunities (Steinberg, Kehler & Cornish 2010). Ahuja & Thatcher (2005) proved that for men, even qualitative overloads positively correlate with trying to innovate with IT. Men’s desire to acquire the skills may challenge them to explore and learn the technology, and the process of exploration may lead them to trying to find different ways of using it. However, since the females are primarily concerned with their social responsibilities (Hardwick and Salaaf, 2003 from Ahuja & Thatcher), they do not explore technology like men do. Also the research of Venkatesh and Morris (2000) revealed that men consider perceived usefulness to a greater extent than women in making their decisions regarding the use of a new technology, both in the short- and long-term. On the other hand, perceived ease of use was more salient to women compared with men both after initial training and over time with increasing experience with the system. The same research furthermore proved that, although women, in contrast to men, considered normative influences in their decision making process, the perceptions of normative pressure among women were actually lower than the perceived pressure among men. Baron (2004) has looked into how the IM (instant messages) language of males different from females. According to her the females send more IM messages and also took more time than males to close a conversation; the males used more contractions (77.1%) than females (57%), whereas the IM messages of the females resembled paradigmatic writing patterns, those of males resembled face-to-face speech. There was a stark difference of how the emoticons were used by both the genders. Twelve out of 16 females used emoticons whereas only one out of six males used this form of expression. Also a study conducted by Farina & Lyddy (2011) suggests that those using text messaging are able to use code mixing and make use of metalinguistic knowledge while texting. This case may be true for Pakistan as well.

Objective: The purpose of this research was to see how self-
Esteem is influenced by netspeak in Pakistani youth. We wanted to see if the students in Pakistan are using this new jargon in the same manner as it is being used in the rest of the world. Venkatesh and Morris (2000) showed that there is a difference on how technology is used and perceived by the different genders. This research investigates if the same difference is established in Pakistan or not. Another area linked with acquisition of the English language was the educational system. Surveys were used to expose difference on how the education system influences netspeak, and furthermore to see how it is used to enhance self-esteem. Since Harter and Whitesell (2003) have already proved that self-esteem is not a state and it can be changed therefore it becomes crucial to further study if self-esteem is being, in any way, affected by netspeak.

H(1): There is an influence of netspeak on self-esteem.

H(2): Self-esteem of young adults is higher than of youngsters. Young adults become more mature and confident, which results in higher self-esteem.

H(3a): The self-esteem of students from the Cambridge System is more than that of students belonging to local matriculation System;

H(3b): The Pakistani students from the Cambridge system and local matriculation system are equally capable of using the netspeak and the new jargon is popular amongst the students of both the systems.

H(4): Males and Females are equally capable of using the netspeak

Methodology

(i) Sampling
To come to conclusions, and to collect quantitative data, convenience sampling was carried out, where 100 students, between the age bracket of 15 and 25, were asked to fill questionnaires on self-esteem and netspeak. The students were
further divided into two groups. The groups were made on the basis of their current educational status i.e. those who have passed the Cambridge/local matriculation system and are in a university (Young adults, 20-25 years), and those who are still a part of these systems (Youngsters, 15-19 years). Young adults were taken from IoBM (Institute of Business Management) and the youngsters were selected from various schools (both Cambridge and Matriculation) of Karachi that were easily accessible.

(ii) Measurement and Procedure:

The questionnaire was developed by taking a questionnaire on self-esteem from selfesteem2go.com3 and by modifying it to suit the needs of our research. The questions in the questionnaire were sub-divided into three parts: inner criticism, self nurturing and help-seeking attitude. Questions for demographic data collection were also added to the questionnaire.

It was further modified by adding questions on netspeak and by placing the questions on self-esteem under the headings of inner criticism, self nurturing and help seeking attitude. There were 7 questions on inner criticism, 9 on self nurturing and 6 on help seeking attitude. The Questions on netspeak were put under the three headings of peer approval, time management and assertiveness. The aim of the questionnaire was to see how the Pakistani youngsters are using netspeak. The questionnaire consisted of simple yes/no answers as in the case of a questionnaire produced by Huffaker(2004). The scale used was: for every positive response, the responders were given 3 points and for every negative response, they were given 1 point. This division was done to enhance the positive responses so that their relationship between netspeak and self-esteem as well as their sub-divisions could be studied.

The questionnaire was modified keeping in view the research by Miller, Brickman, and Bolen (1975) who modified the questionnaire by Rogers and Dymond (1954) that included items which measured self-esteem with regard to peers and parents, school interests, 3 From: http://www.selfesteem2go.com/questionnaire-on-self-esteem.html (modified according to our needs)
and personal interests to measure math-related self-esteem four new items were added. Similarly items related to netspeak were added to our questionnaire to study the relationship between self-esteem and netspeak.

The student’s t-test for independent samples was used to test differences between education systems, youngsters and young adults, and genders. To evaluate relationship between self-esteem and netspeak, we used Pearson’s correlation coefficient test.

**Results and Discussion:**

Regarding H(1), it was found that there is no bivariate relationship between self-esteem and netspeak. The hypothesis tested by using Pearson Correlation test (see Appendix C). Pearson’s Correlation coefficient was -0.054 that shows self-esteem and netspeak are not correlated and also the statistic is not significant. Simple linear regression was used to find the relationship between the self-esteem and netspeak. The regression coefficient was not found significant. It was concluded that both the variables are independent of one another. The first hypothesis is rejected, at least in the Pakistani scenario. It can be said that netspeak is being used by the youth of Pakistan regardless of them having a low or a high self-esteem. It has become a part and parcel of their daily lives and is independent of the variables taken for the study.

It was further observed that there was a positive correlation between peer approval and inner criticism of the Pakistani youth on the whole (see Appendix C). That means that more the inner criticism; more was netspeak used for peer approval. The inner criticism section of the questionnaire had questions such as, ‘Do you like yourself?’ ‘Are you confident all the time?’ Positive answers to such questions would lead to higher inner criticism as each ‘yes’ acquired 3 points. Since inner criticism is positively correlated with peer approval, it means that those who optimistically perceive themselves engage more in netspeak for peer approval.

Regardless of their self-esteem, it was observed that the Pakistani youth was using netspeak not only for time management but also
to seek peer approval and to assert themselves upon others (see Appendix C). This study further proves what Baumeister et al (2003) emphasized in their study. They established the fact that it is not important that those with high self-esteem should be popular amongst their peers or should be more assertive than those with low self-esteem. According to them, people with high self-esteem many think that they are more socially liked and accepted but it may or may not be true. Therefore, High self-esteem does not appear to have much to contribute to leadership (assertiveness) or peer approval as those with low self-esteem have their own way to pursue their social goals. Since netspeak was being used by the youth for peer approval and assertiveness but both of these factors showed no relationship with self-esteem (Appendix C) as already reasoned by Baumeister et al 2003.

To test hypothesis 2, self-esteem of young adults is higher than of youngsters, we have used independent sample t-test (see Appendix B-3). It was seen that there was a significant difference between the self-esteem of youngsters and that of young adults. The major difference was found to be in inner criticism and help seeking attitude of both the groups. Help seeking attitude means reliance and trust on others and according to Lopez et al (1998) a person that has high level of problem and negatively thinks of others and of self is less willing to seek help. They also discovered that such people are not positive thinkers and have a low self-esteem. Therefore, it was but natural that those with higher inner criticism and help seeking attitude should have higher self-esteem, as in case of young adults. I would also like to add here an important observation that Plummer (2007) has made. Discussing about reaction pattern in adults and children she says that adults have more choices that they can make as compared to children (Plummer, 2007). It can be said that the same is true for young adults and youngsters. Young adults are more confident as they have more control over their lives as well as their decision making as compared to the youngsters. Even though the self-esteem of youngsters was lesser than that of young adults (Appendix D, Table D.2), yet there was no difference upon their usage of netspeak.

To test hypothesis 3a, the group was divided into local matriculation and Cambridge systems. Again, we repeated
independent sample t-test to test the given hypothesis. We came to the conclusion that on the whole the self-esteem of those belonging to the Cambridge system was higher than those coming from the matriculation system (Appendix D, Table-D.1). There was a significant difference in the positive inner criticism (Appendix B-2), which is a part of self-esteem of those belonging to the Cambridge system; it was more than those belonging to the matriculation system. As Rehman observes (2004), “In recent years with more young people from the affluent classes appearing in the British O’ and A’ level examinations.” This makes those belonging from the Cambridge System more affluent, and more confident than their counterparts in the matriculation System, resulting in them having more self-esteem.

The hypothesis 3b was proved to be true as the amount of netspeak used was the same for both the groups i.e Cambridge as well as the matriculation. There was no statistically significant difference in the amount of netspeak used by each group. There was a quantitative difference between the amounts of netspeak used to enhance their peer approval i.e those included in the group of the matriculation system, were using more netspeak for peer approval; whereas those belonging to the Cambridge system were using lesser netspeak for peer approval comparatively. But this difference is not statistically significant (Appendix B, Table B-2). The students from the Cambridge system showed more inner criticism than those belonging to the the matriculation system. Inner criticism means self-evaluation and self-understanding. Those with low self-esteem are unaware of their identity and most of all they are unaware of their strengths and weaknesses therefore they lack insight and are unable critically evaluate themselves (Mruk, 2006). Those belonging to the Cambridge system of education scored more in inner criticism showing that they were well aware of their pros and cons which made them more confident individuals.

To obtain the results of hypothesis 4, the group was further broken down according to their gender and it was observed that the self-esteem of both the genders, on the whole, was not significantly different (Appendix B-1). Both the males and females were using the same amount of netspeak in their daily lives. There was no
significant difference in the amount of technology and netspeak being used between males and females. As Steinberg, Kehler & Cornish (2010) emphasize that if we disregard the social and cultural pressures, boys and girls are more alike than they are different. Hypothesis 4, therefore, is rejected.

It was observed that the youngsters were using more SMSs and email messages as compared to the young adults. The youngsters are hence more technology oriented than the young adults. It was also recognized that more SMS messages were used by the youth as compared to email messages (Appendix E). According to Crystal (2001), the users of SMS are increasing where there is a steady lowering of age of phone users. Crystal further points out that texting is recognized globally as it is a cheaper and a more private medium, where the users can communicate easily without disturbing those around them. The same is true for Pakistan where SMS is an affordable way to communicate and as our study proves that youngsters are using more of this medium than the young adults. Moreover, it was witnessed that those in the Cambridge system use more email messages than those in the matriculation system, whereas when it comes to SMS messages, those belonging to the matriculation system use more SMS messages than those from the Cambridge system.

**Conclusion:**

In conclusion, it is vital to note down that Pakistan’s youth, according to our sample, corresponded to the findings of other researchers in some ways, yet they were very different. A common perception in Pakistan that the netspeak is used by the youth to enhance their self-esteem was found to be false according to our results. It can be assumed that the Pakistani youth use netspeak regardless of their self-esteem being high or low. The work of McCroskey et al (1977) should be referred here as according to their findings lowered self-esteem is linked with oral communication apprehension; which means that higher self-esteem is linked with fluent oral communication. He further suggests that writing does not have substantial relationship with self-esteem. The reason why there was no link between the self-esteem and netspeak of Pakistani youth was probably because netspeak is a written medium of communication and not an oral one.
Secondly, the system of education does not play a role in usage of netspeak. The youth may belong to the matriculation or Cambridge educational systems. They use netspeak as it is the language for communication at this point in time. Even though there is a statistically significant difference between Cambridge and the matriculation systems’ students in inner criticism enhancing their self-esteem; yet the amount of netspeak used remains the same. As Crystal (2001) had predicted that netspeak would grow in ‘its sociolinguistic and stylistic complexity to be comparable to that already known in traditional speech and writing’; the same is happening and it is now a mandatory part of a youngster’s or a young adult’s life.

Thirdly, against the common belief in Pakistan that males are more into using netspeak as they are more technology oriented, it was discovered that both females and males were using netspeak; even though each may be using it in his or her own way. It has already been discussed that men consider perceived usefulness of technology, when using technology whereas women consider perceived easiness when considering technology. As netspeak is closely associated with technology, it can be assumed that it is used by males due to its usefulness and is used by women because its easiness. Lastly, SMSs are more used by the youngsters as compared to email messages. The reason may be several but most importantly its ‘spontaneous, natural and in conversational style’ (Vasic, Maslac, and Darrer, 2010) which makes it attractive and convenient for the youth.

**Limitations:** The study involved only 100 students. This small sample size may serve to limit any generalizations of the findings. The sample is not representative because the sample only involved students from one institute and few schools in Karachi that were easily accessible.

**Acknowledgments**
We are thankful to Dr. Leena Askari for her assistance and support that she provided us with this paper. It was only through her guidance that we were better able to understand self-esteem and thus formulate our questionnaire. We would also like to thank Dr. Javaid Ansari for his continuous help and encouragement. Had it not been for his critical comments on our work, it would have been difficult for us to assess our efforts.
References


Baron N. (2004). See you online: Gender issues in college student use of instant messaging: Journal of Language and Social Psychology, Vol. 23 No. 4, December 2004, 397-423


Usage Of Netspeak In Pakistani Youth-In Regard To Self-Esteem


Proposal for a Paradigmatic Shift  

SCALLA Conference on Computational Linguistics


Research
Usage Of Netspeak In Pakistani Youth In Regard To Self-Esteem

**Questionnaire: Self-esteem**

The result of this questionnaire does not evaluate you as a person; it simply indicates your opinion about yourself. Please answer YES(Y) or NO (N) to the following questions:

Age: _______ Gender: M/FM _________
Institution:__________________________________________

**Inner Criticism:**
1. Do you like yourself? ____
2. Do you compare yourself to others? ____
3. Are you concerned about what others say about yourself? ____
4. Do you focus on your failures instead of your successes? ____
5. Do you blame yourself often? ____
6. Are you confident all the time? ____
7. Do you like being alone sometimes? ____

**Self Nurturing:**
8. Do you want to look different? ____
9. Do you take full responsibility for your actions? ____
10. Do you always finish what you started? ____
11. Do you stand up for yourself? ____
12. Do you think that you are talented? ____
13. Do you have goals or dreams to accomplish? ____
14. Do you tell the truths to yourself? ____
15. Do you think you can handle any situations? ____
16. Do you always achieve your goals? ____

**Help Seeking Attitude**
17. Do you feel lonely most of the time? ____
18. Do you feel comfortable attending to a party? ____
19. Do you think that you are worthy to be loved? ____
20. Do you blame others often? ____
21. Do you give before you get? ____
22. Do you need recognition to feel good about yourself? ____

**Questionnaire: Netspeak**

The result of this questionnaire does not evaluate you as a person; it simply indicates your opinion about yourself. Please answer YES(Y) or NO (N) to the following questions:

**Peer Approval:**
1. Do you use net speak because everyone else does? ____
Usage Of Netspeak In Pakistani Youth-In Regard To Self-Esteem

2. Do you feel that using netspeak will help you to be a part of the social system? ___
3. Do you ask your friend what a certain slang means if you don’t know its meaning? ___
4. Do you use netspeak to impress your friends? ___
5. Do you use the new slang immediately after you have learnt it? ___
6. Do you use more netspeak when talking to people of your own age than when talking to adults? ___
7. Do you give preference to words like ‘tyme’ over ‘time’ because ‘tyme’ looks cool? ___
8. Are you impressed by the people who know more netspeak than you? ___

Time Management
1. Do you use netspeak because you think it is faster? ______
2. Do you use auto dictionary because it types complete words quickly? ________
3. Will you be willing to learn to use auto dictionary because it types complete words quickly? ___
4. Do you consider netspeak a time saving device even though at times the message is not fully understood by the receiver? _____
5. Is it true that one of the most important purposes of electronic messaging is saving time? ______

Assertiveness
1. Is it easier to express yourself through netspeak than in words? ____
2. Do emoticons make it easy to express certain emotions which you might hesitate to express on people's faces? ______
3. Is it true that sometimes people don’t take you seriously, that’s when you use electronic messaging to put your point of view across? ______
4. Is it easier to say the harshest things through netspeak? ______
5. When saying harsh or undesirable things through netspeak, do you use emoticons (:p) to mellow down their effect? _____

- Approximately how many text messages do you send daily? ______
- Approximately how many computer messages (e-mail or social network) do you send daily? ______
- Tick your scheme of studies: O-level/ Matric
### Appendix B: Independent Sample t-test

Table B1: Independent Samples Test (Male and Female)

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### Appendix C: Pearson Correlation Tests.

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### Group Statistics (Male/Female)

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### Appendix E.

### Group Statistics

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### Independent Samples T-Test

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INTUITION AS A CRITICAL SUCCESS FACTOR IN EFFECTIVE BUSINESS RISK MANAGEMENT

Linah Askari
Department of Business Psychology
Institute of Business Management,
Muhammad S. Askari
Hamdard University
Ammar Baig
Federation of Pakistan Chamber of Commerce and Industry

Abstract

Decision making is the key to operating a business, but it is the individual decision-maker who guides the business and is responsible for operational success. How the decision-maker reacts in a given situation, and how he/she thinks is at the core of decision making. Important factors such as goals and management style, intuitive thinking, attitude and personality impact on an individual’s approach to risk management decisions. This paper investigates the five styles of intuition such as; i) symbolic and imaginal processes, ii) direct and psychic experiences, iii) sensory and somatic modes, iv) empathic identification, and v) through your wounds - utilized separately or in a blend by the individual decision maker for effective risk management in business, specially within the areas of a) organizational culture and support, b) risk management policy, c) organizational objectives, d) risk identification, e) risk analysis, evaluation and treatment, f) risk monitoring and review, and g) effective risk management - and how each intuitive style influences these areas. The sample consisted of 243 male

Keywords: Intuition, Intuitive, Five Styles, Critical, Success, Effective, Business, Risk, Management.

JEL Classification: Z000
Research  Intuition as a Critical Success Factor in Effective Business Risk Management

and 77 female decision making administrative level personnel within business firms and organizations in Korangi Industrial area Karachi. Each respondent was required to fill an Intuition Questionnaire developed by Rosemarie Anderson (2007) and Risk Management Questionnaire developed by Sullivan and Streater (1999).

The statistical results of the study seem to support the hypothesis that use of ‘intuition’ is highly positively correlated with ‘effective business risk management’, providing evidence through regression analysis that use of intuition has 79% positive influence upon effective business risk management, the higher the intuitive intelligence used, the greater will be effective business risk management and vice versa. In gender differences higher correlations were found for males between use of intuition and effective business risk management.

In addition, results reveal that the intuitive styles of:

i) ‘symbolic and imaginal processes’ has the highest value in correlation with effective business risk management for a) organizational culture and support & b) risk management policy.

ii) ‘direct and psychic experiences’ has the highest value in correlation with effective business risk management for b) risk management policy & c) organizational objectives.

iii) ‘sensory and somatic modes’ has the highest value in correlation with effective business risk management for c) organizational objectives & f) risk monitoring and review.

iv) ‘empathic identification’ has the highest value in correlation with effective business risk management for d) risk identification & f) risk monitoring and review.

v) ‘through your wounds’ has the highest value in correlation with effective business risk management for e) risk analysis, evaluation and treatment & g) effective risk management.
I. Introduction

Risk management is to identify and then manage threats that could severely impact organizational survival. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then identifying appropriate actions to address the most likely threats. Intuition may refer to the act of gaining knowledge by which the mind perceives the agreement or disagreement of two ideas. Intuitive intelligence provides insight to decision makers in business to use their power of intuition in an optimal way. With experience, practice and wisdom they are able to blend their intuitive styles in personal and professional lives for effective business risk management.

According to Kant (2000), “all human knowledge begins with intuition, proceeds thence to concepts, and ends with ideas. All thought must, directly or indirectly, by way of certain characters, relate ultimately to intuitions, and therefore, with us, to sensibility, because in no other way can an object be given to us.”

Wikipedia (2010) defines Intuition, as the knowledge gained by the use of faculty (power, ability) of knowing or sensing; a perceptive insight, it may also be known as guidance and communication for the human beings by the creator. On the other hand, business risk management is the identification, assessment, and prioritization of risks in business. In ISO 31000, business risk management is defined as the effect of uncertainty on objectives, whether positive or negative, followed by coordinated and economical application of resources to monitor, minimize, and control the probability and/or impact of unforeseen events, also to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, legal liabilities, credit risk, accidents, project failures, natural causes and disasters as well as attacks from challengers. ISO 31000:2009 is intended to be a family of standards relating to risk management codified by the International Organization for Standardization.
and its purpose is to provide principles and generic guidelines on risk management.

Hillson (2007) proposed that human beings are an intricate, mixture of the rational and the irrational, which is, a subtle combination of head, heart and guts. While making decisions and managing risk, we seem to favor thinking over feeling. We believe that decision-making and risk management should be structured processes, dispassionately considering options, objectively weighing the odds, and reaching a result that can be fully justified and defended. Yet excluding the non-rational can deny us an important source of information, particularly when dealing with uncertainty. A combination of rational and irrational thoughts with the correct ratio has a remarkable place for intuition in risk management. Intuition may be described as instinctive knowing without use of rational processes. Sometimes we just know it seems right or it may feel wrong somehow, and these feelings cannot be dismissed automatically as unreliable and irrelevant, rather there must be some way we need to use them. ‘Intuition’ is often the result of extensive experience, the product of embedded wisdom, and the voice of distilled expertise. Someone who has worked in an area for a long time will probably have a deep understanding of the issues and complexities involved, and may form a judgment without being able to explain precisely how they got there. This rich source of experience should not be rejected lightly, but needs to be used to improve decision-making and risk management.

A potential danger in using intuition as part of the risk management process appears to be in the fact that as ‘intuition’ is based on previous experiences highly specific to the individual, it may therefore be biased, unrepresentative and depending upon the particular experience of each person. Consequently awareness of the underlying basis for intuitive judgments should aim to turn tacit knowledge into explicit knowledge wherever possible, which enables intuitive assessments to be validated, challenged, and used with confidence (Hillson, 2007).

Douglas (2009) defines risk management as the identification, assessment, and prioritization of risks followed
by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events. Risks can come from uncertainty in financial markets, project failures, legal liabilities, accidents, natural causes and disasters as well as deliberate attacks from an adversary. Several risk management standards have been developed including thereby the Project Management Institute (2006), the National Institute of Science and Technology (1996), actuarial societies, and ISO standards.

Clayton (2009) portrays intuitive thinking as a feeling (a sense) that doesn’t use rational processes such as facts and data. Good intuition comes from years of knowledge and experience that allows one to understand how people and the world works. With experience, practice and wisdom (the ability to optimally, effectively and efficiently apply perceptions and knowledge to produce the desired results), non-intuitive thinking can also become intuitive thinking.

Dane and Pratt (2007) define intuition as “affectively charged judgments that arise through rapid, non-conscious and holistic associations.”

Anderson (2007) proposes five styles of intuition from which people can identify and refine any one as their own preferred style and develop others to enhance their current intuitive skills for self enhancement in personal and professional areas of life. These intuitive styles are;

i. Symbolic and Imaginal Processes

When a person gives significant importance to dreams, symbols, visions, archetypes, and myths to create insight and personal integration, then he/she utilizes this style of intuition for decision making purposes and risk management. Such as the photographer Ansel Adams, painter Georgia O’Keeffe, and nature artist Andy Goldsworthy whose intuitive art reflects the numinous to which others respond and change, these great artists in the West have made spiritual forces of nature explicit to the public.
ii. Direct and Psychic Experiences

Despite their rather common occurrence for some people, psychic (super-natural, spiritual, extrasensory, clairvoyant) and parapsychological phenomena typically are unacknowledged in furthering the insights of scientific research. Presently studies are being conducted on direct and unmediated experiences which include telepathy, clairvoyance, or precognitive experiences that take place at a distance (in space or time). As experiences are typically encouraged by our heart-felt feelings of connection with others and specific circumstances, the researcher’s personal opinion is likely to encourage such experiences while utilizing this style of intuition.

iii. Sensory and Somatic (Feeling) Modes

Those people, who utilize this style of intuition, basically use ‘Proprioception’ and ‘kinesthesia’. Proprioception is known as the third distinct sensory modality that provides feedback solely on the status of the body internally. It is the sense that indicates whether the body is moving with required effort, as well as where the various parts of the body are located in relation to each other. Kinesthesia is known as the sense of movement which serves as an intuitive channel, conveying subtle forms of information typically unavailable to the thinking mind. Typically, information from receptors in joints, ligaments, muscles, and viscera become subliminal to awareness, but when brought to awareness, the same body senses that signal. Danger, beauty, and novelty in everyday life can be finely tuned to serve intuition and imagination.

iv. Empathetic Identification

Through empathetic identification or compassionate knowing, the writers, actors, psychotherapists, and scientists inhabit the lived world of another person or object of study. Psychotherapists utilize this style of intuition for attending the life-world of their clients; they see the world through their clients’ eyes to help them seek possibilities for improvement in life.
Intuition as a Critical Success Factor in Effective Business Risk Management

Through Our Wounds

People are poignantly aware that an individual’s intuitive style tends to settle along the fault lines or wounds in the personality. From a spiritual perspective, wounds are also openings to the world. Explorations along the fault lines of the personality tend to invite change and transform these “openings.” This way of intuition can also be personal and embarrassing, but it can become a prime source of insight and discovery!

Anderson (2007) insinuates that human experience and observations regarding intuition concur with research findings indicating that intuitive experience tend to blend across expressive modes to utilize blends of intuitive styles. For example, internal images often blend with feelings and bodily sensations. The body can act as a unified whole expressing archetypal imagery, and even mythic content, through sensations and movements in a manner independent of conscious thought. It may be possible that advanced tantric practitioners in Hinduism and Tibetan Buddhism may be “visualizing” a deity by using the physical body as a field of projected energy.

Frantz (1997) argue that intuition emerges from the subconscious. It is shown that a successful CEO can correctly analyze a situation faster than a top MBA student. The CEO can draw upon a wealth of information stored in the memory and the brain gathers information stored in memory and “packages” it as a new insight or solution. He extracts that the successful CEO only experiences the intuition; the work is done in the subconscious. For example; grandmasters don’t play by thinking analytically or logically; they play chess intuitively because they rely on the very rapid, pattern-recognition abilities of their subconscious. Similarly, zoologists identify thousands of different insects, and botanists identify thousands of flowers, and the doctors refer to it as a “clinical judgment.”

In explaining the origin of ‘Intuition’, Frantz (1997) argues that people receive intuitions as images, hunches and feelings.
while they are awake or sleeping (dreams and day dreaming). In his view, intuitions can also be incorrect because intuitions are the stored information being packaged in a ‘new way’. So, if the information being packaged is faulty, then so will the intuition. For instance, intuitions of an expert chemist about chemistry are likely to be more reliable than intuitions about chemistry from an economist. He considered that intuitions are images received from the brain and people need to trust that they have a reservoir of creative problem-solving capabilities which their memory and subconscious are guarding, and which their brain can deliver to their conscious mind. He said that, Max Planck (whose research led to the development of quantum mechanics) believed that a “vivid intuitive imagination,” along with analytical skills is the source of creativity and advances in human knowledge.

II. Literature Review

There are numerous cross-cultural case studies for intuition and risk management separately but little evidence appears from case studies, empirical and academic research about the relationship between intuitive intelligence and managing business risk effectively. This study has been conducted to ascertain the ‘relationship between use of intuition and effective business risk management including the influence of all five different styles of intuition identified above upon seven areas of effective risk management in business’.

Morse (2006) suggests that when it comes to decision-making, people ignore their gut feelings at their peril. He supports neuroscientists, who are mapping and identifying the risk and reward systems in the brain that drive decision-making. They control traits as wide-ranging as our drive for reward, our feeling, thought and attitude to risk, and our emotional and rational selves, all of which impact on the type, quality and speed of our decisions. More often, he proposes that the emotional circuits in our brains take over from the deliberative ones, whether we like it or not.

Goman (2007) reveals that thousands of successful managers and executives make business decisions using their
intuition but they call it a hunch, a gut feeling, or a flash of insight. Andrew Carnegie, John Rockefeller, and Conrad Hilton are famous examples of executives who relied heavily on, intuitive business decisions.

Dean (2008) studied the relationship between intuition and business success at the New Jersey Institute of Technology. He found that 80 percent of executives whose companies’ profits had more than doubled in the past five years had above average precognitive powers.

Robinson (2006) suggests that people really need to think about using their intuitive intelligence for decision making and to grow their business. She also argues that a lot of people immerse themselves in data, look at all the facts, but in the end listen to their gut feeling. She suggests that the sayings about taking a deep breath, getting some distance from a problem and “sleeping on it” turns out to be right on the cutting edge of modern psychology.

Agor (1995) found that of the 2,000 managers he tested, higher-level managers had the top scores in intuition. Most of these executives first digested all the relevant information and data available, but when the data was conflicting or incomplete, they relied on intuitive approaches to come to a conclusion.

An executive search firm, Christian and Timbers (2002) conducted a survey which revealed that fully 45% of corporate executives relied more on instinct, than on facts and figures in running their businesses. The results depict that human intuition works as a decision-making tool offering a reliable alternative to painstaking fact gathering and analysis. Furthermore, top managers expressed their feelings in their interviews that scientific research on intuition encouraged them to become increasingly confident in utilizing intuitive intelligence when faced with complicated choices.

Gardner (2002), states that at best, an intuitive leap can mark a breakthrough, when the personnel enter an area where the unknowns are high and experience is important, they need to
rely on intuition, and if they don’t they are cutting themselves short.

Chapman (1998) recognizes that effectiveness of working group risk identification and sub stages of the overall process of project risk analysis and management have the largest impact on the accuracy of intuitive abilities.

Parikh (1994) conducted an international survey and proposed that many business personnel become accustomed to put their intuitive intelligence into practice throughout their life. The sample size of this survey was 1312 managers of nine countries, the results were reported that almost 80% admitted to using intuition and believed that it contributes to corporate success, and more than 70% believed that intuition also is important for research and development. Furthermore, almost 60% believed that intuition could be enhanced in everyone.

Bignotto and Filho (2003) characterized the use of risk monitoring mechanisms by 19 coffee and soybean trading and processing companies and also investigated the role these mechanisms play in the mitigation (alleviation) of certain transaction costs associated to bounded rationality, intuition, information asymmetry, and business opportunism in negotiations. This result indicate that the mitigation or alleviation of ‘transaction costs’ associated with intuition, information asymmetry and opportunism might be stronger motivations for interest in risk monitoring mechanisms than the costs resulting from bounded rationality which are much higher and are cut down by the use of intuitive intelligence.

Fenton-O’Creevy, Soane, Nicholson, and Willman, (2010) reported on a qualitative investigation of the influence of emotions and intuition upon the decision making of traders in four City of London investment banks, a setting where work is dominated by rational analysis. It was concluded that regulation of emotions and intuitions plays a central role in traders’ decision making. Differences were revealed between high and low performing traders on the basis of how they engage with their
intuitions. Different strategies for emotion and intuition regulation have material consequences for trader behavior and performance. Traders deploying antecedent-focused intuitional and emotional regulation strategies achieve a performance advantage over those employing primarily response-focused strategies. It was argued that, in particular, response-focused approaches incur a performance penalty, in part because of the reduced opportunity to combine analysis with the use of affective cues in making intuitive judgments.

The following is the summary of key findings with supporting evidences (Fenton-O’Creevy, Soane, Nicholson, and Willman, 2010).
research

Intuition as a Critical Success Factor in Effective Business Risk Management

Robinson (2008) provides advice about ‘Intuition’ from ‘Business Leaders’ such as:

- *Michael Eisner*, former CEO of the Walt Disney Company who states that ‘balanced emotions are crucial to intuitive decision making.’

- *Donna Karan*, fashion designer avers who signifies that ‘one of our greatest gifts is our intuition. It is a sixth sense we all have - we just need to learn to tap into and trust it.’

- *Masaru Ibuka*, founder and chairman of Japan’s Sony Corp in an interview revealed that the secret of his success was a ritual. Preceding a business decision, he would drink herbal tea and before he drank, he asked himself whether he should make that deal or not. If the tea gave him indigestion, he wouldn’t make the deal. He trusted his gut, and knew how it worked for him. He believed that his body was smarter than his mind.

- *Carly Fiorina*, former chief executive officer, president and chairman of Hewlett-Packard recommends connecting the heart, the gut, and the mind in every decision one makes. He thinks that leadership requires a strong internal compass which can tell you whether you’re doing the right things for the right reasons in the right ways.
* **Tom Peters**, management consultant and bestselling author avows that leaders trust their guts but ‘Intuition’ is one of those good words that have gotten a bad rap. In his opinion, the sixth sense seems a practical way to make tough decisions and he feels that the crazier the times are, the more important it is for leaders to develop and to trust their intuition.

* **Peter Senge**, MIT Sloane School of Management confess that people with high levels of personal mastery cannot afford to choose between reason and intuition, or head and heart, any more than they would choose to walk on one leg or see with one eye.

* **Tom Prichard**, vice president for marketing at Leap Frog discloses that their team uses gut instinct a little bit like scientific principle, where they’ve got a hypothesis — a spark that comes from gut instinct — and they try to validate it with teachers, children, and parents. When there’s a big difference between their research and their instinct, it sends up a red flag. Many a times they found that the instinct was correct.

* **Chuck Porter**, chairman of advertising agency Crispin Porter & Bogusky - creator of the BMW Mini campaign reveals that when it comes to creating advertisements, they don’t research it. They don’t believe in testing ads with focus groups and believe that this kind of research doesn’t ever work. So when they finish an ad, they use the system of ‘personal feeling’ to understand how people will resonate by looking at the ad and how they would reach out and grab their product. Basically they use instinct, because they know their audience so well.

* **Doug Greene**, chairman of New Hope Communications acknowledges that when he doesn’t feel good in his stomach about any decision he does not care even if the numbers say to make a billion dollars. That’s how important intuition is to him and proves an actual feeling either way. When he doesn’t feel good, it’s just like a stomachache or a nervous stomach and when a decision feels right, it’s like a great meal for him.
*Richard Abdoo,* chair and CEO of Wisconsin Energy Corporation confirms that when they move to a deregulated marketplace, they don’t have this slow process of hearings and review and two years to make a decision. They have to make decisions within a timely manner to process the best information available and infer from it and use their intuition to make a decision.

*Robert Tucker,* author of ‘Managing the Future’ depicts that innovation, by its nature, means that you’re doing something that’s never been done before. There are no step-by-step recipes, and no market research which can guarantee success. But going with your gut can become a kind of sixth sense that can tell you to ‘keep the faith and continue’ or ‘throw in the towel’. It can help you read people’s true intentions and character, it can help you spot trouble spots, and think of novel solutions to problems, and alert you very quickly when something’s not working. The only time intuition will not work is when it is tuned out. That is, when the person using intuition becomes greedy or desperately needy, then the intuition has no ignition.

For the past 20 years, the ‘business intuitive’ Robinson (2010) has provided consultation to the companies around the globe and used her intuition to get inside the heads of their prospective clients and their competition. She is an insightful and engaging speaker on the challenging topic of ‘intuition’. She used the *case study research design* as a useful tool for investigating trends and specific situations in her consultations within business industry. The following *three case studies* evidence her successful business consultancy:

- A global public relations (PR) firm competing for a multi-million dollar consumer electronics account, wanted to know as much as possible about the competition, the individuals on the decision making team, and their prospects. Lynn Robinson provided specific information before the first meeting and before each of the subsequent meetings to make them won the account, by thoroughly scoping out the prospects which included:
  - Details about the competing PR firms.
• Personality profiles of the decision makers and what role each of them play.
• Information about what the client is looking for in a PR firm.
• Insight into the politics of the decision making team.
• Information about who is on their side and who is not.
• Recommendations about what to include in the pitch to better the odds of winning.

➢ A multi-national chemical company was competing with huge competitors for a multi-million dollar account.

They called in Lynn Robinson and gave her the name of the prospective client. She accurately assessed partnerships, mergers and acquisitions and provided the chemical company with the following specific information:

• How the merger would be perceived by employees, stockholders and customers.
• How to communicate with the groups about the merger in order to create consensus.
• The challenges the merger would present and the best strategies for overcoming them.
• The strengths and weaknesses of the individual chosen to be the division head.
• Understanding of his personality traits and how they could best be applied to create a successful post-merger environment.

The merger proved highly successful for all concerned.

➢ A software development firm was experiencing difficulties with their senior IT manager. The timing of this issue was especially acute because they were about to launch a new product. After meeting with the principal, Lynn Robinson rapidly resolved employee problems as she quickly:

• Identified the specific behavioral learning problem the employee was experiencing.
• Provided insight about how the employee perceived the difficulty.
• Suggested several low cost, easily implemented solutions.
• Advised his supervisor and his colleagues about how best to communicate with him.

Following her recommendations, the firm kept a valuable, top-level executive.

Goldston (2009) conducted case study researches in ‘Intuition Business’ which portrays that when a person follows a hunch, or do something because it seemed totally right at that moment, or didn’t do something because the person had a “knowing” and it ended up saving a lot of money or maybe even their life, it is commonly known as ‘Intuition or gut feeling’, and it is rapidly becoming the last must-have tool in the armory of the very successful business personnel. One of his case studies reveals that ‘intuition’ can serve as ‘top sales agent’s secret weapon’. Intuitive intelligence was utilized to get to the real root cause of why people weren’t buying or where they were very interested in the offering. More importantly it was extracted, where there was no interest at all, so the sales person can quickly move on to another potential customer. Hence, intuition or gut feeling was used on a regular basis as a tool to help make multi-million dollar business decisions. Another case study uncovers that ‘intuitive intelligence’ has been used by ‘top tycoons’. People like Donald Trump, Sir Richard Branson, Walt Disney to name a few are people who have all listened to their “inner knowing” and followed it, sometimes on multi-million or even multi-billion dollar deals. They have acted on it and been proved right time after time. Often that “inner knowing” had no basis in logical reality, yet it demonstrated competence.

III. Methodology

In order to determine the relationship between intuition styles and effective business risk management we took a sample of 243 male and 77 female decision making personnel from the firms of Korangi Association of Trade and Industry (KATI), which represents more than 2500 industrial, commercial and service
units in Karachi. A good response rate was obtained, as we approached 410 personnel and received 320 responses. The survey method was used to solicit information from the respondents, which is popular in an organizational setting, and according to Frey, Botan, Friedman and Kreps (1991), it enables the researcher to learn about the characteristics of a large population and to gather information from respondents representing a specific population about their values, decision making, attitudes, behavior patterns and beliefs. Rubin, Rubin and Piele (1996) propose that the methodology of survey research should include identifying interest group population, selection of the research participants, determining the method for collecting information, construction of survey questions, and ultimately collection and analysis of the gathered information.

The present study has two objectives: (1) to ascertain the relationship between intuition styles of decision makers and the effectiveness in their business risk management, and (2) to derive the influence of different intuition styles upon the different aspects of effective business risk management.

Since each intuition style reveals a different conceptual framework to be associated with different sets of experiences and each can be used in different aspects of life, it was important to ascertain the relationship of each intuition style with different aspect of business risk management. The responses of decision making personnel enabled the researcher to associate each intuition style with related aspects of business risk management as follows:

i) The first intuitive style, ‘symbolic and imaginal processes’ correlates with effective business risk management for a) organizational culture and support & b) risk management policy. As to develop a close link between the strategic objectives and management of risks within an organization, the managing personnel require strong positive imaginations guiding towards decisions.

ii) The second intuitive style, ‘direct and psychic experiences’ correlates with effective business risk management
for b) risk management policy & c) organizational objectives. As the risk management policy is effectively documented and promulgated throughout the organization by the managing personnel who have strong and direct psychological experiences of decision making with wisdom, truth and trustworthiness.

iii) The third intuitive style, ‘sensory and somatic modes’ correlates with effective business risk management for c) organizational objectives & f) risk monitoring and review. As in applying risk management processes and developing related plans, the managing personnel examines and documents the strategic relationship of the organization with its environment through SWOT analysis for which s/he requires a balanced coordination between the inner and outer self of a person.

iv) The fourth intuitive style, ‘empathic identification’ correlates with effective business risk management for d) risk identification & f) risk monitoring and review. As to carry out a systematic and comprehensive identification of the organization’s risks relating to each of its declared aims and objectives, the managing personnel require empathy to influence others and undoubted intuitive feelings and images to make successful decisions.

v) The fifth intuitive style, ‘through your wounds’ correlates with effective business risk management for e) risk analysis, evaluation and treatment & g) effective risk management. As to establish the scope, responsibilities and evaluation for risk analysis, and monitor the effectiveness of risk management, the managing personnel require making their life challenges as a source of insight and transforming their weaknesses and mistakes into their greatest strengths.

Each respondent was required to fill the ‘Intuition Questionnaire’ developed by Rosemarie Anderson (2007). This questionnaire is designed to help an individual to identify the strength of his / her five intuitive styles, on a Likert-scale (with the scoring of never=1, seldom=3 and always=5), from which people can identify and refine any one as their own preferred
style and develop others to enhance their current intuitive skills for themselves in personal and professional areas. The intuitive styles are; i) symbolic and imaginal processes, ii) direct and psychic experiences, iii) sensory and somatic modes, iv) empathic identification, and v) through your wounds.

Then the respondents were administered the ‘Business Risk Management Questionnaire’ developed by Sullivan and Streater (1999) on a Likert scale (with the scoring of strongly disagree=1, neutral=3 and strongly agree=5). This brief questionnaire is based upon the requirements of ‘Risk Management Standard’ AS/NZS 4360.1999 issued by ‘Standards Australia’. The questionnaire has been endorsed by Price Waterhouse Coopers.

The questionnaire is divided into the following segments: a) organizational culture and support, b) risk management policy, c) organizational objectives, d) risk identification, e) risk analysis, evaluation and treatment, f) risk monitoring and review & g) effective risk management. Questions focus on how the individual identifies and communicates, utilizes effective processes to manage risks across the enterprise, and utilizes business risk management infrastructure.

**Critical values** for the levels of intuition on Anderson questionnaire are:

- Less use of intuition = scores from 30 – 70
- Average use of intuition = scores from 71 – 110
- Higher use of intuition = scores from 111 – 150

Critical values for the levels of effective business risk management on Sullivan and Streater questionnaire are:

- Ineffective business risk management = scores from 65 – 150
- Average business risk management = scores from 151 – 230
- Effective business risk management = scores from 231 – 315
Targeting of the participants was based on the following formula:

\[ H = N \ldots (1) \quad n = \frac{N}{1 + N (e)^2} \]

Where \( n \) is the sample size, \( N \) is the population size and \( e \) is the level of precision with a 95% confidence level and a position of (+5 percent) i.e. \( P = .05 \). The researcher’s total population size was 2500 employees of 120 organizations listed in the Korangi Association of Trade and Industry. Twelve organizations failed to provide the required data and had to be eliminated from the study. Each organization provided approximately three decision making personnel as respondents. The calculations derived from the given formula are:

\[ n = \frac{2500}{1 + 2500 (.05)^2} = 320 \text{ participants} \]

Keeping in mind that the research response rate may be low within our culture, 410 personnel were approached through email and a few directly face to face. Fortunately we received exactly 320 responses. Statistical analyses of the obtained scores were computed on SPSS (Statistical Program for Social Sciences) version 17.

IV. Results and Discussion

Hypothesis 1: Use of Intuition is positively correlated with Effective Business Risk Management. (The greater the intuitive intelligence used, the higher will be the effectiveness in business risk management and vice versa).

The empirical results shown in the tables and graphs below indicate that hypothesis (1) is accepted, for the whole sample population. Hence use of intuitive intelligence shows higher effectiveness in business risk management.
Intuition as a Critical Success Factor in Effective Business Risk Management

<table>
<thead>
<tr>
<th>Table 1a Correlations</th>
<th>Intuition</th>
<th>BusinessRiskManagement</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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<tr>
<td>BusinessRiskManagement</td>
<td>Pearson Correlation</td>
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<td></td>
<td>Sig. (2-tailed)</td>
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<td></td>
<td>N</td>
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**. Correlation is significant at the 0.01 level (2-tailed).

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<th>Sig.</th>
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<td>3177.534</td>
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<td></td>
<td>Total</td>
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</table>

a. Predictors: (Constant), Intuition
b. Dependent Variable: BusinessRiskManagement

<table>
<thead>
<tr>
<th>Table 1c Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
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<tbody>
<tr>
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a. Dependent Variable: BusinessRiskManagement
Table 1d

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<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
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<td>889</td>
<td>790</td>
<td>968</td>
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</table>

a. Predictors: Intuition

As both the regression coefficients and coefficient of determination are statistically significant and posit the hypothesis that risk management ability is positively and significantly affected by overall intuitive capability is accepted.

Hypothesis 2: Use of Intuition is more positively correlated with Effective Business Risk Management in Males as compared to Females.

The empirical results shown in the tables and graphs below indicate that hypothesis (2) is accepted, for both male and female population. However, the correlation between use of intuitive intelligence and effective business risk management is significantly higher (beta = 0.791) for males than females (beta = 0.290). The beta coefficient is significantly high at marked comparative level.

Table 2a

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Intuition Males</th>
<th>BRM Males</th>
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<tbody>
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<td>Intuition Males</td>
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<td>N</td>
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<td>243</td>
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<td>BRM Males</td>
<td>Pearson Correlat.</td>
<td>.791**</td>
</tr>
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<td>Sig. (2-tailed)</td>
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<td>N</td>
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**. Correlation is significant at the 0.01 level (2-tailed).
Intuition as a Critical Success Factor in Effective Business Risk Management

Graph 2a

Histogram

Dependent Variables: BRMfemales

Graph 2b

Normal P-P Plot of Regression Standardized Residual

Dependent Variables: BRMfemales

Graph 2c

Normal P-P Plot of Regression Standardized Residual

Dependent Variables: BRMMales
Research  Intuition as a Critical Success Factor in Effective Business Risk Management

<table>
<thead>
<tr>
<th>Table 2b ANOVA* Model</th>
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<td>1446.475</td>
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a. Predictors: (Constant), IntuitionMales
b. Dependent Variable: BRMMales

<table>
<thead>
<tr>
<th>Table 2c Coefficients*</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
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a. Dependent Variable: BRMMales

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a. Predictors: IntuitionMales
### Table 2e: Correlations

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<tr>
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<tr>
<td>Pearson Correl.</td>
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<td>Sig. (2-tailed)</td>
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<td>N</td>
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* Correlation is significant at the 0.05 level (2-tailed).

### Table 2f: ANOVA

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a. Predictors: (Constant), IntuitionFemales
b. Dependent Variable: BRMFemales

### Table 2g: Coefficients

<table>
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<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standz. Coefficients</th>
<th>95.0% Confidence Interval for B</th>
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<tr>
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<td>Std. Error</td>
<td>Beta</td>
</tr>
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a. Dependent Variable: BRMFemales

### Table 2h: Model Summary

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<td>.463</td>
<td>.552</td>
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<td>7</td>
<td>.000</td>
<td>2.226</td>
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</table>

a. Predictors: IntuitionFemales
We have provided regression for male intuitive score on overall risk management capability of males and found that both the coefficient of determination and the regression coefficient were significantly positive. As against this when we regressed the aggregate intuitive score of female respondents on their total risk management capability, the value of both the regression coefficient and coefficient of determination were significantly lower than that of males although the positive significant relationship between risk management and overall intuitive capability was still evident.

Therefore, our hypothesis that there is a more pronounced posits correlation between overall intuitive capability and risk management capability in male respondents is vindicated.

_Hypothesis 3: There is positive correlation between intuitive styles and factors of business risk management as follows;_

(i) Intuition style, “symbolic and imaginal processes” has the highest value in correlation with effective business risk management for;

a) Organizational culture and support

b) Risk management policy

(ii) Intuition Style ‘direct and psychic experiences’ has the highest value in correlation with effective business risk management for;

b) Risk management policy

c) Organizational objectives
(iii) Intuition Style ‘sensory and somatic modes’ has the highest value in correlation with effective business risk management for;

c) Organizational objectives
f) Risk monitoring and review

(iv) Intuition style, “empathetic identification” has the highest value in correlation with effective business risk management for;

d) Risk identification
f) Risk monitoring and review

(v) Intuition Style “Through Your Wounds” has the highest value in correlation with effective business risk management for;

e) Risk analysis, evaluation and treatment

The empirical results shown in the tables and graphs below indicate that hypothesis (3) is accepted, for the whole sample population.
Table 3a Pearson Correlations coefficient r
**. Correlation is significant at the 0.01 level (2-tailed) &
*. Correlation is significant at the 0.05 level (2-tailed).

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<tr>
<td>Intuition - Symbolic and Imaginal Processes</td>
<td>.698**</td>
<td>.768**</td>
<td>.367*</td>
<td>0.253</td>
<td>0.196</td>
<td>0.311</td>
<td>0.197</td>
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<tr>
<td>Intuition - Direct and Psychic Experience</td>
<td>.378*</td>
<td>.593**</td>
<td>.632**</td>
<td>0.183</td>
<td>0.324</td>
<td>0.219</td>
<td>0.106</td>
</tr>
<tr>
<td>Intuition - Sensory and Somatic Modes</td>
<td>0.165</td>
<td>0.237</td>
<td>.547**</td>
<td>.367*</td>
<td>0.174</td>
<td>0.598**</td>
<td>0.283</td>
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<tr>
<td>Intuition - Empathetic Identification</td>
<td>0.213</td>
<td>0.142</td>
<td>.382**</td>
<td>.772**</td>
<td>0.115</td>
<td>0.596**</td>
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<td>Intuition - Through Your Wounds</td>
<td>0.256</td>
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<td>0.245</td>
<td>0.196</td>
<td>.689**</td>
<td>.431*</td>
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Intuition as a Critical Success Factor in Effective Business Risk Management

Mean Plots

Graph 3(i)a

Graph 3(i)b

Graph 3(ii)a

Graph 3(ii)b
Table 3b showing Regression Correlation Beta (Significant Correlations’ are underlined)
With R² = goodness of fit for each

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Wounds: 2
Intuition as a Critical Success Factor in Effective Business Risk Management

Mean plots

Graphs 3(iii)a

Graph 3(iii)b

Graph 3(iv)a

Graph 3(iv)b
In hypothesis 3(i) we hypothesized that the intuitive style described in the literature as ‘symbolic and imaginal processes’ is more significantly related to the variables ‘organizational culture and support’ & ‘risk management policy’ which are constituents of the overall risk management capability indicator. Our regression results show that this is indeed the case and the regression coefficients as well as the coefficient of determination are highly significant for both the independent variables. We also found a significant positive relationship between ‘organizational objectives’ and intuitive ‘symbolic and imaginal processes’ although the value of the regression coefficient is smaller and significant at a lower confidence level.

In hypothesis 3(ii) we hypothesize that the intuitive style ‘direct and psychic experiences’ has a high and positive relationship with ‘risk management policy’ & ‘organizational objectives’. Our results again validated these findings as the values of regression coefficient and coefficient of determination were positive and significant for both these variables. We also
found a significant and positive relationship between ‘direct and psychic experiences’ intuition style and ‘organizational culture and support’ of risk management, although the association was significantly weaker.

In hypothesis 3(iii) we hypothesize that the intuitive style ‘sensory and somatic modes’ would be positively associated with ‘organizational objectives’ & ‘risk monitoring and review’. However our results showed that while there was a strong positive relationship with ‘risk monitoring and review’, ‘organizational objectives’ were weakly associated with lower values of both correlations and beta of ‘organizational objectives’. Also it was found that intuition ‘sensory and somatic modes’ was weakly related with ‘risk identification capability.

In hypothesis 3(iv) we hypothesize that the intuitive style ‘empathic identification’ will be highly correlated with ‘risk identification’ & ‘risk monitoring and review’, and our results vindicated this hypothesis.

In hypothesis 3(v) we hypothesize that the intuitive style ‘through your wounds’ is positively related with ‘risk analysis, evaluation and treatment’ & ‘effective risk management’ capability. Again these results were vindicated.

Comparison of Results with international studies

Our results of hypothesis 1 are supported by Panasonic’s founder Matsushita (1989) who confirms that no matter how deep a person studies about a business deal, one has to rely on their own intuition. Matsushita’s intuition saw markets even before they existed. When the statistics revealed that the first-year production of a new foot warmer should be half a million, he glanced over the figures and intuitively decided it to be “one million”, which the company made and sold easily.

Our results of hypothesis 2 are supported by Gregory (2005) who provides evidence of gender differences between women’s and men’s intuition by showing that many of the supposed differences in intuition actually comes from the
understanding of the meaning of the word intuition. She argues that there may be some social factors which had lead women’s conclusions to be ascribed as “intuitions” more readily than men’s. She exclaims that it is a mix of ‘observation, deduction and cross-referencing’ the different pieces of information to recognize trends and patterns – it is not unlike the way people create economic forecasts or predict election results. There might be some of the perceived difference between men and women’s intuition: women’s observations are more likely to be called ‘intuitive’ to soften them, while men might be more reluctant to use the word ‘intuition’ for their hunches because it appears less confident and there may be social pressures on men not to focus too much on passing impressions or predictions openly.

Childre and Cryer (2010) while comparing the gender differences of decision makers, propose that intuition does not always appear as an ingenious breakthrough or something grandiose. Intuitive thoughts, feelings, and solutions often manifest themselves as good old common sense, and this common sense becomes efficient through learnings in past experiences to provide the positive or a negative feedback of the consequences.

Schminke (1999) concludes that significant sex-based differences exist in management traits, intuition, attitudes, behaviors, risk management, reactions to organizational settings, or organizational treatment. Deaux (1984) concludes that gender in and of itself is of little use in examining social behavior in general. This view is consistent with the structural approach to sex differences that follows the work of Kanter (1977) and others (e.g., Feldberg and Glenn, 1979; Markham et al., 1985). The structural approach suggests that whatever differences in socialization women may bring to organizational settings are checked by structural organizational roles and rewards. Therefore, men and women are expected to respond similarly to similar occupational settings. According to this view, female managers are similar to men (Morrison et al., 1987; Powell, 1990).

Our results of hypothesis 3 are supported by Naparstek (1997) who as a psychotherapist believes on intuition as the sixth sense
and imaginary use for healing, and unity of logical mind with wisdom of the heart, grounded in the cultivation of empathy which opens the heart and expands sense of intimate connectedness with the universe.

Understanding of business and market behavior has been developed by the advent of behavioral finance (De Bondt, Palm, and Wolff, 2004; Thaler, 1993) which has drawn upon the insights of cognitive psychology to incorporate the “irrational” elements of cognitive biases and collective sentiments, such as herding behavior, into models of financial decision making. However, the main role accorded to intuition to date is that they are portrayed as interfering with rational cognition, or seen as outcomes of the decision process affecting anticipated utility.

V. Conclusion

This study contributes to our understanding of the role and relationship of intuition in work, business and decision making in several distinct ways. Traders and their managers are frequently preoccupied with the effective regulation and use of intuition in their work. Our work points to the value of a more nuanced understanding which considers the role of intuition in decision making, the differential impact of various intuition regulation strategies, the conditions under which “gut-feel” may support effective decision making and the role of empathic responses in understanding the behavior of other managers or decision makers within the market.

Effective intuition regulation seems to be a critical success factor in trading, for our findings suggest that the strategies for intuition regulation adopted by expert, higher performing traders are qualitatively different from those of lower performing traders. In particular, higher performers are more inclined to regulate intuition through attentional deployment and cognitive change and may display a willingness to cope with negative feelings in the interests of maintaining objectivity and pursuing longer term goals (Gross, 2002). By contrast, less expert traders engage either in avoidant behaviors, such as walking away from the desk, or
Invest significant cognitive effort in modulating their intuitional responses (Grandey, 2003).

The study also provides evidence that more effective intuition regulation strategies can be learned in a business decision-making context. While an individual’s preferred approach to intuition regulation is likely to be influenced by personality traits, neuroticism and extroversion in particular (Gross & John, 2003), our interviews with traders and their managers also point to the importance of traders’ learned strategies for intuition regulation. Importantly our study also suggests that defensive emotion regulation strategies may be problematic because they reduce opportunities to exercise expert intuition.

To conclude, we know that intuition are a rich source of experience in everyday life, but at the same time in work contexts they can be a source of vulnerability, a wayward influence over judgment, and a source of disturbance to process. The more “rational-economic” such environments are, the more likely we are to hold such beliefs (Nicholson, 2000). Our research illustrates that this position is false or, at best, short sighted. The best traders are able to regulate intuition effectively, and incorporate relevant intuition as information—signals, or a kind of radar that contain information about risks, what is going on in the minds of others, and the weight and relevance to be accorded to one’s own past experience.
References


Intuition as a Critical Success Factor in Effective Business Risk Management


Intuition as a Critical Success Factor in Effective Business Risk Management

Dr. Frantz, professor of economics at San Diego State University, is Director of the annual INTUITION 2000 Conference. He is co-editor of Intuition at Work: Pathways to Unlimited Possibilities (New Leaders Press, S.F., CA.). Email: rfrantz@mail.sdsu.edu.
http://www.winstonbrill.com/bril001/html/article_index/articles/251300/article270_body.html


http://www.pz.harvard.edu/pis/hg.htm

http://www.getyourdreamlife.com/intuitioninbusiness.htm


625
Intuition as a Critical Success Factor in Effective Business Risk Management


Intuition as a Critical Success Factor in Effective Business Risk Management


**Intuition Questionnaire (IQ)**  
**APPENDIX A**

Complete this informal Intuition Questionnaire to help you identify your Intuitive Styles.

### A. Symbolic and Imaginal Processes

<table>
<thead>
<tr>
<th></th>
<th>Never</th>
<th>Seldom</th>
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<tbody>
<tr>
<td>1. Do you get great ideas from dreams?</td>
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<tr>
<td>2. Does your imagination guide your decisions?</td>
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<tr>
<td>3. Do you see answers to problems as pictures in your mind?</td>
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<tr>
<td>4. Do you have images or symbols around your house or room?</td>
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<td>5. Would you rather play than think?</td>
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<tr>
<td>6. Do your friends describe you as dreamy?</td>
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<td><strong>Total</strong></td>
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### B. Direct and Psychic Experiences

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<thead>
<tr>
<th></th>
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<th>Seldom</th>
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<tbody>
<tr>
<td>7. Do you sometimes know the truth of something without knowing why?</td>
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<tr>
<td>8. Are you often surprised at what you know?</td>
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<tr>
<td>9. Do you know what is happening at a distance to family members?</td>
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<tr>
<td>10. Do answers pop into your mind as though from out of nowhere?</td>
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<tr>
<td>11. Do you often know what to do without knowing why?</td>
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<tr>
<td>12. Do you know who is calling before you answer the phone?</td>
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<td><strong>Total</strong></td>
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### C. Sensory and Somatic Modes

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<tr>
<td>13. Do you get gut feelings about what to do?</td>
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<td>14. Do insights come as sounds or voices heard inside your head?</td>
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<tr>
<td>15. Do you move in a way that is right without knowing why?</td>
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<tr>
<td>16. Do you feel that you can almost smell or taste the truth?</td>
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<tr>
<td>17. Do you ever feel blocked and find later there is a good reason?</td>
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<tr>
<td>18. Do you often think best during or immediately after physical activity?</td>
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### D. Empathic Identification

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<tr>
<td>19. Can you feel another person’s pain?</td>
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<tr>
<td>20. Do your intuitions feel so real that you have no doubt about them?</td>
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<tr>
<td>21. Do you sometimes know what others are thinking?</td>
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<td>22. Do you sometimes feel like you are inside another person or object?</td>
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<td>23. Do people often tell you that you are too sensitive?</td>
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<td>24. Is it easy for you to imagine how others might feel about a situation?</td>
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### E. Through Your Wounds

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<tr>
<td>25. Do your faults help you understand others?</td>
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<td>26. Do you feel that your weaknesses are also your greatest strengths?</td>
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<tr>
<td>27. Do you tend to see the good in difficult situations?</td>
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<tr>
<td>28. Are your life challenges a source of insight?</td>
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<tr>
<td>29. Do your insights sometimes come out of situations that frighten you?</td>
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<tr>
<td>30. Do you learn a lot from your mistakes?</td>
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**SCORING FOR ALL**

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**Contact Rosemarie Anderson** at rosemare@wellknowingconsulting.org for information, fees, and appointments. Copyright © 2007 Rosemarie Anderson, PhD. All Rights Reserved. Provided by Wellknowing Consulting (www.wellknowingconsulting.org), this questionnaire is for educational purposes only and is not appropriate for diagnostic or commercial use.
### Terms Used in the Risk Management Questionnaire

<table>
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<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td><strong>Business Continuity Plan</strong></td>
<td>A document which defines the organization’s approach to dealing with a break in business continuity (because of an outage, that is an adverse business interruption event, has occurred) and the steps the organization should take to ensure uninterrupted availability of all key business resources to support essential or critical business functions and activities.</td>
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<tr>
<td><strong>Governing Board</strong></td>
<td>A governing board is a board (committee) which has been established by law and directs and controls an organization.</td>
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<td><strong>Government Trading Enterprise</strong></td>
<td>The Government Trading Enterprise sector is largely self-funded from user charges and have a commercial charter but may receive funding from the Budget for social programs [non-commercial activities], that is Community Service Obligations (CSOs).</td>
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<tr>
<td><strong>Risk</strong></td>
<td>The chance of something occurring that will, should the event occur, have an impact on the achievement of organizational objectives. It is measured in terms of the likelihood of something happening and the consequences if it happens. Risks can be negative [that is having an adverse impact such as loss or harm] or positive [advantage].</td>
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<td><strong>Reputation Risk</strong></td>
<td>The risk of damage to the organization’s credibility and reputation.</td>
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<td><strong>Risk Alliance</strong></td>
<td>The risk associated with working with partnering organizations.</td>
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<td><strong>Opportunity Risk</strong></td>
<td>The risk of lost opportunities.</td>
</tr>
<tr>
<td><strong>Compliance Risk</strong></td>
<td>The risk of failing to meet government standards/laws and regulations.</td>
</tr>
<tr>
<td><strong>Risk Analysis</strong></td>
<td>Determining the level of risk following consideration of the sources, consequences and likelihood of risks.</td>
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<tr>
<td><strong>Risk Criteria</strong></td>
<td>Measures/standards set by the organization to rank risks and decide whether acceptable or not.</td>
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<tr>
<td><strong>Risk Evaluation</strong></td>
<td>Comparing the level of risk with the risk criteria and deciding whether the risks are acceptable or unacceptable.</td>
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<td><strong>Risk Financing</strong></td>
<td>The methods applied to fund risk treatment and the financial consequences of risk.</td>
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<tr>
<td><strong>Risk Identification</strong></td>
<td>The examination of all sources of risk facing the org. from any activity, function or processes.</td>
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<td><strong>Risk Management</strong></td>
<td>A systematic and logical process of identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable an organization to minimize losses and maximize opportunities.</td>
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<td><strong>Risk Management Champion</strong></td>
<td>A senior executive manager or similar person (or team) who supports the effective development, implementation and review of the risk management framework within the organization.</td>
</tr>
<tr>
<td><strong>Risk Management Framework</strong></td>
<td>Management policies, procedures and practices applied by the organization to the task of identifying, analyzing, evaluating, treating, monitoring and communicating risks.</td>
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**Intuition as a Critical Success Factor in Effective Business Risk Management**

<table>
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<tr>
<th>Risk Management Plan</th>
<th>A document which sets out the:</th>
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<td></td>
<td>? Strategic context and objectives for risk management</td>
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<td></td>
<td>? Risks identified/analyzed/assessed/prioritized as having critical impacts on the organization</td>
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<tr>
<td></td>
<td>? Plan to manage strategically important risks.</td>
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<tr>
<th>Risk Management Policy</th>
<th>A document which defines the organization’s strategy and provides guidance for managing risks faced.</th>
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<tr>
<th>Risk Treatment</th>
<th>The selection and implementation of appropriate options for dealing with identified risk.</th>
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<th>Stakeholders</th>
<th>Those individuals, groups, institutions etc (either internal or external to the organization) who are or perceive themselves to be affected by a decision or activity.</th>
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**APPENDIX B**

**Risk Management Questionnaire (Modified Version)**

<table>
<thead>
<tr>
<th>Section</th>
<th>Question</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>How important is effective risk management to the achievement of your organization’s objectives?</td>
<td>Not at All</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1.2</td>
<td>Effective risk management can improve your organization’s performance</td>
<td>Not at All</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1.3</td>
<td>To what degree has your organization developed a close link between its strategic objectives and management of risks (e.g., risk identification is conducted during strategic planning)?</td>
<td>Not at All</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1.4</td>
<td>Management has documented its attitude on risk management for the benefit of all staff (this is separate from a policy)</td>
<td>Not at All</td>
</tr>
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<td></td>
<td></td>
<td>1</td>
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</tbody>
</table>
## Research

**Intuition as a Critical Success Factor in Effective Business Risk Management**

statement referred to in section 2].

1.5 The accountability (responsibility) for risk management within your organization is

<table>
<thead>
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<th>1</th>
<th>2</th>
<th>3</th>
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</thead>
<tbody>
<tr>
<td>documented and communicated</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>understood.</td>
<td></td>
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</table>

1.6 Who is the sponsor or “champion” for risk management within your organization:

Circle all that apply

<table>
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<th>2</th>
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<tbody>
<tr>
<td>the Chief Executive Officer?</td>
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<tr>
<td>another senior executive?</td>
<td></td>
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</tr>
<tr>
<td>Head of Finance?</td>
<td></td>
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<tr>
<td>a committee?</td>
<td></td>
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<tr>
<td>the Risk Manager?</td>
<td></td>
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<td></td>
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<tr>
<td>the Internal Auditor?</td>
<td></td>
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</tbody>
</table>

### 2. Risk Management Policy

This section seeks information about your policy for risk management and how that policy is promulgated throughout your organization.

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Does your organization have a documented risk management policy?</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

2.2 Who approved the policy [the]:

Circle all that apply

<table>
<thead>
<tr>
<th></th>
<th>1</th>
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<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minister?</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Chief Executive Officer?</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board/Executive Management Team?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director of Finance?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Committee?</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Manager?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>other? (please specify below)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.3 How is the policy promulgated throughout your organization [by]:

<table>
<thead>
<tr>
<th></th>
<th>Internally</th>
<th>Externally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Circle all that apply</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>
2.4
To what extent is your organization’s risk management policy promulgated through the following levels:

- Chief Executive Officer/Board?
- Executive management?
- Staff?
- Stakeholders?
- Other [please specify].

<table>
<thead>
<tr>
<th></th>
<th>Not at All</th>
<th>Some</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer/Board?</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Executive management?</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Staff?</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Stakeholders?</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Other [please specify.]</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

3. Organizational Objectives
This section deals with:
§ the objectives of your organization
§ how those objectives are communicated
§ and the context in which risk management operates.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
Research  Intuition as a Critical Success Factor in Effective Business Risk Management

3.1 The aims and objectives of your organization are contained in a documented statement and communicated to management and staff.

3.2 The relative priority of your organization’s business objectives are documented, communicated and understood by management and staff.

3.3 Staff understand how the aims and objectives of the organization link to the objectives in their individual unit/area.

3.4 Staff understand how the aims and objectives of the organization link to their personal [work related] objectives.

3.5 The organization supports the taking of considered risks to achieve objectives.

3.6 The organization supports innovation to achieve objectives in your organization.

3.7 In applying risk management processes and developing related plans, your organization has examined and documented the:

- strategic context: the relationship of the organization to its environment [strengths, weaknesses, opportunities and threats analysis]

1 2 3 4 5

- organizational context: the organization, its capabilities, goals and objectives

1 2 3 4 5

- risk management context [the goals, objectives, strategies, scope and parameters to which the risk management process is to be applied and the need for information and research.]

1 2 3 4 5

4. Risk Identification

This section asks questions about how your organization identifies the risks it faces:

4.1 Your organization carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives.

Strongly Disagree Disagree Neutral Agree Strongly Agree

1 2 3 4 5

4.2 In identifying risks to what extent does your organization consider the following sources of risk:

Circle all that apply
Intuition as a Critical Success Factor in Effective Business Risk Management

Strategic

<table>
<thead>
<tr>
<th>Question</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political?</td>
<td>1</td>
</tr>
<tr>
<td>Opportunity risks (the risk of missing opportunities to improve on delivery of the organization’s objectives)?</td>
<td>2</td>
</tr>
<tr>
<td>Environmental?</td>
<td>3</td>
</tr>
<tr>
<td>Alliance risk (the risk associated with working with partnering organizations)?</td>
<td>4</td>
</tr>
<tr>
<td>Reputation risk (risk of damage to the organization’s credibility and reputation)?</td>
<td>5</td>
</tr>
</tbody>
</table>

Operational (risks associated with delivery of services)

<table>
<thead>
<tr>
<th>Question</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial risk (risks arising from spending on capital projects, fraud)?</td>
<td>6</td>
</tr>
<tr>
<td>Project risk (risks of introducing new systems)?</td>
<td>7</td>
</tr>
<tr>
<td>Compliance risk (the risk of failing to meet government standards/laws and regulations e.g. OH&amp;S)?</td>
<td>8</td>
</tr>
<tr>
<td>Risks arising from new ways of working (public – private sector partnerships, outsourcing)?</td>
<td>9</td>
</tr>
<tr>
<td>Public liability risks (public access, safety)?</td>
<td>10</td>
</tr>
<tr>
<td>Natural hazard risks (climatic conditions, earthquakes, bushfires, floods, vermin)?</td>
<td>11</td>
</tr>
<tr>
<td>Technological risks (innovation, obsolescence, explosions and dependability)?</td>
<td>12</td>
</tr>
<tr>
<td>Human risks (strike by employees, loss of key personnel)?</td>
<td>13</td>
</tr>
<tr>
<td>Security risks (premises/computer breaches)?</td>
<td>14</td>
</tr>
<tr>
<td>Risks arising from pilot projects (risk of not learning from pilots)?</td>
<td>15</td>
</tr>
</tbody>
</table>

4.3 Does your organization review, and where necessary amend, its risk profile resulting from:

<table>
<thead>
<tr>
<th>Question</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in organizational structure?</td>
<td>1 2</td>
</tr>
<tr>
<td>Changes in stakeholder relationships?</td>
<td>1 2</td>
</tr>
</tbody>
</table>

5. Risk Analysis, Evaluation and Treatment

This section seeks to establish the extent/scope and responsibilities for risk analysis, evaluation and treatment in your organization.

5.1 Who:

<table>
<thead>
<tr>
<th>Circle</th>
<th>Where</th>
<th>Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) is responsible for analyzing and prioritizing the risks facing your organization

(b) decides on how to address the risks

(c) approves the risk management plan

? the Minister?

Circle Where Applicable

1 1 1
Research Intuition as a Critical Success Factor in Effective Business Risk Management

<table>
<thead>
<tr>
<th>5.2 Your organization:</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>? collates risks for decision making on what actions to take</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>? knows about the strengths and weaknesses of the risk management systems of other organizations it works with</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>? analyses and evaluates opportunities it has to achieve objectives.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

5.3 Does your organization have an up to date:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>? business continuity plan?</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>? disaster recovery plan for information technology?</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>? risk management plan?</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
6. Risk Monitoring and Review

This section seeks information on how your organization monitors, reviews and reports on risks which eventuate.

6.1 Monitoring the effectiveness of risk management is an integral part of routine management reporting.

6.2 The organization’s senior management is receptive to all communications about risks, including bad news.

6.3 The level of control by the organization is appropriate for the risks that it faces.

6.4 Reporting and communication processes within your organization:

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>§</td>
<td>support the effective management of risk</td>
<td>1 2 3 4 5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>§</td>
<td>support the effective management of risk between staff and management</td>
<td>1 2 3 4 5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>§</td>
<td>are appropriate for responsible managers understanding the risks faced by the organization</td>
<td>1 2 3 4 5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>§</td>
<td>are appropriate for informing/consulting with key stakeholders on the management of significant risks faced by your organization</td>
<td>1 2 3 4 5</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

6.5 Does your organization’s most recent Annual Report include:

- [ ] description of the risks faced by your organization?
- [ ] description of risk management by your organization?
- [ ] risk management declaration by the Board and/or Chief Executive Officer?

6.6 a. Excluding your organization’s Annual Report, is the organization required (for example by law, direction, request) to provide information on risks and risk management to other (external) organizations etc?

- [ ] Yes
- [ ] No
7. Effective Risk Management

This section seeks information on the effectiveness of the risk management components within the organization. If a component is not in place then please circle not in place. However, if the component is in place then circle the most appropriate rating of its effectiveness.

<table>
<thead>
<tr>
<th>7.1</th>
<th>To what degree has risk management improved performance and/or outcomes in the following areas:</th>
</tr>
</thead>
<tbody>
<tr>
<td>?</td>
<td>more robust corporate planning?</td>
</tr>
<tr>
<td></td>
<td>achievement of objectives?</td>
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<td></td>
<td>development of public policy?</td>
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<td></td>
<td>quality of service delivery?</td>
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<td></td>
<td>resource allocation and utilization?</td>
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<td>information systems?</td>
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<td></td>
<td>management reporting?</td>
</tr>
<tr>
<td></td>
<td>communication in the organization?</td>
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<tr>
<td></td>
<td>Development of a learning culture in the organization?</td>
</tr>
<tr>
<td></td>
<td>management of stakeholders and customers?</td>
</tr>
<tr>
<td></td>
<td>organisational change?</td>
</tr>
<tr>
<td></td>
<td>reputation management?</td>
</tr>
<tr>
<td></td>
<td>public perceptions?</td>
</tr>
<tr>
<td></td>
<td>increased recognition and uptake of opportunities?</td>
</tr>
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<td></td>
<td>physical asset management?</td>
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<tr>
<td></td>
<td>recurrent budget management?</td>
</tr>
<tr>
<td></td>
<td>project management?</td>
</tr>
<tr>
<td></td>
<td>accountability requirements?</td>
</tr>
<tr>
<td></td>
<td>other? [please specify]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Best Practice</th>
<th>Well Developed</th>
<th>Reasonably Well Developed</th>
<th>Basic</th>
<th>Non Existent</th>
</tr>
</thead>
<tbody>
<tr>
<td>72</td>
<td>Overall, at what stage of risk management practice development does your organization consider itself to be at</td>
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<tr>
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<td>5</td>
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</tbody>
</table>
COST OF HEALTHCARE MANAGEMENT IN PAKISTAN: AN EMPIRICAL VIEW

Javed Ahmed Chandio
Institute of Commerce,
University of Sindh, Jamshoro, Pakistan

1. Introduction

Healthcare and its management have been a core issue in the societal development of nations. Pakistan hitch started in this sector during its infancy in early fifties but still suffocating after more than sixty years for optimum preventive and curative treatment facilities at a wider spectrum. Man has always been compelled to adapt himself to changing conditions, and it is precisely the uncertainties of our environment that dictate progress. We are bound to obey this iron law, bearing in mind that the time for mere reform is past. We live today in a time of revolution, of sweeping changes in social policy and in our own thinking. Ours may be an age of enlightenment, yet none of us can fail to note its glaring discrepancies. Public opinion is more critical than ever of what doctors do, increasingly skeptical of diagnoses, therapies and drugs.

The goals for health systems, according to the World Health Report 2000 - Health systems: improving performance (WHO 2000), are good health, responsiveness to the expectations of the population, and fair financial contribution. Duckett (2004) proposed a two dimensional approach to evaluation of healthcare systems: quality, efficiency and acceptability on one dimension and equity on another. In another approach it can be divided into prophylaxis, therapy and rehabilitation. Drug therapy can indeed look back on astounding successes; but on the negative side these achievements are faced by a multitude of problems that have been solved only in part, if at all. In almost half a century back when mass
immunization against major killer diseases just started it was advised to strengthening of human resistance by natural immunity, brought about by a natural, sensible mode of life, by activity and self discipline, by forging harmful luxuries, by a whole food diet free of chemical additives (Rathscheck 1974). This concept has come back recently. Now scores of natural ingredients are promoted for their antioxidants and immuno-stimulant properties. Levinger and Mulroy (July 2004) described three major factors for improving the quality and coverage for healthcare services. These three factors are common goals, trust and complementarity. They also suggested for research and innovation in finding the ways and means for sharing responsibilities in providing healthcare services. Boufford and Lee (2001) accepted the fact that high spending for healthcare did not produce better health in the US. Other authors (Bunker 1995; Evan, Barer and Marmor 1994; Wilkinson 1997) attributed clinical preventive services such as immunization, screening for the early detection of cancer and early treatment of hypertension as the reasons for mortality.

Time has changed. This is the era of globalization and high communication networking. With reference to prevention, polio is still one of the diseases affecting mortality and morbidity of children in Pakistan despite the fact that the efforts have been maximized in terms of vaccination. The disease is prevalent in notable numbers in India, Pakistan, Afghanistan and Nigeria. It appears that while vaccines have its role to play hygienic living condition and a pollution free environment are basic necessities for the complete eradication of this disease. It is alarming to observe that even after so many years of efforts polio could not be eradicated from a number of countries including Pakistan. (http://www.polioeradication.org/Dataandmonitoring/Poliothisweek.aspx). Among these countries the major ones are as follows: Pakistan 189 cases, Chad 130 cases, Congo 92 cases, Afghanistan 74 cases and Nigeria 51 cases. Polio vaccination campaigns have met with distrust in certain communities, including that of northern areas in Pakistan. In some areas of Khyber Pakhtunkhaw the distrust was so high that community leaders motivated the local people not to entertain healthcare workers giving polio vaccines. It is realized that community engagement is very important in eradicating such diseases.
In the treatment sector e-consultation is becoming increasingly common, while telesurgery and robotic surgery have passed the experimentation stage and are near future possibilities. At this juncture we need to revamp the system. New ideas and practices need to be introduced and modification for older ones is a necessity. E-prescription has been introduced with the rising use of Internet. On the one hand it facilitates the doctor, the pharmacists and the patients. On the other hand it traces the treatment and disease pattern of any particular patient. The e-prescription (National Health Services 2008) will limit the indiscriminate prescribing practice and eliminate the quacks, since they would not be permitted to link with the pharmacists and will localize the dispensing to specified pharmacists whom the doctors will be able to go back in case of any change in the prescription on a periodical basis. Additionally data for individual patients will be available for extended use as well.

2. Health statistics

If we analyze the socio economic conditions prevailing in the country, we see healthcare facilities are a major neglected area. Although there has been an appreciable change at city level where private entrepreneurs have contributed significantly by opening up healthcare facilities (e. g. hospitals) in populated localities, there is much to be desired at tertiary level.

It is perceived that high population density is one of the culprits for poverty, and therefore affects progress and prosperity of a country, but the following findings do not support this perception (United Nations 2008) on a general basis. Other factors play their roles too.

Countries like The Netherlands, UK, Germany and Italy have developed despite their high population density. Thus the perception that densely populated areas must remain poor is not valid. Even the populous Bangladesh is coming out of its dark period. Its exchange rate has improved, export increased and the government is concentrating on more long term projects.

Pakistan’s population growth is declining steadily, thanks to the family planning program of the government. But it
is still unfavorable when compared with neighboring countries (Economic Survey 2009 - 10):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>66.5</td>
<td>65.1</td>
<td>2.10</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>66.1</td>
<td>59.0</td>
<td>1.29</td>
</tr>
<tr>
<td>China</td>
<td>73.1</td>
<td>20.2</td>
<td>0.66</td>
</tr>
<tr>
<td>India</td>
<td>63.7</td>
<td>78.6</td>
<td>1.55</td>
</tr>
<tr>
<td>Indonesia</td>
<td>70.8</td>
<td>29.9</td>
<td>1.14</td>
</tr>
<tr>
<td>Malaysia</td>
<td>74.4</td>
<td>13.8</td>
<td>1.72</td>
</tr>
<tr>
<td>Nepal</td>
<td>66.7</td>
<td>47.5</td>
<td>1.28</td>
</tr>
<tr>
<td>Philippines</td>
<td>71.1</td>
<td>20.5</td>
<td>1.96</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>74.1</td>
<td>18.5</td>
<td>0.94</td>
</tr>
<tr>
<td>Thailand</td>
<td>68.9</td>
<td>17.6</td>
<td>0.62</td>
</tr>
</tbody>
</table>

Source: World Bank, U.S. Census Bureau, International Database, Planning Commission, Quoted In Economic Survey Of Pakistan 2009 - 2010
The low population growth of Bangladesh gives an idea that the country has been able to control its birth rate effectively. The evolution of healthcare management in Bangladesh is quite noteworthy despite the fact that it became independent in 1971 and remained a part of Pakistan during 1947 – 1971 periods. During the last almost forty years Bangladesh has taken many concrete steps helping their country to stabilize and prosper. The ‘Grameen Bank’ of Nobel Laureate Dr. Muhammad Younus is just one example who started microfinancing through poor working women in 1976. Now he is providing loans for establishing ‘Yogurt Factories’ throughout Bangladesh. If we compare infant mortality rate and life expectancy at birth with selected countries including Bangladesh we see that once again Bangladesh is better than Pakistan (Economic Survey 2009-10):

3. Core Issues

3.1 Registration and pricing of medicines

In Pakistan there are more than 400 manufacturers and 40,000 registered brand name medicines (Pharmaguide 2011 – 12) with an increase of almost a thousand brands per year and 60,000 plus sales outlets (Dawn 2006). It is simply not possible for a doctor to keep in mind 40,000 names not to say their properties, effects and side effects. Experience shows that the GP on an average can manage quite well with about 100 products. With these, however, he is completely familiar. With some consultants the figure may rise to 150. (Rathscheck 1974). There are instances where certain medicines have been banned in the world (e. g. Celecoxib for arthritis and joint pain), (WHO 2005) but are available locally (Pharmaguide 2011 – 12). This product is registered in favor of 42 manufacturers in Pakistan. This is not an isolated case. There are other cases as well. A detailed study of all such products may be conducted through another research.

Pharmaceutical business is considered one of the most lucrative businesses from international perspective. And for Pakistan, it is true to its core. The number of registered brands is just one example, high price approved by the Ministry of Health is another. A good number of medicines are having exorbitantly
high price. High prices are approved based on the prices of such products in the US and Europe purposely ignoring their availability in the third world countries, e.g., Bangladesh, Sri Lanka, India, etc. If India and Bangladesh can survive with less number of medicines and multinationals can market their products in these countries at an economical price, why can’t Pakistan compel these multinationals to sell their medicines at a competitive price?

Interestingly enough the price variation of the same generic ingredients with different brand names vary greatly. Here is one example of generic omeperazole 20mg, pack of 14 capsules each. This is an anti-ulcer for stomach ulceration and heartburning. There are 87 manufacturers for this product. Prices have been compared with some selected companies including major multinationals like Novartis, Merck and Sanofi Aventis. (Pharmaguide. 2011-12)

<table>
<thead>
<tr>
<th>Product</th>
<th>Company</th>
<th>Maximum Retail Price MRP Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losec</td>
<td>Barret Hodgson</td>
<td>688.10</td>
</tr>
<tr>
<td>Lozena</td>
<td>Helicon</td>
<td>620.00</td>
</tr>
<tr>
<td>Zolacid</td>
<td>Geofman</td>
<td>400.00</td>
</tr>
<tr>
<td>Lozal</td>
<td>Novartis</td>
<td>210.00</td>
</tr>
<tr>
<td>Omeclid</td>
<td>Merck</td>
<td>188.64</td>
</tr>
<tr>
<td>Encid</td>
<td>Wilson</td>
<td>185.00</td>
</tr>
<tr>
<td>Xerosec</td>
<td>Sanofi Aventis</td>
<td>144.00</td>
</tr>
<tr>
<td>Omececer</td>
<td>PDH</td>
<td>100.00</td>
</tr>
<tr>
<td>Cidpro</td>
<td>Indus</td>
<td>92.00</td>
</tr>
<tr>
<td>Meprazol</td>
<td>Werrick</td>
<td>76.65</td>
</tr>
</tbody>
</table>

Source: Pharmaguide 2011-12

We see the lowest is Meprazol (Werrick) costing less than Rs. 5.47 per capsule, while the highest is Barret Hodgson at Rs. 688.00 costing almost Rs. 49 per capsule. The prices also include major multinationals like Novartis, Merck and Sanofi Aventis having comparable market prices. Two local companies Helicon...
and Geofman have been awarded leader price despite the fact that they are generic companies. Barret Hodgson is the patent holder in Pakistan from its original innovator. The patent has already expired. Worldwide patent rights are exercised for 16 years which has been extended now to 20 years. It has been estimated on the basis of evidence and records that the innovator is able to recover the amount it invests in the development of the NCE (New Chemical Entity) within a period of 16 to 20 years. And therefore the introduction of the generic version is permitted. It is expected that for the sake of patients and in view of the nature of the product the innovator would reduce the price to match the market trend. Main objective is to benefit the patients. But hardly any innovator acts in the public interest. Here comes the regulatory authority that awards and controls the prices. They hardly ask the innovator to reduce the price after the patent expiry.

3.2 Medicines: Effects and side effects

While prophylaxis has its own role, the need for curative medicines can not be underestimated. But the need for preventive medicines has never been given enough emphasis. During the last century the killer diseases were malaria, typhoid, whooping cough, tetanus, smallpox, tuberculosis, measles etc. In some selected cases the government even distributed medicines worth rupees billions to TB sufferers. Some of them i. e. whooping cough, tetanus, smallpox, have been eradicated from the world as well as from Pakistan. But now there are a new series of killer diseases. Top of the list is cancer for which no real breakthrough has been found yet. The prevention can only be exercised through diet and style of living in a pollution free environment. Followed by cancer are cardiovascular diseases, depression, AIDS and now the scary Dengue Fever and Bird Flu. Recent research discloses that the pre-hypertension state of a person may increase the chances of heart diseases.

There are over 400 licensed pharmaceutical companies in the country, including 30 multinationals (IMS International, 2007). Approximately one-third of Pakistan’s total consumption of
pharmaceuticals is imported. Import is permitted only for a short period just to give the importers sufficient time for establishing their manufacturing facilities. But the concerned importers manage to continue the import of such items beyond the specified period.

Pakistan’s pharmaceutical industry is worth approximately US$ 1.2 Billion (Rs. 101 Billion) with an annual growth rate of approximately 10%. (Pharmaceutical statistics 2011) The market is comprised of large branded products from multinational companies which are producing and marketing research based products and also other big and small national companies which predominantly produce and market generic products. The market share is 53.3% for multinationals and 46.7% for national companies. The top 50 companies enjoy 83.5% market share and the top 100 companies have 94.0% market share. There are 20 multinationals in the top 50 companies (IMS International, 2007)

In addition to capturing more than half of Pakistan’s pharmaceutical market, the multinationals have other profit making tactics as well. The issue of transfer pricing by multinational pharmaceutical companies has been dealt with in depth by Sanjay Lal (1980) and are accepted as a way of doing business.

While talking to side effects we have several examples from the past. The famous thalidomide tragedy can never be forgotten. In this tragedy 5,000 children were born malformed and mutilated damaged in the womb, because their mothers had taken thalidomide as a sleeping pill. (Rathscheck 1974). Imodium drops (for diarrhea) had to be banned by the government of Pakistan after several infants at Nishtar Medical College, Multan died of intestinal paralysis, though the firm knew it from the very beginning that the product does have serious side effects particularly for infants. Intestopan and Entox (two antidiarrhoeals, the first one from Sandoz and the second from Wyeth) were reformulated under compulsion by the government because both the medicines caused SOMN (Sub-Optic-Myelo-Neuropathy) disease causing night blindness. Enterovioform had the same side effects to a much higher degree and the
manufacturer Ciba Giegy had to withdraw it from the world market after such side effects were reported in Japan on a large scale. Tetracycline drops and syrups were banned due to their severe adverse effect on children. Vioxx is one of the examples which made news in the international media and the story is not over yet. In its April 15, 2008 issue ‘Business and Finance’ reported a news item of Reuter mentioning the unethical practice of a giant multinational conglomerate Merck & Co. (Note 2) The product was withdrawn from the world market in 2004.

3.3 IFPMA Code and pharmaceutical marketing (IFPMA Code 2006)

There is a Code of conduct for pharmaceutical marketing practices. The Code has been developed by International Federation of Pharmaceutical Manufacturers Association (IFPMA). There are ISO 9000 series for standardization of procedures in manufacturing and quality assurance. For pharmaceutical marketing IFPMA Code (2006) is a benchmark for all. Although multinationals operating in Pakistan are IFPMA members, national companies are not. When it comes to following the Marketing Practices Code even the multinationals do not observe the same as it should.

3.4 Services fees

Not only are the prices of medicines exorbitantly high in case of certain companies the fees charged by the consultants are equally exorbitant for a common patient requiring special treatment e. g. heart surgery. To find out the treatment costs borne by the patients for selective specific disease we conducted a survey on 15 selected private hospitals of Karachi. Major findings are as follows. This was a qualitative survey and was conducted mainly to find out the treatment cost for individual diseases.

Doctors’ fee varied a wide range of

Rs. 300 – 1,200 per visit

Cost of tests recommended by the doctors

Rs. 1,000 – 15,000
**Per year cost of medicines or individual surgical procedure including post surgical treatment and cost of medicines for specific ailments was as follows:**

<table>
<thead>
<tr>
<th>Illness</th>
<th>Cost Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancer</td>
<td>Rs. 300,000 – 1,000,000</td>
</tr>
<tr>
<td>Kidney impairment (including dialysis)</td>
<td>Rs. 500,000 – 1,000,000</td>
</tr>
<tr>
<td>Cardiac surgery (including angioplasty or bypass surgery)</td>
<td>Rs. 150,000 – 500,000</td>
</tr>
<tr>
<td>Hypertension and related ailments</td>
<td>Rs. 50,000 – 120,000</td>
</tr>
<tr>
<td>Diabetes and its associated complications</td>
<td>Rs. 30,000 – 100,000</td>
</tr>
<tr>
<td>Arthritis and related disease</td>
<td>Rs. 30,000 – 100,000</td>
</tr>
<tr>
<td>Peptic ulcer and related ailments</td>
<td>Rs. 30,000 – 100,000</td>
</tr>
</tbody>
</table>

Unlike developed countries, patients in developing countries lack the support of government or philanthropists to meet the expenses adequately. The meager support that is available is further eroded due to high cost of medicines and exorbitant consultation fees. Private organizations employing major part of the work force are not compelled to extend medical facilities for their employees. Although certain measurements are mentioned in the law about such requirements, punitive actions for noncompliance are hardly taken.

Although medical tourism for surgical procedures is not new to the world, it is a new development in this part of the region. People from Pakistan travel to India for surgery since the cost of surgical procedures in Pakistan are comparatively high. Such services include joint replacement (knee/hip), cardiac surgery,
dental surgery, cosmetic surgeries, in-vitro fertilization and assisted reproductive technology.

India has developed its Millennium Development Goal (MDG) to improve its health conditions. The National Rural Health Mission (NRHM) launched in April 2005, and a part of the United Progressive Alliance’s (UPA) has a commitment to increase public expenditure in the healthcare sector from 0.9% to 2-3% of GDP over the next 5 years (Chatterjee 2006). It has time bound targets for each activity and is slated to wind up by 2012. There is also a plan to improve access to healthcare at the household level through the village link workers called ASHA (Accredited Social Health Activists) (Chatterjee 2006). We have our Lady Health Visitors (LHVs) on the same line, but we have restricted their performance and productivity to maternal and child healthcare only.

4. Conclusions and proposed remedial solutions

The practice of IFPMA (International Pharmaceutical Manufacturers Association) should be made mandatory. To manage the high treatment cost consultation fees may be standardized. While approving the prices of pharmaceutical products the Ministry of Health may do a comparative study of prices of similar ingredients existing in comparable countries. There needs to be a liaison among the health departments of selected countries for this purpose. Healthcare paramedics (e.g., retail pharmacists) need to be trained adequately. The number of pharmacies in a locality also need to be optimized.

It appears that research culture in the country particularly for medical field, needs improvement. Sufficient incentives should be provided to the clinicians and other relevant people for conducting in-depth research in their respective fields.
Notes:

1. IFPMA Code: The IFPMA Code sets out standards for the ethical promotion of pharmaceutical products to healthcare professionals to ensure that member companies’ interactions with healthcare professionals are appropriate.

- No financial benefit or benefit-in-kind (including grants, scholarships, subsidies, support, consulting contracts or educational or practice related items) may be provided or offered to a healthcare professional in exchange for prescribing, recommending, purchasing, supplying or administering products or for a commitment to continue to do so. Nothing may be offered or provided in a manner or on conditions that would have an inappropriate influence on a healthcare professional’s prescribing practices.

- Companies should provide the same core product information (such as contraindications, warnings, precautions, side effects and dosage) in all countries as it provides in developed countries.

- Promotional aids should be of minimal value and should be related to the work of the recipient healthcare professional. Possible examples include pens, notepads and surgical gloves. Promotional items intended for the personal benefit of the healthcare professional, such as music CDs, paintings or food baskets would not be acceptable.

2. ‘Business and Finance’ April 15, 2008 (Reuter)

“CHICAGO, April 15, 2008 (Reuters), Merck & Co Inc suppressed evidence that its withdrawn arthritis pill Vioxx could harm patients, U.S. researchers charged on Tuesday.
An analysis of court documents suggests Merck knew about the problems years before it acted, the researchers report in the Journal of the American Medical Association. They charge that Merck failed to disclose an internal analysis that found Alzheimer’s patients taking Vioxx had a three times greater risk of death than patients taking a placebo.

“If these findings had been reported publicly in April of 2001, it is likely that many fewer patients would have chosen to use Vioxx and probably many fewer would have been injured,” Psaty said in a telephone interview.

A separate analysis suggests Merck recruited academic researchers to lend their names and credibility to company-written studies used to give evidence of the drug’s safety and effectiveness.

Merck was in litigation over Vioxx, which it withdrew in 2004 after studies showed it doubled heart attack and stroke risks.” (Reuters, 2008)
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Duckett (2004) NA


IFPMA Code 2006

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Cost of healthcare management in Pakistan: An empirical view

Discussion


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World Health Organization (WHO). 2005. Pharmaceuticals: Restrictions and availability. Consolidated list of products whose consumption and/or sale have been banned, withdrawn, severely restricted or not approved by governments. Prepared within the context of the United Nations publication, Geneva, Switzerland
EFFECTIVE CHANGE MANAGEMENT

Murtaza Abbas
Siemens Pakistan Ltd, Karachi

Introduction

According to Brown (2006), change has its impact on all sections of society.

"Change, massive change, is having an impact on all facets of society, creating new dimensions and great uncertainty. The issue facing us today is how to manage change. Organization development provides a renewal process that enables managers to adapt their style and goals to meet the changing demands of the environment. These changes — improving quality, increasing innovation, adopting a customer orientation — are so fundamental that they usually mean changing the organization’s culture." (Brown 2006, 94)

Business organizations need change for their survival. Auster, Wylie and Valente (2005) are of the opinion that people who are willing to change are attracted by organizations. “So when new folks are hired, ease back on trying to make them ‘fit in’, and instead try to value what they bring to the table that is unique.” (Auster, Wet al 2005, 167)

Change is a continuing and never-ending process of organizational life. Even though people like to explain, predict, and control the process, organizational change often does not unfold in predictable ways. (Van de Ven & Sun 2011, 58)

External and internal factors of change

It has now become impossible for organizations to stay competitive without adopting change and there are various reasons as to why changes are necessary. First and foremost, the main reason is external pressure. Kreitner and Kinicki (2007)
see four external forces for change — demographic characteristics, technological advancements market changes, and social and political pressures. In order to survive in the changing environment, individuals and organizations have to adapt to these changes. Change in the economies of scale also leads to changes in the organization calling for the firm to form cost-effective strategies, hence, altering budgets. According to Paton and McCalman (2008), change management provides solutions to organizations which face difficulties because of global recession.

“The final cause of change in organizations is where the organization tries to be ahead of the game by being proactive. For example, where the organization tries to anticipate problems in the market place or negate the impact of worldwide recession on its own business, proactive change is taking place.” (Paton & McCalman 2008, 11)

Organizations adopt change also because of internal factors. With the changing external environment comes the need for different goods, services and resources. Therefore, for better outcomes, it becomes essential to fully satisfy these needs and desires. Kondalkar (2010) argues that both external and internal factors force organizations to adopt changes which are required for their survival and effectiveness. He is of the opinion that change management is a must for organizational effectiveness.

“The external environment can play a dominant influence on the actions and reactions of the internal organizational environment. The identified external environmental characteristics will only influence the emergence of corporate entrepreneurship when top management philosophy is to effectively manage change by encouraging and supporting entrepreneurship within the public sector organization. This internal environment of a public sector organization is critical for any corporate entrepreneurship to occur.” (Kearney, Hisrich & Roche 2010, 421)

The concept of change, therefore, can be defined as an alteration and shifting from something that currently exists in the surrounding environment to something different. Change may vary in degree and so determining the nature of change is also of utmost importance. It could be categorized as developmental
change which is a slightly enhanced version of the old procedure, transitional change which is the instant replacement of the old process by a new, completely unfamiliar process or transformational change which is gradual, step by step transition.

**Effective implementation**

Paton and McCalman (2008) have stressed the need for the effective implementation of the change process for gaining desired results. The pace of change is now faster than what it used to be. In today’s world, to remain updated is necessary for survival in the ever changing, competitive environment, it is important to restructure the systems and lifestyles and to adapt new technologies proactively and faster than others. “A technology change is a change in the organization’s production process — how the organization does its work. Technology changes are designed to make the production of a product or service more efficient.” (Daft & Marcic 2010, 262)

The mismanagement of change can be negative for organizations. (Piderit 2000) Not all changes have a positive outcome; some transformations, if not aligned with other elements of organizational life, may produce negative output. It is for this reason that managing the process of transition should not be handled lightly. In fact throughout the process, each and every detail should be properly planned and all decisions should be well analyzed before they are communicated and implemented.

This whole systematic process of planning, initiating, realizing, controlling, stabilizing and sustaining new and altered work activities at the corporate, group and personal level is termed as change management. Heldman (2005) argues that the sequence should always be: 1) Initiate, 2) Plan, 3) Baseline, 4) Execute. “If you arrange your project management activities in this order, you’ve set the basis for a good change management system.” (Heldman 2005, 333)

According to Sisaye (2006), though the environment is constantly changing and organizations adapt to these changes, the forces of inertia reduce the speed of structural change
Effective Change Management

required to adapt to environmental changes. The term change management has at least three different aspects — adapting to change, controlling change, and effecting change. A proactive approach to dealing with change is at the core of all three aspects. For an organization, change management means defining and implementing procedures and/or technologies to deal with changes in the business environment and to profit from changing opportunities. For an individual, change management means adapting to new approaches and lifestyles that help improve the physical, psychological and psychosocial aspects of one’s life.

Though team work is necessary for the success of change in an organization, individual performance of the change leader is very important. Therefore, it would not be wrong to say that success of the change management process is dependant on the individual’s or organization’s action/reaction in response to the change that has taken place in the past, is taking place currently or would take place in the near future. According to Franken, Edwards and Lambert (2009), success in change management is largely dependent upon performance of business leaders who are under constant pressure from stakeholders to comply with their demands while maintaining the organization’s competitiveness in increasingly complex markets.

“Strategy execution is concerned with: firstly, creating a portfolio of change programs that will deliver the strategy; and secondly, it involves attracting, allocating, and managing all the necessary resources to deliver these change programs. It is becoming more critical to organizations’ long-term success to excel at strategy execution: those that do will outperform their peers by a wide margin.” (Franken, Edwards & Lambert 2009, 49)

The work of Oreg (2003, 2006) has focused on isolating dispositional resistance — “an individual’s tendency to resist or avoid making changes, to devalue change generally, and to find change aversive across diverse contexts and types of change” (Oreg, 2003, 680). The process of change requires actions to be taken which effects the way people behave and react. Oreg (2006) also identified three kinds of approaches to handling change — affective component, cognitive component and behavioral component. Affective component is how an individual feels about
the change. Cognitive component is how an individual logically thinks about the change and behavioral component is how an individual reacts towards or against change. This change in their behavior definitely effects the achievement of short-term and long-term goals and objectives.

Oreg (2003) stressed the need for improving the performance of individuals for the success of change. Not every individual is the same and as a result the change process is different for each individual where if one person is open to change, the other may not be open to change. Clearly, in case of individuals their personality and in case of organizations the working environment and culture plays a key role in transitioning to change.

Context and situational sensitivity are of immense importance for leaders and managers who initiate a change process. Those who can sense the situation and understand the context correctly and proactively are generally tipped to do justice to the entire change process. This assumes greater importance with regard to selection of change strategies. Actions and reactions of individuals and organizations consequently vary on the basis of different situations. Understanding situational sensitivity and application of suitable approaches to manage change with regard to the prevailing situation, is not easy for everyone and it requires objectivity and clarity.

Based on the varying background and mindset, participants in the change management process are mostly those who tend to resist change for various reasons. The nucleus of any change is to bring individuals out of their comfort zone and that is why people hesitate to accept change. For many people, the spectra of change produces what is sometimes called the Fear Factor, uncertainty and doubt. Resistance to change therefore is the feeling that occurs when people think that the change will work against them in one way or the other. This threat can be real or it can be just a (false) perception.

Lussier (2011) argues that the four stages of the change process are denial, resistance, exploration, and commitment. There
are the four phases of transition even when facing minute changes in daily life. People might satisfy themselves by thinking that they are going along with the change but in reality they are not readily changing so they might be in a mode of denial where the most frequently occurring thought is “How good things were in the past” and this perception leads to revulsion against hearing new information. In the resistance phase, a person usually goes through reactions and emotions of anger, loss and hurt, stubbornness, blaming others and complaining. This being so people feel as if they are stuck in a situation and there is no way out of it. They tend to focus on themselves with not much concern about the surrounding environment. In such cases, even small success should be celebrated in order to fulfill visions. People forget that their goals are directly or indirectly linked with the broader organizational vision which are in turn dependant on external changes.

A good change management process therefore requires a clear definition of means and ends following the procedure of unfreeze, move and freeze. Unfreeze is the stage where the participants are to unfreeze themselves from their current routine then move towards the new procedure and then freeze themselves according to the new procedure once the implementation process is complicated. Therefore, for a successful transition the right means are essential to be identified. There needs to be a clear definition of means and end which is again a very difficult task. People usually get confused in identifying their means and ends while planning for required changes.

The culture of an individual or an organization is a tool for understanding the nature of relations or interlinks of an organization’s departments and social associates of a person. People tend to be really attached to their culture and after living and working in one culture for a long time, not all can be happy in cultural change because at times change requires many areas to be truncated. Hence, an appropriate culture needs to be identified in order to ensure proper implementation of change; a culture that allows flexibility and promotes a relationship of trust and respect.
Numerous authors have pointed out the significance of communication which helps in removing ambiguities and prepares the people to bring in change, therefore identifying communication as an essential part of the process of change management. For example, Gustin (2007) says a good change management strategy must include communication, discussion and involvement. “In any business setting, a good change management program must include communication. Communication is at the core of the change management program. The change itself should be communicated to the tenant/occupant/employee along with the hows, whys and wherefores.” (Gustin 2007, 209)

Communication is one of the most important tools which facilitate smooth change management in organizations. Through open communication in an organization, management gets to know the employees’ problems and approval or otherwise regarding the change. It then addresses any concerns, and helps employees understand the change and the level of resistance to change decreases. When considering changes in organizations, management needs to make sure that they communicate the change effectively from the beginning as not only will this send out a clear signal to the employees/customers about the change but will also help in better understanding and promote the belonging amongst mess in the organization. This may result in positive effects and make the change easier to adjust to. An open and transparent approach towards communication helps in prevention of conflicts and misunderstandings that are created due to change in actions and deeds and results in the creation of a friendly and respectful social environment.

Communication requires the availability of quality information. This concept actually deals with the quality of information available to the employee in the transformation process. It is logical that the availability of accurate and reliable data decreases the fear of the unknown and helps in achieving organizational goals. If the employees have quality information about the change, its benefits, importance and resulting future growth, they will react less negatively.
Strong leadership is a must for the success of change because managing change is not an easy task. Whether it’s a change organizational leader or the line manager of a department who is responsible for managing change in the organization, good leadership skills are crucial for success. In order to best implement change, the leader should possess certain characteristics, for example, the leader/change agent should be a self-motivator, should possess coaching qualities and his/her style of leadership should be flexible and democratic in nature. In the end, leaders can envision change; however, it is important to note that it is always people who are agents of change. Smillie and Hailey (2001) say that leadership can be defined in many ways. “For some it is about exercising power, for others it is about achieving results, or motivating a team, or energizing followers.” (Smillie & Hailey 2001, 134)

Conclusion

In conclusion it would not be wrong to say that for staying competitive in today’s business environment organizations need to introduce change. For its successful implementation they need a strong team and strong leadership. Leaders and managers should know that communities and organizations are made up of people. It is mostly people who are at the heart of the change process. Therefore, change managers should be able to ensure that their vision is shared by all stakeholders. Those involved and affected by the change should be able to understand the context of the change and they should also be clear about the need and advantages of the change – both on individual as well as on collective levels. A strong leadership is a guarantee for the success of change management.


References


1. Papers must be in English.
2. Papers for publication should be sent in triplicate or by e-mail to:

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   Korangi Creek, Karachi - 75190, Pakistan

   UAN: (9221) 111-002-004 Fax: (9221) 3509-0968, 3509-2658
   E-mails: sabina@iobm.edu.pk, mec@iobm.edu.pk

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For periodicals

Note that journal titles should not be abbreviated.

10. Illustrations should be provided in triplicate (one original drawn in black ink on white paper and or with two photocopies). Care should be taken that lettering and symbols are of a comparable size. The drawings should not be inserted in the text and should be marked on the back with figure numbers, title of paper and name of author. All graphs and diagrams should be numbered consecutively in the text in Arabic numerals. Graph paper should be ruled in blue and any grid lines to be shown should be inked black. Illustrations of insufficient quality which have to be redrawn by the publisher will be charged to the author.

11. All unessential tables should be eliminated from the manuscript. Tables should be numbered consecutively in the text in Arabic numerals and typed on separate sheets. Any manuscript which does not conform to the instructions may be returned for necessary revision before publication.