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12. WESTERN IMPERIALISM AND NIGERIA- STATE .................................. 143-155
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Relative Impact of Islamic and Conventional Banks: Evidence from Productive Sectors in Malaysia

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Abstract
The study investigates the relative impact of Islamic banks and conventional banks on manufacturing sector, mining sector and electricity sector in Malaysia for the period covering 2006:12 to 2010:12. SUR and ARDL methods are utilised. The findings suggest that Islamic banks-despite being overwhelmed by non-profit and loss products-perform better than conventional banks, except in electricity sector, where the results seem inconclusive. The study further provides evidence for supply leading hypothesis in all the three sectors. The implication is that the relevant authorities in Malaysia should prioritise financial development in Malaysia with special attention on Islamic banking development in boosting the development of these sectors.

Jel classification: G21; O41; P59

Key words: Islamic banking; Profit-and-loss paradigm; Financing rate; ARDL, Granger causality test.

1. Introduction
Interest rate or the basis of interest rate in the contemporary commercial banking system partly owes its heritage to the works of past prominent economists. These western scholars argued for the institution of interest rates as an essential part of the economic process. Interest is seen as a reward to savers for postponing or delaying present consumption or liquidity. Moreover, interest rate is justified because of time value of money. In other respect, economic models assume that lenders and borrowers hold differing interests. While the lenders have interest in maximizing the investment effort and a full payback of the loan with interest, the borrowers are believed to have incentives in shirking or at the extreme in disappearing with the lent amount (Karwowski, 2010). Hence, this conflict of interest is another justification for premium on external finance. These arguments provide the basis for the modern day creditor-debtor relationship in the modern commercial banking. In practice, the savers are viewed as creditors to the banking system; and the investors are regarded as borrower from the banking system.

On the contrary, the three monotheistic religions (Judaism, Christianity and Islam) condemn interest rate and argue that interest is sinful. Of all the religions, Islam has been more proactive as it does not only prohibit charging of interest, but an alternative system is provided-Islamic financial system of which Islamic banking system is a subset. In the contemporary sense, Islamic banking system started with Mit Ghamr, Egypt in 1963. However, the momentum of contemporary Islamic banking really started in 1974, with the establishment of Islamic Development Bank (IDB), which assisted in establishing a number of Islamic banks. These include Dubai Islamic Bank in 1975, Faisal Islamic Bank of Sudan in 1977, Faisal Islamic Egyptian Bank and Islamic

1 These scholars include Adam Smith, Alfred Marshall, Knut Wicksell and John Maynard Keynes
The growth of Islamic banking in Malaysia is particularly noticeable in several respects. For instance, the total Islamic bank assets grew from RM 47.1 billion or 6.9% of the total banking asset as at end of 2000, to RM 275.63 billion or 17.28% of the total banking asset at the end of 2009. The total Islamic banks deposits and financing are RM 216.95 billion or 19.07% of the total banking deposits; RM 164.90 billion or 18.46% of the total banking financing as at the end of 2010. The number of Islamic banks grew from a single fully fledged Islamic bank in 1983 to 17 fully fledged as at end of 2010. In 2009, Islamic monetary operations accounted for 23% total banking operations (BNM Annual Report, 2009). There have been efforts on the part of authorities to sustain and improve the growth of Islamic banking in Malaysia. For example, Bank Negara Malaysia established a RM200 million fund to provide the resources to finance Shariah research activities, scholarships for Shariah studies as well as organizing the annual international Shariah scholars’ dialogue (BNM Annual Report, 2005). Besides, the International Centre for Education in Islamic Finance (INCEIF) was set-up in March 2006, to grow and enhance human capital in Islamic finance. In addition, the Financial Sector Talent Enrichment Programme (FSTEP) was launched in January 2008, which was intended to develop new entrants into the industry (BNM Annual Report, 2007).

Theoretically, the rise of interest-free system (inclusive of Islamic banks) must be capable of solving problems associated with interest rates, which include income inequality; uncertainty; lacking growth-orientation; financial instability low confidence in the financial system; depression of investment activity and innovation. The amelioration of all these problems is clearly associated with economic prosperity or success. At the macroeconomic level, economic success is usually measured by economic output (Todaro and Smith, 2003).

Against this backdrop, we intend to determine the impact of Islamic banks in Malaysia. In contrary to the study of Furqan and Mulyany (2009) that focus on the relationship between Islamic banking and economic growth in Malaysia, this study attempts to disaggregate the effect of Islamic banks in Malaysia by considering manufacturing, mining and electricity sectors in Malaysia. However, the investigation of this objective itself does not lead to the acceptability or the rejection of Islamic banks, since it is not the only financial institution in Malaysia. Therefore, the study proceeds with a second objective, which is to determine whether a conventional banking system or Islamic banking system is more suitable to productivity in the selected sectors. Even the determination of the second objective may not necessarily imply the developmental effort of financial institutions is appropriate. Hence, the study embarks on the investigation of supply leading hypothesis in the selected sectors.

The rest of the paper is organised as follows: section 2 provides a review of related studies. Section 3 examines the development of Islamic banking and productive sectors in Malaysia. Section 4 deals with the model. Section 5 introduces the methodology and data and section 6 provides the findings of the study. Section 7 concludes the paper.

2. Review of Related Literature

Significant expansion of the Islamic banking sector has not been matched with enough studies on the impact of Islamic banks in Malaysia. On the contrary, studies have concentrated on the factors propping the growth Islamic banks in Malaysia. For instance, Yusoff and Wilson (2005) conduct a study on the main determinants of Islamic and conventional deposits in Malaysia banking system. The study utilizes the Ordinary least squares (OLS) techniques on annual data that spans the period 1983-2001. The study observes that macroeconomic determinants of conventional banks deposits include real gross domestic product, consumer price index and interest rate. On the other hand, the determinants of Islamic banking deposits include real gross domestic product, the profit share (rate of return to depositors), the consumer price index and the lagged dependent variable. The study suggests that both Islamic and conventional banking systems are segmented and react mostly to real gross domestic product.

Considering the determinants of deposits in Islamic banking system in Malaysia, Haron and Ahmad (2000) examine the impact of past dividend rates of Islamic banking and interest rates paid by conventional banks for a period covering January 1984 through December 1998. In a framework of Adaptive Expectation Model, the work utilizes the OLS method. The findings indicate that the dividends by Islamic banks and interest rates by

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2 The current exchange rate is approximately 3 ringgit (RM) = 1 US dollar.
3 Hereafter refer to as OLS
conventional banks affect the amount of deposits placed in Islamic banks. However, the study suggests that the Muslims should not place profit maximization as the sole factor in establishing relationship with Islamic banks.

In a related study, Haron and Wan Azmi (2008) investigate the determinants of Islamic and conventional deposits in Malaysian banking system for the period covering January 1998 to December 2003, using techniques such as cointegration and error correction are conducted within the vector autoregression (VAR) framework. Base lending rate, Kuala Lumpur composite index, money supply, and gross domestic product are shown to have significant impact on deposits of conventional system. On the other hand, Kuala Lumpur composite index, consumer price index, money supply, and gross domestic product affect Islamic deposits. With these findings, the author argues that while customers of conventional system behave in conformity with the savings behaviour theories, Islamic banks customers do not, as savings in the Islamic banks was still increasing during economic downturn.

Beyond studying the determinants of deposits, some studies have focussed on the determinants of profitability and financing of Islamic banks. For instance, Haron (2004) investigates the determinants of Islamic banking profitability. The study finds that several factors affect the profitability of Islamic banks. Among these factors are internal variables such as liquidity, total expenditures, and funds invested in Islamic securities. Other internal variables include the percentage of profit-sharing between bank and depositors; and the percentage of the profit-sharing ratio between the bank and the borrower of funds. Besides, external factors include interest rates, which have promoting effect on profitability, while market share and size of the bank have adverse effect on profitability. Thus, Haron (2004) opines that application of profit-sharing principles will have an inverse relationship with profitability.

On the determinants of Islamic banks financing, Abdul Kader and Leong (2009) examines the impact of interest rate changes on the demand for Islamic financing in a dual banking system. With a monthly data spanning 1999 to 2007, the study adopts time series econometric techniques such as unit root test, cointegration, Vector Autoregressive (VAR), Granger Causality and Impulse Response Function (IRF). Overall, the findings indicate that interest rates are positively associated with Islamic loan but negatively associated with conventional loan.

Recently, studies have commenced on the perception of Islamic banking. A study in this respect is Haque (2010), who investigates the attitudinal difference of Malaysia customers towards Islamic banking. The study utilizes the independent sample t-test and ANOVA. Thus, Haque (2010) observe that significant attitudinal difference existed only between Malay and Chinese and between Chinese and Indian, while the overall attitudes of all three races are positive toward Islamic banks. Findings further indicate that males seem to exhibit greater positive attitude toward Islamic banking, relative to female. Hence, the study suggests that authorities should take steps directed toward spreading the culture of Islamic banking.

Instead of individual customers, Ahmad and Haron (2002) concentrate on corporate customers. In an exploratory study, the results indicate that the most important factor influencing corporate customers in selecting their banks is the cost of the services and products. Therefore, the authors suggest Islamic banks products will only be attractive to corporate customers, when cost is less than the products of the conventional banks.

Efficiency is another area of Islamic banking, which has started receiving the attention of researchers such as Sufian (2007), who examines the relative efficiency between the domestic and foreign banks Islamic banking operations in Malaysia during the period 2001-2004. The study utilizes the Data Envelopment Analysis (DEA) methodology, which provides for the decomposition of technical efficiency into its pure technical and scale efficiency. Hence, Sufian (2007) observes that scale inefficiency dominates pure technical inefficiency of Malaysian Islamic banks, indicating that Malaysian Islamic banks have been operating at the wrong scale of operation. Moreover, the results suggest that domestic Islamic banks are more efficient than the foreign Islamic banks. The results also suggest that profitability is significantly and positively correlated to all efficiency measures, therefore implying that the domestic banks are more profitable.

The first comparison of Islamic and conventional banks was conducted by Samad and Hassan (1999). Being the only fully-fledged Islamic banks as at that time, Samad and Hassan (1999) empirically compares the performance of Bank Islam Malaysia Berhad with a group of eight conventional banks in Malaysia. The comparison focus was on profitability, liquidity, risk and solvency; and community involvement for the period 1984-1997. While the findings indicate that Bank Islam Malaysia Berhad is relatively more liquid and less risky there is no difference between BIMB and the other banks in terms of community involvement and profitability.
Several points are obvious from the literature reviewed above. They do not focus on the contribution of Islamic banks on economic factors such as output, employment, and balance of payment. Ironically, this is one of the purposes of establishing Islamic banks (Karwowski, 2010). Moreover, they ignore the feedback of Islamic banking on the various determinants of Islamic banking growth. These issues have been partly addressed by Furqan and Mulyany (2009), who examine the relationship between Islamic banking and macroeconomic variables such as economic growth and capital accumulation. Using Islamic banking financing as a proxy for the development of Islamic banking, the study covers the period 1997:1 through 2005:4. The results indicate that in long run, Islamic banking is positively and significantly related with economic growth and capital accumulation. While there is evidence for bidirectional causality between Islamic banking and investment, the findings indicate unidirectional causality flowing from economic growth to Islamic banking. In the case of trade, the results suggest that in the long run there is no co-integration of Islamic bank financing and international trade activities. The authors conclude that this may be due to the relative meagre size in international trade and project that the relationship will change in the future, if the contribution of Islamic banking increases.

3. Development of Islamic Banking and Productive Sectors in Malaysia
In Malaysia, the enactment of the Islamic Banking Act 1983 ushered in the country's first Islamic Bank- Bank Islam Malaysia Berhad - with an initial paid up capital of RM 80 million. For the following decade, Bank Islam Malaysia Berhad was allowed to monopolise the Islamic banking industry. In March 1993, licenses were given to existing financial institutions to open Islamic banking windows paving way for Islamic banks to have a wider coverage. The Shariah Advisory council was established in 1997 to provide guidance on Islamic banking in Malaysia and in October 1999, the second Islamic bank-Bank Muamalat Malaysia Berhad- was established, increasing the number of fully-fledged Islamic banks to two at the end of 1999 (Rosly and Abu Bakar, 2003). Further licenses were issued including three in 2004, one in 2005 and six in 2007. Thus, at the end of 2008, the total number of Islamic banks in Malaysia was seventeen (BNM Annual Report, 2008), a figure maintained as at the end of year 2010.

In order to evolve into a real dual banking system the authorities through the financial sector Master plan in 2001 envisioned that Islamic banking will constitute 20% of the banking market share by the year 2010. The indicators of market share encompass the share of total assets, total deposits and total financing of the Islamic banks in relation to the total banking system. In terms of assets, Islamic banks experienced phenomenal growth over the years. The total assets of the Islamic banking sector increased by RM 10.9 billion or 30% to RM 47.1 billion, which also implies 6.9% of the total market share, as at end-2000. The share of Islamic banking assets increased to 8.2% surpassing the 8% target set for the year 2001 (BNM Annual Report, 2000: 2001). Between 2000 and 2004, the Islamic banking industry grew at an average rate of 19% per annum in terms of assets. At the year end of 2004, total assets of the Islamic banking sector increased to RM 94.6 billion, which accounted for 10.5% of the total assets in the banking system (BNM Annual Report, 2004). Moreover, the total assets of Islamic banks in Malaysia increased from RM131.9 billion at end-2006 to RM 232.22 billion at end-2009 and RM 275.63 billion at end-2010. The figures amount to 12.07%, 16.42% and 17.47% of the total banking system assets, respectively. The current portion of Islamic banking as at April, 2011 is RM 279.82 or 17.28% of the total banking asset (BNM, 2011).

Considering the trend of market share of Islamic banks in the banking deposits and financing, figures indicate that the growth has been tremendous, over the years. For example, the share of Islamic banks’ deposits increase from 7.4% in 2000 to 9.5%, at more than RM14.3 billion in 2001. In 2004, the market share of Islamic deposits and financing also increased to 11.2% and 11.3% of total banking sector deposits and financing respectively (BNM Annual Report, 2004). Furthermore, statistics indicate that the Islamic banks financing grew from RM 78.71 billion at end of 2006, to RM 112.16 million at end of 2007, and further to RM 164.90 billion at end of 2010. This corresponds to 13.21%, 17.21% and of the total financing in the banking system. The current portion of Islamic banks financing is RM 173.90 billion at 18.46% of the total banking system (BNM, 2011). In spite of this impressive growth in Islamic banks, there are scepticisms regarding the closeness of these financings to the Islamic precincnts, which are assumed to stipulate profit and loss scheme. This is mainly because in Malaysia, bulky of the Islamic banks financing are based on realms outside the profit and loss principle. For example, Bai Bithaman Ajil (BBA) alone accounts for RM 29.84 billion or 40.68% of the total Islamic banks financing. 

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4 The market share was 5.5% in 1999
5 The figure for conventional banks includes commercial and investment banks without Islamic banking scheme, while the figure for Islamic banks contain assets for full-fledged Islamic banking and Islamic banking scheme.
6 Murabahah (or BBA) refers to a sale and purchase contract for the financing of assets on a deferred basis with a pre-agreed payment period. The sale price include a profit margin. In Malaysia, Murabahah contract that require installment repayment is known as Bai Bithman Ajil
against financing through Mudharabah\textsuperscript{7}, which was 147.92 billion or 0.69% of the total Islamic banks financing at the end of 2006. At the same period, Islamic banks financing through BBA and Ijarah Thumma Al-Bai were 34.15% and 26.31%, respectively (BNM, 2011)\textsuperscript{8}. Therefore, pure profit and loss modes of financing account for only a tiny fraction of total Islamic bank financing.

The growth of Islamic banks in terms of deposits has been phenomenal, as well. The total deposits of Islamic deposits was RM 99.18 billion or 12.21% of the total deposits in banking sector at the end of 2006; RM 122.03 billion or 14.05% of the total deposits in banking system at the end of 2007; RM 216.95 billion or 19.07% of the total deposits in banking system at the end of 2010 (BNM, 2011). Unlike the financing composition of Islamic banks (which can also be labelled as the asset side of the Islamic banks), the composition of deposits is closer to the Islamic precincts. We observe that Islamic Investment deposits and Negotiable Instruments of Deposits (NIDs), which are generally fashioned after Mudharabah concept, constitute a bulk portion of Islamic banks in Malaysia. For example, in Panel B of Table 1, the investment deposits were 49.59% and 47.17% of the total Islamic banks deposits at the end of 2006, at end of 2010, respectively.

Table 1

<table>
<thead>
<tr>
<th>Panel A: Islamic financing by type</th>
<th>Date</th>
<th>Bai Bithaman Ail</th>
<th>Ijarah\textsuperscript{9} Thumma Al-Bai</th>
<th>Murabahah</th>
<th>Musharakah\textsuperscript{10}</th>
<th>Mudharabah</th>
<th>Istisna\textsuperscript{11}</th>
<th>Others</th>
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<tr>
<td>2006:12</td>
<td>40.678</td>
<td>1.040</td>
<td>29.264</td>
<td>7.225</td>
<td>0.214</td>
<td>0.202</td>
<td>0.694</td>
<td>20.683</td>
</tr>
<tr>
<td>2007:12</td>
<td>37.043</td>
<td>1.351</td>
<td>30.222</td>
<td>11.350</td>
<td>0.438</td>
<td>0.226</td>
<td>0.942</td>
<td>18.428</td>
</tr>
<tr>
<td>2008:12</td>
<td>32.991</td>
<td>2.651</td>
<td>30.438</td>
<td>15.153</td>
<td>1.084</td>
<td>0.230</td>
<td>1.323</td>
<td>16.129</td>
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<tr>
<td>2009:12</td>
<td>32.148</td>
<td>3.021</td>
<td>29.181</td>
<td>17.247</td>
<td>1.761</td>
<td>0.280</td>
<td>1.114</td>
<td>15.248</td>
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<tr>
<td>2010:12</td>
<td>33.727</td>
<td>2.475</td>
<td>27.321</td>
<td>14.633</td>
<td>2.486</td>
<td>0.173</td>
<td>1.018</td>
<td>18.167</td>
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<tr>
<th>Panel B: Islamic deposits by type</th>
<th>Date</th>
<th>Investment deposits</th>
<th>Demand deposits</th>
<th>Saving deposits</th>
<th>NIDs</th>
<th>Others</th>
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<td>2008:12</td>
<td>44.784</td>
<td>17.127</td>
<td>10.177</td>
<td>15.720</td>
<td>12.192</td>
<td></td>
</tr>
<tr>
<td>2010:12</td>
<td>47.168</td>
<td>15.737</td>
<td>9.346</td>
<td>10.975</td>
<td>16.774</td>
<td></td>
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*The figures are in percentages. These figures are for full-fledged Islamic banks and Islamic banking scheme. NID means Negotiable Instruments of Deposits (NIDs)*

Beyond the growth of Islamic banking in Malaysia, statistics suggest improvement of productive sectors. For example, the contribution of manufacturing sector to gross domestic product (GDP) improved from 19.64% in

(BBA). Practically, deferred payment plan on a BBA is done on a monthly basis. Therefore, the main difference between the main stream Murabahah and BBA is that the former is usually used for short term financing, while the latter is used for long-term financing.

\textsuperscript{7} This is a contract between two parties- an investor and entrepenuer-to establish a business venture. The profit from the venture is distributed based on a pre-agreed ratio, while in the event of a business loss, the loss is borne solely by the investor.

\textsuperscript{8} These figures are for full-fledged Islamic banks and Islamic banking scheme.

\textsuperscript{9} Ijarah is a contract in which a lessor leases out an asset to his client at an agreed rental fee and pre-determined lease period upon the contract.

\textsuperscript{10} This is basically an Ijarah contract in which the lessee reserves the right of purchase.

\textsuperscript{11} This is a contract between two parties to finance a business venture and participate in its management. The profit from the venture is distributed based on a pre-agreed ratio, while in the event of a business loss, the loss is shared on the basis of equity participation borne solely by the investor.

\textsuperscript{12} This is a contract for future delivery in which the payment arrangement is allowed to vary usually done based on the progress of the job (assets).
1980 to 19.74% in 1985 and further to 26.86% in 1990. The figure increased to 27.11% in 1995, then 31.94% in 2000 and 31.56% in 2004 (Dept of Statistics, 2006). In nurturing this improvement, Islamic and conventional banking system plays an important role in providing liquidity. For instance, the total Islamic financing in manufacturing sector increased from RM 459.2 million, at the end of 2006 to RM 667.2 million, at the end of 2007 and further increased to RM 2,125.1 million, at the end of 2008. The figure however, declined to RM 1,567.9 million, at the end of 2008 before improving to RM 2,005.4 million at the end of 2010. On the other hand, the total conventional banking financing decreased from RM 10,794.9 million in 2006 to RM 9,030.9 million in 2008, and then improved to RM 10,536.6 million at the end of 2010 (BNM, 2011).

Mining sector is not performing well like the manufacturing sector in Malaysia. Due to market fluctuations and stiff competition from fellow developing countries such as Brazil and Indonesia, the contribution of mining sector to GDP decreased from 10.08% in 1980 to 10.44% in 1985 and further to 9.77% in 1990. The figure was 8.19% in 1995 then 7.31% in 2000 and 6.96% in 2004 (Dept of Statistics, 2006). Moreover the share of the mining and quarrying sector accounted for 13.0% of the GDP in 2009 compared with 17.2% in 2008 (Dept of Statistics, 2010). The contribution of mining to total export was 4.8% in 2000, 5.2% in 2005 and 5.9% in 2006 (Ali, 2009). Nevertheless, Islamic banks still provide liquidity to the mining sector. The total Islamic banks finance to the mining sector amounts to RM 0.7 million and RM 0.9 million, at the end of 2006 and 2007, respectively. The figure dramatically jumped to RM 48.5 million at the end of 2008, before falling to RM 11.9 million at the end of 2009 and rose to its peak at RM 140.9 million at the end of 2010, which is equivalent to almost 75% of the amount contributed by conventional banks. On the other hand, the amount of financing by conventional bank was RM 120.3 million, RM 139.3 million, RM 196.1 million at the end of 2006, 2007 and 2008, respectively. The financing fell to RM 177.7 million in 2009, before increasing to RM 188.4 million at the end of 2010 (BNM, 2011).

In the electricity sector, the main electricity provider in West Malaysia was the National Electricity Board (NEB), which became a corporate entity in 1990 with its name changed to Tenaga Nasional Berhad (TNB) and was partially privatised in 1992, by selling 30 percent of the company in the Kuala Lumpur Stock Exchange. TNB remains dominant in electricity production and transmission sector in the peninsular. Beyond peninsular, Sabah Electricity Sdn. Bhd. (SESB) and Sarawak Electricity Supply Corporation (SESCO) are responsible for electricity in Sabah and Sarawak, respectively. However, in 1994, the market was opened to independent power producers (IPPs). Subsequently, five companies were granted licences by 1994 to establish power plants and sell power to Tenaga. Ten more companies had been granted licences by 2000 (Smith, 2003). In 2006, about 43.3% of electricity is produced by IPPs and 56.7% by Tenaga (Tenaga Annual Report, 2006). Some of these companies partly generate liquidity from the financial system. For instance, the total loan granted by Islamic banks to electricity sector in 1999 was RM 213.8 million or 1.6% of the total loan granted and the figures jumped to RM 855.6 million or 6.2% of the total loan granted in 2000. The total Islamic banks financing in the electricity sector amounts to RM 1.0 million, RM 1.9 million and RM 9.9 million at the end of 2006 and 2007, and 2008, respectively. In a step-wise fashion, the amount increased to RM 137.1 million at the end of 2009, which in the process exceed that of conventional bank, before slumping to RM 22.7 million at the end of 2010. On the other hand, the financing by conventional bank was RM 120.3 million, RM 139.3 million, RM 196.1 million at the end of 2006, 2007 and 2008, respectively. The financing fell to RM 177.7 million in 2009, before increasing to RM 188.4 million at the end of 2010. On the other hand, the total conventional bank financing amounts to RM 128.2 million, RM 75.9 million and RM 662.3 million, at the end of 2006, 2007 and 2008, respectively. The figure fell to RM 441.7 at the end of 2010 (BNM, 2011).

4. Model
The effect of financial development on economic growth is traditionally analysed within the standard growth accounting framework. In this study, we assume that capital is contributed by two sections of the banking system. This includes Islamic banking and conventional banking. Thus the aggregate capital supplied is disaggregated as follows:

\[ K_t = K_{it} + K_{ct} \]

(1)

\(K_{it}\) is the capital provided by Islamic banks and \(K_{ct}\) is the capital provided by commercial banks. The study adopts an augmented Solow production function (Solow, 1956) that makes output a function of physical capital and labour. Thus, the growth function is specified in a Cobb–Douglas production function framework as follows:

\[ Y_t = A_t K_{it}^a L_{it}^b \]

(2)
Where $Y$ is the output, $L$ is the labour stock, and $A$ is the total factor productivity (or technology).

Differentiating (2) results into

$$y_{it} = a_k + ak_{ist} + \lambda k_{cit} + \beta l_{it} + \varepsilon_{it}$$

where lower case letters represent the growth rates of output, stock market and banking sector, labour and human capital, and $a_k, \lambda_k$ and $\beta_l$ represent the elasticity of Islamic banks, conventional banks, and labour. This is the simple conditioning information set. According to Valdes (1999), the model can be augmented with additional variables to form the policy conditioning information set. The additional variables should be based on “how effective they can proxy technology”. In other words, instead of dumping technology entirely into the error term altogether it should be proxy by an appropriate combination of variables.

$$y_{it} = a_k + ak_{ist} + \lambda k_{cit} + \beta l_{it} + z_t + \mu_t$$

$z$ is the vector of other important variables that include macroeconomic stability indicators such as interest rate and inflation rate. These additional variables are called control variables in an equation. The model can be re-written as below:

$$\text{INDEX} = f(\text{COMBFINSBFINLABOURINTERESTINFLATION})$$

Where $\text{INDEX}$ is the monthly year-on-year change in the productivity index of each sector; $\text{ISBFIN}$ is the total financing provided by Islamic banks to each sector; $\text{COMBFIN}$ is the total financing provided by commercial banks to each sector; $\text{LABOUR}$ is the total work force in each sector; $\text{INTEREST}$ is monthly base lending rate of commercial banks; and $\text{INFLATION}$ is the consumer price index (CPI). Having established the model of the study, in the next section, we review the methodology of the study.

5. Methodology and Data

5.1. SUR Method
Initially, the study utilises the seemingly unrelated regression (SUR) approach to estimate the model. SUR is a multiple equation model with seemingly unrelated regression equations. The method consists of equations explaining identical variables but for different samples (Vogelvang, 2005:174). SUR is appropriate when all the independent variables are assumed to be truly exogenous, and the errors are heteroskedastic and contemporaneously correlated across equations. On the other hand, one of the major pitfalls of the standard OLS is that it overlooks any possible correlation among the errors across equations. Moreover, SUR models are often applied when there are several equations, which may be connected by the fact that some coefficients are the same or assumed to be zero. The method is also ideal when some of the independent variables are the same. Coincidentally, $\text{INTEREST}$ and $\text{INFLATION}$ are the same, across the equation. Though underutilized in research, SUR has several advantages. It takes care of “contemporaneous” correlation among the errors across equations. By using the SUR method to estimate the equations jointly, efficiency is improved. Thus in many situations, there is a net gain, which can be substantial, associated with the use of the joint estimation technique even in samples of moderate size (Zellner, 1962). One of the major disadvantages of SUR is that it does not provide for spurious results. Fortunately, there are econometrics methods, which can solve the impasse.

5.2. ARDL Method
In a bid to correct some of the anomalies with the SUR method, the study further applies the ARDL approach as articulated by Pesaran and Shin (1999) and extended by Pesaran et al. (2001). There are several reasons for the adoption of this technique. As against the conventional Johansen cointegration method that uses system of equation to estimate the long run relationship ARDL employs a single reduced form equation. The application of the ARDL and the Granger Causality is an innovation that helps to obviate the problem associated with the estimation of short time series data (Akinlo and Akinlo, 2009). ARDL approach does not require pre-testing variables, hence it could be implemented regardless of whether the underlying variables are I(0), I(1), or fractionally integrated, thereby reducing the task of establishing the order of integration amongst the variables. Moreover, the long and short-run parameters of the model are estimated simultaneously. As a result, the inability
to test hypotheses on the estimated coefficients in the long-run associated with the Engle-Granger method is avoided. Lastly, all variables are assumed to be endogenous. Procedurally, the long run economic growth is specified as:

\[
(INDEX)_t = a_1 + \ln(IBSFIN)_t + \ln(COMBFIN)_t + (LABOUR)_t + (INTEREST)_t + \varepsilon_t \quad (6)
\]

Before estimating the long-run model, we must establish the presence of long run relationship from the equation specified below:

\[
\Delta(INDEX)_t = a_0 + \sum_{i=1}^{p} a_{1i}\Delta(INDEX)_{t-i} + \sum_{i=0}^{p} a_{2i}\Delta(\ln(IBSFIN))_{t-i} + \sum_{i=0}^{p} a_{3i}\Delta(\ln(COMBFIN))_{t-i} + \sum_{i=0}^{p} a_{4i}\Delta(LABOUR)_{t-i} + \sum_{i=0}^{p} a_{5i}\Delta(INTEREST)_{t-i} + \varepsilon_t \quad (7)
\]

\(\Delta\) is first-difference operator, and \(p\) is the optimal lag length.

Procedurally, the determination of the existence of long run relationship amongst the variables in (6) is regularly done by means of bounds testing procedure of Pesaran and Shin (1999). The bounds testing procedure is the first stage of the ARDL cointegration model and is based on the F or Wald-statistics. Hence, a joint significance test, which implies no cointegration, \((H_0: \varepsilon_1 = \varepsilon_2 = \varepsilon_3 = \varepsilon_4 = \varepsilon_5 = 0)\), is conducted on (7). The F test utilised in the bound test has a non-standard distribution. Therefore, two bands of critical values are computed by Pesaran and Pesaran (1997) for a given significance level. The lower band assumes that all variables are I(0) and the upper band assumes they are all I(1). If the computed F-statistic exceeds the upper critical value, then there is cointegration. If the F-statistic falls within the two bands of critical values then the test becomes inconclusive. Finally, if the F-statistic is below the lower critical value, it implies no cointegration. Once the long-run relationship is ascertained, then the long-run estimates can be estimated via (6), while short run estimates and error correction term (ECT) the ARDL model can be computed from the equation specified below:

\[
\Delta(INDEX)_t = a_0 + \sum_{i=1}^{p} a_{1i}\Delta(INDEX)_{t-i} + \sum_{i=0}^{p} a_{2i}\Delta(\ln(IBSFIN))_{t-i} + \sum_{i=0}^{p} a_{3i}\Delta(\ln(COMBFIN))_{t-i} + \sum_{i=0}^{p} a_{4i}\Delta(LABOUR)_{t-i} + \sum_{i=0}^{p} a_{5i}\Delta(INTEREST)_{t-i} + \lambda ECt_{t-1} \quad (8)
\]

where \(\lambda\) is the speed of adjustment parameter and ECT is the residuals that are obtained from the estimated cointegration model of (6). Furthermore, the study utilizes the resulting Granger causality tests to investigate the causalities among the variables both in the long run and the short run. Granger (1988) integrated the concept of cointegration into causality, which allows causal relations among variables to be examinable within the framework of the error correction model.

We denote a five-component vector with the following representation,

\[
W_t = ((INDEX)_t\ln(IBSFIN)_t\ln(COMBFIN)_t\ln(LABOUR)_t\ln(INTEREST)_t)\quad (9)
\]

Therefore, a five-variable equation (with a deterministic term) can be depicted as follows:

\[
\Delta W_t = \beta_0 + \beta(L)\Delta W_{t-1} + \delta E_{t-1} + \varepsilon_t \quad (10)
\]

where \(\beta_0\) is constant term and \(\beta(L)\) is a 5 X 5 of the polynomial matrix of coefficients to be estimated and \(E_{t-1}\) is the vector of ECT, which represents residuals or deviation from the long run relationships and \(\varepsilon_t\) is a vector of
error term. There are two channels of causality: one is through individual elements of $\Delta h_t$, which is referred to as the short run causality and the other is through $\text{ECT}_{t-1}$ which is referred to as the long run causality.

5.3. Data Analysis

Dependent variable

**INDEX:** Chiefly because of data availability, we will consider the growth of productivity indexes of mining, manufacturing and electricity sectors in Malaysia. These growths of productivity sectors are based on year-on-year changes. We ignore agriculture sector because of data limitation and also its importance has decreased sharply over time. For example, the contribution of agriculture sector to GDP declined from 20.89% in 1980 to 18.63% in 1990 and further declined to 8.49% in 2004.

Independent variables

**COMBFIN:** Capital is a key determinant of output. According to our framework, capital can be further divided into capital provided by Islamic banks and conventional banks. In searching for a suitable proxy for conventional banks, authors utilized several indicators in the past. The indicators include deposit (Yusoff and Wilson, 2005; Haron and Ahmad, 2000; Haron and Wan Azmi, 2008). The study employs conventional banks loan to mining, manufacturing and electricity sectors. This is partly because of data availability and for comparison sake. Moreover, this proxy is close to the claim on private credit ratio to GDP, which is a common indicator of financial development among economists (see Beck and Levine, 2004).

**ISBFIN:** Measuring the development of Islamic banking is a daunting task. Thus, in the past, authors have utilized numerous proxies such as profitability ratios (Haron 2004; Samad and Hassan 1999); deposits (Yusoff and Wilson, 2005); efficiency (Sufian, 2007); financing (Abdul Kader and Leong, 2009). However, in line with the proxy of conventional banking development, we adopt Islamic banks financing to mining, manufacturing and electricity sectors. Studies that have utilized Islamic banks financing in the past include Furqani and Mulyany (2009).

**LABOUR:** As the framework indicates, labour is germane to output. Therefore, we utilize the total labour force in mining, manufacturing and electricity sectors as proxy for the impact of labour on output of these sectors.

**INTEREST and INFLATION:** Macroeconomic indicators, which in some cases serve as conduit for monetary and fiscal policies affect output. Prominent among these indicators are interest rates and inflation. While a limited amount of inflation is necessary for the economic growth, however, excessive inflation might mitigate output with or without financial sectors. Moreover, Bruno and Easterly (1998) and Easterly (1996) have suggested that the negative relationship between inflation and growth holds only for high-inflationary economies. In the finance-growth parlance, key studies that included inflation are Garcia and Liu, (1999) Levine, Loyaza and Beck, (2000) Beck Levine and Loyaza (2000), Rousseau and Watchel (2000). In this study, we adopt CPI and base lending rate as measure of macroeconomic stability (see Garcia and Liu, 1999; Yartey, 2008). The study expects these two measures to be negative.

5.4. Data Sources

The study sources all the monthly data (2006:12 to 2010:12) from the website of Bank Negara Malaysia (BNM, 2011), with the exception of total number of workforce in Malaysia which was obtained in quarterly form, from the website of department of statistics, Malaysia. Therefore, we disaggregated the workforce data from quarterly form into monthly form with the aid of E-Views 6.0.
6. Results and Findings

Table 2
Summary statistics: 2006:12-2010:12

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Range</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANUDEX</td>
<td>1471.992</td>
<td>1634.76</td>
<td>2629.753</td>
<td>312.086</td>
<td>2317.667</td>
<td>590.867</td>
</tr>
<tr>
<td></td>
<td>ISBFINA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CombFINA</td>
<td>10211.43</td>
<td>10516.56</td>
<td>13076.84</td>
<td>7682.324</td>
<td>5394.516</td>
</tr>
</tbody>
</table>

| MINDEX   | ISBFINI |        |         |         |           |           |
|          | 42.177  | 20.531  | 317.709 | 0.391   | 317.318   | 62.266    |
|          | COMBFINI| 165.292 | 145.065  | 336.406 | 91.706    | 244.7     | 58.641    |

| ELEDEX   | ISBFINE |        |         |         |           |           |
|          | 62.535  | 25.933  | 329.221 | 0.943   | 328.278   | 79.949    |
|          | COMBFINE| 287.64  | 128.217  | 1768.957 | 48.646    | 1720.311  | 380.591    |

Figures computed by the authors.

In Table 2, the study displays the descriptive statistics of conventional and Islamic banks financing to the three sectors. The table is separated into three parts with the first part representing the manufacturing sector, while the second part represents the mining sector and the third part depicts electricity sector in Malaysia. In manufacturing sector, it is obvious that financing by conventional banks outweighs Islamic bank financing, as for every RM 1 of ISBFINA, COMBFINA is almost RM 7. However, the ISBFINA is more stable as observed from the standard deviation, with ISBFINA having a smaller value.

Moving to the mining sector, the results indicate that for every RM 1 sourced from ISBFINI, the sector generates around RM 4 from the COMBFINI. However, COMBFINI is more stable in mining sector as evident from the range value of 244.700 compared to ISBFINI’s 317.318; and a lesser standard deviation of 58.641 compared with ISBFINI’s 62.266. The electricity sector has the reverse results, which indicate that ISBFINE is more stable with a lesser standard deviation of 79.949. With these information on the flow of financing from conventional and Islamic banks to the sectors, there is no way that we can actually determine the impact of financing to the growth of these sectors, therefore the study proceed with the methods that unravels the impact of these financing on the development of each sector.

Table 3
SUR estimates

<table>
<thead>
<tr>
<th>Variables</th>
<th>MANUDEX</th>
<th>MINDEX</th>
<th>ELEDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>107.962***</td>
<td>7.491</td>
<td>16.320**</td>
</tr>
<tr>
<td>(INDEX, 1)</td>
<td>(52.198)</td>
<td>(11.540)</td>
<td>(6.699)</td>
</tr>
<tr>
<td>ISBFIN</td>
<td>0.356***</td>
<td>0.103</td>
<td>0.641***</td>
</tr>
<tr>
<td></td>
<td>(0.102)</td>
<td>(0.147)</td>
<td>(0.090)</td>
</tr>
<tr>
<td>COMBFIN</td>
<td>-3.398***</td>
<td>-0.004</td>
<td>0.447</td>
</tr>
<tr>
<td></td>
<td>(1.120)</td>
<td>(0.454)</td>
<td>(0.367)</td>
</tr>
<tr>
<td>LABOUR</td>
<td>-0.015</td>
<td>-0.103</td>
<td>0.009</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.105)</td>
<td>(0.073)</td>
</tr>
<tr>
<td>INTEREST</td>
<td>-5.647***</td>
<td>-0.412</td>
<td>4.769***</td>
</tr>
<tr>
<td></td>
<td>(1.812)</td>
<td>(1.613)</td>
<td>(1.546)</td>
</tr>
<tr>
<td>INFLATION</td>
<td>0.556***</td>
<td>0.266**</td>
<td>0.552***</td>
</tr>
<tr>
<td></td>
<td>(0.139)</td>
<td>(0.107)</td>
<td>(0.158)</td>
</tr>
</tbody>
</table>

Adjusted $R^2$: 0.502
Ljung-Box: 0.212
ARCH: 0.431

---

13 MANUDEX, MINDEX and ELEDEX refer to the productivity indexes of manufacturing, mining and electricity sectors, respectively.

14 The suffix A, I and E are utilized to represent manufacturing, mining and electricity, respectively.
The null of Ljung-Box is no serial correlation of order 1. For Autoregressive Conditional Heteroskedasticity (ARCH), the null is “ARCH effect of order 1 is not present”. ISBFIN and COMBFIN are in logarithmic form, LABOUR, INTEREST and INFLATION are in level. (INDEX, 1) indicate lag of the dependent variable for each sector. INDEX is the first order lag of the dependent variable.

Table 3 presents the results of the SUR model. The results show MANUDEX decreases with ISBFINA. Akin to the result of ISBFINA, MANUDEX decreases with the COMBFINA. Comparing the coefficients of the two regressors, it is evident that ISBFINA has a lesser negative coefficient. From the results, 1% increase in ISBFINA will increase MANUDEX by 0.356 percent at 1% significance level. For similar increase in COMBFINA, MANUDEX is expected to decrease by a larger amount. Thus, we attribute the negativity of ISBFINA to the non-profit and loss products being operated by the Islamic banks. LABOURi entered with a negative and insignificant sign. INTEREST is significant at 1 percent suggesting that for every 1 unit increase in INTEREST, MANUDEX is expected to fall by 5.467 point. This is a very large figure indicating the harm of interest rate on manufacturing sector. INFLATION is positive contrary to theory. However, this is not surprising because Malaysia is one of best developing countries in combating inflation. As a group, R-square shows that 50.2% of the variation in MANUDEX is collectively explained by the independent variable. The Ljung-Box and ARCH suggest that the model does not suffer from first order serial correlation and heteroscedasticity, respectively.

In column three of Table 3, the results for the mining sector is presented. Once again, the results indicate that ISBFINi has a smaller negative impact on MINDEX, when compared with the coefficient of COBFINI. LABOURi and INTEREST are all shown as having negative impact on MINDEX, with INFLATION entering with a positive sign. Collectively, the independent variables explain about 0.571 variation of the dependent variable. There is no evidence for either first order serial correlation or heteroscedasticity from the Ljung-Box and ARCH tests, respectively.

The results reported in column four Table 3 show that the ELEDEX increases with ISBFINE but decreases with COMBFINE. Evaluating the results, for every 1% increase in COMBFINE, ELEDEX decreases by 1.169%, a result significant at 5% level. Moreover, ELEDEX will decrease by 4.769%, if INTEREST increases by 1 point. This is an indication that the interest rates charged by the conventional banks do not actually lead to positive productivity in the electricity sector in Malaysia. Hence other factors may have been responsible for the development of electricity sector in Malaysia, possibly ISBFINE, which turns out positive albeit insignificant coefficient. The diagnostics tests signify the lack of first order serial correlation and heteroscedasticity in the model.

With these results, we can conclude that ISBFIN performs better than COMBFIN in the three sectors. However, the estimates are not free from spurious estimates syndrome. Moreover, the causality running from the dependent variables back to the independent variables are not examined. Therefore, the study proceeds with ARDL, which caters for these deficiencies.

Table 4

<table>
<thead>
<tr>
<th>Variables</th>
<th>ADF GLS</th>
<th>Levels</th>
<th>ADF GLS</th>
<th>Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANUDEX</td>
<td>-1.664</td>
<td>-1.733</td>
<td>-2.875</td>
<td>-3.310**</td>
</tr>
<tr>
<td>ISBFINA</td>
<td>-1.734</td>
<td>-1.43</td>
<td>-2.197</td>
<td>-4.583***</td>
</tr>
<tr>
<td>COMBFINA</td>
<td>-1.239</td>
<td>-1.449</td>
<td>-3.564**</td>
<td>-3.667***</td>
</tr>
<tr>
<td>LABOURI</td>
<td>-2.517</td>
<td>-2.572</td>
<td>-2.352</td>
<td>-5.162***</td>
</tr>
<tr>
<td>INTEREST</td>
<td>-1.721</td>
<td>-0.869</td>
<td>-1.298</td>
<td>-2.848</td>
</tr>
<tr>
<td>MINDEX</td>
<td>-2.943</td>
<td>-2.751</td>
<td>-4.678***</td>
<td>-6.286***</td>
</tr>
<tr>
<td>ISBFINI</td>
<td>-2.954</td>
<td>-2.642</td>
<td>-5.432***</td>
<td>-5.233***</td>
</tr>
<tr>
<td>COMBFINI</td>
<td>-3.48*</td>
<td>-3.322**</td>
<td>-4.836***</td>
<td>-</td>
</tr>
<tr>
<td>LABOURI</td>
<td>-2.517</td>
<td>-2.572</td>
<td>-2.352</td>
<td>-5.162***</td>
</tr>
<tr>
<td>INTEREST</td>
<td>-1.721</td>
<td>-0.869</td>
<td>-1.298</td>
<td>-2.848</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variables</th>
<th>ADF GLS</th>
<th>Levels</th>
<th>ADF GLS</th>
<th>Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELEDEX</td>
<td>-1.654</td>
<td>1.670</td>
<td>-1.843</td>
<td>-2.911</td>
</tr>
<tr>
<td>ISBFINE</td>
<td>-4.769***</td>
<td>-4.113</td>
<td>-7.738***</td>
<td>-</td>
</tr>
<tr>
<td>COMBFINE</td>
<td>-3.456*</td>
<td>-3.332**</td>
<td>-7.407***</td>
<td>-</td>
</tr>
<tr>
<td>LABOUR</td>
<td>-2.517</td>
<td>-2.572</td>
<td>-2.352</td>
<td>-5.162***</td>
</tr>
<tr>
<td>INTEREST</td>
<td>-1.721</td>
<td>-0.869</td>
<td>-1.298</td>
<td>-2.848</td>
</tr>
</tbody>
</table>
The lag selection of the ADF is based on AIC with a maximum lag of 2. For the PP test is estimated based on Bartlett kernel with Newey-West bandwidth. The maximum lags are automatically selected by EViews in the case of PP test. To have a different specification, the study chose the SIC optimal lag selection for DF-GLS with a maximum lag of 2. Generally, the null hypothesis is that of no stationarity. *, **, *** Imply stationarity at 10%, 5%, and 1% level of significance, respectively.

The stationarity test of the manufacturing, mining and electricity sectors are reported in Table 4. The study utilise the Augmented Dickey-Fuller test or ADF as proposed by Said and Dickey (1984) which is supplemented with two other tests for unit roots. This includes the Phillip and Perron (1988) test or PP which basically control for serial correlation when testing for a unit root. The other test is that of Elliott, Rothenberg and Stock (1996) test or DF-GLS which detrend the data prior to unit root tests. The study establish that all the variables are I(0) and I(1), a requirement of ARDL bound test, which becomes invalid once any of the variables attains stationarity at a level beyond the first difference. Therefore, in the following section, the study proceeds with the bound test.

Table 5
Bound test for cointegration

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>F-Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANUDEX</td>
<td>3.800*</td>
</tr>
<tr>
<td>ISBFINA</td>
<td>2.738*</td>
</tr>
<tr>
<td>COMBFINA</td>
<td>1.622</td>
</tr>
<tr>
<td>LABOURA</td>
<td>3.180*</td>
</tr>
<tr>
<td>INTEREST</td>
<td>1.555</td>
</tr>
<tr>
<td>MINDEX</td>
<td>3.581*</td>
</tr>
<tr>
<td>ISBFINI</td>
<td>1.235</td>
</tr>
<tr>
<td>COMBFINI</td>
<td>2.657*</td>
</tr>
<tr>
<td>LABOURI</td>
<td>0.548</td>
</tr>
<tr>
<td>INTEREST</td>
<td>1.785</td>
</tr>
<tr>
<td>ELEDEX</td>
<td>4.771***</td>
</tr>
<tr>
<td>ISBFINE</td>
<td>2.201</td>
</tr>
<tr>
<td>COMBFINE</td>
<td>3.989*</td>
</tr>
<tr>
<td>LABOURE</td>
<td>2.730*</td>
</tr>
<tr>
<td>INTEREST</td>
<td>0.624</td>
</tr>
</tbody>
</table>

Critical values are from Pesaran and Pesaran (1997). The lower and upper bound are 2.425 and 3.574; 3.817 and 5.122 are 10% and 5% significance respectively. The null hypothesis is no cointegration. *, **, *** Imply 10%, 5%, and 1% level of significance respectively.

In this section, the study examines the cointegration properties of the variables, using the bound test, which is reported in Table 5. The Table is divided into three parts, representing manufacturing, mining and electricity sectors, respectively. The first part of Table 5 provides evidence for cointegration, when MANUDEX is the dependent variable at 10% significance level as the F-statistic (3.800) is above the upper bound (3.574). The study also provides evidence for cointegration, when LABOURA is the dependent variable at 10% significance level. In the second part of Table 5, the findings suggest that cointegration exists, when MINDEX is the dependent variable at 10% significance level as the F-statistic (3.581) exceeds 3.574. The third part of Table 5, shows the existence of cointegration when ELEDEX is the dependent variable at 5% significance level. With these results, we can proceed to the ARDL estimates.

For the details on these tests consult the references.

For ISBFINA, the F-statistics falls within the lower bound and upper bound, thus producing inconclusive results. Fortunately, Kremers et al. (1992) propose that an alternative way of establishing cointegration is by applying the ECM version of the ARDL model. This is applied to subsequent situations. In all, we observe that ECM version of the ARDL model suggest cointegration.
Table 6
ARDL long run estimates

<table>
<thead>
<tr>
<th>Variables</th>
<th>MANUDEX</th>
<th>MINDEX</th>
<th>ELEDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>191.747**</td>
<td>2162.2**</td>
<td>-14.688**</td>
</tr>
<tr>
<td></td>
<td>(84.494)</td>
<td>(1028.6)</td>
<td>(7.181)</td>
</tr>
<tr>
<td>ISBFIN</td>
<td>2.830</td>
<td>117.892</td>
<td>0.811**</td>
</tr>
<tr>
<td></td>
<td>(7.039)</td>
<td>(88.001)</td>
<td>(0.312)</td>
</tr>
<tr>
<td>COMBFIN</td>
<td>-34.055*</td>
<td>142.358</td>
<td>1.240*</td>
</tr>
<tr>
<td></td>
<td>(18.429)</td>
<td>(161.308)</td>
<td>(0.664)</td>
</tr>
<tr>
<td>LABOUR</td>
<td>-2.004**</td>
<td>30.469</td>
<td>-0.071</td>
</tr>
<tr>
<td></td>
<td>(0.984)</td>
<td>(29.938)</td>
<td>(0.047)</td>
</tr>
<tr>
<td>INTEREST</td>
<td>-0.532</td>
<td>-49.536*</td>
<td>-0.022</td>
</tr>
<tr>
<td></td>
<td>(1.116)</td>
<td>(26.371)</td>
<td>(0.103)</td>
</tr>
</tbody>
</table>

Serial Correlation F(stat) = [0.126]  F(stat) = [0.937]  F (stat) = [0.400]
Functional Form F(stat) = [0.533]  F(stat) = [0.326]  F(stat) = [0.858]
Heteroscedasticity F(stat) = [0.735]  F(stat) = [0.583]  F(stat) = [0.617]

COMBFIN and ISBFIN are in natural logarithmic form. The numeric-0, 1, 2, 3 indicate the extent of lag.
The estimation period is 2006:12-2010:12. We actually exclude INFLATION because its inclusion does not produce long run relationship. The standard errors are in the parenthesis and p-values are in the brackets.
*    *, **, *** Imply 10%, 5%, and 1% level of significance, respectively.

The long run estimates of ARDL for manufacturing sector are reported in the second column of Table 6, where the dependent variable is MANUDEX. The study set the maximum lag to 3, with an optimal lag selection of 2, 1, 3, 3, and 3 respectively. According to the long run estimates, ISBFINA has a positive impact on MANUDEX. On the other hand, COMBFINA is negatively associated with MANUDEX. INTEREST and LABOURA are negatively associated with MANUDEX. Generally, these findings suggest that Islamic banking is not only positively associated with productivity in manufacturing sector but also a better source of financing, compared to conventional banks financing. However, as it remains largely insignificant, this may be attributed to the dominance of controversial products in the Islamic banks products. Considering the diagnostics tests reported below the estimates suggest that our model does not suffer from serial correlation, heteroscedasticity, misspecification and the errors are normally distributed.

The long run estimates of ARDL for mining sector are reported in the third column of Table 6, where the dependent variable is MINDEX. The study set the maximum lag to 2, with an optimal lag selection of 2, 0, 2, 1, and 2 respectively. According to the long run estimates, ISBFIN has positive impact on MINDEX, with insignificant entries. COMBFIN is also positively associated with MINDEX. However, the positive coefficient of ISBFIN is greater meaning that ISBFIN has a larger positive impact. In sum, these findings suggest that Islamic banking is positively associated with productivity in mining sector and a better source of financing, compared to conventional banks financing. The diagnostics tests reported beneath the estimates suggest no serial correlation, heteroscedasticity, misspecification.

The long run estimates of ARDL for electricity sector are reported in the fourth column of Table 6, where the dependent variable is ELEDEX. The study set the maximum lag to 4, with AIC optimal lag selection. The long run estimates indicate that ISBFIN and COMBFIN have positive impact on ELEDEX, with significant entries. However, the positive coefficient of COMBFIN is greater meaning that COMBFIN has a larger positive impact. For instance, for every 1 percent increase in COMBFIN, ELEDEX will increase by 1.240 percent. Moreover, for every 1 percent increase in ISBFIN, ELEDEX will increase by 0.811 percent. LABOUR and INTEREST enter the regression with negative but insignificant entries. Clearly, this is an indication that conventional banks perform better than Islamic banks. However, Islamic banks should not be completely written off as it is positive and significant in the long run. The domination of COMBFIN may be due to its size as is four times bigger than ISBFIN. Therefore, if ISBFIN is increased in the sector, it may overtake the COMBFIN. The diagnostics tests signify that no serial correlation, heteroscedasticity, misspecification and the errors are normally distributed.
Table 7
Granger causality

<table>
<thead>
<tr>
<th>Variable</th>
<th>∆MANDEX</th>
<th>∆ISBFINA</th>
<th>∆COMBFINA</th>
<th>∆LABOURA</th>
<th>∆INTEREST</th>
<th>ECT(-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>∆MANDEX</td>
<td>-</td>
<td>2.974</td>
<td>0.940</td>
<td>3.276</td>
<td>2.232</td>
<td>-2.341**</td>
</tr>
<tr>
<td>∆ISBFINA</td>
<td>2.461</td>
<td>-</td>
<td>0.878</td>
<td>5.379</td>
<td>9.802**</td>
<td>-3.904***</td>
</tr>
<tr>
<td>∆COMBFINA</td>
<td>0.273</td>
<td>9.364**</td>
<td>-</td>
<td>2.376</td>
<td>1.804</td>
<td>-</td>
</tr>
<tr>
<td>∆LABOURA</td>
<td>6.949*</td>
<td>36.212***</td>
<td>7.614*</td>
<td>-</td>
<td>1.651</td>
<td>-3.967***</td>
</tr>
<tr>
<td>∆INTEREST</td>
<td>1.357</td>
<td>1.947</td>
<td>3.022</td>
<td>1.114</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>∆MINDEX</th>
<th>∆ISBFIN</th>
<th>∆COMBFIN</th>
<th>∆LABOUR</th>
<th>∆INTEREST</th>
<th>ECT(-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>∆MINDEX</td>
<td>-</td>
<td>3.692</td>
<td>3.245</td>
<td>2.679</td>
<td>2.323</td>
<td>-2.344**</td>
</tr>
<tr>
<td>∆ISBFIN</td>
<td>3.267</td>
<td>-</td>
<td>5.819*</td>
<td>0.684</td>
<td>3.903</td>
<td>-</td>
</tr>
<tr>
<td>∆COMBFIN</td>
<td>1.372</td>
<td>1.053</td>
<td>-</td>
<td>1.125</td>
<td>0.991</td>
<td>-</td>
</tr>
<tr>
<td>∆LABOUR</td>
<td>1.316</td>
<td>0.025</td>
<td>0.374</td>
<td>-</td>
<td>1.460</td>
<td>-</td>
</tr>
<tr>
<td>∆INTEREST</td>
<td>0.325</td>
<td>0.183</td>
<td>0.055</td>
<td>1.948</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>∆ELEDEX</th>
<th>∆ISBFINE</th>
<th>∆COMBFINE</th>
<th>∆LABOUR</th>
<th>∆INTEREST</th>
<th>ECT(-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>∆ELEDEX</td>
<td>-</td>
<td>0.032</td>
<td>0.188</td>
<td>1.170</td>
<td>0.365</td>
<td>-1.878*</td>
</tr>
<tr>
<td>∆ISBFINE</td>
<td>1.622</td>
<td>-</td>
<td>1.166</td>
<td>3.175</td>
<td>2.733</td>
<td>-</td>
</tr>
<tr>
<td>∆COMBFINE</td>
<td>0.097</td>
<td>0.285</td>
<td>-</td>
<td>1.006</td>
<td>0.250</td>
<td>-1.926*</td>
</tr>
<tr>
<td>∆LABOUR</td>
<td>0.620</td>
<td>3.883**</td>
<td>0.052</td>
<td>-</td>
<td>1.867</td>
<td>-2.419**</td>
</tr>
<tr>
<td>∆INTEREST</td>
<td>11.170**</td>
<td>8.860*</td>
<td>13.896***</td>
<td>4.058</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

- The chi-square statistics are reported for the variables, while the t-statistic are reported for the ECT. *, **, *** Imply 10%, 5%, and 1% level of significance respectively.

In Table 7, the Granger causality test results are reported. From the first part of Table 7, the study observes that ISBFINA Granger causes the MANUDEX in the long run with feedback from MANUDEX. However, COMBFINA Granger causes MANUDEX in the long run with no feedback from MANUDEX. Generally, this is an evidence for supply leading hypothesis in the manufacturing sector, as supply leading hypothesis predominate the evidence for demand leading hypothesis in the manufacturing sector. In the second part of Table 7 the Granger causality test results of the mining sector are reported. The study observes that ISBFINI Granger causes the MINDEX in the long run without any feedback from MINDEX. Moreover, COMBFINI Granger causes MINDEX in long run but there is no feedback from MINDEX. Evidently, this is an indication of supply leading hypothesis in the mining sector. In the third part of Table 7, the Granger causality test results of the electricity sector are reported. The study observes that ISBFINE Granger causes the ELEDEX in the long run without any feedback from ELEDEX. Moreover, COMBFINE Granger causes ELEDEX in the long run, without any feedback from ELEDEX. Evidently, this is an indication of existence of supply leading hypothesis in the electricity sector. Therefore, the government should focus on the development of financial sector in the three sectors.

7. Conclusion

The study investigates the relative impact of Islamic banks and conventional banks on manufacturing sector, mining sector and electricity sector in Malaysia for the period covering 2006:12 to 2010:12. SUR and ARDL methods are utilised. Generally, the findings indicate that Islamic banking system performs better than conventional banking system except in the electricity sector, in which the results seem inconclusive. The study further provides evidence for predominance of supply leading hypothesis in the three sectors. Therefore, in order to better promote productivity indexes, it is expected that these sectors should source their fund from the Islamic banking sector as against conventional banking system. Financial development should be accorded priority in the pursuit of productivity with special attention on Islamic banking development, in boosting the development of these sectors. As the difference between the two forms of finance is not substantially apparent, it is hoped that future policies on Islamic banking development will encourage pure profit and loss products such as Mudharabah and Musharakah.
References


Organizational Climate and Ambiguity Tolerance with Organizational Entrepreneurship: Empirical Study

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Abstract

Purpose – The purpose of this paper is to examine the relationship between organizational climate (OC) and ambiguity tolerance (AT) with organizational entrepreneurship (OE) in High Schools of Tehran City (HSTC).

Design/methodology/approach – The papers develops a research model based on current literature and then test this model in HSTC selected from public sector high schools in Iran. Statistics society consists of 120 managers/teachers in 22 schools in HSTC. The sample size provided based on "Cohan- Morgan- Korjsay" is 92 managers/teachers which have been determined with descriptive methods. For data analyzing we used Pearson Correlation, T-test, and One-Way ANOVA.

Findings – The results indicate that, regarding to the obtained significant level between OC and OE, AT and OE was smaller than %5 and shows that there is a significant relation between mentioned variables.

Research limitations/implications – This study could benefit from a large sample, from public sector and replication in more schools.

Practical implications – The paper offers practical suggestions to the educational managers and in general on how to manage of schools.

Originality/value – This paper has tried to provide an inclusive understanding about the OC and AT with OE in High schools. Since there was a lack of such research in an Iranian context, this paper can provide theoretical basis for future researches as well as practical implications for educational managers and the educational professionals.

Keyword: Organizational Climate, Ambiguity Tolerance, Organizational Entrepreneurship, High school, Iran

Article Type: Research paper

1. Introduction

The main objectives of this paper are to identify the major variables affecting of the OE within the Iranian schools and to examine the impact of OC, and AT on OE. While there have been several studies in different sectors in related to OE, a few of them are within the high schools, especially in public schools of Iran. Also, although the survival of a range of involvement systems used by professionals from various sectors, little research has been undertaken to examine if these interventions can be applied to the high schools. There are therefore two gaps in OE. First, there is a lack of study in OE, particularly in public schools of Iran, framework. Second, the past studies have paying attention on OE in private sector. This study had the aim of overcoming these two gaps to achieve the objectives stated at the
start of this paper. Thus, the motivation for this paper is to address the identified the core factors by reporting on the impact of OC and AT on OE among educational professionals within the HSTC. These findings have an implication for educational professionals within the high schools of Iran.

The paper is structured as follows: first, a general literature review on the OC, AT, and OE in various sectors is presented, with the main focus on the key concepts OC, AT, and OE; second, a brief overview of the advocated theoretical conceptual framework which summaries the relationship among the independent variables (OC, AT) and dependent variables (OE) is presented. This is followed by an explanation of the research methodology adopted. Following on from the research methods, the statistical methods employed and the interpretation of the findings are next. The paper concludes with a discussion and implications for future research.

2. Literature Review
2.1 Organizational Climate

According to Patterson et al, (2004) it has long been clear that behaviour is a function both of a person’s characteristics and the nature of his or her environment. Important environmental features in work settings have sometimes been brought together under the general heading of “climate”, usually measured through individuals’ perceptions of their organization’s policies and practices (Schneider, 1990; Ashkenasy et al, 2000). Associated research has investigated perceptions of “culture”, sometimes taking measures of perceived culture through questionnaires similar to those applied in climate studies (Reichers and Schneider, 1990; Payne, 2000). As described by Denison (1996), “climate” mainly concerns “those aspects of the social environment that are consciously perceived by organizational members”. Measures of climate seek to represent employees’ experiences of important organizational values and processes, and thus have often been thought of as possible predictors of organizational performance. Four kinds of performance may be suggested: economic (productivity, profitability, etc.), technological (development of new products, etc.), commercial (market share, a specific niche, etc.), and social (effects on customers, suppliers and the public at large) (Bartram et al, 2002). Most research in the area of this paper has examined economic aspects of organizational performance, and that approach will be taken here.

The OC is an important consideration for managers in their organizational design process. Kumar & Chander (1998) fond that some of the reasons are as follows: firstly, OC is a set of perceptions of employees about the characteristics of their organizations that influences attitudes. Secondly, OC is found to influence certain work-related outcomes, like employee performance, productivity, job satisfaction, involvement, turnover, absenteeism, motivation, organizational commitment, organizational effectiveness, and OE. Thirdly, it influences a whole range of relationships in the organization. Fourthly, OC has been studies in several contexts and found that it has a greater role to play in improving organizational effectiveness. These contexts include public and private organizations, educational institutions, hospitals, insurance company. Lastly, there is a controversy around the relationship between OC and job satisfaction.

Burton et al, (2004) identifies four OC profiles by applying Koys and DeCotiis’s three rules for dimensions of OC to Zummuto and Krakower’s (1991) model of competing values, initially developed by Quinn and Rohrbach (1983) which is used to examine criteria for organizational effectiveness, based on a framework of flexibility versus control and internal versus external view. He calls them group climate (scores high and trust and moral and is internally oriented), developmental climate (scores high on trust and moral and as well, but is externally oriented), rational goal climate (scores low on trust and moral and is externally oriented), and internal process climate (scores low on trust and moral and is mechanical
The four climate types are based on their degree on the seven variables trust, moral, equity of rewards, resistance to change, leadership, creditability and duty. In other words, the employees’ perceptions about the extent to which every one of the seven variables is present or absent within an organization forms the building blocks of OC (Schott, 2008).

Wilderom et al, (2000) located and summarized 10 relevant studies. They reported that, although most of those had found some dimensions of OC to be associated with performance, different climate aspects had emerged as important in different studies. In addition, causal interpretation of observed relationships has been made difficult by a frequent reliance on cross-sectional research designs, obtaining measures of performance for the period immediately before climate is assessed. It is instead desirable to examine climate at one point in time as a possible predictor of performance in a subsequent period. Two studies that obtained objective organizational performance data later than the assessment of climate were by Denison (1990) and by Gordon & DiTomaso (1992). In the first case, a climate that encouraged employee involvement in company decision-making (through individual inputs and between-role collaboration) was found (across 34 firms in different industries) to predict company financial success in subsequent years; however, quantitative support for the importance of three other climate dimensions was not obtained.

The study by Gordon & DiTomaso (1992) (across 11 insurance companies) examined aspects of adaptability (a combination of scales to tap action orientation and risk-taking), finding that this climate indicator was associated with subsequent financial growth. However, three other aspects of climate were unrelated to financial outcomes. Research into organizations’ climate and performance has thus yielded varying results. This diffuse pattern is likely to arise in part from different studies’ use of different indicators of performance, from variations in the temporal sequence of measurement, and from the fact that different kinds of organizations were examined by different researchers. In addition, of particular importance are variations in the intervening processes which may translate an organization’s climate into performance. Kopelman, Brief, & Guzzo (1990) have presented a model to make more explicit those intervening processes. OC is viewed as influencing organizational productivity (the form of performance considered in the model) through “cognitive and affective states” and “salient organizational behaviours”. The former states are primarily employees’ work motivation and their feelings of job satisfaction. Those are considered to influence productivity through three kinds of behaviour: attachment behaviours (attending and staying in the organization), role-prescribed behaviours (tasks in one’s organizational role), and citizenship behaviours (helpful contributions that are not mandatory). This model has been developed by Sparrow (2001), who also includes features of person-organization fit and of employees’ psychological contract. The psychological contract is viewed as incorporating “mental, emotional and attitudinal states” and “salient organizational behaviours”, the two principal intervening processes considered by Kopelman and colleagues (1990). The psychological states are seen as linking perceived climate and potential person-organization fit with salient employee behaviours and then with performance at the organizational level. These states include perceived justice and organizational support, work motivation, and feelings of trust, commitment, job involvement and job satisfaction.

2.2 Ambiguity Tolerance
According to Kajs & McCollum (2009) research on ambiguity and its psychological elements has occurred since the 1950s (Sweeney & Owens, 2002). In general, the term ambiguity is referenced as vagueness of words and uncertainty of conditions or situations where multiple interpretations or views, although at times contradictory, can be present (Visser, 2003). In everyday life, ambiguity can occur when one routinely interacts with numerous meanings, uncertainty, incompleteness, vagueness, contradictions, probability; as well as lack of clarity, structure, information, and consistency (Norton, 1975). Budner (1962) says that situational
ambiguity results from three major sources: (a) novelty, i.e., new situation where no familiar signs exist; (b) complexity, i.e., large number of cues need to be taken into consideration; and (c) insolubility, i.e., situation that is contradictory in nature where different cues purport differing arrangements.

AT has been described as “the way people perceive, interpret, and react to ambiguous situations”. The way a person perceives, construes, and responds to uncertain situations determines one’s level of tolerance for ambiguity (Stoycheva, 2002). The AT construct is rather complex because of the multiplicity of variables, including various types of situations, perceptions, and other factors, e.g., predictability (Benjamin et al., 1996).

One who is characterized as AT tends to view and construe ambiguous situations as a cause of psychological uneasiness or anxiety, or possibly a threat; thus, the ambiguity is viewed as confusing and something to avoid (Stoycheva, 2003). For instance, if a person views a situation as threatening instead of promising, then intolerance for ambiguity probably exists (Budner, 1962). It was found that people who demonstrate intolerance for ambiguity prefer the realm of stereotypes and concrete notions, instead of the sphere of probability and uncertainty (Geller et al., 1993). While much of the literature equates intolerance of ambiguity (IA) and intolerance of uncertainty (IU), researchers have pointed out that a distinction can be made between the two concepts; that being, IA refers to the present circumstances as a cause of threat and IU relates to the future prospect of a negative result (Grenier, Barrette, & Ladouceur, 2005).

One who is characterized as AT tends to have the capacity to recognize and analyze an ambiguous condition in a practical manner without disallowing or distorting elements of its complexity (Stoyvecha, 2003). This type of disposition enables a person to be more adaptive, and endure the anxiety and discomfort of an uncertain situation, allowing more time to generate alternative responses to the situation (Visser, 2003). An individual with a higher AT has the propensity to seek feedback less often than one with a lower tolerance (Bennett et al., 1990). The AT disposition tends to display a risk taking approach as well as resiliency in adversity (DeRoma et al., 2003; Patterson, 2001), and views uncertain situations as desirable (Budner, 1962). Beitel et al. (2004) found a relationship between AT and psychological mindedness, which is associated with a cognitive profile that includes tendencies for realistic thinking, flexibility, and personal agency.

Research on AT and IA can be found in organizational, social behavioral, and leadership studies (e.g., Bennett et al., 1990; Budner, 1962; Clampitt & Williams, 2000), as well as in the professions of business (e.g., Bakalis & Joiner, 2004; Lamberton et al., 2005; Lane & Klenke, 2004), and medicine (e.g., Geller et al., 1993; Schor et al., 2000; Sherrill, 2005). Many research studies address AT in the context of business (e.g., Bakalis & Joiner, 2004; Gupta & Govindarajan, 1984; Hallinger & Snidvongs, 2008). Major workplace consequences connected to AT have been found in the areas of (a) employee interests/ability versus job responsibilities, (b) worker turnover, (c) company commitment to employees, and OE (Lamberton et al., 2005). Bennett et al. (1990) found that one’s level of AT influences a person’s decision to ask for feedback. In general, those characterized as IA seek more feedback more often than those described as AT. However, exceptions to this general rule were found. Those depicted as IA tended to lack motivation in asking for feedback on job-specific matters, while those with AT orientations were likely to request feedback on job advancement issues (Bennett et al., 1990).

In a study by Lamberton et al. (2005), outcomes suggested that accountants who have high interests in information technology (IT) are more at ease with ambiguous problem-solving circumstances, especially those situations requiring a high degree of creativity. Elias (1999) found that nontraditional accounting students had a higher AT than traditional ones, suggesting that nontraditional students may have more of the attributes (e.g., less
apprehensive or fearful in oral and written communications) in handling uncertain situations (e.g., audits).

Huber (2003) points out that AT’s attributes of flexibility and creativity are becoming increasingly valuable as businesses address the unpredictability and change process of globalization. For organizations to survive in a complex world with varying demands from different constituents, leaders must be able to embrace uncertainty to be effective, demonstrating characteristics of entrepreneurship, adaptability, and innovation (Hallinger & Snidvongs, 2008; Lane & Klenke, 2004). AT is a key disposition in the development of a successful entrepreneur, since innovation and creativity necessitate a certain level of tolerance for ambiguity (Lumpkin 2004). To address the diversity of workforce in a global business environment, two personality attributes are critical: tolerance for ambiguity and openness; this latter characteristic is associated with risk taking, open-mindedness, collaboration, as well as receptivity to work in cross-cultural environments (Bakalis & Joiner, 2004). Thus, a person’s tolerance for ambiguity should be viewed as a valued trait in the hiring process.

Limited empirical research exists regarding the impact of AT and IA on school leadership behavior and consequential managerial approaches. Sample studies on school leadership and AT include a correlation between AT /IA and administrative styles (e.g., autocratic, democratic) of high school principals (Yaffa, 2003). Yaffa (2003) found that principals who practice benevolent and/or autocratic managerial style (task orientation) tend to have low AT, while school leaders who engage in a developer approach (i.e., people orientation) in leadership tend to have high AT. Anfara et al. (2000) found high AT to be a key characteristic of effective middle school principals.

Patterson (2001) notes that superintendents who can effectively handle unfamiliar situations and unpredictable setbacks can strengthen their resiliency as a school leader. School principals who practice a combination of conceptual and analytical decision-making approaches tend to develop multiple alternatives in addressing issues. This use of cognitive complexity demonstrates a propensity to possess a high degree of AT; a major indicator for successfully maintaining and sustaining schools (Williams, 2006).

2.3 Organizational Entrepreneurship

The term “entrepreneurship” can be traced back to the twelfth century, rooted in the French verb “entreprendre” which means to do something differently (Long, 1983), and the German word “unternehmen,” which means to “undertake” (Cunningham & Lischeron, 1991). Its noun form “entrepreneur” was documented in the fourteenth century (Hoselitz, 1960). The modern term “entrepreneur” was used during the eighteenth century in the writings of Richard Cantillion (1755/1931). The entrepreneurial conceptualization reflected in the literature has emerged from a diversity of scholarly disciplines and perspectives, beginning with origins in economics.

In the mid-1700s, Cantillon (1755/1931), an Irish economist of French descent, defined the term entrepreneur as a speculator searching for profit by buying at a certain price and selling at an uncertain price. In the early 1800s, Say (1803/1971) expanded the concept of entrepreneurship, to include managerial skills and other qualities such as judgment and perseverance to create value in an economy by moving resources out of areas of low productivity and into areas of higher productivity and greater yield.

In the mid-1800s economist Mill (1848/1965) suggested that the distinguishing feature of an entrepreneur was that they were more than a capitalist in that they assumed both the risk and the day-to-day operations or management of a business. British economist Marshall (1930/1961) defined the entrepreneurial function as providing innovations for efficiency and consequently progress. Knight (1921), the first American contributor in entrepreneurship theory, discussed foresight and distinguished between risk, which is insurable, and
uncertainty, which is not, and noted that the entrepreneur is one who bears all uncertainty and makes decisions for which he takes responsibility. Schumpeter (1934) saw the entrepreneur as the major agent of economic development, an innovator trying new combinations of resources to generate new products, new production methods, entry into new markets, new sources of supplies, and new organizations of any industry. Kirzner (1973, 1997), an Austrian economist, emphasized alertness and suggested that the role of the entrepreneur was an arbitrageur who created incremental-continuous innovations by identifying and exploiting potential opportunities. Casson (1982) attempted to develop a theory linking entrepreneurs with economic development, emphasizing resource coordination and decision making.

According to Fox (2005) from the management perspective, entrepreneurship is an organizational process that encourages and practices innovation, risk taking, and proactiveness toward customers, competition, and opportunities (Miller & Friesen, 1982). The process enables the organization to create value by identifying market opportunities and creating unique combinations of resources to pursue those opportunities (Jacobson, 1992). An entrepreneurial organization is proactive in obtaining intelligence on customers and competitors; is innovative by reconfiguring its resources to formulate a strategic response; and implements the response, which entails some degree of risk and uncertainty (Barrett, Balloun, & Weinstein, 2003). The management perspective of entrepreneurship emphasizes organizational factors as facilitating the success or failure of ventures (Brophy & Shulman, 1992; Sandberg, 1992). Miller (1983) suggested that the degree of entrepreneurial orientation could be seen as the extent to which organizations take risks, innovate, and act proactively. Stevenson (1983) added that entrepreneurial management, defined as a set of opportunity-based management practices, could help organizations remain vital and contribute to organizational and societal level value creation.

3. Theoretical Framework and Development of Hypotheses
This study conceptualizes OC and AT relationships with OE. Figure No. 1 presents the research model for the constructs of concern in this study.

![Proposed research model](image)

Therefore, the hypothesis is that:
1. There is a positive relationship between OC and OE.
2. There is a positive relationship between AT and OE.
3. There is a relationship between gender and OC.
4. There is a relationship between gender and AT.
5. There is a relationship between gender and OE.
6. There is a relationship between educational level and OC.
7. There is a relationship between educational level and AT.
8. There is a relationship between educational level and OE.
9. The mean of OC in two groups of Length of Service is equal.
10. The mean of AT in two groups of Length of Service is equal.
11. The mean of OE in two groups of Length of Service is equal.

4. Research Methodology

4.1 Purpose
This research is designed to investigate the relationship between OC and AT with OE in HSTC. No studies currently exist on the relationship between OC and AT with OE in HSTC of Iran. The results of this study should help Iranian managers determine whether tight HR should be expended on OC and strategic decisions programs or if the finding could be better utilized elsewhere within the HSTC.

4.2 Sample and Data Collection
All of the HSTC involved in the study are located in Tehran which is one of large province in Iran and plays a vital role in the social/economic development of the country. A list of all HSTC was compiled from the following sources: personnel affairs and welfare and domestic payments department, deputy of personnel affair, and department of organization and methods.

The present study employs a questionnaire survey approach to collect data for testing the validity of the model and research hypotheses. Questionnaire included closed questions and was organized into four sections. Section one consisted of 3 questions concerning responder demographics. Section two focused on information about usage of OC by professionals in support of OE. Section three focused on information about usage of AT in support of OE. Section four dealt with information about OE in HSTC. The sample size provided based on "Cohan- Morgan- Korjsay" is 92 managers/ teachers which have been determined with descriptive methods. For data analyzing we used Pearson Correlation, T- test, and One- Way ANOVA (Analysis of Variance).

4.3 The Procedure and Measure
The research instrument, a questionnaire, contained two parts. The first part seeks demographic information. The second part was measured on a five point Likert- type scale, measuring three concepts: OC, AT, and OE.

4.4 Validity and Reliability
This research is designed to investigate the relationship between OC and AT with OE in HSTC. A quantitative research methodology was applied in the study, specifically to assist in finding answers to the research hypothesis. After an examination of the literature, the self-researcher questionnaire for OC, AT, and OE was chosen for use in this research. The Cronbach’s alpha for this variables are implied in the Table No. 1.

<table>
<thead>
<tr>
<th>Study Variables</th>
<th>No. of Items</th>
<th>Alpha for Sample</th>
<th>Source of Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>OC</td>
<td>12</td>
<td>0.94</td>
<td>Burton et al</td>
</tr>
<tr>
<td>AT</td>
<td>12</td>
<td>0.85</td>
<td>Yaffa</td>
</tr>
</tbody>
</table>
5. Measures

5.1 Organizational Climate
OC is measured by a questionnaire by Burton et al (2004) which is based on the competing values framework developed by Quinn and Rohrbach (1983). The questionnaire contains seven items, each representing one of the seven variables (trust, morale, rewards, equity, leader credibility, conflict, duty, resistance to change) which describe the OC profiles. Teachers/employees were asked to indicate on five-point scales, ranging from 1 = “very less” to 5 = “very high”, the degree of importance they attached to each of seven OC dimensions. These dimensions were level of OC, and school satisfaction with OC. The respondents were further asked to indicate the extent of their importance with their OC along each of the seven OC dimensions.

5.2 Ambiguity Tolerance
AT is measured by a questionnaire by Yaffa (2003) which is based on the competing values framework developed by Norton (1975). The questionnaire contains two items, each representing one of the two variables (task orientation, and people orientation) which describe the AT profiles. Teachers/employees were asked to indicate on five-point scales, ranging from 1 = “very less” to 5 = “very high”, the degree of importance they attached to each of two AT dimensions. These dimensions were level of AT, and school satisfaction with AT. The respondents were further asked to indicate the extent of their importance with their AT along each of the two AT dimensions.

5.3 Organizational Entrepreneurship
The third part of the questionnaire was an organizational-level scale for OE which included both the extensively used measure of entrepreneurial orientation, as well as a scale for entrepreneurial management, which was based on a modified instrument developed by Brown et al. (2001) that operationalized Stevenson’s (1983) conceptualization of entrepreneurship. The entrepreneurial orientation scale was designed to explore distinct dimensions of innovativeness, proactiveness, and risk-taking; and the entrepreneurial management scale was designed to explore distinct dimensions of strategic orientation, resource orientation, management structure, reward philosophy, and entrepreneurial culture which describe the OE profiles. Teachers/employees were asked to indicate on five-point scales, ranging from 1 = “very less” to 5 = “very high”, the degree of importance they attached to each of OE dimensions. The respondents were further asked to indicate the extent of their importance with their OE along each of the OE dimensions.

6. Analysis and Results
6.1 Descriptive statistics
Table I shows the demographical information of respondents. This table reveals information regarding gender, educational level, and length of service. Table shows that majority of the respondents (58%) are male and only (42%) are female respondents. Also table shows that majority of the respondents (89%) were holding bachelor degree, master degree, and ph.D degree, and only very few of them were having high school and associate degree of education. When respondents were inquired about their length of service (76%) of the respondents were having length of service less than 10 or equal to 10 years, managers/teachers having length of service between 11-20 were only (16%) of the respondents and
those managers/teachers who were having length of service of more than 20 years were only 8%.

Table I. Descriptive statistics of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency(F)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>54</td>
<td>58%</td>
</tr>
<tr>
<td>Female</td>
<td>38</td>
<td>42%</td>
</tr>
<tr>
<td>Educational Level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second Group</td>
<td>82</td>
<td>89%</td>
</tr>
<tr>
<td>First Group</td>
<td>10</td>
<td>11%</td>
</tr>
<tr>
<td>Length of Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-10</td>
<td>70</td>
<td>76%</td>
</tr>
<tr>
<td>11-20</td>
<td>15</td>
<td>16%</td>
</tr>
<tr>
<td>Above 20</td>
<td>7</td>
<td>8%</td>
</tr>
</tbody>
</table>

6.2 Test of Hypotheses
6.2.1 Pearson Correlation Analysis
Using a series of Pearson correlation analyses, support was produced for each of the three research hypotheses. For more details, see Table II.

Table II. Pearson Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. OC</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. AT</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>3. OE</td>
<td>.327**</td>
<td>.539**</td>
<td>1</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.05 level (2-tailed).

6.2.2 T-test Analysis
6.2.2.1 Gender
Table III shows that the test statistic t-value is 2.140, and significance is .035 that is less than 0.05, so, the mean of OC in two groups male and female is difference, on the other hand there is relationship between OC and gender. But in concern to AT the test statistic t-value is 1.618, and significance is .107 that more than 0.05, so null hypotheses is reject. On the other hand, there is no relationship between AT and gender. Also, we accept the null hypotheses is related to OE, because the test statistic t-value is -4.257, and significance is .000 that is less than 0.05, so there is relationship between gender and OE.

Table III. T-test Analysis Results/ Gender

<table>
<thead>
<tr>
<th></th>
<th>Gender</th>
<th>Mean</th>
<th>S.D.</th>
<th>N</th>
<th>d. f.</th>
<th>Sig.</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>OC</td>
<td>M</td>
<td>22.50</td>
<td>3.069</td>
<td>54</td>
<td>92</td>
<td>.035</td>
<td>2.140</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>22.31</td>
<td>5.593</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AT</td>
<td>M</td>
<td>2.63</td>
<td>.449</td>
<td>54</td>
<td>92</td>
<td>.107</td>
<td>1.618</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>2.42</td>
<td>.284</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OE</td>
<td>M</td>
<td>3.25</td>
<td>.481</td>
<td>54</td>
<td>92</td>
<td>.000</td>
<td>-4.257</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>2.87</td>
<td>.539</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

P<0.05(2-tailed test)

6.2.2.2 Educational Level
Table IV shows that the test statistic t-value is 3.562, and significance is .000 that is less than 0.05, so, the mean of OC in two educational level is difference, on the other hand there is
relationship between OC and educational level. But in concern to AT the test statistic t-value is .511, and significance is .610 that more than 0.05, so null hypotheses is reject. On the other hand, there is no relationship between AT and educational level. Also, we reject the null hypotheses is related to OE, because the test statistic t-value is .085, and significance is .933 that is more than 0.05, so there is no relationship between educational level and OE.

Table IV. T-test Analysis Results/ Educational Level

<table>
<thead>
<tr>
<th>Educational Level</th>
<th>Mean</th>
<th>S.D.</th>
<th>N</th>
<th>d.f</th>
<th>Sig.</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>OC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second Group</td>
<td>6.73</td>
<td>1.154</td>
<td>82</td>
<td>92</td>
<td>.000</td>
<td>3.562</td>
</tr>
<tr>
<td>First Group</td>
<td>7.31</td>
<td>1.071</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second Group</td>
<td>15.15</td>
<td>4.485</td>
<td>82</td>
<td>92</td>
<td>.610</td>
<td>.511</td>
</tr>
<tr>
<td>First Group</td>
<td>15.49</td>
<td>4.761</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second Group</td>
<td>31.50</td>
<td>7.694</td>
<td>82</td>
<td>92</td>
<td>.933</td>
<td>.085</td>
</tr>
<tr>
<td>First Group</td>
<td>31.60</td>
<td>7.429</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

P<0.05(2-tailed test)

6.2.3 One-Way ANOVA Analysis

The ANOVA results (Table V) indicate that the mean of AT in two groups of length of service is non-equal [F (2, 90) = 10.474, P< 0.05], and also, OE [F (2, 90) = 12.684, P< 0.05], but mean of OC in two groups of length of service is equal, [F (2, 90) = .142, P > 0.05].

Table V. ANOVA Analysis Results

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>d.f</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>OC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>.378</td>
<td>2</td>
<td>.189</td>
<td>.142</td>
<td>.868</td>
</tr>
<tr>
<td>Within Groups</td>
<td>252.616</td>
<td>90</td>
<td>1.337</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>252.995</td>
<td>92</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>403.796</td>
<td>2</td>
<td>201.798</td>
<td>10.474</td>
<td>.000</td>
</tr>
<tr>
<td>Within Groups</td>
<td>3643.074</td>
<td>90</td>
<td>19.276</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4046.780</td>
<td>92</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>329.1293</td>
<td>2</td>
<td>165.645</td>
<td>12.684</td>
<td>.000</td>
</tr>
<tr>
<td>Within Groups</td>
<td>96.13</td>
<td>90</td>
<td>50.846</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10903.578</td>
<td>92</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Conclusions

Finding show that there is significant relationship between OC, AT, and OE in HSTC. The analysis of research results showed the overall consistency of findings with the model. This study makes two key contributions to the literature. First, this study, both theoretically and empirically, reveals how high school can usage the professionals in OE. Specifically, the findings of the study show the key role of OC and AT in the OE. The study’s theoretical arguments and its empirical findings are both interesting and useful to scholars in this research area. Second, this paper shows theoretically and empirically how high school can generate OE value from organizational culture, a topic that has received little attention to date. The findings on this topic are thus also valuable for academics who study the OE value.
8. Limitations
Some limitations of the research need to be recognized. The sample is relatively small (in 22 schools and 92 managers/teachers), comparable to others studies that have looked at the teachers/employees level within the schools within the Iranian context, as such it is representative and the findings presented are general to a wider population of schools in the HSTC.

9. Future Research
This study confirms the applicability of educational professionals related issues in developing countries such as Iran. Owing to this, there is a possibility of bias playing role in the outcome of the study. Therefore, this study can be emphasized in other high schools particularly the private schools within the Iranian context. One major implication emerging from this study is the challenge of finding ways of valuing contributions of the education.

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Indian Corporate Social Responsibility Practices: A Subway to Achieve Inclusive Growth of India

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Abstract

The Corporate Social Responsibility is emerging as an important concern of business philosophy, reflecting the impact of business on society in the context of sustainable development. CSR is being organized over the past few years with various standards, norms and regime which have been designed by leading organizations individually. Other Companies are increasingly adopting CSR Code of Conduct and monitor themselves as follower of leading companies. These codes of conduct and philanthropic behavior are a kind of self regulation to meet their own requirements in spite of social expectations. On the observation and study of CSR practices of various Companies, it is found that there is no proper and effective guideline to cater the requirement of society. Government has incorporated Voluntary Guidelines for CSR in 2009. These guidelines aim to enable business to focus as well as contribute towards the interests of the stakeholders and the society. Since these guidelines are voluntary in nature, companies have choice to adopt them accordingly. Hence there is a need for statutory regulations which can standardized the practices of CSR. In this paper main focus is given on loop poles of various CSR practices adopted by companies and how they are misusing such type of activities for their own interest. In the conclusion it is analyzed that how Government can formulate a statutory Guideline under New Industrial Policies by which India can actually attain the meaning of Inclusive Growth.

Key Words: CSR, Statutory Regulation, New Industrial Policies, Voluntary Guideline

Introduction

Over the past few years, as a consequence of rising globalization and pressing ecological issues, the perception of the role of corporates in the broader societal context within which it operates, has been altered. Firms are increasingly concerned about what CSR can do for them and are using CSR as a strategic investment tool on the same level as others in the corporate toolkit. With growing public awareness and demand for socially responsible businesses, companies are taking corporate social responsibility into account when planning future socially responsible business operations. They use the term to define organization’s commitment to the society and environment in which it operates. For discharging their social responsibilities companies are using CSR Codes, i.e. self – regulatory instruments. In the absence of statutory regulations the large companies are increasingly declaring their principles to monitor CSR programs and in result the small enterprises are also adopting these principles as a standard guideline to show that they are doing CSR. In recent past, certain guidelines and indicators have been developed nationally and internationally such as Voluntary Guidelines, UN Global Compact, etc. But all these initiatives are advisory not mandatory for companies. The idea that CSR is important to profitability and can prevent the loss of customers, shareholders, and even employees is gaining increasing
acceptance. And in the absence of proper legislative guideline, companies are widely adopting CSR approach for making their brand image, increasing profitability etc. Hence adoption of such regulatory practices invites us to examine the reasons that why the large companies do so and what role should government play in controlling such practices. This paper discusses about the reasons behind adoption of self regulatory CSR codes and role government should play in making CSR a statutory obligation. The first section of paper includes the concept and general practices of CSR; in the second section present scenario of CSR in India has been discussed; third section examines the gap between Government Guidelines and CSR Codes used by companies and finally suggestions and recommendations for making CSR as a statutory obligation has been given.

Concept of Corporate Social Responsibility:

The concept of CSR captures the dynamics of the relationship between business and society. The core theme of CSR is to deal, interact and relate with stakeholders with an ethical approach that is not harming or hurting any stakeholder.

While there is no universal definition of corporate social responsibility, it generally refers to transparent business practices that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment. Most of the CSR definitions share the theme of engaging in economically sustainable business activities that go beyond legal requirements to protect the well-being of employees, communities, and the environment. According to Edwin Mujih (2007), CSR requires the company to look beyond the interest of its shareholders and also consider the interests of other stakeholders such as employees, consumers, the local community and the public at large. One can consider three views of CSR. The classical view defines it in purely economic profit-making terms. In contrast, stakeholder theory holds that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. Finally, the “social activist” perspective holds that companies should actively promote social interests. Thus, beyond making profits, companies are responsible for the totality of their impact on people and the planet. The totality of CSR can be best understood by three words: ‘corporate,’ ‘social,’ and ‘responsibility.’ In broad terms, CSR relates to responsibilities corporations have towards society within which they are based and operate. CSR is comprehended differently by different people. One consideration is, being socially responsible does not mean that business have to necessarily be philanthropic. What is essential is that business is operated keeping in mind the interests of all the stakeholders. Friedman believed that “There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits.” He famously argued that the ‘business of business is business’, reasoning that the sole responsibility of the organization was its shareholders, providing profits for them. He acknowledged legal and ethical constraints on business activity, emphasizing that the organization should not harm society, but he denied that it should assume any wider social responsibility for its maintenance and improvement.

Arguments against CSR:

Organizations fulfill certain needs of society, and it is feasible for civil society to benefit from the activities of an organization. Some arguments against CSR are:

- Stakeholders bear the costs of corporate social action (shareholders, employees and consumers) which affect a “corporation’s operating efficiency and weaken competitive position and advantage.”
- Mismatch of the roles and expectations between the organizations and society.
- The prospects of corporations becoming even more powerful, as they may already exercise considerable power over society.
- Management is trained in functional areas of management and does not have generic expertise in handling social issues.

Elements of CSR:

The Corporate Social Responsibility includes:

1. **Care for all Stakeholders:** The companies should respect the interests of, and be responsive towards all stakeholders, including shareholders, employees, customers, suppliers, project affected people, society at large etc. and create value for all of them. They should develop mechanism to actively engage with all stakeholders, inform them of inherent risks and mitigate them where they occur.

2. **Ethical functioning:** Their governance systems should be underpinned by Ethics, Transparency and Accountability. They should not engage in business practices that are abusive, unfair, corrupt or anti-competitive.

3. **Respect for Workers’ Rights and Welfare:** Companies should provide a workplace environment that is safe, hygienic and humane and which upholds the dignity of employees. They should provide all employees with access to training and development of necessary skills for career advancement, on an equal and non-discriminatory basis. They should uphold the freedom of association and the effective recognition of the right to
collective bargaining of labour, have an effective grievance redressal system, should not employ child or forced labour and provide and maintain equality of opportunities without any discrimination on any grounds in recruitment and during employment.

4. **Respect for Human Rights:** Companies should respect human rights for all and avoid complicity with human rights abuses by them or by third party.

5. **Respect for Environment:** Companies should take measures to check and prevent pollution; recycle, manage and reduce waste, should manage natural resources in a sustainable manner and ensure optimal use of resources like land and water, should proactively respond to the challenges of climate change by adopting cleaner production methods, promoting efficient use of energy and environment friendly technologies.

6. **Activities for Social and Inclusive Development:** Depending upon their core competency and business interest, companies should undertake activities for economic and social development of communities and geographical areas, particularly in the vicinity of their operations. These could include: education, skill building for livelihood of people, health, cultural and social welfare etc., particularly targeting at disadvantaged sections of society.

At CII annual general meeting – 2007  May 24, 2007, the Prime Minister Mr. Manmohan Singh had talked about a Ten-Point Social Charter as:

1. Respect for workers and Investment in their welfare.
2. CSR should be defined within the framework of a corporate philosophy which factors the needs of the community and the regions in which a corporate entity functions.
3. Industries must be pro-active in offering employment to the less privileged, at all levels of the job ladder.
4. Rich people should avoid the misuse of their wealth and efforts should be taken towards the uniformity in Wealth.
5. Companies should invest in people and in their skills.
6. Desist from non-competitive behavior.
8. Promoting enterprise and innovation, within and outside the firm.
9. Fight corruption at all levels.
10. Promote socially responsible media and finance socially responsible advertising.

According to PM, the above mentioned ten-point social charter represents the responsibility of corporate to society at large.

Up to now CSR has been something voluntary (voluntary to adopt and voluntary to comply with). Today there is a big debate where CSR should remain voluntary or should become compulsory. Many believe for example that the limitation off the CO₂ in the atmosphere emissions will not stop voluntary unless it becomes a legal duty.

**Analysis of CSR activities in India:**

CSR has become increasingly prominent in the Indian corporate scenario because organizations have realized that besides growing their businesses it is also essential to build trustworthy and sustainable relationships with the community at large. This is one of the key drivers of CSR programs. Another reason stimulating this rapid adoption of CSR is the state of the Indian society. Though India is one of the fastest growing economies, socio-economic problems like poverty, illiteracy, lack of healthcare etc. are still ever-present and the government has limited resources to tackle these challenges. This situation has opened up several areas for businesses to contribute towards social development. CSR is not a new concept in India. Corporates like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, etc, have been involved in serving the community since decades. Looking across the current practices of leading Indian corporations, a number of core elements emerge.

- **Community development** Most large companies either have their own foundations or contribute to other initiatives that directly support the community upliftment, notably in health, education, and agriculture.
- **Environmental management** Environmental policies and programmes are now standard, and many companies have implemented the ISO 14 001 system throughout their businesses.
- **Workplace** Growing out of long-standing commitments to training and safety is a more recent emphasis on knowledge and employee well-being.
Today, CSR in India has gone beyond merely charity and donations, and is approached in a more organized fashion. It has become an integral part of the corporate strategy. Companies have CSR teams that formulate specific policies, strategies and goals for their CSR programs and set aside budgets to support them.

**Government initiatives in CSR:**

Several major CSR initiatives have been launched in India since the mid-1990s. Among these is the first voluntary code of corporate governance, “Desirable Corporate Governance: A Code”, established in April 1998. This was an initiative by the Confederation of Indian Industry (CII), India’s largest industry and business association.

A National Foundation for Corporate Governance (NFCG) has been established by the Ministry of Corporate Affairs. This is a partnership with the Confederation of Indian Industry (CII), the Institute of Company Secretaries of India (ICSI) and the Institute of Chartered Accountants of India (ICAI). The purpose of the National Foundation for Corporate Governance is to promote better corporate governance practices and raise the standard of corporate governance in India towards achieving stability and growth.

Legislation authority in India is shared between the Central Government and the State Governments. Some laws, such as those regulating minimum wages, differ from state to state. Likewise, the implementation and supervision mechanisms may vary between states.

India’s Ministry of Corporate Affairs has launched voluntary guidelines for responsible business which aim to add value to the operations and contribute towards the long term sustainability of the business. These guidelines also aim to enable business to focus as well as contribute towards the interests of the stakeholders and the society. The new CSR guidelines state that the CSR initiatives of Indian companies should become integral part of overall business policy and aligned with business goals.

**Approach adopted by Corporations in practicing CSR:**

As there are no standard mandatory guidelines to follow CSR, corporations themselves develop different approaches for practicing CSR. However government has incorporated some voluntary guidelines but since these are voluntary in nature, companies adopt those which suits appropriate their criterion. Following are the some approaches which they generally follow for practicing CSR:

1. An approach for CSR that is becoming more widely accepted is community-based development approach. In this approach, corporations work with local communities to better themselves.
2. A more common approach of CSR is philanthropy. This includes monetary donations and aid given to local organizations and impoverished communities in developing countries.
3. Another approach to CSR is to incorporate the CSR strategy directly into the business strategy of an organization.
4. Another one is collaborating with civil societies, NGOs, etc for discharging social responsibilities.

**Activities Covered under CSR:**

According to a survey conducted by Assocham, there are 26 various theme areas undertaken by corporate sector in 2008-09, across 20 states/UTs. And out of total 26, community - welfare practice was having top priority among corporate sector with a share of 21.93 percent. The second most common CSR initiatives followed by Indian Corporates is providing education and enlightening the youth of the country. The environment is third most priorities area undertaken in CSR activities. The fourth most popular area, that corporate sector get involves in is the health care. And the concern for rural development of corporate is on fifth number. The following figure presents the picture more clearly:
Industrial Sectors into CSR activities:

According to the survey, out of 300 companies that have been grouped under 18 broad sectors based on their economic activity, the maximum CSR initiatives have been undertaken by almost 74 companies engaged in Chemical Sector with the share of 12.11 percent. FMCG and consumer durable (62 companies) are placed at second position with a CSR initiative’s contribution to be 10.15 per cent. The textile sector with 53 companies occupied third place with effective CSR initiatives, contributing a share of 8.57 per cent.
Geographical area wise focus on CSR activities:

The Survey also shows that, corporate India has focused their CSR activities across 20 states/UTs, out of which, Maharashtra received maximum concern from Indian industrialists for initiating their CSR activities with a share of 35.68 per cent. It is followed by Gujarat (11.62 per cent), Delhi (9.66 per cent), Tamil Nadu (9.17 per cent) and Andhra Pradesh (7.04 per cent) among others.
In the survey it was also found that out 300 companies selected in survey 110 companies had undertaken 1 and 2 initiatives respectively. It is followed by 50 companies that carry out 3 various initiatives and 23 organizations performing 4 different initiatives. Merely 3 and 4 Indian business houses are engaged in CSR initiatives with activities numbering 6 and 5 respectively during 2008-09.

Figure 3: Source Assocham CSR Report 2008-2009
Conclusion and Suggestions:

On the basis of detailed study and above data it has been observed that most of the companies are engaged in various types of CSR activities such as community welfare, support to NGOs, environment protection, poverty eradication, rural development, women empowerment etc. There are no specified statutory guidelines to serve the society through CSR, and hence the companies themselves select activities to discharge social responsibility which involves lots of repetition of CSR activities. For example: community welfare is the most common concerned area of CSR in which companies get involve, and where in there is repetition of work from one company to another. However there are some areas which are the major cause of backwardness of country which actually needed a huge support from corporate houses such as rural development, women empowerment, poverty eradication, etc, but they are not getting enough financial support to remove the problem.

There is popular phrase, “Who cares if a peacock danced in woods, as no one saw it.”, which proves that the things are unseen whatever is done by corporate houses to community development as CSR practices. Companies also get rebate in taxes like corporate tax, dividend distribution tax, fringe benefit tax (withdrawn by government), income tax etc but their responsibility is limited with their work areas. Companies which involve themselves in CSR also get several types of benefits i.e. subsidized land, electricity, water and other essential infrastructural facilities. There are number of companies like retailing, computer hardware, jewelry, entertainment and media etc whose CSR activities are very limited as compare to companies like chemical sector, FMCG, software, textile etc., the reasons behind such things can be the absence of statutory guidelines for CSR. Since the present guidelines are voluntary in nature companies have choice to adopt them accordingly.

As per the Assocham CSR report Maharashtra involves more than 35% share of total expenditure in CSR by different companies and Uttarakhald, Jharkhand, Madhya Pradesh, Uttar Pradesh has got very limited share of corporate interest in CSR, which shows that companies only focus on those areas where their interest is high and that is unjustified and not good for the overall growth of the country. The study also reveals that only very few numbers of companies are involve in more than 3 activities of CSR practices and majority of companies involve themselves in one or two activities of CSR.

After the analysis of various activities of CSR by different companies it is observed that without the emergence of statutory guidelines for CSR, the framework of CSR cannot be organized. At present India is focusing on public – private partnership to develop the nation as a whole. And CSR is becoming an effective tool in such development.

Ultimately the whole country is far away from inclusive growth concept of vision 2025. Government have not enough money to support all type of requirements of the society, so government should take initiatives to formulate an act or law by which they may force to corporate houses to involve themselves with government schemes for the betterment and growth of society. If government makes proper guidelines to identify and involve corporate houses may be a huge source for finance to develop the society. This will also attract to SMEs which are not yet actively participating in CSR.
activities. Obviously this will bring a revolution in the Indian history which will entirely enhance the capacity of deprived community and then our country can achieve the concept of inclusive growth in reality.

References:


ISLAMIC (SUUK) AND CONVENTIONAL BONDS IN MALAYSIA

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ABSTRACT
This study investigates and estimates the impact of bond facets to issuer performance using multivariate regression Model which is proxies by return on asset (ROA), return on equity (ROE) and operating profit margin (OPM). Secondary data was used for issuance (N= 563) covering the 2005-2009 period which are gathered from Bank Negara Info Bond Hub website and Rating Agency Malaysia (RAM) for such a bond facets. Meanwhile, data on issuer performance has been obtained from Bloomberg software and Thompson Data Stream. The results revealed that there is a statistically significant relationship among variables and most of the public listed issuer was issued Islamic Bonds as compared to conventional bonds. Bonds issuers are highly recommended when looking seriously at bond rating since it was statistically significant to all regression models.

Key words: Bond facets, Islamic Bonds, Conventional Bonds, Return on Assets, Return on Equity and Operating Profit Margin.
1. Introduction

The Islamic Banking Act of 1983 was based on an acknowledgement of the aspirations of Muslims to have riba-free banking and investment services as well as the government’s goal of establishing a modern financial system in every aspect in Malaysia’s socio-economic goals for the 21st century economy. On a continuous basis, the Malaysian government has been revising and adapting its Interest Free Banking Scheme and securities programs to meet the market and economic changes. During the 1996-1997 period, in economic crisis, the Sukuk (hereafter Islamic Bonds) issuance had risen from RM2.3 to RM5.2 billion. This figure was continuously increasing between the years of 2000-2001 from RM7.6 to RM13.2 billion and this constituted 43% of total private debt securities issuance based on Bank Negara Malaysia (Monthly Statistical Bulletin report, 2002). The rating Agency Malaysia in July 2003, highlighted that the total value of Islamic bonds issues approximately had increased to RM70 billion. Securities commission who is given statutory mandate to develop the Malaysian capital market reported that between the 2000-2008 period, RM336 billion worth of corporate debt securities and Islamic bonds were raised by the private sector to fund economic activities, including long-term infrastructure projects. The significant increase in this issuance statistics shows that the evolution of Islamic bonds and conventional bonds and the development of their transaction is very important to the Malaysian capital market in mobilizing capital adequacy.

Bond issuers have an option to issue bonds under the conventional or Islamic principles. Islamic bonds are similar to conventional bonds in Malaysia. It always has time to maturity, a coupon rate, and trades on the normal yield price relationship. For conventional investors, the structuring of the bonds by the issuer is irrelevant. The difference lies only in the way the issuer structure the bonds. An Islamic bond is structured such that the issuance is not an exchange of paper for money consideration with the imposition of an interest as per conventional. It is based on an exchange of approved asset for some financial consideration that allows the investors to earn profits from the transactions. Approval of the assets and the contract of exchange would be based on Shariah (Islamic law) principles which are necessary to meet the Islamic requirement. On the other hand, conventional bonds are standard bonds bearing a coupon, paying interest twice a year and have a maturity date at which they will redeem their bonds at face value or par value. The price of conventional bonds will change primarily with the change in interest rate which could include trading activities that are deemed prohibited and are not regarded as suitable for Muslim investors. Consider to these issues, the main objective of this study is to investigate the association between bond facets with firms’ profitability in Malaysia.

The remainder of the paper is structured as follows. Section 2 includes an overview of capital market and current status of Islamic bonds issuance and followed by review of literature in section 3. Then, section 4 introduces the operational definition used and describes the data and variables for the study. The proposed methodology is applied in section 5 where the statistic is derived in this section to test the model hypotheses testing. Further, the results are discussed to show how the model can be put to use by issuers in section 6. Finally, section 7 summarizes some conclusions and remarks.
2. An Overview of Capital Market

Capital market is a market for securities for either bond or equity traded public and/or private companies and also government, and can raise long-term funds. Islamic Capital Market also refers to the same market but all activities are carried out and shall not be conflicted with the principles of Islam where the market is free from prohibited activities. Besides other elements such as *riba* (usury) either *riba al Buyu’* (exchange transaction) or *riba al Duyun* (loan or debt transaction), *maisir* (gambling) and *gharar* (ambiguity, uncertainty, hazard, ignorance) including *gharar fahish*, that is excessive or major and *gharar yasir*, which refers to tolerable or minor. The growing awareness of demand for investing in accordance to Islamic principles on a global scale has created a flourishing Islamic capital market, more so today due to increasing wealth in the hands of Muslims worldwide who are actively involved in business and industry activities. These are statistically proven as reported by Bank Negara Malaysia and Securities Commission in their guideline books. They stated that the Muslim population of the world today is estimated at about 1.5 billion, representing a sizeable 24% of total world population of 6.3 billion. Besides that, latent Islamic funds in global financial institutions is said to be at US$1.3 trillion while the Islamic financial market is estimated to be US$230 billion in size, with an annual growth rate of 12% to 15%. Furthermore, over 250 Islamic financial institutions currently operate in about 75 countries worldwide, with more than 100 Islamic equity funds managing assets in excess of US$5.0 billion.

In fact, the velocity of development in the Islamic financial market has gathered momentum with the formation of various international Islamic recognized names including the Islamic Financial Services Board (IFSB), the International Islamic Financial Market (IIFM) and the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI). First, IFSB is based in Kuala Lumpur and was officially inaugurated on 3rd November 2002 and started operations on 10 March 2003. It serves as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry such as banking, capital market and insurance. Second, AAOIFI is an international autonomous non-profit organization who prepares accounting, auditing, governance, ethics and shariah standards for Islamic financial institutions. It was established in accordance with the agreement of association which was signed by a number of Islamic financial institutions in February 1990, in Algiers. Afterward, it was registered in March 1991 in the state of Bahrain. Issuance and trading of Islamic Bonds was regulated under Standard 17 of the AAOIFI shariah standards. Third, IIFM was established with the collective efforts of the central banks and monetary agencies of Bahrain, Brunei, Indonesia, Malaysia, Sudan and the Islamic Development Bank based in Saudi Arabia, as an infrastructure institution with mandate to take part in the establishment, development, self-regulation and promotion of Islamic capital and money market.

Today, the Islamic capital market runs parallel with the conventional capital market and provides investors with an investment options the market is gaining wide acceptance. The fact that the Islamic capital market also does not ban participation from non-Muslims creates boundless advantage to the depth and breadth of this market. Presently, Malaysia far surpasses other Muslim countries in terms of market infrastructure with unflagging support by the government providing the impetus for growth of the local Islamic capital market. Malaysian
government has launched the Malaysian Islamic Financial Centre (MIFC) in August 2006 to maintain the country’s edge in the area of Islamic finance. It aims to bring the nation to the next level of Islamic financial development, fortifying Malaysia’s position as a preferred global centre for issuing, trading and investing in Islamic securities. The success of Islamic Bonds issuance in the Malaysian market and worldwide testifies to the viability and future success of the Islamic capital market. Indeed, Malaysia has proven itself as a centre of choice for foreign corporations to issue Islamic Bonds as well as to invest in these areas, as it offers one of the most diverse (in terms of types of securities, tenures, asset classes, structures, issuers and risk profiles), innovative and sophisticated array of investment choices in the world. Malaysia has, irrefutably, taken the lead in developing and innovating new Islamic securities structures.

A Malaysian capital market was developed based on two types of famous market namely, the stock markets and bond markets. Nowadays, Malaysia becomes the premier country by issuing Islamic securities with either syariah compliant securities for listed firms in main market or Sukuk or Islamic Bond. Islamic Bonds have become globally accepted Islamic alternative to conventional bonds and thus are the major focus here. Islamic Bonds come from Arabic word means Islamic Bonds or Islamic Investment Notes. In November 2002, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) released an exposure draft of its Shari’ah standards concerning Islamic Bond. The exposure draft of AAOIFI Shari’ah Standard No. 18, p.4 stated that:

“Investment Islamic Bonds are certificates of equal value representing, after closing subscription, receipt of the value of the certificates and putting it to use as planned, common title to shares and rights in tangible assets, usufructs, and services, or equity of a given project or equity of a special investment activity” (P.4).

Rodney (undated) has defined the characteristics of Islamic Bonds as asset backed, which implies that when they are traded the investors are buying and selling the rights to an underlying real asset, usually a piece of real estate or a moveable asset such as equipment or vehicles.

According to Manaf (2007), Islamic Bonds is an investment certificate which allows investors to claim ownership of underlying assets. Many types of Islamic Bonds issued in Malaysia capital market i.e. Sukuk Murabahah and Sukuk Bai Bithamin Al-Agil (BBA) are rated as the most popular Islamic private debt securities issued (Noriza, et al., 2009). These issues are also proven by Rating Agency Malaysia (RAM), besides Sukuk Musyarakah, Sukuk Ijarah, Sukuk Istisna and etceteras. Again there are seven types of Islamic Bonds based on model of financing and trades which structure the bond. These are mudaraba/ muqarabah Sukuk, musharaka Sukuk, Ijarah Sukuk, Murabaha Sukuk, Salam Sukuk, Istisna Sukuk and Hybrid Sukuk (Manaf, 2007). Also, there are many types of conventional bond issued by Malaysian issuer for instance commercial papers, medium term notes, guaranteed notes, fixed rate bonds, subordinated bonds (Bond info Hub http://bondinfo.bnm.gov.my).
Abadi (2007) defined the Sukuk as: “to strike or to hit, the connotation allied to strike one’s seal on a document” (p. 960). Besides that, Islamic Bonds also refers to Islamic securities that comply with syariah principles and rules which prohibit the issues of gambling and riba (excessive interest rate charging). In comparison, a conventional bond, focusing on corporate bond, in this study is defined as a debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations (Investopedia website). In Malaysian capital market, word Sukuk has been used interchangeably with the syariah securities as poles apart from the conventional bonds. There are several bond facets, either Islamic or conventional issuance, such as coupon rate, rating, size of issuance, and tenure of maturity. The coupon rate on a bond indicates the percentage of the par value of bond that will be paid out annually in the form of interest. The maturity of a bond indicates the lengths of time until the bond issuer returns the par value to the bondholder and terminates or redeems the bond.

In Malaysia, all debt securities and Islamic Bonds issues are required to be accompanied by a credit rating at all times. A credit rating is a mechanism through which an independent third party, for example credit rating agencies (CRAs) makes an assessment on the likelihood of a corporate issuer to default on its debt repayments. There are two credit rating agencies (CRAs) in Malaysia that provide independent opinions on the credit risks and potential default risks of specific issuers. The first rating agency, Rating Agency Malaysia Berhad (now known as RAM Rating Services Berhad), was established in November 1990; the second, Malaysian Rating Corporation Berhad (or MARC), was incorporated in October 1995. Malaysia is one of the first countries in the world to require the recognition of CRAs for the purpose of rating a bond or Islamic Bonds issue. This is in recognition of their vital role in evaluating the probability of default of a bond or debt securities or Islamic Bonds issue, and the importance investors place on ratings for their investment decisions. Despite the fact that all rating reports carry a disclaimer expressly stating that a rating is not a recommendation to purchase, sell or hold a security’s market price or its suitability for a particular investment, it does not involve any audit by the rating agency.

In contrast to most other Asian bond markets, the corporate debt securities and Islamic Bonds market in Malaysia is as large as the Government securities market. The corporate debt securities and Islamic Bonds market have continued its growth in large part due to, among others, the expeditious approval from the Securities Commission Malaysia (SC), i.e. issues that meet certain criteria will be deemed approved upon the receipt of documentation by the SC. The SC and Bank Negara Malaysia have also worked closely to facilitate the growth of the corporate debt securities and Islamic Bonds market through the issuance of joint guidelines, such as the Joint Information Note on the Issuance of Foreign Currency-denominated Bonds and Islamic Bonds in Malaysia. Following these, multilateral financial institutions, multilateral development banks and foreign corporations have all tapped the Malaysian debt securities and Islamic Bonds market for their financing needs and profiling purposes. These issuers include globally recognized names such as the World Bank, the Asian Development Bank, KfW Bank engruppe of Germany and Industrial Bank of Korea.
Malaysia is a pioneer country in the Islamic capital market with 62% of the world’s outstanding Islamic bonds. Malaysia’s lead is also reflected in the innovative and competitive structures. Malaysia has set standards in Islamic bonds structures as well as regulatory and legal frameworks as shown in appendix 1.

In term of number and size of issuance in Malaysia, figure 1, figure 2 and table 1 show a tabulation of these numbers in quarterly and yearly basis for the study period. Graphs show that the Islamic Bonds had increased in number and size of issues in Malaysian capital market in 2005 and 2006 as compared to conventional bond. Islamic Finance Information Services (IFIS) February 10, 2008 also mentioned in report released that Islamic Bonds market continues to enjoy a year-on-year increase despite a slowdown in the rate of growth. However, a drop in the number of Islamic Bonds issued in Southeast Asia was mainly a result from a fall in Malaysian corporate medium-sized issuance. Despite this, Malaysia remains the world’s leader in Islamic Bonds issuance by both number and value in 2005 and 2006. However, the level of bond shows decrease in bond market for both Islamic and conventional starting from quarter 3, 2008 until latest empirical data to quarter 2, 2009. This was probably due to economic recession in 2008 and Malaysia has taken a proactive action to avoid huge debt and has mitigated risk through monitoring firm’s leverage level.

3. Literature Review
It should be highlighted here, that there is very limited number of studies done on comparative study between Islamic Bonds and conventional bond either in Malaysia or in the world. However, many articles were released by Malaysian regulatory bodies such as Bank Negara Malaysia, Bursa Malaysia, Securities Commission and Rating Agency Malaysia. Based on this limited literature, the hypothesis is developed to test the relationship between variables. Shahrim, (2006) and Amine (2001) focused on leverage and risk when issuing bonds. They mentioned that bonds issued by high leverage companies are considered risky for Muslims, as they might contain elements of gharar and may lead to maysir. In conventional bonds there is exploitation of interest rate movement, and the bond risk is assessed not by the bondholder, but by a third party rating agency. Therefore, it can be said that the bondholder’s only concern is the return, without any consideration of the use of the proceeds.

Usually, the money raised from the Islamic Bonds issuance is used to invest in the underlying asset (Clifford, 2008; Manaf, 2007; Shahrim, 2006). In addition, the issuance of Islamic Bonds has undergone rapid increase; for example, London based financial institutions had arranged more than a dozen Islamic Bonds issuances on behalf of Middle Eastern clients in 2006. While in 2008 Indonesia would increase the sale of both conventional and Islamic bonds in order to generate a domestic source of finance to solve its financial deficit (Emergingmarketsmonitors.com, 2007; Alvi, 2006 & 2007).

Aziz (2007) said that the growing role of Islamic finance in mobilising and channelling funds to productive investment activities across borders contributes to more efficient allocation of funds across borders and facilitates international trade and investment. The more recent developments in Islamic finance are the rowing significance of the Islamic Bonds market to
become an increasingly important component of the development of the global Islamic Bonds market. There has been growing interest in the issuance of Islamic Bonds by corporations, sovereigns and multinational corporations; the demand for Islamic Bonds significantly exceeds the supply. Also there has been a stress on the vast potential of the Islamic Bonds market in the economic development process, in its role in ensuring financial stability and its role in promoting greater financial integration in the global financial system. This is similar with Thomas (2007) who also stressed on the importance of the Islamic Bonds market. He argued that the application of the forward lease is an innovation developed elsewhere, but was made possible in the Islamic Bonds space thanks to Malaysia’s progressive steps to define the broad Islamic Bonds space, and grew it with new concepts. In addition, Alshowaikh (2008) also mentioned that Malaysia has been developing a more extensive capital market after the Asian financial crisis to ensure a more resilient financial system. He also said that Malaysia is a matured market as indicated not only by the market share but also by the number of issuances.

Tariq (2004) mentioned that the success and popularity of the Islamic Bonds framework as an alternative asset management platform will invariably require inbuilt mechanisms which can be instrumental in mitigating risks that exist in the structures due to the benchmarking of Islamic Bonds with market references such as London Inter-bank Offer Rate (LIBOR). Rodney (2008) provides an analysis of different Islamic Bonds structures from a financial perspective. This examination includes murabahah and ijara-based Sukuk, the former offering a fixed return, and the latter, the most popular form of Islamic Bonds, a variable return. The potential for other more novel Islamic Bonds structures based on musharakah partnership contracts is also examined, and Islamic Bonds pricing issues are explored using alternative benchmarks to LIBOR. The paper finds that special purpose vehicles are a prerequisite for the successful issuance and management of Islamic Bonds.

Saiful, & Mahmood (2008) argue that financial contracts involving use of bay’ al-inah and bay’ al-dayn have been extensively used in the design of Malaysian Islamic bonds. These mechanisms have been found unacceptable by the majority of Islamic scholars and they propose the use of financing based on Muqarada and Musharakah principles as genuine alternatives to Interest-bearing financial instruments.

From the view of conventional bonds, Modigliani & Miller (1958) argue that the presence of perfect capital markets, all financial decisions including debt maturity do not matter. Stiglitz (1974) has formalized and extended Modigliani and Miller’s propositions to demonstrate that the debt maturity structure is irrelevant for firm value under perfect market assumptions. However, market imperfections, which are later introduced primarily based on the role of agency cost, signaling and asymmetric information, liquidation risk or taxes, have led to theories supporting the choice of debt maturity mix either short or long term debt. Nonetheless, conventional corporate finance theory suggests that a higher level of debt or bond financing can potentially generate higher levels of returns to the shareholders, provided that the cash flow of the company is more than adequate to cover the cost of servicing the bond. Conversely, if the cash flow of the company dwindles, there is a risk that the carrying costs of the debts will eat up all the company’s profits and may even exceed the company’s
ability to pay, resulting in insolvency. In short, creating capital structure through bond issuance results in a liability that must be serviced and hence there are cash flow implications to the company, regardless of its profitability.

Jobst, et al. (2008) said that the recent years have witnessed a surge in the issuance of Islamic capital market securities (Islamic Bond) by corporate and public sector entities amid growing demand for alternative investments. As the Islamic Bonds market continues to develop, new challenges and opportunities for sovereign debt managers and capital market development arise. Ismail (2002) said that the growth of Islamic Private Debt Securities (“IPDS”) in Malaysia has been very encouraging since the first issue in 1990. In 2001, the issuance of IPDS constituted 43% of total PDS issued compared to 34% in 2000. With its continued strong presence, we can expect IPDS to take up a larger share than conventional PDS in 2002. The Islamic bonds issued in 2001 were mainly to finance large privatized projects such as water and power projects which require higher capital outlays. The Al-Bai Bithaman Ajil (“ABBA”) structure has been the preferred choice to finance such projects with long gestation periods. Besides ABBA, another popular IPDS tool is the Murabahah concept which caters for short- to medium-term requirements.

4. Data and Variables

The sample of mixed 563 issuance Islamic and conventional bonds had been randomly selected from the BNM bond info’s website in Malaysia for five conservative years, 2005-2009. For the purpose of collecting information on the bond facets, this study obtained data from the RAM where they are sufficient for gathering such data considering Islamic and conventional perspectives. Thompson’s DataStream and Bloomberg were used to employ the data on firm’s performance; i.e. Return on assets (ROA), return on equity (ROE) and operating profit margin (OPM). The determination of the dependent variables mostly depends on the recent surges of studies done by Cantor & Packer (1995) on rated or non-rated securities affecting default risk; Kaminsky & Schmukler (2002) on types of rating affect other asset and Gande & Parsley (2003) also on rating or bond grade effects yield or returns; Karmilla et, al. (2009) on various types of returns links to Islamic Bonds pricing and in details was mentioned Islamic Bonds issuer may devise Islamic Bonds pricing in setting returns to the holders in many ways. For example, Islamic Bonds issuer may introduce a variable returns to the holders of the certificates. A contrast to return factor which is focus on risk done by Khan & Ahmad (2001) identified various unique credit risks that are particular to Islamic finance. Islamic Bonds issuances manoeuvre for the large fraction in emerging bond markets where they posses less sophisticated risk management mechanisms counterparty. The rescheduling and rearrangement of bond issuances at higher markup rate is not permissible due to the prohibition of excessive interest rate charging or riba. Thus, counterparties would be more inclined to default on their commitments to other parties. In fact, agency costs are higher with regard to equity arrangements.

For the purposes of this study, the types of bond instrument were indicated 1 for the Islamic bonds and 2 for the conventional bonds. Data on coupon rate was collected based on the ranking; 1 if the bond issuance is zero coupon bond or 0 percent interest which is normally
issued by government (Like Malaysian Government Bond, T-bonds, subordinated bonds, commercial paper, medium terms notes and many more); 2 for less than 3%; 3 for 3-5%; 4 for more than 5% and 5 for floating rate of interest. Noted here, that lower coupon rate issue is better (rank number 1) to firms because it indicates low risk bearing and verse versa. Similar ranking was developed to represent data on bond rating where 1 for AAA to A (high class bond); 2 for AA1 to A1; 3 for BBB to B; 4 for BBB1 to B1 and 5 for others (C and below which is classified as a speculative bond or junk bond).

To measure issuer’s profitability, we calculated the variables which are used for estimating the models (see Section 5) by the following equations:

1. Return of assets (ROA), \( \frac{NI}{TA_i} \)
2. Return on equity (ROE), \( \frac{NI}{TE_i} \)
3. Operating profit margin (OPM), \( \frac{OP_i}{S_i} \)

Where, \( NI_i \) = net income of the ith issuer for each year.
\( TA_i \) = total assets of the ith issuer for each year.
\( TE_i \) = total shareholder’s equity of the ith issuer for each year.
\( OP_i \) = operating profit of the ith issuer for each year.
\( S_i \) = sales of the ith issuer for each year.

5. Research Methodology
To estimate the relationship between the bond facets and firms’ performance we used the following multiple regression equations:

\[ ROA_i = \alpha + \beta_1 R_i + \beta_2 T_2 + \beta_3 C_3 + \beta_4 LS_4 + \epsilon_{1i} \] ................................. (1)
\[ ROE_i = \alpha + \beta_1 R_i + \beta_2 T_2 + \beta_3 C_3 + \beta_4 LS_4 + \epsilon_{2i} \] ................................. (2)
\[ OPM_i = \alpha + \beta_1 R_i + \beta_2 T_2 + \beta_3 C_3 + \beta_4 LS_4 + \epsilon_{3i} \] ................................. (3)

Where \( \alpha \) = the constant term.
\( \beta_i \) = the slope or coefficient estimates of the explanatory variables.
\( R_i \) = the bond rating by the ith issuance.
\( T_i \) = the time to maturity period of the ith issuance.
\( C_i \) = the coupon rate of the ith bond.
\( LS_i \) = the log size of issuance of the ith bond.
\( \epsilon_i \) = the standard error of the ith bond.
To investigate the relationship between dependent and independent variables, the null hypothesis of the study was developed to outfit for the pooling regression model. The null hypotheses are stated such that:

_Hypothesis 1_

$H_0$: There is no significant relationship between ROA and bond facets.

$H_1$: There is a significant relationship between ROA and bond facets.

_Hypothesis 2_

$H_0$: There is no significant relationship between ROE and bond facets.

$H_1$: There is a significant relationship between ROE and bond facets.

_Hypothesis 3_

$H_0$: There is no significant relationship between OPM and bond facets.

$H_1$: There is a significant relationship between OPM and bond facets.

### 6. Result Analysis

Table 2 shows general statistics measurements which give us the main differences between Islamic and Conventional Bonds. These measurements are the Mean, Std. Deviation and Std. Error Mean respectively. There are 375 of issuance are Islamic Bonds and 188 of issuance are conventional Bonds representing data on firm’s performance and bond facets. However, a total data on debt to equity is 548, where 373 of issuance are Islamic Bonds and the remaining balance of 175 is conventional bonds. However, the mean for each proxy shows that Islamic Bonds issuances are much higher than the conventional Bonds. In addition to that, the mean of the ROA, ROE and OPM for Islamic Bonds is 5.598, 14.757 and 45.473 respectively, while for conventional is 3.773, 11.296 and 14.171 respectively. This means that the issues of Islamic Bonds are preferable compared to conventional Bonds. In other words, the Islamic Bonds, in general, are much more profitable than conventional Bonds. Furthermore, if we consider the Std. Deviation as criteria to the risk decision it has also proven that the Islamic Bonds can mitigate risk or reduce risk by showing low value as compared to conventional bonds except for OPM.

For testing the relationship among these variables, it will be discussed through considering the estimations models for the Multivariate Regressions analysis. These models are shown below:

\[
\text{ROA}_i = 13.7 - 1.232R + 0.015T - 0.439C - 0.66LS \\
t = 9.93 - 7.45 0.55 -2.76 -4.05 \\
p. value = 0.000 0.000 0.584 0.006 0.000 \\
R^2 = 32.2\%, \; D-W = 1.558, \; F = 16.103, \; \text{Sig} = 0.000
\]

\[
\text{ROE}_i = 24.72 - 3.19R + 0.06T - 0.56C - 0.48LS \\
t = 5.92 -6.38 0.75 1.16 -0.98
\]
Model 1 shows that the estimated coefficient for rating, coupon rate and size of issuance has statistically significant relationship with ROA at the 1% significance level (as p value < 0.01). But the estimated coefficient for tenure of the bond issues is not significant statistically (as p value > 0.01). The determinate coefficient, $R^2$, is indicating that 32.2% of the variance of ROA is explained by the variances of the independent variables. The F-test statistics is substantiating at the 1% significant level implying that the null hypotheses that the regression coefficient are all zeros can be rejected at the 1% level of significance. Thus, the estimated regression is efficient for the prediction of ROA.

While model 2 shows that only the estimated coefficient for rating has statistically significant relationship with ROE at 1% significance level (as p value < 0.01). However, the estimated coefficient for tenure, coupon rate, and size of issuance of the bond issues are insignificant at 1% significance level. (as p-value > 1%) with ROE. The insignificant result for ROA and ROE was discussed by Modigliani and Miller (1958) that argue debt maturity do not matter in the presence of perfect capital markets, and this study extended by Stiglitz (1974) mentioned the debt maturity structure is irrelevant for firm value under perfect market assumptions. In addition, the determination coefficient of this model $(R^2 = 28\%)$ is quite low and indicating that the 28% of the variance of ROE is explained by the variances of the independent variables. Thus, this entails that the null hypotheses of the regression coefficients are all zero and can be rejected at the 1% level of significant. Theoretically, ROE was generated by the issuer to shareholders and this return does not give any impact to the bondholder.

Furthermore, in model 3, all independent variable coefficients (Rating, Coupon rate, Tenure, and Size of issuance) have statistically significant relationship with OPM at the 1% significance level (as p value < 1%). Also, the $R^2$ is indicating that 53% of the variance OPM is explained by the variances of the independent variables. The F-test statistics for this model is substantiated at the 1% significant level implying that the null hypotheses that the regression coefficient are all zeros can be rejected at the 1% level of significant. Once again, the estimated regression for OPM is efficient for prediction. This result was supported by studies done Kaminsky and Schmukler (2002) and Gande and Parsley (2003) indicate that rating or bond grade effects yield or returns of the firms. Therefore, an investor or issuer must evaluate these bond facets when deciding whether the rate of rating offer will provide the return they need.
7. Conclusion and Recommendations

In this study, it can be concluded that majority of the issuances were Islamic Bonds in 2005 and 2006, but they were quite competitive in 2007 until 2009. This study also found evidence indicating that there is a significant relationship between bond facets and issuer’s profitability, ROA and OPM respectively. Specifically, the regression results were showing that all firms’ performance proxies have a significant value with rating implying that issuers should deeply consider bond rating in their future issuances to tap the bond market at competitive rates. Parallel to Malaysia capital market prior to July 2000, all corporate bond issues were subject to a mandatory minimum rating requirement of BBB or above. However, this compliance rule was subsequently lifted. Overall multivariate regressions have shown that bond facets significantly influenced issuer’s profitability. This study also indicate that there is a relationship between the variables despite the fact that the relationship doesn’t prove to be the strong relationship because the value of R$^2$ is below 60% which is consistent with suggestion made by Gompers et. al. (2003).

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AsianBondsOnline http://asianbondsonline.adb.org

RAM Rating Services Berhad http://www.ram.com.my


Figure 1: Number of issues from 2005 to 2009 on yearly (Q1-Q4) and quarterly (Q3 = third quarter), (Q4 = fourth quarter) observation.

Figure 2: Size of issues in RM Million from 2005 to 2009 on yearly (Q1-Q4) and quarterly (Q3 = third quarter), (Q4 = fourth quarter) observation.
Table 1: Number of issues and Size of issues from 2005 to 2009 on yearly (Q1-Q4) and quarterly (Q3 = third quarter), (Q4 = fourth quarter) observation.

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of Issues</th>
<th>Size of Issues (RM'000)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Islamic Bonds</td>
<td>Conventional</td>
<td>Islamic Bonds</td>
<td>Conventional</td>
</tr>
<tr>
<td>Q1-Q4 2005</td>
<td>77</td>
<td>49</td>
<td>43,317.00</td>
<td>17,345.62</td>
</tr>
<tr>
<td>Q3 2005</td>
<td>27</td>
<td>15</td>
<td>14,699.00</td>
<td>5,132.42</td>
</tr>
<tr>
<td>Q4 2005</td>
<td>22</td>
<td>13</td>
<td>11,972.00</td>
<td>8,400.00</td>
</tr>
<tr>
<td>Q1-Q4 2006</td>
<td>64</td>
<td>52</td>
<td>42,018.87</td>
<td>33,813.80</td>
</tr>
<tr>
<td>Q3 2006</td>
<td>16</td>
<td>16</td>
<td>12,385.00</td>
<td>8,303.00</td>
</tr>
<tr>
<td>Q4 2006</td>
<td>12</td>
<td>15</td>
<td>11,700.00</td>
<td>13,525.00</td>
</tr>
<tr>
<td>Q1-Q4 2007</td>
<td>52</td>
<td>60</td>
<td>31,802.24</td>
<td>36,700.03</td>
</tr>
<tr>
<td>Q3 2007</td>
<td>13</td>
<td>15</td>
<td>6,530.00</td>
<td>13,005.00</td>
</tr>
<tr>
<td>Q4 2007</td>
<td>15</td>
<td>10</td>
<td>15,132.24</td>
<td>6,230.00</td>
</tr>
<tr>
<td>Q1-Q4 2008</td>
<td>43</td>
<td>52</td>
<td>33,234.00</td>
<td>96,757.89</td>
</tr>
<tr>
<td>Q3 2008</td>
<td>14</td>
<td>11</td>
<td>6,875.00</td>
<td>8,574.00</td>
</tr>
<tr>
<td>Q4 2008</td>
<td>9</td>
<td>10</td>
<td>14,639.00</td>
<td>31,327.17</td>
</tr>
<tr>
<td>Q1 2009</td>
<td>4</td>
<td>5</td>
<td>3,600.00</td>
<td>6,999.10</td>
</tr>
<tr>
<td>Q2 2009</td>
<td>5</td>
<td>8</td>
<td>5,855.00</td>
<td>12,035.00</td>
</tr>
</tbody>
</table>

Table 2: Group Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Instrument</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>Islamic Bond</td>
<td>375</td>
<td>5.598</td>
<td>3.197</td>
<td>.165</td>
</tr>
<tr>
<td></td>
<td>Conventional Bond</td>
<td>188</td>
<td>3.773</td>
<td>6.482</td>
<td>.473</td>
</tr>
<tr>
<td>ROE</td>
<td>Islamic Bond</td>
<td>375</td>
<td>14.757</td>
<td>11.386</td>
<td>.588</td>
</tr>
<tr>
<td></td>
<td>Conventional Bond</td>
<td>188</td>
<td>11.296</td>
<td>17.648</td>
<td>1.287</td>
</tr>
<tr>
<td>OPM</td>
<td>Islamic Bond</td>
<td>375</td>
<td>45.473</td>
<td>26.538</td>
<td>1.370</td>
</tr>
<tr>
<td></td>
<td>Conventional Bond</td>
<td>188</td>
<td>14.171</td>
<td>21.038</td>
<td>1.534</td>
</tr>
</tbody>
</table>
Appendix 1: Milestones in the Development of the Malaysian Debt Securities and Sukuk Market

<table>
<thead>
<tr>
<th>Period</th>
<th>Regulatory Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1989</td>
<td>Introduction of The Guidelines for the Issuance of Private Debt Securities to ensure orderly development of the market and to protect investors’ interest.</td>
</tr>
<tr>
<td>Jan 1990</td>
<td>Code of Conduct and Market Practices for Scriptless Trading in the Malaysian Securities Market was introduced to lay down the basic market rules.</td>
</tr>
<tr>
<td>Mar 1993</td>
<td>The setting up of Securities Commission Malaysia following the Government’s decision to develop a more focused regulatory authority over an increasingly sophisticated capital market.</td>
</tr>
<tr>
<td>Jun 1999</td>
<td>The National Bond Market Committee (NBMC) was established to provide the policy direction and to rationalise the regulatory framework for the development of the bond market. As an initial step to rationalise the regulatory framework, SC was appointed as the single regulatory authority for the supervision and regulation of the corporate bond market. The members of NBMC consist of the Ministry of Finance, Economic Planning Unit of the Prime Minister’s Department, Bank Negara Malaysia, Securities Commission, the Registrar of Companies and the Malaysia Stock Exchange.</td>
</tr>
<tr>
<td>Jul 1999</td>
<td>Code of Conduct and Market Practices for Malaysian Scriptless Securities Market Under the Real Time Electronic Transfer of Funds and Securities (RENTAS) System were introduced.</td>
</tr>
<tr>
<td>Jul 2000</td>
<td>The Securities Commission Malaysia became the single regulator for all fundraising activities, following the amendments to the Securities Commission Act 1993, the Companies Act 1965, the Banking and Financial Institutions Act 1989, the Futures Industry Act 1993 and the Securities Industry (Central Depositories) Act 1991. The SC is the approving and registering authority for prospectuses in respect of all securities other than securities issued by unlisted recreational clubs. The Registrar of Companies is responsible for the lodgement of prospectuses. The Controller of Foreign Exchange issued the Exchange Control. Guidelines on the Issuance of Private Debt Securities for Lead Arrangers to ensure compliance with the exchange control conditions/requirements under the new regulatory framework. The Banking and Financial Institutions (Amendments of Definition of Deposit) Order 2000 has been gazetted with effect from 1 July 2000. With this Order, non-licensed institutions were allowed to enter into repurchase agreements (repo) transactions with licensed institutions under the Banking and Financial Institutions Act 1989.</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
</tr>
<tr>
<td>------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Feb 2001</td>
<td>The Capital market Masterplan was launched. It sets the strategic position and future direction of capital market development for Malaysia.</td>
</tr>
<tr>
<td>Oct 2001</td>
<td>Rules on Fully Automated System for Issuing/ Tendering (FAST), Bond Information and Dissemination System (BIDS) &amp; Real Time Electronic Transfer of Funds and Securities (RENTAS) were issued to replace the Rules issued in 1999.</td>
</tr>
<tr>
<td>Oct 2002</td>
<td>Universal Brokers were allowed to participate in the unlisted debt securities in order to expand market players in the domestic bond market. Following this measure, Universal Brokers have been admitted as members of FAST, BIDS and RENTAS.</td>
</tr>
<tr>
<td>Mar 2003</td>
<td>The Malaysian capital market entered the final phase of its move from merit-based to disclosure-based regulatory (DBR) framework for fund raising.</td>
</tr>
<tr>
<td>Dec 2003</td>
<td>SC announced the release of the Guidelines on the Offering of Structured Products.</td>
</tr>
<tr>
<td>Apr 2004</td>
<td>Introduction of a new interest rate framework to promote more efficient pricing of the spectrum of financial products being offered. Bank Negara Malaysia liberalised its foreign exchange regulation allowing multilateral development banks (MDBs) or multilateral financial institutions (MFIs) to issue Ringgit denominated bonds in the Malaysia capital market. These bonds carry 0% risk weight under the risk-weighted capital ratio framework and allowed deduction from eligible liabilities for computation of statutory reserves requirements. For resident insurers, these bonds are qualified as low risk assets to support their margin of solvency.</td>
</tr>
<tr>
<td>July 2004</td>
<td>SC introduced the Guidelines on the Offering of Islamic Securities (IS Guidelines).</td>
</tr>
<tr>
<td>Sep 2004</td>
<td>The regulatory treatment for Cagamas securities was revised and Principal Dealers were also no longer required to bid for the primary issuance of Cagamas papers.</td>
</tr>
<tr>
<td>Oct 2004</td>
<td>Bank Negara Malaysia announced the usage of repos as a monetary policy instrument. This would encourage market participants to actively use repos as an alternative funding instrument, enhance trading strategies and strengthen risk management capabilities by encouraging banks to move towards collateralised inter-bank transactions.</td>
</tr>
<tr>
<td>Jan 2006</td>
<td>Bank Negara Malaysia issued the Guidelines on Regulated Short-Selling of Securities in the Wholesale Money Market. The introduction of regulated short-selling is part of Bank Negara Malaysia’s continuous effort to further develop a liquid bond market with an active repo and securities borrowing and lending. This would also promote better risk management by facilitating hedging of interest rate risk.</td>
</tr>
<tr>
<td>Jan 2006</td>
<td>A Practice Note on Recognition of Credit Rating Agencies by the Securities Commission for the Purpose of Rating Bond Issues was introduced. The</td>
</tr>
</tbody>
</table>
Malaysian bond market is among the first and very few markets in the world to have introduced requirements and duties on credit rating agencies and evaluate their fitness to operate as a recognised credit rating agency.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 2006</td>
<td>A guideline on an Electronic Broking System was introduced by the Securities Commission. Electronic broking system means a stock market established or operated by a licensed money broker for the trading of debentures or bonds of any government, body corporate or unincorporated, Islamic Bonds or any rights, options or interest in respect thereof. A guideline on the Registration of Bond Pricing Agencies was issued by the Securities Commission. Under these Guidelines, the term bond pricing agencies refers to an entity which is registered with the SC to provide daily fair prices for bonds on an independent and objective basis.</td>
</tr>
<tr>
<td>May 2006</td>
<td>Bank Negara Malaysia issued a revised set of rules on the Scripless Securities under the Real-time Electronic Transfer of Funds and Securities System and also under the Fully Automated System for Issuing/Tendering system. These rules would provide a uniform set of rules and procedures to govern the issuance and settlement of scripless securities under both system.</td>
</tr>
<tr>
<td>July 2006</td>
<td>Bank Negara Malaysia issued Guidance Notes on Repurchase Agreement Transactions to provide a set of best practices on repurchase agreement transactions as well as specific regulatory requirements that should be observed by licensed financial institutions when undertaking repo transactions.</td>
</tr>
<tr>
<td>Oct 2006</td>
<td>A Practice Note on Registration by the Securities Commission for the Purpose of Acting as a Bond Trustee was introduced in view of the important role played by trustees in a debt securities or Islamic Bonds issue. Under this Practice Note, only fit and proper trustee companies can act as bond or Islamic Bonds trustees and they must discharge their fiduciary duties in a proper manner.</td>
</tr>
<tr>
<td>Jan 2007</td>
<td>Issuance of an operational framework for MGS switch auction, involving the Government buying back or redeeming predetermined MGS that tend to be illiquid, and to replace them with more liquid benchmark MGS. This will enable the Government to consistently issue new MGS in all market conditions, provides flexibility to the Government to manage its liability and cater to investors’ demand for securities of certain duration.</td>
</tr>
<tr>
<td>April 2007</td>
<td>A guideline on the Offering of Structured Products was introduced. These Guidelines stipulate the criteria that must be met when issuing, offering, making an invitation for, or making available unlisted structured products to investors listed in Schedules 2 and 3 of the Securities Commission Act 1993.</td>
</tr>
<tr>
<td>Aug 2007</td>
<td>A revised Depository and Paying Agency Agreement was introduced to be in line with the market development and practices.</td>
</tr>
</tbody>
</table>

An Empirical Study of Satisfaction and Awareness level of Rural People towards Selected Government Financial Assistance Schemes of Uttar Pradesh, India

Dr. Rajesh Kumar Shastri*, Rinki Verma**, Shilpi Srivastava*** & Renu Anand****

Abstract

Purpose – The purpose of this paper is to identify and investigate about the awareness level and satisfaction level of rural people towards government financial assistance schemes.

Design/Methodology/Approach – The data related to schemes is collected from various government website. The data is gathered from field itself and collected data will also be analyzed through various statistical techniques in order to investigate that whether proclaimed facilities are reaching to the beneficiaries or not. During the continuous visit we collected responses of 140 individuals. Hence the qualitative and quantitative methodology will be used to explore the facts.

Research Scope – Only 140 sample sizes was taken during October-December visits in 2010 from various districts of Allahabad. Since the present study will explore the data and facts gathered from various villages so it may not represent the true situations of the field. Further scope of the study can reveal true picture of the facilities provided by Government Schemes.

 Practical Implications – The study will find the level of overall coverage of government financial assistance and to examine various components of the functioning of the scheme, including financial disbursement. Paper will also assess the perspectives of beneficiaries on quality of awareness programs of government and satisfaction towards these schemes. It will also evaluate the involvement of middlemen and corruption in availing the benefits of schemes.

Originality/Value – This study is done on the basis of information available on government websites, research paper and information gathered from questionnaire and observatory method.

Keywords: Beneficiaries, Government Initiatives, financial assistance,

Paper Type: Empirical study

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1.0 Introduction

India is the second most populous country after China in the world. At present, India accounts for only 2.4% of world land area, supports as much as about 17% of the world’s population. It has higher percentage of people residing in India and 828 million people or 75.6% of the population living their life on less than $2 per day which is far below then even sub-Saharan Africa countries. 33% of the world’s poor are Indians. Sub-Saharan Africa is measured as the world’s poorest region which is at better stake than India. 41.8% of the rural population stays alive with monthly per capita consumption expenditure of Rs 447 spending only Rs 447 on vital requirements like food, fuel, light and clothing. These economic conditions are making matters worse. The sky high prices of various essentials of life. Even after more than 50 years of Independence India still has the world's largest number of poor people in country. Of its nearly 1.5 billion residents, an estimated 260.3 million are below the poverty line, of which 193.2 million are in the rural areas and 67.1 million are in urban areas. More than 75% of poor people live in villages. Poverty level is not standardized across India. The poverty level is below 10% in states like Delhi, Goa, and Punjab whereas it is below 50% in Bihar (43) and Orissa (47). It is between 30-40% in Northeastern states of Assam, Tripura, and Meghalaya and in Southern states of Tamil Nadu and Uttar Pradesh. Government always takes active steps in eradicating the poverty problems in every state. State and central government individually and jointly took serious step to fight with poverty problems. Progressive reduction and eventual abolition of poverty became one of the major goals of India’s economic policy since the beginning of the Fifth Five Year Plan but often; well intentioned programs fail when they do not contribute the social contexts of their interventions into their design and implementation. The paper begins with a discussion of the literature, outlining the introduction of the various financial assistance schemes of government; this is followed by a discussion of the methodologies used to investigate effects of schemes particularly on Janani Suraksha Yojna (JSY), Swarnajayanti Gram Swarozgar Yojna (SGSY), Prime Minister Employment Generation Scheme (PMES),Grameen Awas Yojna (GAY) and Rajeev Gandhi Health Insurance Scheme(RGHIS) , outlining the results found in the empirical work. The paper will also explain the data used and demonstrates how the methodologies were applied to this data and presents the results. The paper concludes with a discussion of the outcomes of this research. Paper aims to evaluate the extent to which the scheme has achieved its aim and find out the factors responsible for its progress. It will also evaluate the area and type of benefits received by BPL families from these schemes being implemented by
the government. It will also find the selection procedure adopted to identify the beneficiaries in states. Paper will also assess the level of awareness, clearness and satisfaction about the scheme amongst the beneficiaries of the schemes.

1.1. **Swarnjayanti Gram Swarozgar Yojana:**

The objective of the Swarnjayanti Gram Swarozgar Yojana (SGSY) is to bring the assisted poor families (Swarozgars) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. The objective of the scheme is to achieve by inter alia organising the rural poor into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets. The SHG approach helps the poor to build their self-confidence through community action. It provides for involvement of NGOs/CBOs/Individuals/Banks and Self Help Promoting Institutions in nurturing and development of SHGs, including skill development. The focus of the programme is on establishing a large number of micro-enterprises in rural areas based on the ability of the poor and potential of each area, both land-based and otherwise, for sustainable income generation. The subsidy allowed under the SGSY is 30 per cent of the total project cost, subject to a ceiling of Rs.7,500 (for SC/STs and disabled persons subsidy limit is 50 per cent of the project cost subject to a ceiling of Rs.10,000). For Self-Help Groups (SHGs), subsidy would be 50 per cent of the project cost subject to a ceiling of Rs.1.25 lakh or per capita subsidy of Rs.10,000, whichever is less. There is no monetary ceiling on subsidy for minor irrigation projects for SHGs as well as individual swarozgaris. SGSY is being implemented through the District rural development agencies with active involvement of panchayati raj institutions, banks and NGOs. It is financed on 75:25 cost-sharing bases between the Centre and the states.

1.2. **Grameen Awas Yojana:**

Though the earliest housing programme taken up by the GOI was for rehabilitation of refugees immediately after the partition of the country, the government started implementing its major housing scheme of GAY as an independent scheme only from 1 January 1996. In the present form, GAY is one of the very popular schemes of the More and has caught the imagination of the rural people. The popularity can be attributed to the fact that the scheme enables beneficiaries to participate and involve themselves in construction of their home. The role of the State
Government is confined to mere facilitating use of local, low cost, environment-friendly, and disaster resistant technology and also in encouraging construction of sanitary latrine and smokeless chulha. There is no prescribed design or technology and no contractors are involved. Funds are released in installments directly to the beneficiaries and there is no credit portion as part of the assistance which enable timely release of funds.

The beneficiaries construct the houses as per their own choice of design, technology, and requirement. In spite of criticism from certain quarters about GAY being a full subsidy scheme, experience reveals that houses get completed more or less on time which may not have been the case if credit was part of the assistance. Moreover the unit assistance of Rs 25000 per dwelling in the plain areas and Rs 27500 in the tribal and hilly areas is not adequate and beneficiaries have to contribute at least by way of their own labour for completion of the house. This participation makes the scheme even more meaningful. The funds for the GAY scheme are shared between the Central and the State Government in the ratio of 75:25. The Central budget is allocated to the States based on a 75% weightage to housing shortage and 25% weightage to poverty ratio. Similarly the district allocation is based on a 75% weightage to housing shortage and 25% to the share of SC/ST population.

1.3. Prime Minister’s Rozgar Yojana:

Prime Minister’s Rozgar Yojana (PMRY) for providing self-employment to educated employed youth of economically weaker sections has been in operation since October 2, 1993. The scheme aims at assisting the eligible youth in setting up self-employment ventures in industry, service & business sectors. The scheme intends to cover urban and rural areas. Subsidy will be limited to 15% of the project cost subject to ceiling of Rs.12,500/- per entrepreneur. Banks will be allowed to take margin money from the entrepreneur varying from 5% to 16.25% of the project cost so as to make the total of the subsidy and the margin money equal to 20% of the project cost. For North Eastern States, Himachal Pradesh, Uttrakhand and J&K: Subsidy @ of 15% of the project cost subject to a ceiling of Rs.15,000/- per entrepreneur for north- eastern States, Himachal Pradesh, Uttarakhand and Jammu & Kashmir. Margin money contribution from the entrepreneur may vary from 5% to 12.5% of the project cost so as to make the total of the subsidy and the margin money equal to 20% of the project cost Normal rate of interest shall be charged. Repayment schedule may range from 3 to 7 years after an initial moratorium as may be prescribed.
1.4. Janani Suraksha Yojana (JSY)

The Janani Suraksha Yojana (JSY) is a centrally sponsored scheme aimed at reducing maternal and infant mortality rates and increasing institutional deliveries in below poverty line (BPL) families. The JSY, which falls under the overall umbrella of National rural Health Mission, covers all pregnant women belonging to households below the poverty line, above 19 years of age and up to two live births. The JSY, launched in 2003, modifies the existing National Maternity Benefit Scheme. While the NMBS was connected with providing a better diet for pregnant women from below poverty line (BPL) families, the JSY integrates help in the form of cash with antenatal care during pregnancy period, institutional care during delivery as well as post partum care. This is provided by field level health workers through a system of coordinated care and health centers.

Janani Suraksha Yojana (JSY) is a safe motherhood intervention under the National Rural Health Mission (NRHM) being implemented with the objective of reducing maternal and neonatal mortality by promoting institutional delivery among the poor pregnant women. The Yojana, launched on 12th April 2005, by the Hon’ble Prime Minister, is being implemented in all states and UTs with special focus on low performing states. JSY is a 100 % centrally sponsored scheme and it integrates cash assistance with delivery and post-delivery care. The success of the scheme would be determined by the increase in institutional delivery among the poor families. Role of ASHA or other link health worker associated with JSY would be to identify pregnant woman as a beneficiary of the scheme and report or facilitate registration for ANC. The scheme focuses on the poor pregnant woman with special dispensation for states having low institutional delivery rates namely the states of Uttar Pradesh, Uttarakhal, Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Assam, Rajasthan, Orissa and Jammu and Kashmir. While these states have been named as Low Performing States (LPS), the remaining states have been named as High performing States (HPS). Each beneficiary registered under this Yojana should have a JSY card along with a MCH card. ASHA/AWW/ any other identified link worker under the overall supervision of the ANM and the MO, PHC should mandatorily prepare a micro-birth plan. This will effectively help in monitoring Antenatal Check-up, and the post delivery care.
Table.1. Eligibility for Cash Assistance

<table>
<thead>
<tr>
<th>Category</th>
<th>Rural Area</th>
<th>Total</th>
<th>Urban Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Mother’s Package</td>
<td>ASHA’s Package</td>
<td>Rs.</td>
</tr>
<tr>
<td>LPS States</td>
<td>All pregnant women delivering in Government health centres like Sub-centre, PHC/CHC/FRU/general wards of District and state Hospitals or accredited private institutions</td>
<td>1400</td>
<td>600</td>
<td>2000</td>
</tr>
<tr>
<td>HPS States</td>
<td>BPL pregnant women, aged 19 years and above</td>
<td>700</td>
<td>600</td>
<td>700</td>
</tr>
<tr>
<td>LPS &amp; HPS</td>
<td>All SC and ST women delivering in a government health centre like Sub-centre, PHC/CHC/FRU/general ward of District and state Hospitals or accredited private institutions</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table.2. Scale of Cash Assistance for Institutional Delivery

<table>
<thead>
<tr>
<th>Category</th>
<th>Rural Area</th>
<th>Total</th>
<th>Urban Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Mother’s Package</td>
<td>ASHA’s Package</td>
<td>Rs.</td>
</tr>
<tr>
<td>LPS</td>
<td>1400</td>
<td>600</td>
<td>2000</td>
<td>1000</td>
</tr>
<tr>
<td>HPS</td>
<td>700</td>
<td>600</td>
<td>700</td>
<td>600</td>
</tr>
</tbody>
</table>

Table.3. Limitations of Cash Assistance for Institutional Delivery

| In LPS States | All births, delivered in a health centre – Government or Accredited Private health institutions. |
| In HPS States | Upto 2 live births. |

1.5. Rajiv Gandhi Swasthya Bima Yojana:

Rajiv Gandhi Swasthya Bima Yojana aims at financially enabling the artisans’ community to access to the best of healthcare facilities in the country. This scheme will cover the artisans family of four comprising self and any three out of spouse, dependant parents and children. All Craft persons whether male or female, between the age group of one day to 80 years will be eligible to be covered under the Rajiv Gandhi Swasthya Bima Yojana

Table.4. Funding Pattern of the Scheme

<table>
<thead>
<tr>
<th>Contribution by the Government of India</th>
<th>Rs.650/- or Rs.725/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution by the Handicraft artisan</td>
<td>Rs.150/- in case of General Category Artisans and Rs.75/- from artisans belonging to North Eastern Region and SC/ST communities/Below Poverty Line (BPL) families</td>
</tr>
<tr>
<td>Total Premium</td>
<td>Rs.800/-</td>
</tr>
<tr>
<td>Service tax on total premium i. e. on Rs. 800/-</td>
<td>At applicable rates which at present is 12.36%</td>
</tr>
</tbody>
</table>

The artisan’s contribution shall be kept at 20% of the accepted bid, rounded off to nearest Rs.50/- in case general artisans. The annual premium in respect of artisans belonging to SC, ST, BPL families & NER, will be @ 50% of the premium payable by general category artisans.
2.0. Literature Review:

Colin and Parker (2005) confirmed that existing knowledge of the activities of regulators in developing countries does not provide a clear picture. There is mixed evidence regarding the extent to which regulators address poverty issues and about the results of regulatory decisions. Fasoranti (2010) examined the influence of micro credit on poverty alleviation among rural areas. The government schemes had positive influence on respondents’ major macroeconomic variables namely income, savings, consumption expenditures and asset acquisition. Among other things, the level of poverty was high as reflected in the type of residence, cooking materials, health institutions attended by respondents and educational institutions attended by their children. Generally 20.8, 30.9, 47.5 and 0.8% rated the programme good, poor, fair and excellent respectively. The study recommends a greater coverage of the state by the scheme. Recipients should also be encouraged to reinvest their profits in other productive economic activities.

Uyttersprot (2008) examined that increased allocation of finances to primary education has contributed to successful progress in primary enrolment rates. With numbers of primary school leavers growing, countries are faced with the ordeal of expanding secondary and tertiary level. There has been increasing acknowledgement that post primary education is crucial to skills development for growth, poverty reduction and reaching the countries. Both governments and donors are increasingly arguing that this level is not to be neglected. This has raised the important issue of balancing intra sectoral allocations.

Heilig (2005) Gerhard K. stated that As a consequence of fundamental change in policy and schemes to combat poverty under special conditions, targeted programs are necessary. Researcher also discussed several development measures that seem to have special relevance for promoting development in the poverty areas of central and western regions. China’s government has implemented schemes for providing subsidized loans to poor people. By implementation of these schemes China’s economic condition greatly improved and the rural areas began to develop. Millions of peasants were lifted out of poverty.

Shylendra and Bhirdikar (2005) examined the poverty alleviation scheme Swarnjayanti Gram Swarozgar Yojana (SGSY) against the background of emerging policies aimed at good governance. It indicated that the SGSY is implemented in a very deterministic and top-down manner, ignoring the participatory approach that is envisaged in the design. In the whole process, right from identification of participants to supporting them, to developing a sustainable income
generation enterprise, the SGSY is beset with problems like faulty selection, improper identification of viable schemes, sidelining of capacity building and, above all, lack of integration among different agencies involved in implementation of the scheme. The article concludes that ‘good governance’ for poverty alleviation programmes seems to be more of rhetoric than a reality.

Datar (2007) for why the NREGA scheme has failed to take off in Maharashtra. It stated that there is no enthusiasm among the political class as well as bureaucracy to accept new scheme, which is more decentralized and hence to be more transparent and accountable to those who need work. MNREGA has not picked up momentum because government machinery is paralyzed.

Ambasta and Shah et.al. (2008) explained that the proposed employment Guarantee programme will generate work for the poorest. It is also an opportunity to revive public investment in agriculture will tackle the prevailing environmental crisis that is gripping rural India and galvanize the panchayat raj institutions. The proposed legislation should not put in place a weak and diluted jobs programme. In newspaper Hindustan, dated 24th Oct’2010 affirmed about government schemes and criticized the housing schemes stating that urban poor’s cannot get houses under various housing schemes. Schemes of central government are not able to achieve their objectives and are going useless without proper allocation of funds. Government efforts are going worthless for the poor and all the schemes are showing no results in poverty alleviation and shelter providence. In newspaper Hindustan, dated 2nd Oct’2010 declared that government is coming with new schemes apart from the failure of present schemes; there is no record of past funds which has been allocated for the benefit of rural development. Schemes like scholarship for girl’s education have done nothing and money in the banks is going useless. With this government initiation for rural development is going nowhere in the performance but boosting on records only.

3.0. Objectives

(a) To analyze whether there is significant difference for the level of awareness among the various schemes.
(b) To analyze whether there is significant difference for the level of satisfaction among the various schemes.
(c) Analyzing the awareness level of rural people towards various schemes of government.
(d) Analyzing the satisfaction level of rural people towards various schemes of government.
(e) Analyzing the factors of satisfaction of rural people and relationship between variables of satisfaction and their related factors which can increase the satisfaction level of rural people.

4.0. Research Methodology:

As in this paper we will explore the existing facts present in the environment or universe. It considers different aspects of the problem related to government schemes for rural development. So we will take Exploratory Research Design in our research project. Collection of data is done by survey method.

- Research Design: Exploratory Research design
- Universe: Rural Areas of Allahabad during October- December 2010
- Sample type: Convenience Sampling
- Sampling Unit: Individual
- Size of Sample: 140
- Survey Design: Structured Questionnaire

On the basis of the findings of the pilot study, the final questionnaire was prepared and administered. The instrument comprises questions of awareness and satisfaction level towards select financial assistance health scheme of government. The questions were designed to be non-disguised and close-ended. The respondents were supposed to grade on Likert Scale, ranging from 5(Fully Satisfied/Fully Aware) to 1 (Fully Dissatisfy/Fully Unaware).

4.1. Data Analysis Tool Design:

Data collected have been analyzed on the basis of several statistical tools. Statements on Likert scale have been evaluated. We have used SPSS and ANOVA for comparing sample means to see if there is sufficient evidence to infer that the mean level of awareness and satisfaction towards various schemes differs significantly. In this study one way ANOVA could tell us if there are significant differences among any of the comparisons of the five schemes in our sample. Analysis of variance is a procedure that is used for comparing sample means to see whether there is significant difference among the sample means.
### Table 5. Descriptives

<table>
<thead>
<tr>
<th>Schemes</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
<th>95% Confidence Interval for Mean</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>SGSY</td>
<td>140</td>
<td>1.2914</td>
<td>.54038</td>
<td>.04567</td>
<td>1.2011 - 1.3817</td>
<td>1.00</td>
<td>4.00</td>
</tr>
<tr>
<td>PMES</td>
<td>140</td>
<td>1.1861</td>
<td>.63024</td>
<td>.05326</td>
<td>1.0808 - 1.2915</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>GAY</td>
<td>140</td>
<td>1.7022</td>
<td>.87658</td>
<td>.07408</td>
<td>1.5557 - 1.8487</td>
<td>1.00</td>
<td>4.00</td>
</tr>
<tr>
<td>JSY</td>
<td>140</td>
<td>2.7559</td>
<td>1.48863</td>
<td>.12581</td>
<td>2.5071 - 3.0046</td>
<td>1.00</td>
<td>2.75</td>
</tr>
<tr>
<td>RGHIS</td>
<td>140</td>
<td>1.5750</td>
<td>.56318</td>
<td>.04760</td>
<td>1.4809 - 1.6691</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Total</td>
<td>700</td>
<td>1.7021</td>
<td>1.05182</td>
<td>.03975</td>
<td>1.6241 - 1.7802</td>
<td>1.00</td>
<td>5.00</td>
</tr>
</tbody>
</table>

**N=** Number Of Samples For Each Schemes i.e. 140  
**Means=** Average Score Of Awareness For Each Scheme  
**Standard Deviation=** The Standard Measure of Variability around the Mean  
**Standard Error=** Standard Deviation Divided By Square Root Of N  
**95% Confidence Interval =** 95% of the sample means will fall Between The Lower And Upper Values.  
**Minimum/maximum=** Smallest & largest observed mean values for that particular scheme

### Table 6. Test of Homogeneity of Variances

<table>
<thead>
<tr>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>129.115</td>
<td>4</td>
<td>695</td>
<td>.000</td>
</tr>
</tbody>
</table>

Levene’s test for homogeneity of variance with a significance value of .000 indicates that variances for awareness scores for each of the schemes do indeed differ significantly (i.e. the value of significance is less than 0.05).

### Table 7. ANOVA

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>218.599</td>
<td>4</td>
<td>54.650</td>
<td>68.470</td>
</tr>
<tr>
<td>Within Groups</td>
<td>554.720</td>
<td>695</td>
<td>.798</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>773.319</td>
<td>699</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The calculated value of F is higher than the critical value of F for ν₁ = 4 and ν₂ = 695 at 5% level of confidence. So it can be concluded that the difference between the means of awareness among the different scheme is significant.
Within-Groups Sum Of Squares - The Sum Of Squared Deviations Between The Mean For Each Scheme & The Observed Values For Each Scheme and the Observed Values Of Each Sample Within That scheme
Between – Groups Sum Of Squares – The Sum Of Squared Deviations Between The Grand mean And Each scheme Mean Weighted (Multiplied) By The Number Of Samples In Each Scheme
Between- Groups Df - Number Of Schemes Minus One
Within-Group Df - Number Of samples Minus Number Of Schemes Minus One
Mean Square - Sum Of Squares Divided By Degrees Of Freedom
F Ratio - Between schemes Mean Square Divided By Within Scheme Mean Square
Significance - The Probability Of Observed Value Happening By Chance. The Result here indicates that there is/are marginally significant difference(s) between Means Of the Groups as Noted By A Probability Value Of .000.

Table 8. Descriptives

<table>
<thead>
<tr>
<th>Scheme</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
<th>95% Confidence Interval for Mean</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>SGSY</td>
<td>140</td>
<td>1.9391</td>
<td>1.05798</td>
<td>0.08942</td>
<td>1.7624</td>
<td>2.1159</td>
<td>1.00</td>
</tr>
<tr>
<td>PMES</td>
<td>140</td>
<td>1.8687</td>
<td>0.92523</td>
<td>0.07820</td>
<td>1.7141</td>
<td>2.0233</td>
<td>1.00</td>
</tr>
<tr>
<td>GAY</td>
<td>140</td>
<td>2.2170</td>
<td>0.71479</td>
<td>0.06041</td>
<td>2.0976</td>
<td>2.3364</td>
<td>1.00</td>
</tr>
<tr>
<td>JSY</td>
<td>140</td>
<td>4.1429</td>
<td>0.74013</td>
<td>0.06255</td>
<td>4.0192</td>
<td>4.2665</td>
<td>2.50</td>
</tr>
<tr>
<td>RGVIS</td>
<td>140</td>
<td>1.9257</td>
<td>0.81813</td>
<td>0.06914</td>
<td>1.7890</td>
<td>2.0624</td>
<td>1.00</td>
</tr>
<tr>
<td>Total</td>
<td>700</td>
<td>2.4187</td>
<td>1.22283</td>
<td>0.04622</td>
<td>2.3279</td>
<td>2.5094</td>
<td>1.00</td>
</tr>
</tbody>
</table>

N= Number Of Samples For Each Schemes i.e.140
Means= Average Score Of Awareness For Each Scheme
Standard Deviation= The Standard Measure of Variability around the Mean
Standard Error= Standard Deviation Divided By Square Root Of N
95% Confidence Interval = 95% of the sample means will fall Between The Lower And Upper Values.
Minimum/maximum= Smallest & largest observed mean values for that particular scheme

Table 9. Test of Homogeneity of Variances

<table>
<thead>
<tr>
<th></th>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levene Statistic</td>
<td>5.801</td>
<td>4</td>
<td>695</td>
<td>.000</td>
</tr>
</tbody>
</table>

Levene’s test for homogeneity of variance with a significance value of .000 indicates that variances for satisfaction scores for each of the schemes do indeed differ significantly (i.e. the value of significance is less than 0.05).

Table 10. ANOVA

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>530.445</td>
<td>4</td>
<td>132.611</td>
<td>179.040</td>
<td>.000</td>
</tr>
<tr>
<td>Within Groups</td>
<td>514.774</td>
<td>695</td>
<td>.741</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The calculated value of F is higher than the critical value of F for $v_1 = 4$ and $v_2 = 695$ at 5% level of confidence. So it can be concluded that the difference between the mean scores of satisfaction among the different scheme is significant.

5.0. Conclusion:

The analysis shows that there is variance in the levels of awareness among the schemes. There is comparatively lower level of awareness in various (selected) employment schemes in comparison to the health schemes for rural people that are shown in the table 5 of descriptive in awareness level of schemes. During the data collection it was observed that awareness program of JSY is relatively high than other schemes (i.e. SGSY, PMES) as ASHAs are playing main role for providing information related to the scheme.

Other schemes like Grameen Awas Yojna have comparatively higher level of awareness and satisfaction than the RGHIS, SGSY & PMEY which depicts that people are more aware in the housing schemes and through observation it was found that people are more inquisitive towards knowing about the housing schemes as it will help them to gain their basic needs fulfilled (table 5). It was also observed that officials make things complicated for them in getting subsidies or funds.

Analysis also shows that the satisfaction level for JSY is relatively high in comparison of other schemes (table 8). Beneficiaries are getting full benefits of the schemes and all the benefits were provided in assistance with ASHA individuals. It was observed during the data collection people admitted that their registration till post-partum benefits were provided but in some of the cases all benefits were given and handsome amount was taken by middlemen. While average satisfaction score is minimum in Prime Minister Employment Generation Scheme as it was a herculean task to get funds from the government agencies (table 8). In some of the cases people have applied for the loan and have not received any responses from government officials.
References:


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http://www.rural.nic.in/g1drd2html (Retrieved during Oct-Sep’ 2010)

Changing Perspectives of Nigeria’s Democratic Transition Process

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Abstract

Democratic governance and politics in Nigeria appear to be problematic due to ethnic consciousness and militarism in democratic practice. Ethnicity is the soldiering slogan or concept employed by the elites in Nigeria to mobilize and unify a category of people who have a common culture, myth of common origin and inhabit a particular territory who speak the same language. The objective indicator of oneness especially the myth of common origin and common language were manipulated by the elites particularly the petit bourgeois to ensure a monolithic support in politics. Political party formation to say the least is based on ethnicity. The paper adopted content analysis technique. It is the opinion of the paper that the economy of Nigeria should be organized to make it more productive and also to devise a vision of society within which each person can reasonably perceive that equity and social justice are firmly on the national agenda. Furthermore development of national political education and making it part of school curriculum, is also a panacea to end ethnic politics and ethnic consciousness in Nigeria.

Keywords: Democratisation, ethnicity, polity, political party.

Introduction

Nigeria gained her flag independence by October 1, 1960, and by 1963, she became a Republic. The first indigenous elections in 1964/65 were marred by bloody incidences and these torpedoed the civil rule by giving military the opportunity to execute a coup by January 15, 1966 (Anyanwu, 2003). This ended the Nigerian 1st Republic. The January 15, 1966 coup brought about counter coups, which eventually culminated in the 1967-1970 Nigerian civil war fought between Nigeria and Biafra. Biafra consisted primarily people of Igbo extractions. They fought to resist untoward reactions of their brothers of Northern extractions as depicted by the brutal murder of Igbos in the North.

The military continued in power up till May, 1999 because Nigeria was unable to nurture an enduring democracy. More so the political parties, associations and of course the entire polity are not strong. Political parties are also formed on ethnic basis; irregular political practices have eaten deeper and deeper into the body polity of Nigeria. Procedures for transfer of power are not also strong; the procedures are not orderly as to be compared with what obtains in western capitalist nations and even most new states
like Philippines, India etc. Furthermore, the messiah ship euphoria and sycophancy that follow any new regime in power leaves nothing to be desired. The meddlesome manner about Nigerian democracy is overtly awful and unhealthy to sustain development. If the practice of democracy in Nigeria fails to agree with the principles of ideal democracy conceived and nurtured by Aristotle, then Aristotle must have labored in vain. The Greek Philosopher, Aristotle identified and conceived three principal forms of government which are desirable and attainable. The first one is “kingship” which he defines as government by a man with preeminent virtue; a god among men. The second one is “aristocracy” which he calls government formed by the best men in society. This is a system of government in which citizens at large govern for the common good. It involves the attempt to unite the freedom of the poor with the wealth of the rich. When the poor are in the minority and seize power it becomes a democracy (Appadorai, 1981).

Aristotle believes that these three forms of government can be perverted. When kingship is perverted, it becomes self serving and tyranny is the end product. When aristocracy becomes self-serving it is transformed into mob rule. Aristotle was realistic enough to believe that desirable as they may be, kingship and aristocracy are unviable (Uzochukwu, 1997; Ugwu and Chukwuemeka, 1997).

Democracy – Etymological and theoretical discourse

The Dictionary of politics defines ‘democracy’ as a derivation from the Greek words ‘people and power’ originally referring to the right of the citizens of the Greek City – states to participate directly in the act of governance. There is alliteration in form of a definition of democracy “the government of the people, for the people and by the people”. However, the term ‘democracy’ has been perceived and defined in various other ways by different political scientists. Some of such definitions could be found in Umez (2002) who used the word ‘democracy’ to mean, a statement about ‘sovereignty’ and nothing else. He contends that ‘sovereignty’ in the adult population is established and it is nurtured when a representative government permits and maintains certain basic principles. He identifies these principles as (a) universal political participation (b) political equality (c) majority rule (with substantive recognition of minority right(s), (d) rule of law (e) government responsiveness to public opinion and (f) the basic freedom of speech, press, assembly, religion and organization (Uchechukwu, 2005).
Essentially, this definition, full blown, has not ignored the important features of an ideal democracy.

Harris (1979), Okibe (2000) and Ugo (2005) define democracy as the control by the vast majority of the inhabitants of a country or popular control’ The central theme in this definition is that ‘democracy’ is rule of the people. In which every way we look at these definitions, one thing is clear, that democracy is the rule by the majority through representation. It involves popular participation and popular opinion. Since democracy in Nigeria falls short of the underling standard, democracy has not started well in Nigeria. ‘Nigerian democracy’ is synonymous with ‘Marxian democracy’. Disciples of Karl Marx see democracy as the governance by the minority, the privileged minority who ascend the reigns of governance and use power for the improvement of the living conditions of their supporters and sycophants. They are therefore always striving to create avenues for the acquisition and consolidation of more power at the expense of the majority. Democracy to them does not serve the interest of the masses. The oppressors merely seize state power to loot government treasury (Ndibe, 2009). To an extent democracy in praetorian polity like Nigeria is not far from this assumption.

Democracy in Nigeria no doubt is also at variant with Aristotle’s vision.

Between 6th and 4th century B.C. Aristotle inculcated in the people of Athens, the need for democracy as the best form of government which will suit the needs of their people. According to him kingship and aristocracy do not encourage mass participation in governance (Fords, 2000). The Masses ought to participate in governance. Rulership should be open to all and sundry, even though everyman would not rule at the same time, hence representative democracy. Representative democracy or government contends Oji (1998), is accepted as a way of ensuring the actual participation of the generality of the people in politics, by instituting a government in proxy. The people were then governed under a framework which ensured the principle of ‘one man one vote’ in elections and which guaranteed that the custodians of the people’s mandate ruled in accordance with the general will (Adesina, 2006).

We reiterate the fact that what is practiced in Nigeria today is not ideal democracy. It is suicidal to call it one. Superfluous as the allegations may be, the truism was that rigging, thuggery and flagrant falsification of figures were rampantly witnessed in the various
elections conducted in Nigeria from 1963 till date. The only point of contention was which party was not engaged in rigging? The salient point of concern and consequent complaints was the issue of degree of rigging. Suffice to say that some parties were only interested in rigging a particular election.

The type of democracy practiced in Nigeria falls short of the following principles as enunciated by Jones (2006)

(a) Equality – equalitarian status for all persons in the polity

(b) Alternative choices – the masses should be able to decipher the type of political ideology, party or interest which suits their desires.

© Regular consultations – people should be consulted over debatable issues, to air their views and discuss with the elected representatives when necessary. Government should avoid taking decisions arbitrarily.

(d) Regular elections – ideal democracy should be devoid of absolutism, despotism and ‘sit-tight’ leadership/tenure elongation. Regular election should be held to elect new candidates from the masses. Even if the incumbents should continue on the demand of the majority, elections should be conducted to test their candidacy.

(e) Majority rule – ideal democracy should adopt populist programmes which should be in the interest of the masses.

(f) Enlightened electorates – citizenry ought to be educated and awareness created in the workings of government. Political socialization should also be inculcated in the electorates to avoid anti-democratic electoral practices

In the present political dispensation in Nigeria, one wonders whether what is practiced in the name of democracy is agreeable to these principles. If the answer is in the affirmative, good but if ‘No’ is the answer one could simply brand the present democracy in Nigeria ‘civilian rule’. However, there is hope that from civilian rule Nigeria may advance to democratic rule. It is a process. From colonialism to military rule, from military rule to civilian rule, from civilian rule to democratic rule. The stage of freedom from self serving, ethnicity, looting of public treasury and oppression.
A passable understanding of the term democracy contend Oji (1998), Howardl (1995), Jones (2006) stands out as a positive movement which elicits a feeling of acceptance from the generality of the people. It is the catalyst to political, economic, technological and social development and change which emphasizes majoritarian rule. There is no gainsaying that democracy is government by representation of a majority of the people for their mutual benefit.

The Military in Nigerian Democratization

One could not discuss Nigerian democratization without devoting a large portion to the military. Evidently, the military meddled with the Nigerian polity over a long time with their usual prolonged pseudo democratic transition programmes. Political instability has taken root in Nigeria’s political equation during the successive military regimes (Chukwuemeka, 2008).

The transition to democratic rule oftentimes embarked by the successive despotic military oligarchy was oftentimes shifted or it ended up not coming to realization at all. A case in point was that of General Babangida’s regime. The regime embarked on a prolonged transition to civil rule programme which a tacit approval was given for it to start in 1986 to end in 1990, but to the greatest chagrin of the populace the date was shifted to 1993. Finally the programme overtly beclouded by unpredicted inertia was aborted in 1993 when the presidential election was annulled at the point of announcing the result of the elections. General Abacha started another one, which every arrangement had been completed for him to succeed himself, however his mysterious demise closed the case.

Dike (2005), Ezeani, (1998) Elaigwu and Zingale (1972) contend that the military cannot nurture a stable democracy. On the point of fair play predicated on the noble premise of social justice and egalitarianism, the military lacked all the paraphernalia needed in running a stable nation. The military with its overt totalitarian and oligarchic orientation, need not participate to run a democratic government. Its involvement in democracy is an aberration and a disaster. An ideal democracy should be completely devoid of dictatorial, totalitarian and oligarchic tradition. Although what Nigeria and most praetorian polities have today is not far from being described as a blend of dictatorianism and totalitarianism.

Madiebo (1980) rather put it bitterly that:
A military government is a major set back for any nation and should be avoided at all costs. This is because military men are unqualified for the task of government and either lean heavily on advice may not always be in the best interest of either people or, worse still, attempt to rule without it.

The military is the coercive arm of the state. The military is synonymous to security management. The traditional duty is to protect the state from external aggression. Its role is more pronounced in times of wars and upheavals. Therefore, concerted effort should be made by the governing elites to keep the army away from further meddlesome of the state power. Today the army is not totally out of politics in Nigeria and other African nations. A situation where a retired army general seizes political power through a perceived electoral process is not healthy. That an army general has retired does not remove the military orientation in him. Retired General Obasanjo governed Nigeria between 1999 and 2007. The experience could be likened to quasi military rule. Today there are too many retired army officers in politics in Africa especially Nigeria.

Dinkins (2000) sees Nigerian military as over politicized and ambitious. Their long stay in Nigerian politics and their current interest in democratic process have overtly abused democratic practice in Nigeria. The economic crises, financial quagmire in Nigeria and other African nations today is one of the ugly manifestations of military rule. Okibe (2000) arguing in the same direction contends that the General Gowon dictatorial regime pitiably mismanaged the buoyant economy of Nigeria which accrued from oil boom and most grievously, created economic disability which the successive administrations have not been able to correct.

“Diarchy!” Diarchy is an aberration. Most elites oftentimes prefer diarchy as a solution to end military incursion in politics in Africa. Diarchy is government shared by two joint authorities or rulers. It is not practiced as alternative to democracy and cannot suffice ideal democracy.

**Failure of Political Mobilization organs in inculcating ideal democratic habits in the people**

Three political mobilization organs are selected for discussion in this section of the paper. They are the National Orientation Agency (formerly MAMSER) established by the despotic Babangida military junta, the press and the Ministry of Women Affairs
(former Commission for Women). Yet another outfit of the Babangida’s totalitarian and oligarchic regime.

The National Orientation Agency’s mandate is to promote the cultivation of positive mental attitudes towards the National quest for economic recovery and development and inculcate in the people a new social and political order devoid of ethnicity (Ugwueze, 2005). The Agency’s role in political mobilization contends Oji (1997) is a process by which programmes are designed and undertaken to create awareness in the people for understanding and support of governmental policies and actions, to inculcate in the masses positive values, habits, orientation without coercion, to create awareness of the resources at their disposal as well as their ability to transform their socio-economic, political and cultural lives.

National Orientation Agency organized workshops, seminars and rallies from time to time, all aimed at mobilizing the citizenry on positive political habits. The big question is this – “is the organization actually doing its work? If yes, how successful were the campaigns and how have they affected the political habits of the masses? Why is it that ethnic consciousness is still very high in Nigeria politics?

The inevitable collapse of the second republic brought about by gross mismanagement and lawlessness appears to have no historical significance in view of what is happening now. The senate, the house of representative keep changing headship. Most state houses of assembly have changed headship for more than four times within two years (Uzoamaka, 2007). In the house of representative the last change was predicated by corrupt enrichment by a woman lawmaker, Mrs Patricia Ete. A cursory look at the National Orientation Agency indicates that either that it has not done its duties well or that it has lost its focus. Little wonder, writers have criticized the organization on grounds of ideological crisis. Its birth was as a result of the political Bureau’s recommendation that it be the political orientation arm of the socialist ideology it opposed (Ogbenna, 1998). Babangida rejected socialism but went ahead to create NOA. Okolo (1998), Chukwuemeka, Aba and Eze (1998) and Ezeani (1986) contend that the mobilization campaigns began without a clearly defined and thoroughly articulated set of objectives but only a loud media event. The programme could have been successful in a socialist economy than under crude capitalist society like Nigeria (Edeani, 1986).
objectives of the Agency are too burdensome and far-flung. Again it has failed to re-orient the nation’s leadership towards change in attitude and practice for example, the “grab-it-all syndrome”, “settlement culture”, thuggery, election maneuvering, bribery and corruption and all other forms of leadership vices and anti-democratic practices still exist among the ruling class. Lately the anti-graft agencies were established by Olusegun Obasanjo (Independent Corrupt Practices Commission and Economic and Financial Crime Commission), yet corruption has even increased among political officer holders.

The press which supposed to be a powerful vehicle for political mobilization has turned to be mouth piece of the despotic leaders. The press is rather used for political sycophancy. As an agent of the political mobilization, the press is expected to explain national issues to the citizenry, present the feelings of the citizenry to such issues, and provide unbiased assessment of governmental sections and act as society’s watch dog on national policies (Ogbenna, 1998). It is the duty of the press to inform the citizenry or sound an alarm when stated objectives or ideal political norms are deviated from.

The Commission for Women which was in association with the Better Life for Rural Women also lost its objectivity. The Organization was primarily charged with the responsibility of mobilizing the Nigerian women politically and the development of their individual and as well as collective capabilities. Instead of the programme filtering into the grassroots to create awareness among the rural illiterate women, it was rather hijacked by wives of the governing elites who scarcely interacted with the rural poor and illiterate women. This ugly trend has left the rural populace especially women apolitical.

This discourse could not be complete without making reference to the role of the Electoral Commission. It was first called Federal Electoral Commission, later it was changed to National Electoral Commission by Babangida. General Abacha rechristened it Independent Electoral Commission. The truth is that there is nothing “independent “about the Commission.

The Electoral Commission which is in charge of conducting credible elections always play the chicken hearted role by playing into the hands of politicians who wield so much influence at the grassroots. To secure an Electoral Commission job, one needed nothing apart from being conversant with the area where one intended to conduct the elections. The implications of this worse provisions in appointment or recruiting electoral officers,
was that mainly school teachers were recruited and put in the ultimate position of king
makers especially so when they had the powers of producing election results. By nature
teachers are the most familiar workers to the villagers. One could say that after all the
electoral officers are no longer allowed to work in their areas. That is not true. The truth
is that the Electoral Commission, electoral officers and the so called new breed
politicians are corrupt to their ears (Chukwu, 2007).

The Influence of ethnicity on Nigerian democratization

Ake (1991), Bola (1998) and Dike (2005) argue that nothing is inherently
conflictual about ethnic differences. They lead to strife only when they are politicized,
and it is elites who politicize ethnicity in their quest for power and political support. The
foregoing argument is not out of place. It is the political elites that manipulate ethnicity
for their selfish desires. In the words of Momo (1997) “ethnicity serves the interest of the
ruling class that replaced the departed colonialists, even though it is a colonial creation”.
The link between ethnicity and politics appears both obvious and automatic in relatively
new states with the effect of ethnicity so prevalent and the consequences of their inter-
ethnic conflicts so evident and transparent, it is little wonder that it has come to be seen
Nigeria as a serious obstacle to liberal and ideal democracy.

Ethnicity is undoubtedly a very powerful weapon for the production of political
leaders in Nigeria argues Nweke (1996). As tension and ethnic consciouness become
very high, people with poltical motives gradually emerge and insist on fanning members
of ethnic identification, these politicians sooner or later gang along ethnic lines to gain
cheap popularity. Befofre the Nigerian civil war, most politicians and political parties
were formed on ethnic basis, e.g, the defunct National Council of Nigeria and the
Cameroon (NCNC) with its taproot in the then Eastern Region led by Chief Dr. Nnamdi
Azikiwe, Action Group with its stronghold in the then Western Region led by late Chief
Obafemi Awolowo and Nigerian Peoples Congress (NPC) with its stronghold in the then
Northern Region led by late Alhaji Ahmadu Bello. These leaders used intensive ethnic
propaganda coupled with intimidation to win fierce loyalaty and support from followers.
They were even regarded as “small gods” by many ethnic subjects. Different myths
surrounded and protected these leaders.
Oji (2000) also hypothesized that the higher the status position of a person, the greater the following: the tendency for that person to internalize responsibility for an approved state of affairs, the tendency to attribute good intentions with respect to his positive actions relevant to the status dimension as justified. Ethnic attribution in Nigeria has direct relationship with status of the person concerned. To an average Yoruba man, whatever the late Awolowo did or said was good, constructive and well intentioned, “he was the father of the nation”. The same is true of other ethnic groups and their leaders. Each leader is seen by his people as the founder of peace and “one Nigeria”.

Ethnic attribution is often used by most Nigerian politicians for rationalizing failure and frustrating fate and for invasion of political opponents. As most politicians become increasingly successful, ethnic attribution decreases as source of anchor or explanation of fate. On the other hand, as these politicians are displaced from the centre or in high government positions, the higher the attribution of responsibility to ethnicity. These politicians often rally their subjects and explain failure in terms of ethnic victimization. These people are often used as instruments for retaliation, hostility, chaos, upheaval and protests. This attribution pattern is dangerous for the country Nigeria as a nation. Ministers, state commissioners, ambassadors, directors of public companies, heads of parastatals, governors, and political contractors rationalize their failures in this way.

In most cases religion is attached to ethnicity as a political tool. During the presidential election in April, 2011, the muslim North rallied round Retired General Muhammed Buhari as a consensus candidate while the incumbent President, Goodluck Jonathan garnered support from the Christian faithful who constitute the major population Ibo and Yoruba ethnic groups. Before the result of the said election was announced which was to be in favour of Goodluck Jonathan, the Northern youths in Kano, Kaduna, Maiduguri and Bauchi started rioting and killing innocent Christians from the western part of the Country.

Ethnicity has also played very vital role in the Nigerian first and second republics. It also made serious impact in the aborted third republic and presently, it is rearing its ugly head through elite manipulation (Ugwu and Chukwuemeka, 2000). Also during the second republics, the political parties were founded on ethnic interests and identification.
The structure, leadership and membership of the parties equally manifested ethnic affiliation. In the present dispensation the three major reigning political parties have ethnic linings. The parties are Alliance for Democracy (AD), All Nigeria Peoples’ Party (ANPP), the ruling party Peoples’ Democratic Party (PDP). The AD which metamorphosed into Action Congress of Nigeria (ACN), is predominantly the party of the western Nigeria. The ANPP for the Northern Nigeria while the PDP as the ruling party is dominated by the North and West.

The annulled June 12 1993 elections in Nigeria by Babangida were based on ethnicity. However when the election was annulled, ethnicity set in as southerners protested over the annulment which they saw as designed to scheme a southerner (M.K.O. Abiola) out from becoming the president of Nigeria.

**Conclusion and Recommendations**

The negative impact of ethnicity attribution to the status of internal and external security should not be taken as a simple problem,. In fact it is the foundations of Nigeria’s security question, thus having its negative and multiplier effects on other aspects of our developmental and security fronts such as political, social, economic educational, physical, geographical, historical, technological and defense sectors. The Federal Government has made several attempts to increase inter-ethnic interaction aimed at reducing ethnic prejudice, they include: (a) The introduction of National Youth Service Programme (NYSC) in which young graduates from higher institutions work outside their stats of origin for one year. (b) Positing and transfer of federal workers indiscriminately to all the states of the federation. (c) Introduction of joint council of traditional and religious leaders of Nigeria. This provides a good forum for the Northern emirs, Ibo chiefs and ‘igwes’, Yoruba ‘obas’ and chiefs and other ethnic leaders to exchange visits, installation ceremonies and discuss matters of national interest.. (d) The constitution of Nigeria made it difficult for an ethnic group to form a political party. It emphasized ethnic spread as a requirement for recognition of political party. But all these are paper work. Today political party formation is still based on ethnic factor.

It is the candid view of the paper that the pursuit of a genuine democratization requires:
(a) Organizing the economy to make it more productive and also to devise a vision of society within which each person can reasonably perceive that equity and social justice are firmly on the national agenda.

(b) For eradication of ethnic politics in Nigeria, efforts should be made towards equitable distribution of social, political and economic gains of the polity. The political parties should not have ethnic oriented background.

© Introduction of Muslim and Christian religions as compulsory subjects in all Nigerian primary and post primary schools.

(d) Development of National political education and making it part of school curriculum. A Commission should be set up at federal and state levels to run this programme. Experts in various fields with national consciousness should be appointed into the commission.

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SECURITIZATION AS A FACTOR OF ECONOMIC INTEGRATION

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Abstract

This paper is aimed to show that securitization, a concept of the State security theory provide some elements to obtain a more complete vision linked to other sciences about the economic integration processes. Until now, economic integration is studied by diverse strands of economic thought, exhausting the conceptual frameworks in reinterpretations impeding progress in the explanation of motivations of Nations to be economically linked. Here it has been linked to the categories of economic integration and the State security theory, to give an answer to the question of whether economic integration is a process that is explained by it or if it is determined by the search for security of States. As a conclusion of the study, it proposes a conceptual model of economic integration and economic regionalization, as resulting from the process of securitization.

Keywords: Economic integration, State security, securitization  
JEL: F15, F41, F49

1. Introduction

It calls the attention that international policy experts refer to Mexico as a nation member of the \textit{Northern command} in issues of safety and security of the United States of America, rather than a partner of the North America Free Trade Agreement in the commercial field. This is due to that according to the authors of the security theory (Buzan, 2001 and Lipschutz, 1995) the motives of security of States are put before the economic and even more, the economic aspects coalesce to the spectrum of security. This essay aims to propose an analysis of the formation and transformation of economic integration zones starting from the approach of securitization of the

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theory of security, in congruence with changes in globalization after the Cold War and the intensification of international economic exchange.

While the authors of economics profile (Balassa, 1964, and Meade, 1957) consider that economic integration precedes political integration, in a way that economic communities evolve into political unions over time, in this essay is considered the assumption that at the international level, politics - in this case the security of States — is a factor in economics and not vice versa. In the first part of the work, is noted the background of the case studied, exposing it as a problem of methodological approach, as theorists of economic integration have not addressed it from new approaches, only limited to economic schemes.

A second part corresponds to the analysis, which conforms at a time of four points. On the first point of the analysis it is set out the basic elements of the securitization, key concept built by the recent contributions of the Security Theory (ST), drawing in particular on the approach to integration, which is the concept of bonding with the theory of economic integration (TEI). This theory is taken to continue the analysis of its main authors which refer to different forms of economic integration. In this analysis, special emphasis is placed in that the TEI notes isolation from the political, military, cultural and environmental phenomena occurring in the global context.

The model of economic integration under the focus of the securitization is proposed as penultimate paragraph of the analysis. Finally, this essay ends with the analysis by applying the securitization model to show the implementation of the proposal in two examples: the Treaty of the North American free Trade Agreement (NAFTA) and other of the European Union (EU). At last, it is concluded that it has been inferred as a finding of this research, new elements for analysis and better understanding of the formation and development of the areas of economic integration from the securitization.

Determinants in this essay have been the constant and timely observations of José G. Vargas-Hernández MBA; Ph.D., on methodological aspects as well as those of the Master María Luisa Andrea Concha Gutiérrez for her insistence on the right frame of reference of securitization.

2. Background of the problematic economic integration study

Economic integration, understood as the link between two or more economies in order to intensify the exchange of economic factors, whether it is goods, services, capital, technology, etc., (Carbaugh, 2009, Martinez, 2000, and Samuelson, 2006) has so far been explained in isolation to other processes. The securitization, as a process to remove the threat to the State, or to the interests of dominant groups in society, provides a set of conceptual tools to put in context economic integration as a process that takes place at the same time inside the other larger process (Buzan et al)(1998, Wæver, 1998; and Larrechea, 2008).

Theorists of economic integration (Balassa, 1964, and Tamames, 2003) so far have limited the linkage between the States to grounds of motives and ends of purely economic purposes, which contrasts with the most recent work of theorists of security (Buzan, 2001, and
Lipschutz, 1995) who in the recent developments have been considered as possible means or result of the process of security (securitization), integration in other fields. The studies that make up the TEI have been conducted out of the work of Viner (1950), in some cases on the basis of previous proposals that relate to other theories such that of capitalist development, imperialism and underdevelopment, among the most important.

In this work it is proposed as an assumption that the securitization of the interests of hegemonic national groups, is of course one of the main reasons for the economic integration between States. Therefore, the objective is to propose the analysis of the formation and transformation of areas of economic integration from the approach of securitization of the theory of security, in keeping with changes in globalization after the Cold War. Figure 1 shows the most relevant aspects of the integration process driven by the securitization.

![Fig. 1. Process of integration motivated by the securitization](source: Own drawing)

The problem is addressed with the review and comparison of the literature on the various approaches of integration from the perspective of the TEI with the approach of the securitization of the ST and the formation of Regional Security Complexes (RSC) and Overlay processes (both are described in the following sections). Once built the proposal for a conceptual model, applies two examples with the cases of North America Free Trade Agreement (NAFTA) and of the European Union (EU) as resources for review if there are elements defined by the securitization to the case of economic integration which for the ST is the North America subsystem. The above does not mean that throughout the review and comparison are rescue the elements that allow achieving the goal.

### 3. Economic integration as part of the securitization process

Though many of the theorists of economic integration (Scitovsky, 1959 and Tamames, 2003) they believe that the reason for such linkage is economic and its aims are purely economic. Other theorists considered implicitly that the purposes may be political, as the case of Balassa (1964), for whom the political purposes can be achieved by economic integration. Recent authors, however propose a clearer line by saying that unlike the experience of the regional integration of the 1930s, in the 1990s everything indicates that United States is tilted in favor of the use of a combination of commercial and financial instruments, but subsumed in a geopolitical conceptualization of national security (Rosas, 1996: 1).
A. Security theory (ST)

The intensification of globalization from the seventies of the last century and the end of the Cold War, gave way to a new vision on the security of nations, as well as studies on it. These studies on the safety of the Nations were conducted mainly at the Research Institute for the Peace of Copenhagen, leading to the development of the ST, as part in turn of a more general theory of international relations.

It is the so-called Copenhagen School - which is named after the specialist in the subject Mc Sweeney (1999) - from which are prominent driving authors as Barbé, (2007); Solomon (2002); Weaber (1998) and in particular Buzan et al (1998). According to Lerrachea (2008), the Copenhagen School is the new stream of academic studies on security, whose purpose is the State. Hence, in the case relating to safety or security of the State, which can be understood as the protection of the State against external aggression and internal movements that could jeopardize it (Orozco, 2006: 144). Protection is carried out using military force to deter or suppress any threat to security.

For these reasons, the studies on the subject correspond to political science, the science of international relations or to the military sciences, which somehow explains the reason that the international economy lacks these approaches. The ST does not define the State, so it takes the idea that this is the settlement of interests of the dominant entities (individuals or groups) - or real forces of power- such as the economic oligarchy, high bureaucracy, the high clergy, etc. Therefore, the protection that the State is looking for can be understood as the protection of the interests of the dominant entities or dominant forces. On the other hand, the aggression will be understood as a perception of dominant subjects or ruling bodies, in relation to the interests which are under threat.

Another important aspect of this theory is that related to the international level with the existence of many States, a little more than two hundred to be exact. Each one of the subjects of these States is aware to protect its interests in the territory, as well as the interests of social groups on which enforce its power. This makes then more complex relations between those States, and even to consider that some of them exercised hegemony over others. The complexity of these relationships gives an anarchic character to the international as a whole. But, as there are some mutual threat perceptions generated between different subjects, they are required to settle in a whole community of purposes before the attack on their interests, i.e. to create a Security Complex.

1) Aspects of the security Theory (ST)

There are five streams which in turn make up the ST models, each one comes in a given historical moment, namely: The Independent Complex, the Security Regime, the Integration Theory (IT), the model of Collective Security and finally the Democratic Peace (Orozco: 153). The last three models are these that contribute with more elements to the explanation of economic integration. Some other authors consider that there are three schools in the ST: traditionalists, critical, and the widening (Sisco y Chacón, 2004: 132). The most relevant elements of the model of the traditionalists are explained in Figure 2.
The most prolific specialist in this area is Barry Buzán (2001), who began at the Copenhagen School and continues his work by adopting many criteria of the so-called English School of security. This school describes the transition from liberalism and realism (Buzán, 2001: 11) for the independent complex models and the security system.

From this point and considering the fading of the bipolarity of international forces, he develops new ideas that constitute the model called the Integration Theory (IT) as a guideline for the Widening Stream. The Widening Stream considers that it decreases the importance of the military in the perceptions of States with the end of the cold war, and thus they become important issues such as international economic relations, the environment, and the living conditions of the population and others that become factors of safety in the new academic constructs.

With the emergence of the Widening Stream those who consider it necessary to take into account not only the political and military factors as observed by the traditional studies of security, but also to incorporate economic, environmental and social matters as factors. Thus, the Widening Stream conceptualize security as the achievement through which situations of conflict or threat vanish by means of the State’s emergency mobilization, threats that can be different to the possibility of a military attack. It can be also treated economic, social and environmental problems that may endanger the survival of a group. (Orozco: 151), which opens a possibility for the studies of Economic Integration.
independently, and they necessarily have to seek a solution in a general manner (Buzan et to the, 1998: 168). This is so because the interdependence developed among the States when there is a threat perceived as common, so ceases to be an anarchic set of countries to conform to a regional security complex, that is, to form a complex integrated regionally developed between the States. In this line of submitted ideas, economic integration is part of a broader process of integration.

2) The elements of the model of the integration theory (IT)

To identify the actors of the securitization, the integration theory (IT) has four basic elements: Actor securitize, referential object, existential threat, and likely real object. Actor securitize refers to the State that calls to promote the securitization. The reference object includes the levels and actors among which promotes the security, including who takes action. The existential threat is the entity or the situation from which emanates the threat; and, finally the likely real object that is the threatened element, generally the interests of one or all the groups that make up the State and especially of the convener or the actor securitize (Concha, 2010).

To systematize the analysis, the approach to security of the model of Buzán (2001) proposes five levels of analysis: the international system, subsystems, units, subunits and individuals. The international system is the set of global relationships, which from the territorial point of view is made up of subsystems. The subsystems are each of regions consolidated as such by the relations of higher or lower cohesion and also the not neighboring sets between each other but coherent by any common interest. The units are the integrated by each of the States or Nations of the world. The subunits are groups that operate with influence in units, which in the case are the real forces of power. Finally, the individuals, i.e. the citizens of each nation (Buzan et al, 1998).

The basic elements annotated and levels mentioned earlier make up for this analysis the participating elements in economic integration, same that act in the international scope in their national-level units and subsystems.

(3) The securitization

The process or set of actions to achieve the emergency measures to deal with a situation or a set of actions perceived as a threat to the existence of a person or a group of persons or their interests, or an institutional entity that represents interests of people, is called securitize. The securitize term is a neologism which corresponds to the word in English securitize.

Buzan et al. (1998: 25) precise the concept of securitization. They pointing out that the exact definition and criterion of securitization is constituted by the establishment of inter-subjectivity of an existential threat, the one with enough projection to have substantial political effects. This is to say that the perception of the threatened entities is shared enough as to justify an emergent action and often outside the conventional frameworks.

The securitization process consists of three main phases, same which are pushed by the group or groups of interest or subunits: "... existential threats, urgent action, and effect on
relations inter-unities to breaking the rules" (Buzan et al., 1998: 26). When the process of securitization is followed by a set of States, usually culminate in the formation of Regional Security Complexes (RSC), that is to say, a set of States with a shared perception of threat and the decision to take all necessary measures – military, political, economic, etc.-to neutralize the threats that are the subject and object of the perception they have. It is then that this process of securitization encourages economic integration, which in turn, goes in parallel with the process of neutralization of threats. Figure 4 tries to model this process.

![Fig. 4. Of the perception of threat to the economic integration](source: own drawing)

(4) The security complexes and regionalization

The integration of States who share a perception of threats may be called, in principle, Regional Security Complexes (RSC). More properly are defined as a set of States or units - or a subsystem - with processes of securitization or desecuritization so interrelated that their security concerns may not be reasonably analyzed or solved separating a few units of others, creating a subsystem in which most of the interaction of security is internal. (Concha, 2010: 3).

The formation of a Regional Security Complex (RSC) can be integrated by units - or States-whose perceptions of threats respond to different factors (military, political, economic, cultural or environmental), but who share a priority of dominant securitization on the others. It's so in "... this measure, its prospects for security, even though they may present diversity and nuances - yet tensions - tend to converge, rather than defer" (Larrechea, 2008: 12).

Certainly not in any case we can talk about integration of States in the form of RSC, because there are situations in which States do not have the significance to the exterior because their weakness, which means that they do not permeate their perceptions to the rest of the States. Similarly is not assigned the term in question, but the Overlay when one of the integrated States wields hegemony such that within its radius of power void, limiting or significantly modifies the development of the securitization between the surrounding States (Buzan et to the, 1998: 12). The
dust jacket, overlap or Overlay, in the same way explains many of the processes of integration imposed studied by specialists in the underdevelopment theory and dependency theory.

The formation of a complex or an Overlay shows a set of characteristics, being one of them the availability of the units to their integration. Another one is the difference of these units. There certainly is also friendly or unfriendly character between units, not limited to the States to recognize the existence of highly threatening common problems, which are imperatives to join and integrate. Finally, and not least, there is an asymmetry of power to the units together.

Dynamic entities as they are the components of the units can observe changes in its dimension and performance. If these changes are significant, it will lead to changes in the dynamics of the complex. The above is not valid for the Overlay unless the changes are observed in the hegemonic unit components

Changes in the structure or the dynamics of the international organization, either Overlay or SCR is an aspect that can explain at the same time the modification of the forms of regional economic integrations or its degree of integration. Buzán et al. (1998) propose four processes that can be observed in the Organization: when the structure remains unchanged and maintained the status quo; When amending the relationship of forces within the complex; When the integration or separation of one (s), or the modification of the internal distribution of power or internal patterns of friendship or enmity give way to changes in the relations of the organization with the rest of the world.

The above stated can allow to understand the rapid advance of the European Union, which before being characterized by their degree of total economic integration it was customs union first and later common market. It also provides the methodological elements to explain how are complicated in trying to have a single currency or in the integration of Turkey.

(5) The threat as the reason for the economic integration

When the subunits are faced with a situation that they perceive as a threat to their interests, they carry out the actions necessary to achieve share that perception among individuals. The perception of risk takes place between them. The same happens to the institutions politically representing the State. When this is achieved, the risk has been threat, as it can be determined by the process described, has a cultural character. The threat is of priority in the social and political agenda (Buzan, 2001).

If the threat is as such in the perception of individuals and other subunits, units interact to shape around it and from the same link to assume a position and to develop actions which in turn are perceived as necessary to suppress the corresponding risk. This risk may well have originated in economic, social, cultural or environmental aspects to be transformed into a problem that requires different actions, from the military, policy, or a set of them. It is then when it is securitizing a threat; and if the agenda includes economic issues, be they commercial, financial or technological, integration is also economic.
It is time to reflect that full recognition of threats is an important step for the securitization and for the purposes of analysis is also a key element to explain the economic integration. While in the bipolar context at the end of the last century the determinant threats were military and political issues, the specialist incorporate other more as they are the environmental and trade issues, such as the following are noted:

- Political-military threats
- Threats contemporary economic, environmental and cultural in nature
- Emerging, such as the advocacy threats of violence, ideological crisis, politicization of the crime, conflicts of low intensity and socialization of the corruption.
- Transverse threats such as social conflicts, terrorism, drug trafficking, international criminal networks, poverty, exclusion, atrophy of the capacity for economic growth and emigration.

Previous sources of threats give the perception of security and as a result the integration processes either political-military, economic, environmental or social, as describes it the figure 5.

\[ Fig. \ 5. \  Process \ of \ integration \ from \ the \ perception \ of \ security \]
\[ Source: \ own \ drawing \]

On the other hand, we need to reflect that the perceptions, as subjective processes, are not necessarily uniform, so that the transition from the perception of the risk to the perception of the threat may not correspond and in on the other hand can be modified the process of construction.
and development both in the origin and on the characterization of risk and threat. In the following figure, the number 6, the different sources of perception of risk are shown schematically.

![Fig. 6. Different sources of perception of risk](Source: own drawing)

With the addition of new criteria for security, studies have been developed to generate models of variables and indicators of such factors, which can be classified as indicators of the evolution of threats to those that are considered as preventive or indicators of early warning in the area of human security. Some of the variables of these indicators are food security, economic security, political security and community safety.

The security food guarantees a daily calorie supply, food production and dependence on food imports. Economic security serves real income, inflation, unemployment and income distribution. The Political security deals with aspects relating to the violation to human rights, military spending in relation to spending on education and health. Community safety services to ethnic, religious and cultural conflicts (Sandoval, 2005: 13). These criteria lead to the formation of sets of regional security complexes as determinants of economic integration as it is shown in Figure 7.

**B. Concept of economic integration**

There are various conceptualizations of what is economic integration without having a consensus thereon. Many of them relate to particular forms of the phenomenon. Others are more generic, as in the case of the following: "Process of elimination of restrictions on trade, payments and factor mobility of factors" (Carbaugh, 2009: 546). This work proposes that economic integration can be understood as imposed, voluntary or inertial linking of two or more economies, with the aim of facilitating their economic exchange. The link leads to the interaction between the residents of a country with residents of the rest of the world, under criteria agreed in the framework of the integration.
However, most authors agree at the point which points out that, once you reach the formation of a geographical area of countries with some degree of integration, participating economic agents note that this facilitates the transit of economic factors through the territories of integrated countries. In this way, the integration process is a mechanism for opening economies and consequently for the mutual availability of factors. Sometimes it refers to some factor in particular and therefore as a commercial integration, financial integration, monetary integration, technology integration. Alternatively, it refers to commercial and financial, integration commercial and monetary, financial and technological integration. At another level, it refers to any other combination of integrations.

(1) Some proposals on the economic integration

One of the most prominent authors in the theme is Jacob Viner (1950) whose work "The customs unions issue", says the effects of the agreements on the formation of customs unions, one of the forms of economic integration observed in practice. In his explanation, Viner (1950) sets out the concepts of trade diversion and creation of trade as resources to analyze each one of the economic integration, the first to explain the change in trade flows and the second for the expansion of the exchange as a result of the signing of a tariff agreement. On the same line of ideas, another author is Meade (1957), who with support in the arguments of Viner, develops the effects on the exchange, especially in the balance of payments.

For Balassa (1964) there are two meanings of economic integration, as a situation or process, both totally related because of one existent situation leads to another through a process. This new situation consists on measures to eliminate some forms of discrimination to the companies of the different nations, at the same time that the situations with this abolition are the
processes of integration through free trade zones, customs unions, common markets and total economic integration. In addition, Balassa (1964) proposed to differentiate between integration and economic cooperation. Economic cooperation is a measure to reduce the discrimination between the linked Nations.

For its part, Tamames (1968) holds that economic integration is a process whereby two or more national markets, previously separate, and unitary dimensions are considered little appropriate, join together to form a single market of a most appropriate and larger dimension.

Expressions of voluntary, imposed or inertial relationship are recorded previously. Voluntary integration is what gives so agree to the mutual interests of the signatories. In contrast, the imposed link is the one in which interests that the agreement attends are those of the economy or economies exercising hegemony over the rest of the signatories. Finally, it is the inertial link in which the participants have developed economic interaction without there was no formal agreement, but that own commercial, financial, monetary and technological practice have led to this link, as it is the case of the so-called Tex Mex region formed by some of the Southern border States of United States and some of Northern Mexican States.

As it can be observed, the type of link allows the explanation to the integration. When referring to imposed linkage, it refers to asymmetric economies in which one or some of them depend on power of others, it would correspond to the theory of imperialism written in 1916 (Lenin, 1978) and the underdevelopment theory (Marini, 1991 and Amin, 2001). These explain the integration as a means for the realization of extraordinary profits. Also, could happen in the case of inertial bonding, in which the process of dependency theory (Prebisch). In the case of the voluntary link, various versions of economic globalization processes are explanatory.

Finally, there are more specific conclusions in Sánchez (2004) who points out three basic problems of integration. The first problem is the search for economic efficiency in the use of resources. Another problem to improve is the distribution of income among economic agents. The third problem is the stability to prevent imbalances that affect the growth of economies. In addition to considering a historical constant in the initiatives of unification of the countries, whether can be for military, political, religious or economic reasons. However, so far there are not sufficient explanations on integration. To contribute to the debate, this analysis proposed the security theory (ST) and the process of securitization, as a more structured explanation of the phenomenon of economic integration processes.

4. Economic integration from the approach of the securitization

The argument presented previously allows inferring that considering the elements of the ST and the TEI, it is possible to propose a model of process of economic integration from the perspective of the securitization.

For the model proposed, the process of security of the States or securitization is a factor of the process of economic integration. This new model can explain lots of facts on the issue occurred either predictable, it forms the trends of emerging risks, such as the worsening of global environmental imbalance, the tendency to rigid regulations on environmental issues, growing
migration towards urban centers and especially the more developed economies, the emergence of new economic powers, the growing citizenship as a new form of governance, etc. These are only some of the trends that flow into the re-composition of political, economic and military forces both at the level of units as subsystems and in consequence of the international system. Figure 8 shows a process of economic integration, motivated by the securitization.

**Fig. 8. The economic regionalization motivated by the securitization**

*Source: own drawing*

From considerations of Viner (1950), it can be analyzed if these forms of integration are diversion or creation. I.e., the orientation of the forms of integration can be inclusive or exclusive between the subsystems (regions). Following to Balassa (year) to define the stage of the process or form of integration is the subsystem, which can achieve different degrees of economic integration. As mentioned, the essentials in the process of economic integration are that they are at the same time of inclusion and exclusion.

They are processes of inclusion with regard to integrated States, but of exclusion of the other States that are not integrated. The above takes relevance when it has as a consequence the formation of an exclusive geographical area for the integrated States and for agreements which they deal, with or without prejudice to the statements of the rest of the world. However, when there is some damage to the exterior of the space it is perceived as threat to any or some States, then it can be generated a defensive response from their own part.

**Fig. 9 Degrees of economic integration of economic regions or block**

*Source: Own drawing*
4. Analysis of cases

A. The North American Free Trade Agreement (NAFTA)

Form of securitization: Overlay

The observers, among other Hirst (2004), recognized that in America it can be observed the following regions. First of all, a geo-economic sub-region in the North, even though it involves Canada, United States and Mexico, generates an effect spill, quite questionable, in Central America and the Caribbean. Secondly, an Andean sub region, and an area in the Pacific region. In the case of Mexico, is more integrated economically the Northern sub-region, while is it culturally more identified with the Latin American bloc than with the Anglo-Saxon.

On the other hand, before a block emerged by the mutual search for economic a benefit, the block is generated from the risk perceived by United States subunit. In the case of Canada and Mexico, soon are sharing the unit with United States, who is the promoter of the Overlay in part due to the perceptions of risk in that country, plus their own characteristics characteristic of sub-units and units. As a result of these perceptions of risk, Canada and Mexico are soon added to United States. Therefore, it is true that since the signing of NAFTA, Mexico is more and more linked to United States and Canada (Perroti, 2000). In addition, Mexico is part of the so-called "Northern Command", and has entered in the Homeland Security of the United States, as well as countries of Central America and the Caribbean.

B. European Union (EU)

The European Union is the result of an evolution process in international economic integration that begun in 1952 by six Nations that formed the European Community of Steel and Coal (ECSC) based on an agreement for the exchange of raw materials that led to the development of the heavy industry in the region, up to get through multiple transformations in its organization, in 2010 with 27 Member States that form the global structure more evolved in the history of mankind, with agreements of cooperation and mutual support in the political, military, cultural, environmental, economic and scientific.

Table 1 shows the main features of the two major cases of economic integration with a focus on the model of securitization.

1. Conclusions

This paper proves the validity of the proposed model of economic integration under the focus of the securitization. The aim of proposing the analysis of the formation and transformation of areas of economic integration from the approach of securitization of the security theory are also met. This study confirms that Regional Security Complexes and the Overlay contain as subsidiaries of security to various areas of economic integration in the world, in accordance with the process of diversion and creation which proposes the classic author Viner (1950) in their contributions to the
Similarly, it is possible to construct new concepts on economic integration, taking advantage of their own economy and the security theory.

Finally, there are the findings of new elements to understand the formation and development of the areas of economic integration from the securitization. This allow us to analyze and better understand the above mentioned process, such as the need for the States to protect themselves against perceived threats, and as an explanation to the integration and the formation of regions. Similarly to economic integration may be answer to non-economic problems as they are the military-political, environmental, cultural and even the ethnic problems.

**Table 1. Analysis of cases of economic integration from the perspective of the model of securitization**

<table>
<thead>
<tr>
<th>Model securitization</th>
<th>The North American free trade agreement</th>
<th>European Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsystems:</td>
<td>Protection of North and South borders of United States, access to Mexican and Canadian resources and raw materials (resourcing) and possibilities of deslocation of production processes in Mexican and Canadian territory (outsourcing)</td>
<td>Political, military, economic, scientific and environmental cooperation</td>
</tr>
<tr>
<td>Form of securitization:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actor securizer</td>
<td>United States (US)</td>
<td>Germany, France and England</td>
</tr>
<tr>
<td>Reference object:</td>
<td>Border territories of United States, neighboring States to United States, Canada and Mexico.</td>
<td>European area</td>
</tr>
<tr>
<td>Existential threat:</td>
<td>Loss of world leadership by United States - military, political and economic - to the consolidation of the European Union; possible shortages and higher prices of oil to the collusion of the producers of OPEC.</td>
<td>Hegemony of United States of America throughout European territory that threatens with a permanent military presence and pushes for the imposition of the American political model; instability in the Balkan region of Europe</td>
</tr>
<tr>
<td>Real object:</td>
<td>Interests of oil companies of United States-interests of manufacturers of United States</td>
<td>Interests of the monarchies and European oligarchies.</td>
</tr>
<tr>
<td>Agenda:</td>
<td>Border security, migration towards United States, trade liberalization, financial openness, openness of services.</td>
<td>Regional border security, African migration to the European area, internal migration in the European Space towards the area of the Union, development of the member States.</td>
</tr>
</tbody>
</table>

Source: Own generation based on Concha (2010)
6 Questions

The findings open new routes to future research with new questions of relevance. Among other questions, can initially be formulated by the transcendence and administrative implications for the development of the economic and managerial sciences:

In determining the competitiveness or the factors of success, either of the company, industry sector or the economy as a whole, is relevant to consider the securitization as a factor of competitiveness?

In studies for the characterization of country-risk for investment purposes in accordance with the criteria of Moody’s, Standad & Poor’s, and J.P. Morgan (Anzil, 2010) is it possible to apply criteria of securitization to develop an agenda for the annulment of risks?

References


Employee Satisfaction: A Case of Wateen Wincom Private Limited

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University of Management and Technology, Lahore, Pakistan

1.1 Introduction to Topic

Employee retention is an indicator that how employees are satisfied with their job and working environment. Keeping self-esteem high among employees can be of incredible benefit to any company, as happy employees will be more likely to produce more, take fewer days off, and stay loyal to the company. There are many factors in enhancing or maintaining high employee satisfaction, which sensible employers would do well to implement. Many experts believe that one of the best ways to maintain employee satisfaction is to make employees feel like part of a family or team. Holding office events, such as parties or group outings, can help build close association among employees. Many organizations also contribute in team-building events that are intended to strengthen the working relationship of the employees in a non-work related background. The compensation is another element which is the source of employee satisfaction and retention in the organization.

Moreover one of the most important factors in employee retention and satisfaction is that performance management system of the organization in which each employee is evaluated. According to expert’s analysis and my knowledge employees will be more satisfied if the organization has well established performance management system through which every employee evaluated according to his/her performance standards.
Unfortunately in Wincom there is poor performance management system and employee performance is evaluated according to the seniority basis rather than performance standards which are creating high level of employee dissatisfaction. I will try my best to find the issues/problems which are creating employee dissatisfaction in Wincom Private Limited.

1.2 Problem Statement
Wincom Private Limited has traditional culture which reflects poor performance management system. Employees are rated on the basis of authority and seniority rather than performance standards which creates high dissatisfaction for the commendable employees.

1.3 Research Objectives
- To identify the causes of employee dissatisfaction.
- To ensure is there any communication gap among workforce.
- To identify the issues related to performance evaluation.

1.4 Research Variables
According to the research problems and research objectives some variables are identified which have significant role in the employee’s satisfaction. Those variables are including: workplace & resources, Communication flow between the management and employees, performance evaluation system, working environment and training and development.

1.5 Scope of the Research
This research has been conducted on the Wincom Private Limited which is running under Abu Dhabi group of companies.

1.6 Research Beneficiaries
The direct beneficiaries of this research are the top level management of Wincom and indirectly employees, client and other stakeholders.
Research Methodology

2.1 Sampling
In this research, data is collected from employees of Wincom head office located at Jail road, Lahore. The total employees of Wincom are 300 approximately. Total sample size of this research is 200 employees in which 120 employees responded related to Human Resources, Information Technology, Audit & Accountancy and Technical Departments. Non-probability sampling method technique is used in research.

2.2 Research Instrument
This research is based on descriptive research method further more cross sectional method is used in this research as per requirement. Data has been collected through primary as well as secondary sources. Initially several interviews are conducted with few senior employees than focus group is conduct to find the constructs/factors of research (Workplace, employee evaluation, compensation and employee development). With the help of these constructs/factors Questionnaire is designed to collect the data.

Literature Review

A modernized version of job satisfaction, Schmidt et al.'s influential definition of employee satisfactions was an employee's communication among peers, the workplace environment, and involvement with work, commitment and satisfaction with work. This integrates the classic constructs of employee satisfaction (Smith et al., 1969), and job satisfaction (Meyer & Allen, 1991). Harter and Schmidt's (2003) most recent meta-analysis can be useful for understanding the impact of employee satisfaction.

A 2009 survey, by the Society for Human Resource Management (SHRM) looked at different factors that are regularly thought to relate to employee satisfaction. The study found that employees identified the following factors as most important:
- Benefits (especially health care) with the importance of retirement benefits rising with the age of the employee,
- Opportunities to use skills and abilities,
- Feeling safe in the work environment,
- The employee's relationship with his or her immediate supervisor,
- Management recognition of employee job performance,
- Communication between employees and senior management,

According to that survey (SHRM, 2009) these are the main factors that may effect the employee satisfaction in an organization. It has consolidated the results of employee satisfaction surveys and their implications for the workplace. Most importantly, the survey results have provided research data that defines the factors most important to employees as you continue to seek to provide a workplace that emphasizes employee satisfaction as a recruiting and retention tool. Use the data to your best advantage.

According to Susan M. Healthfield (2010), employee satisfaction is the terminology used to describe whether employees are happy and contented and fulfilling their desires and needs at work. Many measures purport that employee satisfaction is a factor in employee motivation, employee goal achievement, and positive employee morale in the workplace.

Factors contributing to employee satisfaction include treating employees with respect, providing regular employee recognition, employee empowerment, offering above industry-average benefits and compensation, providing employee trainings and company activities, and positive management within a success framework of goals, measurements, and expectations. (William J. Rothwell and H. C. Kazanas, 2004)

**Data Analysis**

The data collected through questionnaire is analyzed through Confirmatory Factor Analysis CFA as I already develop the questionnaire as per constructs/factors and for the validity of those constructs I used Confirmatory Factor Analysis.
### Table: 3.1  
**Factor Analysis**

<table>
<thead>
<tr>
<th></th>
<th>Workplace</th>
<th>Evaluation</th>
<th>Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eigen value</td>
<td>3.36</td>
<td>3.12</td>
<td>2.29</td>
</tr>
<tr>
<td>%age Explained</td>
<td>51.88</td>
<td>62.46</td>
<td>76.52</td>
</tr>
<tr>
<td>Mean</td>
<td>3.53</td>
<td>3.26</td>
<td>3.24</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>0.75</td>
<td>0.82</td>
<td>0.79</td>
</tr>
</tbody>
</table>

### Items  
**Factor Loadings**

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>My manager is actively interested in my professional development.</td>
<td>.813</td>
</tr>
<tr>
<td>I receive feedback from my manager about my performance.</td>
<td>.766</td>
</tr>
<tr>
<td>Teamwork is encouraged and participated in this organization.</td>
<td>.756</td>
</tr>
<tr>
<td>I have proper resources at my workplace to perform my job.</td>
<td>.628</td>
</tr>
<tr>
<td>I am encouraged to learn from my mistakes.</td>
<td>.575</td>
</tr>
<tr>
<td>I feel improvement in my performance after training.</td>
<td>.527</td>
</tr>
<tr>
<td>I am satisfied with my benefit package.</td>
<td>.864</td>
</tr>
<tr>
<td>My benefits are comparable to those offered by other organizations.</td>
<td>.847</td>
</tr>
<tr>
<td>Feedback helps me to improve my performance.</td>
<td>.760</td>
</tr>
<tr>
<td>My performance evaluation is fair and appropriate.</td>
<td>.408</td>
</tr>
<tr>
<td>I have an opportunity to participate in the goal setting process.</td>
<td>.897</td>
</tr>
<tr>
<td>I receive the praise and recognition when I do a good job.</td>
<td>.897</td>
</tr>
<tr>
<td>I have supervised by the line manager properly.</td>
<td>.732</td>
</tr>
<tr>
<td>I receive the training I needed.</td>
<td>.558</td>
</tr>
</tbody>
</table>

**KMO:**  
0.66

KMO varies between 0 and 1. Value which is closer to 1 is better and value 0.5 is suggested minimum. In this analysis KMO is having value 0.66 which indicates sample accuracy.

**Cronbach's Alpha:** 0.89

As we know that Alpha identify the reliability of the data if its >0.5 so the test show 0.89 value which means that the data is reliable.
### Demographic Table

#### Table 2.1  Gender

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>W.P</td>
<td>104</td>
<td>3.56</td>
<td>0.70</td>
</tr>
<tr>
<td>E.V</td>
<td>104</td>
<td>3.26</td>
<td>0.86</td>
</tr>
<tr>
<td>C.M</td>
<td>104</td>
<td>3.20</td>
<td>0.81</td>
</tr>
</tbody>
</table>

The table 2.1 represents the Mean comparison of gender in which the data indicates that male employees are more satisfied at workplace of Wincom as compare to female. If we see the performance evaluation aspect of the organization the both male & female having almost same response which shows that both are having same satisfaction level. But in the compensation system of Wincom it reflects that female are more satisfied with the compensation system of Wincom as compare to male employees.

#### Table 2.2  Job Type

<table>
<thead>
<tr>
<th></th>
<th>Permanent</th>
<th>Contractual</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>W.P</td>
<td>71</td>
<td>3.63</td>
<td>.73</td>
</tr>
<tr>
<td>E.V</td>
<td>71</td>
<td>3.57</td>
<td>.71</td>
</tr>
<tr>
<td>C.M</td>
<td>71</td>
<td>3.36</td>
<td>.89</td>
</tr>
</tbody>
</table>

The table 2.2 represents the Mean comparison of job type in which the data indicates that permanent employees are more satisfied at workplace as compare to contractual employees with. Again in the performance evaluation process the permanent employees are more satisfied as compare to contractual employees and finally with the compensation system permanent employees are again satisfied.

#### Table 2.3  Martial Status

<table>
<thead>
<tr>
<th></th>
<th>Single</th>
<th>Married</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>W.P</td>
<td>66</td>
<td>3.50</td>
<td>.80</td>
</tr>
<tr>
<td>E.V</td>
<td>66</td>
<td>3.14</td>
<td>.76</td>
</tr>
<tr>
<td>C.M</td>
<td>66</td>
<td>3.23</td>
<td>.81</td>
</tr>
</tbody>
</table>

The table 2.3 represents the Mean comparison of Martial Status in which the data indicates that single & married both type of employees are satisfied equally at the workplace but in the performance evaluation married employees are more satisfied as compare to single employees.
The single & married employees of Wincom satisfied both equally with the compensation system of Wincom.

Table 2.4  

<table>
<thead>
<tr>
<th></th>
<th>Age Comparison</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>25-34</td>
<td>35-44</td>
<td>45-54</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
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<td>W.P</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>80</td>
<td>3.48</td>
<td>.74</td>
<td>23</td>
<td>3.86</td>
<td>.71</td>
<td>13</td>
<td>3.07</td>
<td>.57</td>
</tr>
<tr>
<td>E.V</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>80</td>
<td>3.27</td>
<td>.73</td>
<td>23</td>
<td>3.41</td>
<td>.81</td>
<td>13</td>
<td>2.55</td>
<td>.98</td>
</tr>
<tr>
<td>C.M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>80</td>
<td>3.21</td>
<td>.79</td>
<td>23</td>
<td>3.38</td>
<td>.76</td>
<td>13</td>
<td>2.83</td>
<td>.64</td>
</tr>
</tbody>
</table>

The table 2.4 represents the Mean comparison of different age level employees that reflects that age of between 35-44 and above 54 years old employees are more satisfied at workplace and at the age of 25-34 & 45-54 are less satisfied at workplace. Employees of above 54 years age are more satisfied with the performance evaluation of Wincom as compare to others. Eventually once again the above 54 year age employees are more satisfied with compensation system of the organization as compare to 25-34, 35-44 and 45-54 years old employees.

Table 2.5  

<table>
<thead>
<tr>
<th></th>
<th>Employee Level</th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manager</td>
<td>Asst. Manager</td>
<td>Sr. Executive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>W.P</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
<td>N</td>
<td>Mean</td>
</tr>
<tr>
<td>12</td>
<td>3.33</td>
<td>.82</td>
<td>16</td>
<td>3.56</td>
<td>.75</td>
<td>35</td>
<td>3.39</td>
</tr>
<tr>
<td>E.V</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>2.75</td>
<td>1.06</td>
<td>16</td>
<td>3.25</td>
<td>1.06</td>
<td>35</td>
<td>3.30</td>
</tr>
<tr>
<td>C.M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>2.36</td>
<td>.64</td>
<td>16</td>
<td>3.33</td>
<td>1.11</td>
<td>35</td>
<td>3.24</td>
</tr>
</tbody>
</table>

According to table 2.5 Mean comparison comprises on different level of employees which indicates that Executive level of employees at Wincom are more satisfied with the workplace environment, performance evaluation and compensation system of Wincom but at the other side Asst. Managers are more satisfied with the workplace environment as compare to Managers &
Sr. Executives. In performance evaluation process the executives & senior executives are more satisfied as compare to Manager & Asst. Manager and eventually Asst. Manager, Sr. Executive and Executive are nearly satisfied but managers are dissatisfied with the compensation system of Wincom.

**Research Findings**

The objective of this research was to identify employee satisfaction in Wincom Private Limited. The researcher developed 4 constructs/factor (workplace, evaluation, compensation and development). After conducting above analysis researcher identified findings including:

- In the factor analysis the mean value 3.5 shows that employees are highly satisfied at workplace according to the availability of resources but construct of employee evaluation and compensation shows mean value of 3.2 that means less employee satisfaction with both constructs.
- Mean comparison indicates that male employee are more satisfied at workplace of Wincom as compare to female.
- Data shows that married employees are more satisfied with the performance evaluation system as compare to single.

**Limitation in Research**

- In this research I have used selected constructs like workplace, Performance management, compensation system and employee development, but further research can be done on the basis of more constructs related to HR aspects which are facing by the organizations on daily basis.

- I use Cross Sectional Method in this research which means that research will conduct once a time as per requirement. But we can also use Longitudinal Method for the better results by making comparison of previous research with the current research. It will more helpful for the researcher and the organization to take better decisions for achievements of the strategic goals.
References:


A 2009 survey, by the Society for Human Resource Management (SHRM) on “Employee Satisfaction Factors”.


TQM PRACTICES IN THE YEMENI BANKS: COMPARISON BETWEEN ISLAMIC AND CONVENTIONAL BANKS

Abdullah Kaid Al-Swidi, Arfan Shahzad, and Asma Al-Hosam

OYA Graduate School of Business, College of Business, Universiti Utara Malaysia, Sintok, Kedah, Malaysia

Abstract

Due to its strategic importance as a source of competitive advantage, TQM practices have been gaining a universal popularity as a comprehensive management philosophy. To enhance the service quality offered to the customers, banks are strongly recommended to implement TQM practices to satisfy their critical customers through continuous improvement initiatives and benchmarking. This study, however, examined the implementation of TQM practices in the Yemeni banking sector. Moreover, based on the data collected from the Yemen bank branches, a comparison has been conducted to explore the quality practices differences between Islamic and conventional banks. The findings of this study revealed that there were no significant differences between Islamic and Conventional banks regarding all the TQM practices.

Key words: TQM practices, organizational performance of banks, bank branches, Islamic banks, Conventional banks.

INTRODUCTION

Total Quality Management (TQM) practices have been growing in popularity as one of the universal management business solution initiative adopted by organizations to achieve better performance and create their competitive advantage (Kaynak, 2003). Given this importance, various models have been developed for TQM initiatives by different organizations based on their capabilities and resources and aligned with their cultural values. In other word, there has been no unique and universal model for TQM; rather, TQM models have been customized by different organizations or countries to fit their culture, environment, and long-term goals (Llorens Motes & Verdu Jover, 2004; Yasin et al., 2004).

In such global scenario, banks, like other organizations in other industries, have no exceptions regarding the quality. In the face of all these dynamic challenges, banks have to always align their strategies to be able to serve changing customers’ demands with high quality and updated innovative features to keep in business (Al-Mansour, 2007). This explains the trend of banks to seek and implement innovative strategies to ensure survival and business growth.

This study has two fold objectives. The first is to examine the level of TQM practice’s implementation in the Yemeni banking industry. The second, however, is to examine the difference between Islamic and Conventional banks regarding the TQM practices’ implementation.
YEMENI BANKING SYSTEM

In general, the Yemeni banking system consists of the Central Bank of Yemen and 17 other banks with total number of 287 branches. These banks are classified into commercial, Islamic, and specialized banks. The Yemeni banking system serves the demand of the development processes in the country by providing the major financial services to the customers (Zolait et al., 2008). The traditional banking system has the dominant role in all the banking activities in the economy. Recently Islamic banks have been gaining the attention of all the Yemeni customers and attract huge money supply reflecting the Yemeni Islamic values and subsequently achieving high profitability records.

Despite the fact that Yemen is a pure Islamic nation, the establishment of Islamic banking system in the mid-1990s was relatively late when compared to other Arabic and Islamic countries. Currently, in Yemen there are five Islamic banks namely, Tadhamon International Islamic Bank (TIIB), Saba Islamic Bank (SIB), and Islamic bank of Yemen for Finance and Investment (IBYFI), Shamal Bank of Yemen and Bahrain (SBYB), and very recently AlKuraimi Islamic Bank for Microfinance (ABM).

TOTAL QUALITY MANAGEMENT (TQM)

TQM is the management philosophy that considers the quality of the processes of the entire organization. It has been gaining an increasing scholar attention by researchers as a key variable helps in enhancing the overall organizational performance (Ehigie & McAndrew, 2005), creation of competitive advantage for manufacturing as well as service organizations (Douglas & Judge, 2001), driving for innovation (Singh & Smith, 2004), catalyst for successful changes and cultural development (Irani et al., 2004).

TQM strategy has been defined differently in the quality literature dependent on the researcher’s approach. For instance, it was defined by Dale (2003) as the management approach that ensures the involvement and effective participation of all the members of the organization in producing outcomes, products or services, which satisfy the customers’ needs and go beyond their expectations. In a similar way, it was defined by Flynn et al. (1994) as the integrated management approach that results in high quality organizational outcomes, through sustainable continuous improvement processes, to meet the customers’ needs.

Another definition of TQM provided by Anderson, Rungtusanatham, and Schroeder (1994) as a holistic organizational overall quality approach based on some critical principles such as leadership, continuous improvement, effective process management, product/ service design, customer satisfaction and involvement, and employees’ involvement and training. Recently, Kumar et al. (2009) defined TQM as the holistic management approach that integrates and align all the activities of an organization to achieve high level of customer satisfaction and subsequently overall organizational objectives.

Apparently, the past literature of management quality showed that TQM strategy has a universal importance in all types of organizations such as manufacturing organizations (Arawati, 2005; Das, Paul, & Swierczek, 2008; Sohal & Terziovski, 2000); service organizations (Saravanan &
Rao, 2006; Yasin et al., 2004); small and medium size enterprises (Demirbag et al., 2007; Sohail & Hoong, 2003); higher education institutions (Cruickshank, 2003; Dahar, Faize, & Niwaz, 2010) and in public service organizations (Nor Hazilah, 2004).

As widely discussed in the literature, TQM strategy was measured according to some intercorrelated critical factors and practices as package to help in achieving organizational effectiveness, as elaborated in the following sections (Arawati, 2005; Li et al., 2003; Saraph et al., 1989; Sila & Ebrahimpour, 2002).

TQM AND PERFORMANCE OF BANKS

Currently, the demand of the critical customers has change in terms of quality and innovation. In other words, all the products and services have to be effectively aligned with the needs and expectations of customers especially in terms of quality and innovation (Al-Mansour, 2007). That is why there has been an increasing attention given to examine the customers’ needs and who these needs and expectations can be met by adopting specific strategies that can generate the desired outcomes (Al-Swidi & Mahmood, 2011a,b,c).

For banks, it has been widely emphasized that customers are the main business partners due to their role in attracting new customers and recommending the service to their acquaintances.

Many reasons have been forcing banks, among other organizations to seek high level of quality and innovation products and services. One reason behind that is the hyper-competitive and uncertain business environment threatens the growth and even the survival of banks. In this scenario, banks, like never before, are required to adopt TQM and other innovative strategies (Al-Mansour, 2007). By identifying the processes that need improvement, TQM implementation can enable banks to produce high quality and differentiated financial than other rivals.

Another reason is the sensitivity of and changing demand of current customers related to quality and innovation. Because of that, banks and other organizations have to be more customer-centric and align all their strategies and activities towards that end if they are to keep in business. This implies that banks have to effectively use the customers’ feedback data to be the inputs of any future planning (Peschel, 2008). If the customers’ demands are not met through the continuous improvement processes, they might seek other service providers from the pool of competitors (Al-Mansour, 2007).

By and large, in banks there are various activities that might need to be improved. Among these activities are the service processing time, loans, and ATM, credit cards, opening new accounts, waiting times, and accuracy and timeliness of financial records. In addition to that, time to respond to customers’ inquiries and guiding lost customers are also some of the activities require continuous improvements(Al-Mansour, 2007).

MAJOR CRITICAL TQM FACTORS

The literature of quality management revealed that researchers have various approaches to conceptualize TQM constructs (Nair, 2006). While some researchers considered TQM as uni-dimensional construct (e.g. Arawati, 2005; Douglas & Judge, 2001) others define it as a multi-dimensional construct (e.g. Das et al., 2000; Kaynak, 2003; Samson & Terziovski, 1999b).
Some of the major TQM factors commonly applied in TQM implementation in the service organizations are briefly discussed below:

**Management Leadership (ML)**

ML is one of the most important factors of TQM that have been receiving a great attention by academics and practitioners as a key success factor of TQM initiative. In the quality management literature, the role of top management towards successful TQM strategy has been confirmed. That is the more committed the top management towards TQM implementation, the more likely that TQM initiative ends up success (Chuan & Soon, 2000). The importance of the top management role stems from its power to create and develop a supportive organizational culture that encourages effective communication, teamwork spirit, empowerment, participative decision making process, and effective training. In other words, the importance of ML towards an effective organizational performance has been empirically recognized in the literature (Arawati, 2005; Flynn et al., 1995; Llorens Montes & Verdu Jover, 2004; Powell, 1995; Yasin et al., 2004).

**Customer Focus (CF)**

As it has been widely emphasized in the TQM literature, the ultimate goal of TQM implementation is to seek high level of customers’ satisfaction by going beyond their expectations. Therefore, if there was no added value to the customers resulted from implementing TQM strategy, the TQM implementation can be considered failure (Thiagarajan & Zairi, 1997). In other words, TQM strategy can be looked at as customer-centric strategy aiming to establish a long-life relationship with customers and get them involved in all the marketing as well as product and service design activities. That is why TQM implementation should be enhanced by CRM strategy that is based on comprehensive knowledge about customers’ needs, expectations, and goals. The importance of TQM in the banking industry has been growing rapidly due to the role of customers as business partners and the stiff competition resulting in many alternatives where customers can choose. Therefore, customer focus factor of TQM strategy can always generate a better organizational performance of all types of organizations, including banks.

**Strategic Planning (SP)**

SP encompasses all the organizational activities to formulate, implement, and assess the organizational strategy implementation on the long-run to achieve the overall objectives (Srinidhi, 1998). Moreover, it is a crucial part of TQM strategy to secure an effective alignment with others strategies. Since the demand for high quality products and services is the main business driver, there is no other alternative than strategic planning to consider all the organizational capabilities and resources to achieve long-term goals (Black & Porter, 1996).

**Involvement, Training and Empowerment as Human Resource Management practices**

As defined by Ahire et al. (1996), HRM as a critical factor of TQM strategy including the employee involvement; employee training; and employee empowerment. In the quality management literature, it has been widely acknowledged that HRM is the building block of an organizational competitive advantage (Arawati, 2005). In line view of the contingency theory
and organizational change theory, it has been widely acknowledged that TQM implementation requires changing the organizational culture to support the TQM initiative. In other words, any organization should choose or develop a suitable TQM model based on HRM practices and organizational culture that help all the employees to accept and successfully implement any intended quality initiatives (Kekale & Kekale, 1995). In addition to that, in all TQM initiatives, the human element is the pivotal player in implementing, evaluating, and continuous improvement processes. And the main factor towards achieving high level of customer satisfaction.

**Service Design (SD)**

In the TQM literature, service design has been reported to significantly contribute to the level of customers’ satisfaction and hence overall organizational performance. An effective product and service design can improve the reputation of an organization and differentiate it from other rivals (Lakhe & Mohanty, 1995). From another point of view, an appropriate product and service design to be offered by an organization can lead to a better work processes, reduce the wasted time, and increase customer satisfaction level and business profitability.

**Information and Analysis System (IAS)**

The information and analysis system has been acknowledged to be one of the main requirements of a successful TQM implementation. This is so since all the TQM practices should be built on deep knowledge regarding the processes, market, and customers. This knowledge is the solid base of any effective continuous improvement programs (Ahire et al., 1996). The IAS is the combination of hardware, software, people, and procedures that must be effectively managed and utilized by organizations to achieve high performance records (Karthä, 2004). Based on that, customer-centric organizations, especially banks, should have and maintain an updated and effective information system to keep pace with the changing customers’ needs and requirements and respond well to the changing and challenging business environment.

**Continuous Improvement (CI)**

As previously discussed, TQM strategy is built basically on the premise of satisfying customers through maintaining continuous improvement programs. The continuous improvement should cover all the organizational aspects and levels (Benavent, Ros & Moreno-Luzon, 2005). In other words, the continuous improvement as a critical TQM factor is extended to include all the processes and management practices and activities (Benavent et al., 2005).

**Benchmarking (B)**

To keep pace with the new and successful practices, organizations employ a benchmarking strategy to keep in the business and respond well to the changing customers’ consumption styles. In essence, benchmarking strategy is based on analyzing the available successful products, services, and the technologies used by leading organizations in the same industry or other industries to gain competitive advantage (Ahire et al., 1996). Benchmarking can include cost savings, process efficiency, employees’ satisfaction, and customers’ satisfaction among other successful practices and activates.
Research Methods

Sample and Data Collection

For the purpose of this study, the data collected through survey questionnaire distributed to the bank branch managers in the Yemeni banking industry. Bank branch managers are in the executive positions and are the best to describe the level of strategy implementation (Al-Swidi & Mahmood, 2011a). More specifically, a self-administered survey questionnaire was distributed to the 287 bank branches representing the whole population in the Yemeni banking industry to guarantee obtaining an adequate sample size (Zikmund, 2003). Out of the 287 distributed questionnaires, 201 were returned and usable, representing a response rate of 70 per cent.

Variables and Measures

The main purpose of this study was to measure the level of TQM practices implementation in the Yemeni banks and identify the significant differences, if any, between Islamic and conventional banks. To be able to achieve the aforementioned objective, this study employed the existing measures of TQM practices in the literature. As discussed earlier, TQM practices considered by this study were, Management Leadership (ML); Customer Focus (CF); Strategic Planning (SP); Involvement, Training, and Empowerment as HRM practices; Service Design (SD); Information and Analysis System (IAS); Continuous Improvement (CI); and Benchmarking (B).

Therefore, this study employed the measure used by Brah et al. (2000) to measure the commonly studied and investigated TQM factors, especially in the service industries.

Analysis and Results

The results of the study showed that while 78 per cent (157 branches) of the Yemeni banks were based on the conventional operating system, only 22 per cent (44 branches) were Islamic banks as shown in Figure 1.

![Figure 1: The percentage of Islamic and Conventional banks](image)

The results in Table 1 and Table 2 summarize the mean and standard deviation of branch managers’ perception about the TQM practices in traditional and Islamic banks respectively.

Table 1: Descriptive statistics for variables in Conventional banks
The results showed that the Islamic banks showed higher mean than the Conventional banks related to all the TQM practices except Training, Information and Analysis System, and Benchmarking where the means were slightly higher in Conventional banks. The results also revealed that the TQM practices have almost the same ranks based on the mean value between the Conventional and Islamic banks as can be seen in Table 3.

As expected, the customer focus variable has the same low level in both types of banks indicating the low attention given to the customer-centric strategies in the operations of both types of banks. Next to the customer focus from the top down is the service design practice which is very much related to the customer-focus strategy.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Leadership (ML)</td>
<td>1.6</td>
<td>5</td>
<td>4.09</td>
<td>0.64</td>
</tr>
<tr>
<td>Customer Focus (CF)</td>
<td>2</td>
<td>4.6</td>
<td>3.71</td>
<td>0.63</td>
</tr>
<tr>
<td>Strategic Planning (SP)</td>
<td>2.6</td>
<td>5</td>
<td>4.01</td>
<td>0.62</td>
</tr>
<tr>
<td>Involvement</td>
<td>2</td>
<td>5</td>
<td>3.74</td>
<td>0.80</td>
</tr>
<tr>
<td>Training</td>
<td>2</td>
<td>5</td>
<td>3.75</td>
<td>0.88</td>
</tr>
<tr>
<td>Empowerment</td>
<td>1.5</td>
<td>5</td>
<td>3.75</td>
<td>0.96</td>
</tr>
<tr>
<td>Service Design(SD)</td>
<td>1.67</td>
<td>5</td>
<td>3.73</td>
<td>0.82</td>
</tr>
<tr>
<td>Information and Analysis System (IAS)</td>
<td>2</td>
<td>5</td>
<td>3.92</td>
<td>0.84</td>
</tr>
<tr>
<td>Continuous Improvement (CI)</td>
<td>2.5</td>
<td>5</td>
<td>4.21</td>
<td>0.62</td>
</tr>
<tr>
<td>Benchmarking (B)</td>
<td>2</td>
<td>5</td>
<td>3.84</td>
<td>0.80</td>
</tr>
</tbody>
</table>

Table 2: Descriptive statistics for variables in Islamic banks
Table 3: The Rank of TQM practices between Conventional and Islamic banks

<table>
<thead>
<tr>
<th>Construct</th>
<th>Conventional</th>
<th>Islamic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Leadership (ML)</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Customer Focus (CF)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Strategic Planning (SP)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Involvement</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Training</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Empowerment</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Service Design(SD)</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Information and Analysis System (IAS)</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Continuous Improvement (CI)</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Benchmarking (B)</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 4: testing the differences in TQM practices between Islamic and conventional banks

<table>
<thead>
<tr>
<th>Variable</th>
<th>Levene's Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F-value</td>
<td>Sig.</td>
</tr>
<tr>
<td>Management Leadership (ML)</td>
<td>0.067</td>
<td>0.796</td>
</tr>
<tr>
<td>Customer Focus (CF)</td>
<td>0.007</td>
<td>0.932</td>
</tr>
<tr>
<td>Strategic Planning (SP)</td>
<td>0.416</td>
<td>0.520</td>
</tr>
<tr>
<td>Involvement</td>
<td>0.005</td>
<td>0.944</td>
</tr>
<tr>
<td>Training</td>
<td>0.002</td>
<td>0.961</td>
</tr>
<tr>
<td>Empowerment</td>
<td>0.623</td>
<td>0.431</td>
</tr>
<tr>
<td>Service Design(SD)</td>
<td>1.618</td>
<td>0.205</td>
</tr>
<tr>
<td>Information and Analysis System (IAS)</td>
<td>1.595</td>
<td>0.208</td>
</tr>
<tr>
<td>Continuous Improvement (CI)</td>
<td>0.515</td>
<td>0.474</td>
</tr>
<tr>
<td>Benchmarking (B)</td>
<td>0.110</td>
<td>0.741</td>
</tr>
</tbody>
</table>

As can be seen in Table 3, the human resource management strategies were also among the very less practiced practices in the Yemeni banks given the equal emphasis by both Conventional and Islamic banks.

Following that, this study tried to test for the differences between the means of the various TQM practices using T-test. The results of T-test were reported in Table 4 along with the Levene’s test of equality of variances. Since all the significance values in the third column in Table 4 were >0.05, these results proved that the claim that the two samples, Conventional and Islamic banks, for all the practices have equal variances has been supported at the 0.05 level of significance.
Testing the equality of means for all the TQM practices between Conventional and Islamic banks also revealed that there were no significant differences at the 0.05 level of significance. This conclusion was drawn since the significance values in the sixth column in Table 4 for all the TQM practices were >0.05. These results lead to the conclusion that there was no significant difference among Conventional and Islamic banks in terms of TQM overall implementation.

**Discussion and conclusions**

The findings of this study confirmed the argument provided by Al-Swidi and Mahmood (2011c) regarding the lack of customer and market focus strategies practiced by the Yemeni banks regardless the type of bank, Islamic or Conventional. Notwithstanding the recent establishment of Islamic banks, they are still managed by the same traditional management styles that did not appreciate the importance of customer satisfaction principle for business success, particularly in banks (Al-Zamany et al., 2002). The main focus of all the members of Yemeni banks, like other organizations, is to satisfy the managers and neglect the customers.

Additionally, the findings of this study revealed the low attention being paid to the human resource management practices by the owners and leaders of the Yemeni banks. This conclusion was based on the low involvement of employees in decision-making processes, the lack of training, and the very low level of empowerment and delegation as depicted in Table 1, 2, and 3 (Al-Zamany et al., 2002). This low level of HRM practices reflects the low perception of managers that employees are the main assets of their banks especially in the changing, attracting, and globally opened job markets.

More importantly, the lack of training and qualification of the Yemeni banks’ managers can be also one of the plausible reasons behind the poor practices of quality and other innovative strategies. This lack of training prevents them to see the future advantages that can be obtained if there was an affective investment in nurturing employees’ skills and capabilities. Moreover, the autocratic management style practiced by the managers of the Yemeni banks waste a lot of advantageous discussions and new ideas drawn from an effective communication and quality assessment and review sessions.

**Managerial Implications**

This study has many managerial implications. It shows the level of TQM practices in the Yemeni banking industry with its both components Islamic and Conventional streams. With the clear understanding of the current TQM situations, managers are to enhance the human-focused strategies to seek a high level of satisfaction for both internal as well as external customers.

Second, as the banking businesses are mainly based on the customers and their promotion for the products and services, banks’ managers have to pay an increasing attention to the role of intellectual capital and human capital for the business success and effectiveness. Moreover, the interconnection among all the TQM practices suggests that TQM strategy should be considered as a package rather than piece by piece practices.

The findings of this study implies that in the Yemeni banking industry, managers and all the stakeholders should insist on the establishment and development of quality culture that support all the TQM initiatives and presents a solid ground for any change strategies.
Finally, the principles of TQM strategy should be instituted in the tertiary education curriculum by the policy-makers of Yemen to ensure a graduate with the basic capabilities to lead successful quality initiatives.

**Limitations and Conclusions**

The major limitation of this study is due to the cross sectional research design that examines the TQM practices at one point of time and the level of practices is measured perceptually by the managers. Since the TQM strategy is long-term strategy and not quick-fixed solution for business problems, this type of research design may not be effective in measuring the level of TQM practices.

**Future Research Directions**

To be able to measure the level of TQM practices, this study suggests that future research may choose to use longitudinal and case study research design. In addition to that, the future research work in the Yemeni context should focus on examining the impact of TQM practices on the quality culture.

Additionally, future studies should focus on the effect of organizational culture on the TQM implementation since even the more recent banks, which are supposed to be having new and modern management styles, showed the same level of TQM practices. Given this scenario, the future studies should be giving an increasing attention to exploring the organizational factors that may affect the TQM implementation. As it has been widely, emphasized in the literature of contingency theory and organizational change, the organizational culture and environment should match all the strategy implementation to achieve the desired and targeted results. Therefore, extended future research work should investigate this issue and explore further the TQM key success factors.

**Acknowledgement**

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REFERENCE


VALUING SMALL BUSINESSES

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ABSTRACT

The concept of valuing small business is become of paramount significance especially after the globalization of the world economy in general and global business in particular. The day will come when you will need to know the value of your business. It is likely that its value will be significantly less than you would expect, especially if you don't start making plans now to enhance its value. This would be because of the intense competition. This paper is analyse the various reasons that businesses need to be appraised, describe appraisal concepts and suggest the needy strategy through which value of business could be enhanced both vertically and horizontally. The time has come that this concept must be adequately dealt with it.

Key words: business valuation, financial statements, Entrepreneurs, Intangible assets, book value.

INTRODUCTIONS:-
A “business valuation” is the computation of the worth, or fair market value, of an existing business enterprise or an ownership interest in that business.

Fair market value is defined as the price at which a property (business) would change hands between a willing buyer and willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

The opinion of fair market value is based on a “going concern” premise. This premise assumes the business being valued is an ongoing business enterprise, with rational management, seeking to make profits and maximize business value. The resulting valuation opinion is the result of a detailed analysis, based on past and current business information, analysis of the company’s financial statements, and the selection of appropriate valuation criteria, combined with the appraiser’s professional judgment.

Entrepreneurs planning to sell a business or transfer ownership to family members will benefit from a business valuation to establish a fair sales price. Individuals interested in purchasing an existing business need to know the value of the business to determine if the
asking price is reasonable. Lenders or investors may require buyers to provide a business valuation as a requirement for financing.

There are different methods to estimate the value of a small to mid-sized business that has been occupying strategic position in globalize world. Generally we make use of three primary approaches that are based on recognized appraisal standards: Income, Market, and Asset.

- **Income Approach** is based on business income. Past earnings, expected future growth, owner’s compensation, and specific risk factors, such as customer concentration, weak management and lack of diversification are all taken into account to determine the potential earning power of the business into the future.

- **Market Approach** is based on a comparison of the sales prices of businesses in the same industry. We try to determine what the market will pay for a business using national statistics for comparable business sales transactions and use those numbers to determine sales multiples that are applied to gross sales and adjusted earnings information. Use of comparable “Rules of Thumb” for industry sales information is only considered as a reasonableness check.

- **Asset Approach** uses valuation procedures which assume a business is worth the fair market value of its tangible (physical) assets, plus its intangible assets. Because the value of intangibles is difficult to determine, various methods will be used to calculate their worth.

**CONCEPT OF VALUATION:**

The concept of value was set forth as early as the first century, B.C., when Publilius Syrns wrote his Maxim 847. Since then the concept is being in use not on high pitch. But after the globalization of the world economy, the concept has got much more attention and momentum. These days, the concept has become a focal point of discussion both in academic and professional gatherings.

A fundamental principle in valuing a business is that each determination of value must be based on the specific facts present. Valuation of a business will result from a dispassionate analysis of the firm's objective and subjective factors such as: the firm's financial condition; future income and expense risk factors; market and industry considerations; management and marketing functions; and the perceived esteem with which the business is held by its owners and or others.
FACTORS THAT MAY INFLUENCING VALUE:

There are many potential factors that can influence the value of a firm. However, eight factors have been given preeminence in Revenue Ruling 59-60 which are as under:

1. The nature of the business and the history of the enterprise from its inception
2. The economic outlook in general and the condition and outlook of the specific industry in particular
3. The book value of the stock and the financial condition of the business
4. The earnings capacity of the company
5. The dividend-paying capacity
6. Whether or not the enterprise has goodwill or other intangible value
7. Sales of stock and the size of the block of stock to be valued
8. The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter

The foremost valuation factor to be considered for an operating company generally is its earnings capacity. The business must first provide a sufficient return on the tangible assets required to operate the business, then any excess earnings is attributable to the intangible assets.

APPRAISAL APPROACHES AND METHODS:

An appraisal approach is defined as a general way of determining an indication of value using one or more appraisal methods. The three approaches typically used to determine the value of a business are the Asset Based Approach, Market Approach and the Income Approach.

ASSET BASED APPROACH METHODS:

The Asset Based Approach is defined as a general way of determining total asset value of the corporation or business. Based upon the selected standard of value to be used, the appraiser will determine the appraisal methods that produce indications of value that best represents the nature of the assets being appraised. Book Value rarely reflects any standard of market value. For valuation purposes, the Company's balance sheet most always needs to be restated to reflect the market value of its assets and liabilities. The methods used for determining this value for the diverse group of assets owned by the Company include.
• **Direct Market Comparison Method** - This method compares sales of similar items of like condition and utility. Used equipment dealers are a good source of this information. These dealers generally buy used equipment at values close to liquidation and then resell the items after required repairs typically at values in the range of 40% to 75% of costs new depending upon condition and market trends.

• **Cost Less Depreciation Method** - This method starts with Cost New and deducts value for functional, physical and economic obsolescence factors. Asset Based Methods provide a base indication of value before any consideration of the earnings the tangible assets generate. If a business is to have a value greater than its tangible assets, then the earnings must provide a return in excess of that needed to support the tangible asset values.

**MARKET APPROACH METHODS:**

The Market Approach is defined as a general way of determining a value indication using one or more methods that compare the subject to similar investments that have been sold. It is a market oriented concept based on the Principle of Substitution. This Principle assumes that the value of a thing tends to be determined by the cost of acquiring an equally desirable substitute. Past transactions can provide objective, empirical data for developing value measures. Examples of market approach methods include the following:

• **Ratios of price to gross sales, price to earnings or price to asset value** can be derived from past guideline transactions of public and privately held companies. These ratios are then applied to the sales, earnings and/or assets of the company being appraised to derive indications of value.

• **Rules of thumb** may provide insight on the value of a business; however, value indications derived from the use of rules of thumb should not be given substantial weight unless supported by other valuation methods. At best, rules of thumb are based on averages and do not account for a business being below or above average. Furthermore, rules of thumb typically are unclear as to the assets and/or liabilities that should be included.

The major difficulty with using Market Approach Methods is finding guideline companies that are similar to the business being appraised. Public company data is often not directly
comparable with small privately held companies and data from transactions in private firms is not publicly available. There are several proprietary databases of private business sale transactions to which business appraisers can subscribe, however, the data available is very limited.

INCOME APPROACH METHODS

The income approach is defined as a general way of determining an indication of value by using one or more methods that convert anticipated benefits into value. It is a widely recognized approach to estimating economic value. The income approach considers a business or other income producing property more or less as though it were a money machine whose purpose is to produce money for its owner. This approach best encompasses the Principle of Anticipation, wherein value changes in expectation of some future benefit or detriment affecting the property. Income Approach Methods involve estimating the amount of future income and converting the income into an estimate of value.

SIGNIFICANCE OF BUSINESS APPRAISAL

There are many factors that small business owners need to know the value of their business including the following:

- **Selling your business** - Business are bought and sold for a variety of reasons including: retirement, death of the owner, health problems, divorce, family problems or burnout. In fact, burnout is one of the biggest reasons small businesses are for sale. Owners frequently get frustrated with employee problems, taxes, government regulations and "irate customers." Knowing the current market value of your business will provide you with the information necessary to properly plan the timing of a sale and to negotiate a sale more quickly at a reasonable price.

- **Determining value for a buy/sell agreement** - If you have partners or other shareholders in your business, you should have a buy/sell agreement that covers the four D's of death, disability, divorce and dissolution. It is important to have the procedures in writing that you are going to use in determining value for each of these possibilities. Don't specify some Rule of Thumb or predetermined appraisal method in these agreements, because they will most likely not be applicable at the time of need. Some agreements call for each party to select an appraiser and if they can't agree upon a value a third appraiser is appointed. This can be very expensive and unnecessary. It is far better to specify in the agreement the qualifications required of an independent
appraiser. They when the need arises, an appraiser is selected who meets the specified criteria and is acceptable to all the parties. Criteria for selecting an appraiser will be covered later on in this article.

- **Litigation issues** - Determining economic, damages bankruptcy issues, resolving shareholder/partner valuation disputes, or material dissolution all call for a fully documented appraisal report specifying a value that will hold up in court and meet state and federal guidelines for valuation issues.

- **Estate planning for gifts or inheritance** - When tax planning for your personal estate or business interests, an appraisal can provide the needed support for a reasonable valuation that meets the guidelines of the IRS and other governmental agencies.

- **Allocation of purchase price among tangible and intangible assets** - Following the purchase of an existing business, allocation of the purchase price among the various tangible and intangible assets will provide a tax basis for value in establishing depreciation and amortization expenses.

Appraisals can be a very helpful tool for determining current market value and providing insightful analysis regarding the status of the business and its growth potential.

**MODES OF SMALL BUSINESS VALUATION:**

**BOOK VALUE**: Is simply the small business valuation based upon the accounting books of the business. Assets less liabilities equal the owner’s equity, which is the "Book Value" of the business. The problem with book value small business valuation methods is that the accounting records may not accurately reflect the true value of the assets in the small business valuation.

**ADJUSTED BOOK VALUE VALUATION METHODS**: Your MBA performs two types of adjusted book value small business valuation: Tangible Book Value and Economic Book Value (also known as book value at market).

**Tangible Book Value** small business valuation is different than book value in that it deducts from asset value intangible assets, which are assets that are not hard (e.g., goodwill, patents, capitalized start-up expenses and deferred financing costs).
**Economic Book Value** small business valuation allows for a value analysis that adjusts the assets to their market value. This small business valuation allows valuation of goodwill, real estate, inventories and other assets at their market value.

**INCOME CAPITALIZATION VALUATION METHODS:** First you must determine the capitalization rate - a rate of return required to take on the risk of operating the business (the riskier the business, the higher the required return). Earnings are then divided by that capitalization rate. The earnings figure to be capitalized should be one that reflects the true nature of the business, such as the last three years average, current year or projected year. When determining a capitalization rate you should compare with rates available to similarly risky investments.

**DISCOUNTED EARNINGS:** This determines the value of a small business based upon the present value of projected future earnings, discounted by the required rate of return (capitalization rate). Usually, the question is how well earnings are projected.

**DISCOUNTED CASH FLOW VALUATION METHODS:** Are the small business valuation methods best used to conduct a business valuation on an entity established for the purpose of fulfilling a specific project, in certain startup and other companies where cash flow is more important than net income, and when a certain time frame is set where an investor wishes to see his investment returned over a specific period of time. In discounted cash flow, the present value of liabilities is subtracted from the combined present value of cash flow and tangible assets, which determines the value of the business.

**PRICE EARNINGS MULTIPLE:** The price-earnings ratio (P/E) is simply the price of a company's share of common stock in the public market divided by its earnings per share. Multiply this multiple by the net income and you will have a value for the business. If the business has no income, there is no business valuation. If the common stock in not publicly traded, business valuation of the stock is purely subjective. This may not be the best choice of business valuation methods, but can provide a benchmark business valuation.

**DIVIDEND CAPITALIZATION:** Since most closely held companies do not pay dividends, when using dividend capitalization valuators must first determine dividend paying capacity of a business. Dividend paying capacities based on average net income and on average cash flow are used. To determine dividend paying capacity, near term capital needs, expansion
plans, debt repayment, operation cushion, contractual requirements, past dividend paying history of a business and dividends of a comparable company should be investigated.

SALES MULTIPLE SMALL BUSINESS VALUATION METHODS: Sales and profit multiples are the most widely used business valuation methods benchmark used in valuing a business. The information needed is annual sales and an industry multiplier, which is usually a range of .25 to 1 or higher. This method is easy to understand and use. The sales multiple is often used as the business valuation benchmark.

PROFIT MULTIPLE SMALL BUSINESS VALUATION: Profit and sales multiples are the most widely used small business valuation benchmarks used in valuing a business. The information needed is pretax profits and a market multiplier, which may be 1, 2, 3, or 4 and usually a ceiling of 5. These small business valuation methods are easy to understand and use.

LIQUIDATION VALUE: This type of small business valuation is similar to an adjusted book value analysis. Liquidation value is different than a book valuation in that it uses the value of the assets at liquidation, which is often less than market and sometimes book. Liabilities are deducted from the liquidation value of the assets to determine the liquidation value of the small business.

REPLACEMENT VALUE: This type of small business valuation is similar to an adjusted book value analysis. Liabilities are deducted from the replacement value of the assets to determine the replacement value of the small business.

CONCLUSION AND RECOMMENDATIONS

When the time comes to have your business appraised, here are some tips recommended on how to find the best appraiser of your business so that a real and picture of the business could be judged or seen. These recommendations may go a long way in appraising the business make necessary adjustments that may come up while appraising the business.

- Look for an Accredited Appraiser who has designations from a professional association such as the American Society of Appraisers or the Institute of Business Appraisers. The designations show that the appraiser has met strict education and experience requirements and successfully completed several written examinations to prove his or her appraisal knowledge.
• Never choose an appraiser who works for a fixed percentage based on the amount of value being determined. An ethical and objective appraiser will charge a flat fee or a hourly fee for the work.

• The appraiser should be independent rather than an advocate. Your accountant and attorney are considered your advocates, but an appraiser should be able to conduct an appraisal and prepare a report independently of any other relationships with the business owner. Little if any credence will be attributable to an appraisal conducted by an advocate.

• The appraiser should adhere to the Uniform Standards of Professional Appraisal Practice (USPAP).

• Review the appraiser's qualifications statement or job history resume for his or her documented accomplishments.

• Check the appraiser's references, including recommendations by attorneys, accountants, banks and financial institutions.

• Conduct a personal interview to determine how the appraiser's experience and knowledge relates to your particular assignment.

• Develop new modules for making valuation more effective and efficient.

• Constant review on half yearly basis is the need of the day.

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AN EMPIRICAL STUDY ON TRAINING NEEDS ANALYSIS AMONG MEDICAL STAFF FOCUSING ON STAFF NURSE

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Abstract:
This study main focus is on training need analysis among staff nurse which have been classified into work or task analysis, user analysis and training quality analysis and evaluating their previous training. In this article secondary data’s such as already published articles from various journals has been referred. Based on the overall study the training need is analyzed and it is suggested that depending on their career aspirations they not only require nursing training but also requires training for handling advanced machine handling during critical care, training in case of assisting medical camp for junior level nursing staffs.

Key words: training, staff nurse.

(1) Introduction:
Training need analysis is a process where it gives the idea about the training program, training planning and how it can be delivered successfully to the trainees. Training need analysis is a cyclic process which contributes to the overall training and educational strategy of staffs in an organization or a professional group. The cycle commences with a systematic consultation to identify the learning needs of the population considered, followed by course planning ,delivery and evaluation.( Dinah Gould , Daniel Kelly ,
Isabel White Jayne Chidgey (2003) Before going on to training need analysis an organization and the employee must be clear in their objectives. A training need analysis is the process of comparing between the required level of performance and present level of performance. According to Helen Carr training need analysis also known as gap analysis – identifies performance gap by isolating the current and the future performance. On this process we can determine the area where the training is required in order to improve the employee performance to achieve their objective. A training assessment should be designed to identify and prioritize need, while a training analysis should break and identified need into component parts and determine solution requirement (Watkins and Kaufman, 1996). In this study the training need is analyzed by breaking into various components such as job analysis, training need to perform the current job efficiently, training required for future development and evaluating the previous which they have undergone already.

(2) Objectives of the study:
1. To know about the various task involved in performing the job effectively
2. To learn about the different training need for performing their current job
3. To determine the training need requirement for their future development.

According to Andrew Knowles there are various techniques used for training need analysis. Like interviewing the supervisor, employees or other relevant parties and observing staff at work or questionnaire for the employee for self assessment of their knowledge. This article is based on interviewing the staff where they think the gap lies. An open ended question was asked pertaining to the training and their job.

(3) Review of literature
Training need analysis is not based on single element but its purpose, scope should be considered. According to Michael L. Moore and Philip Dutton the training need analysis is a function recognized as an integral part of a well defined training programme by training theorist and academics. To use more effectively training dollars and resources one must determine exactly the location, scope and magnitude of the training need. The
needs assessment is the first step in the establishment of a training and development Program. For Janice A. Miller and Diana M. Osinski, It is used as the foundation for determining instructional objectives, the selection and design of instructional programs, the implementation of the programs and the evaluation of the training provided. These processes form a continuous cycle which always begins with a needs assessment. Training program not only be assessed for organizational purpose but the result must be notified to the trainees also. This will help them to be motivated for their regular participation in the training program. The training process can be enhanced through participation, checking the understanding of the participants, giving feedback to participants, stimulating their interest, emphasizing the important lessons, and focusing on results. In case of Jonathan B. VanGeest, and Deborah S. Cummins, of Organizations need to encourage physicians and nurses to learn more about patient safety and provide opportunities for healthcare professionals to put this knowledge into practice.

(4) Work analysis/job analysis/task analysis:
Job analysis involves a systematic approach through which break down of the factors involved in performing the job which is given. Job analysis scrutinize the job accurately define the training need of the professionals. It complements the organizational analysis whose holistic nature means that it cannot identify the specific training needs of the people holding different jobs within the same organization (Maud Emmanuelle Labesse). Task which the staff nurse perform regularly that are critical to carry out their job effectively are maintaining team spirit, maintaining records perfectly, theatre maintenance. On doing the job analysis of the staff nurse every one possesses a technical skill which helps in performing an effective team work. According to the patients conditions and care the staff nurse perform the same work along with their team during emergencies and normal conditions. Since the nursing job is a team work they get only moderate freedom with their job and hence nurses get very moderate support to do perform different things at work using their skills and talents. So based on the job analysis /work analysis the different task and responsibilities are determined.
(5) Training needs/user analysis:

1) Performing the current job: the training for the staff nurse will be either on the job or off the job training methods. In our case the nurses expect more of on the job training method i.e., formal training methodology. Through which they can be trained for using the operative equipments where they can handle without difficulty during emergency period.

2) Performing other jobs in the organization: staff nurse must be encouraged to involve in the other jobs like assisting in administration. Organizational objectives must be made clear for the staffs before appointment and the organization must conduct the induction session for all nursing staffs so that they get motivated and achieve the organizational and individual objectives.

(6) Evaluating the previous training program:

Training program which they have attended during the previous session: operation room training and medical transcriptions are some of the skills the acquired during their previous training session. This will help them to identify whether they need any more training on that.

(7) Findings:

Since this study is in case of training analysis in case of employees there is gap between the expected level and target level like,

1) Moderate support for using their skills and talents in handling different task in their job.

2) Formal training for Handling operation equipments and assisting in health camps is expected. There is a less involvement with administration.

3) Moderate support from their superiors of co worker in proceeding with their work on the superior’s absence.

4) Expect training in handling medical based soft ware training.
(8) Suggestions:

1) Importance of team work should be taught along with the regular training session. During the training period a successful trainee must be identified and any kind of reward or award can be given. This will motivate other members.

2) Proper communication channel can be made because due the effective communication the staff nurse may learn more in an informal way or off the job training method from the experienced staffs.

3) Sometimes off the job training or informal method of training program can be used like simulation training program to train the staffs to handle some emergency time.

(9) Conclusion:

Thus the training need for the staff nurse is analyzed and the difference can be rectified through simulation training and by motivating them to know the importance of team work for the effective handling of patients.
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WESTERN IMPERIALISM AND NIGERIA- STATE

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Abstract
Imperialism is a policy in which one country seeks to extend its authority by conquering
other countries or establishing economic and political dominance over other countries. It
is a process where the dominant political and economic interests of one nation
expropriate for their own enrichment in land, labour, raw materials and markets of
another people. The paper focus on imperialism and capitalism as well as the
consequences in Nigeria state, it is against this backdrop that we urge Nigerians to
examine its indigenous ideology as a deterrent to development process through their
natural endowments. In a bid to actualize the objective of this paper, dependency theory
framework was adopted in analyzing the theory.

Keywords: Domination, Colonialism, Economic expansion & Exploitation

Introduction

The control of African continent came in 1444 by the Portuguese providing the
basis in which European colonialists partitioned the territories following the Berlin
conference of 1884, the climax of the plot by European government is to expand the
practice of subduing, supplanting and extending their territorial control over weaker
nations. The practice of colonialism was extended to the African continent after the
Berlin conference of 1884 when powerful European nations politically partitioned Africa
according to their existing areas of influence (Ozor, 2004: 327). Following this
partitioning, the territory is now known as Nigeria was ceded to Britain and between
1861 when the British conquered the kingdom and territory of Lagos, in 1960 when
Nigeria attained political independence, colonialism thrived in Nigeria (Nnadozie and
Ozor, 2004). The coming of British rule marked the beginning of capitalism in Nigeria;
they penetrated the existing business in Nigeria and on the process introduced the western
capitalist system leading to the full control of the entire Nigerian economy. The
independence marked the end of direct administrative control by foreign powers, but their interests never ceased and like cocoyam that goes into the ground single and comes out with children; these colonial powers reappeared in different forms with more sophisticated tactics on imperialism.

Nigeria has remained underdeveloped as a result of capitalist ideology imposed on her by their colonialists and the subsequent imperialistic activities perpetuated in the country, like other colonized states where capitalism and imperialism has thrived. Nigeria is faced with unstable economy, ideology changes, political instability, poverty, infrastructural decay and general underdevelopment. The situation excite much public interest and worry amongst critical thinking Nigerians. The interests, criticisms, and controversies generated were so glaring that no government can ignore it with a simple wave of the hand. It has become necessary that an analysis on the assertion that imperialism is the highest stage of capitalism with particular reference to Nigeria. The paper will help in discovering and exposing various ways in which imperialism is practiced in Nigeria and the effect it had on Nigeria’s development. The paper will be a guide towards proffering solutions to the problem of underdevelopment perpetuated through imperialism and as well a reference material for policy makers, scholars and the public in contributing to the existing literature. Consequently, this paper postulated the following propositions as follows:

➢ The imperialist activity in Africa has contributed to the current economic and political developments in Nigeria.
➢ The way out for Nigeria from the imperialist stranglehold is through enunciation of a true Nigerian ideology for development to reduce dependency on the centre.

Conceptual Clarifications:

Lenin defines Imperialism as the domination of weaker states by stronger ones, for Lenin imperialism was distinct because it represents the product of new stage in development of capitalism. The internal composition of capitalism changed dramatically in the years around the turn of the last century, responding to economic crisis, capitalism in the US, Germany, Japan and France tend to be dominated by massive monopolies.
Imperialism is used in two senses, one broad and the other narrow, it is the subordination of one country to another in order to maintain a relationship of unequal exchange. The subordination can be military, economic, political and cultural or some combination of all. Hence, we talk of political, cultural, military or economic imperialism; the strict usage of imperialism makes it an economic phenomenon. With this, imperialism is a stage in the development of the capitalist mode of production (Ake, 1979: 99). Imperialism is the creation of unequal economic, cultural and territorial relationship between states and often in the form of empire, based on domination and subordination. It is the as western concept that employs expansionist-capitalist and lateral communists system (Wikipedia, 2009).

Imperialism is the control by one state of other territories through political or military means (direct imperialism), the imperial power may take over the government of a particular territory through process (indirect imperialism), in which the region is officially self governing but linked to the imperial power by unequal trade relation. Furthermore, the notion of cultural imperialism is indicated by existing traditional ways of life and thinking are subordinated to the culture of imperialist.

In his argument Marx analyze capitalist as replaced by corporations dominating whole markets, wealth, capital and power in fewer hands. Marxist analysis of capitalism and conditions in which capitalism enters periods of economic crisis eventually lead to social and political revolution is exceedingly complex and essentially economic in its orientation as capitalism has continued to develop and change its character since the death of Max and Engels, numerous Marxist thinkers, from Lenin onwards added important theoretical dimensions relating Marxism like the new conditions of global economic production.

Theoretical Framework:

The paper adopts “dependency theory” as its framework as propounded by the chief proponent Andre Gunder Frank (1960) in the book of development administration (Olewe, 1995: 44). He argued that colonialism and western capitalism are two major factors responsible for the underdeveloped nature of third world countries. He posit that the western industrialized countries developed by exploiting human and natural resources
of the Asia, Africa and Latin American colonies by making them economic dependent on their colonial powers. He expressed that neo-colonialism continues as western powers continue their political and economic domination of their former colonies. Offiong (2001: 46) states that the most influential version of the dependency theory is the world system perspective built around the work of Immanuel Wallenstein (1974).

According to Wallenstein, the world-system perspective is a model of “world capitalist economy” which seeks to explain the origins of global poverty and inequality. He states that interacting national economies make up a global economic system, and that this world system is the result of economic expansion as rooted in the west has moved across national boundaries since the sixteenth century. Wallenstein believes that the world economy benefits the west by generating profit for them and hurts the third world by perpetuating their poverty. It imposes a dependency status on the poor countries which continue to remain in the control of the rich and powerful nations of the west. Wallenstein identified three crucial factors that perpetuate dependency status as follows:

The narrow export oriented economies, peripheral nations have undiversified economies; colonialism forced them to stop growing variety of crops for local consumption in favour of producing a few materials for export to metropolitan countries. Multinationals, which fuel neo-colonialism, perpetuate this economic pattern as they purchase raw materials cheap in the third world and process them profitably in core countries. The second factor is lack of industrial capacity; third world countries sell raw materials to core countries and buy expensive manufactured products. Finally, there is problem of foreign debt, aggravated by structural adjustment programme (SAP). The unequal patterns of trade impose heavy indebtedness on the periphery nations in favour of the core. This staggering debt has imposed untold hardship on the third world and some of them are collapsing (Wallerstein, 1974, quoted in Offiong, 2001: 46).

Relating dependency theory to the Nigerian situation, the attributes of capitalism and imperialism are much in operatives, the world system perspective which is a model of world capitalist economy has caused poverty, underdevelopment and consequently made Nigeria to remain dependent on the foreign powers. Nigeria remains raw material producing country while the multi-nationals continue to purchase them at cheap prices
and in turn bring their finished product for us to buy. The unequal pattern of trade imposed by this system brought heavy indebtedness on the nation while various forms of reform they have forced the nations to carry out have worsened the situation. Capitalism is an economic system in which a country’s trade and industry are controlled by private owners for profit rather than by the state (Horny, 1995:165). Adam Smith is universally recognized as the father of the classical political economy, and his book “An Inquiry into the Nature and Causes of the Wealth of Nations” laid the foundation of capitalism as an economic doctrine and system (Ozor, 2004:278). It is believed that capitalism of the market economy using the price mechanism and the so called invisible hand can satisfy three allocation efficiency functions that is a situation where there are efficiency in production, consumption in the overall economic sense, but Ozor was of the view that this statement is correct as far as it can go, but it does not go far. He holds that the market system is helpless when it comes to handling general macro-economic decisions and the market capitalism cannot handle the problem of equitable distribution of income and wealth in the society.

- Economic problem led to imperialism.
- Socialism emerged as an ideology within one capital society.

The present global economic meltdown experienced in the western advanced capitalist states can attest to the inadequacy of the market or the true arbiter of the activities within the economy.

In fact the failure by governments to regulate while allowing the market to function has resulted in the collapse of the financial institutions of the world in the 21st century. According to Tratchman state as follows:

*As we engage in regulatory reform, we must be careful. To ask the warren Buffet question: will we be seen to be seen to be naked when the tide goes out? Financial regulation must be understood as a special response to the particular incentive incompatibilities’ of financial institutions. We must recognize that corporate governance alone can be inadequate to restrain short sighted management (Daily sun may 20, 2009).*

It is safe to argue that capitalism in all its manifestations in the 21st century has not been able to address societal issues of poverty, disease, equality amongst others as a pertinent issues for the sustainability of human dignity. Capitalism has not been able to address the
societal problem of equitable distribution of wealth rather it continues to cause more harm to the society. “The peasantry had been brutally destroyed and the labour of men, women and children are exploited, these were the great social evils of the capitalist system which must not be forgotten on the account of imperialism to Africa (Rodney, 1972:149). According to Walter Rodney remarks thus:

*European monopoly firms operated by constantly fighting to gain control over raw materials, markets and means of communications. They also fought to be the first to invest in new profitable undertakings related to their line of business whether it is inside or outside their countries. After the scope for expansion became limited inside of their national economies, their main attention was turned to those countries whose economies were less developed and who would therefore offer little or no opposition to the penetration of foreign capitalism. The penetration of foreign capitalism on a world-wide scale from the late 19th century onwards is what we call ‘imperialism’ *(Rodney, 1972: 150).

The major objective of imperialism is economic exploitation which results in poverty, underdevelopment and perpetual dependency. In Nigeria, these imperial agents disguise themselves in various forms such that it is difficult to detect their moves but many Nigerians who can see in the spirit know that the end point of their activities is economic gain. The cardinal objective of the British imperial venture in Nigeria, as in other parts of the world has economic under tune. There are other objectives including political, military and social goals, all these were closely tied up and revolved around economic objectives” (Nnadozie, 2004:46).

**Capitalism in Nigeria**

Capitalism is not new in Nigeria but has increased in a steady pace, it is clear to Nigerians that the idea of mixed economy under which the country has been hiding may soon be doom. Though no nation practices pure capitalism or pure socialism, some economies are difficult to decide where they belong but in the case of Nigeria, before 1988, it is said to be half capitalist and half socialist economy.

Capitalism was blown open with promulgation of decree 25 of 1988 titled ‘Privatization and Commercialization decree’. “Privatization in Nigerian context involves the government divesting itself of its controlling interests in various industrial and service
sectors of the economy and allowing significant private participation in its place with the intention of creating more competitive climate and profit orientation within these sectors”(Olaniyan, 1988). By this exercise of privatization, government has thrown the door open for full manifestation of capitalism in every aspect of the economy. Even the social service sector which is regarded as important to the government for the provision of services such as health care, communication, water, education are now privatized and commercialized, leaving the public in the hands of capitalists to be exploited with impunity.

The economy has just shifted from public monopoly to private monopoly and has given Nigerians who looted public treasury the opportunity to acquire what belong to the public under the guise of privatization. Also in the privatization guise, cement importers and their foreign partners are having their good days exploiting Nigerians to the tune of two thousand two hundred and fifty naira per bag of cement as at December 2011, this is so because most of the core investors who bought cement factories are just using them for rebagging process, while some of them have not functioned since they were privatized. For example, a survey conducted by Obature on building materials and their high cost shows that one of the reasons why cement has remained unaffordable is the non-functioning of some privatized cement factories. In his words, “Nigerian Cement Company Nigercem Nkalagu, Ebonyi State which was sold to Eagle Cement Company some years ago under the privatization programme is yet to commence production and there is no hope of doing so in the near future. The factory has remained a monumental site and not even grasses were cut not to talk of production activity” (Obature, 2006). Privatization is rooted in capitalism and the result is economic exploitation, poverty and under development.

**Imperialism Practice: The Nigeria experience**

The policy of extending a country’s power and influence to another country through political relations or military force is regarded as imperialism. Following the successful colonization of third world countries and subsequent establishment of capitalist economic structures, the colonial masters, like drug addicts find it difficult to stay in their home countries without contact with their former colonies as if they regret
the independence granted to Nigeria, and perhaps for fear of widespread condemnation against re-introduction of direct colonial rule, the imperial powers sought and found means of continuing their dominance in Nigeria.

Nkrumah (1958) states that the strategies adopted by the imperialists in their attempts to re-enter into developing countries include military means, economic penetration, cultural assimilation, ideological domination, psychological infiltration and subversive even to the point of inspiring and promoting assassination and civil strife. “The devil theory of imperialism as connected by Morgenthau, is intended to explain the role of individuals or organization which influenced the adoption of aggressive foreign policy by their governments in order to create or expand markets for them and promote their economic interest” (Ayah, 1999:5). In Nigeria, these imperial agents appear in different forms and different names such as oil companies, construction companies, donor agencies DFID, USAID, European Union, International Financial Institutions IMF, World Bank, Agricultural Development Bank and others. They appear friendly in outlook but their missions are like that of the devil which the bible says masquerades himself as angels of light but they came to kill, steal and destroy (2 Cor. 11:14). In the same vein, imperial agents appear like solution providers in their various areas of specialization while gradually wreaking the nation unnoticed.

In the construction industry Julius Berger firm is owned and managed by German nation, they build most roads and bridges in all major cities in Nigeria, their bid for contract job was in tune of billions of naira and above not on cash payment but through crude oil transfer from Nigerian nation to their home state. These crude oil drill quantity conserved will serve their generation unborn thereby making Nigerian citizen to pay more in buying their own product from their stead which result to frequent scarcity. Most flashy cars and vehicles produced and assembled in the western countries of Europe, America and developing Asia are sent down to under developed countries of Africa with particular reference to Nigeria which they purchase at exorbitant prices., each time there is political or regional rest in Nigeria they seems to be so much keen because we are part of their economic base.
Another imperial agent that has continued to destabilize Nigerian state is in the field of football sporting events, the best football league globally in the guise of Manchester United FC, Chelsea FC, Arsenal FC, Barcelona FC, Inter Milan FC amongst others are English, Spanish, Italian and French leagues has their diehard fans and supporters in Nigeria, it is rare for us to promote, support talk more of watching our own Nigerian premier league like Enugu Rangers FC, 3sc Ibadan, Kano Pillars FC amongst others, this imperialist always colonize Nigerian television and radio stations each time this sporting fiesta is going in Europe and American. The big question is how many times has cable network and BBC show live matches in their respective stations? Instead they went on to carry out their own programmes in the right manner. The above proposal is the kind of trick these agents of imperialism use to put Nigeria into confusion and in the midst of such state they will have a field day on the resources of the nation.

The Politics of Divide and Rule strategy in Nigeria state

The problem of national integration in Nigeria is not different from other nations being colonized in Africa continent but Africa was a victim of industrial revolution in Europe mid 19th century which saw them expanding their mercantilist interest to Africa. This came in the heels of four centuries of slave trade which Europe purported in Africa with Africans as major sources of trade. The abolition of slave trade paves way for the introduction of legitimate trade on agricultural products and raw materials to feed their industries at home. This peripheral gave way to the partition of Africa into areas of influence among the European powers. This was the era of effective occupation without resort to the people’s culture, religion and language, thus many ethnic nations that had nothing in common merge to one entity as a sovereign nation by Europe thereby liberating many African states evolved.
The emergence of African states has been integration and national integration even at the point of decolonization, the nationalist movements was overwhelmed by primordial sentiments to their ethnic backgrounds. There has been perpetual subversion among the elite of these ethnic nations to the contest for power as life and death. In Nigeria, the process of decolonization was not spared; the emergence of Northern People’s Congress (NPC) with the motto “one north one destiny” was a declaration of distrust in the National council for Nigeria and Cameroon was dominated by Igbo elite. The formation of *Egba omo oduduwa*, Action Group as the political platform of the Yorubas. It was the same pattern in many African like Congo, Sudan, Algeria; Ghana amongst others, Nigeria was not spared on this path of political development as the process of her decolonization was the same with other African countries. The elite groomed by the colonial masters accepted modernization as a development and displayed unbridled enthusiasm in importing western values- institutions, technology, manpower and policies. They failed to institute an indigenous and independent economic base, consequently, the transition from colonialism to independence impact little economic sense because the vestiges of the colonial economy were intact and transferred to the post-colonial era.

In 1899 the British revoked the Charter of the Royal Niger Company; the 1914 process was completed by bringing together several ethnic groups and communities which attained different levels of economic and political development. These strategies produce a state structure that is subservience to imperialism and all the metropolitan interest (Ekekwe, 1986:26). This state structure lay emphasize on integration to encourage specialized regional production to meet the needs of the metropolitan economy. Shively (2003:62) states that Nigeria like other colonies was not constructed for internal cohesion, but administrative convenience of the British. The state assumed the status of a supreme institution capable of intervening forcefully in three major regions.
of North, East and West. The ruling class met a structure without modification; they pre-occupied the use of state paraphernalia for accumulating surplus without going through the process of producing surplus. The contradiction was an institutionalized ethnic-centered leadership with particularistic political outlook (Nnoli, 1979).

Ake (1981:145) observed thus:

So have indigenous leaders who are in political offices but with little economic base. This contradiction between economic and political power becomes a source of interesting development as the rulers try to use the only tool they have, political power, to create an economic base in order to consolidate their economic power.

The violence spread from rural areas to urban centers, anarchy eroded the legitimacy of state and gave impetus to the five army majors which led to the first Nigeria military coup in 1966. The collapse of 1st Republic demonstrated the inability of the Nigerian elite to integrate citizen which came as a result of divide and rule from imperialist. The Northern People's Congress (NPC) that lack legitimacy in the west could not restore social order within the west. The Nigeria National Democratic Party which won the elections in the west was legitimate in the area as a result of the manner in which they won and lost elections. The Deputy Leader of the NNDP and Deputy Premier of the west said before the elections that whether the electorate voted for the NNDP or not that they will win the elections (Dudley, 1998:72). It operates over and above members of civil society and as well raises legitimacy crisis for the state and creates a gully between ordinary citizens and their leaders.

Conclusion and Suggestion

Based on our discoveries regarding the concept, purpose and effects of capitalism and imperialism in Nigeria, we recommend the strategies adopted as ways of overcoming imperialism in Nigeria,

- Nigeria should look inwards and develop indigenous ideology that will serve as a guide to her developmental process.
There is need for re-orientation in other to disabuse the minds of Nigerians towards foreign products.

Nigeria should adopt socialism as an economic system that will end the continuous foreign domination and exploitation which capitalism and imperialism have for many years imposed on Nigeria.

Nigerians should be contempt with what they have and make effort to develop indigenous technology that leads to self reliance.

It is our believe that if the above recommendations were properly implemented, Nigerians will begin to enjoy the natural endowments which have eluded them due to capital and imperialism.

References


