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Research

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Authors Instructions

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BUSINESS ETHICS AND SOCIAL RESPONSIBILITY*

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Former President Aga Khan University
Karachi

I'd like you to reflect on two matters; the importance of ethical behaviour in your chosen profession and how through assumption of social responsibility, you might deploy your newly gained knowledge to make a difference to our beloved Pakistan.

Perhaps more than at any other time in history, our country is going through a period of major political, ideological and structural change. In the face of widespread social and economic difficulties, it is struggling to take its place in the global community. But with that struggle also comes the opportunity for citizens and professionals alike to make choices about how Pakistan can be made better for generations to come. Among those choices is the very important role of ethics and social responsibility in shaping the way our country is governed, how our institutions, including business corporations conduct themselves at home and in the global marketplace, and, above all, the way we behave as individuals in our communities.

Ethics in our society are deeply rooted in Islam, and there are many references to business ethics in both the holy Qur'an and in the teachings of the holy Prophet (peace be upon him). The Qur'an describes people who attain success as those

* Excerpts from address at the Institute of Business Management's fourteenth convocation, December 2011.

who “. . . are inviting (to) all that is good (khayr), enjoining what is right (ma'ruf) and forbidding what is wrong (munkar).”

This passage indicates that ethics refer to a set of moral principles that distinguish what is right from what is wrong, and what one should do or abstain from doing. Business ethics is a set of moral principles about how a business or an organization is run, and how people within that organization should conduct themselves and make decisions.

Social responsibility, in the context of your chosen profession is an extension of business ethics. It means being a good corporate citizen upholding societal values not only protecting the environment, but improving it. It means contributing to the building of a strong and equitable society, good government and good governance. Above all it means respect for your fellow citizens, no matter how high or low they are placed in society. I emphasize this last point because those of us who are educated and consider ourselves as elites of this country are often guilty of ignoring this important factor.

Sadly, there is no denying today that, business ethics and social responsibility are woefully lacking in Pakistan. Although there are many outstanding examples to the contrary, business people in our country are often viewed sceptically by the general population. And their perceived reputation has spread overseas to a degree that many foreign companies are nervous about trading with Pakistani businesses.

This is not to ignore the widely accepted fact that the current global recession has its roots in the unethical and unscrupulous behaviour of leaders of financial institutions in the West. They have done immense damage to their institutions and the rest of the world. It would be wise to learn from their faulty

and despicable behaviour which demonstrates blatant disregard for ethical behaviour in favour of greed.

Probably not more than a few dozen corporations in Pakistan have clearly defined sets of ethical and moral principles by which they will operate and serve their customers. An outstanding international example of business ethics is provided by Xerox Corporation. Xerox has a 15 page ethical code which it summarises in one simple statement *“We’re honest with our customers. No deals. No bribes. No secrets. No fooling around with prices. A kickback in any form kicks anybody out. Anybody.”*

If you wish to emulate the success of ethical companies such as Xerox, I urge you to make a pledge that you, as individuals, will run your business or your department honestly; as honestly as you would deal with members of your own family. And promise that you will pay your share of taxes. It is well known that in this country of 180 million people, fewer than 2 million pay any direct taxes. Many rich persons and businesses, large and small either pay none at all or use every trick in the book to pay no more than a trifling sum. In fact, like many others in this country, too often businessmen take pride in successfully dodging the taxman. If business leaders call upon our government to be ethical, responsible and transparent in the way it deploys tax revenues for the benefit of society, does it not make sense that businesses themselves should be just as honest in bearing their share of the tax burden?

Some 50 years ago, when I was studying for my MBA, we were taught to concentrate on one thing the only, bottom line. Profit was the motivator the golden rule and it didn’t matter how we achieved it. The adage was not “Sell the best for the least”. Rather, I recall one professor telling us, “Provide goods and services as badly as you can get away with.”

Today, I'm pleased to say, things have changed substantially. Business leaders now acknowledge the positive link between good business and good business ethics. Today, companies are also judged by investors and customers on how they treat their employees, how they provide opportunities for the advancement of women, how they interact with the community and how they support the building of a strong civil society through contributions in cash and in kind.

While progress is slow, we are beginning to see new business practises in Pakistan that emphasise ethics and social responsibility. Indeed, I can testify that the Pakistan Centre for Philanthropy (PCP), whose Board I have the honour to chair, owes much to the support and backing of some of the most enlightened leaders in business, in civil society and in government. The Centre's objective is to enhance the volume and effectiveness of philanthropy for the benefit of the less privileged. Latest research by PCP indicates that over the past ten years, donations by listed corporations in Pakistan have increased 14 fold. This is truly remarkable by any measure. Collectively, this level of giving represents just under 1% of profits before tax, considered the international benchmark. It is also substantially ahead of giving by corporations in most industrialized countries. So we are happy to witness that there are positive aspects to Pakistani corporations and they are at the forefront in fulfilling some of their social responsibilities.

Over a thousand years ago Al-Kindi noted that: "We accept education because it teaches us values". You should think how you will translate your own high moral values and responsibilities learned at this institution into the way you run your business and help to build a better society at the same time.

Please don't abuse your well earned degree and deprecate your hard work in acquiring it by seeking a job or an

opportunity to advance through ‘shifarish’ or favour. Insist on getting it on merit because you deserve it.

Let us also remember that Allah has ordained for all of us a limited time on this earth. Don’t waste any of it and make sure you leave this earth better than you found it. Here it is worth recalling an excerpt from the convocation address to Stanford University graduates in 2005, by Steve Jobs, the head of the Apple Corporation and inventor of Mackintosh, iPod and iPad. He said the following with the knowledge that due to a fatal cancer, he only had a few years left on this earth. “Your time (on this earth) is limited, so don’t waste it living someone else’s life. Don’t be trapped by dogma — which is living with the results of other people’s thinking. Don’t let the noise of others’ opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary.”

It is gratifying that this University is now planning to establish not only a new faculty of engineering but is also contemplating a programme in the arts and sciences. I cannot emphasize enough the importance of imparting a general education in the arts and humanities to graduates in every discipline. Only through this wider understanding of the world around us will we educate a rounded individual fit for purpose of the 21st century and not just another professional who is too narrowly focused on his or her discipline.

This brings me now to my second theme, which is how important it is that you use your education to serve your nation and your society. Let me recall an anecdote about Quaid e Azam at the time of the Delhi conference on partition. Before and during this meeting, he had to work extremely hard to convince his protagonists about the creation of a separate Pakistan; and he

had few comrades who matched the wits of the opposition. One day during this conference, his ADC noted that the Quaid was working very late into the night. His light was on until 3 am while every other leader had gone to sleep around midnight. The young officer next morning asked if every thing was alright and why the Quaid had been awake till so late in the night. The Quaid answered wearily, “all the other leaders were able to sleep because their people were awake. I remained awake because my people are sleeping”.

Ask yourself, how you can repay Pakistan for the remarkable opportunities given to you. Don't just think of how you can land a highly paid job. Think also how you can create new jobs through your entrepreneurship, and how you can serve the nation by participating in its civil society, reducing its poverty and creating opportunities for others. Pakistan has no dearth of material resources. It needs good governance and focused, merit based management. Let it not be said by future generations that Pakistan did not progress because both our people and our leaders were asleep.

AN ISLAMIC CRITIQUE OF NEOCLASSICAL ECONOMICS

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1. Introduction

The founders of Islamic Economics had a vision of a superior and spiritual alternative to the injustices and exploitation of materialistic Western systems. Unfortunately, as Chapra writes: "... Islamic economics has been unable to come to grips with ... the problems faced by Muslim countries." Siddiqi (2008) writes that "All is not well with Islamic economic(s) ... The grand idea of providing an alternative to capitalism and socialism ... has yielded to a desire to join the flock." The idea that, contrary to the insights of early authors, Islam does not have a distinct economic system, has been adopted by many authors; for example, Usmani (1993). While proponents are analyzing reasons for this failure to realize the grand vision, and counseling patience, critics have been much harsher. For example, Behdad (1994) sums up the Iranian experience with Islamizing economics as "It has become apparent that Islamic Economics is not capable of presenting a viable social alternative."

In Zaman (2008), I have surveyed the literature on Islamic economics, and spelled out several dimensions along which Islamic economics is radically different from neoclassical theories. The tremendous prestige of Western knowledge has prevented us from rejecting ideas which conflict with Islamic teachings. But the attempt to put the ideas and methodologies of neoclassical economists in the same basket with dramatically

different Islamic conceptions about economic affairs, is bound to fail. This makes our task much more difficult than the “Islamization of knowledge,” proposed by Al-Attas (1984) and Al-Faruqi (1982). Nasr (1991) has recognized this problem, stating that Islamic Economics has “failed to escape the centripetal pull of Western economic thought, and has in many regards been caught in the intellectual web of the very system it set out to replace.” It is the ease and comfort of borrowing Western theories with minor modifications, which has been an important obstacle to progress in Islamic economics. Despite daunting difficulties, the only path to progress in Islamic economics is to take up the challenge of initiating a new discipline from the ground up. Some potentially fruitful directions have been highlighted in my survey of Islamic economics, Zaman (2008) cited earlier. The vision of the founders is true: there is an alternative to the capitalist system, which is radically different from, and far superior to the Western economic system. Realization of this vision requires effort, teamwork, faith in the fundamentals of Islam, and the self-confidence to reject erroneous conceptions, even when they are put forth by Nobel prize winners.

2. Some Barriers to Building an Islamic Economics

Suppose a mathematically inclined friend points to a lady picking out tomatoes from the supermarket, and says that she is solving the first order conditions for an optimization problem in multivariate calculus. We might laugh at his joke, especially when the lady makes a mistake in adding up the total bill at the cash register. When Samuelson says the same thing, we accept it even though this idea goes against our experience, observations and logic. Blind faith in Western expertise has prevented modern Muslim economists from realizing the opportunities presented by this joke. Dominant Western theories of human behavior are so far removed from reality that it is easy to build better theories

based on our own observations and the Islamic heritage, which offers a much deeper understanding of the human psyche.

Suppose we wish to evaluate the effects of an economic policy. Neoclassical theorists invite us to abstract from complexities by considering a world inhabited by completely selfish human beings. These people are modeled as cold (unmoved by social considerations or sympathy) and calculating (they calculate their own gains to the last penny). The effects of the policy in such a world are calculated without making interpersonal comparisons. The results are translated to the real world in the form of policy recommendations for or against. For example, such considerations lead to recommendations for free trade, based on purely mathematical models, without any reference to history, politics, institutional structures, nature of goods being traded etc. In this section, I will discuss the numerous barriers which have prevented Muslim economists from outright rejection of this methodology which is not only flawed from a scientific point of view, but also in direct conflict with Islamic teachings. Subsequent sections focus on a critique and comparison of neoclassical and Islamic views on economic affairs.

2.1 The Spiritual Barrier

The most important reason for the failure to establish Islamic Economics as an independent discipline is a spiritual law expressed in the Quran as:

Q10:58 Say: "In this bounty of God and in His grace (that is, the Quran), then, let them rejoice: it is better than all that they may amass!"

The same idea is expressed in a Hadeeth narrated by Sa'eed ibn Sulaym radiyal-laahu 'anhu: "If a person who has

acquired knowledge of the Quran considers another person who has been gifted with something else to be more fortunate than himself, he has shown disrespect to the blessings of Allah ta‘aalaah bestowed on him on account of his learning of the Quran.” Our neglect of our heritage, and of the deep wisdom of the Quran and Hadeeth even in the peripheral realm of how best to handle our economic affairs, and the attraction of the glitter and the gold of the West, and their economic theories, is displeasing to Allah. In fact, Islamic methods of handling economic affairs are far superior to those prevalent in the West. Currently, when faced with a conflict between the teachings of Samuelson and those of the Quran, some try to distort Islamic teachings to match the wisdom of the West. Others try to find a resolution or compromise which preserves both intact. Very few have had the courage to reject Samuelson in favor of the Quran, and yet this is required for building the discipline of Islamic economics.

2.2 The Power and the Glory of the West

3:196 Let it not deceive thee that those who are bent on denying the truth seem to be able to do as they please on earth:

We can all observe the dazzling genius of the West, in terms of their conquest of nature, design of intricate and complex machinery and weapons, developments of mathematics and philosophy of unparalleled sophistication, and the acquisition of wealth and technology beyond the dreams of earlier civilizations. This makes it psychologically very difficult to believe that the West could be completely off the mark when it comes to social sciences. Can such tremendous genius be completely blind when it comes to human affairs? Faith in Islam provides a clear answer. The widespread belief in evolution in the West leads them to think of humans as just another species of mammals. Western

theorizing about humans neglects their spiritual and moral dimensions, and hence the most important aspects of human beings. It must necessarily be flawed. Furthermore, the Quran testifies to the fact that this is a common situation – people are wise about the ways of the world, but foolish about the ways of God:

2:13 When it is said to them: "Believe as the others believe:" They say: "Shall we believe as the fools believe?" Nay, of a surety they are the fools, but they do not know.

It is worth mentioning that the person we know as Abu-Jahl was known as Abul-Hakm to his contemporaries, due to his wisdom in the ways of the world. To reiterate, the genius of the West in physical sciences does not imply equal expertise in their understanding of human behavior. The social crises in the West, the decline of family and commitments, increasing sense of meaninglessness of life, and decline in morals, all testify to the failure of Western social sciences. Just as it is important for Muslims to acquire expertise in Western physical sciences, it is equally important for us to build our own social sciences afresh from the understanding of human beings provided by the Quran and the Hadeeth.

2.3 Psychology of the Defeated

Ibn-e-Khaldun (1958) remarked on the tendencies of nations which had been conquered to imitate the Muslim conquerors in all ways, including dress, cultural and dietary habits, etc. Ironically, he suggested that the barbarians who lived in Europe would never be able to progress due to the cold climate they live in. He could never have foreseen that Muslims would blindly imitate and follow these "barbarians" following defeat and colonization by Europeans. This is in accordance with the

predictions of the Hadeeth that My ummah will follow the ways of the Christians and Jews to the extent of crawling into snakeholes (*Sahih Bukhari*).

Muslim leaders all over the world have been faced with the problem of diagnosing the cause of the ills of Muslim society and prescribing cures. An inferiority complex has led them to imitate Europeans without critical thought about those aspects of European knowledge, technology and institutions which are relevant and useful for us. Convinced that European culture was the cause of their superiority, Ataturk created state sponsored institution to promote theater and dance, had European novels translated into Turkish, and passed a law forcing Turks to dress like Europeans. Similarly, Sir Syed Ahmed Khan thought that Muslims would progress by learning the English language, philosophy and manners of the British aristocracy. Very few Muslim leaders have had the insight of the Japanese, who focused on acquiring Western science, technology, and medical expertise, without abandoning their own culture and social manners. Similarly, confused by the common use of the word “science” in both Physical and Social Sciences, Muslims have adopted without critical consideration many incorrect and invalid elements of European social sciences.

2.4 Other Relevant Considerations

Many Muslim writers are in the Western or Western influenced educational or research institutions. Radical rejections of conventional theories would be very damaging to careers, salaries, publications and availability of research contracts to such writers.

Muslims trained in the West have invested a large portion of their lives in learning conventional economic theories. To reject these theories in a wholesale manner depreciates all of

these investments, and puts them at ground zero in effect. It requires a great deal of courage to say that all that I learned, and all the hard work and years I spent learning Western theories was in vain.

Western economists are highly trained professionals. Their analyses of economic problems often contain brilliant gems of insight. The fact that these insights are due to their native intelligence and not to any aspect of economic theory is often missed. In fact, it is quite common for economists to take an intuitive insight based on direct observations, and translate it into the mathematical language of formal economic theory, thereby making it appear as an achievement of economics. One example of this process is given by the recently popular book *Freakonomics*, which purports to show how economic theory gives insights into many diverse types of social phenomena. An analysis and review by Rubinstein (2006) shows that all these insights derive from the native brilliance of the author, and have nothing to do with economic theory. Other examples are given by McCloskey (1998), who shows that Samuelson used heavy mathematical apparatus to impress and acquire authority, rather than for the sake of economic argument.

3. Contrasts between Secular and Islamic Thought

Muslim economists, like contemporary Western economists, are typically ignorant of the historical background of Western theories of social science, and therefore accept false Western claims regarding the scientific status of these theories. Social science is the study of human behavior at the individual and social level. European study of such behavior is naturally based on European experience and European history. This experience has many particularities which do not have relevance to other societies with different histories and different patterns

of social interaction. This idea has been expressed by Mitchell (2002, p. 7) as follows: “The possibility of social science is based upon taking certain historical experiences of the West as the template for a universal knowledge.” In this section, we will analyse certain key concepts at the foundations of the Western economic theory, and show how these emerged from the interplay of political forces in European history, rather than attempts to discover the truth about reality.

Tawney (1926) has written in detail about the historical process by which moral issues were removed from economics in Europe. The ideas of ‘just’ prices, exploitation of laborers, fair treatment of social groups, especially those with little power, and the evils of concentration of wealth and power, are no longer studied by economists. These ideas remain relevant and important in studying society and economic behavior. In general, values came to be regarded as ‘unscientific’ and hence not a part of social science. However, since human behavior is strongly influenced by values, it is virtually impossible to discuss political, social and economic behavior without taking a stand on values. This has resulted in an extremely unsatisfactory methodology in social sciences, where values are hidden in apparently positive formulations. Since moral concerns are foremost in Islam, utilization of Western methodology for social sciences is guaranteed to lead to distortions. In this section, we discuss some of the key differences between Islamic and secular views on economics and show how Islamic views are more plausible.

3.1 Power/Knowledge and the Invisible Hand

30:41 Corruption doth appear on land and sea because of (the evil) which men’s hands have done, that He may make them taste a part of that which they have done, in order that they may return.

Selfish deeds by individuals lead to the spread of corruption and poor social outcomes, contrary to the idea of the “Invisible Hand” promoted by Adam Smith. The author knows of no exceptions to the rule that: *whenever private selfish interests conflict with social interests, pursuit of selfish interests will be harmful to the social good.* Over a century of efforts by economists to formalize the “Invisible Hand” of Adam Smith led to the First Fundamental Welfare Theorem of Economics, which states the above insight in a mathematical form: Selfish behavior by consumers and producers will always cause social harm (deviations from efficiency) except if they are individually so small that their actions have no effect on society (via the price). Mathematically, Smith’s invisible hand obtains only in the limit when the number of consumers (and producers) approach infinity, since in this case each individual exercises an infinitesimal influence on society (this smallness shields the society from the harm caused by selfishness).

The First Fundamental Welfare Theorem of economic theory is the result of efforts to ‘prove’ the invisible hand under the most favorable conditions imaginable, with perfect information, no transaction costs, no externalities, and other unrealistic assumptions. Minor violations of any of a large list of assumptions immediately lead to cases of “market failure” where selfish behavior causes great social harm. Economic theory shows that in cases of monopolies, public goods, prisoner’s dilemma, externalities both positive and negative, research and learning-by-doing, principal agent problems, efficiency wage models, health care, education, and many others, cooperative behavior and/or governmental interventions, lead to superior outcomes. This theory is borne out by practical experience with the Great Depression, the East Asian crisis, and many others, where a free market guided by the invisible hand led to disastrous outcomes. Given that there are no realistic examples (and many counterexamples) to support the idea that selfish behavior leads

to socially optimal outcomes, it is a mystery why this idea remains popular, and is considered a core economic principle, by economists.

This mystery can be resolved by examining the emergence of the idea of the “invisible hand” within the context of European history. A secular system cannot assume a religious basis for morality, and must use a “rule of law” as a substitute. European intellectuals took different positions regarding the extent of governmental regulation required to maintain society. For example, Hobbes thought that selfish actions would lead to life being “Nasty, brutish, and short” and favored a large and powerful government. Locke, Rousseau, Voltaire and others favored a more limited role for the government, arguing that selfish individual behavior would not lead to bad outcomes, and hence did not require strong regulation. Theories favoring strong government directly threatened the aristocracy, who needed theories to support their desire for freedom from governmental and other constraints. Necessity is the mother of invention, and such theories duly came into existence. As Galbraith has said: “The modern conservative is engaged in one of man’s oldest exercises in moral philosophy; that is, the search for a superior moral justification for selfishness.” The Invisible Hand provides such a moral justification for selfishness. As long as the rich and powerful need to protect their power against encroachment by governments, theories like the ‘invisible hand’ and *laissez-faire* will continue to receive widespread support and funding for propagation.

To summarize, consider the two propositions:

Individually selfish behavior leads to good social outcomes	Individually selfish behavior leads to corruption on the earth.
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Which of these two appears more plausible?

3.2 Overuse and Abuse of Mathematics.

An exaggerated respect for Scientific knowledge was a natural consequence of the European loss of faith in the certainties of Christianity, termed “Death of God” by Nietzsche. In particular, the accomplishment of Newton in explaining a large number of natural phenomena by the means of a single law of motion was universally admired. This led to attempts to imitate the methodology of Physics even in areas like economics, where this is highly unsuitable. It is this “Physics-envy” resulting from quirks of European history which explains certain key features of contemporary economic theory.

It is immediately obvious that human behavior is not subject to mathematical laws, and use of mathematics to describe such behavior lends an air of spurious precision without adding insight. Nonetheless, the tremendous prestige of Physics, and subsequent scientific developments in Europe, led to great emphasis on use of formal and mathematical methods in economics. McCloskey (1998) has discussed how Samuelson has used mathematics to impress and appear authoritative, and not because it adds any depth to the economic argument. Echoing complaints by many leading economists about the overuse of mathematics, Blaug (1998) writes that “Economists have gradually converted the subject into a sort of social mathematics in which analytical rigor as understood in math departments is everything and empirical relevance (as understood in physics departments) is nothing.” As a small but representative example, the Nobel prize winning Arrow-Debreu theory describes conditions under which a competitive equilibrium will exist and be efficient. Among the assumptions required for this is the upper semi-continuity of demand functions. Economists can describe the meaning of this assumption

precisely in mathematical terms, but there is virtually no discussion of what this assumption means in terms of human behavior, and how one would verify whether or not it actually holds in any real economy. In Zaman (2005) I have shown how trivial changes in mathematical structures result in radically different economic consequences and yet the relation between mathematical assumptions and human behavior receives virtually no discussion in the economic literature.

The desire to emulate physics leads to the idea that there are ‘natural laws’ governing economics. Just as we do not ask if it is fair or just that stones fall at 9.8 m/s^2 , so natural laws of economics shield us from taking responsibility for the hunger, misery, and economic destitution around us. Recognition that any economic laws that exist do so as a result of our individual and collective decisions about how to structure our societies places a tremendous responsibility squarely upon our shoulders. We choose the economic structure of our societies by legislation, development of institutions, and by teaching our children to be kind and generous (or greedy and acquisitive). Shouldering the responsibility of enjoining the good, and prohibiting the evil, and working to transform human beings from a materialist to a spiritual perspective is fundamental to the message of Islam.

To summarize, consider the following two propositions:

Individual and social behavior, and economic outcomes, are subject to mathematical laws.	Q73:19 Lo! This is a Reminder. Let him who will, then, choose a way unto his Lord. Individuals can choose their path, and their choices cannot be predicted by mathematical laws
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Which of these is more plausible?

3.3 Selfishness as Sole Motivation in Economic Realm

Numerous experiments prove that even in the simplest of situations, human behavior is complex. In experiments with the Ultimatum game, considerations of fairness, sympathy, reciprocity play an important role and often override the profit motive. Nonetheless, economists remain firmly committed to a methodology in which selfishness is the only acceptable explanation of economic behavior. This commitment cannot be explained in terms of descriptive accuracy, or in terms of a deduction from observations of actual human behavior. Indeed this methodology actually hinders accurate perception of human behavior; economists are puzzled by results of the Ultimatum game, which nearly everybody else finds perfectly natural. The desire to emulate Newtonian methodology of Physics provides a better explanation of the economists commitment to utility maximization as the sole principle of consumer behavior. Just as Newton used one law of motion to explain diverse physical phenomena, economists wish to use just one law of behavior to explain all economic phenomena. Mirowski (1989) has described how economic methodology is consciously patterned on physics.

The Quran tells us of the diversity of human goals: Q92:4 Verily, (the ends) ye strive for are diverse. Any methodology which puts all human beings in one basket as being motivated by a single goal is bound to fail. The Quran acknowledges the existence of base desires and motives, and exhorts man to rise above these. This displays a far deeper understanding of human beings than that displayed in any neoclassical textbook. If we say that selfishness is “natural” behavior for all men, then in effect we condone such behavior. If we train our children to be cooperative and generous, we will create a society in which people care for each other.

Economics is not, and cannot be a collection of facts about human behavior, because human beings are fundamentally free. Allah T'aala has shown us the two paths, and left us free to choose between them: Q90:8-10: Have We not given him two eyes, and a tongue, and a pair of lips, and shown him the two highways [of good and evil]? The Quran praises those who give to others while they are themselves poor (Q59:9), showing that such behavior is not only possible (contrary to neoclassical assumptions) but also desirable, praiseworthy, and something to strive for. The image of a scientist as a dispassionate and neutral observer is not compatible with Islamic methodology, which is a fundamental striving for change.

To summarize, consider the following two propositions:

Individuals are naturally selfish, and this motivation is the best predictor of human behavior in economic affairs.	By the process inviting towards the good (Amr bil MaarooF) individuals and societies can be transformed to become cooperative, generous, and trustworthy, and overcome their base desires to be greedy, acquisitive and competitive.
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Which of these appears more plausible?

3.4 Pareto Optimality and Ethical Neutrality

In early twentieth century, influential sociologist Max Weber (1918) asserted that social science should be value free. Widespread acceptance of this claim, and the desire to be seen as “scientific” led economists to present their subject as a ‘positive’ discipline. Neoclassical economics is a supposedly a collection of facts and regularities – economic laws – which could be used by any policy maker for furthering his goals. Acceptance of this claim by Muslim economists has been detrimental to the development of Islamic economics, since denial of the central claims of neoclassical economics is seen as a denial of facts.

Many authors have pointed out the strong set of values embedded in supposedly value-neutral economic discourse – see, for example Nelson (2001). Freedom, represented by free markets and free trade, and wealth, are promoted as desirable values. People who resist disruptions that would be caused by free operations of markets (such as ‘transitional’ unemployment and lack of job stability) are labelled irrational and their preference for traditions and stability over efficiency is considered an undesirable value. This illustrates Foucault’s thesis that “modern human sciences (biological, psychological, social) purport to offer universal scientific truths about human nature that are, in fact, often mere expressions of ethical and political commitments of a particular society .”

As a simple example of how values are hidden behind apparently neutral and scientific statements, consider the concept of Pareto optimality. Economists claim that there is no scientific basis for interpersonal comparisons of utility. Consider a two person society where one person is rich and has far beyond the necessities for survival, while the other is hungry and near death from starvation. According to the Quran, the poor has a right in the wealth of the rich, and it would be ethically required for the wealthy to feed the poor. According to Samuelson, taking money from the rich to feed the poor is an unscientific value judgement. However, *not* taking money is *also* a value judgement: we judge property rights to be more important than the right to life. There are no ethically neutral positions available – we have to decide whether the right to life is more important or whether the right to property takes priority.

To summarize, consider the following propositions:

Economic theory is positive and makes no value judgements. Any re-distribution of wealth requires value judgements, and hence is not part of positive economic theory.	To fail to re-distribute wealth is as much a value judgement as redistribution. When required to save lives, redistribution of wealth is required by Islam.
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Note that implicit acceptance of the first proposition is what allows economists to accept the current state of affairs, where the amount spent on fad diets, treatments for obesity, and other consequences of overeating in the Western world is more than enough to wipe out hunger and malnutrition in the entire world. It is not “scientific” to advocate re-distribution and to think of extracting interest payments from poor African countries as immoral. The right of the capitalists to earn money on their investments is more important than the right of poor African infants to live.

3.5 Scarcity: The foundation of economics

Lionel Robbins defined economics as “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.” This apparently positive and value-neutral definition hides within it the ethical commitments of a secular society. The ‘needs’ of the billionaire for a private jet plane are on par with the needs of a hungry child for food. In a secular society, everyone must be given freedom, to the maximum extent possible, to pursue his or her personal goals. Since needs expand to fill available budget, and one of the goals of producers and marketers is to use advertising to convert wants and idle desires into perceived needs, an illusion of scarcity is created in the midst of plenty.

Many verses speak of the limitless bounties of Allah, and indicate that Allah T’ala has provided amply for the needs of mankind:

11:6 There is no moving creature on earth but its sustenance dependeth on Allah.

Substantial data has been collected to show that food supplies have kept up with human population, in line with the Quranic wisdom, and contrary to Malthusian predictions, repeated more recently by the Club of Rome. In particular, the striking work of Amartya Sen (1983), and many others, shows clearly that ‘scarcity’ is not the reason for poverty and hunger. Rather, the problem of poverty arises because the poor are not considered to be ‘entitled’ to the food. In capitalist societies, a man is entitled only to what he can earn. If jobs are not available, then men may starve in the midst of plentiful food. Islam creates entitlement for the poor, ordaining that:

“In their wealth there is a known right for those who ask for it and those who have need for it.” (Q70:24-25)

Thus Islam strikes at the root cause of poverty, and creates entitlements for the poor which, if implemented, should lead to the eradication of hunger.

Which of these views is correct? This is an empirical matter. The facts show agreement with Gandhi’s statement that “Earth provides enough to satisfy every man’s need, but not any man’s greed.” The surplus wealth in the hands of the 100 richest individuals, or that in the richest 10 countries, or the trillions spent on unnecessary wars conducted for greed, or the amount spent on luxuries, or on illnesses resulting from overeating, are all by themselves sufficient to eliminate hunger and malnutrition on the entire planet. The FDA of USA reports that about 90 billion dollars worth of food is wasted every year. These facts are not consistent with the idea of scarcity – that we need to produce more to satisfy the needs of everyone on this planet.

To summarize, consider the following statements:

There are not enough resources on the planet to satisfy everyone, and therefore we must work on increasing production	There is more than enough production for everyone's legitimate needs. Greed and acquisitiveness lead enormous numbers of people to save vastly beyond their needs, disregarding the needs of others completely.
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The Quranic wisdom of Q7:31 O Children of Adam! wear your beautiful apparel at every time and place of prayer: eat and drink: But waste not by excess, for Allah loveth not the wasters. would be sufficient to cure the ills of scarcity on the entire planet.

3.6 The Keynesian Solution to Scarcity

Once one diagnoses the fundamental problem as scarcity, one is led to propose growth and increase in resources and wealth as the solution. This is precisely the position adopted by Keynes, and many modern followers cited in Nelson(2001). Keynes (cited in Skidelsey n.d.) thought it was temporarily necessary to “pretend that fair is foul, and foul is fair” for “foul is useful, and fair is not.” By pursuing wealth using foul means of avarice and greed, mankind should free itself from the economic problem, so as to be free to turn to higher pursuits:

When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession — as distinguished from the love of money as a means to the enjoyments

and realities of life — will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease ... But beware! The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.

Note the clear statement that for two hundred years, the West has exalted ‘the most distasteful of human qualities [love of money] into the position of the highest of virtues.’ Keynes, and his followers, the neoclassical economists, feel that this is necessary to acquire wealth. Once enough wealth has been accumulated, then man can afford to be moral. Shaw’s “The lack of money is the root of all evil,” is cited with approval by many economists. Nelson (2001) brings out the utopian elements embedded in writings of Samuelson and other leading economists. He shows how they assume that sufficient wealth will lead to the elimination of vices, immorality, and other social problems, and how they motivate readers to strive to achieve this utopia. Yet, Nelson writes that after fifty years of preaching this message in the tradition of ancient Jewish prophets, Samuelson is honest enough to recognize that his prophecy has not been fulfilled: “Great affluence has not brought about the slackening of economic ambition,” and we live in a “ruthless economy.”

In contrast to the idea that wealth is necessary for morality, the Quran praises those who spend in Charity though they are themselves hungry.

(Q39:9) “(those who) *give to others, even though they are themselves poor*[13] ... *they shall attain to a happy state!*”

This shows that even the poor may be charitable – they don’t have to wait to get rich, contrary to Western conceptions. Furthermore, the Quran explicitly contradicts the Western idea that when people become rich, then they will automatically become moral and acquire the hoped for good characteristics:

(Q9:75-76) And among them are such as vow unto God, “If indeed He grant us [something] out of His bounty, we shall most certainly spend in charity, and shall most certainly be among the righteous!” But as soon as He has given them [aught] out of His bounty. they cling to it niggardly, and turn away in their obstinacy [from all that they have vowed]

Similarly, Hadeeth states that a man given a valley of gold will desire a second one. This has also been the Western experience. Lane (2001) and Layard (2005) document how substantial increases in wealth have not led to increased satisfaction with life, happiness or a sense of well-being in Western economies. Accumulation of wealth and encouragement of greed has not led to the Utopia dreamed of by Keynes or Samuelson. Instead a society quite similar to the pre-Islamic Jahiliyya has arisen – see *Mothers who Kill their Children* by Meyer *et. al.* (2001) for just one of the striking parallels.

To summarize, consider the following two propositions:

Acquiring sufficient wealth will lead to a utopia where everyone is free from want, and people will become kind and just.	True wealth is the wealth of the heart. Pursuit of wealth will lead people to desire even more, instead of contentment.
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Which of these appears more plausible?

In the section above, we have discussed six principles, all of which lie at the heart of neoclassical economic theory. We have shown how all of these principles conflict with Islamic ideas, and how the latter are much more plausible and consistent with facts and logic. Next we turn from the theoretical to the practical, and ask if, despite these flaws, economic theory can be helpful to us in achieving material goals in this world.

4. Using Neoclassical Theory to Achieve Economic Growth

In trying to decide whether we want to borrow economic theory from Western sources, an issue of crucial importance is: how useful is it? When it comes to medicine, engineering, physics, and most physical sciences, we can point to numerous concrete achievements and accomplishments which are clearly worth acquiring. Is there a disease for which contemporary Western economic theory provides a cure? On a crude level, one might point to the tremendous amount of wealth in the West. A little study shows that the mechanisms and processes that lead to the creation of this wealth in the West have little or nothing to do with the economic theory found in neoclassical textbooks. Over the past sixty years, repeated efforts by determined and sincere economists to apply the lessons of these theories to achieve economic development have repeatedly failed. In this section, we document the different dimensions of these failures.

4.1 Economic Growth via the Accumulation of Capital

Following liberation from colonization, teams of European and USA trained economists travel all over the world offering expert advice to developing countries. Extremely naïve and monocausal economic theories leads them to focus exclusively on factors which are in fact irrelevant to the growth process. They

completely disregard local conditions, and adopted a one size fits all approach suggested by primitive economic growth theory. There is not a single instance where expert economic advice based on neoclassical theories has led to successful growth and development. The havoc and damage caused by their ill-informed advice has been documented in a large number of books and articles, notably Mitchell (2002) and Marglin (2007). Several specific cases of failures will be documented below. The typical case is that of Pakistan, where a group of expert advisors from Harvard led the economic planning process in the 1960's. Extremely disappointing results led Mahbubul-Haq to substantially revise his views about development. Nkurunziza (2007) has documented these failures of conventional growth theories and how they have led to substantial changes in thinking about the process of development. Conceding that the focus on economic growth was faulty, Haq (1976) points out that:

“we conceived our task not as eradication of poverty but as a pursuit of certain levels of average income...Development goals must be redefined in terms of reduction and eventual elimination of malnutrition, disease, illiteracy, unemployment and inequalities...We were told to take of our GNP as this would take care of poverty. Let us reverse this and take care of poverty as this will take care of GNP”.

Even though experience has shown over and over again that the conventional neoclassical models and approaches are faulty, economists fail to heed this lesson and persist in the idea that the accumulation of wealth will eliminate all human problems (as described in the quote from Keynes earlier). For example, a recent popular text by Barro and Sala-i-Martin (2004) states that poverty has declined dramatically, and “the clear conclusion is that economic growth led to substantial reductions in the worlds

poverty rates.” Despite repeated failures of this approach, economists persist in pushing the idea that the pursuit of wealth will lead to elimination of poverty and social problems, and naïve policy makers continue repeating this mistake. Thus, in his biography, Pervaiz Musharraf writes that when he came to power, he was faced with a choice between pursuing programs for social welfare, and programs which would create growth and enrich the country. Expert economists advised him to pursue the latter course, which would create the fiscal space to pursue social welfare at a later stage. Thus the government repeated exactly the same mistake that Mahbubul Haque had made fifty years ago, and achieved exactly the same economic failures as an outcome.

All across the world, “structural adjustment programs” (SAPs) were designed and implemented to help improve economic performance. These policies, designed and implemented by expert economists at IMF and World Bank, are now widely acknowledged to be failures. Critics say that these SAPs are a major cause of poverty all over the world (Shah 2007), while even proponents from the World Bank (Dollar and Svenson 1998) concede that variables under control of the World Bank had no effect on success or failure of the SAPs.

The Quran teaches criticizes severely those who do not urge the feeding of the poor, while economists tell us to concentrate on increasing GNP per capita. Critics of Reagan’s tax cuts for the wealthy were told that the poor would only consume the rebates, while the wealthy would invest, leading to growth. Which is the right approach? The following quote about one of the richest economies of the world should settle the matter.

The USDA report, Household Food Security in the United States, 2004, says that 38.2 million Americans live in households that suffer directly from hunger and food insecurity, including nearly 14 million children. That figure is up from 31 million Americans in 1999 cited from Brandeis

University (2005, October 29). Hunger in America Rises By 43 Percent over Last Five Years. *ScienceDaily*. Retrieved June 15, 2008, from <http://www.sciencedaily.com/releases/2005/10/051029093925.htm>

If we consider the work of our Prophet Muhammad s.a.w., we note that he worked on the moral and spiritual development of human beings. Included within this was the development of a thirst for knowledge; the Prophet s.a.w. was sent as a “Teacher.” His efforts, which were entirely directed at changing human beings, led to a change classified as the greatest in human history by historian Hart. The fact that human beings are the ‘best of the creation’ and transforming them is the key to transforming nations is increasingly being recognized. For example, Mabubul-Haq (1976) writes that “... , after many decades of development, we are rediscovering the obvious—that people are both the means and the end of economic development.” The Islamic position is supported by empirical evidence from the World Bank (2006) that the greater part of the wealth of nations is actually embodied in human beings and not in physical capital.

To summarize, consider the following two propositions:

Accumulation of capital and pursuit of increased productivity by industrialization, technology, etc. will remove problems of scarcity and want, and lead to development.	Focus on developing human beings morally, spiritually and in all dimensions. Human beings are the best of the creation and if we develop their potential, development in all dimensions will follow.
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Which of these appears more plausible?

4.2 Perfect Competition versus Cooperation

Economists believe in free markets as the solution to all economic problems. If there are no distortions in prices, and no

restrictions on firms, the profit motive will automatically lead to optimal and efficient allocation of resources. If people are not prevented from pursuing self-interest, competition will lead to socially optimal outcomes. This is why Keynes writes the “Avarice and Usury” must be our gods, since they can lead us out of the tunnel of economic necessity. How well has this advice fared in practice? We look at several historical examples.

Bairoch (1995) describes how the doctrine of *laissez-faire* emerged and became popular in England in the late 18th century, *after* England had acquired a substantial lead over the rest of Europe with the industrial revolution. Adoption of free trade policies in Europe led to a depression in Europe, and a boom in England which acquired a big outlet for its goods. German economist **List** propounded the “infant industry” argument and argued that Europe needed protection to develop its own industry, and could not compete on equal grounds with England. His advice was followed, and, contrary to canons of economic theory, European economies recovered from the ravages of perfect competition.

More recently, under General **Pinochet**, the Chilean economy was turned into a laboratory experiment in free market economics by the “Chicago boys.” Advice from Nobel prize winning economist **Milton Friedman** followed strictly for several years resulted only in lackluster growth and continued high unemployment, *The Economist* (April 1984) wrote that “their hair has gone grey, waiting for the free market to give the results.” **Rayack** (1984) has given a detailed analysis of the Chilean experience. **Kangas** (1986) writes that:

Between 1973 and 1989, a government team of economists trained at the University of Chicago dismantled or decentralized the Chilean state as far as was humanly possible. Their program included

privatizing welfare and social programs, deregulating the market, liberalizing trade, rolling back trade unions, and rewriting its constitution and laws.

The results were exactly what liberals predicted. Chile's economy became more unstable than any other in Latin America, alternately experiencing deep plunges and soaring growth. Once all this erratic behavior was averaged out, however, Chile's growth during this 16-year period was one of the slowest of any Latin American country. Worse, income inequality grew severe. The majority of workers actually earned *less* in 1989 than in 1973 (after adjusting for inflation), while the incomes of the rich skyrocketed. In the absence of market regulations, Chile also became one of the most polluted countries in Latin America. And Chile's lack of democracy was only possible by suppressing political opposition and labor unions under a reign of terror and widespread human rights abuses.

Similar failures of laissez faire economics have been documented all over the world. A team of top World Bank economists sought a quick transformation of the Russian economy to free market, and predicted miracles following a shock treatment. While it is true that the post-communist economic system was inefficient and required reform, it was nonetheless capable of producing enough output to feed the people and satisfy the needs of the economic. Farkas (1998) shows that industrial production collapsed by 50% as a result of the World Bank reforms, and the anticipated gains from switching to free market competition did not materialize. World Bank economists have subsequently written tracts explaining this failure, and blaming it on Russian inexperience with free markets, corruption and other factors. Whatever the reasons, the result of perfect competition was a massive collapse of an existing successful industrial complex, which led to hunger, deprivation, misery, and massive income inequalities.

The idea that free markets and perfect competition will solve all economic problems has been proven a failure on countless occasions. The Great Depression is the most glaring example where the supply and demand mechanism supposed to bring about full employment failed. "Disequilibrium" unemployment persisted for 20 years, keeping a vast number of people in tremendous misery graphically described in *Grapes of Wrath* by Steinbeck. More recently, European investors wanted to get in on the high growth rates available in the East Asian countries. They forced financial liberalization on these countries, which eventually led to the East Asian crisis. Many more examples and cases are cited in *Economic Liberalization: No Panacea* by Tariq Banuri (1991).

Numerous experiments with free markets, perfect competition and economic liberalization all show the same outcomes: increasing concentration of wealth in hands of the rich, and social tensions and misery both directly as a result of increasing poverty and also because of the frictions created by the widening of gaps between the rich and the poor. After the collapse of Russia, the ideology of free markets has ruled the world, and led to precisely these results both on a global level and internally within even the richer countries.

The message of the neoclassical economists is opposed to Quranic teachings addressed in several dimensions. Both experience and logic show that unconstrained competition will favor the wealthy and the powerful over the weak and the poor, and lead to an increasing concentration of wealth. Douthwaite (1999) provides statistics showing this to be the case, both within countries and among countries. This is directly opposed to the Quranic call for the circulation of wealth. Instead of emphasizing ruthless competition, the Quran emphasizes the spirit of cooperation, and tells the rich and powerful to take care of the weak and needy.

To summarize, consider the following two propositions:

Remove obstacles to free operation of markets. The powerful instincts of selfishness and greed of humans will lead them to acquire wealth in the most efficient manner and will enrich the society via the mechanism of perfect competition	Build integrity of character, trust and cooperation in a society. Encourage the wealthy and powerful to care for the weak and poor. This will build societies which are rich spiritually, morally and materially.
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Which of these appears more plausible?

4.3 Success Stories and their Causes

Numerous studies of successful models for development (post-war Germany, Japan, communist Russia, East Asian Tigers) show that the strategies used there were often in oppositions to those recommended by conventional economics. For example, strong proponents of neoclassical economic theories at the World Bank are forced to admit, when writing about *The East Asian Miracle*, that:

“In most of these economies, in one form or another, the government intervened – systematically and through multiple channels – to foster development. ... Policy interventions took many forms: targeting and subsidizing credit to selected industries, keeping deposit rates low and maintaining ceilings on borrowing rates to increase profits and retained earnings, protecting domestic import substitutes, subsidizing declining industries, establishing and financially supporting government banks, making public investments in applied research, establishing firm and industry specific export targets, and sharing information widely between public and private sectors. Some industries were promoted while others were not.”
[World Bank (1993, p. 5)]

They continue that these systematic violations of neoclassical prescriptions for development were accompanied by the highest rates of productivity growth and fastest development seen at that time in the historical record.

As we have seen, there are no successes and numerous failures on the historical record for neoclassical prescriptions for growth. Over the past century, there have been hundreds of minor and major economic crises, none of which were forecast successfully by economists. There are many recorded confident forecasts of continued prosperity by expert economists prior to major crises. Post crisis interventions by experts has often made things worse. The success stories recorded above show that development occurs by mechanisms very different from those recommended by neoclassical economists. What can we learn by examining strategies for successful development?

A key and minimal requirement of Islam, is the demand for justice (in economic, as well as all other realms of life). God loves those who do justice, and our welfare in this world and the next is tied to our doing justice, even when it goes against our own interests, and even when it favors our enemies. Rewards for provision of justice are also seen in the form of bounties in this world. Because of the strong focus of neoclassical economists on the material and the visible, there is not much analysis of the invisibles that lie at the heart of the development process. However there is substantial and strong evidence that a process of providing education and equal opportunities for vast majority of the poor was a key to successful growth everywhere. Because conventional materialistic explanation fail to explain progress, more and more economists are turning to invisibles like integrity, honesty, trust, cooperation and social capital, in line with Islamic conceptions, as explanations of growth.

This stands in stark contrast to neoclassical prescriptions, which actually call for injustice as a means of growth. We must allow self interested parties to ruthlessly compete and destroy inefficient competitors. The Kuznets U-curve furnishes an excuse to exploit the poor and make the income distribution worse in pursuit of growth. For example, Mahbubul Haq explicitly stated that growth depending on exploiting laborers: “It is well to recognize that economic growth is a brutal, sordid process. There are no short cuts to it. The essence of it lies in making the labourer produce more than he is allowed to consume for his immediate needs, and to reinvest the surplus thus obtained.” It was his bad experience with these conventional economic policies which led him to renounce these views and develop the Human Development paradigm. Similarly, governments of Reagan and Thatcher justified tax cuts for the rich, and reduced welfare benefits for the poor on the grounds that the rich would invest and increase growth, while reduced social welfare benefits would make available more labor at lower wages leading to increased productivity.

Economic justice will result from implementing the Quranic command for the circulation of wealth (Q59:7) in opposition to the Reagan-Thatcher policies of tax cuts for the rich and concentration of wealth in the hands of capitalists and investors. This will result in the enrichment of lives, including knowledge and capabilities, of the majority of the population. The crucial role of invisibles like dignity, trust, and knowledge is now receiving greater recognition in economics; see for example, Warsh (2006), for the importance of knowledge.

To summarize, consider the following two propositions:

Providing money and power to capitalists, and keeping wages low will lead to rapid investment and growth, benefits of which will eventually trickle ¹ down to the poor, after an initial period of increasing inequality.	Support the poor and protect the weak from exploitation. Provide economic justice and equal opportunities to all. This will allow all to participate in the process of development and lead to robust growth on all fronts.
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Which of these two appears more plausible?

5. Neoclassical Theories do not match Observed Behavior

In nearly every field, the assumptions of economic theory do not match observed behaviors. This became evident very early when economists attempted to check for a match between the core neoclassical assumptions of utility maximization and profit maximization, and the actual behavior of consumers and firms. The failure was so stark and obvious that a special philosophy was developed to insulate and protect economic theory from it. Friedman invented the “As-If” philosophy which states that as long as a theory yields valid predictions, unrealistic assumptions which are contradicted by actual observations of behavior do not affect the validity of the theory. In the previous section, we have shown how neoclassical theory is not helpful in predictions or in policy decisions. In this section we show how the theory is unrealistic and does not match observations in many different dimensions.

¹ Some readers have suggested that this is a straw man. It is true that the “trickle-down” theory has been largely discredited outside the profession, but surprisingly, mainstream neoclassical economists do not appear to have changed their views on this matter. Contemporary leading macroeconomic textbooks like Barro and Sala-i-Martin (2004) state explicitly echo exactly what Mahbubul-Haq learned at Harvard sixty years ago: increases in GNP per capita will lead to reductions in poverty. World Bank experts continue to tout this solution to developing countries. Many writers have said that the current focus on Poverty Reduction Strategy Programs serves as a window dressing for policies which remain essentially the same.

5.1 Consumer Behavior and Utility Maximization

How do consumers behave in making their purchasing decisions? Do consumers contemplate all possible choices within their budget set, think about which they prefer the most, and then choose the best possible one? If this was approximately true, or even a rough picture of how consumption decisions are made most of the time, neoclassical economics theory built on utility maximization would provide a rough approximation to reality. As an empirical matter, there is massive amounts of evidence that consumers do not maximize any utility function in economic decision making; neoclassical theories do not describe behavior and are not useful normatively either. One would expect that those in the business of selling goods to have deeper insights into consumer theory than theorist. Business school texts on consumer theory, like Solomon (2007), have little resemblance to neoclassical models of consumer behavior. We review some of the evidence against utility maximization below and show how Islam offers far deeper and more useful insights about consumer behavior than Samuelson can conceive of.

Economists take preferences as given and think that choices are made on this basis. Ariely et. al. (2003) show that choices are often made at random, and preferences may be created on the basis of choice. To put it crudely, the act of choosing X over Y may create a preference for X. Furthermore, preferences are influenced by whims, social norms, advertising, and moral and spiritual concerns. It is an ethical commitment of a secular society that preferences may not be questioned, since all are entitled to have their own religions (and values). This ethical commitment is in conflict with Islamic values, which differentiate strongly between different types of preferences and desires. On the one hand, Islam permits and encourages fulfillment of legitimate and reasonable desires:

Q7:32 “Say: Who has forbidden the beautiful (gifts) of God which He has produced for His servant and tayyibat (things clean and pure) (which He has provided) for sustenance?”

On the other hand, it strongly discourages pursuit of idle desires:

Q45:23 Then seest thou such a one as takes as his god his own vain desire? Allah has, knowing (him as such), left him astray, and sealed his hearing and his heart (and understanding), and put a cover on his sight. Who, then, will guide him after Allah (has withdrawn Guidance)?

Similarly, Islam prohibits excessive spending (Israf), spending on prohibited things (Tabzeer), conspicuous consumption or spending for the purpose of being envied by others. Our religion strongly encourages spending to please Allah, which involves spending on others and on useful social causes. More than 150 *ayat* of the Quran encourage spending, more than those devoted to the famous five pillars of Islam. One is “Q3:92 By no means shall ye attain righteousness unless ye give (freely) of that which ye love.” Among the countless traditions regarding *infaq*, Kahf (1996) cites: “The creatures are all dependent on Allah, and the most beloved by Him are those who are most beneficial to His dependents.”

The Wisdom of Western economists is encapsulated in the words of Stigler (1981, p. 176) who writes that “[When] self-interest and ethical values with wide verbal allegiance are in conflict, much of the time, most of the time in fact, self-interest theory .. will win.” While the Quran acknowledges the possibility that humans can act worse than the worst beasts, it praises and encourages those who give to others when they are themselves in need (Q59:9). Human beings who have experienced both will

testify that feeding the hungry, especially when it involves personal sacrifice, tastes sweeter than the best meal at the finest restaurant. Kindness and generosity is far more common than Stigler would have us believe.

We could sum up the conflict between neoclassical and Islamic views on consumption as follows:

<p>Consumer sovereignty or the equivalent assumption that interpersonal utility comparisons are not scientific, means that wants and needs are on par. Furthermore, it is descriptively accurate (positive economics) to state that people are primarily motivated by self-interest in economic affairs.</p>	<p>The Quran encourages people to spend on their own needs, but also to spend excess above their needs on needs of others. <i>Q2:219 ...They ask thee how much they are to spend; Say: "What is beyond your needs."</i> It strongly discourages pursuit of idle desires, luxuries and conspicuous consumption. Following Quranic prescriptions will lead to economics based on simple lifestyles, hospitality, cooperation and trust of a type which cannot be imagined within a neoclassical framework.</p>
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Substantial evidence is available to show that the Quranic position is in accordance with the facts, and the neoclassical economists are wrong. Experiments with prisoner's dilemma, public goods, trust, ultimatum and dictator games shows that people cooperate and sacrifice self-interest in favor of others much more often than economic theory leads us to believe. Camerer (2003) describes many experiments which show that concern for justice outweighs considerations of self-interest. Similarly, Kagel and Roth (1995) summarize a large number of studies which show that people take risks and sacrifice personal gains to cooperate and help others, in conflict with predictions of economic theory.

Economists deceive themselves when they suggest that it is merely an observation, a part of positive economics, to describe humans as being primarily motivated by self-interest. It

is a rule of Fiqh that if the Prophet Muhammad (May peace and blessings of Allah be upon him) remained silent regarding some activity in his presence, than his silence constitutes permission. Similarly, to describe humans as selfish, and not to criticize this, is a value judgment that selfishness is ethically permissible. The most glaring illustration of this is by several studies, summarized in Kirchgässner (2005), which show that economists behave more selfishly than those in other disciplines. In all societies, people are taught to cooperate and help each other because this is the basis of society. However, economists explicitly and openly teach that selfishness leads to good social outcomes, and as a result, they become more selfish than others, demonstrating clearly that neoclassical economic theory is normative and creates selfishness. Whereas most people understand human behavior as a mix of motives, economists are so strongly conditioned by their theoretical frameworks of selfish maximization that they have great difficulty in understanding and accepting experimental results which prove otherwise. For example, Camerer (2003, p 60) writes that “If I had a dollar for every time an economist claimed that raising stakes would drive the ultimatum behavior towards self-interest, I’d have a private jet on standby all day.”

5.2 Firm Behavior and Profit Maximization

Neoclassical theory uses logical arguments to assert that firms maximize profits – they would not survive if they did not do so, or a corporate raid would allow takeover, etc. Examining behavior of actual firms is rarely done, as noted by Bergmann (2007). The few studies of actual firm behavior provide strong evidence against the profit maximization hypothesis. See for example, Berle et. al. (1991) and Romer (2006), and further references cited in these sources. One response to these conflicts between empirical evidence and neoclassical theory has been the “As-If” philosophy of Milton Friedman, according to which wrong assumptions do not matter as long as the theory yields correct predictions or is otherwise useful.

A more intelligent response to the mismatch between theory and observed behavior of firms has been to re-examine the theory for reasons of failure. Many reasons have been discovered as to why firms may fail to maximize profits and continue to survive, and not be taken over in corporate raids. Theories of “near rationality” show that approximate maximization of profits by firms may lead to very different outcomes from those predicted by neoclassical theory of exact maximization. More importantly, typical firms have market power, and actively seek to increase this power via branding, and other marketing and production strategies. Berle and Means (1991) and Kaplow (1985) show how these practices of modern corporations lead to outcomes not predicted by neoclassical theories. Holmstrom and Tirole (1989) show that in oligopolistic market structures with differentiated products, there can be a variety of equilibrium concepts, and no clear concept of supply curve can be defined. Greenwald and Stiglitz (1991) have shown that when informational constraints are taken into account, the theory of the firm is radically altered, and neoclassical conceptions of the firm become invalid. All of these theoretical developments to match observed behavior of firms cast doubts on the nature of the supply curve, which is one of the fundamental pillars of neoclassical economic theory.

The most important difference between neoclassical and Islamic views on the production process lies in the implication for ethical behavior for firms. Nobel Laureate Milton Friedman (2005) argues (and this is widely accepted capitalistic ethics) that it is the responsibility of firms to pursue wealth, not social goals. This idea, that all is fair in the pursuit of profits, has led to incredibly immoral actions on the part of multinationals. To kill babies for a buck, mothers are given a sufficiently large supply of powdered baby milk so as to stop lactation. Lack of clean water, and insufficient money to buy adequate supplies of expensive milk powder does the rest. Instead of releasing highly

productive varieties of rice and wheat seeds, millions of dollars of research is poured into creating versions which are not fertile, so that seeds can be sold every year. Starting with the Opium Wars between England and China, a large number of wars have been at least partially motivated by pursuit of profits. Butler (1935) writes:

“the average earnings of the du Ponts for the period 1910 to 1914 were \$6,000,000 a year. ... their average yearly profit during the war years, 1914 to 1918. Fifty-eight million dollars a year ... Nearly ten times that of normal times.”

Economists pass over these examples in silence, as it does not fit into a theory which makes pursuit of profits the sole driver of efficient outcomes. Abuses of this type have led to a reaction in the concept of *corporate social responsibility*. Amusingly, this is also pursued on the grounds that socially responsible behaviour will lead to even more profits. Flaws in the model that “good ethics is good business” are glaringly obvious. Reputation and image become much more important than genuine efforts to change things for the better, especially when genuine efforts come at cost of profits. Furthermore, good ethics are dropped if bad ones will lead to even greater profits.

In the context of this discussion, there are two important issues where Islamic views are in conflict with capitalist views:

- In accordance with the idea of *caveat emptor*, weapons manufacturers deny responsibility for how they are used. Similarly, the powdered milk manufacturers do not consider themselves responsible for incorrect use of the formula by mothers, which leads to deaths of babies. In Islam, all parties share responsibilities for outcomes. Thus, Sahih Tirmizi, Book 4, Chapter 14, Kitab-ul-‘Ilm cites a Hadeeth that those who point to

the good are like the doers of the good deed. Similarly, the witness, the scribe, as well as all parties engaged in interest bearing transactions bear responsibility for the sin.

- Economists argue that only observables matter. Thus the observable choice matters, while the hidden internal preference does not. Similarly, the act of giving in charity, or other socially responsible act, matters; the intention behind it does not. In Islam, the intention is all important. Those who give in charity with the intention of becoming popular will be sent to the hellfire. Thus the idea of being socially responsible to create more profits is not acceptable Islamically. Of course, this is also logical because if irresponsible behavior leads to more profits, then it will become preferred.

Taseen (1998) has described the many dimensions of Islamic teachings on justice and how they apply to economic affairs. Although there is substantial indirect evidence that provision of justice leads to improved economic outcomes, economists insist on the opposite. For example, Kaplow and Shavell (2003) argue that taking fairness into account will lead to inefficient economic outcomes. We can summarize these opposing points of view as follows:

<p>Morality and Ethics are subordinate to the pursuit of profits.</p> <p>Firms are only responsible for their immediate actions, and not for long term consequences or how consumers use/abuse goods sold to them.</p> <p>It is only actions, good or bad, which matter, and not the intention behind them.</p>	<p>Morality and Ethics are primary, and pursuit of profits is permissible only when it does not conflict with moral goals.</p> <p>Producers have responsibility for everything which occurs directly or indirectly as a result of their acts, as long as these can be foreseen.</p> <p>Charitable or socially responsible acts done in pursuit of profits will not yield good results in this world or the next.</p>
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5.3 Supply and Demand:

The determination of equilibrium price at the intersection of the supply and demand curves is such a firm foundation of economic faith that this is taken as a natural law, on par with the law of gravity. Yet positive empirical evidence for this idea about how prices are determined in a free market is surprisingly weak. Furthermore, there is very strong evidence against the idea that prices are determined in this fashion.

The strongest and clearest evidence is furnished by the Great Depression. In early 1929, the USA had an overheated economy with unemployment under 3%. Following the stock market crash, and the banking crisis, unemployment soared to above 20% and stayed at this level for nearly two decades. Since the jobs were there prior to the crash, it is not possible to argue that 20% unemployment was, in any sense, natural. While the economy had demonstrated the potential to provide employment to all seekers, free market mechanisms to eliminate unemployment via a fall in wages failed to operate for twenty years.

Keynes explained this by arguing that there existed downward rigidity in wages, without providing any explanation for why this should be the case. But if we allow arbitrary price rigidities, then all types of observed behaviors of prices and quantities are compatible with the economic theory. Because of the deep training economists receive in these fundamentals, it is hard for us to realize that supply and demand curves exist only in the mind of the economists, and do not have any concrete existence in reality. The demand curve is a “thought experiment;” it can never actually be observed. We think about announcing prices and then asking all consumers what bundles they would buy. There is substantial evidence that consumers purchase decisions do not depend on these prices and incomes, but rather on fads, whims, trading opportunities, keeping up with the

Joneses, as well as certain mental heuristics for decisions . In this case, the consumer cannot answer the question of what he would buy, because many determinants of his decision have not been specified. Thus the demand curve is not well-defined. Similarly, research on firm behavior described earlier casts doubt on the existence of supply curves in many different types of markets. Supply does not depend solely on market price, but also on type of market structure as well as types of strategic interactions between different firms in the market. The fact that observations do not determine supply and demand schedules leads to the famous identification problem in econometric studies, to which there is still no adequate resolution. According to the positivist philosophy espoused by economists, demand and supply curves are fundamentally unobservable, and hence cannot be the basis of a scientific theory which must be built on observables.

For nearly all observable implications of the idea that equilibrium prices are determined by supply and demand, one can find striking illustrations of failure. A fundamental assumption which is necessary to set up supply and demand curves is the 'Law of One Price' – indeed, a market is defined by the property that a good has one price in the entire market. During a period when the \$-DM exchange rate fluctuated greatly, the price of Mercedes-Benz automobiles remained fixed both in Germany in DM and in the USA in Dollars (Rahim 1999). A more subtle difficulty arises in more common situations, such as that of toothpaste, where different brands are priced differently. If all brands are considered as a single good, the law of one price is violated. If every brand is considered as a separate good, then every manufacturer becomes a monopolist, and the number of goods becomes potentially infinite, leading to severe theoretical difficulties. Supply and demand considerations encapsulated in comparative advantage suggest that maximal trade would take

place between dissimilar countries, and also that the same good would not be traded in both directions across country borders. However, we observe very little trade between Africa and Europe, and massive volumes of trade of essentially identical goods within very similar European countries, in direct conflict with neoclassical predictions.

To compare neoclassical theory with Islamic ideas, it is essential to bring out ethical commitments and value judgements which have been hidden within these apparently mechanical and mathematical ideas about price formation. The idea that free market equilibria lead to efficiency suggests that prices are determined by natural laws (of supply and demand) and that these are socially optimal prices – the best for the welfare of the society as a whole. The idea that some prices may be unjust can no longer be entertained. If a person faces a medical emergency and must sell his car to raise cash, can we exploit the situation by offering him a low price? Islam teaches us not to, and that mutual agreement does not suffice for fairness and justice:

Q4:29 O You who believe! Do not devour one another's possessions wrongfully - not even by way of trade based on mutual agreement

Because economists believe in positive economics, it is often hard to decipher arguments about values, because both parties hide these within technical arguments. For example, the idea that wages are the marginal product of labor while interest is the marginal product of capital shows that both are determined by impartial market forces which bring about efficient outcomes – this means that capitalists do not exploit workers, and both receive fair and just rewards for their respective contributions to the production process. The Cambridge Capital controversy initiated by Joan Robinson showed that the aggregate production function

required to establish these results did not exist. The unstated implication was the wages are not determined by impartial market forces, and exploitation of workers by capitalists is possible theoretically. Similarly, Card and Krueger (1997) recently showed that raises in minimum wage did not lead to increased unemployment, contrary to the predictions of supply and demand. The passionate controversy, name-calling, and other emotional responses in reaction to this research show clearly the significant role of ideology in economic theory.

Material of this section may be summarized as follows:

Operations of a free market determine a unique set of equilibrium prices which decentralize production and consumption decisions and lead to socially optimal outcomes.	Market mechanisms fail to provide justice in many instances. Corrections require individuals to behave ethically, as well as social regulations, encapsulated in the institution of <i>Hisbah</i> in Islam.
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6. Other Critiques of Conventional Economics

We have shown that the theories of supply, demand and equilibrium price, which lie at the heart of modern neoclassical economics, are deeply flawed. All further analysis which extends and deepens this analysis using sophisticated mathematical tools, shares these flaws. Perceptive authors have been able to find a vast variety of problems with neoclassical analysis. The number of difficulties is so large that many authors have treated the topic at book length. For example:

- Eichner *Why Economics is not yet a Science*, M. E. Sharpe 1983
- Heilbroner and Milberg: *The Crisis of Vision in Modern Economic Thought*. Cambridge University Press 1996.
- R.K. Kanth, *Against Economics* Aldershot, UK: Ashgate, 1996);

- M. Perelman, *The End of Economics* (London: Routledge, 1996);
- P. Ormerod, *The Death of Economics* (London: Faber and Faber, 1997).
- D. Bell and I. Kristol, eds., *Crisis in Economic Theory* (New York: Basic Books, 1981)
- P. Wiles and G. Routh, eds., *Economics in Disarray* (Oxford, UK: Basil Blackwell, 1984)
- Steven Keen, *Debunking Economics: The Naked Emperor of the Social Sciences* Zed Books 2002. (Paperback)
- Robert H. Nelson *Economics As Religion: From Samuelson to Chicago and Beyond*, Pennsylvania State University Press 2002.

The reader would search in vain to find similar titles in physics, chemistry, biology, or any of the hard sciences. Some of these authors have raised the challenge of finding a single issue on which there is consensus among macroeconomists. Is there any economic event about which economic models lead to insight not easily accessible to common sense? Is there a case where mathematical models lead to a more precise understanding than qualitative reasoning? Is there any econometric model which has withstood the test of time? Many such challenges remain unanswered.

We can add to this list confessions of top economists who have spent a lifetime studying the subject. Nobel prize winner Stiglitz states that “[Economics as taught] in America’s graduate schools... bears testimony to a triumph of ideology over science.” One of the architects of modern general equilibrium theory, Frank Hahn, writes that “Although I never believed it when I was young and held scholars in great respect, it does seem to me to be the case that ideology plays a large role in economics.” Nobel laureate Ronald Coase writes that “Existing economics is a theoretical

system which floats in the air and which bears little relation to what happens in the real world.” Famous institutional economist and Nobel laureate Douglass North states that “We live in an uncertain and ever-changing world that is continually evolving in new and novel ways. Standard theories are of little help in this context. Attempting to understand economic, political and social change requires a fundamental recasting of the way we think.” Since none of the leading researchers in the physical sciences have publicly disparaged their own fields in this way, it is clear that there is a vast gap between physical and social science.

7. Conclusions

The main goal of this paper has been to argue that we have nothing to learn from Western economists, and that all of humanity can benefit from the teachings of the Quran. Currently the focus of development economists all over the world is the pursuit of wealth and riches and increasing production and growth. Although this is often justified as a means of eliminating economic misery and poverty, it has been proven over and over again that growth does not in fact alleviate poverty via the infamous trickle down effect. Rising global wealth has been accompanied by rising poverty. Furthermore additional wealth is not necessary to eliminate poverty. Current levels of wealth are quite adequate to provide for all on the planet provided that the distribution of income is done in a fair and equitable way. This can be achieved by using tools described in the Quran and Hadeeth, none of which are available to disciples of Samuelson:

- Urge the feeding of the poor.
- Eat and drink, but do not waste.
- Treat others as you would like to be treated.
- Spend excess wealth on the welfare of society.
- Do not pursue idle desires.

- Do not envy others, and do not consume in a manner so as to cause envy.

These are just words, but the Quran also offers the powerful tool of *Amr bil Maroof and Nahi Anil Munkir* as a means of transforming the world to bring these principles into the lives of human beings. These are the genuine methods of solving the problems of the people, as opposed to the Keynesian solution of pursuit of wealth as the solution to all problems of mankind.

Unfortunately, most Muslims have swallowed extremely biased accounts of Islamic history produced by Western writers, which focus on shortcomings and neglect achievements of Islamic civilization; see for example *Theft of History* by Goody (2007). Lopez (1976) describes global trade in 950-1350 AD, supported by risk sharing methods of finance based on cooperation and trust, developed in Muslim countries consistent with the *Shari'ah*. See also Mirakhor (2007) for implications of this history for suitable models of Islamic banking. A culture of hospitality and generosity is described by many travellers through the Muslim world in Wolfe (1998). Implementing the Quranic commandments to give excess wealth to the needy, Muslims set up *awqaf* to the extent that one third of the land in the Ottoman Empire was being used for charitable purposes. Sait and Lim (2006) write that the system of *awqaf* "succeeded for centuries in Islamic lands in redistributing wealth", leading to equitable outcomes and the circulation of wealth in accordance with Quranic injunctions. According to Hoexter et. al. (2002, p. 128): "The waqf's contribution to the shaping of the urban space can hardly be overestimated... A major part of the public environment in (Islamic) towns actually came into being as a result of endowments."

The challenge facing us as Muslim economists is not the imitation of neoclassical theories, but the creation of a living model of an economic system based on cooperation, generosity

and trust. In addition to old and half remembered traditions, the spirit upon which this system can be built is still present in the hearts of the Muslims. For example, Najam (2007) and Naylor (2007) document how Islam motivates Muslims to be substantially more generous than comparable communities. Malcolm X. (1965) found in his travel experience “a spirit of unity and brotherhood that my experiences in America had led me to believe never could exist between the white and non-white...” Toynbee (1951) wrote: “The extinction of race consciousness as between Muslims is one of the outstanding moral achievements of Islam. In the contemporary world there is, as it happens, a crying need for the propagation of this Islamic virtue ... of tolerance and peace”. Building economic institutions based on cooperation, generosity and trust will require a radical departures from Western models based on cut-throat competition and greed.

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The practical wisdom of Islamic economics has thus been unable to come to grips with the task of explaining the rise and fall of Muslim economies in the past, the lag between Islamic norms and the actual behavior of economic agents, and the causes of problems faced by Muslim countries. It has been unable to suggest a balanced package of policy proposals in the light of Islamic teachings to enable Muslim countries to perform the difficult task of reducing their imbalances and simultaneously actualizing the Islamic vision. Moreover, its theoretical core has also thus far been unable to come out of

the straitjacket of conventional economics, which takes into account primarily the economic variables that are measurable and generally avoids a discussion of the complex historical interplay of moral, psychological, economic, social, and political factors. Islamic economics has thus “failed to escape the centripetal pull of Western economic thought, and has in many regards been caught in the intellectual web of the very system it set out to replace (Nasr, 1991, p. 388). It is thus unable to explain the difference in the performance of various societies with respect to overall human well-being.

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Is it necessary to have Islamic economics?

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HR PERFORMANCE MANAGEMENT SYSTEM IN COMPANIES LISTED ON KARACHI STOCK EXCHANGE

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Abstract

In present times, what makes a business more successful than others? What is its competitive advantage, key factor for growth? It is generally believed that the answer is not its capital, plant, equipment or technology but the competence and motivation of its human resource (HR). An organization having superior human resource which gives optimum satisfaction to its customers will excel over its competitors offering similar goods and services. Only superior HR can help achieve and sustain competitive advantage.

Relevant information for the paper was collected through a questionnaire filled by the HR managers of thirty three out of three hundred and sixty four companies listed on the Karachi Stock Exchange which were selected on the basis of a stratified sample including two national and one foreign company from eleven prominent sectors.

The study shows that a large number of companies have a formal/informal performance management system which they use for performance evaluation, reward and training of employees.

To bring out the best performance in human resources, Performance Management System (PMS) can be used to transform human resource competence and motivation into a strategic advantage for a company. Despite this realization, only a small number of business organizations have developed and effectively implemented scientific PMS which encompasses all the functions and all the employees of the organization. Most managers of the companies that have an HR Performance Management System are not using it as a performance enhancement tool for all employees but consider it as only a cumbersome requirement thrust upon them by the HR department.

The objective of this paper is:

1. To study the nature of PMS prevalent in companies listed on the KSE.
2. Recommend a scientific PMS model for facilitating achievement of optimum corporate performance.

Key words: Human Resource, Corporate Performance, Performance Management System.

JEL Classification: O150

I Introduction

The basic purpose of a business is to earn profit.

Getting optimum performance from its human resources is a critical concern of all business organizations. Therefore, an essential goal of management in an organization is to improve the performance of the organization against specified performance targets. Performance Management is one of the important management tools needed to achieve this objective.

A precise definition of Performance Management is found in Armstrong and Murtis (1991) where the authors state: "Performance Management consists of a systematic approach to the management of people, using performance goals, measurement, feedback and recognition as a means of motivating them to realize their maximum potential. It embraces all formal or informal methods adopted by an organization and its managers to optimize corporate effectiveness and efficiency and motivation of employees. It is a broader concept than Performance Appraisal (PA) or Performance Related Remuneration (PRR). These can indeed be important elements in a Performance Management System (PMS), but they are a part of an integrated approach, which consists of an interlocking series of processes, attitudes and behavior which, together, produce a coherent strategy for adding value and improving results".

Increase in popularity of the concept of Performance Management as a management technique in recent years can be attributed to two main causes. Firstly, since the early 1980s, organizations around the world have experienced continually increasing level of market competition from local and foreign companies. Consequently, it has become imperative for corporate survival and growth that they ensure high levels of individual, group and corporate performance. To generate and sustain such high levels of performance, the management of many organizations, have increasingly emphasized the introduction of management policies and practices which can significantly impact all aspects of organizational performance. With regard to the performance of employees, Performance Management System (PMS) is a management concept which brings together a variety of human resource management techniques focusing on the objectives of the organization and the corresponding performance targets of individuals, groups and organization as a whole required to achieve them. The objective of PMS is primarily to specify employee performance targets and thereby

monitoring the work performance of employees by the use of appropriate performance measurement and control techniques.

Secondly, the increase in popularity of the Performance Management technique relates to the changed management orientation from controlling employees to securing their motivation (Roomkin, Rosen, Dubbs, 1998). Since the 1990s, there is increasing realization that if employees are made to feel they are part of the organization, they will be committed to contributing towards achieving the corporate goal (J.W. Smither, 1991). This is in contrast to the Taylorist style of management based on rigid management rules aimed at having strict control over the behavior and subsequent work performance of employees. Parallel to the developments in HR Performance Management, there have been significant developments in performance related remuneration the main objective of which is to establish a correlation between performance of employees and their remuneration (Aguinis, Herman, 2007).

A comprehensive PMS is a complete process, which is based on HR performance and the fulfillment of organizational objectives at all levels. The basic philosophy behind the performance management system is to develop an alignment between organizational objectives, and employees' skills and capabilities. People mostly misperceive performance management as mere performance appraisal. Performance appraisal is limited to judging past performance while PMS is an ongoing process for measuring the fulfillment of organizational objectives through HR performance. Nankervis, (2004) while doing research in an Australian institute found that there were very few organizations which shared their organizational objectives with their employees. Most of the organization did not use PMS for comprehensive corporate management development but used it only for performance appraisal of employees. Performance Management is also an important tool for quality control in quality conscious organizations where the objective of performance management is

the achievement of corporate goals rather than merely meeting the established standards.

II. Literature Review:

According to McNamara, (1997) Performance Management is a complete process which throws light on overall organizational performance as well as performance assessment at the employees' level. It also tends to focus on the process of production of output and services in the organization.

Chandler, (1970) had proposed that the focus of Performance Management should not be on organizational structure but on employees for achieving better performance.

PMS is based on workforce performance and the fulfillment of organizational objectives at all levels. The basic philosophy behind PMS is to develop the alignment between organizational objectives and the employees' skills and capabilities. Moreover it is concerned with promoting the improvement of the overall organizational system.

Nankervis, (2004) showed that most organizations use performance appraisal as compared to performance management in which the focus is on the comparison between the performance standards of the organization and the actual performance of the employees other than comparison of HR performance with the organizational objectives.

The common understanding is that if an employee does his/her job tasks well he or she is, "performing well" and if an employee doesn't do the assigned tasks well, the employee is a, "poor performer". This perception is simplistic and vague. An employee's performance can be considered good when his or her actions and behavior contribute to promotion of the goals of

his/her organization. In commercial organizations employees are the main resources employed for achieving specified corporate goals leading to optimization of profitability and growth.

De Waal and Coevert (2007) conducted a research for assessing the effect on the productivity of the newly implemented performance management system on the productivity of HR in two public and private banks. Results of the research showed that in a private sector bank the introduction of PMS made a significant improvement in HR productivity while in the public sector bank the PMS did not play any significant role. The reason behind this duality of result was the difference in the implementation of the system in both the banks and their management philosophy. In the public bank, management did not seriously pursue the implementation of the newly developed system while in the private bank the management tried to implement it in its real spirit. So, it is the management's commitment towards PMS implementation which assures success of PMS in achieving corporate objectives.

Performance Management and associated behavioral change is a core issue which most organizations fail to address in their corporate strategy (Weatherly; Malott 2008). Organization behavior should be shaped to make it performance oriented and employee behavior should be analyzed and then modified to align it to organizational objectives (Whiting; Kline; Sulsky 2008).

The success of the PMS is also correlated with employees' expectations from its implementation. If the employees' expectations are fulfilled through the PMS, then there exists a positive relationship between PMS and organizational performance. The other consideration that must be kept in mind while developing organizational goals is that they should be in accordance with the employees and organizational capabilities (Latham; Borgogni; Petitta 2008).

Turusbekova; Broekhuis; Emans; and Molleman (2007), describe the need for the operation of a quality management system in the organization to get the desired employee behavior change. PMS is an instrument which can be used to promote a desired organizational culture.

McNamara, (2008) argues that the basic purpose of PMS is to create alignment between the organization's objectives and its sub systems to achieve organizational objectives, as the harmonious working of all sub system is critical for achieving optimum organizational performance.

Strategic goal setting, individual accountability, objective related rewards and recognition are some of the key elements for a quality Performance Management System. Beside this, the total quality process assessment also focuses on the participation of all stake holders of the organization including the management, employees, suppliers and customers, (Hsin, 2006). Employees' performance has been shown to partly depend on effective Performance Management System, (Buchner, 2007). Employees must have knowledge about their job and what they have to perform in order to fulfill their job target. The performance elements are the indicators which can vary from organization to organization (they can be productivity, effectiveness, or objectivity). The standards include certain objectives which employees have to achieve. Performance standards and elements should be such that they are measurable, attainable, fair and challenging.

Critical and non critical elements are both interdependent, critical elements are supposed to be the basic functions of an individual while non critical and additional performance elements are the supporting units for getting outcomes. Goals can only be achieved if both critical and non critical elements are being properly communicated. At all levels

of the organization, there must be a system of measurement for measuring all the critical activities. Performance Management is a continuous process in which follow up is undertaken after each and every activity is performed and measured (Dona Price 2006).

Performance Management System plays an important role for developing as well as measuring and achieving TQM objectives. Approaches like Balanced Score Card, Metrics, and Indexes should be matched with PMS in the operational process of the organizations, (Stivers; Joyce; 2000). (Kaplan; Norton; 1992) Balance Score Card focuses on four business prospective i.e. financial, customer satisfaction, business process and the organization's learning and innovative culture. A survey showed that companies use an average of 13 management tools at the corporate level. These tools are intended to help measure or monitor the performance of an organization, and within this the most popular performance related tool was the Balanced Scorecard (Rigby and Bilbo bead 2005). In the absence of a basic strategic context, managers found it hard to agree on an appropriate set of measures of organizational performance (Ahn, 2001). Balanced Score Card is the platform for measuring the organization performance which coordinates financial and non financial aspects of business.

By using the Balanced Card approach developed by Kaplan and Norton (1992) all the four prospective (financial, customers, process and organization culture) are kept in mind. Management should be committed to develop the system and proper communication with the employees should be made. Clear measures should be adopted and employees at all level must be made aware of the adopted measures. Performance management is a continuous process; follow up should be given to the employees so that employees can come to know about their performance in the organization.

A performance management system is meant to be interactive (Neely, 1998; Kaplan and Norton, 2001) since its main role is to facilitate the effective implementation of the business strategy. Given the multitude of measures, managers who try to use the balance scorecard, as an interactive system will be overloaded. Consequently, they won't be able to interactively use the system (Weber and Schaeffer, 2000). However, this argument can be weakened by the findings of Lipe and Salterio's (2000, 2002) studies. These two researchers have found that the use of the scorecard framework helps managers' judgment, by improving their focus on what is important.

The effectiveness of Performance Management System is clearly established in the case of Farmington, the Otis Elevator Company. (Reilly; McGourity; 1998). Farmington, Connecticut-based Otis Elevator is the world's largest manufacturer, installer, and servicer of elevators, escalators, moving walkways, and other vertical and horizontal passenger transportation systems. Otis products are offered in more than 200 countries worldwide, and the company employs more than 63,000 people. Among its many installations are the human transport systems of the Eiffel Tower, Sydney Opera House, the Vatican, CN Tower (Toronto), and Hong Kong Convention Center. For years, the company had an ineffective performance management system that was excessively time-consuming and inspired little confidence among employees or managers. In revamping its performance management system, Otis moved toward a system that provided performance feedback based on critical strategic competencies related to the company's new focus on project teams. This team performance concept required each member of the team to practically demonstrate his specific technical competence, prove himself a good team player and be accountable for the key results required to be achieved by the group as a whole.

Realizing that critical feedback in these areas could not come exclusively from immediate supervisors, Otis had a custom-designed 360-degree feedback system developed that provided managers with feedback from those most directly affected by their performance: their subordinates, peers, and customers. The system provided ratings on several critical core competencies and is administered entirely online via the company intranet. The online system is easy to use, employed encryption technology to secure all data, and allowed a performance review to be completed in 20 minutes. The system allowed Otis to provide performance feedback in tandem with the organization's strategic objectives; it was far more efficient than the previous paper-driven system; and perhaps, most important, it resorted employee faith in the company's performance feedback system. As a result of the new PMS, the performance of each employee, each department and the organization as a whole improved enormously. A study of 450 companies conducted by Hewitt & Associates in 1994 also concluded that companies with effective PMS out performed those without, measures like employee productivity and corporate performance, HR motivation, corporate profitability and stock price.

On the basis of this literature review it can be stated that an effective PMS may be the key to achieving the organizational goals.

III. Proposed PMS Model:

Based on the literature review on PMS and studying the existing status of PMS in the corporate sector in Pakistan and on the basis of any our respondents as a corporate rector CEO the following parameters is proposed for achieving optimum corporate performance. The proposed PMS is based on the Strategy and Operating System Model developed by a leading

global management consultant which was successfully implemented by the author in different companies including the Pakistan Automation Corporation and the thirteen Operating Companies under it.

It must be realized that the gap between the desired and actual performance of enterprises is often due to non-congruity of goals of the enterprise and those of its employees. This non-congruity can be traced to the lack of the following performance motivating factors:

1. Profit Orientation throughout the HR Chain
2. Quantified Performance Targets for Key Results
3. Quantified Performance Measurement for Key Results
4. Quantified Performance Reward for Key Results

All business organizations must justify themselves primarily as commercial concerns i.e. As their principal objectives is to make optimum profits without which they can neither sustain themselves nor grow.

To be profit-oriented, management should:

1. Categorize all activities of the organization as income generating or expense incurring
2. Pursue those activities that increase income or reduce expenses (preferably do both).

Those activities that do not fall in the category of income generating or expense reducing in the short or long run should be eliminated / minimized. The appreciation and application of this concept by each member of the management and executive

team, particularly those responsible for key result activities, would result in profitable management of each key result function. The cumulative result of this would be a Profit-Oriented Company.

To make the company and each one of its employees profit and result oriented, an HR Performance Management System incorporating the above philosophy is proposed. The salient features of the proposed outlined is given below:

- 1. Congruity of organization & employee goals:** While accomplishing the organization's goals the employees should simultaneously achieve their personal goals and vice versa i.e., in pursuing their personal goals the employees should be able to achieve the goals of their organization.
- 2. Profit orientation:** To provide economic direction and thrust to human and physical resources, profit optimization should be the basis of all key result functions such as marketing, operations, financial management, HRM, procurement and other support services.
- 3. Quantified performance targets:** The management and executive staff responsible for each of the key result functions should be assigned quantified performance targets. Unlike a job description, these performance targets should concentrate on three to five main activities. The targeted achievement of these key result functions will make the functions as well as their contribution to the company 'profitable'.
- 4. Quantified Performance Measurement:** Just as the performance targets should be in quantitative terms so should be the measurement of the actual performance.
- 5. Quantified Performance Reward:** Specific recognition and reward for target achievement (and penalty for non-

achievement) shall be agreed in advance with all concerned with key result functions.

For effective implementation of the PMS the following **Pre-requisites** are essential:

1. **Quantified targets, achievement, reward and evaluation criteria** for key results should be discussed and agreed between the concerned employee and his manager at the beginning of the performance target period.
2. Conducive opportunity to perform should be provided to the employee through **operational autonomy**.
3. Effective **control** over **strategic decisions** of the organization should be exercised by the board of directors/controllers.
4. Regular, periodic **feed-back** on actual performance should be provided to the employee.

Two sample **formats** for the PMS giving the performance factors, basis of evaluation and reward for each key position are annexed, presented in Exhibit A and B

Following are the pre-requisites for successfully implementing of a scientific PMS.

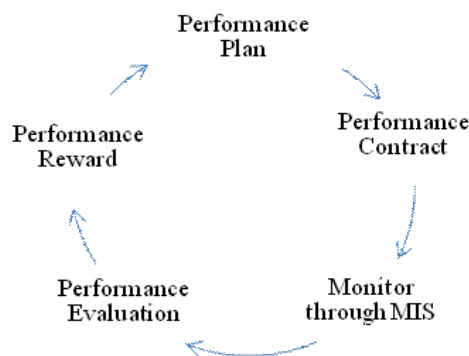
1. Provide all HR, relevant information on corporate vision, strategies, goals, HR performance required and reward system
2. Provide HR with facilitating operating tools and training for optimum performance
3. Offer HR strong financial and non financial incentives and rewards and recognition for desired performance

4. Provide timely and correct information relevant to the employee's performance and its contribution to corporate results

Figure 1 gives the essential requisites of the Performance Management Cycle.

MANAGEMENT PERFORMANCE CYCLE

Figure 1



For optimum HR performance effectiveness and efficiency there should be a strategic balance in the exercise of HR performance control such that employees are provided optimum operational autonomy with strategic control being exercised by the superior management as depicted in the following matrix

Figure 2

EFFECTIVE & EFFICIENT STRATEGIC CONTROL

Quality of Control

Low	High
Strategic Autonomy = High Operational Autonomy = High	Strategic Autonomy = High Operational Autonomy = High
Strategic Autonomy = Low * Operational Autonomy = High	Strategic Autonomy = Low Operational Autonomy = Low

(Exhibit A)

Organization		PERFORMANCE TARGET			Performance Period:	
Position: Chief Executive						
Key Objective of Position						
Key Performance Area	PERFORMANCE		PERFORMANCE		Achievement score %	PERFORMANCE DATA/SOURCE
	Target	Weightage %	Actual Achievement	% better / (worse) of target		
	1	2	3	4=(3-1)%	5=3÷1x2%*	
1. Net profit before tax	65					Annual Accounts/ Monthly Operating Results
2. Management Effectiveness (Based on achievement of key management functions)	35					Annual Accounts/ Monthly Operating Results
2.1 Marketing						
2.2 Production						
2.3 R&D achievements						
2.4 Personnel & Admin	6					
2.5 Fin.&Accounting	5					
2.6 Inventory control	4					
2.7 Quality Control	5					
2.8 Procurement	5					
	5					
	4					
	1					
Total		100%		%	%	

PERFORMANCE GRADING:

A⁺ : Achievement Score over 110% = Management Excellence award + cash prize of
A : “ “ 100-109% = Management Excellence certificate + cash prize
B : “ “ 90-100% = Achievement certificate
C : “ “ 60 - 80% = Letter of reprimand
D : “ “ Below 60% = Demotion

Date:

Acceptance:

Chairman

(Exhibit B)

Organization		PERFORMANCE TARGET			Performance	
Position: Dept. Head Production						
Key Objective of Position						
Key Performance Area	PERFORMANCE		PERFORMANCE ACHIEVEMENT		Achievement score %	PERFORMANCE DATA/SOURCE
	Target	Weightage %	Actual Achievement	% better / (worse) of target		
	1	2	3	$4=(3-1)\%$	$5=3\div 1 \times 2\%$ *	
1. <u>Production Volume (Product)</u> 1.1 1.2 1.3 1.4 1.5		<u>50</u>				Annual Accounts/ Monthly Operating Results
2. <u>Production Cost</u> 2.1 Material usage p.u. 2.2 Labour cost p.u. 2.3 Overhead cost p.u. 2.4 Rejection rate		<u>30</u>				Annual Accounts/ Monthly Operating Results
3. <u>Production Deptt. Costs</u> 3.1 Personnel number 3.2 Gen. Admin Expenses		<u>10</u>				Annual Accounts/ Monthly Operating Results
4. <u>Maintenance of Plant & Machinery</u>		<u>10</u>				Inspection by head office
Total		100%		%	%	

PERFORMANCE GRADING:		REWARD
A ⁺	: Achievement Score over 110%	= Management Excellence award + cash prize of
A	: “ “ 100-109%	= Management Excellence certificate + cash prize
B	: “ “ 90-100%	= Achievement certificate
C	: “ “ 60 - 80%	= Letter of reprimand
D	: “ “ below 60%	= Demotion
*for cost reduction targets		
Date	Employee acceptance	Chief Executive

IV. Research Methodology:

A stratified sample of thirty three out of a total of three hundred and sixty four companies listed on the Karachi Stock Exchange was selected. The sample of thirty three companies were selected from eleven prominent sectors such as financial sector, pharma, auto, energy, chemicals, oil and gas etc. From each sector, two Pakistani companies and one foreign company was selected. Listed companies were selected as required information on such companies is easier to obtain as compared to non listed companies. Within each sector, active companies alone were included.

The information was collected during November, December, 2010 and relates to the companies' financial year ending June 2010. The required information was collected through a structured questionnaire based on the research instruments used by empirical studies summarized in the "literature review". These questionnaires were filled through personal interviews of HR managers of the selected companies.

- **Data Collection Tool:**

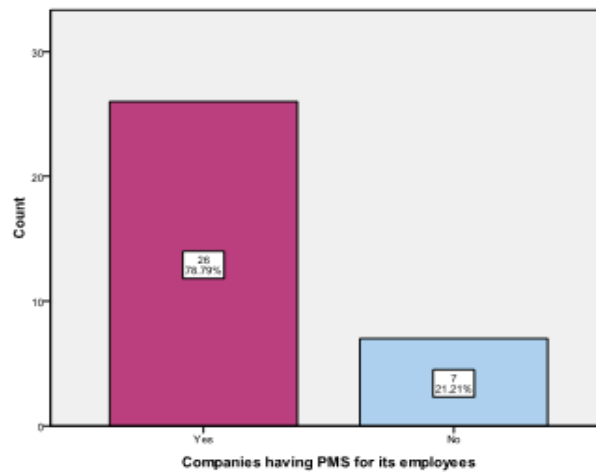
The required data was collected through a structured questionnaire which was pretested to make the responses 'close ended'. The questionnaires were filled through personal visits to the companies' offices and personal interviews of relevant corporate officials. A total of seventy students were involved in collection of data/information from the selected companies.

1. Summary Research Findings:

Summary of the responses to the questionnaire received from the companies is presented below.

1) Do the companies have a Performance Management System for their employees?

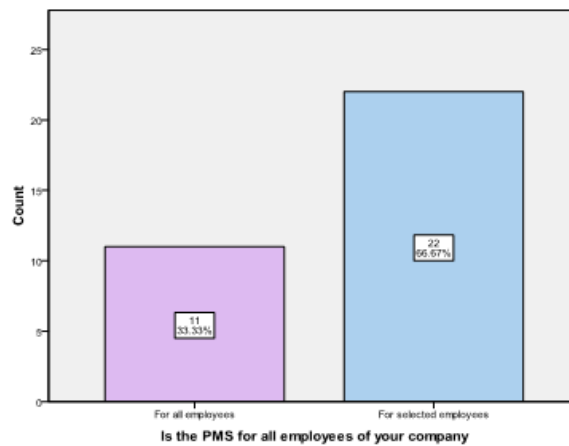
Graph # 1:



79% of the sampled companies have a PMS for their employees while 21% companies did not have a formal PMS

2.Does the Performance Management System cover all employees of the Companies?

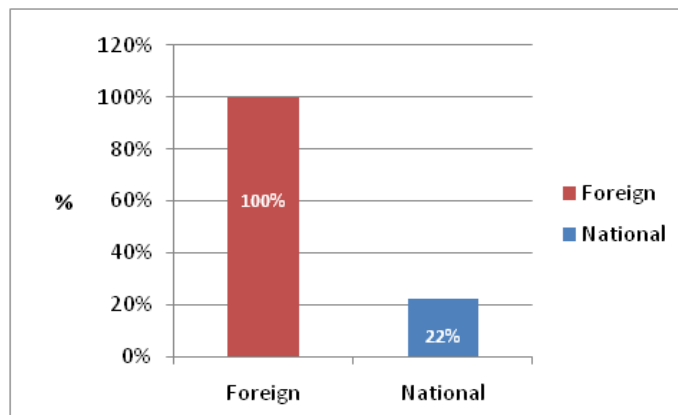
Graph # 2



33% of respondents had PMS for all their employees while 67% of respondents had PMS for selected employees only.

Graph # 3

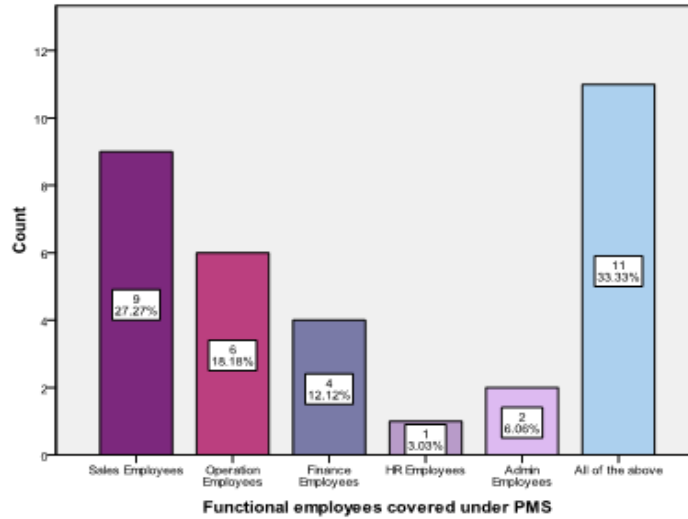
PMS for all employees of your company



100% of foreign companies and 22% national companies had PMS for all of their employees.

3. Employees of which major corporate functions are covered by PMS:

Graph # 4

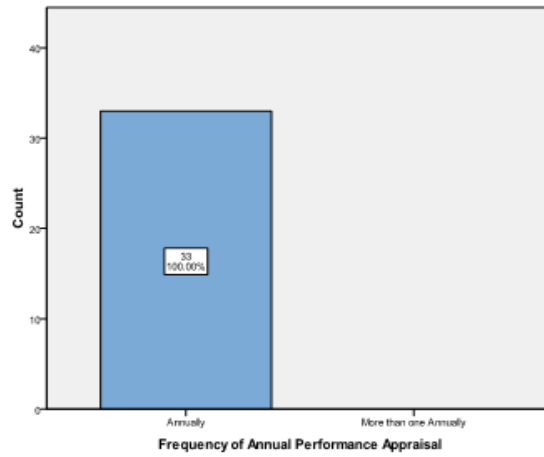


67% of the respondents had PMS for employees of selected functions, while only 33% companies had PMS that covered all major functions of the organization.

- 27 % of respondents had PMS only for its Sales Employees
- 19% of respondents had PMS for its Operations Employees
- 12% of respondents had PMS for its Finance Employees
- 3% of respondents had PMS for its HR Employees
- 6% of respondents had PMS for Admin Employees
- 33% of respondents had PMS for all employees under all functions.

4. What is the frequency of Performance Appraisal:

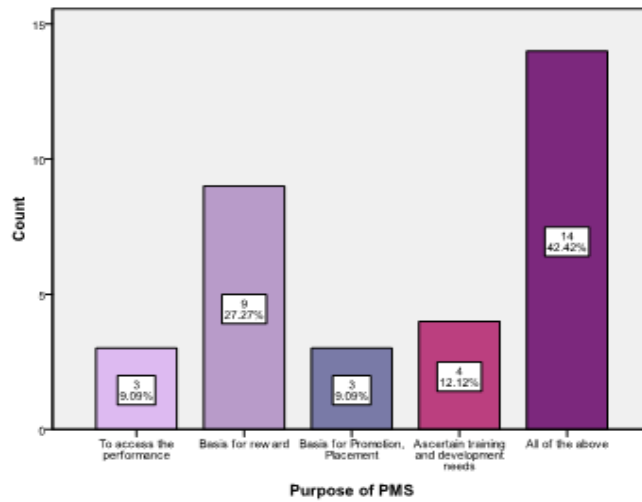
Graph # 5



100 % of respondents answered that the Performance Appraisal of employees was done annually.

5. What is the purpose/usage of PMS used for in the companies?

Graph # 6

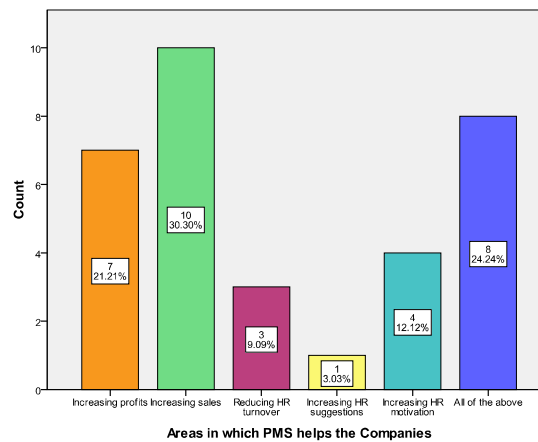


PMS was used by the responding companies for the following purposes:

- 9% of the responding companies used PMS to access the performance of its employees
- 27% of the responding companies used PMS as a basis of rewards for its employees
- 9% of respondents used PMS as a basis for Promotion and Placement of its employees
- 3% of respondents used PMS to ascertain training and development needs for its employees
- 42% of respondents used PMS for all the above mentioned purposes.

6. In what functional areas does PMS help the companies:

Graph #7

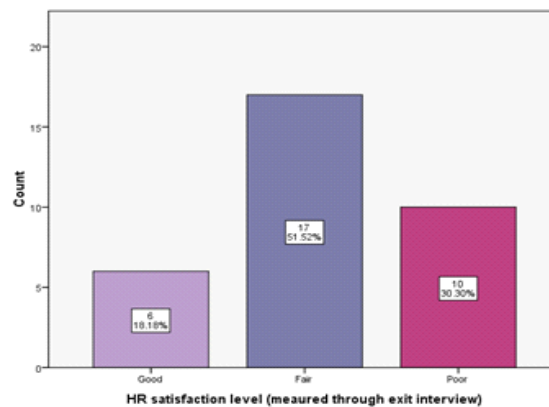


The following are the areas in which PMS is help the companies by the respondent HR managers.

- 21% of respondents stated that PMS helps their company in increasing profits
- 30% respondents stated that PMS helps their company in increasing sales
- 9% of respondents stated that PMS helps their company in reducing HR turnover
- 3% respondents stated that PMS helps their company in increasing HR suggestions
- 12 % of respondents stated that PMS helps their company in increasing HR motivation
- 24% of respondents stated that PMS helps their company in all the above mentioned cate

7. HR satisfaction level (measured through exit interviews of employees leaving the company by respondents)

Graph #8



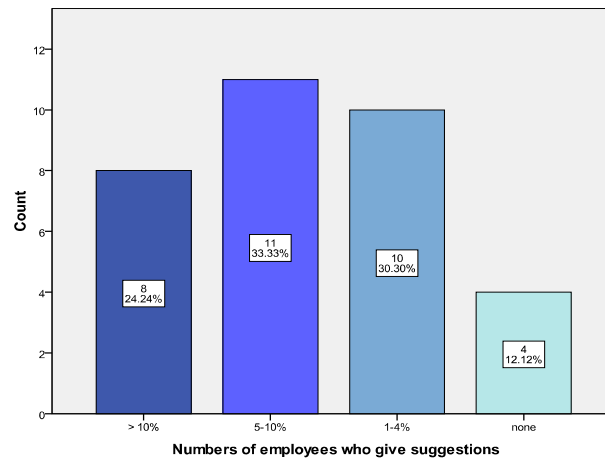
The HR satisfaction level (measured through exit interview) shows the following analysis:

- 18% of the employees leaving the company stated in their exit interview that their HR satisfaction level with the company was good

- 51% of respondents ranked their HR satisfaction level as fair
- 30% of respondents have ranked their HR satisfaction level as poor

8. HR satisfaction level (measured through employee suggestions by respondents):

Graph #9



Summary of responses in respect of employee suggestions are as follows:

- 24% of respondent responded that more than 10% of their employees give suggestions
- 33% of respondent responded that 5-10% of their employees give suggestions
- 30% of respondent responded that only 1-4% of their employees give suggestions
- 12% of respondent responded that none of their employees give suggestions

V. Conclusions

79% of the sampled companies have formal/informal PMS for their employees. 100% of the foreign companies had implemented a formal PMS for almost all functions and employees in their companies. However, only 29% of Pakistani companies had an operative PMS.

100% of foreign and Pakistani companies had an annual performance appraisal. Though most companies had some sort of MIS to monitor budgeted/targeted performance on monthly basis but the performance review and appraisal thereof was done annually.

27% of the companies used the performance management system for the purposes of determining performance reward of employees. Some of the other usages of PMS were assessment of performance, ascertainment of training and development needs and as a basis for HR promotion and placement. 42% of companies stated that they used the PMS for all of the above purposes.

A large number of companies (30%) were convinced that an effective PMS helps them in increasing sales, while other benefits of a good PMS envisaged were increase in profits, increase in HR motivation and reduction in HR turnover.

Through the HR exit interviews of employees leaving the companies conducted by the HR departments, the HR department determined that 52% of such employees had good impression about their ex-companies, while the ex-employees who rated their level of satisfaction with their company as fair and poor were 51% and 30% respectively.

Motivation, as depicted through number of suggestions for work improvement submitted by employees, was considered low in the selected companies, with only 24% companies receiving suggestion from more than 10% of employees, while 33% companies stated that they received suggestion from 5-10% employees.

The survey establishes the need, particularly in the Pakistani companies, for developing and implementing an effective and efficient PMS for all functions and all employees within each function.

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Appendix:

QUESTIONNAIRE
Performance Management System

Company: _____ Sector: _____
Company is National/Multinational _____
Contact person (Manager HR Department) _____ Phone: _____

Questions:

Q1. Does your company have a Performance Management System for its employees?

Yes

No

Q2. Is the Performance Management System for all employees of your Company?

2.1 For all employees

2.2 For selective Employees

Q.3 Does the PMS cover all your company employees under the functions of:

3.1 Sales Employees

3.2 operations employees

3.3 Finance Employees

3.4 H.R Employees

3.5 Admin Employees

3.6 All of the above

Q. 4. Is Performance Appraisal of your employees done annually or more frequently?

5.1 Annually

5.2 More than once P/A

Q5. For what purpose is the Performance Management System?

6.1 To access the performance (usefulness of the employees)

6.2 Basis for reward (Increment, bonus)

6.3 Basis for Promotion, Placement

6.4 Ascertain training and development needs

6.5 All of the above

Q.6: In what functional areas PMS helps your company?

7.1 Increasing Profits

7.2 Increasing Sales

7.3 Reducing HR turnover

7.4 Increasing HR suggestions

7.5 Increasing Hr Motivation

Q.7 What is the satisfaction level of employees leaving your company?

9.1 Excellent

9.2 Good

9.3 poor

Q.8. How many employees in your company give suggestions?

10.1 > 10%

10.2 5-10%

10.2 1-4%

10.4 none

Name: _____

Date: _____

EXPORTS, IMPORTS AND ECONOMIC GROWTH: AN EMPIRICAL ANALYSIS OF PAKISTAN

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Abstract

The objective of this study is to address the export/import-led growth and growth-driven export/import hypotheses and the association between exports and imports of Pakistan by using annual time series data for the period 1971-2009. The J.J. co-integration test is applied to examine the long run relationships, while, modified granger causality is applied to investigate the short run and long run direction of causal link. The empirical results confirm the validity of growth-driven export both in short run and long run whilst the export led growth hypothesis is valid only in the short run. Import led growth is not valid either in the short run or in the long run but growth driven import is valid in the long run. Imports do not granger cause Pakistani exports at all whereas exports do granger cause imports in the long run.

JEL Classification: F000

I Introduction

The process of trade liberalization began in Pakistan after 1988 through the acceptance of the first IMF structural adjustment program. The admission to WTO further led to the use of measures of policy and trade liberalization. Pakistani trade sector is said to be benefited from WTO membership through

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the progressive removal of restrictions against a free movement of goods. Showing improvements in initial phases, some difficulties were also faced by our trade sector in later years. Over all, mixed results have been shown by the Pakistani trade sector over the last two decades.

The link between trade openness and economic growth has been investigated by many studies. Economic Literature shows the mixed results with majority supporting the hypothesis [Edwards S. (1992 & 1998), Harrison A. (1996), Iscan and Talan (1998), Paulino S. (2002), Wacziarg R. (2001), Halit Y. (2003)]. Some of the studies that do not either support or negate the hypothesis include Darrat A. F. (1986), Rodriquez F. and Rodrik D. (2000), Siddiqui A. H. and Iqbal (2005), and Afzal et al (2009). The objective of this study is to test the following hypotheses in the case of Pakistan over the period 1971-2009:

- Export-led growth (Helpman and Krugman, 1985)
- Growth-led export (Bhagwati, 1988)
- Import-led growth (Deme, 2002)
- Growth led-import (Deme, 2002)
- Export-import relationship (Husted, 1992, and Arize, 2002)

This study comprises of five sections. The second section reviews the empirical literature on the selected topic of this paper. The third section describes the model and data source. The fourth section presents the estimated results. The fifth and final section concludes the paper.

II. Literature Review

Konya and Singh (2006) examined exports, imports and economic growth link in India by using Vector error correction model (VECM) and annual time series data from 1951 to 2003.

They suggested that exports and imports, both jointly and individually, Granger-cause GDP (supporting the export-led growth and import-led growth hypothesis). Also exports and GDP jointly Granger-cause imports & GDP and imports jointly Granger-cause exports, while the growth driven export/import hypotheses seem implausible in case of India.

According to Hussain et al (2009) there is unidirectional causality from exports to income in Bangladesh. The role of imports cannot be ignored as the empirical evidence suggests that exports significantly affect imports both in the short run and in the long run. He has used Augmented Dickey-Fuller (ADF) test and Johansen-Juselius cointegration techniques.

Ramos (2000) focused on Portugal to estimate the link between exports, imports and growth. Using Granger causality test he found a feedback effect between exports-output growth and imports-output growth. More interestingly there is no significant causality between growth of imports and exports.

Cetintas and Barisik (2006) studied transition economies using panel unit root test, panel causality and panel cointegration to verify the existence of a relationship in the long run between economic growth, imports and exports. Unidirectional causality from economic growth to export suggests that the growth led export hypothesis is validated. There is a bidirectional causality relationship between import and growth. Also there is a feedback relationship between export and import.

Presence of a stable long run relationship between exports, imports and GDP was found in the case of Malaysia by Baharumshah and Rashid (1999). They used VECM test to estimate the feedback causal relationship between exports and economic growth for agricultural and manufacturing exports.

Bidirectional causality between export growth and income growth rate was discovered in the case of China by Mah (2005) by using ADF test. The findings of Herrerias and Orts (2009) are consistent with the import-led growth hypothesis, A cointegration test highlights the causality running in one direction from imports to growth.

Awokuse (2005) used VECM to suggest that the causal link between exports and growth in Korea is bidirectional over the 1963-2001 period.

Mixed results were highlighted by the studies done on Pakistan. Siddiqui and Iqbal (2005) investigated impact of trade openness on output growth using annual time series data during 1972-2002. They used an error correction causality test and found insignificant relationship between trade growth and GDP growth. Samiullah et al (2009) examined the cointegration and causality between exports and economic growth and suggested a positive relationship for export and economic growth. Furthermore, GDP does not Granger cause exports but Granger causes real imports. According to Aurangzeb (2006), ridge regression analysis verifies that gains from increased openness on the export side are primarily via improved resource allocation, which is itself an outcome of greater exposure to international competition. Hence an outward-looking strategy will result in higher growth than an inward-looking strategy. Another study by Afzal et al (2009) suggests that the export-led growth hypothesis is not validated but there is evidence of growth-driven exports. Aurangzeb (2006) suggested that, an outward-looking strategy which shifts resources into exports will result in higher growth than an inward-looking strategy. Using Johansen and Juselius test to estimate the import demand function for Pakistan, Rehman (2007) predicted that changes in real income and import prices significantly affect the import demand in the long run.

Another study on export led growth hypothesis by Shirazi and Manap (2005) on South Asia using Granger causality test found strong support for a long run relationship between exports, imports and real output for Pakistan, India, Bangladesh and Nepal but not for Srilanka. Unidirectional causality from exports to output in the case of Pakistan was found. Feedback effects between exports and GDP were found for Bangladesh and Nepal and not for India and Srilanka. A feedback effect between imports and GDP was also documented for Pakistan, Bangladesh and Nepal. A unidirectional causality from imports to output growth for Srilanka was also discovered.

Testing the export led growth hypothesis for Jordan, Abual-Foul (2004) found a unidirectional causation from exports to output. He had used VAR-L, VAR-D, and ECM techniques to test the hypothesis.

According to Darrat (1986), Granger causality test reveals that economic growth and exports are causation independent for Hong Kong, Korea, and Singapore. For Taiwan, causation runs from economic growth to exports.

Ekanayake (1999) examined the link between exports and economic growth in Asian developing countries. Using an error correction model (ECM), annual time series data 1960-1997 was taken for the purpose of the study. His empirical results showed bi-directional causality between exports growth and economic growth in India, Indonesia, Korea, Pakistan, Philippines, and Srilanka but not for Malaysia. However, unidirectional causality between exports growth and economic growth was found. Furthermore short run casualty exists from economic growth to export growth in all the cases except Srilanka. No strong evidence for short run causality from export growth to economic growth was determined.

The study of Al-Bawab (2009) used annual time series data and vector error correction model (VECM) to determine the effects of exports on economic growth of Jordan. According to this study exports are not the only element to achieve economic growth but there were also influencing factors (including imports).

The findings of Herrarias and Orts (2009) are consistent with the import-led growth hypothesis in the case of China i.e. causality exists in one direction from imports to growth

According to Li et al (2003) imports of services have a significant positive effect in developed countries while their effect does not appear to be significant in developing countries.

A bidirectional relationship between GDP and real investment goods import (IIMP) and unidirectional relationship between GDP and real raw material import (RIMP) in case of Turkey was found by Ugar (2008). His results further indicate bidirectional relationship between GDP and both IIMP and RIMP.

Kim et al (2007) applied vector error correction model (VECM) on quarterly data from Korea 1985:1 to 2002:4. Their results indicate that imports have a significant positive effect on productivity growth but exports do not. According to them under certain circumstances, import liberalization can make a positive and significant contribution to growth in South Korea.

III. Data Collection and Econometric Methodology

The annual time series data from 1971 to 2009 has been taken from the World Bank (world development indicators). Gross Domestic Product (Y), exports (X) and imports (M) are measured in dollars at constant prices of 2000. For econometric estimation all series are transformed into natural logarithm form. This study will test three hypotheses:

1. Exports-led growth (Helpman and Krugman, 1985), and growth-led export (Bhagwati, 1988).
2. Import-led growth and growth led-import growth (Deme, 2002).
3. Export import relationship, foreign trade sustainability hypothesis by Husted (1992) and Arize (2002).

Exports led growth and growth led export hypothesis is tested by estimating the causal relationship between the exports and economic growth.

$$Y_t = \alpha_0 + \alpha_1 X_t + u_t \text{ ----- (1)}$$

$$X_t = \beta_0 + \beta_1 Y_t + v_t \text{ ----- (2)}$$

Imports led growth and growth led imports hypothesis is tested through the causal relationship between economic growth and imports.

$$Y_t = \theta_0 + \theta_1 M_t + u_t \text{ ----- (3)}$$

$$M_t = \varphi_0 + \varphi_1 Y_t + v_t \text{ ----- (4)}$$

Foreign trade deficit sustainability hypothesis is tested by checking the relationship between the exports and imports as investigated by Husted (1992) and Arize (2001).

$$X_t = \lambda_0 + \lambda_1 M_t + \psi_t \text{ ----- (5)}$$

$$M_t = \gamma_0 + \gamma_1 X_t + v_t \text{ ----- (6)}$$

In equations 1 to 6 the variables Y_t , X_t and M_t represents the economic growth (GDP), exports and imports respectively. In this empirical study it is important first to determine the order of integration in order to choose the appropriate estimation method.

Augmented Dickey-fuller (ADF) Test

Augmented Dickey-fuller (ADF) test is a standard unit root test, it analyzes order of integration of the data series. ADF test to check the stationary of the series and is based on the following regression model.

$$\Delta Y_t = \alpha_0 + \alpha_1 T + \beta Y_{t-1} + \sum_{i=1}^n d_i \Delta Y_{t-i} + u_t \text{ ----- (1)}$$

Here Y_t is a time series, T is a linear time trend, “ Δ ” is the first difference operator, α_0 is a constant, n is the optimum number of lags on the dependent variable, and u_t is pure white noise error term. The null hypothesis for testing non-stationary is $H_0: \beta = 0$ meaning economic series are non-stationary. That is Y_t is a random walk and it has a unit root. If the t-Statistic associated with estimated coefficient, β , is less than the critical value for the test, the null hypothesis of non-stationary cannot be rejected at 1% or 5% or 10% level of Significance.

Co-integration Test

It is important that the time series data are examined for co-integration, if the hypothesis of non-stationary is recognized for the underlying variables. Engle & Granger’s (1987) approach for co-integration is simple and popular for its attributes. However, it suffers from certain drawbacks that discourage its use (See Enders, 1995). The maximum likelihood procedure of Johansen (1991, 1995) is used because this is based on the well-established likelihood ratio principle. The advantage of the Johansen’s procedure is that several co-integration relationships can be estimated. It also (fully) captures the underlying time series properties of the data. Johansen’s method tests the restrictions imposed by co-integration on the unrestricted VAR involving the series. Consider a VAR of order p .

$$y_t = A_1 y_{t-1} + \dots + A_p y_{t-p} + Bx_t + \varepsilon_t \text{ ----- (2)}$$

Where y_t is a k -vector of non-stationary variables, x_t is a d -vector of deterministic variables, and a_t is a vector of innovations. We can write the VAR as

$$\Delta y_t = \Pi y_{t-1} + \sum_{i=1}^{p-1} \Gamma_i \Delta y_{t-i} + Bx_t + \varepsilon_t \quad (3)$$

Where

$$\Pi = \sum_{i=1}^p A_i - I, i = 1, \dots, p$$

$$\Gamma_i = - \sum_{j=i+1}^p A_j \quad (4)$$

Granger’s representation theorem asserts that if the coefficient matrix $\tilde{\Gamma}$ has reduced rank $r < k$, then there exist $k \times r$ matrices \hat{a} and $\hat{\alpha}$ each with rank r such that $\tilde{\Gamma} = \hat{a}\hat{\alpha}$ and y_t is stationary is the number of co integrating relations (the co integrating rank) and each column of $\hat{\alpha}$ is the co integrating vector. The elements of \hat{a} , are known as the adjustment parameters in the vector error correction model. Johansen’s method is to estimate the $\tilde{\Gamma}$ -matrix in an unrestricted form, and then test whether we can reject the restrictions implied by the reduced rank of $\tilde{\Gamma}$. Johansen’s method uses two test statistics for the number of co integrating vectors: the trace test and maximum eigenvalue () test. The (λ_{trace}) statistic tests H_0 , that the number of distinct co integrating vectors is less than or equal to r against a general alternative. The second statistic tests H_0 that the number of co integrating vectors is r against the alternative of $r+1$ co integrating vectors.

Modified Granger Causality test

This test is specifically applied to determine the short run and long run relationships separately. Equation (5) will determine the long run causality where as equation (6) will determine the short run relationship

$$X_t = \alpha_0 + \lambda_0 EC_{t-1} + \sum_{j=1}^k \alpha_j X_{t-j} + \sum_{j=1}^k \beta_j M_{t-j} + \varepsilon_{1t} \quad (5)$$

$$M_t = \gamma_0 + \lambda_1 EC_{t-1} + \sum_{j=1}^k \gamma_j M_{t-j} + \sum_{j=1}^k \delta_j X_{t-j} + \varepsilon_{2t} \quad (6)$$

λ_0 and λ_1 are considered the speed of adjustment coefficients and at least one of these coefficients must be significant so that the ECM holds. If both coefficients are significant, this will suggest that both series exert a long run relationship. If λ_0 is significant, this means that there is one-way long run equilibrium between X_t and M_t . According to Granger (1988), for example in equation (6), X_t is said to Granger cause M_t not only if the δ_j s are jointly significant, but also if λ_1 is significant. Unlike the standard Granger test, ECM allows for the finding that X_t Granger causes M_t , as long as the EC terms carry a significant coefficient even if δ_j s is not jointly significant. The F-statistic is used to test the joint significance of the lagged independent variables and the t-statistic is used to estimate the significance of the error correction. Lagged explanatory variables represent short-run causal impact and the long run causal impact is given by the error correction term (see Bahmani-Oskooee et al 1993).

An innovation accounting is also adopted by simulating variance decompositions (VDC) and impulse response functions (IRF) for further inferences. VDC and IRF serve as tools for evaluating the dynamic interactions and strength of causal relations among variables in the system. The VDC indicate the percentages of a variable's forecast error variance attributable to its own innovations and innovations in other variables. Moreover, the IRF trace the directional responses of a variable to a one standard deviation shock of another variable.

Empirical Results

Augmented Dickey Fuller (ADF) unit root test is employed to examine the level of integration. The result of the test (table I) confirm that $\ln(Y)$, $\ln(X)$, and $\ln(M)$ are integrated order one or I(1).

Table I: Results of ADF

Variables	Constant (Intercept)		Constant and Trend	
	Level	1 st Difference	Level	1 st Difference
	I (0)	I (1)	I (0)	I (1)
$\ln Y_t$	-1.2993	-5.1256***	-0.6776	-5.5239***
$\ln X_t$	-0.1955	-6.6282***	-2.8898	-6.4874***
$\ln M_t$	-0.6603	-6.2631***	-2.9689	-3.3852*

Note: *** (1%), ** (5%), *(10%)

Taking the unit-root tests (table I), Johansen (1988, 1991) and Johansen and Juselius test (1990, 1992, and 1995) are applied to find out co-integration among the listed variables. Before undertaking the co integration tests, the relevant order of lags (p) of the VAR model are specified. After finding the order of integration, the JJ approach is employed for the investigation of the long run relationship among the variables.

The **Trace Statistics** test is used to verify the number of co-integrating vectors (Denoted by r). In the trace, the null hypothesis is tested against the alternative hypothesis. The results of JJ test Case-I (table II) indicate the existence of long run relationship between economic growth and exports because the Trace Statistic value 34.4881 is greater than the critical value of 20.2618 and hence the null hypothesis $r=0$ is rejected. The other null hypothesis $r \geq 1$ is accepted because the critical value is larger than trace value.

In Case-II (table II) the results of long run relationship between economic growth and imports are presented. The existence of two co integrating vectors proves that there is a long run relationship between economic growth and imports as the trace statistic is greater than the critical value in case of both hypotheses. Thus both the null hypotheses ($r=0$ and $r \leq 1$) are rejected and both the alternate hypotheses ($r \geq 1$ and $r \geq 2$) are accepted at 5% level of significance.

Table II: Results of Co-integration

	Null Hypothesis	Alternative Hypothesis	Trace Statistics	5% Critical value	Decision
Case-I	$r=0$	$r \geq 1$	34.4881	20.2618	
	$r \leq 1$	$r \geq 2$	9.1297	9.1645	Cointegration
Case-II	$r=0$	$r \geq 1$	39.2367	20.2618	
	$r \leq 1$	$r \geq 2$	10.4878	9.1645	Cointegration
Case-III	$r=0$	$r \geq 1$	22.0871	20.2618	
	$r \leq 1$	$r \geq 2$	7.7433	9.1645	Cointegration

Case-III (table II) investigates the long run relationship between exports and imports. The results exhibit the long run relationship between exports and imports as well as there is one co-integrating vector in this case. For the first null hypothesis ($r=0$), the t-statistic is greater than the critical value at 5% level of significance. Thus the null hypothesis ($r=0$) is rejected and alternative hypothesis ($r \neq 1$) is accepted. In case of the second null hypothesis ($r \neq 1$) t-statistic value is less than the critical value; hence, this hypothesis is accepted at 5% level of significance and its alternative hypothesis ($r = 2$) is rejected.

Table III: Results of Modified Granger Causality

		Short run Causality (F-Statistics)			Long run Causality
		ΔY	ΔX	ΔM	ECM
Case-I Y, X	ΔY	-----	4.384**	-----	-0.058
	ΔX	2.505*	-----	-----	-0.451***
Case-II Y, M	ΔY	-----	-----	0.223	-0.021
	ΔM	1.203	-----	-----	-0.939***
Case-III X, M	ΔX	-----	-----	0.231	-0.068
	ΔM	-----	0.112	-----	-0.565***

The results of modified granger causality are shown in table III. According to the results of case-I (table III) export causes the economic growth in the short run but it does not cause growth in the long run. On the other hand, economic growth causes exports both in the short run as well as in the long run. On the basis of this result it is concluded that Growth-led export hypothesis is valid for Pakistan.

Case-II (table III) determines the causality among economic growth and imports. Any variation in imports does not have any kind of effect on growth either in the short run or in the long run. Though economic growth does not cause imports also in the short run but it causes imports in the long run.

The causality between exports and imports is investigated in case-III (table III). Results indicate that import variations do not have any kind of effect on exports both in the short run and in the long run. Although exports also do not cause imports in the short run but they do so in the long run, so an increase in exports may not bring changes in imports in the short run but it will increase imports in the long run.

One interesting point to include in conclusion is that Pakistani imports do not have any causality in short run either with growth or with exports. So neither exports nor imports cause each other in short run, nor do economic growth and imports cause each other in the long run.

Conclusion and policy recommendations

This study was aimed at discovering whether Pakistan experienced export/import led growth, or growth- driven export/import, both or none, during the period 1971-2009. The data covers the pre liberalization as well as the post liberalization period alike, making it possible to capture the effects of trade openness

measures. The modified granger causality test was applied to test the relationship between the logarithms of exports, imports and GDP and the J.J. cointegration test was applied to discover the relationship between these variables.

A feedback causal relationship is found between exports and economic growth in the short run. Neither a causal link is identified between growth and imports nor it is found between exports and imports in the short run. Pakistani exports do not cause growth in the short run but they do so in the long run. Imports are not causing economic growth and exports but growth and export are causing imports in the long run in case of Pakistan.

Export led growth hypothesis is valid for Pakistan supporting the results of Ekanayake E. M. (1999), Baharumshah A. Z. and Rashid S. (1999), Ramos (2000), Dimkpah Y. O. (2002), Abual-Foul B. (2004), Mah J. S. (2005), Awokuse T.O. (2005), Shirazi N.S. and Abdul-Manap T.A. (2005), Cetintas H. and Barisik S. (2006), Samiullah et al (2009), Aurangzeb (2006), Konya L. and Singh J.P. (2006), Al-Bawab S. A. (2009), Hussian et al (2009).

Although the outcome of empirical results by Afzal M. et al (2009) do not match with this study for the export led growth but they match with this study for the export driven growth hypothesis.

As compare to the studies of Kim S. et al (2007), Li X. et al (2003), Herrerias M. J. and Orts V. (2009), Al-Bawab S. A. (2009), Centitas H. and Barisik S. (2006), Konya L. and Singh J.P. (2006), and Ramos (2000), the findings of this paper do not support the import led growth hypothesis in case of Pakistan.

Unlike Konya L. and Singh J.P. (2006) exports do not cause imports according to this study. Whereas, like Hussain et al (2009), and Cetintas H. and Barisik S. (2006), an increase in export has a positive long run effect on imports.

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**APPENDIX:
(Previous Studies)**

Author	LasZlo Konya and Jai Pal Singh	M. Amzad hussain, Laila Haseen, and Nazneen Jabin	Francisco F. Riberio Ramos
Topic	Exports, Imports and Economic Growth in India	Dynamics and Causality among Exports, Imports and Income in Bangladesh	Exports, imports, and economic growth in Portugal: an evidence from causality and cointegration analysis
Name of Journal	Discussion paper	The Bangladesh Development Studies	Journal of Economic Modeling
Country & Year of Pub	India December 2006	Bangladesh June 2009	Portugal July 2000
Data Type	Annual (1951/52 to 2003/04)	Yearly 1973 to 2008	Yearly 1865 to 1998
Methodology	1) Wald Test 2) MWald Tests 3)Vector Error Correction 4)Vector Autoregressive	1) Augmented Dickey-Fuller 2) Johansen-Juselius cointegration technique	1) Granger causality 2) Augmented Dickey-Fuller 3) Phillips and Perron

Variables	1. Nominal exports 2. Nominal imports 3. GDP	1. Nominal exports 2. Nominal imports 3. GDP	1. Real exports 2. Real imports 3. Real GDP
Conclusion	Exports and imports, both jointly and individually, Granger-cause GDP (supporting the export led growth and import led growth). Also exports and GDP jointly Granger-cause imports & GDP and imports jointly Granger-cause exports. While growth driven export/import hypothesis seem implausible.	There is a unidirectional causality from exports to income. The role of imports cannot be ignored as the empirical evidence suggests that exports significantly affect import both in short run and in long run. Export is not a guarantee for economic growth as exports is significantly affected by imports	The empirical results do not confirm a unidirectional causality between the variables considered. There is a feedback effect between exports-output growth and imports-output growth. More interestingly, there is no kind of significant causality between import-export growths.
Author	Hakan Cetintas and Salih Barisik	Ahmad Zubaidi Baharumshah and Salim Rashid	Jai S. Mah
Topic	Exports, Imports and Economic Growth: The case of transition economies	Exports, Imports and Economic Growth in Malaysia: Empirical evidence based on multivariate time series	Export expansion, economic growth and causality in China
Name of Journal	Transit Stud Rev	Asian Economic Journal	Applied Economics Letters
Country & Year of Pub	13 transition economies Dec-06	Malaysia 1999	China 2005

Data Type	quarterly (1995:2 to 2006:4)	quarterly (1970:1 to 1994:4)	Yearly 1979 to 2001
Methodology	1) Panel unit root test 2) Panel causality 3) Panel cointegration <ul style="list-style-type: none"> • Panel-v statistics • panel p statistics • panel PP statistics • panel ADF statistics 	1) Augmented Dickey- Fuller 2) Phillip and Perron 3) Johansen-Juselius cointegration technique 4) Vector Error Correction	Augmented Dickey- Fuller Test (ADF)
Variables	1. Real exports 2. Real imports 3. Real GDP	1. Real total exports (real manufacturing exports, real agricultural exports) 2. Real imports 3. Real GDP	1. Economic growth rate 2. Export growth rate
Conclusion	Series are integrated at the same level. Panel cointegration tests verify the existence of a relationship in the long run between economic growth, import and export. Unidirectional causality from economic growth to export suggests that the growth led export hypothesis is applicable. There is a bidirectional causality relationship between import and growth. Also there is a feedback relationship between export and import.	Presence of a stationary long run relationship between exports, imports and GDP. VEC tests suggest economic growth is driven by exports. Tests also confirm that economic growth causes export growth for manufacturing exports. There is also a feedback causal relationship between exports and economic growth for both agricultural and manufacturing exports.	There is a bi-directional causality between export growth rate and Economic/income growth rate, which is statistically significant at the 5% level of significance. i.e. higher export growth tends to increase the real economic growth rate and vice versa.

Variables	1. Real exports 2. Real imports 3. Real GDP	1. Real total exports (real manufacturing exports, real agricultural exports) 2. Real imports 3. Real GDP	1. Economic growth rate 2. Export growth rate
Conclusion	Series are integrated at the same level. Panel cointegration tests verify the existence of a relationship in the long run between economic growth, import and export. Unidirectional causality from economic growth to export suggests that the growth led export hypothesis is applicable. There is a bidirectional causality relationship between import and growth. Also there is a feedback relationship between export and import.	Presence of a stationary long run relationship between exports, imports and GDP. VEC tests suggest economic growth is driven by exports. Tests also confirm that economic growth causes export growth for manufacturing exports. There is also a feedback causal relationship between exports and economic growth for both agricultural and manufacturing exports.	There is a bi-directional causality between export growth rate and Economic/income growth rate, which is statistically significant at the 5% level of significance. i.e. higher export growth tends to increase the real economic growth rate and vice versa.
Author	Aamir Hussain Siddiqui & Javed Iqbal	Young O. Dimkpah	Titus O. Awokuse
Topic	Impact of Trade Openness on Output Growth for Pakistan: An Empirical Investigation	The Stage of Economic Development, Exports and Economic Growth: An Empirical Investigation	Exports, Economic Growth and Causality in Korea
Name of Journal	Market Forces	The African Economic and Business Review	Applied Economics Letters
Country & Year of Pub	<u>Pakistan</u> 2005	107 developed and LDCs 2002	Korea 2005
Data Type	Yearly 1972-2002	Yearly 1980-1990	Yearly 1963-2001

Author	Aamir Hussain Siddiqui & Javed Iqbal	Young O. Dimkpah	Titus O. Awokuse
Topic	Impact of Trade Openness on Output Growth for Pakistan: An	The Stage of Economic	Exports, Economic Growth and
Name of Journal	Market Forces	The African Economic and Business Review	Applied Economics Letters
Country & Year of Pub	<u>Pakistan</u> 2005	107 developed and LDCs 2002	Korea 2005
Data Type	Yearly 1972-2002	Yearly 1980-1990	Yearly 1963-2001
Methodology	1. Augmented Dickey-Fuller 2. Vector Auto Regression 3. Error Correction Term	OLS	1. Augmented Levels VAR 2. VECM 3. Augmented Dickey-Fuller 4. Phillip and Perron 5. Hannan-Quinn (HQ) 6. Schwartz's Bayesian Information Criterion
Variables	1. Population Growth 2. Investment Growth 3. Trade Growth	1. Average GDP growth rate 2. Average growth rates of: <ul style="list-style-type: none">• investment• Population• Exports	Real GDP Real Exports Real terms of trade Gross Capital Formation Industrial Production In

Conclusion	There is long run negative relationship between trade growth and GDP growth. Insignificant positive relationship is found between GDP and export and import. Positive and significant relationship between GDP and investment is also found. The Engle Granger Causality tests showed insignificant relationship between trade growth and GDP growth, while investment growth was found to have a significant relationship with GDP growth.	The three variables have varying impacts on economic development at different stages of growth. Further, we find that export growth is a positive contributor to economic development of low income countries as well as middle-income countries. The impact is however stronger in middle-income countries than in low-income countries. This implies that policies that encourage exports would facilitate economic growth in less developed countries.	All five variables are non-stationary in levels, but stationary after first differencing. Real exports ‘Granger-causes’ real GDP at the 10% significant level. However, the support for the ELG hypothesis is rather weak. Changes in capital and terms of trade do influence real GDP growth. Export growth is not only influenced by GDP growth, but also by capital and foreign output shock. Casual link between exports and growth in Korea is bi-directional over the 1963-2001 periods.
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Author	Sami Ullah, Bedi-uz-Zaman, Muhammad Farooq, & Asif Javid	Bassam Abual-Foul	Ali F. Darrat
Topic	Cointegration and Casuality between Exports and Economic Growth in Pakistan	Testing the Export-led Growth Hypothesis: Evidence from Jordan	Trade and Development: The Asian Experience
Name of Journal	European Journal of Social Sciences	Applied Economics Letters	Cato Journal
Country & Year of Pub	<u>Pakistan</u> 2009	Jordan 2004	Hong Kong, Korea, Singapore, and Taiwan 1986
Data Type	Yearly 1970-2008	Yearly 1976-1997	Yearly 1960-1982
Methodology	1. Unit Root Test 2. Co-integration 3. Granger Causality 4. VECM 5. Augmented Dickey-Fuller	1. VAR-L 2. VAR-D 3. ECM	Granger Causality Test
Variables	1. Real GDP 2. Real Exports (REXP) 3. Real Imports (RIMP) 4. Real Gross Fixed Capital Formation (RGFCF) 5. Real per Capita Income (RPCI)	1. Real Exports 2. Real GDP	1. Real Exports 2. Real GDP

<p>Conclusion</p>	<p>All variables are non-stationary in their original levels of series, but stationary in their first difference level of the series at 5% level of significance.</p> <p>There is positive relationship for export and economic growth. GDP does not Granger cause Export, Capital Formation while it Granger cause real Imports. The Capital Formation Granger cause real Imports and does not Granger cause real Export and same is happening with per capita income in case of real Imports and real Exports.</p>	<p>A unidirectional causation from exports to output is supported. The findings lend support to the export-oriented growth strategy pursued by Jordan.</p>	<p>Results show no casual effects running from exports to economic growth in any of the four countries. For Hong Kong, Korea and Singapore, the tests reveal that economic growth and exports are causation independent. For Taiwan, causation runs from economic growth to exports.</p>
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Author	Aurangzeb	E. M. Ekanayake	M. Afzal, H. Rehman, Jamshaid-ur-Rehman
Topic	Exports, Productivity and Economic Growth in Pakistan: A Time Series Analysis	Exports and Economic Growth in Asian Developing Countries: Cointegration and Error-Correction Models	Causal Nexus Between Economic Growth, Export and External Debt Servicing: The Case of Pakistan
Name of Journal	The Lahore Journal of Economics	Journal of Economic Development	The Pakistan Development Review
Country & Year of Pub	Pakistan 2006	India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Sri Lanka and Thailand 1999	Pakistan 2009 working paper
Data Type	Yearly 1973-2005	Yearly 1960-1997	Yearly 1970-71 to 2007-08
Methodology	1. OLS 2. Ridge regression 3. Augmented Dickey-Fuller 4. Phillips Perron	1. Granger-causality Cointegration 2. Error Correction Model (ECM)	1. VECM 2. VAR 3. Unit Root tests 4. Phillips Peron 5. ADF 6. ECT
Variables	1. Total Employed Labor 2. Real GDP 3. Real Gross Fixed Capital Formation 4. Real Physical	1. Real Exports 2. Real GDP	1. Real Exports 2. Real GDP 3. Real Debt Servicing

Conclusion	In Pakistan, gains from increased openness on the export side is primarily via improved resource allocation, which is itself an outcome of greater exposure to international competition. Social Marginal Productiveness is higher in the export sector, and an outward-looking strategy which shift resources into exports will result in higher growth than an inward-looking strategy.	This study provides strong evidence supporting the export-led growth hypothesis. The empirical results show that bi-directional causality exists between export growth and economic growth in all cases except Malaysia. There is also evidence for export-led growth in Malaysia. Furthermore, there is evidence for short-run Granger causality running from economic growth to export growth in all cases except Sri Lanka. However, there is no strong evidence for short-run causality running from export growth to economic growth.	Export-led growth hypothesis is not valid for Pakistan though the reverse of it exist in shape of growth-driven exports. The empirical evidence of two approaches suggests that changes in real GDP precede changes in exports. This was consistent both in the long-run and short-run.
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Author	Nasim Shah Shirazi & Turkhan Ali Abdul Manap	Steven Husted	Salam A. Al Bawab
Topic	Export-Led Growth Hypothesis: Further Econometric Evidence from South Asia	The Emerging U.S. Current Account Deficit in the 1980's: A Cointegration Analysis	The effects of Exports on Economic Growth: The Case of Jordan
Name of Journal	The Developing Economies	Review of Economics & Statistics U.S.A	Graduate School of International Studies, Ajou University Jordan
Country & Year of Pub	South Asia 2005	U.S.A 1992	Jordan 2009
Data Type	Yearly Pakistan (1960-2003), India (1960-2002), Bangladesh (1973-2002), Sri Lanka (1960-2002), and Nepal (1975-2003)	Quarterly 1967:1-1989:4	Yearly 1978-2008
Methodology	1. Granger-casuality 2. Phillips Peron 3. Augmented Dickey- Fuller	1. Phillips Peron 2. ADF Test	1. ADF Test 2. VAR 3. VECM
Variables	1. Real Exports 2. Real Imports 3. Real GDP	1. Nominal Exports 2. Nominal Imports plus net unilateral transfers	1. Real Exports 2. Real Imports 3. Real GDP

<p>Conclusion</p>	<p>Strong support for a long-run relationship among exports, imports and real output for all the countries except Sri Lanka were found. Feedback effects between exports and GDP for Bangladesh and Nepal and unidirectional causality from exports to output in the case for Pakistan were found. No causality between these variables was found for Sri Lanka and India, although for India GDP and exports did induce imports. A feedback effect between imports and GDP was also documented for Pakistan, Bangladesh and Nepal, as well as unidirectional causality from imports to output growth for Sri Lanka.</p>	<p>Estimates from cointegration regressions between several measures of U.S. exports and imports show that up to about the end of 1983 the U.S. current account tended toward zero.</p>	<p>The results of the empirical analysis reveal that exports are not the only element to achieve economic growth but there are also other elements such as imports. This is due to the Industrial Policy adopted by the Jordanian Government which aims at manufacturing expansion, export growth and import substitution. This explains the huge amount of Jordan's imports from capital goods to exporting value added manufacturing goods, which can ease the Trade Balance Deficit.</p>
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Author	M.J Herrerias and V. Orts	Xiaoying Li, David Greenaway, and Robert C. Hine
Topic	Imports and Growth in China	Imports of Services and Economic Growth: A Dynamic Panel Approach
Name of Journal	Working paper	Working paper
Country & Year of Pub	China 2009	Multiple(82) countries 2003
Data Type	Yearly 1964-2004	Yearly For developed countries 1985-1999 For developing countries 1990-1999
Methodology	1. Unit root 2. Cointegrated VAR (by Johansen, Johansen and Juselius, and Juselius)	1. Arrelano-Bond estimation 2. Sargen test
Variables	1. GDP 2. Labor Productivity 3. Imports 4. Investment 5. Research & Development Expenditure 6. Real Exchange Rate 7. Foreign (US) GDP	1. Investment Share 2. Population Growth 3. GDP per capita 4. Human Capital 5. Share of trade in services in GDP 6. Share of trade in manufacturing sectors in GDP

Conclusion	Capital accumulation and export promotion policy have been considered the main forces driving the rapid growth of China. However, the endogenous growth theory highlights the role played by imports rather than exports in the process of economic growth. Although there is theoretical support for the relationship between imports and economic development, there is no empirical evidence for the case of China. Results indicate that imports and investment have positively influenced labour productivity and output in the long run. These findings are consistent with the import-led growth hypothesis, the causality running in one direction from imports to growth.	Imports in services have a significant positive effect in developed countries while their effect does not appear to be significant in developing countries. Imports of ‘other services’, including business services, that are responsible for this outcome. Imports of manufacturing have been recognized as an important channel for the international diffusion of technology, this study suggest that for developed countries, imports of business may also serve to diffuse economically important knowledge and know-how and hence to promote economic growth.
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Author	Ahmet Ugur	Sangho Kim, Hyunjoon Lim, & Donghyun Park	Hafeez- ur- Rehman
Topic	Import and Economic Growth in Turkey: Evidence from Multivariate VAR Analysis	Could Imports be Beneficial for Economic Growth? Some Evidence from Republic or Korea	An Econometric Estimation of Traditional Import Demand Function for Pakistan
Name of Journal	East-West <i>Journal of Economics and Business</i>	ERD Working Paper	Pakistan Economic and Social Review
Country & Year of Pub	Turkey 2008	Korea 2007	Pakistan 2007
Data Type	Quarterly 1994:1-2005:4	Quarterly 1985:1-2002:4	Yearly 1975-2005
Methodology	1. Phillips Peron (PP) 2. ADF 3. KPSS (Kwiatkowski, Phillips, Schmidt and Shin)	1. VECM 2. Unit Root tests 3. ADF 4. Phillips Peron 5. KPSS (Kwiatkowski, Phillips, Schmidt and Shin)	1. Johansen and Juselius 2. Phillips Peron (PP) 3. ADF
Variables	1. Real GDP 2. Real Export 3. Real Aggregate Imports 4. Investment Goods Import 5. Raw Material Import 6. Consumption Goods Import 7. Other Goods Import	1. Real GDP 2. Real Imports 3. Real Exports 4. Total Factor Productivity 5. Capital Stock (utilization)	1. Volume of Imports 2. Real Income 3. Import Prices 4. Domestic Prices

Conclusion	Results indicates a bidirectional relationship between GDP and IIMP, and unidirectional relationship between GDO and RIMP, IRF's and VDC's bidirectional relationship between GDP and both IIMP and RIMP. There is only a unidirectional relationship between GDP and CIMP and OIMP, which flows from GDP to CIMP and OIMP.	Results indicate that imports have a significant positive effect on productivity growth but exports do not. Furthermore, the evidence reveals that the productivity-enhancing impact of imports is due to competitive pressures arising from consumer goods imports and technological transfers embodied in capital goods imports from developed countries. The evidence implies that under certain circumstances, import liberalization can make a positive and significant contribution to growth and development.	There is long-run equilibrium relationship among variables. The estimated elasticities indicate that changes in real income and import prices significantly affect the import demand in the long run. But variations in domestic price level and import price level do not affect significantly the imports demand in the short-run. The inelastic long-run income elasticity implies that imports are regarded as necessary goods in Pakistan.
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**PERFORMANCE APPRAISAL
CHARACTERISTICS AND ITS
INFLUENCE ON SALES FORCE
SATISFACTION IN KARACHI'S
PHARMACEUTICAL INDUSTRY**

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Abstract

The study examines the significance of the performance appraisal (PA) characteristics on the salespersons satisfaction level. The structured performance appraisal process based on appraisees' participation, clear criteria, perceived fairness, an exercise to improve salespersons performance, and resulting in disbursement of appropriate rewards enhances the salespersons job satisfaction. The current study compares the critical determinants of an effective appraisal system which is mainly based on factors influenced by the manager in pharmaceutical industry. A performance appraisal previewed as helpful in influencing performance, fair and conducted in cordial manner increases job satisfaction of a salesperson.

Key Words: Performance Appraisal, Job Satisfaction, Job Performance.

JEL Classification M12

I- Introduction

The selling function is an integral part of an organization essential since it is the only department with revenue generation capability. The revenue generation can be maximized with effective management of the sales function. Badovick et al., (1992), observes that, "The sales manager must identify behaviors and activities that foster high performance, and then provide leadership and guidance to reinforce productive behavior".

One might think that the sales job is simple and uncomplicated i.e. to make a sales call on customers and the outcome per sales can be measured easily. Making a sales call has several components e.g., enthusiasm of salesperson, training, product knowledge, market knowledge, customer knowledge, selling skills, experience and the salesperson's attitude.

Despite its complexity, a properly conducted performance appraisal system containing constructive suggestions for employee improvement can lead to increased motivation and performance, increased clarity in job requirements and duties, and clear recommendations for career growth (Moncrief 1997, p 512-514). Khan (2001) states that, "it goes without saying that an effective performance appraisal system can lead an organization to take strides towards success and growth."

Salespersons occupy a boundary position in an organization interacting with both internal and external stake holders. The diverse and interdependent responsibilities of salespersons necessitates that they work effectively both within and outside the boundaries of their work unit. Therefore, the salesperson's success is contingent on the behavior of others (Douglas, Behrman et al, 1981). The sales force is a major force in an organizational setup. At the same time salesperson are rare

and expensive commodities to maintain, which requires continued assessment of performance.

Managers' evaluation is the most common method of conducting salesperson appraisal because the supervisor is expected to have the most knowledge regarding the salesperson's performance. Along these lines, Morris et al., (1991, p.25) argue that "performance appraisals have become one of the sales manager's most critical responsibility". According to Muscky and Gable (1987) the organization's success or failure is built on the tradition in which the performance appraisal process is managed.

The aim of this research is to investigate the relationship between the characteristics of an appraisal process and the degree of influence it has on the salesperson's job satisfaction in pharmaceutical companies based in Karachi. This exploratory study assesses the level to which job satisfaction is related to a number of relevant appraisal characteristics, including use of alternative types of criteria; formality, evaluators fairness, and openness to discussion; use of evaluation result to influence compensation and effect of appraisal result on future performance; and the subjected salesperson's stage of conformity with the condition used in salesperson's appraisal.

The result of this research may help identify components of the appraisal process in typical Pakistani organizations that may have significant influence on the effectiveness of the performance-evaluation practice. To the best of my knowledge no work on performance appraisal from the perspective of the sales force has been done in Pakistan and very scanty work has been done internationally.

II- Literature Review

The study attempts to assess the impact of Performance Appraisal (PA) characteristics on salespersons job satisfaction. When the PA is based on clear criteria, selected with the participation of the salesperson, the PA is perceived to be fair and rewarding. The research empirically evaluates appraisal characteristics, including use of alternative types of appraisal criteria. The alternative criteria considered in this study are formality, evaluators fairness, and openness of discussion; use of evaluation results to provide feedback for improved future performance, and the impact on compensation. DeCarlo and Leigh (1996) argue that in sales management performance appraisals have been described as the most important factor influencing salespersons behavior.

Salespersons occupy a boundary position in the organization and are the link between the internal stakeholders and external stakeholders. Salespersons' performance is not just a function of his ability but is also affected by several exogenous factors. The study assumes that the correct identification of management mediated variables will improve sales performance.

Evans and McShane (1988, pp 177) argued that the focus of PA research has been on identifying 'the conditions which affect the validity, reliability and other characteristics of employee performance measurement'. This focus has resulted in a lack of attention to what have been described as 'reaction criteria' (Murphy and Cleveland 1995), though, as Cawley, Keeping and Levy (1998, 615) point out, in order for appraisal systems to be effective they need to be 'accepted and supported by employees'. The value of such an approach is reflected in recent findings that PA reactions impact on employee attitudes such as job satisfaction

and organizational commitment (Blau 1999; Levy and Williams 1998; Pettijohn, Pettijohn and d' Amico 2001).

Salespersons' response to the PA process is crucial for the acceptability of the process. Fairness of the process is one such response. However, as stated by Kavanagh, Benson, and Brown, (2007), "Despite the importance of PA fairness and the attention given to it in the literature, there have been few attempts to develop and test a range of PA process factors that affect employees perception of PA process. This omission is significant as understanding the correlates of performance appraisal fairness will assist in the design of effective PA system

Managers' evaluation is the most common method of conducting performance appraisal because the supervisor is expected to have the most knowledge regarding the salesperson's performance. Along these lines, Morris et al., (1991, p.25) argue that "performance appraisals have become one of the sales manager's most critical responsibility," with an organization's success or failure significantly determined by the way in which performance is managed. (Muscky and Gable, 1987).

Earlier researches have acknowledged that the use of input criteria to evaluate the salesperson's job performance yield better dividends in terms of job commitment and higher level of motivation. Oliver and Anderson (1994) have shown that input controls are more highly related to salesperson satisfaction and commitment than output controls. For example, their study emphasizes that appropriately conducted performance evaluation is more critical than the criteria included for evaluation. Structured performance appraisal enhances sales force satisfaction and commitment compared to perfunctory performance appraisal exercise conducted by the sales managers. However, as Latham et al. (1993) argue, any system is subject to abuse.

Pettijohn et al,(2001) have examined the impact of input criteria on salesperson job satisfaction and its commitment to the organization as already studied by Challagalla and Shervani,(1996); Oliver & Anderson, (1995). Therefore our first hypothesis is founded on the previous research that input criteria have positive influence on satisfaction.

Many researchers have found that criteria used in performance appraisal do not influence the level of appraisees' satisfaction and many authors like Wanguri (1995), Ilgen & Feldman (1983) question the validity of using behavioral criteria. Jackson et al (1995) are of the view that further research is required to establish the link between criteria used in the evaluation process and job satisfaction as previous research has not been able to establish a clear relationship.

Morris et al., (1991) look into practices used by industrial firms to evaluate job performance of their sales force. They propose and test a model which links appraisal measures and their management to sales manager's reliance on the appraisal process. A manager is responsible for ensuring that the organization continues to achieve its goals through effective use of sales force. Performance appraisal has become one of the critical responsibilities of the sales manager. (Morris et al)

Jackson, Schlacter, and Wolf, (1995) and Morris et al., (1991) reviewed numerous criteria of the performance appraisal system but argued that there is no set of universally accepted criteria which is recommended for performance appraisal of the salesperson. Mostly the criteria selected are influenced by the organization strategic positioning, external environmental factors, and sales managers own perception of the sales job. "Unfortunately, little evidence exists regarding the appropriateness of a particular criterion within a given sales context." (Morris et al., 1991).

The literature suggests that, “Identifying performance appraisal process and salesperson job satisfaction may be important; job satisfaction scores have been shown to be related to a number of variables influencing the effectiveness of sales force management”: job satisfaction has been found to be related to lower levels of turnover (Babakus, Craven, Johnston, and Moncrief, (1996); Johnston, Futrell, Parasuraman, and Sager, (1991); Pettijhon, Pettijohn, dAmico, (2001)), Higher level of organizational commitment (Babakus, Craven, Johnston, and Moncrief, (1996); Brown and Peterson, (1993); McNeilly and Russ, (1992); Pettijhon, Pettijohn, dAmico, (2001)) and higher level of performance (Babin and Boles, (1996); Brown and Peterson, (1994); Pettijhon, Pettijohn, dAmico, (2001))”. By accurately matching features of the PA procedure to job satisfaction can help in making PA process more acceptable as a tool of human resource development and planning.

III- Hypotheses

Salespeople consider performance appraisal essential to their career development. However, sales managers often fail to weigh the importance of performance evaluation and consider it as a routine activity. “Thus, they may conduct appraisal without sufficient preparation. An absence of a formal and well-prepared evaluation may cause employees to feel slighted in the appraisal process itself (Wanguri, 1995).” Therefore, our first hypothesis examines the effect of the structured appraisal process on salesperson satisfaction. Moreover the formalization of the performance appraisal process reduces role ambiguity and conflict— two of the stated advantages of conducting PA. Michaels, et al., (1988) “One of the stated advantages of the input evaluation program is that they lead to more formal appraisals of performance (Oliver and Anderson, 1994, 1995).”

Null H-1: Planned performance appraisal will not result in increased level of salesperson's job satisfaction.

H-1: Planned performance appraisal will result in enhanced levels of salesperson's job satisfaction.

In most organizations performance appraisal is conducted once a year therefore, the process is perceived to be linked with reward and compensation. Another reason for this belief is that if the PA is used to determine variance in performance level of the employee, than the result should have impact on the compensation. According to Smither (1998), a performance- based pay plan is essential to the firm. Employees expect rewards to be tied to the evaluation process. It has been argued that if the relationship between reward and appraisal is not made explicit, there is increased ambiguity, which can negatively affect satisfaction. (Ilgen and Fledman, 1983). When rewards are not part of the process, the process itself may be treated as a bureaucratic routine Mohrman, Resnick, and Lawler, (1989). The salespersons perceive the linkage of reward to job evaluation.

Null H-2: Performance appraisals that are linked to compensation / reward will not result in superior level of sales force's satisfaction.

H-2: Performance appraisal that is linked to compensation / reward will result in superior level of sales force's satisfaction

The next hypothesis is exploratory in nature and based on perceptions. An effective performance appraisal process allows the appraisee to discuss his/her evaluation and seek clarification. According to. Dipboye and de Pontbriand (1981), appraisal satisfaction is positively influenced when the individuals being evaluated have an opportunity to discuss the results of the

process with their appraiser. Other research has also indicated that when the appraised individuals have input into the process, there is a perception of increased fairness and accuracy Gilliland and Langdon, (1998); Greenberg, (1986); Latham, et al., (1993); Murphy and Cleveland, (1995). These studies indicate that employees' satisfaction with the appraisal process is greater when they have an opportunity to discuss the results with their manager.

Null H-3: If the evaluation is perceived as being open to discussion, salespersons job satisfaction will not increase.

H-3: If the evaluation is perceived as being open to discussion, salesperson job satisfaction will be increased.

The bases of the appraisal criteria and the administration of the Performance Appraisal (PA) should be viewed as fair (Thomas and Bertz, (1994)). "The criticality of the perception of fairness is indicated by the argument that it may be as important as the perception of accuracy in influencing the success of the appraisal process" (Ilgen, Barnes-Farrell and Mckllien, 1993). As stated by McKay, Hair, Johnston and Sherrell (1991) well conceived PA results in higher levels of motivation and efficiency. Perceived fairness of the evaluation process by the sales force will result in increased satisfaction and higher commitment to the organizational objectives than those which feel that evaluation is unfair.

Null H-4: When the evaluation is perceived as being progressively fair, salesperson job satisfaction will not increase.

H-4: When the evaluation is perceived as being progressively fair, salesperson job satisfaction will be increased.

Sales managers use PA as a routine activity but fail to recognize PA value as motivational and coaching tool. Thomas and Bertz (1993, p34) suggest that organizations, “create an environment in which performance information is viewed as a resource that managers can use to develop subordinates.”

Null H-5: When the evaluation is perceived as having a valuable impact on performance, salespersons job satisfaction will not increase.

H-5: When the evaluation is perceived as having a valuable impact on performance, salesperson job satisfaction will be increased

Pettijohn et al., (2001) referring to prior research has discussed output criteria and input criteria to measure job performance of the salespersons and suggests “that identifying and specifying these criteria is critical to success in the process”. The literature generally favors in-put (behavioral) criteria Ilgen and Feldman, (1983); Latham, Skarlicki, Irvine, and Siegel, (1993); Miner,(1968); Pettijohn, Pettijohn, and d’Amico, (2001). Output criteria include sales volume, number of customers, profit, and orders booked. Input criteria consist of variables like sales call, number of required reports submitted, and training / meetings conducted. A wide range of variables has been suggested in the literature. Selection of criteria is dependent on the perceptions of the sales managers and organizational priorities. Dubinsky and Barry (1982), in their study of sales management practices, argue that too much emphasis has been placed on sales volume as criteria and that greater emphasis should be placed on profitability and activities performed. Other researchers suggest that the use of input criteria is appreciated more by salespeople and has greater predictive and explanatory value than out-put feedback (Jaworski and Kholi, (1991), Pettijohn, Pettijohn, and d’Amico, (2001)).

Null H-6 : Performance appraisal based on input (behavioral criteria) will not result in higher levels of sales force job satisfaction

H-6 : Performance appraisals based on input (behavioral) criteria will result in higher levels of sales force job satisfaction

III-Methodology

This research seeks to evaluate how salespersons perceive the performance appraisal process. Pharmaceutical salespersons were selected as the population of interest. However salespersons job satisfaction is also influenced by external environmental factors which bring into play several exogenous aspects which are not under the control of the appraiser. This is also supported by Pettijohn et al, (2001) who observe that, "Of course when selecting a sample for this type of research, one should recognize that the results may be confounded by numerous exogenous variables". The required sample selection was based on the following considerations:

- 1- Salespersons selected are those that are appraised formally and with different criteria.
- 2- Salespersons selected are those who are involved in persuasive selling, and work with different types of customers.
- 3- The results of salesperson's activities have significant impact on sales target.
- 4- Selected salespersons have gone through at least one performance appraisal cycle.

Based on the parameters stated above salespeople working for pharmaceutical firms located at Karachi, Pakistan were targeted. The top ten leading pharmaceutical companies of Pakistan were invited which included equal numbers of multinational (MNC) and national companies (NC). The salesperson working in these organizations work independently in their allocated sales territories. They are subjected to supervisory controls, and are involved in persuasive sales activities. It is essential that managers responsible for evaluation or appraisal of the subordinates should have knowledge of their work. Six companies initially agreed to participate. However one firm withdrew due to involvement of its field force in ongoing new product launch and budget meetings. It was realized that the month of November was not suitable to initiate the field survey as companies are busy in budgeting and year closing activities during this month. The five companies arranged meetings with the selected salespeople. These companies employed a total of 497 salespersons. For this study a sample size (n) 99 respondents was selected using random sampling technique. The management of the participating organization provided lists of their field staff. From the list 20% of the salespersons of the total sample frame were randomly selected, who were given the questionnaire. All 99 respondents filled and returned the completed questionnaire with an effective response rate of 100%. The data collection was done through administered questionnaires with preselected participants with the consent of the management of the companies who agreed to participate. The data collection was done during November 2010 to April 2011.

Salespersons job satisfaction is assessed using the fourteen-item scale developed by Wood, Chonko, and Hunt (1986). The scale has been used in previous researches by Pettijohn, Pettijohn, d'Amico, (2001); Pettijohn, Pettijohn, Taylor, and Keillor,(2001); Morries, et al.,(1991) as it is convenient to use being concise, reliable, and does not require any adjustment. The

fourteen items were scored using 5 point likert scale. Factor analysis was employed to verify the ability of the scale to demonstrated consistency with earlier studies. The consistency analysis produced uni-dimensional solution with factor loading of 0.509 to 0.790. Reliability Cronbach alpha at .867 approve the reliability in the current is consistent with the reliabilities found in previous studies.

The relationship of performance appraisal characteristics and its impact on job satisfaction has not been clearly defined in the literature therefore, the current evaluation is exploratory. Assessment of relationship between appraisal characteristic and salespersons' job satisfaction is tentative. Based on the discussions in previous studies (Pettijohn, et. al. 2001), (Morris, et al., 1991), and (Eul-Kyoo Bae, 2006) the frequency of appraisal, format of appraisal, ease of discussing evaluation, fairness of evaluation process, impact on compensation, and impact on performance were used as criteria for the overall process effectiveness. Every aspect was calculated by asking the respondents to rank order their preferences, using ordinal questions like, "Performance evaluation influences my performance / and is conducive (helpful)." Pettijohn, et al., (2001) have tested Job Satisfaction (JS) as a dependent variable with independent variables like frequency of appraisal, format of appraisal, ease of discussion, fairness of evaluation, impact on performance, and impact on compensation.

Multiple bases are used to evaluate performance of salesperson in all types of industries including the pharmaceutical industry. The study was first done by Jackson Jr. et al. in 1983 to determine the bases used in evaluating salesperson by their managers. The study was replicated in 1995 to understand the shift in criteria used in performance appraisal.

Marketing and sales directors who have also worked in the field were given the list of bases compiled by Jackson, Schalacter, and Wolfe (1995) to select the most appropriate bases for the local situation. They provided a list of criteria they thought most appropriate. The scrutinized list of criteria was then given to three senior sales representatives currently working with the pharmaceutical companies to review. The recommended list of criteria provided the foundation for the study. The twenty criteria selected for this study were grouped into twelve output criteria and eight input criteria and scored using 7 point Likert scale.

In the current study sales volume in rupee (79%), sales over target in rupee (74%), percentage of sales volume over previous year's sales (71%), number of new customers by products class (71%), and number of new customer calls (72%) are in line with the most popular criteria in the previous study conducted by (Jackson, Jr. et al., 1995). Remaining criteria differ from the earlier study.

The Input criteria are very popular with the respondent in this study when compared with the study conducted by (Jackson, Jr. et al., 1995). Similar results have been reported by Morris, et al. (1991).

Table-1 provides the comparison of the bases used in the current study with the bases as recommended by Jackson, Jr., Schalacter, and Wolfe (1995) and is also mentioned in a study by Morris et. al. (1991)

TABLE – 1

Appraisal Bases Used in Performance Evaluation.	U 2 011	Jac kson, et al. 199 5
Criteria	% U sage	%* Use of Bases
(Output Criteria)		
1. Sales Volume in Rupees	7	79
2. Sales volume in Rupee by product or product line	9.2	48
3. Sales over Target in Rupee	1.4	65
4. % of Sales Volume over previous year's sales	7	76
5. Sales volume in Rupees per call	3.6	06
6. Number of calls per number of customers by products class (call frequency)	1.4	18
7. Number of Customer Calls	6	48
8. Number of New Customers Calls	9.4	69
9. Per Call Sales Revenue Generated.	2	06
10. Selling Expense vs. Budget	4	55
11. Number of required reports turned in	6.4	38
12. Number of calls per day	9.2	-
(Input Criteria)		
13. Positive Attitude	7.3	82
14. Product Knowledge	1.7	85
15. Selling Skills	9	79
16. Appearance and Manners	9	75
17. Initiative and Aggressiveness	9	76
18. Report Preparation and Submission	1.9	54
19. Organization facilitate teamwork	8	47
20. Customer goodwill generated	1.6	41
	8	
	9	
	5	

* Study on sales managers, Jackson

“To determine the score for a case on pattern, then, the case’s data on each variable yield factor is multiplied by the pattern weight for that variable. The sum of these weight-times-data products for all variables yield the factor score. Cases will have high or low factor score as their values are high or low on variable pattern” (Rummel, 1968). On similar line the primary component factor analysis was run on two groups of criteria. The output criteria produced for dimensions with factor loading from a high of .875 to a low of .507 and Reliability Cornbach alpha at .746. The input criteria produced three dimensions with factor loading from a high of .805 to a low of .612 with Cornbach alpha at .638 which is acceptable.

The result of a factor analysis conducted on Output and Input criteria is provided below. Table 2 A and Table 2 B.

Output Criteria	Factors		
	Factor Loading	Cronbach's Alpha (a)	Average Variance Extracted
Number of calls per number of customers by product class (call frequency)	.797	.833	.28
Number of customer calls	.792		
Number of calls per day	.779		
Per call sales revenue generated	.668		
Number of new customer calls	.660		
Sales volume (in Rupees) per call	.656		
Sales volume (in Rupees)	.868	.733	.16
Sales volume (in Rupees) by product or product line	.710		.360
Selling expenses vs. Budget	.875	.466	.11
Number of required reports turned in	.507		.494
% of sales volume over previous year's sales	.773	.502	.11
Sales over target (in Rupees)	.622		.091

TABLE – 2 B
Extracted Factors, Factor Loadings, Cronbach Alpha and Average Variance Extracted

Input Criteria	Factors		
	Factor Loading	Cronbach's Alpha (α)	Average Variance Extracted
Customer goodwill generated	.807	.684	.542
Organization facilitate teamwork	.745		
Initiative and aggressiveness	.698		
Appearance and manners	.560		
Positive attitude	.826	.589	.435
Report preparation & submission	.824		
Product knowledge	.886	.624	.940
Selling skills	.766		

Multiple regression was run on functions having following specification:

$$Y (\text{Job Satisfaction}) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_n x_n$$

Where

β_i : the regression coefficient estimated on the basis of the data

x_i : the independent variable index form factor analysis

$$Y (\text{Job Satisfaction}) = \beta_0 + 0.144 (\text{Output Criteria}) + 0.245 (\text{Input Criteria}) + 0.477 (\text{Frequency of PA process}) + 0.055 (\text{Organized Process}) + -0.326 (\text{Impact on Compensation}) + 0.693 (\text{Fairness of PA process}) + 1.305 (\text{Influence on performance /and is conducive}) + 0.524 (\text{cordial and easy to discuss}).$$

IV- Results:

The five companies which agreed to participate included four MNCs and one local company. These companies are ranked amongst the top ten companies of Pakistan pharmaceutical Industry having a total market share of almost 23.33% of Rs. 139.33 billion Pakistan pharmaceutical market in 2010. ("SALS" Pakistan Pharma Sales Index, 4th Qrt, 2010)

Respondents were predominantly male (99.99%). The period of employment in pharmaceutical firms varied with 28.3% being employed for less than two years, 31.3% between 2 to 4 years, 20.2% had work experience of 5 to 8 years, 8.1% had work experience of 9-12 years, and 12.1% had over 12 years of experience. According to officers of the firms interviewed, the turnover rate in the industry as a whole was 15% and in one instance it was quoted as high as 20%. The fact is also supported by the observation in this study that 59.6% of the field force had 4 years or less association with the company. Sales force turnover is linked to job satisfaction Job ambiguity can exist due to poor implementation of PA process and absence of communication/ feedback.

For the current study participants were asked to report base pay plus incentives as take home salary. 52.5% of the salesperson surveyed received less than Rs.25,000 as monthly remuneration, 33.4% received between Rs. 25,000 to Rs. 35,000, and 14.1% received monthly remuneration over Rs. 35,000.

The relationship of performance appraisal characteristics and its impact on job satisfaction has not been clearly defined in the literature. Therefore, most of the research is exploratory. The characteristics of the PA process included (as detailed in Table-2) in this study were measured by asking respondents rank order their preferences, using ordinal questions like, "Performance

evaluation influences my performance/ and is conducive (helpful)". Table-2 sums up the experiences of the evaluation process by the respondents.

Many of respondents (69.7 %) reported that the performance appraisal is conducted in an organized manner and (60.2 %) stated that it is fair. Further 77.9 % respondents reported that performance appraisal affects compensation and 85.9 % of the respondents stated that it helps improves their performance.

TABLE – 2

Characteristics of the Performance Appraisal Process	
Characteristics	Percentage of Respondents
<i>Frequency of Appraisal</i>	
<i>Annually</i>	8.1
<i>Every Six Months</i>	36.4
<i>Every Quarterly</i>	52.5
<i>More Frequently</i>	3
<i>Format Design</i>	
<i>Written & Oral</i>	69.7
<i>Written</i>	25.3
<i>Oral</i>	5.1
<i>Fairness</i>	
<i>Unfair</i>	13.3
<i>Neither Fair or Unfair</i>	26.5
<i>Yes, It is fair</i>	60.2
<i>Cordial and Easy to discuss</i>	
<i>Easy/Friendly</i>	37.4
<i>Neutral</i>	46.5
<i>Difficult</i>	16.2
<i>Influence Performance</i>	
<i>Helps /improve</i>	85.9
<i>Has no effect</i>	12.1
<i>It distracts</i>	2
<i>Impact on my Compensation</i>	
<i>Yes</i>	74.7
<i>No</i>	22.1

Multiple Regression Results:

To test the validity of the hypotheses multiple regression analysis were used. The details of the regression analysis are contained in Table-3. The model shows F-Value (7.949), significant ($p=.000$) and R^2 at (.495), indicating that almost 50% of the variation in job satisfaction score may be attributed to the independent variables associated with the employers' appraisal process. The result indicate that the highly significant variables are (1) Performance evaluation influence my performance ($p<.05$), (2) Do consider the evaluation process is fair, ($p<.05$) (3) Find the evaluation process cordial and easy to discuss ($p<.05$). The (4) Frequency at which the performance appraisal is conducted in a year ($p<.1$), (1) Use of input criteria in PA process ($p<.1$), and (6) Output criteria used PA ($p<.1$) are significant. But criteria (7) PA has impact on Compensation & (8) PA is conducted in oral/ oral & written ($p>.1$) are quite insignificant.

TABLE – 3

Multiple Regression Analysis Job Satisfaction*

	Reg ression Coe fficient	Stand ardized Coeffi cient	t- Value	Si g. (p value)
Output Criteria	.144	.172	1	.0
Input Criteria	.245	.213	.806	76
Frequency of PA process	.477	.178	1	.0
Organized Process	.055	.031	.936	57
Impact on compensation	-	-.076	.875	65
Fairness of PA process	.326	.282	.328	.744
Influences performance / and is conducive (helpful)	.693	.262	-.740	.462
PA process cordial and easy to discuss	1.305	.208	.336	.23
	.524		.514	.14
			.239	.29

$R^2 = 0.495$, adjusted $R^2 = .432$, $F = 7.497$, $p = .000$. *Dependent variable Job Satisfaction

Validity of the Hypotheses:

The first hypothesis suggests that the planned Performance Appraisal (PA) translated in term of written and oral evaluation will induce higher level of job satisfaction. The result fail to support the hypothesis, as the formality measure is not significant in the model ($p=.744$).

The second hypothesis states that the degree of job satisfaction is related to the improvement of salesperson's compensation / reward through appraisal process. The hypothesis is not supported as the measure of formality is insignificant in the model ($p=.462$). Hence the hypothesis is rejected based on the research result.

The third hypothesis postulates that when the evaluation is cordial and open to discussion it increases the job satisfaction. The notion is consistent at significant ($p=.029$).

The fourth hypothesis assumes that when performance appraisal is perceived as being fair it increases the job satisfaction. The finding endorsed the hypothesis at significance ($p=.023$)

The fifth hypothesis: states that when evaluation is perceived as having a valuable impact on performance, salesperson's job satisfaction increases. The results show that the findings are consistent with the hypothesis. As the performance was significantly ($p=.014$) related to job satisfaction.

The sixth hypothesis: "Performance appraisals based on input (behavioral) criteria will result in higher levels of sales force job satisfaction". The result supports that the input criteria are significantly ($p=.057$) influence salesperson's job satisfaction. PA based on Output is also significant at 10% significance level.

V- Constraints and Future Research:

This study provides some understanding of the impact of performance appraisal in pharmaceutical industry of Pakistan. However the limitation is that the study was directed towards small number of companies who agreed to cooperate. These companies have high growth rate which translates into higher earnings through incentives which can be as high as 50% to 70% of their base salary. But the current study found that the relationship between job satisfaction and compensation is weak. These aspects need to be reviewed in relation to participation in objective setting, territory potential, and sharing of reward in team setting. The reaction of individuals in a team setting can be to withhold information for personal gain. (also reported by Zabal, 1999). Therefore, the conclusion of this research may be limited by the questionnaire used for the data collection. It was felt that the questionnaire in English language was difficult for the salespersons to understand. The output criteria were somewhat complex for the participants to understand. This requires a detailed study of the output criteria used in pharmaceutical industry in the country. Thirdly, to arrive at comprehensive picture of the industry future research must consider inclusion of more of local outfits and larger sample of salespersons.

VI- Conclusion:

The objective of this study was to find out the impact of selected exogenous factors and role in enhancing the effectiveness of the performance appraisal process. The results shows that the job satisfaction is strongly related to appraisal being perceived by the sales person as fair, when it is seen to help improve performance, and is communicated in cordial way and allows discussion. In the light of the information gathered during discussion from the HR managers and marketing personnel, who were of the opinion that the salespersons turnover rate per year in pharmaceutical industry is as

high as 15% to 20%. But companies participating in this survey put their turnover rate of sale force at less than 8%. Since these companies maintain large field forces 8% turnover rate is significant in terms of cost. As also suggested by Boice and Kleiner,(1997). Kavanagh et al.,(2007) the results of this study confirms that to enhance job satisfaction mangers will have to be more fair in performance appraisal. The performance appraisal exercise should be conducted more frequently and in a cordial manner as this reduces surprises.

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APPENDIX - 1 A

Output Criteria

Total Variance Explained

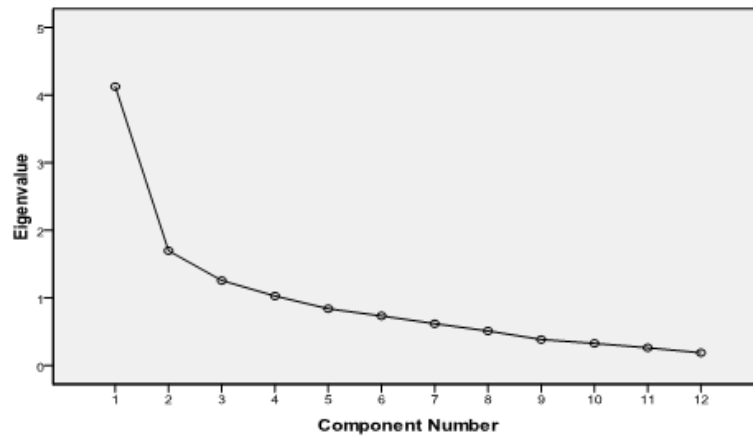
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	total	% of Variance	Cumulative %	total	% of Variance	Cumulative %	total	% of Variance	Cumulative %
1	.129	34.406	34.406	.129	34.406	34.406	.445	28.705	28.705
2	.700	14.167	48.573	.700	14.167	48.573	.963	16.360	45.065
3	.259	10.467	59.067	.259	10.494	59.067	.379	11.494	56.560
4	.030	8.583	67.650	.030	8.583	67.650	.331	11.091	67.650
5	.842	7.016	74.667						
6	.736	6.130	80.797						
7	.620	5.170	85.966						
8	.513	4.273	90.240						
9	.386	3.220	93.460						
10	.329	2.744	96.204						
11	.265	2.207	98.411						
12	.191	1.589	100.000						

Extraction Method: Principal Component Analysis.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.746
Bartlett's Test of Sphericity	Approx. Chi-Square	35.328
	df	66
	Sig.	.000

Scree Plot



RELIABILITY TEST

Case Processing Summary			
		N	%
cases	Valid	90	90.9
	Excluded ^a	9	9.1
	Total	99	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.833	6

Case Processing Summary

		N	%
Cases	Valid	98	99.0
	Excluded ^a	1	1.0
	Total	99	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.733	2

Case Processing Summary

		N	%
Cases	Valid	94	94.9
	Excluded ^a	5	5.1
	Total	99	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.466	2

Case Processing Summary			
		N	%
Cases	Valid	98	99.0
	Excluded ^a	1	1.0
	Total	9	100.0
a. Listwise deletion based on all variables in the procedure.			

Reliability Statistics

Cronbach's Alpha	N of Items
.502	2

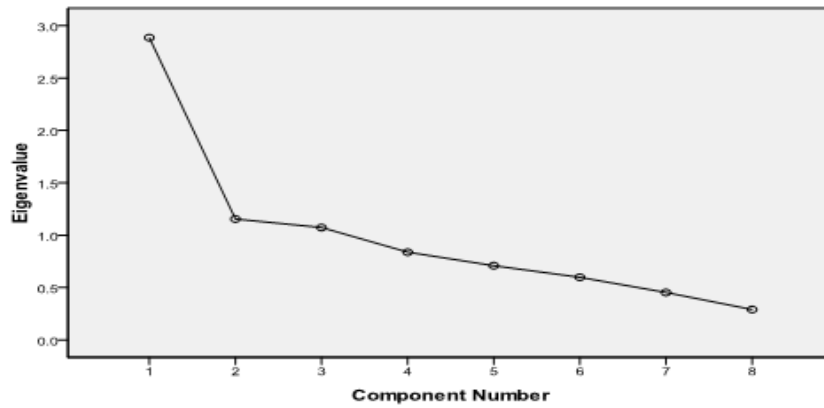
APPENDIX – 1 B**Input Criteria**

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	0.89	36.078	36.078	2.89	36.078	36.078	2.2	27.542	27.542
2	1.15	14.429	50.507	1.15	14.429	50.507	1.48	18.435	45.977
3	1.07	13.41	63.917	1.07	13.41	63.917	1.44	17.94	63.917
4	0.84	10.466	74.383						
5	0.71	8.859	83.242						
6	0.6	7.472	90.714						
7	0.45	5.659	96.374						
8	0.29	3.626	100						
Extraction Method: Principal Component Analysis.									

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.638
Bartlett's Test of Sphericity	Approx. Chi-Square	165.817
	df	28
	Sig.	.000

Scree Plot



**REALIABILITY TEST
Case Processing Summary**

		N	%
Cases	Valid	98	99.0
	Excluded ^a	1	1.0
	Total	99	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.684	4

Case Processing Summary

		N	%
Cases	Valid	98	99.0
	Excluded ^a	1	1.0
	Total	99	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.589	2

Case Processing Summary

		N	%
Cases	Valid	99	100.0
	Excluded ^a	0	.0
	Total	99	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.624	2

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IMPACT OF EXPORT ORIENTED MNCS ON GENDER EQUITY IN THE TEXTILE INDUSTRY OF PAKISTAN

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Abstract

This study aims to evaluate the impact of export oriented MNCs (Multi National Companies) on gender equity in the textile industry of Pakistan. While reviewing the literature the study evaluated the challenge posed by feminists to the hypothesis of Neo liberalists. The study also delved into the argument put forward by Marxists Feminists on the impact of MNCs on women. Neo Liberalists view MNCs as the most effective tool for modernization, because they provide employment to a large female workforce. Their impact is reflected in promoting gender equity. The Feminist's critique highlights the variation in the impact of MNCs in various regions. They attribute this difference, to the influence that local culture exerts on the management of MNCs. Marxists insist that women's struggle is part of the class struggle because in capitalism women workers form an integral part of the exploited class. The data collected on Pakistan textile female worker reflects the partial validity of all three hypotheses. The study thereby concludes that the impact of MNCs towards economic empowerment of women, though positive, is weak

Key words: Export Oriented, Gender Equity, Textile industry, Neo Liberalists, Marxist, Feminists

JEL Classification: 32210

I Introduction

In the contemporary globalised world Neo liberal economic policies promote export oriented economic growth. Multinational Companies (MNCs) today are active agents of export oriented policies. The concept of World Market Factories emerged (Braverman, 1974.) reflects relocation of some manufacturing from the developed countries to the third world. The investor in the developed economies face the challenges posed by competitive capital and rising cost of labour. Combined together both these factors reduce the profits. In 1960s cheap labour in the third world, and at the same time advanced means of communications made it an attractive proposition for relocating labour intensive industries to the developing world away from the markets they served. Governments of the third world countries developed necessary infrastructure and established Free Trade Zones which provided a wide range of incentives to such industries. Apart from low wages which are several times lower than the comparable labour costs in the developed countries, additional costs of social security and fringe benefits are also considerably lower than in the developed world. The US Tariff Commission and various other bodies have presented empirical studies (Elson, and Pearson, 1981) which show higher productivity levels in these World Market Factories. This is also due to greater controls exerted on the work force by their governments not only in Free Trade Zones but also extended to the factories located all over the country. Under such conditions the gender struggle adds a new dimension. Neo classical economic theories (Wood, 1991) find a strong link between increased female employment and increase in exports. In Export Processing Zones most labour is female; the majority of women workers are young between 14-25 years of age. The manufactured products are of the category of assembly type operation with traditional technologies, and labour intensive, standardised and repetitive processes. In particular, such jobs are most evident in the garment sector

(McCartney, 2005). Women's work tends to be classified as 'unskilled' or 'semi-skilled', whereas technically similar jobs identified as 'men's work' are classified as 'skilled' (Phillips and Taylor, 1980). This is because traditionally girls are fluent in the skills which they pick up from needle work and domestic stitching (Sharpston, 1975) and can transfer these skills to other assembly line operations. Such division of skills and labour (Phillips and Taylor, 1980) is reflective of the gender construction of the world today and of subordination as a practical process. There is thus widespread belief that women are better at the assembly line, repetitive, monotonous and tedious work. This is attributed to the "nature and inheritance" of the oriental girl (Elson and Pearson, 1981) It is the docile characteristic of her personality which makes her more suitable for tough work discipline and for taking dictation from the boss, invariably a male. Women's wages in these units are significantly lower than the wages of men doing comparable work (Kreye, Frobels, 1979). An insight in the issues of the world factory female worker in export manufacturing can be formed on the basis of their work conditions, their profile in age/ class/ education and health, their household context and the labour market dynamics for example patronage, housing, credit. Such studies have been on the basis of three distinct paradigms: Feminist, Neoliberalist and Marxist. Some of these studies are reviewed in the next section.

II. Literature Review

Feminists in 1970s took account of women's participation in economic and social life. These studies provided an initial database of women's economic activities. Studies of this period documented gender division of labour in different regions and areas for instance, large female labour force engaged in textile and electronic industry in South East Asia. Feminists have worked on analyses with a focus on welfare delivered by states in the third world countries. These studies criticized the

simplistic models of neo classic theorists, which do not take into considerations cultural diversities and home context across different regions. As Sen (1983) notes 'evidence of inequality within the family is widespread across the world, but in the poorer countries sex bias can be very strong even in such elementary matters as survival, nutrition, health and literacy'. Whereas feminists perceive the family a ground for cooperative conflicts which is shadowed in all gendered structures of society, Neo classical models understand family as a harmonious whole and fail to see such inequalities which create further gender tensions within the family. International organizations while implementing development projects in the third world work within the social parameters of existing institutions. Buvinic's classic article (1986) points out that the intervention of the welfare state relegates women to a recipient's status of welfare policies rather than empowering (increasing their capacity for self sufficiency, autonomy and survival) them. Since the early 1980s feminist literature has been focused on the role of the female labour force in exports oriented industries and large scale female employment. The literature has collected data (Lim, 1983. Pearson, 1991, Pyle and Dawson, 1990) on increased employment opportunities for female labour in the multinationals relocated to the third world. They also document trends of labour market deregulation, and informalisation , competitive pressures of globalised neo liberal policies, (Wood,1991. Cagatay and Berik, 1990). The studies have also tried to evaluate the extent of women's employment in the export oriented industries (MNC) and its implications for women's wages and work conditions. This literature review concludes that the effects cannot be generalized since they depend on the macro context of women's employment by the multinationals. It is imperative to integrate (Elson 1995, and Darity, 1995) gender perceptions while formulating macroeconomic policies. Ester Boserup's book *Woman's Role in Economic Development (1970)* propounds that economic development strategies affect

differently male and female working conditions and has resulted in marginalising women. Discussions in various feminist forums with women from both the Third World and the First World have evaluated new possibilities and issues created by MNCs leading to women's 'secondary status' in the labour market (Lim, 1978). This secondary status is characterized by lower wages for women doing similar work as men, serving as a reserve force to be fired in times of recessions and crises, to be hired in times of revived activity, with limited upward mobility. Feminists identify three distinct tendencies between the emergence of factory work and gender subordination. They are, to intensify, or to decompose the existing forms and also to recompose new forms of gender subordination. Elson and Pearson (1981) attribute candid interconnections between patriarchal social relations, state development policies, and the socially embedded market for women's labour. The Norwegian feminist Holter, (1987) attributes the phenomenon of Genderisation of society as a "a process in which gender and gender gaps are developed and maintained. Genderisation is processes of those differentiations between men and women, which involve male dominance and conflicting interests between men and women". Feminists view globalization in the perspective of masculine space, "competitive masculine imagery is mobilized in the construction of globalization as a 'masculine space' MNCs in a globalised context are considered as rational actors who have economic objectives. Hooper elaborates the concept that views MNCs as masculine (rational, economically driven) investments in feminized (backward, low cost) societies (Hooper, 2001 Ling, 1999) Ling identifies media creating this vision very strongly in Asia. In this context the MNC instead of becoming a progressive force, becomes an arena where gendered ideas and practices are produced. In post colonial societies (Ling, 1999) states are hyperactive in pursuance of development strategies and display hyper masculinity (aggressive, when challenged) as a reaction

to competitive forms of globalization. Within this context women are the most exploited group as “ the most feminized of feminized subjects” (Ling, 1997). Feminists continue to construct their argument that intersection between global capitalism, state policy and the local society, create a shift away from the concept of progress and social change. In markets with a pre-existing presence of gender subordination (India and Pakistan) business tend to utilize this phenomenon for their benefit towards increasing the profits. Sen’s study on women in the Bengal jute mills emphasizes how ideologies of domesticity and seclusion are important for understanding processes through which a gendered workforce is created. She argues that managers drew on the discourse of domesticity to legitimize the exclusion of women from the workforce. For working class families seclusion of women came to be associated with respectability and a higher social status.

The relation of women to work has been of interest for theoretical and empirical debates and studies in history, sociology, anthropology and economics. According to Marxist feminists it is this relationship which forms the basis of theories of male domination and female oppression and also underlines gender identities. Engels in *The Origin of the Family, Private Property and the State* (1842) argues that women become private property of the male head of the family. Men’s control of private property, and the ability thereby to generate a surplus, changes the family form to a patriarchal one where women, become the property of the father and husband. While analyzing social inequalities and exploitation, Marxists highlight the social relation of work in various economic modes of production in capitalism (Marx 1844, 1906-9, 1950, Marx and Engels, 1848, 1850). Initially the rise of capitalism reinforced the patriarchal structure of the family by increasing the productive capacity of the male worker which strengthened his position as the bread earner and therefore the

head in the family. (Federici 2004, Mies 1986, Saffioti 1978) The “**new marriage**” of patriarchal capitalism operates to relegate women to unpaid or lesser paid caring labor, whether in the household or in wage labor, thus keeping women by and large unequal to men” (Ferguson, and Hennessy, 2010) Many Marxist-feminists (Reed 1973, Leacock 1972, Rosaldo and Lamphere 1974) attribute gender division of labor as unpaid housework assigned to women in the non capitalist societies supporting or undermining women’s social power. According to them capitalism changes this relationship to a sexual division of paid labour. They argue that it is this division which becomes the basis of exploitation of the female industrial worker. They view capitalism (Federici 2004; Mies 1986; Saffioti 1978) as a contrary force to women’s liberation. Market forces, like efficient specialisation are responsible for discrimination against female workers in the textile industry of Britain although the Industrial Revolution was in itself a challenge to patriarchy (Galbi, Douglas, 1994). Based upon his 1833 study of the condition of women working in the textile industry in Britain Galbi argues “ the historical structure of asymmetric opportunities in older segments of the labor market, via a process of differential labor sorting, promoted sex discrimination within the new factory labor market”. Galbi, continues “differences between men and women in physical and supervisory abilities and the requirements of marriage, pregnancy, and child-rearing were not sufficient to determine the observed sex-based differences in the new factory labor market. Other factors, such as male unions, men’s interests in restraining women’s labor market opportunities, and patriarchal ideology on the part of employers, were undoubtedly important (1994).” These forces are termed as the “market dynamics” (Chandavarkar, 2008). The capitalist labour process is hierarchical managerial organization. It has to be organized through the giving of orders, as well as the making of payments. It is because of this organization that capitalist production may

be a bearer of gender, though it is not intrinsically gender ascriptive (Phillips and Taylor, 1980; Whitehead, 1979). Typically, the giving of orders in the capitalist labour process is defined as a male prerogative; while the role of women is defined as the carrying out of orders. Capitalism also collectivizes workers into factories and mass assembly lines, and provides the opportunity for workers to unite against capitalists and to demand collectivization of property, i.e., socialism, or communism. In the Marxist view women's subordination will lead to their joining the class struggle against capitalism and not by gender struggle (Cliff 1984). Especially, so in poor post colonial countries where gender struggle will become a part of class struggle.

Neo- Liberal economic studies, view the role played by MNCs very positively (Juanita 2004). In their approach these multinationals create jobs, upgrade the existing labour force and its skills by providing training and offer better work conditions (UNCTAD report 1994:338). A strong link between export oriented growth policies and increase in women labour force is evident in the recent past and is strongly advocated by the Neo-Liberalists to be in the best interest of women (Razaavi, 1999 : 656). The World Bank policy paper on Gender and Development and its report (1995) argues that export oriented policies and MNCs in the third world lead to increased participation of women in the work force. This results in benefitting women. Beneria and Sen, (1981), Kabeer (1994) , Boserup, (1970) and Tinker, (1976) hold the view that gender inequalities are the result of marginalizing women from the development process. *World Investment Report* (1994) regards women employment as a source of undermining gender discrimination in the third world and extending benefits of modernization and development in the form of economic empowerment (economic independence) to the female labour force. MNCs in the globalised perspective are considered rational actors (having economic objectives) by providing equal opportunities in employment MNCs are seen as progressive

forces. World Development Report (1995) argues that export orientation leads to investment in the third world by MNCs which are viewed as more powerful effective and efficient tools for modernisation and social change than most other organization. MNCs develop and implement training programs, pay better than host companies, use more modern technologies and management practices(Dunning, 1993b:372-373) The developing countries adopt export oriented industrial policies and open their economies to the world market forces (World Bank 1995: 43-44, DFID, 2000:ch 5) and facilitate investment by MNCs. Thus women's best interests are served by rapid export growth rather than by integrating them in the direct labour market (Razavi, 1999:656). World Development Report 1995 argues against gender division of labour where women are confined to low skilled and low paid jobs. According to them gender discrimination is "inefficient" and will dissolve in a global market economy which is profit oriented. The World Bank persists in its belief that gender inequalities are not created or intensified by neo liberal policies. Genderisation is a hindrance to productivity, efficiency and economic progress (World Bank , 2001). The World Bank argues that the market economy will eventually lead to elimination of gender discrimination.

III. Methodology

I began by reviewing theoretical literature on the impact of MNC investment in the third world on "gender discrimination". Since these MNCs employ a large female labour force, literature about their impact on women work force from the Feminist's, Neo Liberalist's and Marxist perspective was further reviewed. Secondary data from the empirical studies done through surveys, and qualitative studies through discussions with the focus groups, of export oriented textile industries of Pakistan was collected. This was methodically used to test hypotheses derived

from, Neo-Liberalist, Feminist and Marxist studies. The Neo-Liberalists argue that MNCs investment in the third world results in creating employment for female work force and thus improves their subordinate status in society by economically empowering (economic independence) them. Feminists argue that the process of MNCs investments leads to further perpetuation and enhancement of the subordinate and exploited status of women in society. Feminists attribute that the impact of MNC investment gets deeply embedded in the existing local culture, and the subordination of women is reinforced in the labour market. Marxists argue that capitalism and patriarchy join hands in exploiting women and therefore MNC investment strengthens women subordination in society and makes them the most exploited of the exploited class.

IV. Cotton Textile Industry of Pakistan

Cotton textile is one of the large scale industry of Pakistan based upon local abundant raw material; some long staple cotton is also imported for the production of finer cotton. Textile industry employs 38% of the industrial labour force, (Pakistan Labour Force Survey 2005-6). The industry also contributes 8.5% to the GDP, 60% of the total exports and 27% of the industrial value added exports (Economic Survey of Pakistan). The industry is engaged in spinning of yarn, weaving and processing activities. Value addition is done through bed linen, towel and apparel manufacture. Textile and clothing sector engages large proportion of the global female labour force and the same is true in Pakistan. Women constitute 30% of the labour force in Textile sector (Pakistan Labour Force Survey 2005-6) as compared to the national average of 15% female participation rate. The Karachi Export Processing Zone was established in 1981 by developing special facilities like availability of leasing of land, building of roads, availability of raw material and incentives like export facilitations. The objective of the venture was to give boost to

the export oriented industry, create job opportunities, and bring in new technologies by attracting foreign investment. Other centres for export oriented textile industry are located in Lahore, Faisalabad and Sialkot. Some units are also operating in Islamabad, and mainly in Baldia Town, Site and Orangi districts in Karachi. Data collected by various surveys done in these localities on the condition of women workers provided insight into the working conditions of women workers. The findings of the survey done of KEPZ (Malik, 2007) are that 85% of the labour force engaged is female and less than 20% are males. The majority of the women working in the garment industry of KEPZ come from poor and economically unstable households. The average age of women workers ranges between 19- 25 years, 62% were unmarried and 38% were married. Only 10% were uneducated and 4% graduate. 95% of them were semiskilled assembly line workers. PILER and SAAPE (2009) carried out a survey of 500 women in 79 garment factories in three areas of Karachi (Baldia, SITE, and Orangi). The findings of the survey are that female employees are concentrated in low paid, labour intensive processes. In stitching women employment forms 41-75% of the total workforce in the units producing for transnational companies. 43.2% were between the ages of 19 to 24 years, 57% were unmarried, 30% had schooling up till grade eight and only 22% were totally illiterate. In KEPZ all workers were paid overtime, adding up their salary to rupees 9000 a month, (Malik, 2007.) coupled with incentives like tea and meals, and subsidised transport and medical facilities. The data is in line with the hypothesis of Neo liberalists, who argue that MNC investment provides large scale employment opportunities to female labour, most of them young and coming from economically unstable households. Since MNCs economically empower women their long term impact is towards gender equity. The data also point towards women doing low paid semiskilled work. This fact supports the Feminist hypothesis, which argue that MNC investment extends the concept of subordination of women to

the labour market. A large proportion of these women are unmarried where husbands do not want their women to work outside their home. Marxists argue that initial division of labour restricting women's work at home gets reflected in gender division in the labour market restricting women to low paid semiskilled jobs.

Fast and competitive pace of globalisation has developed the concept of SQCC, Speed and Quality at lower Cost Constantly. Since women provide cheap labour they form a considerable proportion of the workforce engaged in labour intensive processes in the apparel industry of Pakistan. In 2006 UNDP launched their project that aims at "Gender Promotion in the Garment/clothing Industry through skill development" by providing training services to female workers to fulfill the requirement of the concept of SQCC (Speed and Quality at lower Cost Constantly). The policy makers hold the vision to provide in the long run economic empowerment of women and promote gender equality in Pakistan. The GEN-PROM (Gender Promotion 2006) midterm report (2008) conducted a survey based on a sample of 150¹ large, medium and small garment/textile companies based in 3 major textile cities, i.e., Karachi, Lahore and Faisalabad. The study points out that the main beneficiaries of this program are women who come from poor households. The report concludes that the training and the skill development of the female worker increased income and standard of living of those households by 30-40% and also resulted in an increase in their family savings. It empowered women by giving them an opportunity to participate in decision making at home and at work and also enhanced their self efficacy. The GEN PROM Report (2008) argues that Karachi has the highest number of female labour force. As regards Work Conditions special facilities like separate washrooms and prayer rooms are provided by 80% of the employers. PILER and SAAPE (2009) survey documented better infrastructure at the work place like proper

¹ These units are producing for export markets but it is not clear from the study whether these large units are MNCs?

ventilation, separate toilet facilities access to safe drinking water. On the other hand only 21% provide child care facilities. These work conditions of women in Pakistan textile industry are in line with Neo liberalists hypothesis that MNCs develop women's traditionally acquired skills by providing professional training and improve their lot. Apart from earning higher wages because of better skills they are also provided with better physical infrastructure at work. However gender hierarchy is visible in the industry, where women work under a male supervisor or a technician only 4% of the female labour force manages to reach to the supervisory or quality control level (Malik 2007). Further GEN PROM (2006) data shows the same as 3% of women are in management, 12% in supervisory position and 22% of them are skilled. In spite of this fact largely male supervisors rate women workers more productive and conscientious. They would opt for hiring female workers but would not want their wives, daughters and sisters to go out and work. Managers interested in hiring women suggest unavailability of trained women, lack of transportation and restrictions from households as the key reasons for failing to employ more women (GEN PROM, 2008). The survey also documented findings through discussions during focus groups that highlighted unhygienic conditions, toilets for women placed far away from the work place for which women were reprimanded for taking long time and stories of hardship and humiliation. In wages women are paid 24% less than their male counterparts for doing similar work (Gender Promotion 2006). The data collected corresponds with the Feminist hypothesis that argues that the existing norms of the local society place women in a subordinate position. In such societies this phenomenon is picked up by the management of MNC which is motivated to enhance their profits. Together the two forces result in strongly enforcing the subordination of women and confirm the argument of the Feminists that global capital and local conditions join hands for the exploitation of women. Definite gender hierarchy in the work place also conforms

to the Marxists critique of 'patriarchal capitalism' which relegate the position of women to permanent subordination in the work place as at home.

The data of the report (GEN PROM 2008) also showed that 64% of the female work force were getting less pay than the government fixed minimum wage of Rs. 6000 per month, 73% did not get weekly holidays, 92% were working longer hours. 47% got maternity benefits and only 21% out of these got full three months pay. The study done by PILER in 2005 of units producing for GAP and Levis Strauss in Lahore, Islamabad, Faisalabad and Sialko found that, women were forced to work overtime for less than Rs. 2500 per month, 95% Of the workers had no written contract and were also not allowed to form unions or collective bargaining, 80% did not have any health coverage and 70% suffer from harassment at the work place. Although skill development empowers women for better bargaining position they are denied the opportunity to exercise their right on two grounds. Firstly, the denial of opportunity to form or freely join a trade organization, which is accepted as a basic right for the industrial labour globally but in South Asia trade organizations have been under male domination throughout history and do not assimilate the women perspective. Due to religious ideologies and patriarchal construct of local culture the voice of the ever increasing number of female labour force is under represented. Secondly labour law in Pakistan also provides limited protection to women. Although most employees considered themselves as permanent employees, none of them had a written contract. This casualisation of female labour is reflected in job insecurities (Malik, 2007 pg: 71) Marxists hope that that capitalism provides an opportunity for the labour force to collect at one place where they can organize themselves to fight for their rights is frustrated by denying the right to form or join the trade unions. Where ever they do form a part of such organization their perspective is not assimilated in the stance of

trade unions. The Feminists argument that trends of labour market deregulation, and informalisation , competitive pressures of globalised neo liberal policies, and state policies do not integrate the perspective of women empowerment is thus validated

Conclusion

The MNC investment has not upgraded and empowered the female labour force in Pakistan’s textile sector. However export oriented MNCs do economically empower women. There seems to be a very strong cultural influence on MNC management. This is evident from the data collected from KEPZ which documents much higher salaries for their women workers. Whereas females working in GAP and LEVISE units operating in Panjab receive considerably lower salary packages. Gender hierarchy and discriminatory practices place women in a subordinate position socially and subject them to exploitation in the labour market.

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CHARACTERISTICS OF EFFECTIVE TEACHERS PERCEIVED BY UNIVERSITY STUDENTS IN PAKISTAN: A NOTE

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Abstract

The exploratory survey investigated those characteristics of an effective university teacher as perceived by 799 university students in Karachi, Pakistan, with a self report 50-item indigenous questionnaire consisting of 5-point Likert scale. The findings provide notable implications for educational organizations to improve teaching and learning processes for the existing and potential university teachers.

JEL Classification: Z000

Introduction and eclectic Literature Review

In the accomplishment of any educational system teachers are a significant part. An effective teacher can satisfy the needs of students. Teachers are believed to have an imperative role and responsibility for shaping the lives of students and ultimately the nation.

Many researchers such as, Cruickshank, Jenkins and Metcalf (2003) have highlighted that an effective teacher possesses characteristics such as sense of humor, warmth and enthusiasm. Likewise, Borich (2000) also suggests that effective teachers employ technique of consequential verbal praise to

motivate their students in active learning participation. Furthermore, Cruickshank, Jenkins and Metcalf (2003) have argued that effective teachers are those who believe in their abilities, are positive-minded and motivate their students.

In addition, Koutsoulis (2003) has mentioned ninety-four effective teacher characteristics which were grouped into three categories including communication characteristics, production characteristics and human characteristics. Communication characteristics among effective teachers were viewed as good communication with students and ability to sustain and handle teacher- student relations. Production characteristics among effective teachers were considered to be teacher's knowledge of subject matter, ability to motivate students and making lessons appealing for them. Finally, human characteristics were regarded as teacher's ability to be friendly and to show understanding. Young (1990) has also pointed out effective teacher characteristics including having ability to develop focused lessons via diverse methods, to prepare and carry out lessons, monitor student's behavior / learning and sustaining understanding with peers and students.

Richardson and Arundell (1989) have reported that effective teachers have command of their subject matter, appropriately plan lectures and in lessons use a diversity of examples. Suydam (1983) argued that effective teachers engage their students in discussion, offer support and show concern for their achievement. They also supervise pupils' behavior, give clear directions and constant rules and help them to lessen waste time. In addition, Rosenshine & Furst (1971) have acknowledged that characteristics such as having passion, task-oriented behavior, variability, helping students in providing opportunities and ideas, amount of healthy criticism and probing students' response are some important attributes which play a contributory role in efficiency of teachers.

Lang et al. (1993) found that the main characteristics in effective teachers included: having good knowledge of events and subject, knowing about their students and teaching them according to their abilities and interest. Lowman (1996) reported that worthy teachers do extremely well in one of two aspects a) they generate intellectual enthusiasm and b) develop interpersonal understanding in students. Furthermore, Witcher et al. (2001) found that 125 traits were rated and categorized in the following order; 1) student-centeredness for teachers was rated on top 79.5%, 2) enthusiasm was rated second, 3) ethical behaviour was rated third 4) classroom and behavior management was rated fourth, 5) teaching methodology was rated fifth and whereas 6) knowledge of subject was rated the sixth.

The American Association of School Administrators (AASA) in 2003 highlighted effective characteristics of teachers which primarily includes traits like; having good quality of management, utilizing efficient techniques for instruction, having high expectation regarding self and students, having self-efficacy employing a diverse teaching approach, discipline manage ability, concerned, task oriented approach, ingenious and flexible, command of the subject, adaptive teaching methods , friendly attached and easy accessibility.

II. Methodology

The participants consisted of 799 university students (including 400 male and 399 female students) and were from different public and private sector universities located in Karachi, Pakistan. Their educational level ranged from Graduation first year (grade 13th to masters last year (16th grade) and majors in different subjects (representing Arts, Science and Business Administration faculties). Their age range was from 19 years to 25 years and they represented different socioeconomic backgrounds (i.e. lower, middle and upper socioeconomic class).

Data was nearly equally distributed on the basis of academic year.

The development of the questionnaire proceeded through the following steps. In the first stage, the questionnaire included a total of 75 items contributing to characteristics of effective university teachers based on the opinion of 200 students (from the sample) towards teachers and preceding literature. Then in the second stage, the first sketch of the questionnaire was reviewed by ten educational experts. The experts were requested to identify vagueness, ambiguity and double meaning items. In the third stage, 25 items were eliminated on the recommendation of the experts. Finally, a total of 50 items was used for the pilot study to investigate the clarity of the items. The final version of the questionnaire consisted of 50 items with 5-point Likert type scale including response category of Strongly Disagree, Disagree, Somewhat Agree, Agree, and Strongly Agree.

The entire sample was approached through different public and private sector universities of Karachi. Written consent was taken from all participants and objective of the study was explained. Data was collected from participants individually and their participation was on a voluntary basis. Matter of confidentiality and ethical considerations were assured. After development of rapport, participants were required to respond on a demographic form (including participant's age, gender, marital status, academic year, major subject, affiliation and socioeconomic status). Then the participants responded on indigenous 50-item self report Likert-type rating questionnaire designed to identify effective characteristics of a university teacher.

III. Results

Statistical Package for Social Sciences (SPSS Version 12) was used for data analysis. The data was analyzed through descriptive statistics including frequencies and percentages for all 50 items of the questionnaire.

Table 1 Frequencies and Percentages for demographic variables

Variable		f percentages	
Gender	Male	400	50.062
	Female	399	49.937
Academic Grade	13 th	199	24.906
	14 th	200	25.031
	15 th	200	25.031
	16 th	200	25.031
Age	19 Years	120	15.018
	20 Years	120	15.018
	21 Years	120	15.018
	22 Years	120	15.018
	23 Years	110	13.767
	24 Years	110	13.767
	25 Years	99	12.39
Socioeconomic Status (SES)	Upper	266	33.291
	Middle	266	33.291
	Lower	267	33.416

Table 2 Frequencies and Percentages for ten most effective characteristic of University Teachers

Sr. No	Statements	Strongly		Disagree		Somewhat		Agree		Strongly Agree	
		f	p	f	p	f	p	f	p	f	p
1	The teacher must have command on the subject.	20	2.5	21	2.6	36	4.5	155	19.4	567	71
2	The teacher must fulfill teaching responsibilities.	13	1.6	15	1.9	54	6.8	188	23.5	529	66.2
3	The teacher must be punctual.	22	2.8	25	3.1	56	7	173	21.7	523	65.5
4	Teacher must be co-operative with the students.	12	1.5	19	2.4	52	6.5	198	24.8	518	64.8
5	The teacher must complete syllabus on time.	27	3.4	32	4	86	10.8	186	23.3	468	58.6
6	Teacher must be confident.	23	2.9	25	3.1	57	7.1	229	28.7	464	58.1
7	The teacher must plan the lecture before entering the classroom	19	2.4	28	3.5	74	9.3	220	27.5	458	57.3
8	The teacher must motivate student to do their best work.	9	1.1	18	2.3	60	7.5	259	32.4	453	56.7
9	The teacher must know how to manage time during teaching.	22	2.8	29	3.6	58	7.3	242	30.3	448	56.1
10	The teacher must be fair in examination.	21	2.6	55	6.9	64	8	220	27.5	439	54.9

Table 3 Frequencies and Percentages of effective characteristics of University Teachers on 50-items

Sr. No	Statements	Strongly		Disagree		Somewhat		Agree		Strongly	
		<i>F</i>	<i>p</i>	<i>f</i>	<i>p</i>	<i>f</i>	<i>p</i>	<i>f</i>	<i>p</i>	<i>f</i>	<i>p</i>
1	The Teacher must teach material relevant to topic.	24	3	34	4	97	12.1	222	28	422	53
2	The teacher must have command on the subject.	20	2.5	21	3	36	4.5	155	19	567	71
3	The teacher must have consistency in teaching.	10	1.3	24	3	89	11.1	248	31	428	54
4	The teacher must know how he can manage time during teaching.	22	2.8	29	4	58	7.3	242	30	448	56
5	The teacher must fulfill teaching responsibilities.	13	1.6	15	2	54	6.8	188	24	529	66
6	The teacher must be punctual.	22	2.8	25	3	56	7	173	22	523	66
7	The teacher must have power of expression.	21	2.6	31	4	75	9.4	238	30	434	54
8	The teacher must enhance initiative and creativity in students.	14	1.8	37	5	127	15.9	263	33	358	45
9	The teacher must have a personality that influences students.	30	3.8	61	8	130	16.3	267	33	311	39
10	The teacher must have full grip on classroom management.	29	3.6	32	4	92	11.5	252	32	394	49
11	The teacher must have positive attitude towards students.	16	2	29	4	63	7.9	263	33	428	54
12	The teacher must know effective use of blackboard.	41	5.1	46	6	187	23.4	283	35	242	30

Research Characteristics of Effective Teachers Perceived by University Students

13	Teacher must have teaching aids in class room.	27	3.4	45	6	155	19.4	294	37	278	35
14	Teacher must teach in friendly environment.	20	2.5	24	3	104	13	251	31	400	50
15	Teacher must be co-operative with the students.	12	1.5	19	2	52	6.5	198	25	518	65
16	Teacher must have awareness of the mental level of the students.	14	1.8	29	4	80	10	259	32	416	52
17	Teacher must maintain classroom discipline.	25	3.1	24	3	69	8.6	274	34	407	51
18	The teacher must prepare for class.	20	2.5	43	5	90	11.3	257	32	389	49
19	The teacher must demonstrate the knowledge of the subject.	18	2.3	31	4	81	10.1	277	35	391	49
20	The teacher must provide additional material apart from the text book.	29	3.6	42	5	143	17.9	275	34	310	39
21	The teacher must give citations regarding current situations with reference to Pakistani context	22	2.8	65	8	171	21.4	291	36	250	31
22	Apart from class teacher must provide support when needed.	16	2	31	4	131	16.4	287	36	334	42

23	The teacher must show respect towards students and encourage class participation.	14	1.8	22	2.8	70	8.8	258	32	435	54
24	The teacher must maintain environment that is conducive to learning.	15	1.9	24	3	108	14	277	35	375	47
25	The teacher must arrive on time in class room.	21	2.6	25	3.1	66	8.3	228	29	459	57
26	The teacher must be fair in examination.	21	2.6	55	6.9	64	8	220	28	439	55
27	The teacher must be available during the specified office hours after the class for consultations.	26	3.3	41	5.1	129	16	280	35	323	40
28	The teacher must motivate students to do their best work	9	1.1	18	2.3	60	7.5	259	32	453	57
29	Teacher must create the soul of researching.	13	1.6	48	6	120	15	271	34	347	43
30	You usually get helpful advice if you're having difficulties with work.	22	2.8	27	3.4	104	13	291	36	355	44
31	On the whole teachers must be enthusiastic about their teaching.	18	2.3	36	4.5	118	15	304	38	323	40
32	Teacher must bring positive change in you.	24	3	43	5.4	88	11	266	33	378	47
33	Teachers must assess their own strengths and weaknesses.	25	3.1	73	9.1	136	17	262	33	303	38
34	Teacher must have polite behavior with students	31	3.9	35	4.4	132	17	221	28	380	48
35	Teacher must have strict behavior with students.	137	17	106	13	181	23	162	20	213	27

36	The teacher must have ability to think clearly and not to be confused.	22	2.8	33	4.1	78	9.8	252	32	414	52
37	The teacher must teach students through practical means	23	2.9	30	3.8	102	13	238	30	406	51
38	Teacher must be confident.	23	2.9	25	3.1	57	7.1	229	29	464	58
39	The teacher must have emotional stability.	55	6.9	40	5	155	19	278	35	271	34
40	The teacher must be well-experienced.	15	1.9	40	5	111	14	237	30	393	49
41	The teacher must have flexibility.	29	3.6	26	3.3	162	20	307	38	275	34
42	The teacher must have sense of humor to entertain the students.	38	4.8	51	6.4	134	17	279	35	297	37
43	The teacher must have skill of new technologies.	16	2	35	4.4	117	15	258	32	373	47
44	Teacher must handle cognitive abilities of students.	11	1.4	35	4.4	153	19	307	38	293	37
45	Teacher must provide all the necessary materials to students.	19	2.4	42	5.3	115	14	258	32	365	46
46	Teacher must plan lecture before entering the classroom	19	2.4	28	3.5	74	9.3	220	28	458	57
47	The teacher must give constructive feedback on the work you done.	14	1.8	32	4	82	10	275	34	395	49
48	The teacher must have professional integrity.	24	3	36	4.5	101	13	295	37	343	43
49	Teacher must accentuate the words properly.	15	1.9	26	3.3	95	12	275	34	388	49
50	The teacher must complete syllabus on time.	27	3.4	32	4	86	11	186	23	468	59

There are many characteristics that make a successful teacher. These are as varied as the teachers themselves. Teaching is a complex profession. To be an effective teacher at university level; the teacher must possess / acquire those characteristics which enhance learning in students.

The present data was analyzed to evaluate characteristics of an effective university teacher from the student's perspective. Table 2 shows that 71% of university students strongly agreed that an effective university teacher must have full command over the subject. 66.2% students strongly agreed that an effective university teacher must fulfill teaching responsibilities / enhance learning and the performance of students. Punctuality was ranked as the third effective characteristic in university teachers on which 65.5% of the students strongly agreed. The fourth ranked effective characteristic of an effective university teacher is his / her co-operative behavior with students. 58.6% of the students strongly agreed that an effective teacher must complete the syllabus on time. Students liked those teachers who appear to be confident. This trait rated (strongly agreed) by 58.1% of the students. 57.3% of university students strongly agreed that effective teachers are those who plan their lecture before entering the classroom. The teacher must motivate students to do their best work. This was another trait which is rated as strongly agreed by 56.7% of students. 56.1% of students strongly agreed that those teachers who manage their time during teaching were effective. The tenth most effective trait of university teachers appeared as teacher fairness in examinations which was strongly agreed by 54.9% of the students. Findings of the current study (Table 2) are broadly similar to those of (American Association of School Administrators (AASA), 2003; Cruickshank, Jenkins and Metcalf, 2003; Koutsoulis, 2003; Borich, 2000; Lang et al., 1993 and Young, 1990).

These findings have noteworthy implications for educational development in Pakistan. The importance of effective university teachers cannot be overemphasized because teachers' high proficiency is necessary to accommodate students' proficiency levels and learning. Findings of the present study can be utilized by university teachers, the Higher Education Commission and educational policy makers.

The limitations of the study should also be noted. First, the questionnaire was not a standardized tool. Second, the quantitative findings of this study need replication through in depth qualitative analysis. Third, data collection should be extended to other public and private universities located across the country. The findings of the present and future studies will contribute to more effective education delivered which in turn will lead Pakistan toward growth and success.

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ANTINOMIES OF GLOCAL ANTI CORRUPTION DISCOURSE*

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The Oxford Dictionary defines corruption as “(a) dishonesty, immorality and wickedness.” Dishonesty, immorality and wickedness are both legal and ethical concepts. From my reading of Transparency International’s Corruption Perception Surveys. I understand that T.I. takes a legal rather than an ethical view of concept practices. Thus in the “Foreward” to the 2010 Survey Transparency International’s Chairman “demands from the Chief Justice (that) measures be taken for the Rule of Law in Pakistan. All rules should be made applicable without further loss of time” (2010 p.7).

I, therefore, believe that in T.I’s perspective, corruption is violation of the rule of law. I could not find a precise definition of “corrupt practices” either in the Surveys or in the questionnaires on which these surveys are based. I believe that such theoretical ambivalence must be eradicated if – as hoped by Transparency International – “federal and provincial government” and the private sector are to improve (the performance) of the sectors which are identified as more corrupt” (p.7). Universities have a key role to play in providing intellectual resources for the theoretical grounding of the national anti corruption strategy. Their role should not be limited to the

* Abridged version of a paper presented at launch of Transparency International’s Report on Pakistan 2011.

gathering and tabulation of data. This should be done by statistical clerks not by university students.

Corruption is of course a global phenomenon. Almost all market crisis in recent times – in 2002, 2007, 2009 and the present sovereign debt crises of the European Union countries – have been attributed to some form of financial corruption practiced by ordinary functionaries, business executives and government officials – the imminent threat to Murdoch’s empire and the dismissal of the IMF’s Managing Director on charges of sexual corruption are the latest manifestation of the rising tide of global corruption.

The response of the mainstream establishment to this has been the restructuring of regulatory regimes, procedures, rules, codes of conduct etc. The Bank of International Settlements (BIS), the international accountancy standard setting agencies, the IMF and several European inter state force have been heavily involved in such “regime restructuring” exercises during the last six years. But even a casual perusal of the Financial Times and the Wall Street Journal provide ample evidence that such efforts are not yielding significant results. It remains possible to adhere to the letter of the law while violating its spirit in a manner which eventually leads to serious systemic undermining. Most of the Banks that collapsed in 2009 and 2010 were Basel compliant yet they precipitated a systemic crises which could be averted only by the expenditure of trillions of dollars of tax payers money by the governments of America and Europe.

“Corruption like beauty, lies in the eyes of the beholder” famously remarked India’s ex-President Rajendra Prasad (our dearly beloved Rajan Babu). Anti corruption strategies can succeed only if they mitigate the ‘will to corruption’ and do not just contest the ability to be corrupt. If the ‘will to corruption’ is

to be reduced we must understand the rationale behind acts which violate laws and acts which system guardians describe as “self serving”. Insistence on adherence to existing laws misses the underlying cause which leads to their violation. As authoritarian rulers from Marcus Aurelius to Moammar Gaddafi have shown laws can be enforced by force but political philosophers from Locke and Rousseau to Rawls and Rorty have justified revolt and rebellion against such laws. The expectation is that people should obey laws that are just - they are not merely regarded as just by those subject to them, they are “just-in-themselves” (as Kant would put it).

This means that there should be a concordance between the prioritization of values by individuals on the one hand, and of social values on the other. People will obey laws (the will to corruption will be eliminated), when they consider doing so good for themselves individually and not just for “everyman”. Willoughly’s study of the political theories of ancient and medieval times showed how this was achieved in parts of Europe during the early Christian era when crime virtually disappeared due to the ideological hegemony of the Church. Modernity, as we know it does not take the problem of the ordering of preferences at the level of the self seriously. Post Enlightenment thought – ethical and metaphysical – cannot raise the question : “what desires ought I to have.” It takes all individual preferences as of equal value. It takes them as given and summates them to conceptualize its notion of social well being as the maximization of freedom. Society should be ruled in a manner to ensure that each individual should have the equal opportunity to get whatever he wants. But what should the individual want? You cannot address this question without understanding the necessary instrumentality of freedom. Freedom is necessarily a means to an end – it cannot be an end in itself. As Michael Walzer recognized implicitly almost half a century ago there can be no individualist morality of freedom.

The morality of freedom answers the questions “how is one to live” ultimately incoherent way far as Heidegger said it does not allow us to answer the more basic question “how is one to die”. And individual morality must be based on addressing this later question for death is always experienced at the level of individual life. As Heidegger said “Death is the exclusive, inevitable, authentic act that we each do for ourselves.” Addressing the question “how is one to live” may yield a (utilitarian or deontological) conception of social morality. It cannot provide a basis for the development of individual morality.

I raise these issues to highlight what is to be done if we are to tackle the problem of corruption seriously. Corruption understood as the deliberate violation of laws – prevails indeed flourishes because the modern/post modern way of life (what our ex-President used to call ‘enlightened moderation’) – undermines individual morality. We, in the third world, were not born modern, nor did we achieve modernity, we have had modernity thrust upon us and this has created deep fissures in individual consciousness. We have ruptured selves, multiple conflicting identities, fractured beings. In such circumstance the global demands for “good governance” through institutional restructuring in a manner which is compliant with global standards and normative regimes seems idealistic and I am sorry to say naive. We are of course striving hard to satisfy their demands because we think we need foreign aid but as the experience of the Manmohan Singh government shows, instituting good governance practices changes the form of corruption rather than its context. Indian corruption is perhaps more “functional”, more growth stimulating, than corruption in Pakistan.

Tackling corruption socially requires a problematisation of many taken for granted presumptions what are the grounds for regarding the law that “rules” as just? And where do these laws

come from? Who makes them and how? And why? What is the relationship between the moral valuations of the individual and state sanctioned laws and international standards and regulations? Who is the subject and how has he been subjected to law? And as Amartya Sen continues to ask: what is justice and is a non consequentialist, eternal conception of justice conceivable?

Universities have an important role to play in problematising systemic corruption by addressing the questions raised above and participating in the articulation of a viable national anti corruption strategy. Source material gathered by Transparency International surveys on corruption perception must be carefully analyzed and studied. It can provide very useful empirical material for the conceptualization of a comprehensive research programme seeking to understand the phenomenon of system level corruption in Pakistan.

I congratulate Transparency International and Syed Adil Gilani its Chairman on the timely production of this documentary and the Annual Survey.

**KHUSHWANT SINGH:
TRAIN TO PAKISTAN
(TRANSLATED BY ZIA KIYANI)
(Urdu)
Kitab Numa, July 2011, Karachi**

Parvez Jamil
Institute of Business Management, Karachi

This is a heart sinking narration of one of the most brutal episodes in the planet's history, in which a million men, women, and children were killed and ten million were displaced from their homes and lost their belongings in 1947 in India.

A faint silver lining is what Singh endeavors to see in a handful of humane instances amid the dark clouds of gloom and despair. Here dim hope emanates from some of the worst kind of brutalities and blood-letting meted out to humanity in one of the deadliest tales of hatred and horror in human history.

Zia Kayani, a practicing lawyer, writer and academician from Karachi, in his meticulous Urdu translation of this book discusses this tragedy. But he visualizes a ray of hope in what is idealistically known as '*amn ki aasha*'.

Both Khushwanth Singh in the text and Zia Kayani in the preface and conclusion of his Urdu translation of this book endeavor to paint a picture of positive thinking describing the acts of humane, peace-loving and forward-looking minority of both Pakistan and India. The will is there, the vision is there and the heart is there on their respective

parts and on the part of a few idealism and romanticism cherishing folks of both the countries.

However, the point to ponder in the minds of men of letters, men at the helm of affairs and the man in the street, which sub-consciously or consciously, lingers in the minds of Khushwanth Singh and Kayani, is how such mass-scale and deep-rooted ego worship, hatred and self or national interest obsession can be curbed.

Zia Kayani's foreword is, in fact, as forward-looking and idealistic as Khushwanth Singh's narration which endeavors to look for a ray of hope in the war-torn minds. It is pragmatic in terms of a faint trust in humanity amid this massacre. Amid unprecedented blood-letting resulting from Hindu-Sikh hatred and vengeance of Muslims and vice versa, there were a handful of humane souls, both among Hindus and Sikhs, on the one hand, and among Muslims, on the other, who risked their lives in order to save the life and honor of the targets of brutality. There were a number of examples which reflected humane concern under these horrendous conditions of hate and hostility seldom known in the annals of human history.

As mentioned in the preface to the Urdu translation: a Hindu civil surgeon from Sheikhpura was rescued with his family by a pious Muslim commoner, who provided them with shelter, security and safe passage. Zakir Husain, the Muslim President of India, was saved from Hindu-Sikh attack in Ambala by none other than a Sikh captain of the Indian army and a Hindu employee of the Indian Railways. Narinjan Das Baga, the President of the Congress Committee of Gujranwala, sacrificed his own life in order to save the life of wounded Muslims at the hands of Hindu-Sikh extremists. Amiruddin,

the Mayor of Amritsar, rescued many of his Hindu and Sikh friends. Lala Parkash Singh Mehra, President, Amritsar Municipal Committee, Dr. Shunarain, Health Officer, "*Baybay Daktarni*", Bawa Ghayansham, Sakhunat, a lady teacher, Koshliya, a school "*masi*" and others rescued and saved many an innocent Muslim life. Humane Muslims saved lives of Hindu victims of reprisal in Lahore, Sheikhpura and in Sindh.

Such humane action, though rare and exceptional, supplemented by the mutual sharing of hope, kindness and positive thinking is reflected in Zia Kayani's description of the attitude of people including Ahmed Nadeem Qasmi, Krishan Chandar, Rajendar Singh Bedi, Saadat Hasan Minto and others. In fact, these literary figures were among a handful of THE pioneers of the "*Taraqi Pasand Tehreek*", established in Lucknow in the year 1936. Later Dr. Mubarak Ali, respected historian, continues to nurse, amid despair, a ray of hope for friendship between Pakistan and India.

The moral of Khushwanth Singh's book is taking lessons from this tragic history so that it does not repeat itself. A handful of men and women with "*amn ki asha*" believe that despite memories of the bitter realities of this holocaust which linger on, positive thinking among a handful of men of letters and men at the helm of affairs and the man in the street dimly reflects a ray of hope towards a better future. However, Zia Kayani thinks that this dream of hope for peace shall only be realized when statesmanship from both the countries, India and Pakistan, resolve such outstanding disputes as those of Occupied Kashmir and the distribution of water in a fair and just manner.

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