

# International Journal of Business & Economic Development (IJBED)

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### Editorial Comments

The current edition of International Journal of Business and Economic Development (IJBED) contains eleven well researched and scholarly articles. Conforming to the Academy's editorial policy, they have all been selected such that the basic objective of dissemination of knowledge, both applied and theoretical, is adhered to. Most of the papers have an economic development orientation while others are more industry specific with obvious implications for national development. Like in the previous issue, the articles in this edition too have themes that focus on strategy-sensitive areas that should invite the attention of policy makers. Readers will find them of interest.

The opening article in this edition titled "**Country risk and foreign direct investments. Empirical evidence from Romania**" by **Amarandei** focuses on the, at times controversial, issue related to FDI. It is now well recognized that trade and technology are major drivers of economic growth from the long term point of view. And central to growth fuelled by technology, is investment – be it domestic or foreign. Way back, economists had cautioned policy makers that to fuel growth, investment was essential and that would not be feasible without support from rising incomes, for savings, the provider of investment funds (and also investment) had more to do with income and less with the monetary tool- interest rates- as some writers of the classical school had been propagating. And when economies are at a comparatively low level of achievement, particularly technologically, getting investment to do its job is that much more difficult. In a globalised world though, investment funds are available in large quantities and hence the competition to attract them. Investment friendly environment is, therefore, a primary concern for foreign funds and that presupposes government policies promoting foreign investment and the existence of regulatory institutions to oversee the success of such policies. The fundamental point is this that investment funds in the host country must be safe, must earn a competitive ROI with provisions for profit repatriation amongst others. To satisfy these requirements, investor friendly environment is the precondition failing which these funds will shy away to find other more promising destinations.

The present paper examines these issues and the evolution of the case for FDI in Rumania. Reviewing the literature, the author pointedly refers to three related variables to affect the flow of FDI, namely, one, transfer of technology element makes the FDI effectiveness more pronounced than domestic investment; secondly, this presupposes the existence of appropriate human capital in the host country and thirdly, FDI has the effect of increasing total investment in the economy more proportionately than domestic investment [ Research by Borensztein et al. (1998) as quoted by the author ]. Taking investment friendliness as the core issue, the author employs the multivariate analysis and examines the Rumanian position covering post reform and post privatization period. In the initial reform years, it would have been obvious for FDI to be shy because of the natural slowness in reform effectiveness consequent upon sluggishness of institutions to perform. However, prospects brightened considerably with the process initiating Rumania's entry into the EU. The underlying force to attract FDI would have been the imposition of EU economic and non-economic norms and disciplines on the country and their absorption creating FDI potentially more secure (period between 2006-2008). However, in sympathy with the rest of

EU, FDI funds have gone elsewhere with prospects of higher returns. The author thus concludes that country risk and FDI attractiveness vary inversely.

The next paper in this edition **“Economic, Social and Political Globalization and Human Development”** by Kocourek et al. investigate, as the title indicates, a promising area of research – the inter relationship between the multifaceted phenomenon of globalization and the sensitive HDI in a society. Interestingly, the Huq-Sen HDI and globalization both were significant events with long run implications of the early 1990s. However, the background work to all this goes back several decades to the 1960s when researchers were busy in establishing that economic growth did not necessarily mean also development for the variables explaining growth were very much different from those underpinning development. Questions were raised – did economic growth mean development? A major work of the 1960s – Growth Without Development by Clower – showed otherwise citing the Liberian case. However, consensus was evolving that growth helped the process of narrowing inequality provided, of course, there was institutional support to diffuse the fruits of growth – the so called filtering through process. And since globalization – in all its subsets, economic, social and political – helped economies grow through the active involvement of trade and technology, the development process had more momentum in it than less as the weaker economies and the state of HDI in them would tend to prove.

The association is particularly pronounced in the early stages of growth, petering out but maintaining a positive gradient, as per capita income grew beyond \$10,000 or so as the World Bank studies would tend to show. The present study examines all these issues in a more scientific manner. The authors have taken HDI –the UNDP accepted version incorporating living standards (reflected in GNI/capita), education (expressed in terms of years of schooling) and health (indicated by life expectancy at birth) but in its inequality adjusted version. The hypothesis being tested is “...that higher human development means a more globalized economy”. It is basically an econometric study employing regression techniques. The mutual relationship has been tried involving all the three dimensions of globalization as mentioned above. The strength of relationship is, as expected, most pronounced with the economic globalization and rather weak with the political globalization. The authors do note also that quality of institutions is a bottleneck in achieving a higher grade in HDI “...countries with poor institutions that repress growth and promote poverty (e.g. Rwanda or Zimbabwe), countries with lowest growth rates, are also the less globalized countries in the world”.

The authors rightly suggest that further studies to show the direction of the causality of the relationship explored in the present work should be undertaken to develop further insights into this area, perceived as highly sensitive for national and international level strategy formulation for providing the basics of life to large chunks of population. To this, analysts might also look into the question of redefining HDI – as some authors have pointed out that HDI definition is incomplete and the incompleteness arises out of leaving aside the non material and spiritual aspects of human development.

The theme of the third article focuses on a highly sensitive issue from a developing country perspective. Titled **“Impact of Brain Drain Immigration on the Economic Development in Sudan, 1973 to 2005”**, authors El-Imam et al examine the varied dimensions of brain drain impacting the Sudanese society. The phenomenon, in general, gained maximum exposure in the post second world war era and was subject to extensive research as the welfare concerns of developing countries became a focal point of debate for the political class as well as the research community. Countries like India had a historically

well developed educational base which became further strengthened with the injection of modern science – basically a western achievement. Academic institutions of quality churned out science and technology graduates with high aspirational levels but with little prospect of such a career because of feeble industrialization process – an area that the colonial masters are accused of even today. The result was migration of labour- well educated and professionally qualified and hence theoretically highly sought after. While the economic neutrality of brain drain was established (e.g. Grubel-Scott thesis of the 1960s), the social effects naturally took some time to manifest themselves. Industrialization would be a major source of absorbing the migration prone labour, but there was very little of it, constrained by the loss of well qualified personnel. Furthermore, it should be appreciated that developing a well nourished skill base takes a long time for it to show results. This constraint on industrial progress limits economic growth and development. For many countries previously colonized, but gradually acquiring strong industrial base, the issue has lessened somewhat but the phenomenon continues even today as the current study shows in the context of Sudan as the case study. “Political instability...., lack of sustainable forms of livelihood, famine ...” etc. are additional factors that worsen the situation.

The huge sums spent on creating the pool of resources go down the drain with more migration seeking opportunities in the oil rich countries. The authors note that amongst the motives to migrate, socio-economic and political pressures, absence of work incentives, and deterioration of service conditions, prospects of a better life predominate. Government policies do not help either. First the huge cost of educating the migrating graduates is a total loss to the country, particularly in social terms. Second, for lack of well directed government policies, the funds transfer by the immigrant community has not been channeled to productive sectors. The real estate development has benefitted the most thus contributing to inflation thus further constraining growth and economic development. The authors thus call for an erstwhile policy package to outweigh the costs of migration and facilitate the return of professionals to promote the cause of country welfare.

The Case for or against FDI is again the subject matter of discussion in the next paper **“Re-appraisal of Foreign Direct Investment Effects: a Developing Country Perspective”** by Joubert. The developing country under study is Swaziland, land locked, small and poor country and a neighbour of the economically stronger South Africa. In its favour, the author reasons why FDI is welcome, particularly by developing countries. They include infrastructure developments, increases in national productivity and exports, introduction of new knowledge and expertise, creation of new jobs with good career prospects and an increase in government income through taxation and the development of an effective supply chain where applicable. However, these are all theoretical possibilities. What happens on the ground may not be that attractive.

The author, in writing about the rationale of her work, emphasizes that while macro level studies to establish the ‘resource imperialism’ of FDI sourced from multinationals is important, “The more micro effects on people have been less well studied”, namely the “...the disastrous effects..” FDI may have, “on indigenous firms if (FDI is) not properly managed to align inward investment policies to the country’s contextual variables”. To substantiate, the author refers to the substantial FDI inflows into Swaziland because “.direct trade with South Africa was highly restricted due to sanctions against the apartheid regime”. Great improvements took place in the creation of infrastructure and human resources of the country. However, the country suffered badly when circumstances changed and many companies left as direct trade with South Africa gained momentum. Many companies closed down. In spite of the beneficial effects of AGOA, uncertainty in FDI

inflows has grown because of stiff regional competition for it too. "The local regional effects can." thus "... be particularly severe where skills and services which the companies provided are no longer sustainable or relevant". For Swaziland, the FDI has had mixed results at best. The policy making bodies at the government level must nurture growth of indigenous competitiveness through homegrown entrepreneurial initiatives to avert economic slowdown even when there is an FDI outflow.

And as and when FDI does come in, the government should be selective as to in which industries it should be directed to. These are lessons for developing countries in general, more particularly for those having Swaziland characteristics.

The next paper – fifth in this edition "**Gender Responsive Value Chain Analysis of the Lambanog Industry in the Philippines**" by Velasco focuses on product development consequent upon value creation through supply chain management in the titled industry. In order to remain competitive, an industry and the firms comprising it, have to change and evolve over time because of the pressures brought on them by the external forces. Production and distribution channels generally remain highly vulnerable to inefficiency because of their fragmented character. The long array of linkages – backward and forward (to borrow the terminologies from by Albert Hirschman)- have, accordingly, got to be reengineered and resource utilisation has to be optimised thereby making sure that the all the stakeholders in the production-distribution-consumption continuum benefit.

The result of all this is that an effective and efficient logistics management develops and consumers do not loose out because of non-standardised production and distribution systems. This also affects the balance of relationships between the manufacturer and the retailer and hence the bargaining power of either side. Keeping these issues in the background, the case study investigates the state of 'Lambanog', the coconut vodka, made from the sap of coconut flower, in the Quezon Province of Philippines. Although a fairly old product, it made its entry to the export market only in 2001 in spite of wide recognition and awards as an "...exotic, natural and organic drink...". To bring out the current state of the industry, the investigation ,involving 12 reliable distillers, 60 distributors/retailers and 100 randomly selected consumers, examined the major constraints and opportunities for the product. The constraints included high worker turnover -male and female and their training and nature of work, unsustainable supply conditions of the sap due to weather and seasonality factors, poor product packaging and labelling, distillation problems arising out of lack of equipment, lack of quality control , non- standardised pricing practices etc.

Against these drawbacks, the opportunities included a promising export market through formation of associations with the support of government agencies, appropriately developing the available distribution channels, product innovation through differentiating features thereby attempting to establish a brand name etc. The scope for supply chain management to overcome the production-distribution inefficiencies is thus well acknowledged and a futuristic business development plan involving government agencies could bring in substantive benefits to the industry and hence to the society at large through the creation of competitive edge for the industry as a whole.

In the next paper, the discussion goes into the very heart of business – entrepreneurship. Titled "**Performance of Women Entrepreneurs of Grameen Bank with Special Reference to Grameen Generalised System**", authors Alam and Islam have tried to establish the case for micro and SMEs to enhance growth prospects for Bangladesh. The

issue as to what should be the strategy to usher in economic growth and development at a faster pace in the developing world has remained ever challenging to policy makers.

While the role of large scale businesses in national development can not be denied, yet their ability to create employment – a major macro economic irritant – has been an area of much debate because of their being highly capital intensive. But ever since the experimentation and success of the strategy of developing through the micro and SME business route , studies world wide have added considerable strength to this philosophy. The entrepreneurial energy that these businesses contain is phenomenal , if properly utilized . Indeed, the debate on this goes back to the 1950s when ‘aid’ as an instrument to alleviate poverty in the developing countries was being promoted by the world bodies. And the arguments against it as propounded by intellectuals including Peter Bauer are well documented in that such instruments killed entrepreneurial spirits – or the animal spirits as Keynes would have liked to call them.

The present paper, developed along these lines of thinking, further corroborates the already existing body of evidence that exists in support of micro (a subset of small) and SME businesses about their contributory capacity. The authors examine the potential that these industries have for the economy of Bangladesh. In that attempt, they investigated the contribution of a major section of the society that often goes unnoticed because of the prevalent social and religious practices- the rural women and their contribution to the power of home grown entrepreneurship and consequently their empowerment in Bangladesh under the Grameen Generalised System(GGS) of the micro credit programme of the now famous Grameen Bank .

The authors selected a total of 85 respondents/borrowers from the trading sector through a systematic random sampling from those who have been borrowers for at least five years. Having examined their business and entrepreneurial profiles (e.g. personal characteristics, competencies, family responsibilities etc.) of these micro business, the authors identify the areas of concern in the promotion of their businesses and the consequent impact on the economy. The major constraints to business as identified were: additional responsibility of women, their lack of education and business skill, mobility, access to capital, lack of training and inadequate market information. The authors conclude that removing these constraints would yield positive results not only for the women entrepreneurs themselves but for the society as a whole.

The seventh paper in this series **“Exploring India’s Hinterland with Innovations”** by Puri focuses on the overwhelming dominance of the rural sector in India and the approach to marketing that organisations should to make inroads into that sector. Noting that more than half of the country’s overall consumption comes from the rural economy with a 70% share finding that of the country’s population, the author suggests that marketing techniques have to be innovative and appropriate to the context. To support this contention, the author refers to the rating agency CRISIL’s observation that for the first time since the reforms began in the early 1990s, rural consumption is growing faster than urban. And in the FMCG sector, the rural share is 34% and it is growing at 18% as against 12% in the urban area. In order to tap this huge market, the organisations should acknowledge the distinctive features that characterize it, like, seasonal pattern of sales coinciding with harvesting as opposed to festivals in the urban sector, the consumers here are keen to experiment with things new unlike their comparatively conservative urban counterparts , lower awareness of brands, and the channels of communication and advertising being ‘Haats, melas and mandis..’ and word of mouth. Further, the rural sector has been positively

impacted by infrastructural development , by technology compensating for the low educational level and the spread of Regional Rural Banks providing a base for credit including credit cards. All these signify the importance to design a strategy that would yield results. To service this 'hinterland' and to reap the benefits thereof, the author proposes a 4A approach to affect consumer behavior there - namely , Availability, Affordability, Acceptability and Awareness of products.

This provides the lead to the need for innovation specific to the consumer demands in the rural markets. Indeed, organisations have designed and introduced many products with a meaning for the rural life, like TV set, electric generator driven by cattle, solar lantern, cooking stoves, irrigation system powered by motor bikes , battery powered refrigerators, water purifiers and even ATMs - all satisfying the 4A approach to marketing. These are, no doubt, interesting developments made possible because of the organizations' revisiting the R&D and commercialization of products to serve the rural population.

The eighth article titled **"The Factors for Dutch Disease in the Palestinian Economy" by Kroll and Shoukair** is about why the development process in Palestine has failed to sustain itself and what are the constraints for such a process to take root. The authors refer to the 'Dutch disease' syndromes explaining the 'why' of a lack of economic progress. [As the syndrome itself suggests, it has its roots in the discovery of large gas reserves belonging to the Netherlands in the late 1950s and early 1960s and their exploration adding to the economic wealth of the country. But what about the disease. There was too large an inflow of funds into the country as a result leading to currency- the Dutch Guilder- appreciation and the consequent fall in competitiveness of things Dutch internationally. The gas reserves- apparently an economic boon- turns out to be the cause of a disease in the shape of economic downfall].

The authors refer to the Harrod-Domar model theoretically explaining the process of economic growth through the instruments of savings and investment. Should there be a gap in savings and investment given the intended or planned rate of economic growth, it needs to be filled up , one such route being through the route of foreign funds flow ,foreign aid, FDI, foreign remittances for example. This process underpins the interplay of market forces influencing the growth process. For a multiplicity of factors, socio- economic and political, this has not been so in Palestine and as is well known, the political constraints have been overwhelming and continue to be so. Indeed, as the authors point out, the data between the long period 1968 to 2007 (the time when the political contours changed considerably in Palestine) suggest that the economy has been guided more by foreign funds flow rather than by endogenous factors of growth-labour, capital etc. This area has been subjected to extensive research starting way back in the 1950s led by great minds - the likes of Peter Bauer- the thesis being the self-defeating objective of foreign aid resulting in less and not more of economic growth. The authors ,too,note that in their model,"..there is a strong indication that ....(there are ) symptoms of Dutch disease.....coinciding with mass increase in per capita foreign aid, a decrease in the ratio of agriculture and manufacturing to GDP..." along with a deterioration of GDP per capita. Altogether, it is an interesting analysis of an economy passing through difficult times for a long time now.

Article numbered nine **"managing the business `quality` way" by Goel** examines a highly sensitive area of management - what should be the strategy for an organization to survive in the long run in the context of business practices - should profit and earnings have a quality side to them ? During the time that the conventional classical school of economics had its sway, it was customary to argue that no matter what, an organization existed for

profit . The focus was on the concept of 'profit maximisation'. More the profit, the better for entrepreneurship . However, with passage of time, questions were raised as to how to define a profit maximizing firm in practical terms though theoretically , it was possible to have a firm of that category through the application of 'marginal analysis'.

Further it was argued by great researchers of the likes of Baumol that managers would strive for sales rather than profit to consolidate their position within the organization. In more recent times, the 'quality' parameter has added another dimension to profit and earnings. Considering the fall of such organisations like Enron and AIG , it is now universally agreed that without the support of quality throughout all levels and merely concentrating on just profits , an organization may live in the short term but would suffer from the prospect of extinction. In many cases, when managers are compelled to meet earnings target, that is done at the cost of quality and that tarnishes the image of the organization. And it is image that helps an organization to survive in the long term. Companies in the category of Johnson & Johnson have shown how much it takes to create an image and then keep it that way through constant efforts. The profits they earn is because of this - the quality factor. The so called number game , practiced by many, may ensure high profits but that is, in today's business ethos, short termism. The author thus contends that earnings, the source of profits, must therefore be managed through the quality route so that the stakeholders are satisfied that profits earned have transparency and not just 'profit at any cost'. Needless to say, the author points out, resources within the organization must be aligned with the quality content of profit and the organisation's strategy must reflect that.

The tenth and the penultimate paper titled "**Exploring the Dimensions of Emotional Intelligence in the Lebanese Family Firms**" by El-Chaarani focuses , as the title suggests, on the central issue of organisational performance of family owned businesses, majority of them being SMEs. The discussion is on the critical issue of leadership in providing these organisations a strategic direction so that they can survive and grow even when times are turbulent. And this pervades the organisations in their entirety and the leadership must attend to this by bringing all the departments to perform synergically for the common goal of organisational success. In the front line of such a scenario will be the leadership behaviour and consequently the organisational culture. The obvious questions of job satisfaction of employees and their attitude to their employers expressed through their desire of staying on or finding alternative sources will be dependent on the leadership style in turn - whether it is autocratic or participative in the leadership behaviour continuum. Of late , leadership and organisational culture as exemplified in empathy related theories like Theory Z, TQM or EQ has been studied to see their impact on employees in the aforesaid critical areas , namely, job satisfaction , commitment to the organisation and their turnover intentions. Research in developing countries involving the application of these models, however, is rather recent. The present study on Lebanese firms is, therefore, in the right direction and is welcome.

Here, the author examines whether emotional intelligence (EI) (as developed by Goleman, Salovey and others) has a positive impact on employees' job satisfaction, their performance and turnover intentions. Taking a sample of 245 family firms , 268 managers and 1850 employees (response rate 68%) and employing regression analysis, the author concludes that in the context of family firms, the positive impact of leader emotional intelligence on job satisfaction of employees and their performance was found to be statistically significant. Also the family leader's attachment to the business created a good environment affecting employee relationship positively. However, EI of leaders had a much lesser significance for employee turnover. "A team leader with high emotional intelligence can control his (or her) own impulses, communicate with others effectively, solve problems,

and use humour to build rapport in tense situations". The author notes, there is good scope to broaden the scope of such studies to help develop more universal conclusions.

The eleventh and the last paper "**Simulating the Influence of Price Auditing on the Corporate Profit in Business-to-Government Relationships: Experiences from a Case Study in the German Automotive Industry**" by Radl et al. delves into the highly sensitive and publicised area of unethical business practices and the possibility of curbing or containing the consequent harmful effects that are inflicted on the society with the help of available government laws. It has been widely reported that in the government transactions with the corporate sector, the 'procurement' channel is where the irregularities are at their maximum. Noting that while the objectives of the corporates (profit maximisation) differ from those of the government agencies (allocation of public funds) , it is suggested, along with other researchers, that private sector contractors must treat their customers- the government- in the same manner as is done in the business-to-consumer and B2B . However, evidence of discriminatory practices by the corporate contractors has compelled many governments - worldwide- to introduce legal frameworks within which to conduct transactions and an independent/autonomous auditing body to check adherence to such laws in terms of price setting. Contractors, to avoid penalties, have been known to apply the much acclaimed German legal framework along with requests to auditing prices. But on the cost front, the companies are better informed than price auditors. It is, therefore, unlikely that true information of costs would be provided by the companies thereby defeating the very purpose of price auditing - "...that public contracts are executed in a proper legal way" free of corruption.

There could thus be public demand that costs were reported truthfully to win tenders. The authors pointedly note that in view of the current crisis in many European countries, governments could make better and judicious use of public funds with these legal instruments in place. The central focus of the paper follows from this background- developing a simulation exercise as to how to price automotive industry products within the German automotive industry and within the scope of German legislation. The exercise involves developing three different pricing strategies subjected to two different pricing scenarios - market pricing scenario and cost pricing scenario. The authors note, "The results of the price audit simulation clearly show the influence of the chosen strategy on the contribution margin as well as on the corporate profit for each price auditing scenario..".

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