ORGANIZATIONAL CULTURE 'A SIGNIFICANT VARIABLE IN THE ORGANIZATIONS'

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ABSTRACT

Every organization has a culture of its own which is peculiar to that organization. It is important for the administrators to know the prevailing organizational culture for successful management of the organizations. Organizational culture is manifested from various indicators e.g., organizational stories and legends, physical structures, rituals, ceremonies, traditions, language, beliefs and symbols. The organizational cultures of military and police organizations are forced ones. Public-sector organizations have different organizational culture from those of the private-sector organizations. There are chances of various shades of sub-cultures in the huge organizations. Organizational culture may enhance or impede the effectiveness and efficiency of any organization. The organizational culture can be changed, but it is not an easy job.

KEY WORDS: Organization, culture, organizational culture, effectiveness.

INTRODUCTION

This paper tries to throw light on a significant variable in the organizations i.e., organizational culture. It defines culture and organizational culture. It also describes the importance of organizational culture. It endeavours to highlight the importance of organizational culture and micropolitics with special emphasis on the different cultural shades in various public-sector organizations in Pakistan. The article brings forth the implications of organizational culture and the need for cultural sensitivity training prior to joining a new organization. The article also clarifies the role of organizational culture towards enhancement or impediment of effectiveness and efficiency of any organization. Last but not the least, it tells about the phenomenon of change of organizational culture.

DEFINITION AND CONCEPT OF ORGANIZATIONAL CULTURE

Every organization, whether big or small, possesses a culture, which is peculiar to that organization, and depends on host of factors. The organizational culture is a frequently used but least understood term. It is worthwhile to define the terms 'organization' and 'culture' first of all, and subsequently talk about organizational culture.

Organization is defined as 'organized body or system or society' (Allen, 1985). Griffin (1997) defines *organization* as "A group of people working together in a structured and coordinated fashion to achieve a set of goals." So the human beings are an inevitable constituent part of an organization. Griffin (1997, p.90) defines culture as "The set of values that help an organization's members understand what it stands for, how it does things, and what

it considers important." Culture determines the feel of the organization.

Although there are many definitions of the culture, the *culture* is generally defined as the system of shared beliefs, values, customs, behaviours, and artifacts that the members of society use to cope with their world and with one another, and that are transmitted from generation to generation through learning. Inferring from the above definitions, the *Organizational Culture* can be defined as the 'system of shared meanings held by members of an organization that distinguishes one organization from other organizations.'

Organizations generally do not have the uniform or homogenous cultures. Luthans (2005) says that there may be subcultures in any organization. . There may be monoculture or multicultures within the same organizations. A subculture is a set of values shared by a minority, usually a small minority of the organization's members.

Robbins (1980) observes that culture differs in terms of economic, technological, social and political systems. A practice that is successful in America may fail miserably in Pakistan.

We cannot directly see organization's cultural assumptions, values and beliefs. Instead the organizational culture is deciphered indirectly through artifacts. Artifacts are the observable symbols and signs of an organization's culture. The broad categories of the artifacts are:

1. Organizational stories and legends

2. Rituals and ceremonies

3. Language

4. Physical structures

5. Symbols

There is a wide range of organizational cultures as Hellriegel & Slocum (2004) describe some of the types of organizational culture as:

Culture, Forced culture etc.

It is interesting to note that an addition of word culture with any word gives rise to a new type of culture e.g., corruption culture, avoidance culture, reward culture and punishment culture. Organizational behaviuor, apart from other factors is based on the organizational culture. The research in the field of organizational behaviour and organizational culture gained momentum in early eighties.

IMPORTANCE OF ORGANIZATIONAL CULTURE

The organizational culture carries special significance for the organizations in terms of enhancing or impeding the organizational efficiency and effectiveness. The organizational culture varies from organization to organization and from time to time in the same organization.

The members of any organization, who do not conform to the organizational culture of any organization, are ostracized, and those who conform to the very culture are protected and rewarded. It is not an easy job to change any organizational culture abruptly. Anyhow the organizational culture can be changed over a period of time.
McShane & Travaglione (2003) note that the *assumptions, values and beliefs* that represent the organizational

behaviour operate beneath the surface of organizational behaviour. They are not directly observed, yet their effects are everywhere. Assumptions represent the deepest part of the organizational culture because they are unconscious and taken for granted. An organization's cultural *beliefs* and *values* are somewhat easier than assumptions to decipher because people are aware of them. *Beliefs* represent the individual's perception of reality. *Values* are more stable, long-lasting beliefs about what is important. They help us to define what is right or wrong, good or bad, in the world.

Regardless of its nature, however culture is a powerful force in organizations, one that can shape the organization's overall effectiveness and long-term success. The culture of the organization may not be clearly observable. It may be hidden and intangible. The administrators must understand the current culture and then decide if should be maintained or changed.

Culture is especially important environmental concern for organizations. Managers must understand that culture is an important determinant of how well their organizations will perform. Culture can be maintained and managed in a number of different ways.

Robbins (2003) emphasizes that leadership is culturally bound. Leaders must adapt their style to different cultures

Martin (2006) is of the opinion that in any organization three levels exist. The first level is the individual. At this level the main thrust is to motivate the employees so that they will meet the wishes of their employer. The second level consists of the group where management focuses on relationships among employees and the formation of a group identity. The third level is the organization itself and

the goal at this level is to create a smooth and efficiently running organization. In order for the goals of the third level to be met, the goals of the first two levels must be achieved first. If a worker is not properly motivated to carry out her tasks, or if a department is having trouble working together, then the organization as a whole will suffer.

MICROPOLITICS IN ORGANIZATIONS

All the human organizations are politicized; the degree of polititicization may differ. Some are highly politicized, some are moderately politicized and some are lowly politicized.

Greenberg & Baron (1997) opine that organizational politics is the hallmark of the public sector organizations. Kinicki & Kreitner (2003) define organizational politics as the intentional enhancement of self-interest. Mcshane & Travaglione (2003) talk of microicropolitics and political networking in the organizations.

Kinicki & Kreitner (2001) give example of wolves and

describe their qualities as dedicated team players and great communicators-two key success factors in today's workplace. Wolves work hard and play hard. They pursue their goals relentlessly and tirelessly. Similarly the individuals who manifest groupthink and group dynamics, man the present day organizations.

Kinicki & Kreitner (2001) also describe the following political tactics in the organizations:

 - Attacking or blaming others

- Using information as a political tool.
- Creating favorable image (also known as impression management.)
- Developing a base of support.
- Praising others (ingratiation)
- Forming power coalitions with strong allies.
- Associating with influential people.
- Creating obligations (reciprocity)

George & Jones (1996) hold that although organizational politics is an essential ingredient of an organizational life yet power struggles sap the strength of an organization, waste resources, and distract the organization from achieving its goals.

Organizational politics is an integral part of the organizational culture, and the managers and administrators must be aware of and adept in the political tactics for successful management and administration of the organizations. Politically naïve administrators are exploited at the hands of the experienced ones.

INSIGHTS FROM ORGANIZATIONAL CULTURES IN PAKISTAN

There are some interesting similarities and differences between cultures in public organizations and cultures in private sector organizations in Pakistan. The differences, in particular, are vital for the administrators and the new entrants. They should bear in mind these cultural differences for adjustment in these organizations.

The multinational organizations have a tinge of their own. The Pakistan army, the biggest organization has a forced and homogenous culture due to constant transfers and reshuffling of the personnel. The police have different

shades of organizational culture. It is also a forced culture. The corporate culture in Pakistan is Pakistanized.

Similarly banks in Pakistan have their peculiar culture, characterized by an outstanding difference from other organizations. The public-sector organizations manifest somewhat roughness and stiffness in behaviour. The private-sector organizations also have various shades of organizational culture, depicting to great extent the culture of the town or the city they are functioning in. All the organizations in Pakistan have to take care of the core values of Islam.

IMPLICATIONS

Organizational culture of any organization has certain implications e.g., as Decimone, (2002) has pointed out that organizational culture can also have a strong effect on individual behaviour. Robbins & Coulter (2000) are of the opinion that the successful organizations have certain cultural variables different from those of non-successful ones. Organizations may possess weak or strong organizational cultures. The dimensions of organizational culture are; attention to detail, outcome orientation, people orientation, team orientation, aggressiveness, stability, innovation and risk taking. The content and strength of an organization's culture also influence ethical behaviour. An organizational culture takes a long time to form and, once established, it takes to become entrenched.

Northcraft & Neale (1990) observe that organizational culture is also affected by the organization's environment.

Mcshane & Travaglione (2003) observe that culture affects the leadership style because it influences how followers will respond. Leaders cannot and should not just choose their

styles freely. They are constrained by the cultural conditions their followers have come to expect. For example the Korean leaders are expected to be paternalistic toward employees. Arab leaders who show kindness or generosity without being asked to do are perceived as weak by other Arabs . Japanese leaders are expected to be humble and speak infrequently. And Scandinavian and Dutch leaders who single out individuals with public praise are likely to embarrass those individuals rather than energize them.

Robbins & Coulter (2000) are of the opinion that one general conclusion that surfaces from leadership research is that effective leaders do not use any single style. They adjust their styles to the situations. One study of Asian Leadership styles revealed that Asians preferred leaders/managers who were competent decision makers, effective communicators, and supportive of employees.

Owen (1987) while describing the organizational culture, as a bearer of authority, notes that like all workplaces, an educational organization is characterized by a distinctive organizational culture. Organizational culture means, the norms that inform people what is acceptable and what is not, the dominant values that the organization cherishes above others, the basic assumptions and beliefs that are shared by the members of the organization, the rules of the game that must be observed if one is to get along and be accepted as a member, the philosophy that guides the organization in dealing with its employees and clients. The elements of the organizational culture are developed over a period of time by the people in the, organization, working together. They evolve during the history of the organization and are shared and subscribed to by those who are a part of that history.

Hellriegel, & Slocum (2004) opine that organizational culture can influence ethical behaviour of employees and managers. Organizational justice reflects the extent to which people perceive that they are treated fairly at work.

Cultural sensitivity training and cross-cultural training is a must before joining a new organization, the culture of which is different from that the individuals or employees who are new entrants (Decimone, 2002). Most of the multinational organizations take care of this aspect and impart such training to their employees before their posting in different organizations.

IMPEDIMENT/ ENHANCER FOR EFFICIENCY AND EFFECTIVENESS

The culture of an organization may impede or enhance the efficiency and effectiveness of an organization. According to George& Jones (1996) resistance to change lowers an organization's effectiveness and reduces the chances of survival. Organizational inertia tends to maintain the status quo of an organization.

The evidence is fragmentary at present as to whether certain specific kinds of organizational cultures promote greater effectiveness in educational organizations? However, considerable evidence for the idea that certain kinds of organizational cultures create improved organizational performance is emerging from the studies on business corporations. For example Bolman & Terrence (1997) have contended that it is the strong organizational culture that distinguishes the high performing companies from less performing companies in the competitive markets.

Ahrne (1994) and Canessa & Riolo (2003) hold that organizational culture can enhance performance by

providing members with a sense of commitment to the organization and by helping align the individual goals to organization goals. Kinicki & Kreitner (2003) observe that both managers and academic researchers believe that organizational culture can be a driver of employee attitudes and organizational effectiveness and performance.

CHANGING THE ORGANIZATIONAL CULTURE

"Cultural change is a complex process of replacing an existing paradigm or way of thinking with another" (Decimone, 2002, p.660)

Robbins & Coulter (2000) describe that the change is to show the ineffectiveness of the current culture, implement the new ways of doing things and reinforce those new values.

Gibson, Ivancevich & Donnelly (1985) are of the opinion that management can change the organizational culture. Decimone (2002) believes that HRD can be a means of changing or perpetuating the organizational culture.

Robins (2003) is of the opinion that resistance to change is greater in some organizations than that in others. Successful idea champions do things differently in different cultures.

Griffin (1997) opines that organizational culture can be maintained or changed by rewarding and promoting the people. Also discouraging those, whose behaviours are not desired ones may change the culture. For this the managers must have a clear idea of what to create.

This notion was best expressed in Kurt Lewin's famous 'unfreeze – change – freeze' model quoted in Kent (2001).

Luthans (2005) suggests the following guidelines for change are:

- Assess the current culture

- Set realistic goals that impact on the bottom line.

- Recruit outside personnel with industry experience, so that they are able to interact well with the organizational personnel.

- Make changes from top down, so that a consistent message is delivered from all management team members.

- Include the employee in the culture change process, especially when making changes in rules and processes.

- Take out all trappings that remind the personnel of the previous cultures.

- Expect to have some problems and find people who would rather move than change with the culture and, if possible take these loses early.

- Move quickly and decisively to build momentum and to defuse resistance to the new culture.

- Stay the course by being persistent.

McShane & Von Glinow (2003) are of the opinion that in spite of the founder's effect, subsequent leaders can break the organization away from the founders values if they apply the transformational leadership concepts.

The actions of the top management also have a major impact on the organization's culture. Through what they say and how they behave, senior executives establish norms that filter down through the organization regarding what is appropriate dress, which actions will be penalized and which ones are to be rewarded.

Seel (2000) concludes,

"We start to realize that organizations cannot be changed according to plan or desire; instead the best we can do is to try to build new connections and relationships so that a process of self-organization can take place"

According to Osborne and Plastrik(2000), the first thing you have to take people out of their old assumptions. In science, the key is what Kuhn (1996) calls "anomalies" - problems the old paradigm cannot solve, realities it cannot explain, facts it cannot admit to be true. As these anomalies pile up, people begin to lose faith in the old paradigm. Thus the manager needs to develop a change strategy, which will:

- Introduce anomalies and help people to perceive them.
- Provide a clearly defined new paradigm.
- Build faith in the new paradigm.
- Help people let go of the old paradigm.
- Give people time in the neutral zone.
- Give people touchstones.
- Provide a safety net.

Transfers and intermixing of members of various organizations can bring about the change in organizational culture. According to Luthans (2005) the powerful stakeholders support the existing cultures so it is difficult to change the organizational culture. Anyhow, clear vision and

commitment of the top management can bring about a cultural change in the organizations.

CRITIQUE

This paper examines organizational culture as a significant variable in the present day organizations. One of the most important building blocks for a highly successful organization and an extraordinary workplace is 'organizational culture'.

Culture is an intricate concept with hundreds of definitions. There is no complete agreement on this concept.

Schein (1992) acknowledges that, even with rigorous study, we can only make statements about elements of culture, not culture in its entirety. Different organizations have different cultures, with various shades of sub-cultures. Schein(1999) identifies three levels of culture: artifacts, espoused values, and basic underlying assumptions. (Griffin, 1997. Luthans (1981) says that different organizations have different cultural demands. Organizational culture is a critical variable and root metaphor in the present day organizations.

The importance of organizational culture can neither be ignored nor underestimated in the modern organizations. All the cultural factors are to be borne in mind for the efficient and effective management of any concern.

We rarely find any modern organization without power politics in it. The gradation of political activities may differ. Political moves are also part of organizational culture. Successful managers are well are of the political maneuvers.

Changing an organization is messy, complicated business. A study by Kotter and Heskett (1992) indicated that culture change becomes tougher as organizations become more established and successful. The very bases for a company's earlier success can prove to be hindrances to

needed changes under new and different scenarios from those, which existed previously.

Like other organizations in the world, various organizations in Pakistan have cultures of their own with the tinge and blend of overall cultural values of their surroundings.

Organizational culture may have far reaching implications like affecting the ethical behaviour of employees.

Cultural change is neither easy nor foolproof. It can take time - at least one year, more likely between three and six years - and it takes effort and vigilance. A great deal of patience and long-term support is needed.

Much recent research into consequences of corporate cultures has focused on its functional or beneficial outcomes. For example, specific corporate cultures have been widely viewed as favorably affecting an organization's strategy, structure, communication, and decision making (Peters and Waterman, 1982; Collins and Porras, 1994; Collins, 2001).

Kotter and Heskett (1992) conclude that corporate cultures can have a significant impact on a firm's long-term economic performance. Corporate cultures are an even more important factor in determining the success or failure of firms in future. Corporate cultures that inhibit strong, long-term financial performance are not rare; they develop easily, even in firms that are full of reasonable and intelligent people. Although tough to change, corporate culture can be made more performance enhancing.

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CONSTRAINTS IN THE EVALUATION OF HRD INTERVENTIONS

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1. INTRODUCTION

Organizations of today are facing complex nature of problems and ever new form of challenges, as they are exposed to fast changes occurring around them. They need to be change friendly instead of being change resistant, as change is an important measure of growth in present days' world of high volatility. But change is not an easy thing to bring in, manage and control for managing success on sustainable basis. This demands development of an environment in the organizations which is highly conducive to change. This is the training which makes the environment conducive for change in the organizations (Smith, 2001, p. 14). That is why "forward-looking organisations" view training as a valued investment (Vyas, 2004).

Training is an important predictor of economic performance, in all countries (Almeida-Santos and Mumford, 2006), and economies of today are in tremendous pressure to increase the skills of their workforce (Richardson, 2004). They need to nurture the culture of continuous learning and improvement. In recognition of this fact, investment on human capital development is on rise across the globe.

But development of skills of workforce is very expensive (Richardson, 2004) and such intervention goes wasteful, if learning is not transferred to work, even if the

training has been effective (Joinson, 1995, p. 5), so with the increase in investment, managers of both private and public organizations are increasingly confronted with the question how to evaluate the impact of training (Brauchle & Schmidt, 2004). The growing need of training evaluation is equally valid to corporate sector and the public sector. This need is greater source of concern especially for the organizations, where training interventions are deemed as investment. Vyas (2004) observes that even forward looking government agencies give special focus on monitoring of investment in HRD interventions.

What does evaluation do? Evaluation of training aims at determining whether training interventions have achieved stated objectives, and whether performance deficiencies have been addressed, and attitudes altered as per targets (Vyas, 2004). Despite the fact that training evaluation is very crucial, current rate of its adoption is very low in the world in general and in developing countries in particular. A survey of Ashridge Business School found 11 percent incidence of impact evaluation at the organizational level and only 3 percent prevalence of measuring the financial return on investment (ROI) of the executive programmes (Training Reference, 2005). There is no data available on how many organizations in Pakistan administer training evaluation and how many actually assess ROI.

Low rate of training evaluation is partly attributed to the complexity involved in the training evaluation especially assessing the ROI. Moreover, there are some serious issues and constraints in the application of evaluation, which pose serious threats to the reliability and validity of results. There exists a dire need to identify and analyze constraints in the training evaluation and develop a set of recommendations on how to cope with them.

In view of the importance of training evaluation, as discussed above, the present study attempts to discuss various approaches for training evaluation, develop an inventory of constraints in evaluation and give suggestions for dealing with these constraints.

2. OBJECTIVES AND APPROACH

This paper attempts to review various approaches to training evaluation, identifies issues and constraints in the measurement and give suggestions for dealing with them.

Discussions and findings covered by this paper are based on intensive review of existing literature on training evaluation models, and practices and personal experience of the author in the field training and development in the public sector. Findings of this study will be useful for the researchers, practitioners and organizations which are aspiring to incorporate training evaluation as an integral component of their training management systems.

The paper is organized into five sections. Section – 1 deals with background of the research area, highlighting its need and significance. Section – 2 outlines the objectives and approach of the paper. Section – 3 briefly discusses merits and demerits of some of the existing models of training evaluation. Section – 4 contains analysis of the issues, constraints and challenges in training evaluation and suggests options to deal with them. Section – 5 tenders suggestions for the promotion of training evaluation in the organizations. Last Section gives conclusion of the paper.

3. APPROACHES TO TRAINING EVALUATION

There are several approaches of evaluation in the literature, as Hashim (2001) observes that there are more

than 50 approaches for evaluation of training. We can classify all the approaches, into three categories:

a. Production Approach
b. Goal-based Approach
c. Systems Approach

3.1 Production Approach

"Production Approach" of evaluation relies on basic statistics like number of training days per year, number of courses per year and number of trainees attending each course etc., but fails to determine the achievement on account of organizational objectives (Marsden, 1991).

3.2 Goal-Based Approach

Another one is the Goal-based approach. One of the important models was developed by Kirkpatrick which is among one of the earlier developments in evaluation. Plant & Ryan (1994) has summarized the Kirkpatrick Assessment Model as below:

- *Level 1. Reaction:* What do the participants think of the course?
- *Level 2. Learning:* What have the participants learned?
- *Level 3. Application:* Have the participants applied the skill learned?
- *Level 4. Benefit:* What benefits have been accrued to the organization?

Though Kirkpatrick Model is criticized on several accounts, but it has provided foundation for the development of more efficient and effective models. The weaknesses of Model include: it is subjective in nature,

and it does not accommodate evaluation of inputs and processes.

Issue of subjectivity, the major weakness of Kirkpatrick Model, can be addressed by incorporating ROI Models. In the public sector first such initiative came from the US Government. In 1982, the US Congress, while recognizing the need of training evaluation, adopted "Job Training Partnership Act", acknowledged that "job training is an investment in human capital" and emphasized upon the need of measuring ROI (Benson, 2000). Several methods for measuring ROI are available in the literature. Doucouliagos and Sgro (2001, p. 75) have suggested following steps for estimating the ROI:

1. Data collection (measure of performance, measure of training, cost of training, benefits arising from training etc.)
2. Comparison of data – pre and post training
3. Multivariate analysis
4. Calculating ROI

In the measurement of ROI, several sophisticated measures have been developed. Some models simply measure ROI, some measure net present value (NPV) and some Internal Rate of Return (IRR).

NPV can be estimated by using following formula:

$$NPV = PWB - PWC$$

Where PWB is the present worth of benefits at discount rate (i), and PWC is the present worth of cost at same discount rate (i).

NPV is a good measure of net impact but does not give useful results when comparing impact of one project with

another project with unequal investment sizes. However, IRR can be used to make up this deficiency. Almeida and Carneiro (2006) used following model for estimating IRR for investment on training:

$$\sum_{s=1}^{N} \frac{MB_{t+s}}{(1+r)^s} - MC_t^T = 0 \quad \text{...................} (1)$$

Where:

MB_{t+s} = marginal benefit of an additional unit of training in t
C_t = marginal cost of the investment in training at t.
N = Period in which investment generates benefits after one time investment
R = internal rate of return of the investment that equalizes the present net present worth to zero.

$$MC_t^T = MC_t + MFP_t, \quad \text{....................} (2)$$

Where:

MC_t = marginal direct cost and MFP_t = marginal product of foregone worker time.

Productivity measurement is another option. To measure firm productivity, Almeida and Carneiro (2006) followed following regression model:

$$Y_{jt} = A_t K_{jt}^a L_{jt}^B \exp(\gamma h_{jt} + \theta Z_{jt} + \mu_j + \varepsilon_{jt}) \quad \text{...............} (3)$$

where:

Y_{jt} = a measure of output in firm j and period t.
K_{jt} = a measure of capital stock.
L_{jt} = total number of employees in the firm.
h_{jt} = a measure of the stock of human capital per employee in the firm
Z_{jt} = a vector of firm and workforce characteristics.

μ_i captures time-invariant firm heterogeneity and
ε_{ijt} captures time-varying firm specific productivity shocks.

Similarly, Almeida-Santos and Mumford (2006) used following model:

$$\ln W_{it} = X_{it}\beta + Y_t\delta + T_{it}a + \mu_i + \nu_{ij} + \varepsilon_{ijt} \quad \dots\dots\dots\dots (4)$$

$\ln W_{ijt}$ = natural logarithm of the real prices hourly wage of individual i in job j at time t

X_{ijt} = vector of individual, job and workplace characteristics

T_{ij} = representative of different measures of training accumulated by the worker and

Y_t = vector of year-specific dummy variables.

μ_i = Unobserved characteristics individual fixed effect

ν_{ij} = Unobserved job match specific component

ε_{ijt} = Transitory shock.

Almeida and Carneiro Model and Almeida-Santos and Mumford Model yield useful results but are somewhat complex to administer in organizations. Moreover, these models totally ignore the processes and usage dimensions of training evaluation.

3.3 Systems Approach:

The third approach for training evaluation is the Systems Approach. This approach adequately addresses some of the deficiencies of the models of Production Approach and the Goal Based Approach. Under this approach, following are the most common models of evaluation of the training:

- Context, Input, Process, Product (CIPP) Model (1987) – system-based model
- Input, Process, Output, Outcome (IPO) Model (1990) – system-based model

The above discussion leads to the conclusion that there are three perspectives of the evaluation. One perspective is to focus on processes another one is to focus on results and the third one is to focus on the both. Vyas (2004) opine that focus of evaluation should be on results instead of process of training. But it may not be appropriate to ignore processes, as improvement in the processes can add value to the whole system, so it would be more useful to opt the third perspective, as a combination of process and outcome approaches would help not only in keeping alignment of the activities with the objectives of the training interventions, but would also offer a tool to do away with the redundancies in the processes, leading to higher degree of value addition in the system.

4. CONSTRAINTS IN TRAINING EVALUATION

All the three approaches discussed above confront with several constraints and issues, when they are applied. They are discussed in the following section.

The **discipline of training evaluation** is still in infancy, especially in developing countries like Pakistan. Pakistan is still in the phase of adopting evaluation as an integral part of the training management, more particularly, in the government organizations. Same is the case with India as well, as Vyas (2004) observes that training evaluation is the least developed component of the training process in Government organizations in India. Lack of maturity of training evaluation can be assessed from the fact that most of the organizations in Pakistan have not yet gone for any training need assessment (TNA) exercise. **Lack of TNA** culture is a critical constraint in administering the training evaluation as TNA is imperative for strategic management of training interventions (Selden, 2005). Even in organizations where TNA is administered, most of the times it is not properly exercised and

benchmarking is not made, especially in the public sector in Pakistan, eventually measurement of the difference between with and without training situations becomes difficult. It is proposed that TNA may be made an integral part of the HRM practices. Besides, benchmarking should also be made so as to measure difference between with and without situations.

In training valuation, most important constraint relates to the complexity involved in **separating the variables impacting performance.** Problem includes the degree of market competition, the size of investment in technology, change in demand for the products and services, skills of the team (Smith 2001). Basic question is how to deal with dividends of cyclical booms or losses owing to downfalls in the industry? In former situation, ROI in training is likely to be overstated and in later case, understated. One option could be adjusting the results with some appropriate adjustment factor. But again the question is, how one should decide about the determination of the adjustment factor. One option for determination of the adjustment factor is proposed as below:

i. Determine average growth (AG) rate in the industry in last t years = G

ii. Determine existing growth rate in the industry = g

iii. Determine AG rate of the firm output in last t years = R

iv. Determine existing (t_0) growth rate of the firm output = r

v. Adjustment factor: $AF1 = \dfrac{r - R}{g - G}$

.... (5)

In ideal cases, the firm may estimate AF in relation to the top most competitors instead of the industry as a whole.

Another related issue pertains to the determination of the **direction of causation** i.e. determining the direction of cause and effect relationship between investment in human capital development and the performance of organization – which is the cause and which is the effect, as it is also likely that when and organization prospers, it is very likely to invest more in human resource (Smith, 2001). It is a common experience that when profitability of an organization is on rising trend, investment in training is likely to increase, eventually, an increase in profitability, thereafter, may be attributed to the training intervention. This problem can also be dealt by adjusting the findings

  i. Average growth (AG) rate of the firm output during last t years = R
  ii. Existing growth rate of the firm output = r
  iii. Average investment in training during last t years = I
  iv. Existing investment in training ($t_{(0)} = i$)
  v. Adjustment factor: $AF2 = \dfrac{r - R}{i - I}$

$$\dotsb \ (6)$$

Learning is an asset. Like other assets, it also confronts the problem of depreciation. So how to deal with the issue of **depreciation of learning** made in training in the form of knowledge and skills is another area of concern. Over the time after attending training, learning depreciates owing to change in technology, organizational change and change in the job (Long, 2001, p. 26). Question is, what duration should be taken into consideration while developing the stream of resource inflows relating to training. Technical people may develop a timeline of each practice and technology, from which one can determine the longevity of the learning utility by using the formula of adjusted smoothing average with higher weight of the latest one.

Another related issue lies in the **variation in the experience** of the training beneficiaries. More experienced people are more productive (Richardson, 2004, p. 21). So if this issue is not addresses properly, it is more likely that results would become spurious.

Another constraint in training evaluation comes from **lack of Multidisciplinary Approach**. Generally, evaluation lacks multi-discipliniarism. Economists have had temptations to focus on the issues of training efficiency (Almeida-Santos and Mumford, 2006). Similarly, HR Managers have some other mindsets in measuring the impact of training. Similarly, accountants have their own way of looking at it and the technical people think differently. Eventually, findings may not be acceptable to one or more groups. The solution may be the involvement of a multi-disciplinary team in the evaluation exercise.

Reliability of information is also an issue of concern. Most of the information required in evaluation is qualitative in nature. It is, more particularly, very difficult to get reliable information through surveys on what actually firms spend on the human capital development (Richardson, 2004, p. 21). This issue may not be very relevant at the organizational level as it mainly pertains to the industry. At the firm level, this issue can be addressed by adopting appropriate accounting measures. Moreover, observing transparency can further increase degree of reliability.

Reliability of information deteriorates from the tendency of the organizations to overstate the training benefits and understate the costs of training. There is often a temptation to show positive ROI, so the benefits are more prone to overstatement (Rubinstein and Mayo, 2007, p. 5). **Lack of counter arguments** is also an obstacle in measuring true value of training. Training interventions are expensive but dilemma is that most of the studies are

stereotype in nature, and give mono-directional findings. Most of the studies have only attempted to demonstrate benefits of training. In some empirical studies, Long (2001, p. 26) found the IRR of investment in training as high as 339 percent. Smith (2001) finds out that returns on investment in training are more likely to be positive and can be very high in some cases (p. 13). Blandy, et al (2001, p. 68) found positive relationship between training and organizational productivity and profitability. At the firm level, open forum discussions and transparency can help addressing this issue. But this suggestion is also ridden with a problem. The employees, who are more skilled in communication are likely to influence the management in getting their contributions over-recognized. Eventually, it is very likely that in some cases, benefits (in terms of enhancement in productivity owing to training intervention) may be overstated and in some cases understated. Option to deal with the problem could be the 360 degree analysis.

It is general tendency among the evaluation experts to focus more on benefits and less on cost. Several cost items go unattended. For example, cost incurred by the beneficiaries of training is not accounted for in calculating the total cost of training provision. Eventually, cost remains understated to some extent. Adopting appropriate accounting practices, involvement of economic analysts and use of participatory and multi-disciplinary approaches can offer better solution to this issue.

Another related constraint pertains to the **multiplicity of tangible and intangible benefits.** Investment in training may yield many types of returns like enhancement in productivity, higher level of value added activities, diversity in the tasks performed, increased efficiency in use of resources, increased ability to innovate etc. (Smith, 2001, pp. 13-14). It is very difficult to measure all these benefits. Moreover, training does not only benefit the

organization, it also enriches the potential of employees who have received training (Long, 2001, p. 18). More often, individual perspective on perceived value addition is not taken into consideration. So another positive side affect of training goes neglected. Participatory methods of evaluation supplemented by the judgments of the experts can offer better solution to this issue.

Length of duration of a training intervention is another issue in measuring ROI. Long (2001, p. 27) found a negative correlation between the length of the training duration and the IRR of investment in training. Long estimated IRR of 339 per cent in case of one week training, 157 percent for two-week training, and 14 percent for four-week duration. It may be risky to generalize these kinds of findings, as some training interventions may be of long duration but covering only one module. Option to deal with this issue is the modular approach, irrespective of the duration of training.

5. SUGGESTIONS FOR THE PROMOTION OF THE CULTURE OF TRAINING EVALUATION

Most of the above discussed issues and constraints crop up due to **lack of standards** for training evaluation. There exists lack of common understanding on definitions, time frames and accounting practices in respect of training evaluation (Rubinstein and Mayo, 2007, p. 5). It is very likely that if evaluation is carried out by different groups, results may not be consistent. Inconsistencies are leveraged more particularly due to biases and the non-standardization of definitions. This issue can be addressed through a gradual process. Starting point could be the **identification and documentation of best practices.** Organizations make several experiences, and the lessons are rarely documented. It is therefore, proposed that organizations may develop the

practice of identification and management of best practices of evaluation.

It is also evident that there exists poor **culture of evaluation** in the organization in Pakistan in general and public sector organizations in particular. Training evaluations is very crucial but at the same time, it is an expensive exercise. Sometimes, the cost of measuring the ROI for a training intervention may exceed worth of the exercise (Irzi, 2002, p. 91). This could also be one of the factors which debar its application especially in developing countries like Pakistan where organizations are small in size.

There is a dire need to promote the culture of evaluation. There will always be resistance against evaluation. But if the purpose is made clear to the participants, magnitude of resistance can be reduced to a larger extent. Purpose of evaluation at initial stage should not be the accountability, it should be the improvement and value addition in the system.

Conventional practices of training management need to be transformed into specialized form of practices, especially for evaluation of training interventions. For this purpose, it is important to assign some one to measure efficiency of training, as has been suggested by Read & Kleiner (1996). Evidences suggest that highly **focused training interventions** yield higher returns (Smith, 2001, p. 14), therefore, prime focus of evaluation should be to measure the degree of focus of the training interventions. Moreover, evaluation exercises should not be only for the sake of evaluation. It should be made **results-oriented**. Moreover, evaluation should be considered as just a tool not an "absolute mean to effective training", as has been suggested by Vyas (2004). This can not be done unless systematic evaluation of training and development

interventions is administered. (OAGBC, 1999, pp. 15-16). **Systematic management** of evaluation processes will create a bigger potential for improvement and value addition.

6. CONCLUSION

Training needs to be treated as an investment not as a liability, as it has tremendous potential for adding value to the organizational objectives, irrespective of the nature of organization. This kind of investment like other investments should be made more viable. This needs monitoring and evaluation of the training interventions. Evaluation should not focus only on the outcomes of training, inputs and processes should also be taken into consideration. Existing practices of evaluation are ridden with several issues and constraints. These constraints need to be properly taken care off in the organizations. One issue is related with the segregation of the impacting variables and other one is to determine which the cause is and which the effect is. There is an issue of tendency of overstating the benefits and understating the costs. Culture of evaluation also needs to be promoted and evaluation should be made more systematic and result oriented. Organizations are in need to develop standards for training evaluation. Starting point for efficient and effective management of training practices could be the identification, documentation and appropriate use of best practices.

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GRAPEVINE COMMUNICATION BLESSING IN DISGUISE

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ABSTRACT:

Effective communication is rightly termed as life blood of every successful organization. Besides formal means of communication, informal channels can play a vital role in understanding relevant data to address issues related to it. Grapevine communication is one of these important elements of informal communication. The study highlights grapevine communication, its location and causes, and above all how grapevine communication can effectively help management in decision making process. Informal networks of communication particularly rumors and gossips are not considered seriously in the organizations, miscommunication is the result; which gives birth to misunderstanding between upper, middle and lower management. The study will underline importance of grapevine, and how it helps the management in filtering down important piece of information from it.

Elements of oral and written Business Communication i.e. letters, memos, reports, staff meetings, department meetings, conferences, company newsletters, and official notices are highly documented, and as such has very little chance for change. It is said that language is changing phenomenon, and this phenomenon makes language

alive. If a language does not change we call that language a dead language. When we apply this principle on information, the principle of analogy says that information should change which will make that information more reliable, but experts of information think on the other side of the picture. The communication experts feel that change in the message gives birth to the grapevine communication, which is not documented as a result it is open to change and interpretation. However, nearly all of the information within the grapevine is undocumented and is thereby open to change and interpretation as it moves through the network. It often travels faster than formal channels. An environment where people hesitate to say anything against the system may not be an ideal system. The grapevine is very useful in supplementing formal channels. It provides people with an outlet for their imaginations and apprehensions as well. Once people express themselves, it becomes easy for them to concentrate on their jobs. It also helps satisfy a natural desire to know what is really going on. Though the concept needs in depth discussion on various elements which includes the rumor/grapevine, reasons for grapevine, accuracy of grapevine, types of grapevine, how grapevine is spread, role of various participants and how to manage the grapevine. The paper highlights the phenomenon, how grapevine communication can be considered as an important tool of communication. Dealing effectively with the grapevine is a challenge that will always be a part of a manager's job. The primary objective of this article is to unveil the significance of grapevine communication, and to utilize it for positive purposes.

The dictionary gives us a definition for the grapevine which says it is "the informal transmission

of information, gossip or rumor from person to person." The grapevine is the informal and unsanctioned information network within every organization. "The network helps employees make sense of the world around them and consequently provides a release from emotional stress and all informal information is undocumented."[1] Keith Davis (one of the leading authors on the subject) discovered in his study that organizational Grapevine is an expression of healthy human motivation to communicate: "In fact, if employees are so uninterested in their work that they do not engage in shoptalk about it, they are probably maladjusted."[2] Of all the things that the grapevine has been called, it is foremost--a communications network. Since it is unstructured and management fails to keep an eye on it, therefore grapevine communication has different directional flows. Sometime it moves from the lower management to the upper management and vice versa, at time it spreads horizontally. Though it flows in many directions, yet speed of this communication among peer groups is much higher than between upper and lower management.

Free time is the best time for grapevine communication. The organizations where employees find leisure involve themselves in spreading rumors and other activities. Realizing the fact private sector keeps its force very busy all the time so that they may not spread any misinformation in the company. The practice may hold water for the organizations where number of employees is less, but the practice would be a failure in the companies having large number of workforce. It has been observed that government employees spend more time in receiving and dialing numbers, irrespective of that fact that client is waiting for the concerned person. Does it look professional to

hold the client, who came from a far off place and attend the telephonic call from someone who is calling from his comfortable rooms? Exceptions are always there, but public sector employees have more free time than the private sectors organizations; unions are strong in such institutions as a result chances of informal communications are more in such organization.

BEST PLACE FOR THE GRAPEVINE

Since the grapevine arises from social interactions. It is the natural urge of human beings to vent their feeling. The grapevine starts early in the morning on the breakfast table and goes on till we go to bed. The peak time of the days are breaks and lunch hour during which management has little or no control over the topics of conversation.

REASONS FOR GRAPEVINE COMMUNICATIONS

Grapevines exist in all organizations in varying degrees. Gordon Allport describes two conditions as controlling activeness of the grapevine; importance of the subject to the speaker and listener, and the ambiguousness of the facts.[3] He relates the two with the following formula:

$R = IA$ **Where:**

R is the intensity of the rumor I is the importance of the rumor to the persons communicating, and A is the ambiguity of the facts associated with the rumor. This formula, according to Allport, means that the amount of rumor in circulation will vary with the importance of the subject to the individuals concerned times the ambiguity of the evidence pertaining to the topic at issue. The relation between importance and ambiguity is not additive but

multiplicative, for if either importance or ambiguity is zero, there is no rumor.[4] This formula is supported by Donald B. Simmons who states it slightly differently. He states "rumors originate, grow, and spread along the grapevine in direct proportion to their importance to workers and the lack of news on a subject from official channels."[5]

HOW ACCURATE IS THE GRAPEVINE?

It is crystal clear that message in grapevine communication may not be 100% correct. By analyzing a rumor, we find an aorta of fact in that rumor. No rumor can be started without having an inkling of an idea. Keith Davis reports from his research "that in normal business situations between 75 percent and 95 percent of grapevine information is correct."[6] In general people tend to think the grapevine is less accurate than it is because its errors tend to be more dramatic and consequently are more impressed on one's memory than its day-to-day routine accuracy. In a normal work situation, upwards of 80% of the information that comes over the grapevine is accurate.[7] While the day-to-day accuracy may be good, people believe the grapevine is less accurate because the times it is wrong are more dramatic. A communication may be 90% correct in details but that last 10% is often the most important part of the message. Messages from the grapevine are often lacking in all the details so that the message is subject to misinterpretation; while the grapevine generally carries the truth it seldom carries the whole truth.

FACTORS AFFECTING GRAPEVINE'S OPERATION

Instability and corruption in the organizations and countries pave grounds for grapevine communication. During the Civil War, telegraph lines were often hastily

strung from tree to tree. They resembled grapevines, and because they often produced garbled, confusing messages, hearing something "through the grapevine" has become synonymous with any distorted message. Often dismissed as inconsequential, communicators might be surprised to learn how much credence employees put in what they hear through the grapevine. In fact, controlling the rumor mill continues to pose a significant challenge for **formal communication**.

Thick hierarchy is another factor affecting this communication. Organization having thin organization chart are likely to have less rumors. Injustice in the institutions, biasness is the other factors fact the communication. Rumors prosper best where formal communication is poor. They thrive in an environment where employees are not kept informed about anything that my be important to them. Fourth, they perform best in informal social contacts but can operate as effectively as a sideline to official meetings. In a poorly managed organization they can chip away at morale and fuel anxiety, conflict, and misunderstanding.[8] Fifth, people start and spread rumors to enhance their status, fill gaps in social conversations, and avoid suspense over suspected events. [9]This activity increases during times of stress, uncertainty, and in the absence of news.

COPING OR MANAGING THE GRAPEVINE

Since the grapevine cannot be held responsible for errors and is somewhat of an unknown, managers sometimes succumb to the wish that it will go away; but actually it does not happen. It cannot be abolished, rubbed out, hidden under a basket, chopped down, tied up, or stopped. If we suppress it in one place it will pop up in another. If we cut off one of its sources, it merely moves to another one... In a sense, the grapevine is a human

birthright, because whenever people congregate into groups, the grapevine is sure to develop. It may use smoke signals, jungle tom-tome, taps on a prison wall, ordinary conversation, or some other method, but it will always be there. Organizations cannot "fire" the grapevine because they did not hire it. It is simply there.

POSITIVE ASPECTS

Managements do not always consider grapevine a healthy aspect. One major advantage of the grapevine is that it releases stress of the workforce. In talking about work, the grapevine gives employees the opportunity to convert official company policies into their own language or jargon. In doing this, individuals are better able to understand the policies and are better able to cope with their work environment. This open communication also enables employees to have empathy for those who are occurring stress outside of the work place. As stronger personal bonds occur among workers, a greater spirit of team work exists within the organization.

Because of the speedy transfer of information, the grapevine enables individuals to prepare for and think through management's goal changes and goal adjustment in advance of any formal statements. This increases the contributions of employees. The grapevine also helps employees to remain efficient by quickly spreading the news of disciplinary action.

Grapevine makes employees alert and prepare them for any upcoming sad news. For example an employees spreads this rumor that boss is planning to take round of the field offices. This rumor will make all the workers in the field offices regular and punctual. Similarly a rumor that audit team is coming in advance may help the departments to maintain their accounts up to date.

The grapevine reveals issues and problems being discussed by the employees; the effect of policies and procedures upon which the employees can be measured. For example these days everybody at NUML is spreading different rumor about the interviews held here for the regular positions. Managers should try to intervene into the grapevine. The grapevine is also a means of communication which a manager can use for efficiency. Via this method, desired information can be circulated quickly to a large group of subordinates. Control of the grapevine is an understated responsibility of the manager. While all the information passing through is not initiated by management, management is ultimately responsible for its accuracy.

The grapevine can be used to see how a new idea will be received. If feedback through the grapevine indicated an unfavorable reaction, management can reconsider the idea or alter it to lessen employee resistance. If the new idea is incorporated, management will be forewarned of problems and can be prepared with new programs to help overcome anxiety and misperceptions. In short, as an early warning system, rumors allow management to think through in advance. John Kotter, a Harvard Business School professor and author of "Power and Influence," gives an example of a manager he knows who uses the grapevine to give new ideas a "trial-run" before spending a great deal of time and money. "He knows who in the office has the longest tongue," explains Kotter. He than casually mentions this new idea to the employee and waits for the word to spread. In no time, responses find their way back to his secretary, who gives him a full report. Feedback is very important, and if it is positive, he goes ahead with the new plan. If the feedback is negative, it's back to the drawing board to rethink the idea and pinpoint the problem areas. The

simple, cheap way to check an idea can be invaluable to a manager.

Some organizations create a rumor hotline or rumor control office. [11] When an employee hears a rumor he can call the rumor office to check it out. By providing this service, bad rumors can be replaced with good rumors. Good rumors, such as "I asked about that and was told it wasn't so," move just as quickly through the grapevine as bad ones, and can increase morale, help build teamwork, and increase motivation.[12] Dealing effectively with the grapevine is a challenge that will always be a part of a manager's job. Those who are able to understand the power of the grapevine will be better prepared to utilize it to provide stability and credibility in the work environment that is needed in order to achieve organizational goals.

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THE ART OF PERSUASIVE SPEAKING

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ABSTRACT

Persuasion is the process of creating, reinforcing, or changing people's beliefs or actions. All of us are engaged in this activity since we started social interaction, but yet there is a need to grasp this notion and its necessary conditions. When you speak to persuade, you act as an advocate. How successful one is in any particular persuasive speech depends on how one tailors the message to the values, attitudes and beliefs of the audience. The article contains the explanation of the concept of persuasion and encapsulates the factors that affect the art of persuasion. Before initiating the job of convincing audience, the sender of the message has to take into account various analyses of audience, purpose, situation and types etc which are discussed at length in the work. The study guides the reader to figure out the suitable strategy, in accordance with his purpose and goal. Discussion on the various strategies and their essential requirements provide the reader with the intellect to choose the option of his requirement. The research will positively contribute in comprehending the complex process of persuasion successfully.

In our day to day life, we mostly are confronted with the messages which urge us to take some action, sometimes stop us from a certain behavior or impliedly alter our mindset. We ourselves, are engaged in sending messages to influence the conduct of our receivers. This whole process of influencing others, explicit or implicit, attitude involves various factors hence becoming complex. This process can easily be known as PERSUASION, because due to this we, as senders, try to seek change of behavior (mental/physical) in our receivers by employing various appeals to their emotions and intellect.

Such types of messages are inescapable, reason being, in whatever capacity we exist in our society or whichever social role we perform in our life, we are bombarded with convincing messages from different sectors like politics, religion, education, medicine and business. The study in the field of persuasion or public speaking can be traced back to Aristotle with the concept of Ethos, Pathos and Logos, which will be discussed later in the article. In his research Aristotle defines Rhetoric as "the ability to discover all the available means of persuasion in any given situation".[1]

Persuasion infact can be considered as the process of influencing other person's ideas, values, beliefs and perceptions hence changing his attitude to a certain extent. As speaker you try to influence your audience to adopt your position when you do not have any authority over them and they enjoy the liberty to reject your argument. The necessary conditions of persuasion are that: to accept your view point is not obligatory for them and there is no concept of reward and penalty. You just try to convince them by highlighting significance, value and benefits of your standpoint. Your audience may consist of one person

[1] Grice, George L., Skinner, John F. "Mastering Public Speaking". Allyn and Bacon, Boston (1998).pp.328-377.

or a large number of people e.g. staff meeting, speaking at a seminar, addressing a congregation or communicating by means of world wide media. In order to dig deep into the concept of persuasion we have to see various definitions by different scholars.

- According to **George L. Grice and John F. Skinner** in their book "Mastering Public Speaking", 'Persuasion is the process of influencing another person's values, beliefs, attitudes, or behaviors'.

- **Kitty o' locker** sees this process as motivating your audience to take action you desire.[2]

- **Courtland L. Bovee** believes that "persuasive messages aim to influence audience who are inclined to resist."[3]

The aforementioned explanations by various scholars suggest this be a process i.e. a complex one, which includes many variables and their interaction with one another. In order to understand the structure of this whole process we have to start from fundamental factors responsible for the continuity of the process. Persuasive speaking initiates with the analysis of rhetoric situation which includes the goal(s) the speech seek to achieve, which may be:

- To reinforce existing beliefs and attitudes
- To inoculate against counter persuasion

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[2] Locker, Kitty O., "Business Communication: Building Critical Skills." Mc Graw-Hill companies, inc. Boston.(2004).pp.222-257

[3] Bovee, courtland L, Thill, John V. and Schatzman, Barbara E, "Business Communication Today",7th Edition, Pearson Education. Dehli,2003.

- To change attitudes
- To prompt the audience to act.[4]

As persuasion is more accurately equated with influence than with power, a persuader can exert three types of influence on his audience. He can change, instill, or intensify his listeners' values, beliefs, attitudes and behaviors.[5] When a person tries to convince his reader infact he tries to bring him closer to his point of view. He can bring them from strong opposition to mild opposition or from slight favour to strong favour or they can have a complete change in their thinking through strong persuasion. So it is the extent that is measured, to what extent his persuasion is successful.

Are there various types of persuasive messages? If yes, do we follow the same plan for each type or there are alternative plans as well? The answer is yes, there exists variety in purposes and types of the persuasive messages and for each type one has to choose the strategy accordingly.

Types of speech include:

- **Speech to Convince**: In this type the purpose is to establish a belief by urging your receiver to accept your stand point and with this you alter his belief, you not necessarily demand your reader to act, action may be a natural outgrowth of their beliefs. Your primary purpose is to make them recognize your conviction. e.g. to convince the audience that

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[4] ibid.

[5] Grice, George L., Skinner, John F. "Mastering Public Speaking". Allyn and Bacon, Boston (1998).pp.328-377.

Parliamentary system of government is better for our country.

- **Speech to Actuate:** This type performs double function, along with the change in value it also asks the reader to act as well e.g. to move the audience to vote for the honest man.

- **Speech to Inspire:** The function of this type is to change the feeling of the receiver but its purpose is dignified and sublime e.g. to inspire people to respect people more educated than them.

Factors that influence the process of influencing are to be studied in their relation with other variables. There are certain principles of persuasion that one has to keep in mind before starting the work:
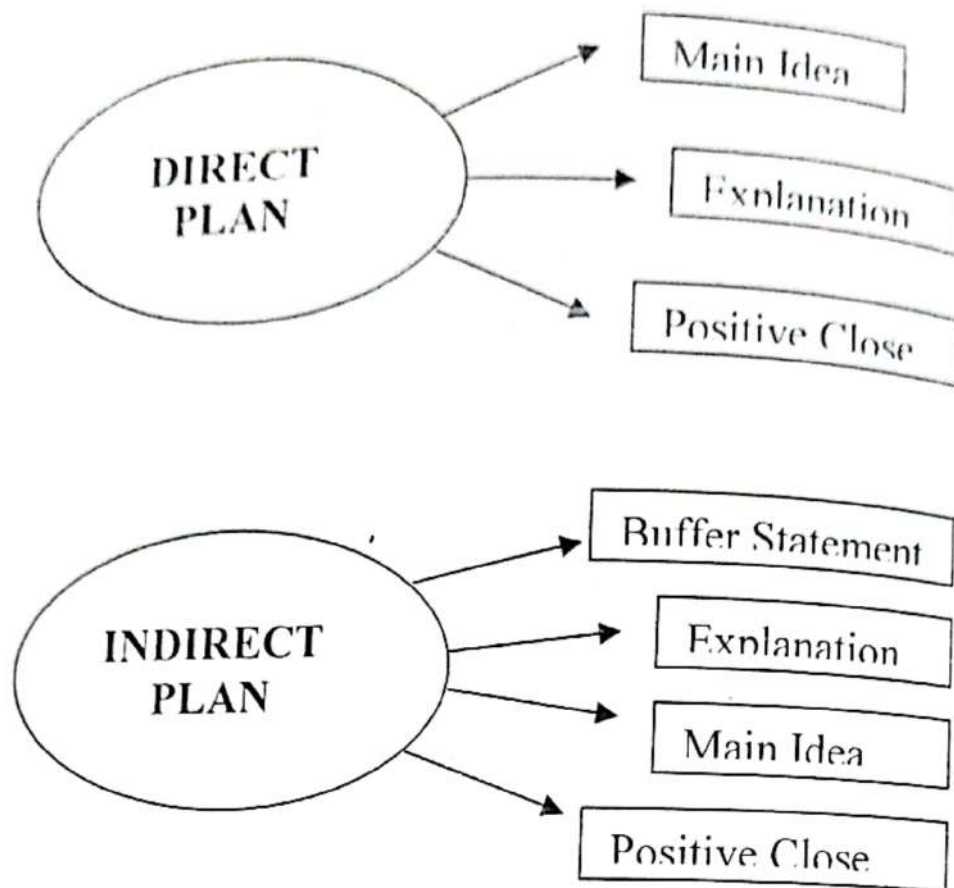
- Importance of the topic to audience
- Knowledge of the audience about the topic
- Self-motivation provides convenience
- Harmony between the speaker's and receivers' viewpoints
- Reliability of the source
- Sharing of the common background

Persuasion depends on the significance of the topic to the audience, in other words how much worth is paid to the topic by the people, and also their awareness about the topic, the less the audience is literate about the matter the greater is the possibility of persuasion. Self-motivated audience are easily convinced, they will be conveniently tracked to the desired direction. The consistency of the message with the audience beliefs and culture gives doubtless surety of the conviction. If the source is credible then the idea will be instilled effortlessly e.g. if the speaker

is qualified or trained in that field the message will be assimilated more effectively. Sharing of the same culture by the speaker and the audience makes certain the accomplishment of the progression of persuasion.

Setting on the job of altering attitude one requires to realize what is to be altered. One can target certain changes in one's audience that is the analysis of purpose. You will see after the discussion that the study of audience is a must for the planning of this message. The analysis of your audience is equally important e.g. if you want to bring change in the behavior of your receivers then you have to be sensitive about the reaction of the audience whether they will be receptive to your message or it will face severe criticism. You must gauge their needs and consider cultural differences. You have to see what they know and how they feel about the speaker, topic, occasion and themselves. In other words we can say that the analysis will be conducted in terms of cultural, demographic and individual diversity. Cultural diversity refers to the differences among people in language, beliefs, and customs where as demographic diversity involves differences related to basic and vital data regarding any population. Individual diversity involves audience members' beliefs, attitudes, values, motives for being at the occasion, and expectations for the speech[6].

After the analysis of the situation and the audience, one has to select the most suited strategy among the many. The sender must look for the means of persuasion that he finds in a particular situation, it varies from occasion to occasion. One may use Direct Plan or Indirect Plan according to the reaction he is expecting.

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        │  PLAN   │         ╲        └─────────────┘
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                              ──────▶│ Positive Close│
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        │INDIRECT │────────────────▶│ Explanation │
        │  PLAN   │         ╲        └─────────────┘
        ╰─────────╯          ╲       ┌─────────────┐
                              ──────▶│  Main Idea  │
                                     └─────────────┘
                                     ┌──────────────┐
                              ──────▶│Positive Close│
                                     └──────────────┘
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Direct Plan is followed when the reaction of the audience is positive and the persuasive message is in harmony with their thoughts and is not expected to face opposition. But if the message involves beliefs contrary to the standards of the receiver, Indirect plan is followed. For both the plans you have to prepare your message by following certain steps:

- Establish your Credibility
- Give Logical Appeal
- Give Emotional Appeal
- Frame Your Arguments
- Emphasize your position

The strategy mentioned above finds its roots in the modes of persuasion presented by Aristotle i.e.

Ethos, Logos and Pathos.

The principle of Ethos calls for speaker's credibility, which is derived from the character and personality of the speaker and also from the expertise of speaker in that issue. Logos, demands the force and logic in the argument so that they should be compelling to the receiver. Pathos is the emotional appeal that chains the ideas with the beliefs and values of the audience.

In **establishing credibility of the speaker**, several factors contribute like occupation, qualification, personality, manners, clothes, and communicative skills, sensitivity of the situation, steadfastness, insight and adeptness. According to John F. Skinner, Speaker credibility is fluid, varying according to your listeners. You possess only the credibility your listeners grant you[7]. The levels of credibility changes as you progress in your speech i.e. initial, derived and terminal credibility respectively. Initial credibility is your image before speaking to the audience. Derived credibility is the picture the audience develops as you speak. Terminal credibility is the impression audience gets after the speech is completed. Competence, an important ingredient of credibility, can be shown by depicting your knowledge about the subject, also by supporting your ideas by strong assertions. Relating your stance with that of the scholars always give authenticity to your ideals. Another way to exhibit competence is by quoting your personal experience in the matter e.g. if you are talking on social discrimination and you are discriminated in the society on the basis of colour

[7] Bovee, courtland L, Thill, John V. and Schatzman, Barbara E, "Business Communication Today",7th Edition, Pearson Education, Dehli,2003.

or creed, this will provide you an edge that you are acquainted with the phenomenon and can feel it.

Another important criterion of the **credibility** is **steadfastness** that can be achieved by presenting the matter objectively and in an unbiased manner. You increase your persuasiveness by making the people realize that you know about their values and culture and share the common grounds with them. The honest and unbiased arguments are not sufficient until they are delivered confidently and connectedly. Unless you exhibit deep concern and care to your audience, your arguments will not be vigorous. So in order to achieve your credibility you need to consider the verbal, vocal and physical delivery and hence can be effective persuader by presenting a well researched and accredited topic.

Logical appeal demands sound reasoning to accept any idea or to adopt a position. For this we make a claim and support it with some evidence. Mostly we use three types of reasoning i.e. Analogy, Induction or Deduction. Analogy gives reason by comparing any other event similar to the phenomenon you are explaining. When using analogy makes sure that two similar objects or situations are compared. In Induction, you reason from specific evidence to a general conclusion e.g. Eisenhower was a man, Kennedy was a man and Theodore Roosevelt was a man so all American Presidents were men. In Deduction you reason from generalization to a specific conclusion, a very simple example may be: All students have to work on some project in order to graduate in Business Administration, John is the student of Business Administration so he has to submit his thesis.

To give **logical appeal** you are required to give substantiated arguments and give plenty of material to your audience to be clear about the ideas. You can introduce

cause and effect reasoning accurately. Avoid reaching the conclusion without giving adequate support to your views.

The speaker can persuade his audience by patting their existing beliefs and arousing their emotions. The use of vivid examples increases the acceptability of the argument but they must be sufficient enough to prove your point, and arouse acceptance in the audience. The use of **emotive language** like pain, pleasure, terror agony and satisfaction stimulate the feelings of your listener and is helpful in bringing them closer to your perception. But this will not be effective without effective delivery of speech; the verbal and non- verbal message must be consistent. Whatever you are saying must have the reflection on your face; this increases the integrity of the speaker.

As far as the statement of the argument is concerned, Aristotle says, "A speech has two parts. Necessarily, you state your case, and you prove it."[8] But don't you think it is a very simple description of the speech? In order to prove your case you have to consider the structure of your argument and also their logical sequence. You need to follow a series of steps to present our argument effectively.

1. **You make a claim**
2. **You provide evidence**
3. **You show how the evidence proves the claim**[9]

[8] Aristotle, The Rhetoric of Aristotle, trans. Lane Cooper (New York: Appleton, 1932) 220.

[9] Grice, George L., Skinner, John F. "Mastering Public Speaking". Allyn and Bacon, Boston (1998).pp.328-377.

The soundness of your argument depends on the evidence that supports it. The claim is the conclusion of your argument that you want your listeners to accept. Evidence is the supporting material you use to prove your point. By this you provide your listener with the reason to accept your point. e.g. Positive use of internet enhances students' understanding and the claim can be proved by the increase in the marks percentage of the students who use this facility.

Claims can be warranted by following various types of arguments like:

- **Arguments by Analogy**
- **Arguments by Example**
- **Argument by cause**
- **Argument by Deduction**
- **Argument by Authority**

Argument by analogy is presented by equating the topic under discussion with any other similar phenomenon. We try to find the link between the two cases and prove that what is true for one must be true for the other. But in stating analogy, we should consider the similarities and differences between the compared phenomena. In giving argument through an example, we go for instances that are closely related to the issue, and are sufficient in number to back our assertion. It is an inductive type of evidence. The examples must be typical and true representative of the subject. The causal relationship between the two phenomena is shown in giving the argument by cause. One event is proved to be the cause or the effect of the other. These arguments flow in dual directions i.e. cause and effect argument or effect and cause argument. e.g. The traces of poverty are the effects of unemployment, so unemployment is the cause of poverty. In another example, we can see frustration is the cause of drugs addiction.

Deductive argument says that what is true generally is true in a specific instance, in this type of argument you make a claim for general group, event or situation and place a specific individual, event or situation in that general claim e.g. "students need to make maximum use of information technology in order to acquire advanced knowledge of the subject", this is general claim about a group now we can apply this claim to prove the need of I.T for an individual student by saying that, " you are a student and you need to use it."

In argument by authority, the claim gets approval from a specialist source; the credibility of the argument comes from the authenticity of the speaker for the audience. But this requires the source to be an expert and unbiased. In this type of argument, example, deduction, analogy and cause do not prove fidelity of the claim. e.g. if the speaker or a sender holds a responsible position in the field he is arguing or is qualified in that area, his argument will meet great agreement as compared to the one not trained in that discipline e.g. If you are speaking about Aids and give reference of some reputed medical scientist in support of your argument, it gives legitimacy to your argument.

The success of the persuasive message depends on all the necessary features discussed earlier. All types of analysis i.e. situation, audience, and purpose, types of persuasion, strategies help a sender to create an effective message, but along with this one must also be familiar with the common fallacies which hinder this process. Sometimes persuaders reach hasty conclusion without giving ample support to their claims, some others do not want to use some new and effective ways of giving arguments and stick to the same old and traditional ways considering old as gold, which mars their convincing power. Most of the time people consider the common or the prevailing concept as the correct one; they extract truth from the popular opinions

which is misleading. To be effective in persuasion, one needs to be aware of these pitfalls in order to avoid them.

The art of persuasion depends on the rational ability of the sender. A speaker has to persuade according to the situation, receiver, purpose and many other features discussed earlier. There might be endless strategies of persuasion a speaker has to select according to the discussed features. It is entirely the game of words that you attain convincing power. In the words of Napoleon:

"We rule the men by words."

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THE IMPACT OF REGIONAL TRADING BLOCS ON INTERNATIONAL BUSINESS

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ABSTRACT

This paper examines the impact of Regional Trading Blocs on International Trade. We attempt to clarify the economic, social and political implications of these trading blocs on their member countries and how they are affecting the non-members. Our analysis has shown that trading blocs increases the economies of scale of member countries' firms by providing them huge market size and customer base. Firms can reduce their cost by getting access to highly skilled and low cost labor, low cost capital, and efficient technologies. Countries can increase their political power by joining regional blocs. But at the same time, some of the countries (non-member) lose their comparative advantage due to high tariffs set by member countries, which result in trade diversion. Even in some cases a strong country, in a trade bloc, exploits its weak partner's economies.

INTRODUCTION

The purpose of this article is to critically evaluate the regional trade blocs, like EU, NAFTA, APEC, and their impact on international business. In order to complete this article, information about EU, NAFTA, and APEC was gathered from books, articles, and Internet. The information

was then evaluated on the basis of trade creation & trade diversion, the comparative & competitive advantage gain or lost by different countries, member as well as non-member, the impact of these regional blocs on different sectors of economy within the member countries and their impact on FDI.

Regional blocs, certainly, have a great impact on the economies of member countries. Trade among the member countries has increased manifolds. All the regional blocs provide a good example of this dramatic increase in the trade activities in its member countries. Regional blocs increase the competitiveness of the member countries firms by removing the tariffs as well as the non-tariffs barrier within a bloc and providing them economies of scale by exposing them to a huge market. But on the other hand, the home country firms are also exposed to intense competition from foreign firms of other members countries of the bloc. This intense competition among firms decreases the consumer prices and result in greater business activities.

Regional blocs, on the other hand, make it difficult for non-members countries' firms to compete with the local firms by adopting unified tariffs to them. In this process of discriminatory treatment of members and non-members countries' firms, some of the efficient firms of non-member countries lose their comparative advantage in exports to these countries. In some cases the member countries lose control over their own economic policies, like in case of EU the members are required to follow the same internal and external trade policies. Even in some cases the strong members of trade bloc exploits the weak members, like in case of NAFTA where the Canadians, in general, and Americans, in particular exploits the Mexican economy.

After analyzing the pros and cons of the regional trade blocs, it can be concluded that countries should form

regional blocs because these blocs increase the multilateral trade among member countries. It is recommended that the countries should join the trade blocs of the countries with whom they share common borders, have similar culture or at the same stage of economic growth. Trade bloc with strong countries will result in the exploitation of the weak country's economy, while trade bloc with a weak economy will result in no gain because of the poor consumer base. Also the countries should, at least, form a custom union or common market to avail the advantages of different factors of production.

1. THEORETICAL FRAMEWORK

1.1. Purpose

The purpose of this study is to critically evaluate regional trade blocs and their implication on international business in the contemporary world. The three most important regional blocs EU, NAFTA, and APEC are selected for this purpose. The study will help a country in deciding, whether to join a trade bloc or not and/or which trade bloc is most suited for a particular country.

1.2. Scope

In evaluating trade blocs, the study takes into account the implications trade blocs have on its member countries' economy. What happened to the trade among the member countries after joining the trade bloc? How these blocs affect the non-member countries' trade with the bloc? In other words, how much trade was created and how much was diverted by the trade blocs (Mahoney et al. 2001, p. 301).

1.3. Methodology

In order to complete our study, different books and articles were studied and Internet was searched for current updates about the trade among the member countries. The

information gathered is then, analyzed on the theory of comparative advantage gained and lost by different countries due to trade creation and trade diversion.

1.4. Assumptions

In conducting our research study, it was assumed that the above selected trade blocs are the representatives of all the trade blocs in the world. Although there are some other regional blocs which have their own advantages and disadvantages. There are other factors which affect the trade among the countries but in this article we study, only, the effect of trade blocs on trade among countries.

2. BACKGROUND

2.1. European Union (EU)

The most important regional bloc in the world today is European Union (EU). The EU's 25 member countries, with a combined population in 2004 of 446.6 million, comprise the world's second richest market. In 2004, membership was provided to the ten European countries (URL:http://www.europa.eu.int/comm/enlargement/index_en.html).

The EU's beginnings stem from the 1952 creation of the European Coal and Steel Community, which was designed to restore those two industries to profitability after the Second World War. The European Economic Community (EEC) was established in 1957 when the six founding countries signed the **Treaty of Rome.** Under the treaty, they pledged to create a common market by eliminating internal trade barriers, developing common external trade policies, and improving mobility of labor, capital and technology within the EEC. A third organization, the European Atomic Energy Community, was created in 1958. Officially, these three communities formed the European Communities (EC). In November

1993, the name of the EC was changed to the European Union (EU) as a result of the Maastricht Treaty (Mahoney et al. 2001. p. 303).

2.2. North America Free Trade Agreement (NAFTA)

North America Free Trade Agreement (NAFTA) is another important regional economic integration. Implemented in 1994 to reduce barriers to trade and investment among Canada, Mexico, and United States, NAFTA builds on the 1988 Canadian-US Free Trade Agreement. Canada and the United States enjoy the world's largest bilateral trading relationship, with two way trade, totaling around US$350 billion. The United States is Mexico's largest trading partner, while Mexico is the third largest trading partner of United States (after Canada & Japan). However, trade between Canada and Mexico, while growing, is rather small. The NAFTA agreement promises an increasing integration of the North American economies. Over 15 years, tariffs walls were lowered, non-tariff barriers (NTBs) reduced and investment opportunities increased for firms located in the three countries (Mahoney et al. 2001, p. 314).

2.3. Asian-Pacific Economic Cooperation (APEC)

The Asian-Pacific Economic Cooperation (APEC) initiative commenced at a meeting in Canberra in November 1989. APEC developed in response to the growing interdependence between Asian-Pacific economies. APEC began as an informal 'dialogue group' with limited participation. However, it soon became the primary regional vehicle for promoting open trade and practical economic cooperation. APEC currently has 21 members dotted around the Pacific's rim. The most recent entrants admitted in 1998 were Peru, Russia, and Vietnam. In 2004, APEC's 21 members' countries had a combined

GDP of US$19.25trillion and over 47 percent of global trade, a combined population of around 2.6 billion and exported goods valued of around US$3.4 trillion (URL:http://www.apec.org/apec/about_apec.html)'.

In its early years, APEC was a very informal group with contacts occurring between foreign and economic ministers of member countries. At a meeting in Bangkok in 1992, APEC ministers agree to establish a small permanent secretariat in Singapore, and formed ten sectoral-based working groups in areas such as trade and investment, energy and telecommunication. November 1994 Bogor Declaration in Indonesia committed members to the objective of achieving free trade in goods, services and investment among member governments by 2010 for developed economies, and by 2020 for developing economies (Mahoney et al. 2001, p. 319).

2. Findings and Discussion

Following discussion is based on the implications of Regional Trade Blocs on member as well as non-member countries; on their economies, on their political powers, on their socio-economic conditions, and impact of these blocs on globalization.

Economic Implications

The most debated impact of regional trade blocs, on the member as well as non-member countries, is their economic implications. With the elimination of internal tariffs, the market area is greatly enlarged and no longer bounded by borders of individual countries. Gains from increased economic efficiency are arising from the reallocation of production within the area on the basis of national factor endowments and comparative advantage. These gains can be reinforced by economies of scale that

individual firms may be able to achieve and by increased competition within the expanded market area (Robock and Simmonds, 1983, p.148).

This point is further stressed by Czinkota, Ronkainen, & Moffett and Alkhafaji in similar words. Integration increases market size and therefore may result in a lower degree of monopoly in the production of certain goods and services. This is because a larger market will tend to increase the number of competing firms, resulting in greater efficiency and lower prices for consumers (Czinkota et al. 1994, p. 159). The huge competition, due to regional integration, will result in low prices for the consumers where as the reallocation of resources within the free trade area will result in greater efficiency of the firms. According to Alkhafaji (1996, p.18), such integration may boost the transfer of technology, which could serve to intensify competition and innovation in addition to reallocation of resources in order to maximize their use and value.

Firms operating within trade blocs get Internal Economies of Scale by greater production for large markets and External Economies of Scale by getting the access to cheaper capital, high skilled labor, or superior technology (Czinkota et al. 1994, p. 159). According to Phatak (1997, p. 53), trade blocks promote the economies of scale not only in production but also in marketing, research and development. The competitiveness of the firms is not, only, limited to the trade bloc rather international firms established in common markets or free trade areas can become more competitive in third-country market if the increased level of production secured within the home market permits reduced costs for exported goods (Robock and Simmonds, 1983, p. 155). According to Tusveld (2002), recognizing the fact that the impact of delays and cost of border formalities become more important than the

cost of duty itself, therefore, the trade blocs are eliminating these barriers to promote trade in the world.

Regional blocs have an enormous impact on the imports and exports among the member countries. Countries belonging to different trade blocs increased their multilateral trade with other member countries manifolds. According to Waterloo (1998), Canada exports to the U.S. rose from $105 billion in 1988 to $245 billion in 1997. During the same period, imports have gone from $92 billion to $210 billion. Trade blocs also have a great impact on the member countries' FDI. Economic theories suggest that free trade and investment is a positive sum game, in which all participating countries stand to gain (Hill, 2002, p.235). According to Alan Rugman, cited in Micro: the micro-Economic Research Bulletin (2003), free trade agreements increased intra-regional FDI within the three regional trade blocs formed by NAFTA, EU, and Asian Countries. Firms use trade to gain market access between regional trade blocs, while use FDI to gain market access within trade blocs. Also according to Haar (2002), Mercosur, which is a regional bloc, has become particularly successful in attracting inward investment. According to De Guy (1998), for many small countries the appeal of regionalism is as a safety net against globalization. By offering their own firms an expanded-and partly protected-domestic market, regional trade agreements are thought to provide a platform from which to confront international competition from developed countries.

Until now we were concerned with the positive economic implications of trade blocs but actually the extent to which these gains are shared with or achieved at the expense of outside countries depends in large part on the balance between trade creation and the diversion effect (Robock and Simmonds, 1983, p. 148). Regional blocs stimulate trade among member countries but at the same

time discourage the non-member countries. But this is, mostly, common in the custom unions or above degree of integration. In free trade area the non-member countries may not be that much harmed by the trade bloc but still these firms are not enjoining the same facilities as provided to the member countries.

Competitive conditions changed between internal and external producers. Firms previously exporting to the area may find it necessary to jump the trade barrier and establish local producing units (Robock and Simmonds, 1983, p. 154). This may result in shifting the production unit from a lower production cost location to a higher cost, in order to sustain comparative advantage in the market. Firms located within the free market area can become more competitive through larger-scale production units, if economies of scale are important to the industry.

According to Steele & Lawrence (1994), free trade and tariffs reforms, especially within the regional trade blocs, makes it possible to serve larger regions with fewer manufacturing plants. This large scale production result in trade creation within trade blocs by eliminating the tariffs as well as non- tariffs barriers. The point of trade creation and trade diversion is expressed by Czinkota, Ronkainen, & Moffett (1994, p. 159) as any gain in the trade position of bloc members, however, is offset by a deteriorating trade position for the exporting country. Again, unlike the win-win situation resulting from free trade, the scenario involving a trade bloc is instead a win-lose. Trading firms tend to shift from low cost of production outside union to high cost production inside the union (Nelson, 1996, p.118) which result in trade diversion. A threat to non-member countries' firms is inherent in the creation of a single market. This is the threat of being shut out of the single market by the creation of "Fortresses" to them (Hill, 1994, p.242). This limits the chances for a global free trade

market. This same point is stress by Fung (1993), that the Europe is making a fortress to block the Asian prosperity.

The increased competition within blocs will result in price wars among the firms, due to huge competition, for increased market share and profit. Even countries in EU have restrictions on foreign ownership of wide range of industries including, broadcasting, airlines, defense, and energy transmission (Beamish et al. 2003, p.146). These discriminatory treatments of the member and non-member countries make the nature of trade blocs doubtful.

Political Implications

Regional trade blocs provide political strength to member countries. These blocs increase the bargaining power of its member states on international forums. By linking the neighboring economies and making them increasingly dependent on each other, incentives are created for political cooperation between neighboring states. As a result of increased dependence on one another, the potential for violent conflicts among the member countries reduces. By harmonizing the disputes, they can enhance their political weight in the world (Hill, 2002, p. 236).

But in a world of many nations and many political ideologies, it is very difficult to get all to agree to common set of rules (Hill, 2002, p. 235). The agreement to a common set of rules requires some additional sacrifices of national sovereignty of the member countries. A high degree of economic integration results in a less control of the government over the country's policies. Therefore, even several of the EU member countries have shown strong and growing reluctance to surrender their national currency, central bank, and other powers to a "distant" authority,

particularly an unelected authority (Ball & McCulloch, 1996, p. 140).

According to Waterloo (1998), some countries within the blocs are looking for the ways to offset the political power of other partner. To decrease the political power of the others, countries look for like-minded allies with in the blocs. Politicians have a favorable way of rewarding their supporters. Huge government contracts are awarded to home country firm instead of foreigners. All these practices result, usually, in political controversies. Therefore the countries should establish a free trade and investment bloc among a limited number of adjacent (neighbors) countries among the world community (Hill, 2002, p.235-236).

According to Micro: the Micro-Economic Research Bulletin (2003), government policies impact the behavior and activities of firms and workers through regulation and infrastructure, therefore trade blocs will affect all the firms equally because the regulations within trade blocs are the same. But according to Tusveld (2002), in reality the application of EU customs rules vary largely in the different member states which sometimes result in political conflicts and controversies among the member countries. This is also true for other trade blocs where every member country wants to get maximum benefit from the trade bloc even at the expense of other member countries. A reasonably high controversy exists among the EU members about the Wider and Deeper consideration (Ball & McCulloch, 1996, p. 142).

But on average, the political power of the counties increases and they can make feel themselves in the world by strong political existence. Small and weak countries can save themselves from strong countries' aggression and competition by joining trade blocs. This increase power also results in high protection against globalization and

limiting the chances of global free trade. But according to De Guy (1998), regional grouping can dismantle trade barriers between one another faster than is possible in the WTO, laying the foundations for eventual multilateral liberation. All that is needed is to "join up the dots" between them. Regional free trade is usually superior to bilateralism but generally inferior to worldwide free trade in global efficiency in the allocation of resources (Nafziger, 1996, p. 524) therefore regionalism should not be an obstacle to globalization.

Socio–Economic Implications

Trade blocs have an enormous impact on the socio-economic conditions of their member countries. According to Christine & Brian (1994), a country can improve the standard of living of its people by learning from other member countries experiences. Take for example Mexico, which alter the nature of its insurance products by taking advantage of NAFTA membership.

Trade blocs make it easy for the member countries to learn from their, already, developed partners. According to Luiz Inacio (2004), countries can improve their credit ratings, exports & imports and socio-economic condition of the people by joining the trade blocs. Even the poor countries can provide better facilities to the inhabitants because advanced technologies are available at low cost. Consumer prices decrease because of low cost of production, increased productivity, huge competition among the firms, and the elimination of tariffs and non-tariffs barriers to international trade among the member countries.

But each form of economic integration confers benefits on the national economy as a whole but often hurts the specific sectors and communities (Griffin & Pustyp, 2002,

p. 257). In the poor countries some of the industry owners may be the net loser because of huge competition from other member countries' firms, along with high production cost due to high labor demand which result in high wage rate of the workers. Here the employees are happy because of their high wages.

The exact opposite is true for the developed countries. According to Waterloo (1998), while exporters are happy many union members are not. Workers in the developed countries are loser in free trade deals. Wages have remained standstill while the productivity of the workers has been increased significantly. In other words, workers are working harder but they are not making any more money. According to Waterloo (1998), for Canadian workers where the competition from Mexican workers keeps the wages down, while profits to corporate shareholders go up.

Developing countries should support every effort of globalization to improve the socio-economic condition of their people. These countries can't improve the standard of living of their people without the help of developed countries. According to Rathor (2003), the developing and least developed countries will suffer the most by refraining themselves of free trade blocs. Developed nations will enter into bilateral pacts and strike hard bargains in their favor.

4. ANALYSIS

The following theories will help us to know some additional things about the trade blocs. These theories reinforce the concept of globalization where regionalism is just the initial stage of, and will eventually lead to, globalization.

4.1. David Ricardo Theory of 'Comparative Advantage'

While studying the comparative advantage we assume all types of transaction costs equal to zero which include tariffs, duties, and transportation costs (Todaro, 2000, p .468). But in, reality, all the countries, except the trade members, charge import duties and tariffs to the goods and services. And, often, different countries are treated differently which sometimes result in lost of comparative advantage for efficient countries or firms. Trading blocs, actually, remove the trade barrier for the member countries which result in shifting the production units to the location where there is actually firms enjoying the comparative advantage. But even in such arrangements, some of the non-member countries lost their comparative advantage which is known as trade diversion. Therefore these regional blocs should lead to globalization where the firms will, actually, enjoy the comparative advantage.

4.2. Dunning's Eclectic Theory of ownership, location, and internalization incentive advantages (OLI)

Regional trade blocs provide greater benefit to the firms which own a good brand name. Such firms, if belong to the bloc, will build their production plant where they have a location advantage due to resource availability or having low production cost and will serve the whole market. These firms are no more required to use FDI for internalization because tariffs are removed within the blocs. They can carry on their business from the home country if they belong to the bloc. Even the non-member countries' firms can enjoy this facility by doing FDI anywhere in the bloc and then serve the overall market by achieving the economies of scale.

Even Heckscher-Ohlin theory of Relative Factor Endowment and Michael Porter theory of Competitive

Advantage, (Porter Diamond), also support the view of free trade blocs. Abundance resources endowment, as explained by Heckscher-Ohlin and sufficient demand condition & supporting industry in the blocs, as explained by Michael Porter, increase the comparative advantage of a firm in the regional blocs.

5. CONCLUSION

When we look at the economic implications of trade blocs, by comparing the trade creation and trade diversion, it comes out that regional blocs are very important for international trade. In the perspective of a country;
A trade bloc increases the economies of scale of its firms by providing it with huge market size and consumer base. Firms can reduce their cost by getting access to highly skilled and low cost labor, low cost capital, and efficient technologies. Countries can increase their political power by joining regional blocs. Developing countries can save themselves from developed countries' competition by joining regional blocs and adopting equal external tariffs to non-member countries. The socio-economic condition of the people improves, in the trade blocs, due to reduction in consumer prices resulted from economies of scale and huge competition among firms. Regional blocs will also stimulate the globalization process by signing agreements among them.

But at the same time, some of the countries lose their comparative advantage due to high tariffs for non-member countries, which result in trade diversion. Strong countries, in the trade blocs, exploit their weak partner's economies. Even in some developed economies, employees face decrease in their real wage rate due huge competition from poor countries. Also, some of the countries are reluctant to

extend the membership to other countries which result in a "fortress" and slowdown the process of globalization.

Though there continues to be considerable controversy on whether the creations of regional trade blocs are delivering on the promises of unfettered trade, increased trade and investment opportunities provided by these blocs, sustain growth of its members, job creation, and the political power gained are, certainly, very high achievements by these blocs.

6. RECOMMENDATIONS

This article is, mainly, concerned with the implications of trade blocs on member and non-member countries' economies. Throughout this article important advantages and disadvantages were noted down with supporting arguments about the nature of trade blocs. By analyzing the whole article, it is recommended for a country to join regional trade blocs. But before entering to a trade bloc, the country should take into account some of the factors. Firstly, the country should join a trade bloc with countries with whom it shares common borders or there are some cultural similarities. Secondly, the country should look for a trade bloc whose members are on the same stage of economic growth otherwise the gain from the trade bloc will be minimal. Thirdly, the country should join a bloc of custom union or common market to fully capitalize on the advantage of free trade. The impact of a low degree of integration, on the country's economy, will be minimal.

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SELECTION OF A COST EFFECTIVE FUEL AT GENCOS IN PAKISTAN

By

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ABSTRACT

In Pakistan, fuel cost is around 60 – 70% of the operating cost of a thermal power plant. About 4.1 million tons of oil equivalent (toe) furnace oil was used during 2005-06, for thermal power generation, which was 23% higher compared to previous year's consumption. In terms of foreign exchange, Pakistan spent more than 290 million US $ to import high sulphur furnace oil and 52 million US $ to procure low sulphur furnace oil in the country during the year 2005-06[10]. This ultimately puts burden on the balance of payment and the economy of Pakistan. Low operating-cost units will not only be dispatched more often than units fired by expensive fuels, but they will also generate more profits every year. The National Transmission and Dispatch Company (NTDC) has been strictly following the principle of economic dispatch order. The objective of the government is not to maximize the profit of a Genco, however, its motto is to provide relief to already burdened consumers of electricity. There are two ways to lower electricity prices.

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Either procure those units which have substantial lower prices – which is practically impossible, or use inexpensive fuels so that much can be saved in terms of variable component of power production cost.

This paper has used Unit Cost Electricity Generation Model (UCEGM) to select a cost effective fuel which will not only generate cheap electricity as compared to competing fuels but will also be environmentally benign. The model is based on current fuel prices.

KEYWORDS: Thermal Power, UCEG model, GENCOs.

1. POWER SECTOR OF PAKISTAN

The generation of electricity takes place using a variety of technologies – all of which use some form of energy to spin a turbine that in turn produces electricity. steam generators burn some fuel, such as coal, natural gas or oil to heat a water boiler, producing steam [1]. fuel costs are the largest variable component of power production costs. power plants that can run on less expensive fuels generally are more valuable than those, which can not. in Pakistan, fuel cost comprises of major chunk (60 – 70% of the operating cost of a thermal power plant). Pakistan has two vertically integrated power utilities: the Water and Power Development Authority (WAPDA) and the Karachi Electric Supply Corporation (KESC). WAPDA generates, transmits and distributes electric power to all of Pakistan except the metropolitan areas of Karachi and some adjoining parts of Balochistan, which are supplied by KESC [2]. WAPDA currently has installed power generation capacity of 11,338 Mw, while KESC has 1,756Mw, isolated systems of Pasni and Panjgur provide 56 Mw, IPPs account for 6,543 Mw and 150.5 Mw of power

generation is obtained through rental, which totals 19,843.5 Mw. Table -1 presents the detail of country's power generation. The WAPDA and KESC grids are interconnected through a 220Kv double-circuit transmission line, and the former regularly supplies power to the latter to meet Karachi's requirements, especially during peak demand. The objective of the government is not to maximize the profit of a power generating plant; however, it tries to provide relief to already burdened consumers of electricity. There are two ways to lower the electricity prices. Either procure those units which have substantial lower prices – which is capital intensive and practically impossible for a capital short country like; Pakistan, or use inexpensive fuels so that much can be saved in terms of variable component of power production cost, because as mentioned above, fuel cost is a major portion of operating cost of a thermal power plant in Pakistan.

Table – 1: Pakistan's Power Generation (installed capacity, Mw), 2007

Name of Power Station	Fuel Type	Installed capacity, Mw
WAPDA HYDEL:		6,444
WAPDA THERMAL:		4,894
GENCO-I		
Jamshoro	Gas/ Furnace Oil	850
Kotri	Gas	174
GENCO-II		
Sukkur	Gas	50
Guddu	Gas/ Furnace Oil	640
Guddu	Gas	1,015
Quetta	Gas/ HSD	35
GENCO-III		
Muzaffar Garh	Gas/ Furnace Oil	1,350
Multan	Gas/ Furnace Oil	195
Faisalabad	Gas/ Furnace Oil	132
Faisalabad (GTPS)	Gas/ HSD	244
Shahdara	Gas/ HSD	59

		207
GENCO-IV Lakhra	Coal	150
ISOLATED SYSTEMS:		
TPS Pasni	HSD	17
GTPS Panjgur	HSD	39
	TOTAL THERMAL:	4,950
KESC THERMAL:		1,756
INDEPENDENT POWER PRODUCERS (IPPs):		
KAPCO	Gas/ Furnace Oil	1,638
HUBCO	Furnace Oil	1,292
KEL	Furnace Oil	131
AES Lalpir	Furnace Oil	362
AES Pakgen	Furnace Oil	365
SEPCOL	Furnace Oil	117
HCPC	Gas	140
UCH	Gas	586
ROUCH	Gas	450
FKPCL	Gas	157
SABA Power	Furnace Oil	134
JAPAN Power	Furnace Oil	135
LIBERTY	Gas	235
CHASHNUPP	Nuclear	325
JAGRAN	Hydel	30
GUL AHMAD	Furnace Oil	136
TAPAL	Furnace Oil	126
KANUPP	Nuclear	137
PASMIC	Gas	35
APGL	Furnace Oil	12
	TOTAL IPPs	6,543
RENTAL POWER		150.5

Source: Office of the Engineering Advisor (Power), M/o Water & Power, Government of Pakistan, Islamabad.

2. FUEL PRICE HISTORY AND AVAILABILITY IN PAKISTAN

In past (early/ mid-90's), government used to set the sale and purchase prices of petroleum products, including furnace oil, and therefore the margins of oil marketing

companies and dealers. Furnace oil price per ton was Rs.2,350 in 1991 (when power purchase agreement was signed with Hub Power Company), which stood at Rs.25,219.45/ ton (ex-Karachi), as on June 16, 2006. Until 1999, the government tightly controlled the oil and gas industries of Pakistan. No decision could be made without referring to the higher instances, and when decisions were made, they were often based on political as opposed to economic considerations. An important milestone, in the price history of furnace oil, came when furnace oil prices were formally deregulated with effect from 1st July, 2000. Pakistan State Oil (PSO) dominates the High Sulphur Furnace Oil (HSFO) market through its long-term contracts and control of much of the infrastructure.

About 4.10 million tons of oil equivalent (toe) of furnace oil was consumed in the power sector during the year 2005-06 [3]. Although many thermal power generating units have been converted on cheaper and environmentally benign fuel, i.e., natural gas, but still there is much demand of furnace oil in the power sector. Keeping in mind, the conversion trend of many public and private sector's power plants on dual fuel, i.e., oil and gas, Oil Companies Advisory Committee (OCAC) has made oil demand forecast equal to 2.67 million tons in the power sector during the year 2019-20 [4]. Their perception might not have considered the fact that the gas reserves will start declining after the year 2010-11 and there will be acute shortage of gas in the country until new resources are discovered or import of gas/ liquefied natural gas (LNG) is materialized.

Pakistan is among the most gas dependent economies of the world. More than 50% of its primary energy needs are met with natural gas and 45% of the sectoral gas consumption is already being utilized in the power sector. It is Pakistan's most heavily exploited energy resource.

Pakistan has the largest and most developed gas grid of any developing country and is unique in the widespread use of gas in the residential, commercial and industrial markets including power sector. On 1st January, 2007, the balance recoverable reserves of natural gas have been estimated at 31.80 trillion cubic feet (tcf) Natural gas is an exhaustible resource. Although, at present, Pakistan has sufficient resources of natural gas to meet 5 – 7 years' demand, they will not last longer. According to indigenous Energy Supply and Demand Gas Projections made by the gas utilities, a serious supply-demand gap will start to widen after 2010 unless new gas discoveries are made or gas is imported.

Two parallel gas pricing systems are in effect. The prescribed rates are designed to estimate the transmission and distribution companies to achieve stipulated returns on assets and are set by Oil and Gas Regulatory Authority (OGRA); retail tariffs are determined by the government, on the basis of many considerations. The difference between retail tariffs and the prescribed rates is the gas development surcharge (GDS). The price changes of gas are made by OGRA semi-annually. Natural gas is still a cheaper and cleaner alternative to the use of fuel oil in power plants. But there is supply constraint and the demand is not met in full – the two public gas utilities are unable to meet the winter load. As a result, consistent with government guidelines, supplies to industrial, power and fertilizer plants are drastically curtailed, and notwithstanding these measures, domestic and commercial consumers experience a pressure drop at many times. Temporarily disconnected consumers either shutdown their facilities or revert to heavy fuel oil. Thus power plants have no option but to use furnace oil during winter peaks, which ultimately add to their power generation cost. The pipeline quality gas from SNGPL system can be supplied to new power plants for seven years on nine month basis. This gas

will be available in the vicinity of Multan, Faisalabad and Baloki. SSGC would be able to supply 32 mmcfd pipeline quality gas for next five years from the existing network and indigenous sources. Power projects based on bagasse (waste from sugar industry) are also being evaluated.

3. METHODOLOGY

The analysis for selection of a cost effective fuel at GENCOs in Pakistan requires an integrated modeling approach, which helps the decision-makers to take an informed decision. Although various emperical models are available for caturing the problem but I will use the most simplest and robost – Unit Cost Electricity Generation Model (UCEGM) to select cost effective fuel at GENCOs in Pakistan.

The Unit Cost Electricity Generation Model (UCEGM):
This is one of the simplest approaches. The model can be represented as given in equation (1);

$$(UCEG)_i \quad = \quad Q_i \times P_i \qquad\qquad (1)$$

where:

$(UCEG)_i$ = Unit cost of electricity generation by fuel type I, Rs./ kWh

Q_i = Quantity of fuel of type 'i' used to generate one unit of electricity

P_i = Unit price of fuel of type 'i', Rs./ units of fuel quantity

4. MODEL ESTIMATION AND RESULTS

Input data for for parameters of UCEGM given in equation (1) have been collected from from different sources like; PPIB, M/o Water and Power, OGRA, PSO,

Directorate Generals of Oil, Gas, Petroleum Concessions and Minerals, M/o Petroleum and Natural Rsources etc. The model was run using MS Excel and results are presented in tables 2, 3, and 4 for IPPs, WAPDA and KESC respectively for various types of fuels commercially available in Pakistan and are commonly used by WAPDA, KESC and independent power producers (IPPs).

Table 2: Cost of Power Generation with Various Fuels Independent Power Producers (IPPs)

	Type of Fuel	Fuel Specification Calorific Value Sulfur Content	Qty. of fuel used to generate one unit of electricity	Price of fuel	Cost of electricity Gen., Rs./ kWh
1	HSFO	18000 Btu/lb 3.5%	0.2296 Kg/kWh	Rs.25.22/Kg.	Rs.5.79/ kWh
2	HSD	19000 Btu/lb 1%	0.2531 Ltr/kWh	Rs.37.80/ltr.	Rs. 9.56/ kWh
3	COAL (imported)	27.78 mmBtu/lb	0.877 Kg/kWh	Rs. 5.59/Kg.	Rs. 4.90/ kWh
4	COAL (indigenous)	6588 Btu/lb 7%	1.00 Kg/kWh	Rs. 3.68/Kg	Rs. 3.68/ kWh
5	NATURAL GAS	980 Btu/ cu.ft.	10.23 Cu. ft./ kWh	Rs.238/ mmBtu	Rs. 2.40/ kWh

## Table 3: Cost of Power Generation with Various Fuels – WAPDA

	Type of Fuel	Fuel Specification Calorific Value Sulfur Content	Qty. of fuel used to generate one unit of electricity	Price of fuel	Cost of electricity Gen., Rs./ kWh
1	HSFO	18000 Btu/lb 3.5%	0.269 Kg/kWh	Rs 25.22/Kg	Rs. 6.78/ kWh
2	COAL (indigenous)	6588 Btu/lb 7%	1.00 Kg/kWh	Rs. 3.68/Kg.	Rs. 3.68/ kWh
3	NATURAL GAS	980 Btu/ cu.ft.	12.39 Cu. ft./ kWh	Rs.238/ mmBtu	Rs. 2.89/ kWh

Table 4: Cost of Power Generation with Various Fuels – KESC

	Type of Fuel	Fuel Specification Calorific Value Sulfur Content	Qty. of fuel used to generate one unit of electricity	Price of fuel	Cost of electricity Gen., Rs./ kWh
1	HSFO	18000 Btu/lb 3.5%	0.269 Kg/kWh	Rs.25.22/Kg.	Rs. 6.78/ kWh
2	NATURAL GAS	980 Btu/ cu.ft.	17.632 Cu. ft./ kWh	Rs.238/ mmBtu	Rs. 4.11/ kWh

The results presented in tables 2 thru 4 are summarized in figure 1. The results presented here should be interpreted with caution because the model presented in equation (1) has used the fuel cost data only. The capital cost/ depreciation or O&M costs have not been taken into account. However, for comparison of fuel costs, which constitutes 60 – 70% of the operating cost, the model gives satisfactory results.

Fig. 1: Generation Cost of Electricity with Various Fuels for three Electric Utilities in Pakistan
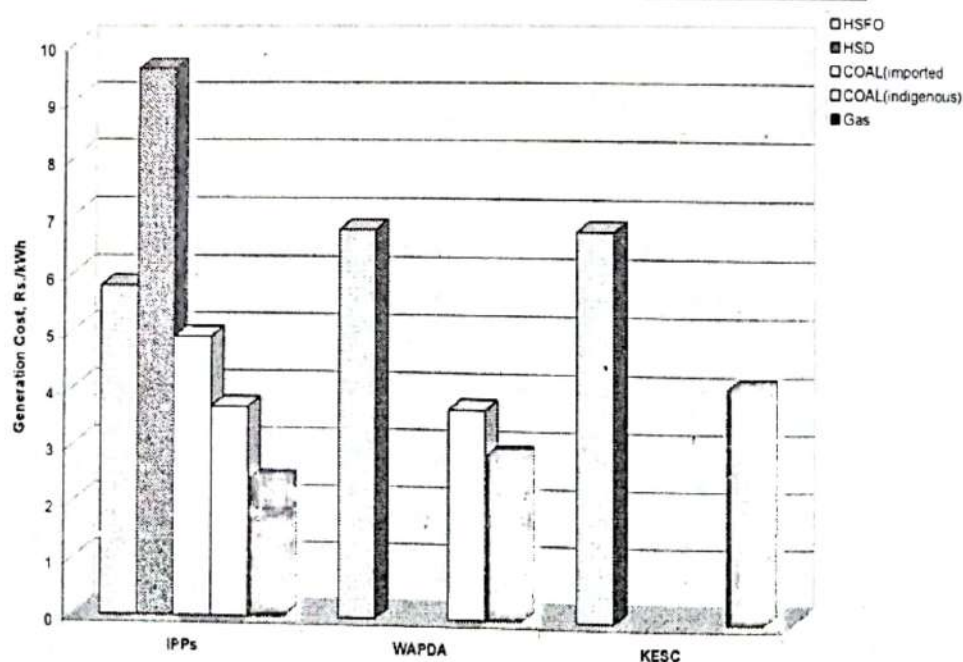
A quick view of figure 1 reveals that the cheapest source of power generation is natural gas followed by Coal (indigenous), Coal (imported), HSFO and HSD.

5. CONCLUSIONS

From the analysis made in the preceding pages, it is concluded that Unit Cost Electricity General Model (UCEGM) worked well for selection of cost effective fuel for GENCOs in Pakistan. It is robost and easy to use. It is also concluded that natural gas is the most cost effective fuel for power generation.

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