Journal for Development and Leadership

JOURNAL FOR DEVELOPMENT AND LEADERSHIP (JDL)

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JOURNAL FOR DEVELOPMENT AND LEADERSHIP

Faculty of Business and Economic Sciences
Nelson Mandela Metropolitan University

Volume 4, Number 1, June 2015

Journal for Development and Leadership

First Publication 2012

ISSN: 2226-0102

Printed and bound by:
Bukani Print, Port Elizabeth, South Africa

CONTENTS

DEVELOPMENT AND LEADERSHIP THROUGH BROADENING THE CONCEPT OF MARKETING

N.K. Malhotra[1]

Marketing, both as a discipline and a practice, has become increasingly important in the current business environment. The factors driving its importance include globalisation, technology and competition. However, for marketing to realise its potential, the concept must be broadened to address the larger issues and current and future problems. I argue that an important aspect of broadening is that marketing should address the needs of the underprivileged and the disadvantaged in an effort to raise their living standard. This is not only altruistic, but also good business, since it will build goodwill, resulting in enhanced customer equity, brand equity, and firm equity.

The American Marketing Association (AMA) defines marketing as follows: “Marketing is the activity, set of institutions and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”

Although the AMA recently enlarged its definition of marketing, it needs further enlargement, which can be achieved by taking a broader view of “offerings,” traditionally known as the product. A broad view is that a product is anything that can be offered to anyone (customers and noncustomers) for attention, acquisition or consumption. It includes goods, ideas, services, personalities, places and organisations. Taking a broad view of what a product is means that marketing concepts can be applied to virtually anyone, anything, or any situation.

The definition of a customer also needs to be enlarged to include other customer groups, in addition to those mentioned in the AMA’s recent definition. Traditionally, customers as consumers have been the focus of marketing. However, there are other customer groups, including intermediate customers (e.g. retailers, wholesalers), suppliers, employees, shareholders, governments, the underprivileged and disadvantaged segments of society, and the public at large.

The Internet and social media have empowered ultimate consumers, making it even more important for marketers to attend to them. For example, Delta Airlines recently charged American military personnel returning home after active duty overseas excess baggage fees. There was such a hue and cry in the social media that Delta apologised and refunded the fees. In the USA and South Africa, the failure of local government to attend to citizen complaints about poor service delivery or high municipal taxes has prompted demonstrations and public activism.

The following example illustrates why marketers must take intermediate customers’ interests to heart. Fast food restaurants dispense a high volume of soft drinks. A few years ago, PepsiCo bought several fast food chains, including KFC, Pizza Hut and Taco Bell, so that it would have a captive market for its soft drinks. Coca-Cola considered similar acquisitions, but decided not to do so. Coca-Cola’s decision was guided by the fact that fast food restaurants are a very important part of its channel and therefore an important customer group, and one does not compete with one’s customers. Which company made the right decision? As history will tell us, Pepsi realised its mistake and sold all its fast food chains.

Suppliers of raw materials and components are a very important customer group. One reason that the quality of American cars (Ford, GM) has lagged behind that of Japanese and German cars is that American car companies have not paid adequate attention to improving the quality of their

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suppliers. In fact, in 2014 GM recalled more motor cars than it manufactured, owing to latent defects in parts manufactured by suppliers. Employees are another important customer group. It is a fallacy to think that one can have satisfied customers when one's employees are disgruntled. Companies like Microsoft devote considerable effort to keeping their employees satisfied. Shareholders should also not be neglected since they tend to flex their muscles when it comes to voting. Managers like Warren Buffet cater to the needs of shareholders. Governments are another important customer group: in this globalisation age, multinational companies operate in many countries and must work in harmony with the governments of those countries.

A special emphasis in broadening the concept of marketing is to focus on the needs of the underprivileged and disadvantaged segments of society. Although these customer groups may not be in the target market and may never be able to buy a company's products, the company has a corporate social responsibility to address these segments' needs in order to raise their standard of living. This is not only philanthropic, but also good business practice and sound marketing. In the long run, this will build considerable good will for the company, resulting in significant customer, brand and company equity, which is in sharp contrast to the traditional view that marketing should segment the market and then focus on the needs of only the target segments.

On my first visit to South Africa in 2013, I spent much of one day visiting a black township on the outskirts of Johannesburg. It was a very touching and enlightening experience. It was also a disappointing one. I was disappointed by the lack of companies doing anything visible to raise the living standard of these underprivileged customers. In contrast, I had a very satisfying experience in 2014 when I visited Liv-Village (http://www.liv-village.com/) in Durban. Liv is a partnership: the church, business and government work together to provide holistic residential care for orphaned and vulnerable children to rescue, restore and to raise them up. It is a success story of which South Africa can be proud. Businesses involved in this effort are practising good marketing as they are generating a lot of goodwill that will ultimately be reflected in their bottom lines. In addition, many of these vibrant, intelligent young people may one day be ready buyers that remember the support that they once received! As this shows, society at large is a very important customer group because it is directly or indirectly affected by all marketing activities.

Thus, my broadened definition of marketing includes: "Marketing is the raising of living standards of a society or some of its segments by doing good." A few progressive companies have already embraced such a definition. My hope is many more will follow so that this world can, indeed, be a better place, not just for a privileged few, but for all!

Finally, I want to acknowledge the forward-looking perspective of the Nelson Mandela Metropolitan University Business School and the Journal of Development and Leadership in focusing attention on such critical issues.

Helpful comments provided by Professor Steve Burgess are greatly appreciated. In his comments on Malhotra's editorial, Professor Cecil Arnolds, Research Director of the NMMU Business School, said that in order to take Malhotra's message further, companies could consider incorporating faith-based organisations onto their boards. In this way they would ensure that their corporate responsibility efforts are designed for and reaching the underprivileged and disadvantaged segments of the society. Many companies are already doing good work on this front, but many of these efforts could be misdirected and not really effective. Malhotra's message is that CSR efforts should be "from the heart and real commitment to do good and raise the standard of living of the poor". Faith-based organisations are known for their focus on these segments of our society.

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FACTORS INFLUENCING LOAN REPAYMENT BY SMALL-SCALE ENTERPRISES IN DEVELOPING COUNTRIES

N.G. Kiliswa[1] & M.S. Bayat[2]

ABSTRACT

One of the most essential and leading factors constraining small-scale enterprises (SSEs) growth in developing countries such as Kenya is limited access to financial and credit. The sources of such constraints are that on one hand, these enterprises could not fulfil the bank's lending requirements, and on the other, the banking sector considers these enterprises as involving high credit risk. The aim of this research was to identify the factors that influence loan repayment by SSEs in developing countries with a case study of a certain informal outfit in Kenya. Primarily, data was collected from 50 randomly selected respondents by using questionnaires. Descriptive statistics including mean, frequency and percentages were used to describe the business characteristics of the borrowers. A regression model was employed to analyse the factors of loan repayment. The results of this study indicated that even though many factors can lead to loan defaults, some of the factors were regarded to be of higher impact. The study found out that business related factors had a higher impact on loan default while borrower (individual) related factors had the least impact on loan default. Specifically, increase in input price and high interest rate were the leading factors that lead to loan default while death of spouse had the least impact.

Keywords: Small-Scale Enterprises (SSEs); Loan Default; Loan Repayment; Non-performing Loans; Kariobangi Light Industries.

INTRODUCTION AND BACKGROUND

Small-scale enterprises and the term 'informal sector' are used interchangeably (Mead & Morrison, 1996). The International Labour Office (ILO) (1991) defines the informal sector as consisting of

"…very small-scale units producing and distributing goods and services, and consisting largely of independent self-employed and procedures in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or none at all, which utilise a low level of technology and skills, which therefore operate at low level of productivity, and which generally provide very low and irregular incomes and highly unstable employment of those who work in it".

As a concept, informal sector refers to home-based or individual establishments operated by the owner with a few or no employees. This concept was introduced into international usage in 1972 by the ILO in its Kenya Mission Report, which defined informality as a "…way of doing things characterised by ease of entry, reliance on indigenous resources, family ownership, small-scale operations, labour intensive and adaptive technology, skills acquired outside of the formal sector and unregulated and competitive markets" (ILO, 1991).

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Since that time, many definitions have been introduced by different authors, including the ILO itself. The ILO (1991) international symposium on the informal sector proposed that the informal sector workforce can be categorised into three broad groups: owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices; owner-account workers, who own and operate one-person businesses, who work alone or with the help of unpaid workers, generally family members and apprentices; and dependent workers, paid or unpaid, including wage workers in micro-enterprises, unpaid family workers, apprentices, contract labour, home workers and paid domestic workers.

The small-scale enterprises in Africa are dominated by trade-related activities, with services and manufacturing accounting for only a small percentage of this sector (UN, 1996). The characteristics of the small-scale enterprises may vary depending on the socio-economic status of the specific country in which they operate. There are common features that are shared by the small-scale enterprises. The World Bank (1996) in its study classified their characteristics into two broad categories that included the small scale of operation and the labour intensive mode of production.

Most of Africa's small-scale enterprises are characterised by activities such as selling of fruits and vegetables, food operation, selling of clothes and shoes (both used and new), kiosks selling various household items, water kiosks, small retailers or hawkers who sell cereals, home supplies, fuels and other related goods, small manufacturing/production, construction and repair services. The World Bank (2006) in its comprehensive report on the Kenyan informal sector, housing, social services provision and slums states that there is a tremendous increase in the activities and involvement of the population in the sector. This has been largely due to the privatisation of the public sector as well as the rise in the unemployment rate, especially among the youth.

Access to financial services by small-scale enterprises is normally seen as one of the constraints limiting their benefits from credit facilities. This restraint is in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Schmidt & Kropp, 1987). For small-scale enterprises, reliable access to short-term and small amounts of credit is more valuable, and emphasising it may be more appropriate in credit programmes aimed at such enterprises.

Stiglitz (1990) stated that most of the small-scale enterprises are unable to access financial resources from formal financial intermediaries such as banks owing to reasons such as the smaller size of their transactions, lack of collateral, inexperience, illiteracy or innumeracy of the borrower, physical remoteness of many of the informal sector enterprises, mobility of many informal sector enterprises, lack of book-keeping or an appropriate compliance framework, and lack of general information about the borrower and of predictability of the surrounding transaction. Potential sources of finance for the informal sector include commercial banks, non-bank financial institutions, non-governmental organisations (NGOs), multilateral organisations, business associations, and rotating savings and credit associations. In addition, financial transactions also take place between traders, friends, relatives and landlords, as well as commercial money lenders (Atieno, 2001).

LITERATURE REVIEW

Non-performing loans

Non-performing loans can be defined as credits which, for a relatively long period of time, do not generate income, that is the principal and/or interest on these credits has been left unpaid for at least ninety days (Caprio & Klingebiel, 1999). Poor loans' quality has its roots in the information problems which affect financial markets and which are at their most acute in developing countries, in particular the problem of moral hazards. The non-performing loans problem has been a serious issue in developing countries such as Kenya. Theoretical literature suggests that the moral hazards incentive induced by the deposit insurance under-prices risks and increases the risk of default (Martin, 1998). Many factors can lead to loan defaults. An entire industry can decline because of general economic events; firm specific problems may arise from changing technology, labour strikes, shifts in customer preferences or bad management. Individual borrowers find that their ability to repay closely follows the business cycle as personal income rises and falls (Scott & Koch, 2006).

DETERMINANTS OF LOAN DEFAULT

Credit risk analysis

Golden and Walker (1993) summarise the reasons for loan defaulting to 5Cs of bad credit as follows: Complacency – a tendency to make assumptions that the good past performance will result in good future performance of loans e.g. over-reliance on guarantors, reported net worth or past loan repayment success; Carelessness - poor underwriting evidenced by inadequate loan documentation, and a lack of current financial information in loan agreements; Communication ineffectiveness - banks' credit objectives and policies are not clearly communicated. Loan officers should communicate loan problems encountered as they appear to the bank managers; Competition – this involves studying the competition and adapting their strategies rather than clinging to the bank's own credit standards; Contingencies – lenders tendency to ignore circumstances in which a loan might default. The focus is on making the deal work rather than identifying downside risk.

Characteristics of small-scale enterprises

Characteristics of small-scale enterprises make the cost of administering credit very high compared to the return on the loans given. Small-scale enterprises possess shallow management, often with little experience and training; they are usually undiversified, one-product firms; they are sometimes new businesses, with little track record, and poor financial recording; they may have a new unproven product; they have little to offer by way of security to a lender; they may be reluctant to raise outside equity capital for reasons of expense, loss of control and increased disclosure requirements. These characteristics of small-scale enterprises provide little incentive for any aggressive loan recovery mechanisms (Baker & Dia, 1987; Kitchen, 1989).

Lending practices

Okorie and Iheanacho (1992) argue that the failure of lending agencies in playing their roles in loan disbursement and the recovery process is a major contribution to loan default. They state that determining creditworthiness requires investment of time and resources to evaluate firm-specific and industry-wide variables, structural or cyclical, by analysts with specific professional skills. A mistake on the evaluation of the borrowers' characteristics or the introduction of inappropriate loan conditions may increase the total risk of the transaction. Studies by Kitchen (1989) show that a non-economic obstacle relating to the failure of banks lies in the risk-averse attitude of loan officers, and that financial repression and credit rationing encourage unprofessional lending practices such as collusion and corruption. Furthermore, unprofessional practices lead to high default rates, thereby increasing risk. Taking care of this issue is more important in development banks where accountability of loan officers is often a problem.

Fry and Maxwell (1995) list bank lending criteria in East Africa in the following order of importance to show how the method of credit analysis is weak: First, the securities offered; second, any other additional securities; third, how short the period to maturity is; fourth, the commissions to receive in connection with the granting of credit; fifth, the standing of the would-be borrower; sixth, the amount and seventh, the project.

Political framework

Fry and Maxwell (1995) state that political framework, which affects credit systems from the designing stage to the recovery stage, is central to the explanation of the poor performance of small-scale credit systems. In some cases when government is involved in credit programmes, recipients often fail to distinguish loans from grants. They found out that the primary cause of high arrears in India, for example, is the rapid expansion of lending in response to government pressures to achieve mandated credit disbursement targets. They listed the following as causes of loan default: failure to tie lending to productive investment; neglect of marketing and linking credit recovery to the sale of the product; defective loan policies; delayed loan disbursement; too much or too little credit and unrealistic repayment schedules; misapplication of loans; ineffective supervision; indifference of bank management with respect to recovering loans, and lack of responsibility and discipline on the part of borrower.

Empirical review

Bindra (1998) argues that the true underlying cause of non-performing loans is entirely of our own making - poor risk management. This is a situation where the bank's credit officials do not properly assess the suitability of advancing credit to their customers; they do not adhere to good lending principles. He concludes that loan losses can be minimised through professional management of the lending function. This requires careful appraisal of loan requests, continuous monitoring of customer conditions and proper follow up on how the loan has been utilised as there is a possibility that the loan may not be utilised for the intended purpose, leading to project failures.

Wagacha (2000) argues that insider lending and fraudulent activities by directors of some banks have led to the problem of non-performing loans. He further reiterated that poor lending by political banks has added to non-performing loans and lending to dominant shareholders has led to a situation where prominent people are advanced credit with no intention of paying back. Muasya (2009) studied the impact of non-performing loans on the performance of the banking sector in Kenya and confirmed that non-performing loans affect commercial banks (in Kenya). Further analysis of individual commercial banks with more than Kenya Shillings (KES) 25 Billion worth of assets indicated that the impact on non-performing loans to interest income and profitability is not adverse regarding these banks.

Bhatt and Tang (2002) studied the determinants of loan repayment in microcredit evidence from programmes in the United States. Their study showed that some women have low repayment rates because they might have been engaged in high risk and low return activities. Godquin (2004) also examined the microfinance repayment performance in Bangladesh. His results showed that female borrowers did not prove to have a significantly better repayment performance. The size of the loan and the age of the borrower showed a negative impact on the repayment performance. On the other hand, Abreham (2002) conducted a study on loan repayment and its determinants in small-scale enterprises financing in Ethiopia and showed that male borrowers are among the undermining factors influencing repayment.

PURPOSE OF STUDY

The purpose of the current study is to investigate factors that impact on loan repayment in the privately owned small-scale enterprises in economies of developing countries. Various studies that were conducted focused on the credit associated with agricultural activities and they identified the socio-economic factors that affect the loan repayment rate of rural households. Studies done in Kenya focused more on non-performing loans in relation to various aspects such as credit risk, causes of non-performing loans and performance of the banking institutions. However, in the literature review there is no indication of studies specific to loan repayment and its determinants in the small-scale enterprises in Kenya. Therefore, this study aims at addressing this research gap.

RESEARCH PROBLEM

The informal sector is expanding as an employment sector with time, especially for the urban population in developing countries. The sector is beset by many deep-rooted problems, one of them being a lack or a shortage of capital for start-ups and coverage of costs associated with running their business-related activities (ILO, 1991). A number of studies on credit institutions in several developing countries reveal that the majority of them have encountered problems in loan recovery from this sector (Kashuliza, 1993).

Loan recovery is one of the key objectives of financial institutions as it enables them to refinance and to reach more people. To have a positive impact on the economy of a country, the institutions must be able to loan out funds and recover the same so as to remain relevant in the finance industry. Loan recovery is a strategic activity for financial institutions. For any economy to thrive there must be funds to foster investment which leads to the well-being of the population. Proper investments eventually bring about poverty reduction through the creation of employment. High recovery rates reflect the adequacy of financial institution's services to meet clients' needs (Godquin, 2004). However, where there is a low recovery rate, financial institutions raise provisions for loan loss and this decreases their revenue and reduces the funds for new lending. The cutback of loans impairs the small-scale enterprises as they have difficulties in expanding their working capital, thus blocking their chances of resuming normal operations and meeting their obligations which include loan repayment.

Default rate is the amount of loan not collected on current and past due loans for the reference period for loans taken from credit institutions. This rate varies from country to country, region to region and sector to sector. Almost all credit in developing countries shares one common characteristic: it suffers from a considerable amount of default rate (Kashuliza, 1993). Therefore factors that influence loan default need an empirical investigation to enable credit institutions to manipulate their credit programme for the better (Khandker *et al*, 1995). This motivates the background of this study in order to examine factors that influence loan default in the small scale enterprises in developing countries.

RESEARCH METHODOLOGY

This study used the descriptive research design to examine the determinants of loan repayment in small-scale enterprises in one of Kenya's SSEs – the Kariobangi Light Industries in Nairobi County. A descriptive study was the most appropriate because it presents facts concerning the nature and status of a situation as it exists at the time of study. In addition, this approach tries to describe present conditions, events or systems based on the impressions or reactions of the respondents of the research (Robson, 1993).

The population of the study comprised 126 small-scale enterprises based in Nairobi's Kariobangi Light Industries. The owners of these businesses were the population elements in this study. This research used a simple random sampling technique. This is sampling in which every member of the population has an equal chance of being selected. The study used primary data which was obtained from small-scale enterprises with the aid of questionnaires. This data was used to generate information on personal characteristics of the target group and to determine the factors affecting their repayment performance. Both closed and open- ended questions were used to obtain responses. The questionnaire was physically administered to each respondent, who was allowed two weeks to respond.

FINDINGS AND RECOMMENDATIONS

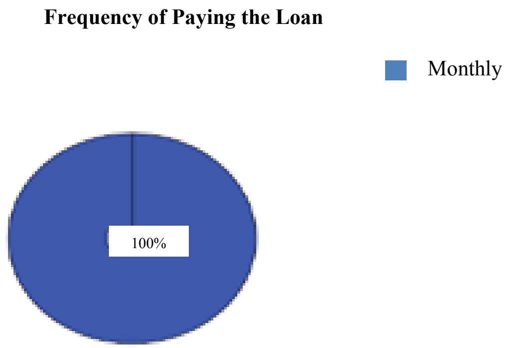
The data was summarised and presented in the form of proportions, means, and tables. Consequently, the collected data was analysed and interpreted in line with the aim of the study. Of the 50 questionnaires distributed for this research, 41 useable questionnaires were returned giving a response rate of 82 per cent, which was considered satisfactory for subsequent analysis.

DETERMINANTS OF LOAN REPAYMENT

Frequency of loan payments

The respondents were asked to state the frequency at which they pay their loans. From the research findings, it was established that 100 per cent of them repay their loans on a monthly basis as shown in Figure 1. This implies that most SSE owners in Kariobangi Light Industries prefer to repay on a monthly basis as they do not have a constant source of income.

Figure 1: Frequency of loan payments

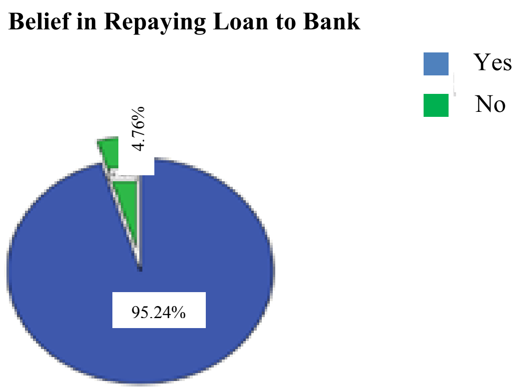


Source: Research data

Belief in repaying the loan to the bank

The respondents were asked whether they believed that the loan had to be repaid to the bank. From the research findings, it was established that 95.24 per cent believed that the loan had to be repaid to the bank while 4.76 per cent did not believe that the loan had to be repaid to the bank as shown in Figure 2.

Figure 2: Belief in repaying the loan to the bank

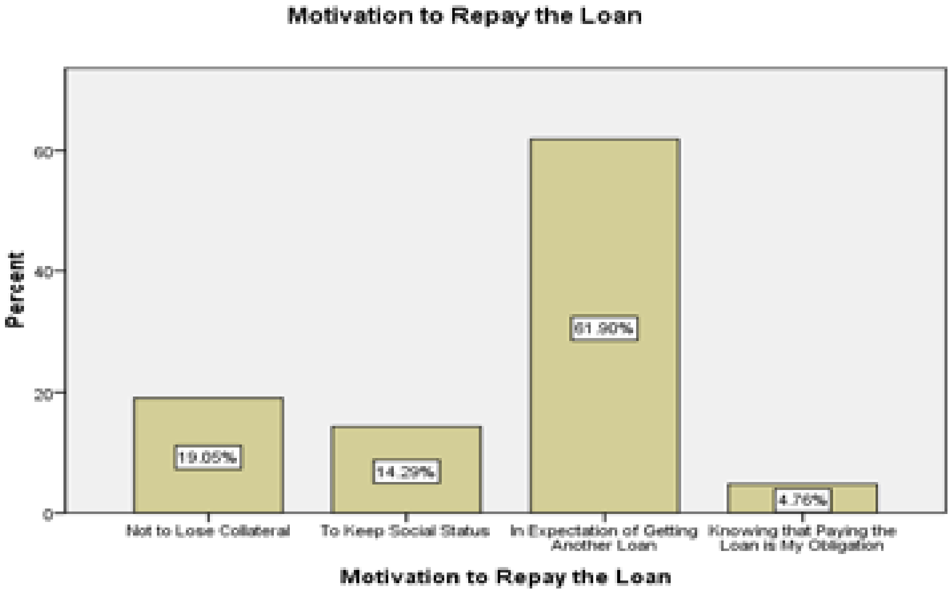


Source: Research data

Motivation of repaying loan

The respondents were asked to state the motivation behind repaying their loans. From the research findings, it was established that 61.90 per cent of them repay their loans in expectation of getting another loan, 19.05 per cent fear losing collateral, 14.29 per cent repay to keep social status and 4.76 per cent repay because they know it is their obligation to repay the loan as shown in Figure 3. This suggests that most SSEs owners repay their loans in anticipation of getting more loans in future.

Figure 3: Motivation of repaying loan

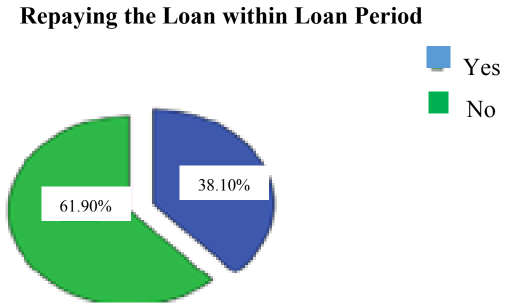


Source: Research data

Repaying the loan within the loan period

The respondents were asked whether they repay their loans within the loan period. From the research findings, it was established that 61.90 per cent repay their loans within the loan period while 38.10 per cent did not repay their loans within the loan period as shown in Figure 4. This implies that there is a high recovery rate for loans advanced to SSEs in Kariobangi Light Industries. High recovery rates reflect the adequacy of financial institution's services to clients' needs (Godquin, 2004).

Figure 4: Repaying the loan within the loan period



Source: Research data

Period within which the loan is repaid

The researcher wanted to establish the period within which the loans are repaid for those who repay within the loan period. From the research findings, it was established that 85.50 per cent of them repay within thirty days from due date while 12.50 per cent of them repay within ninety days after the due date. It was noted that no one repaid after three months as shown in Figure 5. This suggests that most loans are repaid within thirty days from the due date.

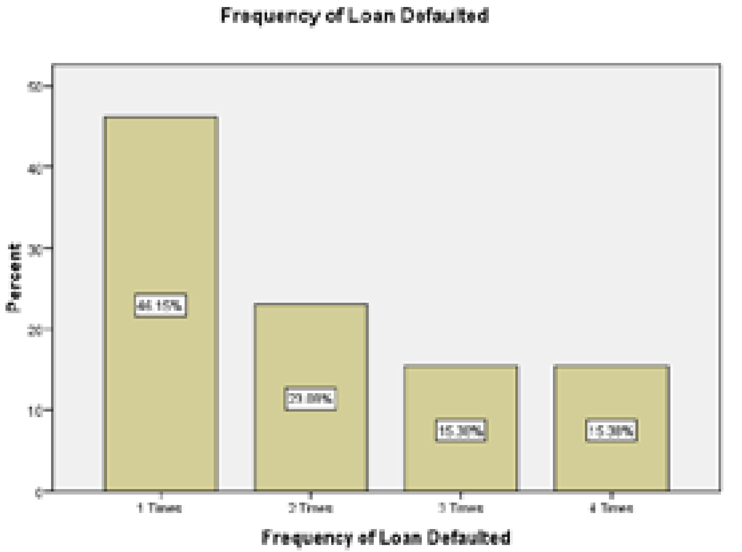
Figure 5: Period within which the loan is repaid

Source: Research data

Number of loans defaulted

The researcher wanted to establish from those who did not repay loans within the loan period the number of loans they have defaulted. From the research findings, it was established that 46.15 per cent of them had defaulted once, followed by 23.08 per cent of them who had defaulted twice. It was noted that 15.38 per cent had either defaulted three times or four times as shown in Figure 6. This suggests loan defaulting is not common as most defaulters had only defaulted once.

Figure 6: Number of loans defaulted



Source: Research data

Borrower-related factors for loan defaulting

The researcher wanted to establish the extent to which borrower-related factors lead to failure to repay loans (using the following bench-marks – '1' for 'I don't Know' to '5-'for 'to a great extent'). From the research findings, it was established that family problems had the highest level of influence with a mean rank of 3.48 followed by a lack of formal education with a mean rank of 2.62. The death of a spouse had the least influence on failure to repay loans with a mean rank of 2.14 as summarised in Table 1.

Table 1: Borrower-related factors for loan defaulting

Borrower-related Factors	Mean	Std. Deviation	Rank
Family problems	3.48	0.928	1st
Lack of formal education	2.62	0.740	2nd
Ill health	2.48	1.209	3rd
Death of spouse	2.14	0.727	4th
Average	2.68	-	-

Source: Research data

Business-related factors for loan defaulting

The researcher wanted to establish the extent to which business-related factors lead to failure to repay loans (using the following benchmarks – '1' for 'I don't Know' to '5-' for 'to a great extent'). From the research findings, it was established that an increase in input prices had the highest level of influence with a mean rank of 4.33 followed by high competition/low sales with a mean rank of 4.29. Lack of business premises had the least influence on failure to repay loans with a mean rank of 2.71 as summarised in Table 2.

Table 2: Business-related factors for loan defaulting

Business Related Factors	Mean	Std. Deviation	Rank
Increase in input price	4.33	0.796	1st
High competition/Low sales	4.29	0.845	2nd
Decline in selling price	4.05	0.921	3rd
Lack of business premises	2.71	0.902	4th
Average	3.845		

Source: Research data

Lender-related factors for loan defaulting

The researcher wanted to establish the extent to which lender-related factors lead to failure to repay loans (using the following bench-marks – '1' for 'I don't Know' to '5-'for 'to a great extent'). From the research findings, it was established that higher interest rates had the highest level of influence with a mean rank of 4.29 followed by political instability with a mean rank of 3.62. Extraneous causes had the least influence on failure to repay loans with a mean rank of 2.29 as summarised in Table 3.

Table 3: Lender-related factors for loan defaulting

Lender Related Factors	Mean	Std. Deviation	Rank
Higher interest rate	4.29	0.644	1st
Political instability	3.62	0.740	2nd
Smaller loan size	2.48	1.209	3rd
Extraneous causes	2.29	1.309	4th
Average	3.17		

Source: Research data

Regression analysis

The research study further examined the determinants of loan repayment by the small-scale enterprises in Kariobangi Light Industries, Nairobi. The research findings showed that there was a strong positive relationship (R = 0.816) between the variables considered. The study also revealed that 66.7 per cent of loan repayment can be explained by the independent variables (borrower related factors, lender-related factors and business-related factors). From this study it is evident that at 99 per cent confidence level, the variables produce statistically significant values for this study when combined, and can therefore be relied on to explain loan repayment. The findings are as shown in Table 4.

Table 4: Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.816[a]	0.667	0.487	0.914

Source: Research data

The results of the regression equation below shows that for a 1- point increase in the independent variables, loan repayment by the small-scale enterprises in Kariobangi Light Industries is predicted to increase by 32.571, given that all the other factors remain constant. The findings are as shown in Table 5.

Table 5: Regression analysis

Model	Sum of squares	df	Mean square	F	Sig.
Regression	21.712	7	3.102	3.713	0.020[a]
Residual	10.859	13	0.835		
Total	32.571	20			

Source: Research data

A positive effect was reported on education level, size of family, amount of loan applied for and duration of business ($\beta_3 = 0.035$, $\beta_4 = 0.138$, $\beta_5 = 0.634$ and $\beta_7 = 0.44$) respectively. However, a negative effect was reported for gender, age, and interest rate ($\beta_1 = -0.120$, $\beta_2 = -0.495$ and $\beta_6 = -0.272$) respectively. The findings are as shown in Table 6.

Table 6: Coefficients

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.810	2.015		0.402	0.694
Gender	-0.302	0.425	-0.120	-0.710	0.490
Age	-0.669	0.462	-0.495	-1.449	0.171
Education level	0.053	0.332	0.035	0.158	0.877
Size of family	0.240	0.396	0.138	0.607	0.554
Amount of loan applied for	1.044	0.388	0.634	2.691	0.019
Interest rate charged	-0.270	0.179	-0.272	-1.511	0.155
Duration of business	0.514	0.308	0.444	1.668	0.119

Source: Research data

From the research findings given in sections above, and the general equation (Equation 1), the regression model for the current study can be expressed as given in Equation 2.

$$LRi = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 \ldots\ldots\ldots\ldots \beta_nX_n + \varepsilon \qquad (1)$$

$$LRi = 32.571 - 0.120X_1 - 0.495X_2 + 0.035X_3 + 0.138X_4 + 0.634X_5 - 0.272X_6 + 0.444X_7 + e \qquad (2)$$

where : LRi - Loan repayment
β_0 - Constant
ε - Error term

β_1X_1, β_2X_2, β_3X_3, and β_4X_4 - personal factors that influence loan repayment

β_5X_5, and β_6X_6 - loan specific factors that influence loan repayment

β_7X_7 - business specific factor that influence loan repayment

LIMITATIONS AND FUTURE RESEARCH

The study focused on small-scale enterprises in one specific area of Nairobi, Kenya. The findings give a good trend but cannot be generalised to other SSEs in other areas of Kenya, or indeed, in other developing countries with certainty. Perhaps, the results would be more informative if the study is conducted in other regions in Kenya and other developing countries for reliability and reproducibility. Areas of further research include a similar study to be carried out in other similar economies and geographical locations to establish the factors that impact on loan repayment in SSEs. Similarly, the same study may be replicated in other sectors to determine whether the same factors impact on loan repayment with the same magnitude as that of the current study.

CONCLUSION

From the study, it can be concluded that although many factors can lead to loan defaults, some of the factors were regarded as having a higher impact. This is evident from the way respondents replied to questions and the analysis arising from these responses. The study found out that business-related factors had a higher impact on loan default while borrower-related factors had the least impact on loan default. Specifically, an increase in input price and high interest rate were the leading factors that lead to loan default while the death of a spouse had the least impact.

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INTERNAL CONTROLS AND FINANCIAL PERFORMANCE OF BANKS IN UGANDA CASE STUDY: POST BANK UGANDA

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ABSTRACT

The study set out to establish the effect of internal controls on the financial performance of banks in Uganda using Post Bank as a case study.

The study adopted both qualitative and quantitative approaches and employed correlational, cross-sectional survey designs. The sample size was 50, but only 36 respondents returned the questionnaire.

The research findings indicated that the internal Audit function, the board's Audit Committee, written policies and procedures, and clear division of the responsibilities of middle to top managers are all important and affect the financial performance of Post Bank. If all are emphasized, financial performance can be enhanced. The study recommends that financial controls should be regularly updated to cope with the changing environment, the board's Audit Committee should be competent enough to supervise and regulate internal control policies and procedures, and written policies and procedures should be effectively implemented.

Keywords: Financial Performance; Control Policies and Procedures; Financial Controls.

INTRODUCTION

Profitability, solvency, and liquidity are the three most important indicators of financial health (Ross *et al*, 1988). Profitability is most important, since most companies operate for only one reason – to generate profit (Gawlicky, 2001). Profitability continues to be a problem; numerous studies have investigated different aspects that influence it. For example, a decline in profitability may result from increased operational costs, decreased revenue, or both, according to a profit analysis of Blockbuster Video Company (Gawlicky, 2001).

Internal control involves policies and procedures management uses to ensure the reliability of financial reporting, compliance with laws and regulations and the effectiveness and efficiency of operations. In other words, management must safeguard the firm's assets and have reliable accounting records. It must ensure that employees comply with legal requirements and operate the company in the best way possible (Millichamp, 2000).

Research on Uganda's banking sector after financial liberation provides a rich background for any study, for example, Nanyonjo (2002), Mpuga (2002), Kasekende and Atingig–Ego (2003), Birungi (2005)) and Rogers (2008).

Kasekende and Atingi–Ego (2002) analysed the impact of the financial liberalisation of Uganda's domestic system; Mpuga (2002) analysed the banking crisis following insolvency, the closure of several banks and the bank runs of 1998 to 1999; Nanyonjo (2002) investigated structure-conduct-performance in Uganda's banking system; Balunywa (2002) determined what causes

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low bank performance in Uganda; Birungi (2005) discussed the causes of high intermediation margins; Matama (2008) examined corporate governance and the financial performance of selected commercial banks in Uganda. None of these studies, however, attempted to relate the performance of banks to internal control and profitability. The current study attempted to fill that gap.

Internal control is fundamental to accurately record transactions and prepare reliable financial statements. Many business activities involve a high volume of transactions and numerous judgments concerning the related accounting records and financial statements. Without adequate controls to ensure proper recording, financial data may be unreliable, undermining management's ability to make well-informed decisions, and damaging its credibility with shareholders, regulators, business partners and the public.

Although Post Bank's performance has been applauded by some sections of society for the results it achieved, it is criticised that its financial performance has been low (Public Accounts Committee Report, 2007). These mixed reactions from different stake holders and the bank's failure to achieve some of its objectives formed the basis of an investigation concerning how internal controls have influenced it. This study relating the financial performance of banks to internal controls is also timely (The New Vision, 2007).

Theoretical Framework

According to Millichamp (2002), an internal control system comprises the entire system of controls, financial and otherwise, established by management to carry out the business' enterprises in an orderly and effective manner, ensure adherence to management policies, safeguard the assets, and secure as far as possible, the completeness and accuracy of the records. An internal control system therefore secures an organisation's work processes against irregularities and errors, and guards that assets are not defrauded.

ISA Risk Assessment and Internal Control (1996) describes an internal control system as comprising the control environment and control procedures. This includes all the policies and procedures management adopts to assist in ensuring as far as possible, orderly and efficient conduct of its business, safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of accounting records, adherence to management policies, and timely preparation of reliable financial information.

According to Meigs (1990), internal controls fall into two broad categories − accounting controls and administrative controls. Accounting controls are measures that relate directly to the protection of assets, or to the reliability of accounting information. An example is the use of cash registers to create an immediate record of cash receipts.

A system of effective control is a critical component of bank management and a foundation for the safe, sound operation of banking organisations. A strong system of internal controls can help to ensure that the bank will achieve long term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations, policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation (Meigs, 1990).

Nature of Internal controls

An effective internal control system requires an appropriate control structure with control activities defined at every business level. These should include top level reviews, appropriate activity controls for different departments or divisions, physical controls, compliance with explosive limits and follow-up on non- compliance, a system of approvals and authorisations and a system of verification and reconciliation (Basle Committee on Banking Supervision, 1998).

Accounting controls

According to ISA Risk Assessment and Internal Control (1996), an effective internal control system requires that material risks that could adversely affect the bank's achieving its goals are recognized and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organisation (i.e. credit risk, country and transfer risk, market risk, interest risk, liquidity risk, operational risk, and legal risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

Banks are in the business of risk; consequently it is imperative that as part of an internal control system these risks are recognized and continually assessed. A risk assessment should identify and evaluate the internal and external factors that could adversely affect the banking organisation's performance, information and compliance objectives. This process should cover all risks the bank faces and operate at all levels within the bank. It differs from the risk management process that typically focuses on the review of business strategies developed to maximise the risk/reward trade-off within the different areas of the bank.

According to Kikonyogo (2006), the main cause of banks' poor performance is poor internal control. Kikonyogo found that banks are managed in a manner that contravenes the financial institution's status. In particular, credit extension does not follow laid down lending policies and violates provision of credit concentration and insider borrowing. The financial lending statements submitted to the Bank of Uganda were grossly incomplete and therefore, misleading. The statements also omitted disclosure of material off-balance sheet items, which resulted in the understatement of the magnitude of the bank's problems.

Tumusiime (1999) notes that bank failures are the result of weak corporate governance and insufficient internal controls, weak management and little or no control by the Board of Directors. Placing a lot of decision making in the hands of weak managers also results in staff fraud. In other words, the bank's financial problems are the result of a poor loan portfolio with a high level of non-performing assets, and staff fraud.

Administrative Controls

Administrative controls are measures designed to increase operational efficiency; they have no direct bearing upon the accounting records' reliability. An example of an administrative control is the requirement that travelling sales people submit reports showing the names of customers called upon each day. Administrative control also plays a vital role in the successful operation of a business.

According to the Annual Supervisory Report (1999), the prime responsibility for managing the risks inherent in banking lies with a bank's management, which is accountable to the Board of Directors. The Boards of Directors is responsible for setting the limits for the bank's risk appetite and its oversight. The detailed design, implementation, reporting and operation of adequate internal controls is normally delegated to management by the Board of Directors. However, directors have to judge whether the system of internal control is adequate and the right balance between cost and benefit is being maintained. To serve as the director of a banking institution carries substantial responsibility that may have major personal financial repercussions. It is thus advisable that the decision to appoint a bank director be reached only after determining whether the appointee is a fit and proper person.

Internal Audit Function and Financial Performance

The organisation's internal and external auditors also measure the effectiveness of internal control. They assess whether the controls are correctly designed and implemented, and recommend improvements. They may also review information technology (IT) controls related to the organisation's systems. There are internal control laws and regulations related to financial reporting in a number of jurisdictions. In the US these were established through Sections 404 and 302 of the Sarbanes-Oxley ACT (2002). Guidance on auditing these controls is specified in PCAOB *Auditing Standard* No. 5, and SEC guidance is further discussed in SOX 404 top-down risk assessment. To provide reasonable assurance that the internal controls involved in the financial reporting process are effective, they are tested by the external auditor (the organisation's public accountant), who is required to pronounce on the organisation's internal controls and the reliability of its financial reporting.

According to Manasseh (2004), the internal auditor examines financial information on behalf of management to ensure that various corporate objectives are achieved with minimum costs. The internal auditor should be able to review and keep track of the company's performance to ensure that it is following the pre-determined course of action. Therefore, the internal auditor will need to review and assess the company's performance using a much broader perspective, which presupposes that an internal auditor understands the organisation's objectives manifested in the articles and statutes governing its performance. This means that the internal auditor must understand corporate policies in order to identify and analyse the company's performance from the perspective of a pre-determined course of action. This process entails a review of each part of the organisation. Thus the internal auditor plays an important role in determining the organisation's profitability performance.

According to the Bank of Uganda Guidelines to Risk Management (2004), the internal auditor must also prepare internal audit reports to be submitted to the Board (or a committee) regarding the bank's performance. These reports must cover the following areas:

- The performance of each department from the overall point of view of the bank.
- The position of the internal control system and its relation to the bank's controls as a whole.
- The company's policy implementation.
- The position of the company's accounting and budgeting controls.

The internal auditor should instigate corrective measures immediately a problem is highlighted and be available to all departments for consultation. The Bank of England (1997) requires internal auditors to conduct surprise checks on sensitive assets which are desirable, portable and valuable to prevent misuse through unauthorized access. In addition, the internal auditor should conduct routine and automatic checks on procedures and items that are prone to misuse and misappropriation, such as petty cash and wage payment.

Board Audit Committee and Financial Performance

Management is accountable to the Board of Directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They are knowledgeable concerning the entity's environment and activities, and commit the necessary time to fulfill their board responsibilities. A dishonest management may be in a position to override controls and ignore or stifle communications from subordinates. However, a strong, active board, coupled with effective upward communication channels and capable financial, legal and internal audit functions is often able to identify and correct this problem.

According to the Cadbury Report (1992), an internal audit committee of independent non-executive directors should liaise with external auditors, supervise internal auditors and review the annual accounts and internal controls. The audit committee serves as the eyes and ears of the board in monitoring compliance with board policies and regulations. It also oversees the internal and external auditors and assists in providing an independent review of the effectiveness of the internal control system.

Written Policies and Procedures and Financial Performance

According to the Statement of Guidance on Internal Controls in Banks (Bank of England, 1997), management should have written policies and procedures to manage those who carry out the functions of each department (e.g. supervision, rotation of employees among different jobs, vocations and bonding of personnel who handle and mange cash, debtors and creditors) to reduce loss owing to theft by personnel. Prudent personnel procedures help to ensure that employees will find it difficult to carry out and conceal embezzlement, which over time, affects the bank's profitability.

Written policies are necessary to establish a framework for the bank's culture and ethical standards. To be effective, policies must be communicated in a timely fashion, be implemented through all levels of the organisation by appropriate procedures and revised periodically in the light of changing circumstances (Bank of Uganda, 1999). Policies need to contain a minimum requirement following clearly defined and appropriate levels of delegation, approval and provision, and general areas in which the institution is prepared to engage or is restricted from engaging in, for example, credit policies, and the credit risk philosophy governing the extent to which the institution is willing to assume a credit risk.

Sound and prudent portfolio concentration limits need to be developed and implemented within the context of a credit risk management environment that ensures that all credit dealings are conducted following the highest possible standard of ethical behaviour. Failure to establish adequate procedures to effectively monitor and control the credit function has resulted in credit problems for many institutions.

Clear Division of Responsibilities and Financial Performance

According to IAS 400 (cited in Manasseh, 2004), an organization should have a chart to indicate/ define/ allocate the following:

- The duties and responsibilities of each individual in the organisation.
- Lines of reporting responsibility for all operations and controls.
- The delegation of particular accounting and financial duties.
- The flow of authority and responsibility to avoid conflict concerning duties, authority and power.

The organisation's plan will benefit the business in the following ways:

- It will minimize conflicts in duties and reduce tension and associated costs arising out of duplicated efforts;
- It should boost accountability through defining power and authority and thus improve control over the bank's activities;
- It should facilitate co-ordination and harmonising efforts to enable the bank to achieve its performance forecast.

The Board of Directors and senior managers often request presentations and performance reports that enable them to review the bank's progress towards its goals. For example, senior management may review reports showing actual financial results to date. Senior management's subsequent questions to lower management levels may deflect problems such as control weakness, errors in financial transactions, or fraudulent activities. An effective internal control system necessitates appropriate segregation of duties where personnel are not assigned conflicting responsibilities. Areas of potential conflict should be identified and subject to careful, independent monitoring. Assigning conflicting duties to one individual, for example, responsibility for both the front and back offices of a trading function, gives that person access to assets of value and the ability to manipulate financial data for personal gain. Bank duties should be split among various individuals to reduce the risk of manipulating financial data.

The Relationship between Internal Controls and Financial Performance

According to the Basle Committee on Banking Supervision (1998), an effective control system is a critical component of bank management. Strong internal controls ensure that the bank's goal and objectives will be met, that it will achieve its long-term profitability targets, and maintain reliable and managerial reporting. An effective control system can also help to ensure that the bank will comply with laws and regulations, policies, plans, internal rules and procedures, and decrease its list of unexpected losses, or damage to its reputation. Kasekende (1996) argues that banks with strong controls perform better financially than those with weak controls. There is thus a relationship between internal controls and financial performance in banks.

Previous research investigated the relationship between internal control and financial performance, but did not identify whether the relationship was positive or negative. This study therefore investigated whether there is a positive or negative relationship between internal control and financial performance using the Post Bank of Uganda as a case study.

Methodology

The study's approach was largely quantitative. The researchers conducted a correlation analysis on a sample size of 50 respondents from Post Bank, 55.6% of whom were male and thus the dominant group. The respondents were interviewed using a self-administered questionnaire with a five point Likert scale (strongly agree = 5, agree = 4, neutral = 3, disagree = 2, strongly disagree = 1) of closed-ended questions. The researchers used descriptive statistics (means and standard deviation) to interpret the most commonly used factors on each variable. Next, the linear regression model was used to extract the most relevant factors influencing the variables.

Characteristics of Respondents

The sample size was 50; of these 36 questionnaires were returned which represented 72% of the total number of questionnaires administered. Table 1 shows the respondent distribution.

Table 1: Respondent Distribution

Category	Sample size	Number of Respondents	Percentage of Respondents
Auditors	5	4	11%
Managers	10	9	25%
Accountants	5	3	08%
Tellers	15	10	28%
Customer consultants	7	5	14%
Heads of Departments	8	5	14%
Total	**50**	**36**	**100%**

Source: Primary data

Description of the Dependent Variable: Financial Performance

The dependent variable was financial performance conceptualised as profitability.

A mean of 1 to 2 signified disagreement with the statement, 3 indicated uncertainty and a mean between 4 and 5 indicated agreement (refer to Table 2).

Table 2: Descriptive Statistics on Financial Performance

Financial Performance	N	Min	Max	Mean	Std. Deviation
Management always submits profitability reports on time	**35**	2.00	5.00	3.54	1.07
The bank's profit levels have been growing steadily for the past 5 years	**35**	2.00	5.00	4.29	0.71
The bank always transfers part of the net profits to reserves	**34**	1.00	4.00	2.79	0.73
Revenue targets are always met	**34**	1.00	5.00	2.59	1.02
The bank always distributes part of the profits as a return to owners	**35**	1.00	5.00	2.83	0.95
All the total assets are deployed for income generation	**30**	1.00	5.00	2.97	0.93
The bank operates efficiently	**31**	2.00	5.00	2.87	0.96
The bank sets profitability targets	**34**	2.00	5.00	4.09	0.71
The bank takes action when there is a significant discrepancy between set profit targets and actual profitability	**33**	2.00	5.00	3.76	0.56
The bank always prepares the performance and financial position statements	**32**	3.00	5.00	4.41	0.67
The bank always calculates profitability ratios	**34**	3.00	5.00	3.97	0.63
The bank operates efficiently	**18**	2.00	4.00	3.17	0.86
The bank sets profitability targets	**19**	1.00	5.00	3.89	0.88
Global Variable Descriptive	**35**	**2.77**	**4.29**	**3.49**	**0.40**

Source: Primary data

On average, results on the dependent variable indicated that management always submits profitability reports on time (mean 3.54), the bank's profit levels have been growing steadily for the past five years (mean 4.29), the bank always transfers part of the net profits to reserves (mean 2.79), revenue targets are always met (mean 2.59), the bank always returns part of the profits to owners (mean 2.83), all the total assets are deployed for income generation (mean 2.97), the bank operates efficiently (mean 2.87), the bank sets profitability targets (mean 4.09), the bank takes action when there is a significant discrepancy between set profit targets and actual profitability (mean 3.76), the bank always prepares performance and financial position statements (mean 4.41), the bank always calculates profitability ratios (mean 3.97), the bank operates efficiently (mean 3.17), the bank sets profitability targets (mean 3.89).

According to some respondents, Post Bank's profits were steadily increasing; however, some revenue targets were not always met and the bank was not operating efficiently. This is supported by the public accounts committee reporting on the bank's operations (New Vision, 2007).

According to the overall mean, respondents rated financial performance as 3.49.

The effect of the Internal Audit Function on Post Bank's financial performance

The first objective of the study was to examine the effect of the internal audit function on Post Bank's financial performance. Descriptive information from the respondents was used to examine the effect of internal audit functions on Post Bank's financial performance. A mean of 1 to 2 signifies disagreement, 3 signifies uncertainty and a mean of 4 or 5 indicates agreement (refer to Table 3 below).

Table 3: Descriptive Statistics on Internal Audit Function

Internal Controls				
Accounting Controls	**Min**	**Max**	**Mean**	**Std. Deviation**
The board of directors is involved in approving and reviewing accounting controls	3.00	5.00	4.42	0.56
The board ensures that the framework is subjected to a comprehensive internal audit by operationally independent and competent staff	3.00	5.00	4.25	0.65
Senior management implements the risk management framework by developing policies, procedures and processes for that purpose	3.00	5.00	4.17	0.57
The accounting management framework allows for easy flow of information	2.00	5.00	2.89	0.76
Feedback about the accounting operations is shared with all the staff concerned	2.00	4.00	2.97	0.77
Risky transactions and procedures are clearly communicated to all staff	2.00	5.00	3.03	0.94
Controls have effectively prevented fraud	1.00	4.00	2.31	0.93
Results of financial and accounting verifications are often reported to top management for proper action	3.00	5.00	3.86	0.54
Authorisation and approval of certain transactions e.g. loans and remittances that exceed certain limits, are appropriately handled and adhered to.	2.00	5.00	3.44	1.00
The system of financial verification and reconciliation is strictly followed	2.00	5.00	3.06	0.89
Established accounting control procedures, e.g. audits, are in existence and strictly followed	2.00	5.00	3.75	0.60
Verification to ensure accounting controls of the bank are complied with	2.00	5.00	3.37	0.84
Periodic reconciliations are carried out to ensure corrective measures	2.00	5.00	3.65	0.65
Transactions go through a series of checks to facilitate authorisation and approval before completion	2.00	4.00	3.34	0.87
There are measures in place to report unusual transactions (transactions that cause suspicion)	2.00	5.00	3.11	0.99
Financial controls are regularly updated to cope with changing environmental needs	2.00	4.00	2.94	0.59
The bank has a well-documented accounting manual	2.00	5.00	3.89	0.58
Regular audits and spot checks are conducted to ensure compliance (in practice) with the accounting manual	2.00	5.00	3.61	0.69

Various duties involved in a transaction are assigned to different persons in a bid to segregate duties	2.00	4.00	3.50	0.71
Fraud and loss information are correctly documented	2.00	4.00	2.97	0.85
Records of past fraud occurrences are used to track management of the risk progress	1.00	4.00	2.80	0.83
Global Variable Descriptive	**2.81**	**3.95**	**3.40**	**0.28**

Source: Primary data

On average, the results indicate that feedback on accounting operations is shared with all the concerned staff (mean 2.97), risky transactions and procedures are clearly communicated to all staff (mean 3.03), in place controls have effectively prevented fraud (mean 2.31), the results of financial and accounting verifications are often reported to top management for proper action (mean 3.86), authorisation and approval of certain transactions that exceed certain limits are appropriately carried out and adhered to (mean 3.44), established accounting control procedures are in existence and strictly followed (mean 3.75), accounting control verifications are complied with (mean 3.37), periodic reconciliations are carried out to ensure corrective measures (mean 3.65), transactions go through a series of checks to facilitate authorisation and approval before completion (mean 3.34), financial controls are regularly updated to cope with changing environmental needs (mean 2.94), and the bank has a well documented accounting manual (mean 3.89). Furthermore, the Board of Directors approves and reviews accounting controls (mean 4.42) and records of past fraud occurrences are used to track management of risk progress (mean 2.80).

Correlation Results

Zero order correlations were generated to explore the relationship between Internal Audit function and financial performance of Post Bank. Table 4 shows the relationship between the internal audit function and financial performance.

Table 4: Relationship between internal audit function and financial performance

	Internal Audit Function	**Financial Performance**
Internal Audit Function	1.000	
Financial Performance	.608**	1.000
** Correlation is significant at the 0.01 level (2-tailed).		

Source: Primary data

Results revealed that the internal audit function can significantly and positively improve the financial performance of Post Bank ($r = .608^{**}$, $P < .01$)

The Regression Model

The regression results shown in Table 5 below supported the results of the above correlations and indicated that the internal audit function could explain as much as 31% of the variance in Post Bank's financial performance (Adjusted R Square = 0.351).

Table 5: Regression Model

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model	**B**	**Std Error**	**Beta**		
Constant	.272	.732		.372	.712
Internal Audit Function	.918	.208	.608	4.404	0.000
Dependant Variable: Financial Performance					
R Square	0.370		F Change		19.399
Adjusted R Square	0.351		Sig. F Change		0.000

Source: Primary data

The effect of the Board's Audit Committee on Post Bank's Financial Performance

From Table 5 above it can be seen that the Board of Directors is involved in approving and reviewing accounting controls (mean 4.42). The board ensures that the framework is subjected to a comprehensive internal audit by operationally independent and competent staff (mean 4.25), senior management implements the risk management framework by developing policies, procedures and processes for that purpose (mean 4.17), the results of financial and accounting verifications are often reported to top management for proper action (mean 3.86), the system of financial verification and reconciliation is strictly followed (mean 3.06), there are measures in place to report unusual transactions (transactions that cause suspicion) (mean 3.11), the various duties involved in a transaction are assigned to different persons in a bid to segregate duties (mean 3.50), records of past fraud occurrences are used to track the progress of risk management (mean 2.80).

Correlation Results

Zero order correlations were generated to explore the relationship between the board's Audit Committee and Post Bank's financial performance (refer to Table 6 below).

Table 6: The effect of the board's Audit Committee on Post Bank's financial performance

		Audit Committee Effect	Financial Performance
Audit Committee Effect	Pearson Correlation	1.000	
	Sig.	.***	
Financial Performance	Pearson Correlation	.609**	1.000
	Sig.	.000	.***
** Correlation is significant at the 0.01 level (2-tailed). *** Significance not reported/determined			

Source: Primary data

The results revealed that the board's audit committee can significantly improve Post Bank's financial performance ($r=.609^{**}$, P<.01). The P value (0.000) was insignificant, which lead to the acceptance of the above hypothesis.

The regression results (shown in Table 7 below) supported the results of the above correlations and indicated that the Audit Committee can explain as much as 35.1% of the variance in Post Bank's financial performance Bank (Adjusted R square = .351).

Table 7: Regression Model

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model	**B**	**Std. Error**	**Beta**		
(Constant)	1.500	.576		2.604	.014
Audit Committee Effect	.583	.134	.609	4.339	.000
Dependent Variable: Financial Performance					
R Square	0.370		F Change		18.824
Adjusted R Square	0.351		Sig. F Change		0.000

Source: Primary data

The effects of written policies and procedures on Post Bank's financial performance

A 5-point anchor was used to examine the effects of written policies and procedures on financial performance. A mean of 1 or 2 signifies disagreement with the statement, 3 indicates uncertainty, and 4 or 5 indicates agreement.

The respondents' responses on written policies and procedures are indicated in Table 8 below.

Table 8: Descriptive Statistics on written policies and procedures

Administrative Controls	Min	Max	Mean	Std. Deviation
Staff are periodically rotated among various duties	2.00	5.00	4.39	0.73
Workplace safety is a priority to management	1.00	4.00	2.83	0.81
Management has developed and implemented an anti-fraud culture	2.00	5.00	3.18	0.72
The code of ethics is in writing and is followed by the work force of this institution	2.00	5.00	3.43	0.81
The management of this institution has shown exemplary moral behavior	1.00	5.00	2.94	1.10
The organisation's personnel normally engage in unethical transactions for the purpose of self gratification	2.00	5.00	3.75	0.87
There are clear rules or guidelines for promotion in this organisation	2.00	4.00	3.81	0.52
Getting a promotion in this company is based on fame, relationships and favoritism rather than performance	2.00	4.00	3.17	0.77
Punitive action for unethical conduct in this organisation is well stipulated	2.00	5.00	3.09	0.85
Top management request reports on performance to review the bank's progress	2.00	5.00	3.58	0.71
Critical observations from management are an effective basis of control to lower management	2.00	5.00	3.26	0.79
Decentralization of duties ensures that even lower cadres participate in control and appraisals	2.00	5.00	3.69	0.62
Functional reviews occur more frequently to strengthen	2.00	5.00	3.43	0.85

performance standards				
Management reviews weekly reports on delinquencies, payments received and interest income	2.00	5.00	3.34	0.80
Various policies, e.g. lending, training, promotion, demotion, are in place	2.00	5.00	3.91	0.45
Information security standards and guidelines exist	3.00	4.00	3.82	0.39
System access rights are assigned based on business needs only	2.00	4.00	3.38	0.65
Guidelines on staff ethics and codes of conduct exist	2.00	5.00	3.97	0.56
Global Variable Descriptive	**3.00**	**4.06**	**3.50**	**0.25**

Source: Primary data

On average, results from the respondents indicated that management has developed and implemented an anti-fraud culture (mean 3.18). The code of ethics is in writing and is followed by the work force of this institution (mean 3.43), the organization's personnel normally engage in unethical transactions for the purpose of self gratification (mean 3.75), these are clear rules and guidelines for promotion in this organization (mean 3.81), punitive action for unethical conduct in this organization is well stipulated (mean 3.09), various policies, for example, lending, training, promotion, demotion, are in place (mean 3.91), information security standards and guidelines exist (mean 3.82), guidelines on staff ethics and codes of conduct exist (mean 3.97).

Correlation Results

Correlations were generated to explain the relationship between written policies and Post Bank's financial performance (refer to Table 9 below).

Table 9: The effect of written policies and procedures on Post Bank's financial performance

		Written Policies and Procedures	**Financial Performance**
Written Policies and Procedures	Pearson Correlation	1.000	
	Sig.	.***	
Financial Performance	Pearson Correlation	.472**	1.000
	Sig.	.006	.***
** Correlation is significant at the 0.01 level (2-tailed). *** Significance not reported/determined			

Source: Primary data

Results revealed that written policies can positively improve Post Bank's financial performance ($r = .472^{**}$, $P < .01$). However this relationship is weak ($r = 0.472$) (refer to Table 10).

Table 10: The Regression Model

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
	(Constant)	.567	.693		.819	.419
	Written Policies and Procedures	.587	.197	.472	2.981	.006
	Dependent Variable: Financial Performance					
1	R Square	0.223		F Change		8.888
	Adjusted R Square	0.198		Sig.		0.006

Source: Primary data

The regression results shown in Table 10 supported the results of the correlations (above) and indicated that written policies can explain as much as 19.8% of the variance in Post Bank's financial performance (adjusted R Square = .198). Sig or P value (0.006) was small at 1%, which lead to the acceptance of the research hypothesis that written policies and procedures affect Post Bank's financial performance.

The effect of the clear division of middle to top managers' responsibilities on Post Bank's financial performance

Using a 5-point anchor, descriptive statistics were generated to examine the clear division of the responsibilities of middle to top managers on Post Bank's financial performance. A mean of 1 or 2 signified disagreement, 3 signified uncertainty, and 4 or 5 agreement.

On average the respondents indicated that staff are periodically rotated among various duties (mean 4.39), management of this institution has shown exemplary moral behaviour (mean 2.94), top management requests performance reports to review the bank's progress (mean 3.58), critical observations from management are an effective basis of control to lower management (mean 3.26), decentralization of duties ensures that even lower cadres participate in control and performance appraisal (mean 3.69), management reviews weekly reports on delinquencies, payments received and interest income (mean 3.34).

Correlation Results

Correlations were generated to explore the relationship between clear divisions of middle to top managers' responsibilities on Post Bank's financial performance (refer to Table 11).

Table 11: Relationship between the clear division of middle to top managers' responsibilities on Post Bank's financial performance

		Clear Division of Responsibilities	Financial Performance
Clear Division of Responsibilities	Pearson Correlation	1.000	
	Sig.	.***	
Financial Performance	Pearson Correlation	.480**	1
	Sig.	.005	.***
** Correlation is significant at the 0.01 level (2-tailed). *** Significance not reported/determined			

Source: Primary data

The results revealed that the clear division of middle to top managers' responsibilities could significantly improve Post Bank's financial performance (r = 480**, P<.01), although the relationship is weak.

Regression Results

The regression results shown in Table 12 below supported the results of the above correlations and indicated that the clear division of responsibilities could explain 20.5% of the variance in Post Bank's financial performance (adjusted R square 0.205).

Table 12: Regression Results on the clear division of middle to top managers' responsibilities on Post Bank's financial performance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model	**B**	**Std. Error**	**Beta**		
(Constant)	2.617	.606		4.321	.000
Clear Division of Responsibilities	.489	.163	.480	3.000	.005
Dependent Variable: Financial Performance					
R Square	0.231		F Change		8.999
Adjusted R Square	0.205		Sig.		0.005

Source: Primary data

The study attempted to establish the relationship between all internal controls and financial performance; the results are shown in Table 13 below.

Table 13: The relationship between internal controls and Post Bank's financial performance

	Accounting Controls	Administrative Controls	Internal Controls	Financial Performance
Accounting Controls	1.000			
Administrative Controls	.247	1.000		
Internal Controls	.769**	.810**	1.000	
Financial Performance	.485**	.477**	.608**	1.000
** Correlation is significant at the 0.01 level (2-tailed)				

Source: Primary data

The results shown in Table 13 above confirm that administrative controls are positively related to Post Bank's financial performance (r = .477, P< .01). This implies that administrative control elements, such as top management reviewing weekly reports on delinquencies, payments received and interest income, are bound to result in improved financial performance characterised by the bank operating efficiently, achieving its revenue targets and growing steadily each year. The relationship between accounting controls and financial performance was positive (r = 0.485), although weak. The study established that both administrative and accounting controls affect financial performance positively, and the relationship is strong (r = 0.608). In other words, emphasising both administrative and accounting controls enhances Post Bank's financial performance.

Summary of major findings

The study's first objective was to investigate the effect of the internal audit function on Post Bank's financial performance. It was found that the internal audit function had a strong positive relationship (r = 0.608) on the bank's financial performance. If there is a strong internal audit function, organisational financial performance will increase in terms of profitability.

The board's Audit Committee fulfills a very important function; the findings indicated that the board's Audit Committee is positively correlated (r = 0609) with the bank's financial performance. The board's directors approving and reviewing accounting controls will eventually increase Post Bank's financial performance. Written policies and procedures are also positively related to the bank's financial performance. Having policies in place will increase Post Bank's financial performance.

A clear division of middle to top managers' responsibilities also had a significant influence (r = 0.480) on the bank's financial performance. Issues like staff being periodically rotated among various duties, decentralisation of duties and performance appraisal are likely to increase Post Bank's financial performance.

RECOMMENDATIONS AND CONCLUSION

The study established that both administrative and accounting controls significantly affect the bank's financial performance. The relationship is positive and strong (r = 0.608). However, the relationship of the individual controls (that is to say administrative controls and accounting controls) and financial performance is weak (administrative controls r = 0.477, accounting controls r = 0.485). This may imply that when the two controls are all emphasised financial performance is likely to increase.

Based on the major study findings, it can be concluded that internal controls affect the financial performance of banks. It is further concluded that the internal audit function is very important as it increases financial performance.

The board's Audit Committee should be independent and competent to implement internal controls to increase financial performance and reduce fraud in and risk to the organisation.

Written policies and procedures need to be emphasized to improve financial performance.

The division of responsibilities of middle to top managers should be clear for the smooth running of the organisation. Segregation of powers and authority need to be strongly emphasised to increase financial performance.

The internal audit function should operate independently; financial controls should be regularly updated to cope with the changing environment, since the findings showed that those controls in place have not effectively prevented fraud.

The board's Audit Committee should supervise and regulate internal control systems: the findings indicated that records of past fraud occurrences were not used to track management's progress concerning risk. The Board of Directors approving and reviewing accounting controls should be strengthened to improve the internal control system.

Written policies and procedures should be effectively implemented to increase financial performance. Punitive action for unethical conduct is well stipulated; if this and other policies were well implemented, financial performance would increase significantly.

A clear division of responsibilities and decentralization need to be strongly implemented so that lower cadre can participate in control and performance appraisal.

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CAPITAL MARKETS AND FINANCIAL RESOURCE MOBILISATION IN DEVELOPING COUNTRIES: THE CASE FOR EAC ECONOMIES

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ABSTRACT

Globalisation, which has made competition for the limited financial resources in both local and global markets stiffer, resulting in tumultuous economic conditions for both developed and developing countries, has left a capital market as the only dependable source of long-term capital. Taking into consideration the predicament surrounding the other known sources of financial resource mobilisation, namely foreign direct investment, external borrowing, and external trade, among others, the capital market should be enabled to play its traditional role of mobilising and allocating financial resources effectively and efficiently from within and outside the economy. Stock exchanges augment low domestic savings and serve to stimulate investments in development country context, hence creating more employment opportunities while minimising income gaps. Using a descriptive and moderate qualitative approach, this article, with data mainly from the East African Community (EAC), regional stock exchanges such as the Uganda Securities Exchange (USE), Nairobi Stock Exchange (NSE), and Rwanda Stock Exchange (RSE) stock markets, clearly spells out the role played by capital markets in the overall economic development of a developing country.

Keywords: Capital markets; Resources mobilisation; EAC economies; Resource allocation efficiency.

INTRODUCTION

The establishment of an efficient stock market is, therefore, indispensable for any economy that is keen on using scarce capital for sustainable economic growth. Since these are very important engines of growth, continued efforts to vitalise the markets are still needed to enable the economies in the EAC region to reap the potential benefits of emerging stock exchanges in the struggle for development in the region and world economy at large. A consortium of programmes, including structural, fiscal and monetary incentives that attract privately owned companies to list their shares and raise capital from the stock exchanges, needs be promoted. While governments need to play an active role in the business of the market through, say privatisation via the stock exchange, regulatory bodies should embark on aggressive promotion of the exchange's activities across all sectors of the economy, and encourage all potent players. Ultimately, it is an investment ground for all.

As the world becomes a global village, countries are turning into regions and economic blocks, trade is being liberalised, world resources are flowing in every direction, and all players in the world of business are trying harder to gain access and control of similar economic resources. This has not only heightened the competition for the limited financial resources in both local and global markets but has certainly made the financial playground more turbulent. Evidence of this is the global financial crisis, which affected even the smallest countries of the world economy. This underscores the importance of sound financial systems in general, and capital markets in particular, in helping developing economies successfully absorb the shock and overcome the adverse impact of such a global economic phenomenon). Leeway should be given to the only

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rather dependable source of long-term capital, the capital market, to enable it to play its traditional role of mobilising and allocating financial resources effectively and efficiently from within and outside the economy.

While described as “capital-poor or low-saving and low investing” economies (Jhingan, 2012: 48), underdeveloped countries have continuously been urged to take the lead towards achieving growth and revitalising their vision of equitable development or achieving the Millennium Development Goals as articulated in the global development agenda. Yet, though resources have continued to flow in all directions, direct capital inflows, particularly to the poorest countries, are rather erratic and at times conditional (see table 3). A shortage of investable resources severely constrains the development process of these countries and this has continued to widen the gap between the developed economies, economies in transition and developing countries (Osei, 2001: 109). The International Monetary Fund (IMF) Deputy Director of the African Department, Roger Nord, remarked that Uganda should increase both its public and private savings to reduce dependence on external savings and advised the government to specifically scrutinise tax exemptions. He commented that the level of public savings of 6 to 7 per cent of the gross domestic product (GDP) and private savings of 12 per cent of the GDP remains low by international standards. This increases Uganda’s vulnerability to exogenous shocks that may occur in the global economic system (BOU, June 2013).

Success in achieving major economic policy and the long-run financial objectives of the economy requires a good working policy on financial resource mobilisation and expanded capital formation. The policy needs to orient the available government and non-government sector's economic resources towards the right direction through maximisation of the interrelationships and mutual synergies between domestic resource mobilisation (improved mobilisation of domestic personal and corporate savings and effective collection of government revenue), aid, private capital inflows and debt relief.

Thus, the main objectives of any financial resource mobilisation policy should be:

- to assist in increasing the gross domestic saving rate by changing the unnecessary and inappropriate consumption patterns;
- to create an atmosphere conducive for channelling the investment to productive sectors by raising the total investment growth rate by significant percentage points as may be predetermined;
- to avail a regular supply of financial resources in required quantity in order to carry out development activities in an uninterrupted and sustainable manner;
- to make efforts for the efficient mobilisation of internal resources and to make appropriate and optimum utilisation of foreign assistance; and
- to utilise the internal and external resources in a complementary perspective taking their interrelationships into consideration.

As elaborated in section 3 of this article, efficient and vibrant capital markets in the region satisfy the financial mobilisation development objectives while at the same time addressing the development needs and constraints of developing countries.

Domestic resource mobilisation (DRM)

Specifically, DRM refers to the generation of savings from domestic resources and their allocation to socially productive investments. It also involves deepening the fiscal capacity of the state and improving the social rate of return to public investments. While the public sector mobilises domestic resources through taxation and public revenue generation for investment in social services and infrastructure, the private sector mobilises and efficiently allocates savings of households and firms via a capital market to productive activities. As Osei (2001: 109) emphasises, the fact that traditionally known sources of foreign funds from traditional sources like commercial banks are short of long-term financial supply compels governments in many developing countries to pay increased attention to capital market development as a way of improving or supplementing domestic resource mobilisation, enhancing the supply of long-term capital and encouraging the efficient use of existing assets.

Success at DRM, however, requires government to play its role actively and effectively by:

- creating an environment conducive to private savings;
- allocation public expenditure efficiently and effectively;
- stirring and supporting private initiatives;
- establishing the rule of law;
- providing an active sound legal system;
- ensuring democratic institutions; and
- embracing transparent and accountable governance.

The privatisation and divesture of public enterprises and the renewed efforts of the UIA, and URA for Uganda in particular, aided by a vibrant stock exchange, should kindle a resource mobilisation drive in the country.

EXTERNAL RESOURCE FLOW IN DEVELOPING COUNTRIES - A CHALLENGE

Official development assistance and foreign aid

In recent years, foreign aid to developing countries has declined. As governments cut their official development assistance, they also reduced their support for multilateral funding agencies such as the United Nations Development Program (UNDP), and even international financial institutions such as the Bretton Woods Institutions. In particular, the UNDP was seriously affected by the official development assistance decrease in recent years. At one time, quite a few governments cut their voluntary contributions to this agency, including the United States, Germany, France and Japan. The Ugandan government has recently been squeezed into a corner when the World Bank announced an official reduction in external financial support until unscrupulous government officials are charged. Although the intent of the donors in this particular case is disciplinary in nature, the detrimental social economic impact of the donor action was felt by all Ugandans. The Minister of Finance during the 2012/2013 budget speech reaffirmed this while reiterating and explaining his inability to meet commitments he had made to increase salaries of lower cadre civil servants including teachers, health workers and the defence forces as a result of a 93 per cent reduction in budget support from the foreign donors.

Table 1: Official development assistance US per capita

Country	2007	2008	2009	2010	2011
Uganda	57.3	52.4	55.1	51.6	45.8
Rwanda	74.4	93.3	90.5	97.2	116.8
Kenya	35.4	35.5	45.0	40.2	59.5
Tanzania	68.7	55.2	67.4	66.0	52.9
Burundi	62.1	65.7	68.7	75.1	67.5
Africa	**37.4**	**41.4**	**42.2**	**42.2**	**43.1**

Source: African Statistical Year Book, 2013:72

External debt

Lack of financial resources for development has been further exacerbated by the debt crisis in many developing countries. As a result of increased debt servicing charges, many developing countries are confronted with serious budget deficits. Greater efforts are needed to reduce multilateral debt burden, especially to those countries that have not defaulted despite their sizable debt servicing burden.

Table 2: Outstanding external debt as percentage of GDP in EAC countries

Country	2007	2008	2009	2010	2011	2012
Uganda	10.8	18.1	21.7	22.9	25.9	23.8
Rwanda	16.6	17.5	14.0	13.8	18.4	16.9
Kenya	23.5	21.4	23.3	24.1	25.3	25.5
Tanzania	23.5	24.1	28.2	31.8	35.4	33.3
Burundi	107.9	94.0	21.6	22.4	21.2	22.4
Africa	**23.6**	**21.5**	**23.7**	**22.1**	**21.8**	**22.0**

Source: African Statistical Year Book, 2013:72

As indicated in table 2 above, overall, African countries had an outstanding external debt averaging 22.45 percentage of the GDP in the first decade of the new millennium. These countries had been servicing about 4.5 billion dollars each year in debt repayment in the last decade of the previous century. In most cases the borrowed money has been invested in projects and programmes which were prescribed by the donors or multilateral institutions. No real ownership of the developing countries themselves was established in designing those programmes. This resulted in the failure of many projects. Therefore, multilateral institutions are being funded for debt which is not payable owing to failed projects prescribed by them. This, in many instances, is viewed as a bailing out of the Bretton Woods Institutions, rather than bailing out the indebted countries. Developing countries have to continue to pay back from their small export earnings the huge debt servicing obligations for money invested in what has been referred to as "unproductive" sectors by some local political and economic analysts in developing countries.

If these enormous repayments were backed by productive assets, they would pose no problem. But the combination of gross investment errors, waste and corruption has resulted in assets which fall far short of sustaining the debt service. As noted by Suresh (2002), "…if these were companies, they would long ago have sunk into bankruptcy and the lenders would have lost their capital. But instead, the might of lender governments protects the dubious original loans, shielding the lenders from risk. So the borrowers must pay, however gruesome the social consequences". Governments contend that the ongoing debt crisis is serving to focus attention on the importance of equity rather than debt, particularly in the financing of risky projects with long gestation periods (Osei, 2001). The author urges governments to seek development funds from stock exchanges, following the success of Kigali City municipal bond, Petrobraz, and the Agriculture Bank of China that obtained development capital from their stock exchanges (see section 3.2).

Many have proposed forgiveness of these debts as an essential step towards sound development, making available urgently needed financial resources to the poorest countries. Initiatives of debt remission, however, lead to a risk of throwing more money into a fatally-flawed process as most of the newly available funds, released from debt service, would find their way into the pockets of corrupt officials and their wealthy cronies and part of it transferred to secret bank accounts in tax haven jurisdictions. Sincerely, if all these funds were recovered, there would no longer be a debt problem or possibly few debts in developing countries. A former official in Algeria announced in the early 1990s that according to information at his disposal, Algeria's total foreign debt was matched by stolen funds in foreign accounts. Indonesia, the Philippines, Congo (Kinshasa) and Haiti would appear to be just a few of the many similar cases. There is no doubt that debt forgiveness would be very instrumental in meeting resource mobilisation targets if these monies are invested in socially productive ventures, namely projects of high social returns. Accountability of public officials and a transparent judicial process for the recovery of stolen or corruptly-obtained funds need be in place.

Foreign direct investment (FDI)

The role played by FDI in the economic growth and development process is still controversial in development economics. True, FDI is considered an instrument through which economies are being integrated at the level of production into the globalising world economy by bringing a package of assets, including capital, technology, managerial capacities and skills, and access to foreign markets. It also stimulates the technological capacity-building for production, innovation and entrepreneurship within the larger domestic economy through backward and forward linkages (Ndikumana & Verick, 2008).

In spite of these positive effects of FDI to developing economies, Hermes and Lensink (2003) give evidence to the contrary. They argue that the effect of FDI on economic growth depends on whether the country has a minimal level of absorptive capacity (in terms of educated workforce, institutional infrastructure and liberalised markets) that allows it to exploit FDI spill-overs (Borensztein *et al*, 1998;). The dependency hypothesis argues that in the short run, any increase in FDI enables higher investment and consumption and thus positively impacts directly and immediately on economic growth. But as FDI accumulates and foreign projects take hold, there will be adverse effects on the rest of the economy that reduce economic growth. This is due to the intervening mechanisms of dependency, in particular, 'decapitalisation' and ‘disarticulation' (lack of linkages) as mentioned by Bornschier, Chase-Dunn (1985) and Adams (2009). Consequently, they argue that FDI stirs profit expropriation, and increased monopolisation of local industries, leading to what Ajayi (2006) refers to as an enclave economy in which local investors are excluded. As a result, countries that are wholly dependent on FDI tend to experience stagnation, unemployment and increasing inequality.

A capital market helps minimise such negative tendencies and the social and economic costs of FDI through the sharing of stake and profits of FDI investments by the nationals. By doing so, the monopoly, stagnation, unemployment and increasing inequality and exclusion of local investors associated with FDI are resolved (Bornschier & Chase-Dunn, 1985; Ajayi, 2006.

Table 3: Foreign direct inflows as percentage of GDP in EAC countries

Country	2007	2008	2009	2010	2011
Uganda	26.1	23.3	26.0	16.3	23.0
Rwanda	8.5	10.3	11.5	4.0	9.7
Kenya	19.4	2.5	2.9	4.4	8.1
Tanzania	14.2	29.5	21.9	22.8	23.7
Burundi	0.1	0.5	0.0	0.1	0.2
Africa	**54.0**	**59.3**	**52.8**	**42.2**	**40.8**

Source: African Statistical Year Book, 2013:72

External trade

It is widely accepted that in the long run, the expansion of international trade and integration into the world economy are necessary instruments for promoting economic growth and reducing as well as eradicating poverty for developing countries. However, as the share of developing countries in global trade is still limited (only 0.4 per cent), full liberalisation and widening opportunities of trade to enable increased exports from developing countries are pertinent if international trade is to minimise the resource mobilisation crisis in developing countries. A conservative estimate of the cost to poor countries of developed country agricultural protection is \$100 billion a year.

Capital markets in developing countries – a justification

Considerable evidence has accumulated over the role of financial markets in economic development in general and capital markets in particular. Bekaert, Harvey and Lundblad (2001) show that equity market liberalisation on average leads to a one per cent percent increase in annual real economic growth over a five-year period. In a few selected countries, average market capitalisation in these countries increased from 16.7 per cent to 45.5 per cent during the period between 1990 to 2000, while their share of market capitalisation expanded from 3.6 per cent in 1990 to almost 7.0 per cent in 1999 (Global Development Finance). The number of listed companies rose sharply in select countries: for instance in India alone, the number of listed firms increased from 2, 435 in 1990 to 5,937 in 2000, while in China they increased from 14 in 1991, to 1,086 in 2000. With the improvements in depth and liquidity, domestic firms began to mobilise significant amounts of new capital. New equity issues during 1990-2000 ranged between 1.8 per cent and 4.8 per cent of market capitalisation in a select sample of countries (Rwanda, Uganda, Kenya, Malaysia, Indonesia, Nigeria, Brunei, China, India and Korea). True, emerging capital markets in South-East Asia have successfully used the stock market to mobilise huge savings and channel such savings to appropriate investments.

Following is a presentation of the role of capital markets to the development process of developing countries.

Contributing to economic growth and stability

Capital markets provide an alternative intermediation mechanism for mobilising savings, allocating and managing risk and liquidity, and managing government debt. By lowering the refinancing risks of governments in a domestic public debt market and by lowering the banking system's maturity transformation risks, capital markets contribute to economic stability. As Carmichael and Pomerleano (2002) note, when a country's financial system relies heavily on its banks, systematic vulnerabilities increase. The Asian financial crisis provided ample evidence of the risks associated with the absence of multiple channels of financial intermediation. Greenspan noted that

"… this leads one to wonder how severe East Asia's problems would have been during the past 18 months had those economies not relied so heavily on banks as their means of financial intermediation… Had a functioning capital market existed, the outcome might well have been far more benign… The lack of a spare tire is of no concern if you do not get a flat… East Asia had no 'spare tires' " (Greenspan, 1999b: 143).

There is considerable evidence that developed capital markets also mitigate the costs of financial crisis. The diversification, depth and breadth possessed by the markets help to manage the crisis better.

Source of public funds for development

As long as public funds continue to be a major source of financing in the major development programmes of developing countries, capital markets have a role to play in mobilising domestic resources. Bonds commonly floated on stock exchanges provide a source of internally generated public funds. This can be illustrated by the Kigali City municipal bond, the first of its kind in the East African region which was floated on the Rwanda-Over-The-Counter Market and successfully helped transform the capital city of Rwanda into a modern hub in the region. Also Petrobraz, a Brazilian oil company, floated the largest share sell in the world history worth seventy billion dollars, breaking the record of the Agricultural Bank of China's giant share offer by more than three times. The share proceeds place Brazil nearer to Saudi Arabia as a significant energy exporter, and make Petrobraz the world's leading oil producer with a total output of 5.4 million barrels a day by 2020. The Brazilian President, Luiz Inácio Lula da Silva, vowed to transform Brazil into a developed country through education, welfare and infrastructure projects (www. World Economic Outlook, 2010). Many more developing country governments contend that the ongoing debt crisis is serving to focus attention on the importance of equity rather than debt, particularly in the financing of risky projects with long gestation periods (Osei, 2001).

Source of capital for business firms

When corporations need long-term financing, they may sell ownership interest in the company to raise fresh capital, both initially by going public (primary issues) and subsequently through secondary or additional issuing of equity. Share issuing therefore becomes a principal means of raising additional capital to business entities, which capital is used for business expansion and growth, as indicated table 4 below. This indicates monies raised by different companies through the NSE for the period 1989-2008. For instance, in 2007 alone, NSE raised Kenyan Shs 5.71 billion through new and secondary share issues, not forgetting the Kenyan shs 50 billion mobilised by Safaricom from its initial public offering (IPO) from both local and international investors (savers) in 2008. Therefore, capital markets reduce the financial vulnerability of enterprises by increasing their access to equity markets and reducing their short-term bank debt.

Table 4: Money raised on Nairobi Stock Exchange 1989-2008

Year	Company	Subscription rate	Amount raised
1990	KCB	147	297,000,000
1991	KFC	110	40,800,000
1992	UCHUMI	103.20	232,000,000
1992	Crown Berger	104	138,000,000
1992	HFCK	400	126,000,000
1993	E A OXYGEN	100	42400,000
1993	CMC	100	20,000,000
1994	FIRESTONE	101	1,420,000,000
1994	NBK	300	400,000,000
1994	NIC	77	718,000,000
1995	REA VIPINGO	100	102,000,000
1996	REA VIPINGO	216	84,000,000
1996	KQ	194.60	2,664,000,000
1996	NBK	275	600,000,000
1996	KCB	150	560,000,000
1997	TPS	400	167,609,000
1997	ARM	250	281,750,000
1998	KCB		1,823,250,000
1999	HFCK	<100	
2000	AFRICAN LAKES	150	378,000,000
2001	MUMIAS	60	1,125,000,000
2001	ICDCI	64	331,208,164
2006	KENGEN	333	7,800,000,000
	SCAN GROUP		721,000,000
	EVEREADY EAST AFRICA		556,800,000
2007	KENYA RE	405	2,280,000,000

	ACCESS KENYA GROUP		800,000,000
	MUMIAS offer for sale)		4,500,000,
2008	Safaricom Ltd	532	50,000,000,000
	Total amount raised		**78,208,817,164**

Rights issues 1989-2008

Year	Name of company	Rate	Amount raised
1989	Barclays Bank		88,000,000
1990	ICDCI		70,966,196
1993	Marshalls		21,475,475
1994	KFC	1:3	44,875,000
1996	EA Portland	4:1	1,008,000,000
1997	EABL		1,488,275,775
1998	ICDCI	1:3	282,584,280
2000	UNGA	02:11	103,627,070
2000	Pan Africa Insurance		516,000,000
2001	Kenya Orchards	37:2	36,000,000
2001	Standard News Papers	6:1	306,080,775
2001	Total Company	2:3	1,275,086,508
2003	Express Kenya	1:8	178,004,216
2004	KCB	1:3	2,748,026,872
2005	Uchumi Supermarket	2:1	1,269,469,056
2005	CC Bank		700,000,000
2006	Diamond Trust Bank		776,550,000
2007	Olympia Capital	3:1	420,000,000
	NIC Bank	1:5	1,000,000,000
	Diamond Trust Bank	1:6	4,500,000,000
	Total amount raised		**16,833,021,22**

Linking investors to savers

According to Fama (1992: 90), the health of an economy is dependent on the efficient transfer of funds from people who are net savers to firms and individuals who need capital. He argues that without efficient transfers, the economy simply could not function. The stock exchange assists in the transfer of savings to investment in productive enterprises. It should be appreciated that in as much as an economy can have savings, a lack of established mechanisms for channelling those savings into activities that create wealth would lead to misallocation or waste of those savings. Therefore, even if a culture of saving were to be encouraged, a lack of developed and efficient financial markets to link investors to savers may lead to economic stagnation. By the separation of owners of capital on the one hand from managers of capital on the other, capital markets do not only promote improved management practices and efficiency in resource use but reduce social-economic isolation too. It is possible that those with money may not necessarily have the required skills and potency to run their businesses while those with the best business ideas may not have the monetary resources to successfully run businesses. By providing a link between these two economic entities, the markets provide an opportunity for broad-based participation and sharing of benefits in economic activities.

A market for financial assets

Stock exchanges provide investors with an efficient mechanism to liquidate their investments in securities, thus improving the liquidity of securities. The provision of a wider range of financial assets induces people to increase their rate of current savings and reduce on current consumption.

The market enables savers to achieve better and flexible wealth mix with speed and at a low cost whenever circumstances change. Competition among the users of capital market funds, including business, government and individuals, increases the efficiency with which capital is used, thus positively impacting on the growth rate of the economy (Osei, 2001: 109).

Promoting the culture of saving

Bond and stock markets play a critical role in promoting a culture of thrift. The liquidity that the market provides to the securities held by investors and the wider choice of liquid instruments offered all give savers the confidence and motivation to save their money and invest in these securities to earn a return.

Allocating savings optimally to promote growth

A robust stock market assists in the rational and efficient allocation of capital. By rationing savings to only productive enterprises, these markets assist economies to realise optimum production levels. The market prevents economic waste, misuse and potential resource misallocation of scarce capital to non-productive investments and the resulting economic stagnation and decline typical of developing countries.

Protecting savings against inflation

The value of idle savings may be eroded by inflation. However, if invested in company shares, the value of the savings is maintained as share prices tend to fluctuate following economic and non-economic forces within the economy, including inflation. A stock market helps cushion savings from the ravages of inflation.

Promoting transparency and optimal corporate performance

Development of capital markets leads to an open, balanced and competitive financial system in which capital is allocated transparently and with appropriate consideration of risk. Strict transparency and adherence to certain accounting and resource management practices, as well as regular disclosure of audited company performance to the public not only foster transparency but also promote greater efficiency in resource use. This is particularly important in a situation where the existence of imperfect markets and incomplete information remains a challenge and a contributing factor to the state of underdevelopment of many developing nations.

Developing a more resilient financial system

Developing a diverse, well-functioning, competitive financial system requires a modern framework that progressively incorporates accepted international standards for capitalisation, accounting, auditing, regulation and supervision, as well as arrangements for corporate governance and bankruptcy that are adapted to the local culture while meeting global standards. Pardy (1992) observes that securities markets have an important role to play in financial liberalisation and deepening. In addition to diversifying risk for both capital raisers and investors, securities markets are a means for government to exercise market-based rather than direct fiscal and monetary policies. Capital markets by the nature of their operation and rules and regulations provide a foundation and the consciousness that developing economies need to establish such a globally acceptable financial system. The market enhances the ability of the financial system to cope with shocks. In the same way, the market provides room for the emergence and growth of related financial services such as insurance, pension and provident fund schemes. This fosters a culture of saving and also provides employment opportunities to unemployed resources.

Minimising capital flight and increasing international capital inflows

While the stock market helps minimise capital flight, particularly that arising from raising local inflation and currency depreciation, the market at the same time attracts foreign capital into a country from foreign portfolio investors wishing to diversify their investments globally. For instance, the removal of restrictions on foreign investors' participation on the USE and NSE to some extent increased the vigour of the two bourses. This was signified by the successful historical initial public offerings (IPOs) of Stanbic and Safaricom on the two exchanges respectively. In addition, the market is a convenient way to channel remittances back home by citizens working abroad as it provides comparatively less risky investment options back home.

Reducing debt financing - minimising company leverage at reduced cost of capital

Stock markets relieve companies of the burdens of debt financing, especially where the ratio of debt to shareholders wealth is already high. Debt financing has been accused of the undoing of many enterprises in both developed and developing countries, especially in recessionary periods. Companies, therefore, use the markets to optimise their capital structure and lower their cost of capital. Evidence also indicates that in countries that rely solely on the banking system for intermediation, a high degree of leverage undermines the performance of corporations. The reliance on debt leads to a financial structure that is inherently risky and vulnerable to internal and external shocks.

Balanced corporate financing structure decisions

Because stock returns and debt market conditions play an important role in capital structure decisions, stock markets assist corporations in general and financial managers in particular in executing one of their most important and traditional roles of determining the optimal capital structure while raising funds for growth and expansion. While issuance of securities may be deferred in acute situations, in unusually favourable situations funds may be raised even if the firm has no immediate need for funds (Murray & Goyal, 2009). Bond markets certainly complement the ability of banks to mobilise short-term working capital and reduce maturity mismatches for corporations and banks alike.

Indigenising corporate ownership

Stock markets provide a mechanism for indigenisation of corporate ownership which would not otherwise be the case. As indicated earlier, investment in capital markets cuts across all social economic groups in the country, who for one reason or the other are denied full participation or rendered less active in the mainstream economic activities of the economy. All these groups are potential investors in the market and therefore all are offered the opportunity to share in the proceeds of most profitable companies in the country. Therefore, indigenisation not only helps reduce capital flight and profit expropriation but helps fight poverty among the locals, and reduces income disparities, social economic tension and suspicion among different economic groups in the economy. Levine (1990) shows that stock markets accelerate economic growth by (1) facilitating the ability to trade ownership of firms without disrupting the productive process occurring within firms and (2) allowing investors to hold diversified portfolios.

Investment ground for the poor and marginalised

Though many conditions still constrain capital markets operation in rural areas, the meagre resources of rural, disadvantaged and marginalised communities can still be mobilised. The superiority of capital markets as an investment ground for the poor and marginalised is that it does not require collateral and can mobilise savings from the poorest in the deepest part of the rural areas through their credit and cooperative societies. The investment process in capital markets is very transparent, less involving and less time-consuming on the side of investors, making it more appealing to special needs group. The encouragement to separate owners of capital, on the one hand, and managers of capital on the other does not only promote efficiency in resource use and improved management practices but makes the market a favourable investment ground for the disadvantaged and marginalised groups in the economy.

Gender concern

The gender norm that women are supplementary income earners persists and significantly affects women's access to financial and non-financial resources. It has been empirically found that women make up a substantial majority of the world's poor people. Yet, their percentage of total population and percentage of economically active population in the EAC specifically and Africa at large averages 50 per cent (see table 5 and 6 below). According to the World Development report (2000/2001: 27-29), being a woman and a single female head of family, and black in Latin America and a child, among others, are associated with being poor. To Todaro and Smith (2009: 243), being an indigenous rural woman is the "worst-case poverty scenario" of all. Promoting capital market activities within the informal and rural sectors of the economy where the majority of the female labour force is employed would improve the economic status of women and their participation in resource mobilisation drive, thereby contributing significantly to the overall development of the developing world. Todaro and Smith (2009: 243) note that any process of growth that fails to improve the welfare of people experiencing the greatest hardship, broadly recognised to be women and children, fails to accomplish one of the principal goals of development.

Table 5: Female as percentage of total population

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Uganda	50.2	50.2	50.2	50.1	50.1	50.1	50.1	50.0	50.0	50.0
Rwanda	51.1	51.0	51.0	51.0	51.0	50.9	50.9	50.9	50.9	49.5
Kenya	50.1	50.1	50.1	50.1	50.1	50.1	50.1	50.1	50.1	50.0
Tanzania	50.2	50.2	50.2	50.1	50.1	50.1	50.1	50.1	50.0	50.0
Burundi	51.3	51.3	51.2	51.1	51.1	51.0	51.0	50.9	50.9	50.9
Africa	**50.1**	**50.1**	**50.1**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**

Source: African Statistical Year Book, 2013:72

Table 6: Female percentage of economically active population

Country	2006	2010	2011	2012
Uganda	49.4	49.2	49.2	49.1
Rwanda	52.2	51.9	51.8	51.8
Kenya	46.4	46.3	46.3	46.3
Tanzania	50.1	49.8	49.7	49.7
Burundi	52.2	51.7	51.7	51.6
Africa	**42.3**	**42.4**	**42.5**	**42.5**

Source: African Statistical Year Book, 2013:72

Although microfinance institutions have helped women in their effort to mitigate poverty, their illiteracy, and lack of collateral assets and skills seriously constrain their efforts in businesses and their fight against poverty. In addition, the special needs of women, including domestic violence counselling and support for care of dependents (children and the sick including those with HIV/AIDS), imply that naturally women are more affected by time as a constraint in their participation in business and general economic activities compared to their counterparts. The investment process in capital markets is very transparent, less involving and less time-consuming on the side of investors, making it more appealing to women as a special needs group if programmed to do so.

Investment ground for the disabled, the minor and old age

Depending on the nature of the disability, disabled persons tend to be constrained physically, thereby limiting their ability to successfully operate their own businesses. However, such people may still invest and profitably benefit from the successful operation of business firms registered on the stock market. The same applies to the ability of old people and children with limited physical ability to run businesses successfully. Once they buy company shares or bonds listed on the market, they are assured of steady earning flows.

Commercial information service

According to Jones (1993: 627), capital markets are efficient if security prices reflect the underlying economic value termed as the fair economic value. This is only possible if capital markets provide continuous information flow so that security prices fully reflect and also provide unbiased estimates of the company's underlying value. Capital markets play a vital role in gathering and disseminating information to their investors and the public at large as potential investors. In addition to providing business related information services, most security exchanges have public education programmes intended to educate the public on issues of critical importance to the whole community at large.

Unlocking value or exit door

Founding shareholders, sponsors, promoters and venture capitalists use the capital markets to exit their investments with the aim of making a return on the initial investment, or to realise the true valuation of their enterprise. This would be very difficult without such a transparent and flexible mechanism as presented by the capital market.

Advertising and promoting business firms

Last but not least, the stock market advertises and promotes listed companies' products or services within and outside the country. For instance, since Stanbic was cross-listed on the NSE and USE, the company has become a common business term in the business community within the EAC region. The same applies to Centum Investment Company, a Kenya-based private equity firm, which gained popularity in Uganda after being cross-listed on the USE.

RECOMMENDATIONS AND CONCLUSION

From this analysis, it is evidently clear that stock markets are very important engines of growth. Governments should revitalise the markets through their programme of divestiture to boost business in the capital market. The state of the market depends on, and at the same time is a reflection of the dynamics of the economy within which it operates.

In addition, governments should continue to play their dominant role of providing policy and tax incentives that will attract privately owned companies to list their shares and raise capital from the stock exchanges. It is only when that the market plays its resource mobilisation role effectively and efficiently that it helps to move the economies in question forward.

Where a market is still in its infancy, like the Rwanda Over The Counter (ROTC) market, the concerned government should be at the forefront of pioneering into this novel venture. The government needs to play an active role in the business of the market. For instance, privatisation of state enterprises which could be conducted through the stock exchanges not only stimulates investments by creating new opportunities for both local and foreign investors but is also viewed as a vehicle for fast entry into the local market, especially by foreigners.

Governments and policy-makers should be sensitive to the corresponding need to fight against the poverty of the majority of the population and narrow the gap between the rich and the poor by widening income opportunities for the poor through the stock exchanges. Foreign investments should be made to share ownership and profitability with locals by encouraging those companies to go public on the local and regional stock exchanges. Just as what is done to encourage a percentage of local component in the production resources or inputs of foreign investments by some countries, concerned governments should likewise put a mechanism in place for the nationals to directly own stake in those large and profitable companies belonging to foreigners. This does not only boost the stock exchanges but also helps the locals to enjoy the returns thereof, while spreading the economic and social development impact of the market.

Through the stock exchanges, governments should help forge a cordial working relationship between foreign investors and the locals so that that they do not regard each other with suspicion. Foreign investors can complement governments' efforts to fight against poverty while minimising the negative impact of wide income gaps and income inequality experienced in many developing economies.

The stock exchanges and their regulatory bodies, for instance the Capital Market Authority (CMA) for RSE, CMA for USE and CMA for NSE, should conduct more public awareness programmes. They should embark on an aggressive promotion of the exchange's activities by targeting those stable and promising business entities and individuals across all sectors of the economy to secure new players and widen the stakeholder base within the market. To attract the young savers, they should open up stock exchange corners in all libraries of both public and private higher learning institutions as centres of capital markets information dissemination.

Additionally, privately owned businesses and individual members within the business and the community at large are encouraged to visit the various counters and sources of information to get to know what the stock markets have in stock for them as far as managing their finances and investments is concerned. As elaborated elsewhere in this text, there are numerous benefits accrued to a cross-section of people in the community once they do business with the stock exchanges. It is an investment ground for all.

Therefore, continued efforts to vitalise the markets are still needed to enable the economies in the EAC region to reap the full potential the stock exchanges can offer in the development process of the region and the world economy at large. Stock exchanges augment low domestic savings and serve to stimulate investments in the country, hence creating more employment opportunities while help minimising income gaps.

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ENABLING PERFORMANCE MEASURES FOR AN EFFECTIVE AND EFFICIENT PUBLIC SERVICE DELIVERY: THE CASE OF SOUTH AFRICA'S LOCAL SPHERE OF GOVERNMENT

Z. Ndevu[1]

ABSTRACT

Public service delivery has become the catch phrase for South African local government, especially with the country-wide waves of service delivery protests and adverse audit opinions. The paper examines the performance measurement system used by the South Africa government to measure the effectiveness and efficiency of public service delivery in the local sphere of governance. It contains an analysis of selected literature on performance measurement in the public sector to identify and analyse the factors that have shaped the South African local government performance measurement system. The adoption of a more systematic approach that will facilitate the work of local government and thus enhance effective and efficient public service delivery is proposed. The case is made for the development of a performance measurement framework and indicators for public service delivery in South Africa's local sphere of government.

Keywords: Performance measurement; performance indicators; balanced scorecard; service delivery protests; effectiveness and efficiency.

INTRODUCTION

In recent years, management techniques from the private sector have penetrated deep into public sector organisations such as hospitals, universities and schools. The means holding someone accountable is the domain of what Roberts (2002: 659) calls performance-based accountability, which, in turn, requires the specification of outputs and outcomes in order to measure results and link them to goals that have been set. The three spheres of government in South Africa are no exception to this trend. The South African local government is required to formulate performance indicators for "the key" public service delivery activities entrusted to them by the Constitution (RSA, 1996) to measure its performance and to review its work in the context of effectiveness and efficiency.

Prominent scholars on performance measurement trace the interest in performance measurement theory back to the writings of Woodrow Wilson in the latter part of the 19th century, when he argued that the increase in corruption and patronage in government can only be reduced through professionalisation. This, in turn, will lead to efficient governance when the emphasis is on procedure and measurement techniques to identify and increase the productivity of workers (De Lancer Julnes, 2006: 220). Therefore, we see that early performance improvement efforts such as planning budgeting systems, management by objectives and zero-based budgeting, amongst others, had measurement at their core.

In the public sector, the vast majority of literature is focused on performance measurement as a tool to assess performance and to demonstrate accountability through performance reporting of

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programme activities. There is a wide range of application that has been reported in the literature, including its use in measuring performance in health care delivery such as waiting times, measuring the level of citizen satisfaction of services provided by government, the effectiveness and efficiency of programmes such as education, and other services at local government level such as water and sanitation provision (Sanger, 2008).

According to Goh (2012: 31), performance measurement has become the focus of government in addressing the issues of accountability and transparency. The view is that performance measurement is a tool that can be used to encourage better performance in the public sector through the setting of targets and performance indicators. Fenwick (1995: 106) is of the view that performance measurement includes measuring achievement goals and standards.

Hatry, Fountain and Sullivan (1990:v) suggest that the purpose of performance measurement is setting goals and objectives, planning programme activities to achieve these goals, allocating resources to these programmes, monitoring and evaluating the results to determine whether they are making progress in achieving the established goals and objectives, and modifying programme plans to enhance performance.

In support of the above-mentioned argument, Kravchuck and Schack (1996: 348) point out that performance measurement purpose includes planning, evaluation, organisational learning, improvement efforts, decision-making, resource allocation, control and accountability in the process of achieving set goals.

Wholey and Newcomer (1997: 92) are of view that the current focus on performance measurement at all levels of government and in non-governmental organisations (NGOs) reflects citizens' demands for evidence of public service delivery effectiveness and efficiency. It is further argued that performance measurement may be done annually to improve public accountability and policy decision-making; alternatively, it should be done more frequently to improve management and public service delivery effectiveness.

Osborne and Plastrik (2000: 247) maintain that performance measurement enables officials to hold an organisation accountable, helping to improve performance and to introduce consequences for performance. They further point out that it helps citizens and customers to judge the value of public service that government provides to its citizens.

In this paper, we examine the performance measurement system being used in local government in South Africa and propose an alternative framework. The system provides a tool to assess the effectiveness and efficiency of public service delivery programmes in local government.

The research questions which flow from the purpose of the paper are: To what extent are performance measurement systems used in South African local government? What factors have contributed to the use of performance measurement? And to what extent are non-financial indicators used?

BACKGROUND

The adoption of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) heralded a new phase in the South African local government process. In terms of section 40 (1) of the Constitution, government is constituted as national, provincial and local spheres, which are distinctive, interdependent and interrelated. This establishes local government as a distinctive sphere with a mandate to govern, to provide services, and to promote social and economic development.

The organisational structure of local government is prescribed in the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) and specifically in section 51 which provides that "…a local authority must, within its administrative and financial capacity, establish and organise its administration in a manner that would enable it to be responsive to the needs of local community; facilitate a culture of public service delivery and accountability amongst its employees; be performance orientated and focus on local government mandate; and perform its functions through operationally effective and appropriate administrative units".

The Constitution gives a mandate to local government to provide democratic and accountable government for all communities; to ensure the provision of services to communities in a sustainable manner; to promote social and economic development; and to promote a safe and healthy environment.

The mandate for local government is also contained in the preamble to the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) as follows:

"A vision of democratic and developmental local government in which municipalities fulfil their constitutional obligations to ensure sustainable, effective and efficient municipal services, promote social and economic development, encourage a safe and healthy environment by working with communities in creating environments and human settlements in which all our people can lead uplifted and dignified lives".

Van der Waldt (2006) asserts that local government is at the coalface of public service delivery. This view is also articulated by Thornhill (2008:492) who states that local government is often the first point of contact between an individual and a government institution. The local sphere is often referred to as grass-roots government because of its direct association with communities at a local level.

Local government could be described as public organisations being authorised to manage and govern the affairs of a given territory or area of jurisdiction. It is also important to note that local government refers to a sphere of government, and not an individual municipality. All the individual municipalities in South Africa make up the collective sphere known as local government (Roux, 2005:64).

Since it is the government closest to the people, it is to be expected that a core function of municipalities is the rendering of a variety of basic but essential services to the community within its jurisdiction (Roux, 2005:69). The provision of services by municipalities is a Constitutional obligation. Part B of Schedule 5 of the Constitution, concerning functions falling concurrently within the national and provincial competence constituent units, identifies the following services that fall within the ambit of local government and its municipalities. These are water; electricity; town and city planning; road and storm water drainage; waste management; emergency services, for example, fire-fighting; licenses; fresh produce market; parks and recreation; security; libraries; and economic planning.

Part B of Schedule 4 of the Constitution as functions within the exclusive domain of provincial government further identifies the following matters that are also the responsibility of municipalities: air pollution, building regulations, child care facilities, electricity and gas reticulation, local tourism, municipal airports, municipal planning, municipal health services, municipal public transport and municipal public works.

The White Paper on Local Government asserts that "…provision of basic services enhance[s] the quality of life of citizens and increase[s] their social and economic opportunities by promoting health and safety, facilitating access to work, education, and recreation, and stimulating new productive activities" (RSA, 1998:92).

Mogale (2003:229) states that in order to assist municipalities to meet developmental requirements and speed up service delivery to the poor, extensive resource acquisition in terms of funding, human resources, and most importantly, the adoption of key and enabling legislative measures became essential to realise developmental local government objectives, such as the

Local Government: Municipal Finance Management Act, 2003 with a view to ensuring sound financial management within the local sphere of government.

Increasingly, the South African government has devoted much attention and many resources to the local sphere of government in order to ensure its efficient and effective public service delivery in line with Constitutional imperatives. In recent history, the government put efforts into the design and implementation of programmes such as Project Consolidate, the five-year Strategic Local Government Programme Agenda and the Local Government Turnaround Strategy intended to address past and present inequalities, particularly in the area of public service delivery.

Project Consolidate was a project designed to address the under-performance of local government. At its launch it was presented as a mechanism aimed at injecting new life into local government to address public service delivery challenges. Its focus included the deployment of service delivery facilitators (experts) in local government to enhance and reinforce public service delivery. The intervention was aimed at promoting a culture of accountability, performance monitoring, and evaluation in local government.

Subsequently, the Department of Cooperative Governance and Traditional Affairs (COGTA) developed a Five-Year Strategic Local Government Agenda programme of action with a view to further consolidating local government hands-on support, governance and institutional development. The strategy applied a “one-size-fits-all” approach to restore good performance and effective public service delivery. Both these interventions failed to focus on the root causes of local government distress which is the lack of an efficient and effective performance measurement instrument.

The Local Government Turnaround Strategy is an intervention with a strong emphasis on improving performance, monitoring, governance, and accountability. The main purpose is to ensure that local government embarks on a concentrated effort to deal with the issues undermining local government and to restore good performance and effective public service delivery.

The Department of Cooperative Governance and Traditional Affairs in their Municipal Planning and Performance Management Regulations of 2001 and the Turnaround Strategy identified the following types of indicators to measure public service delivery in local government (RSA, 2001; COGTA, 2009):

- Input indicators are typically cost-related. They are relevant to the day-to-day operations of a municipality;
- Process indicators describe how well municipalities use their resources in producing services. The process covers the activities and operations that convert inputs into outputs. It is essentially an internal type of indicator that is relevant to a specific municipality;
- Output indicators refer to products produced by processing inputs. Output indicators should only be used for those functions for which the local government is directly responsible; and
- Outcome indicators measure the extent to which goals and objectives are being met. Outcomes are based on the results of different variables acting together (RSA, 2001; RSA, 2009).

Midwinter in Johnsen (2005: 10) argues that performance indicators should be incorporated into a measurement system that is theory-driven through government policies and not only merely data-driven. Midwinter developed a performance model, which is also called an input-output model that should guide the conceptualisation and development of the performance measurement system. The model is used to simplify complex performance phenomena concerning the relationship between stakeholders, policies and objectives, inputs, processes and outputs.

Efficiency is the relation between outputs and inputs; effectiveness is the relation between outcomes and inputs; and equity is the distribution of outcomes across different individuals and groups in relation to inputs over all services. Stakeholders influence the policy direction and objectives (Midwinter in Johnsen, 2005: 10).

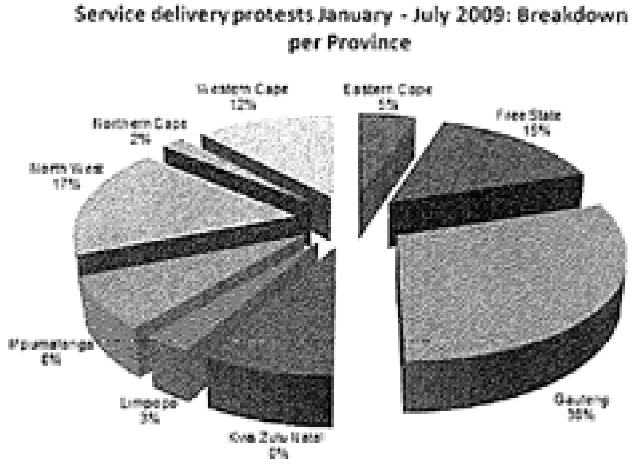
Whilst the above support programmes have assisted in addressing some of the challenges, it is clear that a number of public service delivery problems still exist in local government. Those that are still consistently at the forefront of local government challenges are the following:

- Huge public service delivery backlogs i.e. housing, provision of clean drinking water and proper sanitation;
- An increase in the number of violent public service delivery protests; and
- Poor accountability relationship with communities (COGTA 2009).

The democratisation of the local sphere so well-envisioned in the White Paper on Local Government, of 1998 is now fraught with community frustration over poor institutionalisation of systems, poor service delivery and poor political governance. A culture of patronage and nepotism is now so widespread in many municipalities that the formal municipal accountability system is ineffective and inaccessible to many citizens.

There is now a lack of citizen confidence and trust in the system. This has been publicly evidenced in the spate of community protests as illustrated in figure 1, which may be seen as a symptom of the alienation of citizens from local government. According to COGTA (2009), a lack of effective complaints management and no coherent systems in place to measure service delivery or the quality of client interface are some of the reasons underlying protest action.

Figure 1: Public Service Delivery Protests in January-July 2009



Source: Adapted from COGTA (2009)

The increasing number of public service delivery protests that continue to engulf local government necessitates more attention and concentrated efforts to be directed to this sphere of government on the part of all stakeholders involved.

In trying to deal with local government challenges, Raga and Taylor (2005: 24) propose in table 1 a normative criteria for effective and efficient public service delivery based on values, attitudes and aptitudes that can be measured. They further argue that the criteria should constitute a point of departure for the implementation and maintenance of acceptable, effective and efficient public service delivery.

The findings of the Community Survey in 2007 highlighted the following findings: While there is improvement in public service delivery, there are still a number of challenges that exist in certain areas of service provision, including access to water and sanitation. In terms of the Community Survey Report, pit latrines are most common in Limpopo (64.5 per cent) and least common in the Western Cape (0.8 per cent). Bucket toilets are mostly used in the Free State (12.7 per cent), Northern Cape (4.4 per cent), and North West (4.2 per cent). The national average is 2.2 per cent. There are only 36 municipalities country-wide that do not have a sanitation backlog (Report on the State of Local Government in South Africa 2009). Access to piped water within 200m of a household increased from 72.1 per cent to 74.4 per cent in 2007. Equally, Limpopo, Eastern Cape and Kwazulu-Natal provinces recorded the lowest percentages of access to piped water below the national average of 74.4 per cent (Community Survey Report, 2007).

Table 1: Normative criteria for effective and efficient public service delivery

Values	**Attitudes**	**Aptitudes**
Integrity	Transparency	Knowledge
Transparency	Responsibility	Acceptance and comprehension of goals and functioning of administrative institutions
Publicity	Quality awareness	Leadership qualities
Accountability	Legibility	Communication skills
Equity	Clarity	Social skills
Non-discrimination	Simplicity	Independence
Quality	Inquisitiveness	Ability to use experience
Professionalism	Adaptability	Ability to further education and training
Reliability	Listening ability	Analytical capability
General interest	Involvement	Sense of renewal
	Speed	
	Effectiveness	
	Efficiency	

Source: Adapted from Raga & Taylor (2005: 25)

A review study by Van Niekerk (2012: 54-69) focusing on the challenges, constraints and benefits of the Local Government Turnaround Strategy found that in order to address public service delivery constraints, each individual municipality needs to develop its own turnaround strategy that speaks to the local needs.

The performance of local government in South Africa has thus far clearly demonstrated huge deficiencies in the fulfilment of both the Constitutional and legislative obligations. It is against this backdrop that the paper examines performance measurement systems used in local government.

Despite the above efforts being made to address public service delivery at local government level, concerns have been raised about the effectiveness and efficiency of services provision.

Few people would disagree with the proposition that local government has a responsibility to provide services to its people. The issue is not what services should be provided or what standard of service is acceptable, but rather what mechanisms and performance measures should best be used in providing those services.

Method

An analysis of selected literature on performance measurement in the public sector is done to identify and analyse the factors that would shape the South African local government performance measurement system.

The balanced scorecard approach

In the last decade there has been a paradigm shift in the public sector towards more accountability and the adoption of the new public management which is more closely aligned with private sector management systems (Sharma & Gadenne, 2011: 167).

The above has precipitated the adoption of a more sophisticated performance management and control system such as the balanced scorecard (BSC).

The balanced scorecard (BSC) was originally developed for the private sector by Kaplan and Norton (1992: 75). They argue that financial indicators alone are not sufficient to measure performance in managing an organisation. Senior management needs various kinds of information about the goods and services that the organisation offers (such as quantity, quality, market, consumers, suppliers, competition, and technology) as inputs for decision-making and strategic planning (Kaplan & Norton, 1992: 75).

It became apparent that managers need a balanced presentation of both financial and non-financial measures so that they are able to view the organisation's performance simultaneously across several areas or perspectives. Kaplan and Norton (1992: 77) propose four different perspectives:

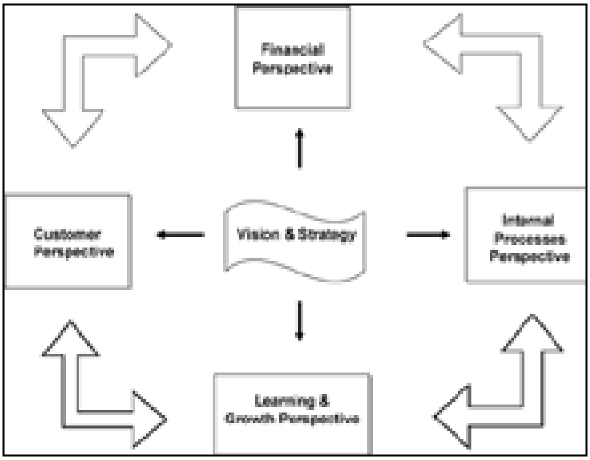
- The financial perspectives;
- The internal processes perspectives;
- The innovation and learning perspective; and
- The consumer perspective (Kaplan & Norton, 1992: 77; Braam & Nijssen, 2004: 335; Thompson & Mathys, 2008: 378, Sharma & Gadenne, 2011: 169).

The above-mentioned perspectives are designed to capture the organisation's desired business strategy and to include drivers of performance in all areas that are viewed as important to an organisation. Kaplan and Norton further assert that since the BSC focuses on both non-financial and financial measures that drive the future financial performance of an organisation, it can be considered as more effective than previous approaches to strategic performance management which focused on financial measures only (Kaplan & Norton, 2001: 94).

According to Mills, Dye and Mills (2009:104), the term perspectives should be understood as meaning two sometimes conflicting factors. On the one hand, the term refers to interests of the core stakeholders such as the community in the public sector context (consumers), the finance/treasury department (financial) and, to a lesser extent, policy and processes (internal) and employees (learning and growth).

In addition to the above, the term also refers to elements of an overall strategy that consist of a focus on service delivery, customer needs and requirements, operational factors that are important to the achievement of the organisational strategic objectives and vision, and employee competencies, potential, expectations and satisfaction (learning/growth). These perspectives form a framework for developing measures of required performance that arise out of the organisational strategic direction and vision as illustrated in figure 2 (Mills *et al*, 2009:104).

Figure 2: Balance Scorecard Perspective



Source: Adapted from Kaplan & Norton (1992: 74); Robbins & Barnwell (2006: 92); Thompson & Mathys (2008: 379)

According to Epstein and Manzoni (1998:193), the concept of the BSC grew out of the realisation that no single performance indicator can capture the full complexity of an organisation's performance. For example, financial indicators are typically considered to be lagging indicators of performance because they record the effects of decisions: not when the decisions are made but rather as the financial impact of these decisions materialise (Epstein & Manzoni, 1998:193). As a result they tend to be less proactive indicators of potential problems than non-financial indicators.

To achieve best practice in the use of BSC in public sector organisations, Kaplan and Norton (2001: 101) emphasise the importance of both good design and effective implementation. In relation to good design they outline the steps in both planning and development phases which include developing objectives for the BSC, determining the appropriate organisational unit, developing and confirming the mission, values and strategy, developing objectives and measures, and establishing targets for each measure (Kaplan & Norton, 2001: 101).

In relation to effective implementation Sharma and Gadenne (2011: 172) suggest that cascading of strategy, linking the BSC to targets and maintaining BSC through constant review is critical. Niven (2003: 69) suggests that the implementation of the BSC system should include a performance measurement framework to move from being a deciding and implementing tool to incorporating a measuring component.

Many of the strategies articulated in the public sector consist of lists of programmes and initiatives rather than outcomes that the organisation is attempting to achieve (Niven, 2003: 69). It is important to recognise that public sector organisations require different strategies than their counterparts in the private sector as their main purpose is to satisfy the needs of their communities rather than focus on financial outcomes, which is the case in the private sector.

In the above context, Sharma and Gadenne (2011: 172) advocate for a modified BSC framework where the mission of a public organisation is featured at the highest level of the scorecard underpinned by the following three high-level perspectives:

- Costs of providing services (including social costs);
- Value/benefit of the service (effective internal processes); and
- Support of legitimising authorities (legislature and voters/ taxpayers) (Sharma & Gadenne, 2011: 172).

Designing a performance measurement system

Neely, Gregory and Platts (1995: 81) define a performance measurement system as a set of metrics used to quantify both the effectiveness and efficiency of actions. An effective performance measurement system enables an organisation to assess whether goals are being achieved and facilitates the improvement of the organisation as a whole.

The adoption phase represents the first step in designing the use of performance measures. Poister and Streib (2005) stress the fact that numerous stakeholders such as legislative bodies, public representatives and voters are interested in the use of performance measurements. The government's objective is to secure the best use of public funds for taxpayers and ensure the provision of quality services for users, as well as transparency and accountability to citizens.

Given the complexity of objectives, it is important for government and public organisations to ensure that in the adoption phase there is a multi-dimensional understanding of performance measurement. De Lancer Julnes (2009) identifies the main features of performance measurements as the input, output, outcomes, and efficiency measures. The efficiency measures are intended as the relationship between the amount of input and output. The output refers to the services and products provided while outcomes refer to the results of effects derived from programme implementation.

Developing and implementing an effective performance measurement system is an integral part of improved performance in the public sector. The importance of implementing performance measures is stressed by Nathan (2009) who sets the use of performance measurement in a view of explicit improvement. Such an approach requires the systematic integration of performance information in decision-making regarding public policies and strategic directions, planning activities, the allocation of resources, and organisational management.

Sole and Schiuma (2010: 72) argue that the use of information goes beyond the mere collection and presentation of performance data: it involves an analysis aimed at identifying factors that impact the level of performance achieved, as well as the problems and actions to overcome them with a continuous improvement perspective.

According to Goh (2012: 34), a key element that has been raised by many researchers is the issue of stakeholder involvement in the process of designing a performance measurement system. Stakeholders can be broadly defined as participants who are part of the performance measurement system, including those responsible for developing and gathering performance measures, and potential users of the information such as politicians and public sector officials who are held accountable for the performance of the organisation.

A study by Yang (2008) found that stakeholder participation in the development of a performance measurement system is directly and positively related to honest performance reporting. It is argued from the results of the study that stakeholder participation that includes employees enhances transparency in performance reporting.

Radnor and McGruire (2004) also conclude that when performance measurement is implemented solely as an administrative operational activity, managers become mere administrators of the process and fail to see it as a performance improvement tool. They argue that the people element is important and that those employees involved in developing a performance measurement system should not only be trained to understand the impact of performance measurement but that they should also be involved in creating and managing the performance measurement system. They suggest that only by involving stakeholders such as employees in the development process will performance measurement systems become a tool for improvement.

Lastly, a study by Folz, Abdelrazek and Chung (2009) in which they surveyed chief executives of mid-sized cities in the United States on the adoption, use and impacts of performance measures produced the following interesting findings:

While most chief executives thought that performance measures met or exceeded their expectations, several factors helped to explain why the use of performance measures fell short of leaders' expectations. The single most important factor that helped explain the gap between expectations and actual experience was the extent of the buy-in and commitment to performance measurement by line managers and administrators (Folz *et al* 2009: 63).

These findings underscore the importance of engaging these key stakeholders in local decisions about what performance measures to use, how information will be used to inform various types of services, and programme decisions.

Results

In line with the background and literature reviewed, a performance measurement model describing relationships between effectiveness and efficiency for local government in South Africa is proposed. While the overarching structure of the framework is somewhat similar to Johnsen's performance model structure as illustrated in figure 3, stakeholders, policies and objectives, input, processes, outputs and outcomes are different. These differences reflect the contextual differences and unique challenges of the South African local government as discussed earlier.

Stakeholders

This implies that local government is committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives. Representative local government is complemented by the right of communities to participate in the decisions that affect development in their areas, and a corresponding obligation on the part of municipalities to encourage community participation in matters of local governance. The Constitution provides the mechanisms for public participation, which include ward committees and a variety of other measures designed to foster open, transparent and consultative municipal government. Stakeholders' involvement indicators should include the establishment of ward committees and regular meetings between the community and local government and the provision of reports at least twice a year.

Policies and objectives

The objectives, policy and legislative requirements affecting local governance are primarily contained in the Constitution, the Local Government White Paper, the Local Government Municipal Demarcation Act, the Local Government Municipal Structures Act, the Local Government Municipal Systems Act, the Disaster Management Act, the Local Government Municipal Finance Management Act, and the Local Government Municipal Property Rates Act. The amounts for Intergovernmental Fiscal Transfers are published yearly in the Division of Revenue Act. Indicators include compliance with prescriptions and requirements.

Inputs

Inputs are resources that need to be used to produce outputs. These may include the budget, personnel, materials, and other resources needed. Input indicators are typically cost-related. They are relevant to the day- to-day operations of a local government.

Processes and outputs

Outputs are the final service or products delivered that we hope will lead to a desired outcome. Process indicators describe how well local government uses its resources in producing services. The process covers the activities and operations that convert inputs into outputs. It is essentially an internal type of indicator that is relevant to a specific municipality. Output indicators refer to products produced by processing inputs. Output indicators should only be used for those functions for which the local government is directly responsible.

Outcomes

Outcomes are the consequences of outputs and are often more complex to measure. In most instances there are intermediate outcomes that need to be achieved before the actual results. Outcome indicators measure the extent to which goals and objectives are being met.

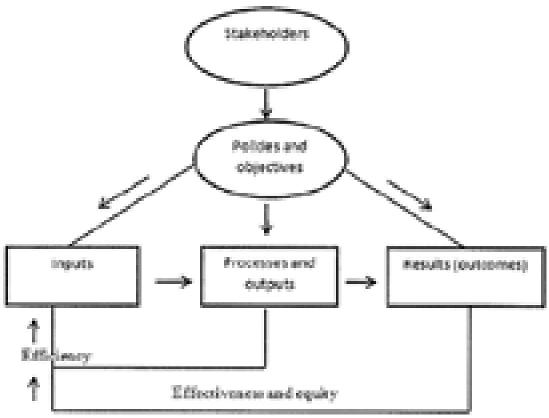
Efficiency

Efficiency describes how an organisation uses resources in producing services i.e. the relationship between the actual and optimal combination of inputs used (process) to produce outputs.

Effectiveness

Effectiveness is the degree to which a system achieves its programme and policy objectives. Effectiveness encompasses a number of different desired aspects of service linked to programme outcome objectives. These are (i) appropriateness (matching service to client needs); (ii) accessibility (aspects such as affordability, representation amongst priority groups, and physical accessibility); and (iii) quality (the process of meeting required public service delivery standards).

Figure 3: A performance model.



Source: Adapted from Johnsen (2005: 10)

Reflection and conclusions

South African local government cannot afford to invariably perform poorly as evidenced in the paper as that could ultimately affect public confidence and the trust of local communities. The Constitutional mandate for local government primarily requires that public service delivery to local communities should be provided in a sustainable manner. In order to fulfil this Constitutional obligation, local government should ensure that institutional capacity is strengthened, systems and structures are firmly put in place, and resources are allocated to deliver public services effectively and efficiently.

The adaptation of an efficient and effective performance measurement framework in local government will strengthen public service delivery.

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LEADERSHIP CRISIS IN AFRICA: CONTEXTUALISING AFRICAN LEADERS' AVARICE REGARDING POWER

B. Mngomezulu[1]

ABSTRACT

After many years of struggle, African peoples obtained political independence from their colonial masters. This brought optimism about the continent's future. However, many African leaders once they had tasted power were reluctant to relinquish it and did all they could to remain in office. A new crop of African leaders vowed to stop this practice, but did the same thing once they came to power. This article contextualises African leaders' avarice regarding power by discussing both exogenous and endogenous factors that have sustained this detrimental practice to date.

Keywords: Power; Leadership; Colonialism; Independence.

INTRODUCTION

Pre-colonial African states like Ghana, Mali, Songhai, Great Zimbabwe and Buganda thrived before the advent of colonialism (Njoh, 2006; Hanson, 2003; Young, 2001; Hull, 1976; Reader, 1997). The end of colonial rule during the 1960s and 1970s brought optimism that the African peoples would regain their dignity and that Africa was on a fresh course. Sadly, the new incumbent presidents became avaricious regarding power. Instead of dismantling colonial institutions and practices, they protected and consolidated them for their own egoistical ends.

Initially, the African peoples were tolerant of these practices and rejoiced that their black leaders – most of whom had fought relentlessly against colonial rule – were now enjoying the luxury previously perceived to be the prerogative of white masters. In their view, this was a deserved reward. However, as these black leaders settled into their new positions, they were against relinquishing power to anyone else, neither black nor white. This was a big disappointment to the people who had supported them all along. As the latter mobilized to oust their once revered leaders, the incumbents became ruthless and made indefatigable attempts to remain in office. This cast a spell on the African continent. The introduction of one-party states, the promotion of ethnicity and nepotism – coupled with maladministration and inexperience – triggered more political violence. In response, the incumbent leaders resorted to brute force to address the situation and consolidate their positions. The question is why African leaders became so obsessed with remaining in power.

The primary aim of the article is to addresses this question by providing the political context in which African leaders resolved to rather die in office than relinquish political power. The most worrisome factor is that this obsession with remaining in power continues despite attempts by the African Union (AU) and the Economic Commission for Africa (ECA) to promote good governance in Africa by investing financial resources (ECA, 2004; ECA, 2005). But the first and second generation of African leaders had different reasons for clinging to power. These are addressed separately below.

The first generation of African leaders

The Gold Coast's independence in 1957 marked a watershed in the history of the African continent. African leaders derived inspiration from this episode and pressed for their own political independence. Consequently, a number of African countries rid themselves of colonial

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rule in the early to mid-1960s. In East Africa, the Tanganyika African National Union (TANU) took a vanguard position and lead Tanganyika into self-rule in 1960 and full independence a year later. Uganda followed suit in 1962 and then Kenya and Zanzibar achieved their independence in 1963. Other countries like Angola and Mozambique achieved independence in the mid-1970s. Zimbabwe joined suit in 1980 under Robert Mugabe. The independence of these and many other African countries marked a new epoch in African history; for the first time since the scramble for Africa began in 1885, Africans ruled fellow Africans.

But 'president for life' – possibly the most odious coinage of African independence – entrenched the rule of the newly elected presidents, who competed with traditional rulers whom they viewed as colonial stooges and relics of a conservative past (Russell, 1999; Cooper, 2002). Some of Africa's first leaders, who had taken over from colonial rulers, set the wrong precedent by holding onto power as though they were monarchs. In 1958, Dr. Hastings Kamuzu Banda returned to Malawi after spending 40 years abroad and led the Nyasaland African Congress (NAC). The Congress was banned in 1959 and Banda was imprisoned. When he was released in 1960, he led the Malawi Congress Party (MCP) and became Prime Minister in 1964. With the adoption of a republican constitution in 1966, Banda became Malawi's first black president, and "in 1971 this was altered to president for life" (Wiseman, 1991:25). President Banda ensured that most of the government portfolios were entrusted to him. Even when he became too old to rule, he refused to relinquish power. Banda was "Africa's first but sadly not last president for life" (Russell, 1999:41). Other African leaders continue to replicate this practice.

The leaders who emerged as presidents had been leaders of the liberation struggle, which created problems. Those who had fought beside them in the 'bush' (jungle, outback) envied their success and became critical of how they were running the newly independent country. At times they neglected to give them the respect they deserved as heads of states. In contrast, others revered their new leaders and tolerated their actions. They believed it was justifiable that they should remain in power for longer than the stipulated term of office, since they had led the struggle to oust the colonial administrators and therefore had to be rewarded for their efforts. Each of these trajectories is expounded on below.

Opposition to the incumbent president

When African leaders embarked on the liberation struggle against colonial rule they did not agree on the strategies they would use to rid themselves of the colonialists (*Sowetan*, 31 May 2007). Consequently, there was more than one liberation movement in each country. For example, in Kenya there was the Kenya African National Union (KANU) dominated by the Kikuyu ethnic group, and the Kenya African Democratic Union (KADU) that drew support mainly from other ethnic groups. In Mozambique there was the Mozambique National Resistance Movement (RENAMO) and the Front for the Liberation of Mozambique (FRELIMO), and in Zimbabwe there was the Zimbabwe African National Union (ZANU) and the Zimbabwe African People's Union (ZAPU). In South Africa, the African National Congress (ANC) had been the only liberation movement since 1912, but in 1959 the Pan Africanist Congress (PAC) was formed by a group of disgruntled ANC members whose views diverged from the party's concerning the inclusion of non-blacks in the liberation movement.

In many African countries when independence was achieved the leaders of the various liberation movements saw themselves as the custodians of the newly independent state. Those who failed to realize their ambitions made life difficult for the new incumbents. On many occasions they returned to the bush and started waging a new war against their former comrades in arms. This culminated in a number of coups in countries such as Zaire (1961 and 1965), Ghana (1966) and Nigeria (1966). There were also failed coups in Tanzania (1964), Kenya (1982) and Zambia (1988). Although South Africa achieved democracy in 1994, inter- and intra-party conflicts claimed the lives of thousands of people in what was commonly dubbed 'black-on-black violence'. Similarly, when the ANC-led Government of National Unity (GNU) was formed, conservative Afrikaners formed the *Boeremag* and planned to topple the government.

Other African countries witnessed prolonged civil wars. This was the case in Angola where Jonas Savimbi, leader of the National Union for the Total Independence of Angola (UNITA), dedicated his life to the fight against the popular Movement for the Liberation of Angola (MPLA) until his death on 22 February 2002. Mozambique and the Democratic Republic of Congo (DRC) went through a similar experience and the results were disastrous. In Zimbabwe, Joshua Nkomo challenged Mugabe. The fall-out between the two resulted in the ruthless killing of about 20 000 people from Matabeleland (Nkomo's support base) by a predominantly Shona military force. The senate of Edinburgh University revoked an honorary degree awarded to Mugabe by the university in 1984, arguing that it was not aware of the atrocities committed by his army when it conferred the degree on him (*Pretoria News*, 7 June 2007).

To a large extent, all these developments unwittingly contributed to the 'president for life' phenomenon. Incumbent presidents devised ways and means of consolidating their positions. On the one hand they became more dictatorial and crushed any opposition ruthlessly. This was the case in the Congo where Prime Minister Patrice Lumumba was brutally assassinated in 1961 because he was a critic of the incumbent president, Joseph Kasavubu. In Uganda, when Milton Obote felt that his position was under threat from the Kabaka of Buganda, he waged war against him in 1966. The Kabaka claimed the autonomy of his kingdom, arguing that it was legitimised by the Buganda Agreement of 1900, which he signed with the British (Low, 1971). Idi Amin Dada was even more ruthless when he took over power after ousting President Obote in 1971. By the time he left office following a successful invasion by Tanzania in 1979, he had killed about 300 000 people (Wiseman, 2004:5). Idi Amin had a habit of conferring preposterous, pompous titles on himself and was viewed as "a figure of fun abroad" (Wiseman 2004:14). However, there was nothing amusing about his rule of the Ugandan people. He will go down in history as "one of the most vilified mass murderers of the twentieth century" (Bater, 2005:8).

Some leaders chose a softer option in their bid to remain in power. They declared their countries one-party states to prevent political opposition. This was a subtle way of defusing the opposition to prolong their stay in office. As discussed later in this article, KANU remained the only party in Kenya for several years before multi-party democracy was adopted in 1992. Even the most popular African leaders toyed with this idea and often implemented it. In 1965 President Nyerere made TANU the only party in Tanzania. Zambian president, Kenneth Kaunda, declared the United National Independence Party (UNIP) the only permitted party in 1972. Sometimes these actions instigated even more violent reaction from the belligerents, as was the case in Kenya. All these tactics were geared primarily towards entrenching the position of the incumbent president who felt threatened by the opposition and was not ready to hand over power to the new claimants.

One reason the incumbent presidents wanted to remain in office was that they firmly believed that the offices they occupied were a reward for their successful struggle to free their nations from colonial oppression. They were determined to enjoy what their white predecessors had enjoyed for decades. It was in this context that when they assumed power they imported expensive cars, clothes, furniture and food to match their elevated social status (Cooper, 2002; Mazrui, 1986; Davidson, 1984) and why they did all they could to remain in office for life. Driven by their own egotism, those with whom they had fought against the colonialists also wanted to reap these fruits of freedom. Unfortunately, those in power felt that the cake was too small to share and resolved to block all other contenders.

Support for the incumbent president

Another reason why the first generation of African leaders remained in office almost indefinitely was because they enjoyed the support of the masses whom they had led to independence. This was partly why President Kaunda was able to rule Zambia for almost three decades. According to Russell (1999:55), "the Zambian leader was, however, one of the few genuinely likeable Big Men" (Russell, 1999:55). He was seen as "a popular democratic leader who was dedicated only to the uplifting of the Zambian people without undue concern for his own position" (Wiseman, 2004:105). Although corruption flourished during President Kaunda's rule, he remained untainted, thus consolidating his popularity. In East Africa, President Nyerere was perceived as a leader about whom it was difficult to have a harsh opinion. He was seen as "the most meaningful and significant leader ever produced in Africa" (van Rensburg, 1981:392). In the case of Zimbabwe, during his early years in office Mugabe could do no wrong among his supporters. So "when the first cases of corruption and incompetence came to light, they were excused: after all this was the man who had ended long years of white rule" (Russell, 1999:292-293). Although this attitude changed later, Zimbabweans revered Mugabe and his administration during the early days of the country's independence.

Sometimes African leaders were more skillful in their *modus operandi*. They delivered on certain promises and argued that the longer they remained in power, the more they would be able to address other needs of the people they were leading. This made the masses believe that their leaders were driven by empathy and altruism to remain in office, not political avarice. Smith (1973:201) captures this meticulously cogitated tactic elegantly with regard to President Nyerere: "At the time of Tanganyika's independence in 1961, Nyerere used to say to friends, if only I can have three years, if I can have just five years'". Indeed, after returning from his voluntary resignation in 1961, President Nyerere remained in office from 1962 until 1985. During the 1965 elections after the merger of Tanganyika and Zanzibar in April 1964 to form Tanzania, he remained the most popular leader among his people. His popularity was such that "the party was not prepared to nominate anyone to oppose him; in all likelihood, no one would have chosen to run against him anyway" (Smith, 1973:151).

President Nyerere was enjoying the fruits of his labour. He had embarked upon the struggle to free his people when he returned from pursuing his studies in Europe. In 1955 he appeared before the United Nations. It was the first time an African had been sent by a territorial political organisation, in this case TANU, to represent his people's hopes to the UN (Melady, 1961:67). When he passed away in 1999 some commentators stated that his death deprived independent Africa of one of its most intelligent, perceptive and determinedly radical leaders. He was "an inspiration not just to Africans but also to people all over the world" (*New Internationalist*, Issue 319, December 1999). Despite the failure of his socio-economic policies, for example, *ujamaa*, President Nyerere remained one of the most popular African leaders even after his death.

It follows from this discussion that some African leaders did not necessarily force themselves onto the people they were leading. Instead, they were loved by them and were perceived as messiahs. A similar situation existed in Swaziland where King Sobhuza II ruled the tiny kingdom from 1968 until his death in 1982. The entrenchment of democracy was not an issue in Swaziland. With a few exceptions, people generally accepted that it was preordained who their leader would be and therefore did not contest being ruled by him indefinitely according to custom. That is why it is still so hard to promote democracy in Swaziland. But presidents, unlike monarchs, cannot remain in office forever because their positions are created following democratic principles, and are not the result of their birth into primordial families.

To summarise, the first generation of African leaders remained in office through force, or through the support of the people they were leading. They were either perceived or perceived themselves as the right people to lead their countries because they had been at the vanguard of the liberation struggle for many years.

The second generation of African leaders

The reasons prompting the second generation of African leaders to want to remain presidents for life are slightly different and can be summarised as follows: the second generation of leaders took over from the first generation under false pretences; they promised to use their position of power to instill democracy in their respective countries; once in office, they created enemies and also indulged in corrupt practices, soon realising that they were protected from possible prosecution by the office they occupied. They resolved to remain presidents for life, or until they were too old to be subjected to prosecution by their successors. As will be discussed below, in Malawi President Banda avoided retribution, claiming that he was too ill to stand trial or act as a witness, and President Bakili Muluzi ruled that all cases against Banda should be dropped (Rake, 2001:154). Frederick Chiluba in Zambia failed to attend court sessions owing to an acute cardiac complication that kept him away from the public eye, but he was not acquitted (*The Citizen*, 29 May 2007; *The Star*, 1 June 2007).

When the aforementioned strategy failed, out-going presidents resorted to hand-picking successors, who would then be indebted to them and thus shield them from any public outrage. On many occasions this move revived ethnic and inter- and intra-party divisions. However, not all African leaders were successful in this regard. Examples from five African countries will illustrate these two inter-related strategies.

Malawi

President Hastings Kamuzu Banda, Malawi's first generation leader, came to power in 1964 and ruled Malawi for the next thirty years. In 1994 he was defeated by President Bakili Muluzi in a democratic election. Having scored 1.4 million votes against Banda's 996,363, Muluzi assumed office in May 2004. Muluzi came to power under false pretences. Before the elections he promised to completely sweep away the legacy of Banda's dictatorship and inculcate a democratic ethos that would take the country forward. Initially he seemed to be doing just that when he closed three prisons notorious for torture during Banda's reign. He also resolved to investigate Banda's business deals and set up a Commission to investigate the death of four prominent politicians who had died in a questionable car accident in 1983. When the Commission reported in 1995, implicating Banda in the deaths of the four politicians, Muluzi put him under house arrest. However, as mentioned above, Muluzi later ruled that all charges brought against Banda be dropped on account of his old age.

President Muluzi tried to convince the electorate that he was determined to put Malawi on a new path. However, as early as 1995, Muluzi was being accused of re-directing funds meant for poverty alleviation to the accounts of individuals in his political party, the United Democratic Front (UDF). This allegation dented his political image and had long-term negative consequences. In fact, Muluzi almost lost the second democratic elections held in 1999 because he was no longer popular among the electorate. After his re-election, the majority of Malawians who were not happy with his victory looked forward to the end of his second and last term in office.

But President Muluzi's loss of popularity left him convinced that he would be hunted down and prosecuted as soon as he left office. To prevent any form of retribution, he started devising survival strategies. His first strategy was to lobby support to change the national constitution so that it would allow him to run for the presidency a third time and dubbed himself the 'political engineer'. However, his strategy failed, since he had already lost his popularity. The fact that he had tried to alter the national constitution to satisfy his personal political ambitions portrayed him as a power monger, not a patriot.

Muluzi reverted to a second plan. He appointed Bingu Wa Mutharika as his preferred successor and told Malawians that he was the ‘economic engineer’. He premised this label on the fact that Bingu Wa Mutharika had obtained a PhD in Economics from America. Muluzi worked on the assumption that if he groomed his protégé and campaigned for him, the latter would be indebted to him and protect him against prosecution once he left office. President Muluzi and President Sam Nujoma of Namibia had saved Bingu Wa Mutharika from possible imprisonment when he was accused of mismanaging funds belonging to the Common Market of Eastern and Southern Africa (COMESA).

Bingu Wa Mutharika won the elections and assumed office on 24 May 2004. Muluzi thought that he would now be free from prosecution for the crimes he had committed while in office. He had been accused of maladministration and embezzlement of state funds. However, Muluzi’s protégé turned against him soon after he assumed power.

Kenya

When Daniel arap Moi was appointed Kenya’s Vice-President in 1967, the Lou and Kikuyu powerbrokers did not see him as a threat. They regarded him as a useful compromise candidate. The death of President Kenyatta on 23 August 1978 paved the way for Moi to lead Kenya as stipulated in the national constitution that stated that should a president die, his deputy would take over until elections could be organized. The Kikuyu “broadly welcomed his succession to the presidency assuming he would be a pliant leader who would do their bidding” (Russell, 1999:72). Moi’s election marked the beginning of the *nyayo* [kiSwahili word for ‘footsteps’] period. Moi pledged to sustain President Kenyatta’s policies, thus confirming that he was the right choice. He was tactful. He consciously decided to maintain a low profile during his first two or three years in office while consolidating his power. Moi continued to govern the country with virtually the same cabinet he had inherited from President Kenyatta. His minor cabinet reshuffle did not reflect any new direction (van Rensburg, 1981:173). He retained Charles Njonjo, an influential Kikuyu, in his cabinet and appointed Mwai Kibaki, another Kikuyu, as his Vice-President. By all accounts, Kenya was experiencing a smooth political transition that was unprecedented.

However, Moi was a Kalenjin. Kenyan politics had been organized around ethnicity since independence. The Kikuyu had benefited from President Kenyatta’s rule (1963-1978). Despite Jaramogi Oginga Odinga being President Kenyatta’s Vice-President, his Luo ethnic group did not benefit because there was a schism between the two leaders and, by extension, between the Luo and the Kikuyu. One of the reasons for this schism was that Odinga had communist inclinations while President Kenyatta was more sympathetic to the West and its capitalist mentality. Therefore, despite the optimism concerning the political transition, the potential for ethnic animosity was ever present.

Once Moi had a ‘grip’ on his new position he demonstrated that it was the turn of the Kalenjin to benefit by gradually replacing the Kikuyu with his trusted tribesmen. The Air Force’s attempted coup in 1982 provoked Moi to act ruthlessly against anyone who seemed to threaten his position. He subsequently surrounded himself with only those he trusted. In 1983 he pushed away Charles Njonjo, who was his Attorney-General, followed by many other Kikuyu. By the early 1990s, “Moi was ringed by a coterie of Kalenjins, many of whom were country peasants trying to get in on every deal, the bigger the better, even when they had no idea of commerce” (Russell, 1999:73). Among Moi’s many confidantes were Nicholas Biwott and Mark Too, both Kalenjin. The majority of Moi’s targeted enemies were from other ethnic groups. They included Dr. Robert Ouko, a prominent and most vocal Luo Minister of Foreign Affairs, who died under mysterious circumstances in 1990 following a violent quarrel with Moi (Rake, 2001; Cohen & Odhiambo, 2004). The list of political activists who were tortured by Moi's security agents at Nyayo House in central Nairobi and in other places around the country during his 24 year reign of terror included Raila Odinga, the son of Oginga Odinga (now Kenya's Prime Minister).

Moi was elected to office for a third term in 1988. To ensure that he remained president for life he resisted multi-party democracy. Moi knew that he had created enemies and could only be safe as long as he remained president. But as local and international pressure mounted, KANU, the ruling party since independence, eventually succumbed and amended the national constitution to allow multi-party democracy. Moi won both the 1992 and 1997 general elections amid cries that the elections were rigged.

When the time came for Moi to leave office after finishing his two terms as a democratically elected leader, he remembered the crimes he had committed while in office. He first attempted to change the national constitution so that it would allow him to run for the presidency a third time. However, opposition parties, most of which were organised along ethnic lines, vowed to scuttle this plan.

Realising that his first plan had failed, Moi implemented his second plan. He tactfully chose Uhuru Kenyatta, President Kenyatta's son, as his preferred candidate. Moi knew that if this plan succeeded the young Kenyatta would protect him against the Kikuyu he had persecuted for many years and against all other ethnic groups who had suffered during his reign. When it became clear that Moi was not going to change his mind, 14 opposition parties formed the National Rainbow Coalition (NARC). They elected Mwai Kibaki to split the Kikuyu vote; a candidate from any other ethnic group would have been unable to win against Uhuru Kenyatta. It was this strategy that saw the latter losing his bid to become president. NARC registered a landslide victory forcing Uhuru Kenyatta to concede defeat even before the tallying of votes was completed. His defeat meant that Moi would leave office uncertain about his future. Like Banda of Malawi, he counted on his age to protect him. The opposition parties were not keen on prosecuting him; getting him out of office was their priority.

What is evident is that after failing to remain in office, Moi played ethnic politics using Uhuru Kenyatta. On the eve of the elections Moi appointed Musalia Mudavathi, a Luhiya, as his Vice-President to win the support of the latter's ethnic group. Mudavathi had never attended a single parliamentary session because KANU lost the 2002 elections. In fact, Mudavathi had not won a seat in his own constituency. Therefore Moi's attempts to remain in power and impose a president who would protect him were in vain.

Nigeria

Nigeria has a long history of military rule. In 1960, Sir Abubakar Tafawa Balewa became the country's first black Prime Minister. He retained this position in 1963 when Dr. Nnamdi Azikiwe from the eastern part of the country became the ceremonial President. But in January 1966 Nigeria experienced its first military coup carried out by mainly Igbo officers. This brought General John Aguiyi Ironsi to power. However, he was in office for less than a year. In July 1966, Northern and Middle Belt military officers carried out a countercoup and Lieutenant Colonel Yakubu Gowon replaced Ironsi. Other military rulers like Generals Buhari (1983-1985), Babangida (1985-1993), Abacha (1993-1998) and Abdusalam (1998-1999) sustained military rule in Nigeria. Olusegun Obasanjo had ruled Nigeria as a military ruler between 1976 and 1979. In 1999 he emerged as the democratically elected president, a position he retained during the 2003 general elections (*Crisis Group Africa Report*, No. 113, 19 July 2006:32-33; Bola & Akinterinwa, 2005; Garba, 1987; Udogu, 2005; Falola, 2005).

The case of Obasanjo is another clear example of how some African leaders cling to power. He had already led Nigeria as a military ruler from 1976 until October 1979 when he handed power over to Shehu Shagari, and for two terms as a democratically elected president. However, in 2005, when he realized that his last term in office was about to come to an end, President Obasanjo started lobbying for support within the People's Democratic Party (PDP) in his bid to change the national constitution so that he could run for the presidency a third time. Two questions emerge. What did President Obasanjo still want to achieve that he was unable to achieve during his two terms in office as a democratically elected president and during his term as a military ruler? Was his decision propelled by national interest or his political greed and fear of what would happen to him once he left office? These are intriguing questions. A true patriot would leave office and remain available should his successor need his advice on specific national issues. One does not have to cling to power to contribute to a country's development, as South Africa's former President Nelson Mandela demonstrated.

When the National Assembly scuttled Obasanjo's third term plan by refusing to amend the national constitution, he took his anger out on all those who opposed him, particularly on state governors and other individuals who wanted to run for different political positions during the 2007 general elections. He used the Economic and Financial Crimes Commission (EFCC) to impose a reign of terror. His main victim was Vice-President Atiku Abubakar, whom he frustrated as much as he could. Had it not been for the Nigerian Supreme Court, Abubakar would have not been allowed to run during the elections.

Seeing that his initial plan had failed, Obasanjo, like Moi and Muluzi, started planning for his exit. He appointed the less popular governor of Katsina State, Alhaji Umaru Musa Yar'adua as his successor. This shocked many Nigerians inside and outside the country. In December 2006 Obasanjo successfully lobbied for a change in the PDP constitution to make him the automatic chairman of the party's influential Board of Trustees (BoT). This decision was premised on the understanding that the BoT has great influence on the government's functioning. When Yar'adua won the presidential election in 2007 it was a huge boost to Obasanjo's political ambitions. Armed with his position as chairman of the BoT and assured of his continued influence in government, Obasanjo used all relevant state institutions to ensure that the inauguration of Yar'adua as the country's next president took place on 29 May 2007 despite protests by opposition parties and trade unions. When he left for his home state (Ogun) on 30 May 2007, former President Obasanjo was satisfied with what he had been able to achieve. Although he was not the president anymore, he retained political power.

Zambia

Zambia is one African country that achieved independence during the first wave of the 1960s. As discussed earlier, Kaunda became the first president when the country achieved independence in 1964. After spending more than 20 years in office, Kaunda found himself under pressure to relinquish power. Frederick Chiluba, a trade unionist, had set his sights on the highest position in the land. One of the strategies Chiluba used, was to question Kaunda's national identity, saying that he was not a Zambian because both his parents were from Malawi. This was meant to discredit Kaunda and dissuade some of the electorate from supporting him. The other strategy was to remind Zambians that Kaunda had been in office for almost three decades and that he had to give other Zambians a chance to lead the nation. Chiluba "saw himself as the first in a new breed of African leaders and was determined to prove to the world that Africans really were starting to take responsibility for their own affairs" (Russell, 1999:56). He worked studiously and was careful with his diction. He promised Zambians a better life under his presidency. Based on these promises, Chiluba won the elections in 1991.

What is important is not that Chiluba defeated Kaunda in a general election; rather it is that in spite of his pre-election promises, after serving two terms Chiluba did not want to relinquish power in 2001. Like the three leaders discussed above, he started lobbying to change the national constitution so that he could again run for the presidency and thus prolong his stay in office. The very person who had vowed to begin a new era in African politics was scheming to remain president beyond his constitutional mandate. What he failed to remember was that he had told the electorate before assuming office in 1991 that it is wrong for a leader to remain president indefinitely. Therefore, Zambians – including members of his own party – could not acquiesce in his plan to change the national constitution to advance an egoistic political agenda, and Chiluba's plan was thwarted.

Realising that his exit from office was inevitable, Chiluba supported Levy Mwanawasa and presented him as the right person to take the country forward. However, the Zambian people had come to see Chiluba as treacherous and cunning. He had made the electorate believe that he ousted Kaunda because he had the interests of the country at heart. He had also pleaded with the electorate to give him a chance to demonstrate what good leadership meant. Yet he allowed his egotism to prevail over his unionism and nationalism.

Levy Mwanawasa's victory was no guarantee that Chiluba would not be prosecuted. Mwanawasa wished to prosecute him for two reasons: the first was to give him an opportunity to clear his name if it was true that he had not committed the economic crimes he was accused of, and the second was to set a precedent and demonstrate to Zambians that Mwanawasa's administration would fight corruption with vigour regardless of who was involved.

On 4 May 2007, in a civil case brought on behalf of the Zambian Attorney General, the High Court in London found Chiluba guilty of stealing £23 million (then more than R315 million) worth of public funds. Chiluba transferred the money to overseas accounts using London-based law firms. The fact that he had once served as a trade union leader and therefore understood the plight of the working class did not deter him. According to Justice Peter Smith, Chiluba earned $100 000 (about R700 000) between 1991 and 2001 when he was in power, yet was able to pay an exclusive Swiss boutique $1.2 million. He also had a global reputation as a smart and expensive dresser, with his monogram on shirts and suits and specially made shoes with high heels (*Pretoria News*, 5 May 2007; *City Press*, 6 May 2007). The judge pointed out that Chiluba stole public funds at a time when the majority of Zambians were struggling to live on one dollar per day and thousands of people could not afford more than one meal a day. When the judge ordered Chiluba to personally return $41 million of the $46 million siphoned from the Zambian treasury during his ten-year rule, he said that the order "bordered on racism" (*Business Day*, 17 May 2007). This response did nothing to protect Chiluba, nor Africa's image.

Zimbabwe

President Mugabe, Zimbabwe's current leader, belongs to the first generation of African leaders. Zimbabwe achieved independence in 1980; more than 27 years later Mugabe is still the president. What is even more puzzling is that he refuses to leave office and allow the younger generation to lead the country.

At 84, what does President Mugabe hope to achieve that he could not have achieved during close to thirty years in office? The economy is failing; food and other prices are increasing, as is unemployment; more and more Zimbabweans are leaving the country to look for a better life elsewhere, particularly in South Africa (*Pretoria News*, 18 May 2007; *Beeld*, 18 may 2007; *The Citizen*, 21 May 2007). With all these negative outcomes, one would expect the president to willingly relinquish power and enjoy the remainder of his life in peace. However, this is not the case. Instead, he resolved to contest the 2008 elections (*The Citizen*, 8 May 2007). When he lost to Morgan Tsvangirai in the first round, he used state institutions to make it impossible for Tsvangirai to participate in the run-off. He then competed with himself.

There are two possible explanations why Mugabe refuses to relinquish office. Firstly, during his many years in office, Mugabe has made many enemies, particularly among the opposition party, the Movement for Democratic Change (MDC). Mugabe knows that should a leader like

Tsvangirai become president, he would be prosecuted for the crimes he committed while in office. As long as he remains in power this possibility does not exist. Linked to this is the fact that the president is old now and hopes that if he leaves office in his early 90s, his political enemies will not be keen to prosecute him. This would guarantee his safety.

Secondly, Mugabe strongly believes that he has unfinished business with the West, particularly with Britain and America. He wants to prove to them that they are dispensable. He is negotiating both financial and material support from China, as the West calls for more sanctions against him and his close confidantes. Unlike the other presidents discussed thus far, Mugabe does not seem to have identified the most suitable person to succeed him and uses this as an excuse to remain in office. In the last two elections he used Zimbabwe's relations with Britain to woo the electorate. He made them believe that he is the only African leader who does not bow to the West, thus portraying himself as a hero like Idi Amin in Uganda during the 1970s. For these reasons, Mugabe continues to use force against those who call for his resignation while also buying the loyalty of those who keep him in power (including soldiers and the police). He enjoys playing a political game with his local and international foes while his country plunges deeper into economic crisis.

The impact

African leaders' deciding to cling to power has serious implications that go beyond national boundaries. During elections, rigging of the results becomes rampant to ensure that the incumbent president, or his appointed candidate wins. This leads to political violence and revives ethnic and regional divisions. The alignment of the electorate with the incumbent and his cohorts, or with the opposition, leads to what Mamdani (1996) calls the bifurcation of the state. This inevitably slows down development. The international community usually frowns on such events and the country loses potential international allies, some of whom have financial resources that could assist in Africa's development. International Financial Institutions (IFIs) such as the World Bank and the International Monetary Fund (IMF) refuse to provide funds to countries whose leaders want to remain presidents for life. Failure on the part of presidents who conduct undemocratic elections to access international donor countries and agencies sustains poverty and unemployment on the African continent.

Another inevitable consequence of the above practices is that financial resources earmarked for development are re-routed to state security agents to buy their support. Other funds go into the pockets of individuals in the ruling parties, as was the case in Zimbabwe. In other countries where resources are not appropriated in the above manner, they are directed to specific ethnic groups believed to be the source of power. This was the case in Kenya, first with the Kikuyu and later with the Kalenjin.

A number of African leaders who are avaricious regarding power promote people who are incapable of running state institutions. Presidents Mobutu Sese Seko of Zaire and Idi Amin of Uganda are cases in point. In the case of Idi Amin, the negative effect was the drastic decline of the country's economy. Scholars argue that Uganda's economy never fully recovered from the wounds inflicted by Idi Amin (Allen, 2004; Barter, 2005). Zimbabwe is following the same path. Unfortunately, it is becoming fashionable in Africa for politicians to hold onto power and use flimsy reasons to justify their actions. The overall impact of this pandemic is that the African continent is developing at a much slower pace than it should, particularly when taking into account the natural resources found in certain areas.

Addressing the problem

The answer to the problem depends on the African peoples. The view that there must be African solutions to African problems is defensible. Firstly, individual leaders need to think beyond satisfying their personal needs – either through settling political scores or accumulating financial resources. Secondly, African leaders need to check on one another. The inauguration of the African Peer Review Mechanism (APRM) is a move in the right direction. While it cannot be repudiated that African leaders need to protect one another against any form of bullying from the West, it is equally important to guard against supporting someone who is gambling with the lives of the African peoples and the political image of the continent.

Failure by African organisations like the Southern African Development Community (SADC) and the African Union (AU), to openly criticize President Mugabe's violent methods of defusing the political situation in his country, is totally unacceptable and contradicts what African leaders espouse when these organisations meet. The death of President Mwanawasa was a huge blow in the struggle to instill good governance in Africa. He was one of the few African leaders who was vocal about the Zimbabwean crisis. With the exception of President Kufour of Ghana, who openly raised concerns about the Zimbabwean crisis while he was the AU Chairperson, African leaders have been somewhat indifferent. Interestingly, the failure of President Thabo Mbeki's 'Quiet Diplomacy' with regard to Zimbabwe did not deter SADC countries from giving him a mandate to mediate the crisis.

The national constitutions of many African states protect the incumbent president and other high ranking officials from prosecution as long as they remain in office. While this was decided in good faith, it has unintended consequences. As demonstrated in the cases used above, some leaders commit crimes and then do everything possible to remain in office so that they can avoid prosecution by their successors. The AU, the Pan African Parliament (PAP) and regional institutions like SADC, the East African Community (EAC) and the Economic Community of West African States (ECOWAS) should enforce tough measures against leaders who bring the African continent into disrepute to satisfy their political avarice.

Another way out of this dilemma is through incentives. The current attempt by the AU to reward those former Heads of States who promoted good governance during their terms of office is a welcome move. National governments could support this initiative by providing such leaders with good retirement packages. This would entice them to govern their countries properly and leave office as soon as their prescribed term ends so that they could enjoy the benefits away from the public eye. The AU could also play a role in this regard by creating positions in its secretariat for former Heads of States, or by sending some of them to UN structures to represent the AU or serve as envoys. Although there is no guarantee that any of these mechanisms would totally eradicate the pandemic, each would go a long way towards discouraging African leaders from wanting to be president for life while ignoring the democratic principles on which the positions they occupy are created.

CONCLUSION

It was wrong for the colonialists to oppress the African peoples; African leaders were justified in embarking on the struggle to free their people from colonial oppression. However, it is not right for African leaders to use force and other tactics to prolong their stay in office. By embracing democratic principles, Africans agreed to rule democratically and to respect the national constitutions of their countries. Any attempt by the incumbents to change the constitution to extend their mandate is dishonest. It is a clear sign of political greed which can no longer be tolerated in a democratic world.

The historical context presented above shows that the reasons behind the 'president for life' phenomenon are different today from what they were in the 1960s, but the results are similar. Interestingly, when asked why the African continent is developing so slowly, African leaders invoke the mundane argument that it is a result of the colonial legacy. No one can totally repudiate this fact, but that argument is no longer tenable. Africans – both as individuals and institutions – must put their house in order.

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AN ECONOMETRIC ANALYSIS OF THE IMPACT OF LOCAL BUSINESS SERVICE CENTRES ON SMALL, MEDIUM AND MICRO ENTERPRISES IN THE EASTERN CAPE, SOUTH AFRICA

R. Ncwadi[1]

ABSTRACT

The small business sector is considered a panacea to the South African economy. To boost this sector, local business service centres (LBSCs) were established to provide assistance to small, medium and micro enterprises (SMMEs). LBSCs provide a variety of real and appropriate services to SMMEs, including business information, general business management advice and counselling, aftercare, and networking to other service providers. Government efforts to establish a support structure for the small business sector in South Africa has not been successful. The failure rate of SMMEs is between 70% and 80% and millions of rand are being lost. The SMMEs' failure despite the LBSCs' support is a matter of serious concern in South Africa to the extent that there is widespread belief that the LBSCs are ineffective. It is thus important to assess the economic impact of LBSCs on the SMMEs. The study's findings suggest that the LBSCs contributed to social welfare through job creation and relative increases in income. However, the benefits derived from public investment in SMMEs − through the LBSCs − were sub-optimal: a number of factors inhibited SMMEs during the period under review despite the interventions of LBSCs.

Keywords: Entrepreneurship; small business sector; local business service centres (LBSCs); small, medium and micro enterprises (SMMEs).

INTRODUCTION

Promoting entrepreneurship and small business is a priority of the South African government. In an effort to support the development of SMMEs in South Africa the government established a support structure for the small business sector. After the enactment of the national White Paper on Small Business, the Department of Trade and Industry (DTI) began the process of developing new institutions to service the SMME economy (Manning, 1996: 36). The key institutions were Ntsika Enterprise Promotion Agency (NEPA), Khula Enterprise Finance and Khula Credit Guarantee, the National Small Business Council, and Provincial SMME Desks (RSA, 1995: 10). An important unit of NEPA was Business Development Services (BDS), set up in April 1995 to coordinate the evolution and development of the network of LBSCs. The LBSCs are accredited organisations that deliver non-financial business support and services to small, medium and micro enterprises. The majority of small businesses assisted by the LBSCs are start-ups rather than existing businesses (Rogerson, 1997:10).

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The problem and its setting

Government's efforts to establish a support structure for the small business sector in South Africa has not been as effective as was anticipated. Some small businesses continue to fail. The failure rate of SMMEs is estimated to be between 70% and 80% and millions of rand are being lost on business ventures (Van Eeden *et al*, 2003). The failure of small businesses despite LBSC support, led to a widespread belief that the LBSCs had little or no impact on small business (GEM, 2002: 7). It was argued that the LBSCs had failed to deliver effectively on their programmes (Bloch & Daze, 2000: 2).

Notwithstanding, public funds continued to be invested in the LBSCs. For example, Ntsika's budget for 2000 was approximately 80 million rand of which approximately 12.5 million was allocated to LBSCs. Ntsika's 2001/2002 budget was almost half of the 2000/2001 budget (43,6 million rand) of which R8 240 289 was allocated to LBSCs and a further R1 084 440 to survivalist and micro-enterprises via other conduits. Khula's budget for its two programmes that service the survivalist and micro-enterprise sectors amounted to approximately R45 million for the financial year ending March 2003. This amount had almost doubled by the end of the following financial year. The Enterprise Development Unit's budget for institutions for the financial year ending 31 March 2001 was R146 million. It decreased to R104 million for the financial year ending 31 March 2003.

The above figures represent public sector funds and exclude donor funds, interest, fee income and other forms of revenue. Donors committed R1.6 billion to SMME development for the period 1994 to 1999. By the end of 1999, R867 million of donor funds had been disbursed to NGOs. The remainder was committed to funding existing projects. Fifty-five per cent (R480 million) of the R867 million was disbursed to the 'person-centred' survivalist sector, and therefore had poverty alleviation as its goal (ILO, 1999). These amounts do not take into account the funds secured by individual NGOs from overseas and local donors, which in most cases, constitute by far the bulk of these NGOs' funds. Given the above figures and a limited state budget, it becomes crucial to look closely into the impact of LBSCs on the development of SMMEs.

Research objectives

The primary objective of this research was to analyse the effectiveness of LBSC intervention in the small businesses that participated in the LBSC programmes. The period reviewed was 2001 to 2005. The main focus of the analysis was the public funds allocated to the LBSCs for SMME development in the Eastern Cape and the resultant economic and social returns on this investment. The secondary objective was to analyse the constraints that faced the SMMEs despite LBSC support.

Hypothesis

H_0: Public expenditure on the LBSCs does not yield positive social returns.
H_a: Public expenditure on the LBSCs yields positive social returns.

Research methodology

Both quantitative and qualitative research methodologies were employed in this study. To accurately present information, face-to-face interviews were conducted with small business owners (Leavitt & Bahrami, 1998). Face-to-face interviews provide an opportunity to observe and verify practically the procedures in place (Ssegawa, 2000). The fieldworkers asked questions aimed at gaining qualitative data beyond those included in the questionnaires. The strength of qualitative data is that data collection is focused on naturally occurring, ordinary events in natural settings. Thus the data have a strong relation to real life and add richness and holism (Fox, 1999).

Data collection techniques

Data was collected through questionnaires and interviews from July 2006 to November 2008 by a senior researcher and six trained fieldworkers. Three fieldworkers were third year economics students at Nelson Mandela Metropolitan University, and the other three were from outside the university. One of these three was based in Umtata and the other two in East London. All fieldworkers underwent two days training in data collection and interviewing techniques. One day was spent explaining the content of the questionnaire, the type of questions and the way to present each question. The second day was spent on practical training. As part of the training, the senior researcher collected data through interviews in a few small businesses while the fieldworkers observed the process. Thereafter the fieldworkers collected the data; where uncertainties arose, the senior researcher was consulted.

The questionnaire

A questionnaire was developed specifically for the interview situation. It comprised four sections: section A focused on demographic data, section B focused on the business and its characteristics, section C focused on support organizations and section D focused on the business' finances. Some of the questions were 'open-ended' in that they invited an explanation; most required simple responses.

The questionnaire was piloted in 2006. The data was randomly collected from 34 respondents of a larger sample. The aim of the pilot study was to pre-test the questionnaire to avoid error (Barbie & Mouton, 2003: 244). After the pilot study had been completed, the questionnaire went through some revisions and modifications and was finally considered ready as an instrument for data collection.

Reliability of the research instrument

When using *Likert* type scales it is imperative to calculate and report Cronbach's alpha coefficient for internal consistency and reliability for any scales or subscales one may be using (George & Mallery, 2003: 231). Internal consistency is the extent to which tests or procedures assess the same characteristic, that is, skill or quality. It is a measure of the measuring instrument's precision. Cronbach's alpha is a coefficient (a number between 0 and 1) that is used to rate the reliability of an instrument. Cronbach's alpha for the judgmental questions in the questionnaire relating to the impact of the LBSCs on the performance of the SMMEs was 0.96. The closer Chronbach's alpha is to 1, the more reliable the research instrument is.

Interviews

The first phase of the interviews took place with the LBSCs. The purpose of the interviews was to obtain a database of clients who had accessed LBSC services. The LBSCs demonstrated an interest and willingness to support the research and expressed the desire to obtain the study results. A request to access their client databases was, however, met with reluctance, as the LBSCs had committed to keeping their clients' information confidential. There were concerns that the information required was too sensitive. There appeared to be competition among the LBSCs; each LBSC was attempting to grow its business, hence the reluctance to divulge client information. However, once the confidentiality of information declaration in the questionnaire had been pointed out, the LBSCs provided the information. For confidentiality reasons, the LBSCs in this paper are referred to as LBSC A, B, C and D.

The second phase of the interviews was with the SMMEs. These were difficult to set up mainly because of incorrect or changed contact details. What complicated matters further was that a number of business owners lived in informal settlements and had no proper physical addresses. These owners used either their families' or friends' physical addresses as their residential or business addresses. Some of the SMME owners were unwilling to take time off for an interview, but after a few after hours follow-up appointments, these owners were more forthcoming and accessible. Generally speaking, the majority of the owners were supportive and willing to participate in the study as they were in serious need of assistance and support from government.

Data analysis

Data were analysed by a cost-benefit analysis (CBA), which is used to measure the net advantages of a capital investment project in terms of society's net utility gains (welfare economics) (Mullins, 2002). The effectiveness of LBSC interventions was assessed by measuring respondents' subjective perceptions of improvements attributable to the LBSC programme, and the objective measurement of post-assistance business performance, namely, annual turnover and employment creation. The subjective measures were based on a three point *Likert* scale of 1 to 3 (*1 = no impact, 2 = minor impact, 3 = major impact*).

The respondents were asked to state the percentage annual growth of turnover from 2002 to 2005 that could be attributed to LBSC support interventions. The annual turnovers of the small businesses were adjusted by the percentage annual growth of the turnovers attributable to the LBSCs. Using the adjusted annual turnovers as a benefit of LBSC intervention is in line with the work of Chrisman and McMullan (2000), who evaluated small business interventions using both client satisfaction and economic performance measures in terms of annual turnovers of the businesses.

The costs comprised the Ntsika annual budgets allocated for SMME development to the LBSCs, and the fees paid by the respondents to access some of the LBSC services. After the costs and benefits of LBSC interventions were identified and quantified, the next step was to evaluate these in a time dimension (Nas, 1996). The project costs and benefits streams were discounted to present values (Mullins, 2002). A social discount rate of eight per cent was used as recommended by the Conningarth Economists (2007). A change in social welfare resulting from SMME promotion through LBSC support provision in the Eastern Cape was measured by deducting the summation of social costs from social benefits.

A discounted benefit cost ratio (BCR) was used as a decision-making criterion. It is defined as the ratio of the present value of the benefits relative to the present value of the costs (Kirkpatrick & Weiss, 1996). The criterion for acceptance of a project is that the discounted BCR must exceed one (1).

Sample selection

The purpose was to interview all the small businesses that had accessed LBSC support provision and therefore no sample frame was drawn. The LBSCs were approached to provide a list of all the small businesses that had accessed their support services in 2001. The surveys were conducted in Nelson Mandela Metropole, Mdantsane in East London, and Umtata.

The list from LBSC A contained 105 clients. The aim was to reach all these clients. However, this database was unreliable, as many contact details had changed. Consequently a total number of 81 respondents could be reached for interviewing. Of these, 20 intimated that they were no longer running businesses but were in full-time employment.

A list of 157 clients was obtained from LBSC B. However, only 87 clients could be traced for interviewing. Of these, 58 returned questionnaires were usable. Fourteen questionnaires could not be used as crucial data were missing, and 15 respondents intimated that they were no longer in business owing to a lack of finances, and infrastructural constraints.

Of the 60 small businesses who had been assisted in LBSC C, only 43 were willing to be interviewed. The interviews were conducted on the LBSC premises.

A total number of 64 small businesses out of a possible 100 that had been assisted in LBSC D were approached and interviewed. The remainder (36) could not be traced.

The total number of respondents in the sample was 226.

A description of the small businesses recorded in this research

Only those businesses that received LBSC support provision in 2001 were surveyed. The aim was to assess their performance from 2001 to 2005. In 2001 all these businesses were in their start-up phase. Fewer than half of newly established businesses survive beyond five years, not only in South Africa, but worldwide (Brink, Cant & Ligthelm, 2003).

The types of businesses in the sample were spaza shops, construction, catering, general dealers, sewing and fashion design, trading stores, hair salons, furniture upholsterers, welding operators, gardening services, repairs workshops, printers, driving school operators, photographers, electrical services, taverns, computers, finance, communications, carpentry and trading farmers. All the businesses, except for the spaza shops, were registered with the Receiver of Revenue. A large number were being operated from home; the general dealers had business properties.

Descriptive results

Gender

More than half (54%) of the respondents were females and 46% males (see Table 1).

Table 1: Gender

Gender	N	%
Male	103	46%
Female	123	54%
Total	**226**	**100%**

Source: Survey data (2008)

Age groups

Thirty-three per cent (33%) of the respondents were aged 21 to 30, followed by 29% aged 41 to 50, 27% aged 31 to 40, and 8% aged 51 to 60. Only 3% were older than 60 (see Table 2).

Table 2: Age groups

Age groups	N	%
21-30	75	33%
31-40	61	27%
41-50	66	29%
51-60	18	8%
61+	06	3%
Total	**226**	**100%**

Source: Survey data (2008)

Respondents' education levels

More than half (51%) of the respondents had completed Grades 8 to 10, and 14% had completed Grades 11 to 12. Twelve per cent had tertiary qualifications, while 8% had post-school qualifications mainly in the fields of fashion design, interior decoration and construction.

Thirteen per cent of the respondents had completed Grades 1 to 7 and 2% indicated that they had had no exposure to formal education (see Table 3).

Table 3: Respondents' education levels

Education levels	N	%
None	5	2%
Grades 1-7	29	13%
Grades 8-10	115	51%
Grades 11-12	32	14%
Post matric certificate	18	8%
Tertiary	27	12%
Total	**226**	**100%**

Source: Survey data (2008)

Industrial sectors

More than one-third of the small businesses were in the construction industry, followed by transport, storage and communication (22%). Fifteen per cent (15%) were in community, social and personal services. Those in the manufacturing sector made up approximately 10%. The remaining sectors were agriculture (6%), wholesale and retail (8%), electricity, gas and water (3%), and finance, insurance, real estate and business services (3%) (see Table 4).

Table 4: Industrial sectors

Industrial sectors	N	%
Agriculture	14	6%
Construction	74	33%
Wholesale & Retail	18	8%
Manufacturing	23	10%
Transport & Communication	50	22%
Electricity, gas & water	7	3%
Community, social & personal services	33	15%
Finance, insurance, real estate & business services	7	3%
Total	**226**	**100%**

Source: Survey data (2008)

Respondents' subjective perceptions of the impact of the LBSCs' support services

A *Likert* scale of 1 to 3 (*1=no impact, 2=minor impact, 3=major impact*) was used to test the impact of the LBSCs' services on the respondents' businesses (see Table 5).

Table 5: Mean scores of respondents' subjective perceptions of the LBSCs' impact

LBSC support services	n[2]	Mean	StdDev	Skewness
Accounting services	25	2.44	0.77	-0.98
Administrative support	35	2.71	0.46	-0.99
Business matchmaking	50	2.64	0.66	-1.64
Business plan	79	2.57	0.75	-1.39
Business profile	59	2.8	0.48	-2.4
Business proposal	64	2.75	0.62	-2.3
Business registration	77	2.74	0.57	-2.12
Business training	87	2.37	0.65	-0.54
Export promotion	14	2.14	0.86	-0.31
Financial management	86	2.62	0.69	-1.54
Finding markets	52	2.79	0.57	-2.61
Human Resource Development	46	2.41	0.78	-0.89
Information support	69	2.72	0.59	-2.05
Legal advice	55	2.36	0.59	-0.29
Management advice	74	2.39	0.62	-0.48
Management skills	84	2.27	0.68	-0.41
Market research	56	2.77	0.57	-2.4
Market support	64	2.69	0.61	-1.83
Marketing plan	57	2.65	0.61	-1.57
Outsourcing	24	2.38	0.82	-0.83
Product quality	43	2.16	0.49	0.44
Project management	22	2.5	0.74	-1.16
Supplier information	52	2.63	0.66	-1.6
Technical support	39	2.15	0.49	0.4
Technical training	30	2.27	0.74	-0.48
Tender advice	53	2.38	0.79	-0.79

Source: Survey data (2008)

Notably, the mean scores shown in Table 5 are above 2, indicating that the LBSCs had a positive impact on the respondents' businesses. The standard deviation is an indication of how closely values are clustered around the mean. Approximately 68% of cases lie between one standard deviation below and one standard deviation above the mean. The skewness is an indication whether the distribution of values is symmetrical or not. If skewness is larger than 0, the distribution is positively skewed, that is, there are fewer cases above the mean than below the mean. If skewness is smaller than zero, the distribution is negatively skewed, that is, there are more cases above the mean than below the mean. The skewness in Table 5 is negative in all cases except product quality and technical support where skewness is above zero. This finding implies that product quality and technical support services had a minor impact on the small businesses that accessed these services. Product quality services were aimed at improving the quality of the products while technical support was focused on accessing computers and providing support with email and internet services. Since the respondents lacked certain infrastructure, such as

[2]Numbers do not add up to 226 because some of the businesses accessed more than one LBSCs' services

machinery and equipment on their business premises, the impact of technical support and product quality services was compromised. A lack of appropriate infrastructure resulted in some LBSC services being less effective during the period under review.

Cost-Benefit Analysis (CBA)

CBA provides a protocol to measure allocative efficiency in the economy. CBA is concerned exclusively with comparisons of direct benefits and costs to society created by an investment project. CBA is ideally suited to evaluate capital projects, that is, projects that require immediate capital expenditure but realise net benefits over time.

Respondents' estimated annual turnovers, 2001-2005

The respondents were asked to estimate their annual turnovers from 2001 to 2005. They were then asked to estimate the percentage of the annual turnover that could be attributed to the LBSCs' interventions. These annual turnovers were adjusted by the estimated percentage contribution of the LBSCs. The summation of the annual turnovers and the adjusted turnovers are illustrated in Table 6.

Table 6: Summation of estimated annual turnovers and adjusted turnovers, 2001-2005

Years	Sum of Annual Turnovers (in Rand)	% contribution attributed to the LBSC	Sum of Adjusted annual turnovers (in Rand)
2001	470,880	0	470,880
2002	823,400	97.2	359,020
2003	1,345,215	97.2	579,669
2004	1,997,981	97.2	863,533
2005	2,621,610	97.2	1,117,002

Source: Survey data (2008)

The costs were derived from public expenditure on the LBSCs during the period under review. Each LBSC was asked to state the amount received from the government which was targeted towards SMME training. These costs are illustrated in Table 7.

Table 7: Government subsidies to the LBSCs for SMME promotion and fees paid by SMMEs for accessing some of the LBSCs services (in Rand)

LBSCs	**2001**	**2002**	**2003**	**2004**	**2005**
LBSC A	75000	75000	134000	113000	263000
LBSC B	175000	175000	250000	250000	250000
LBSC C	40000	45000	50000	65000	70000
LBSC D	100000	110000	120000	140000	150000
Sum of the fees paid by the respondents	68570	0	0	0	0
Total	458,570	405,000	554,000	568,000	733,000

Source: Survey data (2008)

Since the LBSCs' interventions were effected in 2001, the stream of benefits was assumed to have been realised from 2002. The adjusted annual turnovers were summed as follows:

$\sum$ R359,020$^{(2002)}$ + R579,669$^{(2003)}$ + R863,533$^{(2004)}$ + R1,117, 002$^{(2005)}$ = R2,919,224

Sum of the costs: (2001 – 2005):

$\sum$ R458,570$^{(2001)}$ + R405,000$^{(2002)}$ + R554,000$^{(2003)}$ + 568,000$^{(2004)}$ + 733,000$^{(2005)}$ = R2,718,570

Change in social welfare using the equation: $\Delta SW = \sum_{j=1}^{k} \mathrm{Bj} - \sum_{j=1}^{m} \mathrm{Cj}$

= R2,929,224 – R2,718,570 = R210,654

This implies that the LBSCs' promotion of SMMEs (in the selected sample) from 2001 to 2005 led to a social welfare gain of R210,654.

After the costs and benefits had been identified, the next step was to evaluate these costs and benefits in a time dimension.

The following formulas were used for discounting costs and benefits:

Present Value of Costs

$$PVC = \Sigma \frac{C_t}{(1+r)^t}$$

Where: PVC = Present Value Cost

ΣC_t = Sum of the costs

r = discount rate of 8%

t = period

$$PVC = R458{,}570 + R405\ 000\ \left(\frac{1}{1+0.08}\right) + R554\ 000\ \left(\frac{1}{1+0.08}\right)^2 + R568\ 000$$

$$\left(\frac{1}{1+0.08}\right)^3 + R733\ 000\ \left(\frac{1}{1+0.08}\right)^4 = R2{,}298{,}209$$

Present Value of benefits

$$PVB = \Sigma \frac{B_t}{(1+r)^t}$$

Where: PVB = Present value benefits

ΣB_t = Sum of benefits

r = discount rate of 8%

t = period

$$PVB = R359{,}020\left(\frac{1}{1+0.08}\right) + 579{,}669\left(\frac{1}{1+0.08}\right)^2 + R863{,}533\left(\frac{1}{1+0.08}\right)^3$$

$$+ R1{,}117{,}002\left(\frac{1}{1+0.08}\right)^4 = R2{,}335{,}929$$

NPV = PVB - PVC

$\therefore$ NPV = R2,335,929 - R2,298,209 = R37,720

The NPV is defined as the discounted sum of all net benefits (i.e. the difference between the benefits and the costs) over the economic life of the project. The net present value (NPV) and the discounted benefit cost ratio (BCR) were used as decision-making criteria.

The benefit cost ratio was determined as follows[3]:

$$BCR = \sum_{t=0}^{n} \frac{B^t}{(1+i)^t} \div \sum_{t=0}^{n} \frac{C^t}{(1+i)^t}$$

$$= R2{,}335{,}929 \div R2{,}298{,}209 = 1{,}02$$

The decision-making criteria are the Net Present Value (NPV) and Benefit Cost Ratio (BCR). The NPV is greater than 0 and the BCR above 1, implying that public expenditure in SMME promotion through LBSCs during the period under review was both economically and financially viable.

Sensitivity Analysis

Sensitivity analysis is carried out to determine how a change in any one or more variables will affect the value of the criteria used, namely, the BCR. In this case the average real interest rate of 7.3% (2001 – 2005) was used. The following formulas were used to discount costs and benefits:

Present Value of costs

$$PVC = \Sigma \frac{C_t}{(1+r)^t}$$

$$PVC = R458{,}570 + R405\,000\left(\frac{1}{1+0.073}\right) + R554\,000\left(\frac{1}{1+0.073}\right)^2 + R568\,000$$

$$\left(\frac{1}{1+0.073}\right)^3 + 733\,000\left(\frac{1}{1+0.073}\right)^4 = R2{,}329{,}952.98$$

[3]Ibid, p 1.

Present Value of benefits

$$PVB = \Sigma \frac{B_t}{(1+r)^t}$$

PVB = R359,020 $\left(\frac{1}{1+0.073}\right)$ + R579,669 $\left(\frac{1}{1+0.073}\right)^2$ + R863,533 $\left(\frac{1}{1+0.073}\right)^3$ +

R1,117,002 $\left(\frac{1}{1+0.073}\right)^4$ = R2,379,742.14

NPV = R49,789.16

BCR = PVB / PVC

= R2,379,742.14 ÷ R2,261,382.98

= 1,05

Even at the lower discount rate of 7.3%, the NPV remains above zero and the BCR greater than 1. It can therefore be concluded that the project was indeed worthwhile. The results of the CBA are also in line with the respondents' subjective perceptions of the impact of the LBSCs on their small businesses during the period under review. Based on the results of the CBA, we therefore reject the null hypothesis in favour of the alternative one and conclude that public expenditure on the SMMEs through LBSC support provision yielded positive social returns during the period under review.

Factors which constrain small businesses despite LBSC support provision

Next, the respondents were asked to elaborate on the factors that constrain their businesses despite LBSC support provision. These factors are portrayed in Table 8 below.

Table 8: Contraints on SMMEs

Contraints	**N**	**%**
Access to finance	81	36%
Infrastructure	29	13%
Delayed payments by government departments	38	17%
Government Tenders	41	18%
Labour relations	20	9%
HIV/Aids	09	4%
Unemployment	05	2%
Crime	03	1%
Total	**226**	**100**

Source: Survey data (2008)

Access to finance

Thirty-six per cent of the respondents had encountered problems with access to finance (Table 8). Entrepreneurs, particularly among previously disadvantaged individuals (PDIs), were mainly affected by lack of access to finances. A number of PDIs did not have collateral and networks like their wealthy counterparts. Financial institutions are not familiar with the community and economic background of black businesses and as a result find it difficult to evaluate risk for these companies. The lack of financial support from banks, particularly for start-up small businesses, is a severe impediment to the development of the SMMEs.

Infrastructure

With regard to infrastructure, 13% of the respondents referred to issues such as lack of electricity, faulty or inappropriate equipment, lack of transport and appropriate tools, lack of space for inventory (resulting in stock depletion and financial loss), a lack of roads, and a lack of computers, communication networks and access to the internet.

Although the respondents had obtained training and assistance from the LBSCs, some SMMEs had difficulty enjoying the full benefits of this assistance owing to a lack of appropriate infrastructure. The respondents, particularly those in the construction businesses, intimated that a lack of appropriate tools contributed to failure to access government tenders. The lack of infrastructure is to a large extent inextricably linked to access to finance. Without adequate financing it will continue to be difficult for small businesses to acquire the necessary tools required to 'grow' their businesses.

Delayed payments

Seventeen per cent of the respondents indicated that they had experienced delayed payment from some government departments. The government departments failed to pay the SMMEs within thirty days of completion of the project. Meanwhile these businesses were faced with running costs, including wage payments. Some of the SMMEs had to shut down while waiting for payments from government departments as they were running out of cash.

Government tenders

Eighteen per cent of the respondents intimated that they experienced problems with the manner in which tenders were administered in the Eastern Cape. Government departments failed to communicate to the respondents the outcome of the adjudication process. These respondents suspected that the adjudication of tenders was based on favouritism and that the process was non-transparent. Although the respondents benefited by gaining skills from the tender consultation services offered by the LBSCs, these were not translated into monetary gains. The respondents observed that the tenders were continually being awarded to the same small businesses. Corruption was cited as the reason why most small businesses did not benefit from the tenders.

Some of the respondents observed that they had no access to information related to tender advertisements, while others referred to the complexity of the tender documents. Respondents also indicated that tender specifications were not always clear concerning the tools and skills required for completion. Furthermore, many small businesses had difficulty accessing investment finance and were thus placed at a disadvantage with regard to the allocation of tenders because they did not have the equipment or the resources to execute the tasks contained in the tender specifications. This implies that the lack of access to finance has far reaching implications for small businesses to the extent that LBSC training could be rendered less, or ineffective.

Labour relations

Nine per cent of the respondents raised concerns about their employees. Employees affect the profitability of small businesses in a number of ways. In most firms, the attitudes of salespeople and their ability to satisfy customer needs directly affect sales revenue. Payrolls are the largest expense category for most businesses. The respondents complained about staff members who stole from the business thus placing its profitability in jeopardy. The construction firms in particular, complained about the high level of absenteeism. This could suggest an unfulfilled and demotivated labour force, yet simultaneously most of the small business owners ignored much of the labour legislation. Small businesses were not integrated into the unions and employees were voiceless without a platform to vent their frustrations. Among survivalist SMMEs it is uncommon to find favourable wage and work conditions. Most employees work long hours for low wages. Consequently there is a question mark concerning the quality of jobs and the conditions of service created by the SMMEs.

HIV/AIDS

Four per cent of the respondents indicated that HIV/AIDS posed a challenge to their small businesses. It caused the untimely death of many skilled and competent employees. It also resulted in high levels of absenteeism, since employees had to take care of infected family members; it also affected productivity because infected employees could not perform at optimum levels.

Unemployment

Two per cent of the respondents indicated that unemployment was a challenge to their small businesses. Small businesses depend on the incomes of their customers. If prospective customers are unemployed, the spill-over effect is that small businesses lose income. Unemployment led to lost profits and small businesses faced the danger of having to shut down. The macro-economic environment within which small businesses operate, has an influence on their performance. Thus any support intervention must take place in a favourable macro-economic environment.

Crime

The negative impact of crime on business is a major issue in South Africa. One per cent of the respondents, particularly owners of small businesses in the construction sector, had been the victims of crime. Tools, building equipment and building materials were continually stolen and houses under construction were often vandalised.

Impact on employment creation

Worldwide the SMME sector is widely regarded as the driving force in economic growth and job creation. If SMMEs in South Africa are to become a driving force for economic growth and development, job creation is vital. It therefore makes sense to probe the extent to which the SMMEs that had been assisted by the LBSCs actually created job opportunities during the period under review. The number of job opportunities created in this study is illustrated in Table 9.

Table 9: Number of job opportunities created in small businesses under review

Job opportunities created	Number of SMMEs		Total number of job opportunities created	
	2001	**2005**	**Total 2001**	**Total 2005**
0	113	5	0	0
1	18	17	18	17
2	30	31	60	62
3	22	23	66	69
4	18	23	72	92
5	15	36	75	180
6	4	28	24	168
7	4	12	28	84
8	2	22	16	176
9	0	13	0	117
10	0	4	0	40
11	0	1	0	11
12	0	5	0	60
13	0	3	0	39
15	0	2	0	30
17	0	1	0	17
Total	**226**	**226**	**359**	**1162**

Source: Survey data (2008)

A considerable number (n = 113) of the small businesses did not create any job opportunities in 2001. By 2005 only five small businesses had not created any job opportunities. Three hundred and fifty-nine job opportunities were created in 2001 (before LBSC intervention); after LBSC intervention this number increased to 1162. In other words, the number of job opportunities created in 2005 was almost three times more than in 2001. Although there are a number of factors that could have contributed towards job creation among small businesses during the period under review, investigating these factors falls beyond the scope of this research project.

Policy implications and recommendations

Promoting enterprise development has been a priority of the democratic government since it assumed power in 1994. In March 1995 the White Paper on the promotion of small businesses in South Africa was promulgated in parliament. The White Paper formed the basis for a government-led SMME development programme. The primary objective of the White Paper was to create an enabling environment for small businesses within the context of a modernising economy and increasing international competition. Through it government undertook to facilitate greater equalisation of income, wealth and economic opportunities, and the creation of long-term jobs. The White Paper was government's way of showing its intention to stimulate economic growth, strengthen the cohesion between small enterprises, and level the playing field between bigger and small businesses.

Despite the positive welfare effects of the LBSCs on the SMMEs in terms of relative increases in income, job creation and poverty reduction in the Eastern Cape, it was found that a number of SMMEs still faced challenges, which to a certain extent dampened the effectiveness of the LBSC interventions. The results of this research suggest that LBSCs alone cannot produce a vibrant entrepreneurship culture.

The respondents cited crime, labour relations, HIV/AIDS, delayed payments, access to government tenders and unemployment as constraints on their small businesses. If these constraints are not addressed by capturing them into the SMME strategy framework, the benefits derived from public investment in SMME development will remain sub-optimal and could point to inefficiencies inherent in South Africa's SMME development strategy. There is a need for a holistic approach to SMME development in South Africa. The foundation for an integrated SMME development strategy is the policy environment within which SMMEs operate, which should be conducive to enhancing the SMME sector. For example, The Public Finance Management Act stipulates that "...unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice, or in the case of civil claims, from the date of settlement or court judgement" (Public Finance Management Act, Act 1 of 1999: 30). This regulation should be applied rigorously to ensure that the interests of small businesses are not undermined. Delayed payment poses a threat to small businesses, irrespective of LBSC or SEDA support. If government departments made their payments on time there would be no need for bridging finances, and job losses would be prevented. Payment of service providers within thirty days should form part of the performance agreements of the public officials responsible for issuing payments.

Respondents also noted that tenders were continually granted to the same small businesses. Corruption and nepotism were cited as the reasons why other small businesses could not access tenders. These suspicions arose as a result of government departments' failure to communicate the outcome of tenders to all who had submitted tender documents, including unsuccessful ones. It is important for small businesses to know why they failed to receive a tender, since this would help them improve their future bid. Communicating the outcome of the tender submission is in itself developmental.

There is also a need to monitor the frequency of awarding tenders to the same supplier. Vetting small businesses carefully would prevent them from operating under different names (although owned by the same person(s)) and being awarded tenders repeatedly.

Too much dependence on government tenders has its disadvantages. For example, the organisation, AZAPO, warns that a dependency on state tenders may lead to so-called 'tenderpreneurship', resulting in small business owners failing to look for new business opportunities elsewhere (AZAPO 2010).[4] Small businesses' dependence on government tenders can erode society's moral fibre and lead to corruption, generating dependent and even incompetent entrepreneurs. Government must therefore ensure that awarding tenders to small businesses does not create a dependency burden where small businesses lose the ability to stay alert to other opportunities within their own provinces, in other provinces and in other countries. This can be achieved by inculcating a sense of independence among small business owners through entrepreneurship education and training.

In general, small businesses tend to neglect labour relations regulations. The quality of employment creation is often poor and salaries tend to be far below the minimum wage. In many cases small business employees fall outside the ambit of the trade unions. Therefore policies should ensure that employees are covered in terms of labour legislation. Working conditions

[4] Ibid.

must be of an acceptable standard and remuneration must comply with minimum wage requirements.

Labour market regulations have long been the scapegoat for the ills of the small business sector. However, most enterprises would simply have to make minor adjustments to comply with the Basic Conditions of Employment Act (BCEA) (Theron & Godfrey, 1999). Theron and Godfrey (1999) argue that these adjustments might well add to labour costs (e.g. annual leave, family responsibility leave and overtime), but should not threaten the viability of small firms. Their argument is based on the following premises:

- There are a variety of ways in which employers can re-arrange their businesses to reduce the added costs of new conditions, for example, employers can reduce or eliminate overtime work;
- Some provisions (e.g. night work that could add significant costs) are not necessarily applicable to the small business sector;
- Employers with female workers of childbearing age face the costs associated with maternity leave only if these workers fall pregnant;
- The Act provides flexibility in a number of ways, for example, averaging of hours and the compressed working week (Theron & Godfrey, 1999:25).

There is no empirical evidence to support the perception that labour legislation impacts negatively on SMMEs' growth and on employment creation (Chandra *et al*, 2001). Despite the perception that labour market rigidity curtails employment in South Africa, by 2005 South Africa ranked in the top 30 countries where it was easiest for businesses to operate (World Bank Report, 2005). According to Hudson (2004), VAT and Pay-As-You-Earn and the South African Revenue Services tax returns are the most troublesome and time-consuming set of regulations, not labour laws. Neither empirical evidence, nor informed opinion supports the perception that labour legislation poses a threat to SMME development and job creation (Lewis, 2001).

Furthermore, SMME growth and prosperity are not isolated objectives to be pursued in ignorance of the broader economic policy: SMME growth is affected by the macro-economic context. Globally, the relationship between SMME (or entrepreneurship) and economic growth is complex: opportunity entrepreneurship is stimulated by a growing economy, while necessity entrepreneurship is counter-cyclical, but creates precarious employment (Tips Report, 2002). Successful economic development generally requires macro-economic stability, which is more relevant in the case of SMMEs. SMMEs are far more vulnerable to the impact of volatility that an unstable macro-economic environment might have on the viability of business enterprises. At times of price instability, interest-rate volatility and foreign-exchange uncertainty, the number of bankruptcies generally rises, and smaller firms bear the brunt of these adverse conditions.

A well-managed economy is characterised by a high level of predictability, particularly with regard to price movements (inflation), interest rates and credit availability. This in turn leads to better business planning, high levels of risk taking and superior risk management. Start-up businesses and SMMEs in the expansion phase both require a high degree of predictability of the cost and revenue sides of their operations. In fact, the single most critical factor determining the risk premium attached to a small firm is the predictability of its revenue and expenses. Lack of predictability translates into a higher-than-otherwise cost of access to credit. At the extreme, unpredictability deters investors from either equity or loan investment in small firms. It therefore follows that a business-friendly environment is critical to the success of the small enterprise sector. This environment includes affordable credit, well-developed infrastructure, a simple, clear and flexible regulatory and legal framework and a wide range of other labour, trade and fiscal policy issues (Cape Metropolitan Council, 2000).

Government resources appear insufficient to meet the enormous demands of dealing with HIV/AIDS. The workplace is an important frontier in the war against the disease, and many companies have implemented workplace interventions and community programmes, with varying degrees of success. The current survey indicated that a number of small businesses do not have adequate facilities and infrastructure to implement workplace HIV/AIDS counselling centres. Some small business owners lacked sufficient information about the disease. Instead of having to rely on own beliefs and attitudes, small business owners must be encouraged to draft and promote HIV/AIDS policy statements. Infrastructural health facilities must be visible and within the reach of communities. There must be easy access to condoms including female condoms. In rural areas particularly, traditional healers must be integrated into the treatment training. Education should contain a behaviour change component through offering life-skills programmes.

In this study crime was reported as a constraint on SMMEs and thus requires policy attention. A multi-agency, partnership-based approach should be followed to deal with crime at a community level. There must be more effective policing including police visibility and area coverage, faster response times, and a concentrated effort to build public trust in the police service. Crime victims should experience a positive reception at police stations. Community Policing Forums (CPFs) should be established as extensively as possible and be grown into integrated community safety forums. It is also important that small businesses take responsibility for improving the areas in which they operate. An incentive such as a municipal rebate should be considered for these businesses. The DTI should consider developing mechanisms to assist emerging businesses to access security, for example, subsidising once-off security costs such as burglar proofing, and/or a requirement that business plans include mandatory crime risk analyses and relevant security measures. The banking sector and small business representatives should explore ways to enable very small businesses to reduce the amount of cash they hold on their premises. It is crucial to develop affordable insurance solutions for small businesses in areas where crime is rife. Government should work with insurance companies to develop an appropriate insurance product for small businesses, possibly one requiring a minimum level of mandatory insurance above a certain threshold. Small businesses should be persuaded to take up insurance as a non-negotiable investment in the long term viability of their businesses.

Lack of access to finance also constrains small businesses from being successful despite LBSC interventions. Although private lending by the banking sector is very important, the level of collateral and documentation that banks require places small businesses at a disadvantage. Formal credit institutions are reluctant to give small businesses loans because small businesses are regarded as high risk. It is therefore necessary for the government to influence the banks with regard to their SMME lending policies. Measures to improve access to finance include efficient information-gathering, analysis and dissemination, standard financial disclosures, small enterprise rating, matching needs with financial instruments, the presence of active and local capital markets and the development of a critical mass of entrepreneurs who provide sufficient returns to venture capital funds (UNCTAD, 1999). The main role of the public sector in supporting venture capital is to reduce the risk and cost of private equity finance, complementing and encouraging private capital industry development (OECD, 2005). Furthermore, taxation should not impose a disproportionately heavy burden on small enterprises.

To improve small enterprise access to financing, a market-oriented approach that involves reducing the risks and transaction costs associated with this sector is recommended; this would strengthen the capacity of financial institutions to serve smaller clients and increase competitive pressure in financial markets. The aim is to increase the number of financial institutions that find lending to small enterprises profitable and thus sustainable. The following actions are recommended to enhance access to finance:

- Reducing barriers to entry, for example, by reconsidering capital adequacy requirements and prudential regulations that may be inappropriate for financial institutions serving smaller clients.
- Reducing the risks associated with lending to small businesses, focusing on laws governing the enforcement of contract, forfeiture and collection of collateral and the use of movable assets as collateral.
- Developing the policy, legal and regulatory frameworks that are essential to innovative financial institutions and instruments, including venture capital, small equity investments and leasing.
- Promoting innovation in specialised lending technologies that reduce the administrative costs associated with credit application, monitoring and payment.
- Strengthening the capacity of financial institutions to evaluate small enterprise creditworthiness in a cost-effective manner, for example, through the use of credit scoring techniques.
- Improving information on the creditworthiness of potential borrowers by promoting the establishment of credit bureaus and ways to help small enterprises prepare business plans and financial projections (adapted from Hallberg, 1999).

It may also be necessary for South Africa's policy makers to consider other unconventional money lending schemes which have succeeded in curtailing the costs of formal lending to small businesses. Two privately owned banks merit special attention here, namely, the Grameen Bank of Bangledesh and the Syndicate Bank of India (Moore & Schoombie, 1995). To overcome the lack of conventional collateral, the Grameen Bank lends collectively to small groups of borrowers with joint liability for repayment. In the Grameen Bank's group lending schemes, borrowers form groups of five. Before applying for a loan, each member of the group must establish a regular pattern of weekly savings. After the first two members have received their loans, regular weekly repayments must be made before the next two can receive theirs. The same applies in order for the last member to obtain his/her loan. Each member receives only 95% of the loan; the remainder is deposited in the group's saving fund. In this way the Grameen Bank has been able to link lending with both the deposit history and the repayment history of the group (Moore & Schoombie, 1995). At the same time, the borrowers acknowledge that strict repayment is expected before obtaining another loan (World Bank 1989). The Grameen principles have been successfully adopted in 30 countries (Kamaluddin, 1993).

Linking lending with clients' deposit records has also been used successfully by the Syndicate Bank (Bhatt, 1988). Instead of group lending, the Syndicate Bank requires deposits as loan security. Building a reputation of creditworthiness is thus acquired by making regular deposits, which become a lending prerequisite (Bouman, 1984). The Grameen and Syndicate banks' successful unconventional lending schemes challenge South African policy makers. Designing and implementing such a scheme will assist small businesses in their attempts to access loans to start or expand their businesses. Forming groups to obtain credit and guarantee repayment has more chance of succeeding than the single operator seeking credit (Yunus, 1989).

Supportive infrastructure for business promotion may be divided into two categories. First, there is the 'hard infrastructure' consisting, *inter alia,* of transportation, communication and urban/business amenities. Secondly, there must be appropriate 'soft infrastructure' in the form of suitable business associations, the availability of relevant and reliable statistics and supportive collective efficiency. Empirical research highlights the imperative need for both types of infrastructure in creating a robust and business-friendly environment. In effect, the existence of suitable infrastructure reduces transaction costs, improves trade reliability and creates opportunities for business networking, which generates economies of agglomeration in information and transaction management. All these are critical aspects of business operations, particularly for start-up and small businesses.

Lack of appropriate infrastructure places a constraint on a small business' success. Without appropriate and adequate infrastructure any SMME support intervention may be undermined. Small business support institutions provide, among others, counselling, technical training, marketing and accounting services. However, these services cannot be effective without appropriate infrastructure. Accessible roads, electricity, water and communication networks are essential to the success of any small business development strategy. Technology also plays an important role: access to email, internet, fax machines and telephones is vital to keep small businesses connected. One lesson from international experiences in SMME support intervention is access to information. The current study showed that in rural areas in South Africa where there is inadequate infrastructure, access to information is limited.

SMME support institutions should become sources of information to the small business sector. Internationally research has shown that most small enterprises use informal sources of information, or information obtained through commercial transactions. Entrepreneurs prefer to access information through people they trust and from those who are knowledgeable about their businesses. However, in South Africa it appears there is inadequate promotion of formal information sources and scant effort is made to increase the awareness of enterprise owners about the importance of information.

In the developed countries the information market is very active and it is growing. Trade fairs and exhibitions are valued as media sources by many entrepreneurs in developed countries. There are thousands of specialised magazines in circulation, and trade fairs, workshops and exhibitions are often organised. The Internet is an increasingly utilised source of information. International lessons indicate that small enterprise owners are willing to pay for information that is of particular value to them. Technology development and transfer are important measures that improve enterprise productivity and the quality of goods produced by enterprises to help them become more competitive. There should be increasing awareness concerning the potentially profitable technology market. The technological development of small enterprises should be viewed in the overall context of South Africa's technological development, and a market for innovations should be encouraged and promoted. An integrated approach to technology development would promote close collaboration among a range of partners. Many countries have encouraged the development of structures that facilitate interaction among different groups of entrepreneurs, including technology parks, incubators and industrial districts. These countries have also implemented regional development models that facilitate interaction between enterprises, universities and local authorities.

CONCLUSION

A focus on poverty eradication and the economic empowerment of historically disadvantaged communities was a feature of most accredited LBSCs in South Africa. This study suggests that LBSCs contribute to improved social welfare through job creation and increased income. However, the benefits derived from public investment in SMMEs through the LBSCs are sub-optimal: a number of factors inhibited small businesses' progress during the period under review despite LBSC interventions. Although there have since been some policy changes with regard to SMME support provision in South Africa, there has been no fundamental shift in terms of the approach towards SMME promotion. SMME support intervention is based on a linear approach where it is assumed that once a small business has been through an LBSC programme, it will become viable and successful. The results of this research reject this notion. LBSCs alone are not sufficient to boost the SMME sector in South Africa. Instead, small business support intervention should be integrated and all relevant stakeholders should play their part. There is a pressing need for an integrated SMME development strategy to address the challenges facing SMMEs. The existing National Small Business Strategy is a useful first step but does not go far enough in meeting the specific needs and constraints that face SMMEs in South Africa, particularly in disadvantaged communities. It is recommended that a holistic approach towards SMME support intervention should be adopted, otherwise the social returns to be derived will remain sub-optimal.

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BRITISH POLITY IN SELECTED BRITISH NOVELS

K.K. Tummala[1]

ABSTRACT

This article examines British polity as depicted by distinctive writers in four chosen books. Those are Jonathan Swift (Gulliver's Travels, 1726), Charles Dickens (Hard Times, 1854), A.J. Cronin (The Stars Look Down, 1935) and C.P. Snow (Corridors of Power, 1964).

In spite of the fact that the novel is a type of universal craftsmanship, its roots are locative. For the purpose of this article, it is accepted that authors usually are the products of the times they lived in. Influenced by the environment, s/he endorses or dislikes, admires or censures and adorns or corrupts such environment. Considering the contemporary sensation amid specific times, which is generally reflected in any work of art concomitant with the conceptualization of the writer, the compositions mirror the predominant societal conditions amid each separate time period.

The four selected books delineate English life and political frameworks at four distinct phases of advancement, beginning with next-to-primitive to the most recent, which is not necessarily the current 21st century. They clarify not only the socio-political and economic systems of their respective times, but also expound the problems of the day as they saw and understood it.

Keywords: Political Culture; Social Class; Political System.

INTRODUCTION

This paper examines British polity as portrayed in selected novels. Although the novel is a form of international art, its roots are locative, as Robert Frost once said (Snow, 1961: 4).

Irving Howe, writing on the same theme, was concerned "…far less in literature as social evidence or testimony than in the literary problem of what happens to the novel when it is subjected to the pressures of politics and political ideology" (Howe, 1957: 11). This writer believes that every author is a product of the times (s)he lives in. Influenced by the environment, (s)he either approves or disapproves, idealises or condemns the same, embellishes or degrades. Admitting the necessary dramatisation at times, which is essential in any art form, and also the fertile imagination of the writer, the writings reflect the conditions of the society at that time. Thus they stand as social testimony. For the writer stands in the capacity not only of an observer, but as a participant as well. There is a necessary confluence of critic-writer in all the instances, even in pure fiction.

This writer chose the following four novels which have politics for their major theme. Not that there are (or were) no more novels of this ilk. The choice here is entirely personal. They are: 1. Jonathan Swift, *Gulliver's Travels* (1726) (Arthur E. Case, ed. (New York: Thomas Nelson & Sons, 1940); 2. Charles Dickens, *Hard Times* (1854) (London: Penguin English Library, 1969); 3. A.J. Cronin, *The Stars Look Down* (1935) (Boston: Little, Brown and Company, 1950); and 4.

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C.P. Snow, *Corridors of Power* (1964) (New York: Charles Scribner's Sons, 1964). (Note: Quotes in this paper are from these editions, unless otherwise specified.)

These novels are examined with a view to understanding the political culture, the political system and their interplay; the distribution of power in the system; and the class basis therein. Comparisons will be made, wherever possible, with the analysis presented by Beer (1965) of the five traditions in Britain and Organski (1965) to test the congruency of the novel in the sense of whether it reflects the prevailing system of the day. The novels are individually examined for their content. This paper, however, is not intended as any sort of literary criticism. For the writer has no claims in that field, and any reference is only incidental.

The word polity needs an explanation. It is used in its broader connotation to imply the totality of the political culture and the political system.

Gulliver's Travels

Gulliver's Travels was written by Jonathan Swift, who for a time, as Johnson wrote, "…dictated the political opinion of the English nations" (Murphy, 1837: 220). When the big reward he expected from the Tory government for his great pamphleteering career had not come up, he was terribly disappointed. And later when he saw men inferior to him rise in power and prestige under the Whigs, he was greatly embittered. He saw the misgovernment of the English, and experienced the misery of the Irish – all of which were reflected in his writings. To express his disenchantment and disgust and attract the attention of the reader to these serious matters, he adopted the media of the travelogue and pungent satire: he wrote *Gulliver's Travels* with an "aim to vex, not to divert, the world." (Eddy, no date: 40)

The book is in four parts, each describing a separate voyage. The theme of the first two voyages, Lilliput and Brobdingnag, is a sceptical rejection of accepted values, while the special burden of the satire in Lilliput is the pettiness of human life and the "…inconsequential human politics" (Eddy: 105). In the first voyage Gulliver makes fun of the prevailing English values; in the second, the natives laugh at him and at England; and in the third, Swift expresses his own prejudice against all abstract and speculative knowledge. He deals a terrible blow to human vanity, false pride and humans' exaggerated conception of their own importance. He once wrote that he hated and detested that animal called man, though he liked John Smith (Eddy: 105). In the last of the voyages this misanthropy and cynicism reach the disgusting proportions of subordinating the human being to the brute. In *Gulliver's Travels* he projects a picture of all the political values and systems of his day, stripped of all their grandeur. There is complete historical veracity to all this.

The court life

The Lilliputian emperor represents George I, though his queen stands for Queen Anne. The "hobbling prince" represents the Prince of Wales, later George II, who wavered between Whigs and Tories. The king's discussion with his council as to what to do with Gulliver, when he was found and later when he was to be impeached, and the king's attempt to save Gulliver by buying off his chamberlain to his side, reflect the machinations of the prevailing British political system. In fact, the impeachment proceeding against Gulliver is an allegory of the fate of Bolingbroke. Gulliver's fate was Bolingbroke's. Blefuscu, to where Gulliver escaped by crossing the channel, is France.

Flimnap, the Treasurer in this court, is undoubtedly Walpole, who later became George I's First Minister, whom students of British Constitution referred to as the first Prime Minister of England. Flimnap's rope trick is an allegory to Walpole's dexterity in parliamentary tactics and political intrigue. His resignation in 1717 and regaining the power through one of the king's mistresses is represented here by Flimnap's fall saved by the royal cushion (Swift, 1940: 25). The desire for wealth, power and titles are his driving force. "That he never tells a truth, but with an intent that you should take it for a lie" and vice versa, and his mission to breed others in his trade - the three principal ingredients being insolvency, lying and bribery are characteristic (Swift, 1940: 275-276). The king honouring with blue, red and green threads is a reference to the ribbons of the orders of the Garter, the Bath, and the Thistle. That these were introduced by the grandfather of the then emperor was a reference to James I, who was responsible for the widespread sale of these honours (Swift, 1940: 51).

Political values and system

Several passages and instances reflect the extant values (Swift, 1940:37-38; 129-135; 264-270). The discussion between the Principal Secretary of Private Affairs to the king and Gulliver holds a mirror to the party situation. Tramecksan or the high-heeled, is the Tory, high church party and one most agreeable to the ancient constitution. Slamecksan, or the low-heeled, is the Whig, low church. Though the high-heeled are many in number, power is with the low-heeled because the king chose "…to make use of only low heels in the administration of government and all offices in the gift of the crown." He showed his favouritism by wearing his shoes with heels lower by at least one-fourteenth of an inch. The animosity between the two parties was such that they did not even indulge in inter-dining and mixing. The prince was not determined not to choose between these two parties. So he wore one heel high and the other low, with the result that he hobbled. (This is a reference to the wavering of the Prince of Wales, later George II, who could not decide between the Tories and Whigs.) Apart from the trouble with parties, there is the external danger of Blefuscu (France). Thus Swift goes on ridiculing the pettiness of party politics. The affair of breaking the egg on the smaller end is a reference to Edward VI's illegitimacy, and Henry VIII's denial of papal authority, and so on. The Big-Endians and Little-Endians represent the Roman Catholics and the Protestants.

Political Institutions

In his discussions with the King of Brobdingnag, Gulliver explains the political institutions of England and the king expressed some genuine doubts, much to the chagrin of any worshiper of the English Constitution.

The House of Lords, the ornament and bulwark of the kingdom, consisted of persons of the noblest blood and of the most ancient and ample patrimonies. To these, several holy men were added after a prolonged search. The Commons consisted of principal gentlemen, freely picked by the people themselves, for their great abilities and love of their country to represent the wisdom of the nation. After pitting searching questions about the method of selection, the use of money and about why people go to such lengths of family ruin to get elected to these places of no pay or pension, the king remarked that ignorance, idleness and vice were the proper ingredients for qualifying as a legislator.

When the courts of law and the functions of lawyers and judges were explained, the king asked whether they had, at different time, pleaded for and against the same case, citing some precedents, and concluded that laws are best explained, interpreted and applied by those whose interests and abilities lie in perverting, confounding and eluding them. Further, he observed that he could see "…some lines of an institution, which in its original might have been tolerable, but these half-erased and the rest wholly blurred and blotted by corruptions" and concludes that "…the bulk of your natives to be the most pernicious race of little odious vermin that nature ever suffered to crawl upon the surface of the earth."

Further derogatory remarks were made by Gulliver about lawyers, judges and courts, of which Swift seems to have had a rather terrible experience. When Gulliver explained about the army and other war machines, the Houyhnhnm house expressed disgust at this Yahoo, Gulliver, and says "…it is happy that the shame is greater than the danger; and that nature hath left you utterly uncapable of doing much mischief," a reference to the human size and physical fitness. The last hundred years of English history appeared to this king as "…a heap of conspiracies, rebellions, murders, massacres, revolutions, banishments, the very worst effects that avarice, faction, hypocrisy, perfidiousness, cruelty, rage, madness, hatred, envy, lust, malice, or ambition could produce." In Laputa, the flying island, we are served with the disgusting confessions of kings and great men, when they were brought back to life, temporarily.

Condemnation and idealisation

Swift expresses his contempt thus at the pettiness of human life and grandeur and, using the king of Brobdingnag as his mouthpiece, he observes: "And yet, I dare engage, these creatures have their titles and distinctions of honour; they contrive little nests and burrows that they call houses and cities; they make a figure in dress and equipage; they love, they fight, they dispute, they cheat; they betray." On hearing this and more, Gulliver felt himself dwindled many degrees below his usual size. The shame is on the English nation (Swift, 1940: 105-106). Then he dreamt of an ideal society, as expressed in his voyage to Houyhnhnms, a society where benevolence and friendship were the two principal virtues, where decency and civility were preserved to the highest degree; a society where laws were no more than 200 words; a society whose vocabulary was devoid of words like lie, power, government, law, punishment, war and so on; a society governed by pure and simple reason. For he believed that nature and reason are sufficient guides for a reasonable animal in showing what to do and what not to do.

In these voyages we also find references to other historical facts such as the Jacobite revolution and the subsequent inquiries into plots ordered by Walpole. These are ridiculed in the unnecessary and futile precautions taken and the articles of impeachment against Gulliver. English naval supremacy and the demolition of the French port, Dunkirk, are reflected in Gulliver's destroying the Blefuscu fleet. Mention was made of the colonising practices. The English class system is represented in the various observations like the farmer's dogs, the one solid dish of meat that the farmer ate, "…which is fit for the plain condition of the husbandsman;" the educational system in Lilliput that is proper to the sex and their several degrees (Swift, 1940: 84-85; 51-54).

Hard Times

Hard Times is a novel by Charles Dickens about the harsh times people were having consequent to industrialisation. It was known as an industrial novel. But it is more than that. When in fact someone suggested that the prolonged industrial strike of Preston in the summer of 1853, reported by Dickens in his "Household Words" was the basis of the novel, he was furious and said that the novel had been conceived earlier than that. This is more credible in that we find in the novel at least three aspects of the Victorian age: industrialism, utilitarianism and the educational system - all of which had greatly distressed Dickens. Personal relations such as marriage and divorce are also discussed. The novel was serialised in Dickens' own weekly - "Household Words." And as he himself complained, the constraints of serialisation were "crushing." The misery caused by industrialisation were evident everywhere during the first half of the 19th century, and caused a great deal of indignation and distress to Dickens. According to the census taken three years before *Hard Times* was written, only one-third of the people living in the towns were born there. Coketown in the novel was one of them, the real name of which was Hanely in Staffordshire on the London and North Western Railway. It was a typical industrial town.

"It was a town of red brick, or of brick that would have been red if the smoke ashes had allowed it... It was a town of machinery and tall chimneys, out of which interminable serpents of smoke trailed themselves for ever and ever, and never got uncoiled.... It contained several large streets still all very like one another, and many small streets still more like one another, inhabited by people equally like one another, who all went in and out at the same hours, with the same work, and to whom every day was the same as yesterday and tomorrow, and every year the counterpart of the last and the next" (Dickens, 1969: 65).

Dickens had seen in his lifetime the beginning of the end of cottage industries, which meant the end of all personal relationships in production. Workers in the industry, the weavers in Coketown, were just "the hands." There life was all fitted into a tight schedule by the owners and managers of industry who were intent on taking every penny out of every minute. There could be neither sympathy nor human consideration under such a scheme. The labourer became a helpless cog in the system, whose means of livelihood was his capacity to work and his willingness to sell himself, as personified by Stephen Blackpool in the novel.

A labourer as a human being was irrelevant in such a system. Notices appeared in every factory and industry forbidding conversation, singing and even whistling on the part of the workers. A wholesale attempt was made to metamorphose him into yet another piece of machinery. And the economy left him no choice. One of the characters, Sleary, in his asthmatic accent, comes out with bitterest truth:

"People mutht be amuthed, Thiquire, thomehow; they can't be alwath a working, nor yet they can't be alwath a learning."

While delivering Sissy Jupe into the hands of Mr. Gradgrind, to be taken away into his household, the same Sleary expressed his fondest hope: "Make the betht of uth; not the wortht.... Thquire, make the beth of uth; not the wortht (Dickens, 1969: 82-83)." In fact, the masters of the system did exactly the opposite. There never was a choice for the labourer to be otherwise.

This was the system that disgusted Dickens, a system which was unbearable, but remediable. He wanted to change this. Dickens expressed his dream in another context, sounding socialist:

"If there ever was a time when any one class could of itself do much for its own good, and for the welfare of the society...that time is unquestionably past. It is in the fusion of different classes, without confusion; in the bringing together of employers and employees; in the creating of better common understanding among those whose interests are identical, who depend upon each other, and who can never be in unnatural antagonism without deplorable results" (Ford & Monod, 1966: 272).

Industrialism destroyed all spontaneity, human feelings and personal relationships in its wake. It reduced humans to non-entities, except for their capacity to labour. The worker became a complete dependent upon the industry itself for his livelihood. In other words, he was at the mercy of the owner of the industry. All this misery is paraphrased in that one sentence of Stephen Blackpool. When his master, Mr Bounderby, told him to finish off and go elsewhere, Blackpool says:

"Sir, you know weel that if I canna get work wi' you, I cann get it else wheer."

But his master slammed the door in his face by saying that "(W)hat I know, I know; and what you know, you know. I have no more to say about it" (Dickens, 1969: 183). He knew that Blackpool was not indispensable. And so there is neither understanding nor compromise. It is simple, cold-blooded calculation. This was the system that bewildered Mrs. Luisa Bounderby who questioned incredulously "Did I understand, that being rejected by one employer, he would probably be rejected by All?" (Dickens, 1969: 188). Unfortunately, it was so. The chances for Blackpool, if any, were extremely small.

Why was this so? What produced this state of affairs?

We find the answer and gain an insight into their thinking and their values if we understand the people that exercise power in the society. There were two people in Coketown who controlled, nay, owned the town: Mr. Gradgrind, one of the "national dustmen" (Members of Parliament) and Mr. Bounderby, that "self-made humbug." Controlling the economy in the town, they wielded the power. Both were the typical products of the age, with half-baked and crude ideas about utilitarianism. It was not after all their fault. For there was a certain confusion in the philosophy of Bentham, who was the most ardent legal reformer, but also believed in Adam Smith's economics: "(t)hat man is a self-seeking creature, who thrives best when no one interferes to regulate his activities."

The utilitarian philosophy thus threw the working class to the wolves – the industrial owners and capitalists. Living in a system over which they had no control, in fact at whose mercy they were, the workers lost themselves, for the benefit of those few clever industrialists. This was the model that prompted Dickens to observe in the novel that "…the good grown-up baby invariably got to the savings bank, and the bad grown-up baby invariably got transported."

This was the system from which he benefitted and was the very heaven for Mr. Bounderby. He proudly said: "You see our smoke. This is meat and drink to us. It is the healthiest thing in the world, in all respects, and particularly for the lungs" (Dickens: 1969: 159). Of course, for his lungs, yes. But not for Stephen Blackpool's and the likes of him. Blackpool was the very picture of misery and helplessness. Dickens was writing this novel at a time when trade unions recovered after the fall in the 1830s. By 1850 they were gaining their influence back. And poor Blackpool, because of his promise to Rachael, the one he loved and was loved by, refused to toe the line of the Union and was consequently sidelined. Faced with reality, he addressed himself. Blackpool said:

"... I hope I shall die ere ever such a time cooms, and I shall work solitary among yo unless it cooms - truly, I mun do't my friends; not to brave yo, but to live. I hanobbut work to live were no heighth at aw, in Coketown heer? I mak' no complaints o' being turned to the wa', o' being outcasten and overlooken fro this time forrard, but I hope I shall be let to work. If there is any right for me at aw, my friends, I think 't is that" (Dickens: 1969: 174, emphasis supplied.) And it was this right that was denied to him.

Laissez-faire economy had taken firm root in the political culture, and became the credo of the system. And that was the cause of all misery. And that was what Dickens was attacking. When Blackpool talks, it was Dickens who was addressing. To quote Blackpool again:

"'Deed we are in a muddle, sir.... Sir, I canna, wi my little learning an my common way, tell... what will better aw this... but I can tell... what I know will never do't. The strong hand will never do't. Agreeing fur to mak one side unnat'rally awlus and for every right, and toother side unnat'rally awlus and for ever wrong, will never, never do't. Nor yet lettin alone will never do't." (Dickens: 1969: 180-182, emphasis supplied).

Caught helplessly in the tentacles of this system, disowned by his own class and unwanted by the employer, what else could poor Blackpool say, except "…heaven help us aw in this world" (Dickens, 1969: 123).

The type of education that was provided naturally bore all the marks of the values promoted by, and reflected in, the system. The same two people, Mr. Gradgrind and Mr. Bounderby, also controlled the school. Mr. Gradgrind was a person committed to the utilitarian philosophy in his own way. His views on education simply reflected the prevailing system of his time. The Bell and Lancaster system dominated the scene. Mr. M'choakumchild, the school teacher, probably personified J.M. M'Culloch, who was one of the most popular writers of text books of the day (Ford & Monod, 1966: 306). The attitude and belief were to give education full of facts, with all mathematical precision. The novel opens with a thesis on education by Mr. Gradgrind:

"Facts alone are wanted in life. Plant nothing else, and root out everything else. You can only form the minds of reasoning animals upon Facts: nothing else will ever be of any service to them" (Dickens, 1969: 47).

Obsessed with this philosophy that all life should be governed by facts alone, the education that was provided killed all the spontaneity and imagination of the child. The inhumanity is well portrayed in the definition of a horse thrust upon a girl, whose father was a horse-rider, and who was herself brought up among horses. This girl number twenty (numbered after the military fashion), was unable to define a horse. Another student produced the following definition:

Horse: "Quadruped. Graminivorous. Forty teeth, namely twenty-four grinders, four eye-teeth and twelve incisive. Sheds coat in the spring; in marshy countries, sheds hoofs too. Hoofs hard, but requiring to shod with iron. Age known by marks in the mouth" (Dickens, 1969: 50).

Bitzer, the boy who came up with this beautiful factual definition, was to pay the most inglorious, yet real deserving tribute to the system at the end of the novel, while trying to prevent the escape of Gradgrind's son.

The powers that be were very happy at the tidiness and orderliness of the system, unaware of the misery they caused. Dickens expressed his opinion in another place, when he said:

"... I don't like that sort of school... where the bright childish imagination is utterly discouraged, and where these bright childish faces, which it is so very good for the wisest among us to remember in after life, when the world is too much with us early and late, are gloomily and grimly scared out of countenance; when I have never seen among the pupils, whether boys or girls, anything but parrots and small calculating machines..." (Ford & Monod, 1966: 311, emphasis supplied).

What could happen to the children brought up in such a system is anybody's guess. Consider the lives of the model pupils, Thomas and Louisa, two of Gradgrind's own children. Louisa had to view her marriage with Bounderby, more than twice older than herself, as a "Fact". Love and marriage took on a manufacturing aspect, and she prostituted herself into this marriage for helping her ungrateful brother. Thomas, her brother, disgusted with life in Stone Lodge, where things went with mechanical exactitude and with the least human interference, scornfully proclaimed:

"I wish I could collect all the Facts we hear so much about and all the Figures and all the people who found them out; and I wish I could put a thousand barrels of gun powder under them and blow them all up together" (Dickens, 1969: 92).

Good for them! He ended up robbing his brother-in-law's band, and to save the ignominy was transported abroad stealthily with the good help of Sleary, the circus man.

Apart from these, the novel deals with human emotions, of marriage particularly, and also with class characteristics. The snobbery and crookedness of the upper classes, with all its conceit, are well portrayed in the character of Mrs. Sparsit, who always kept remembering that she was a Powler, and Mr. Bounderby, the loud banker-merchant-manufacturer-humbug. All the helplessness and nobility of the working class – the hands – are portrayed in Sissy Jupe, girl number twenty, Rachael and Blackpool. Blackpool's attempt at coming back to Coketown to clear his name from robbery manifests his integrity and honesty. His nobility not to reveal the "Fact" publicly to Gradgrind that his own son was the robber, is highly commendable, and elevates his own personality. The differential treatment meted out by the society to these classes is best shown in the divorce law that was available to the rich alone and not to the poor.

Though the pungence of the situation is to some extent lost to the general reader, because of the humour Dickens uses we cannot but accept the verdict of Shaw who wrote:

"*Hard Times* was written to make you uncomfortable; and it will make you uncomfortable (and serve you right) though it will perhaps interest you more, and certainly leave a deeper scar on you..." (Shaw, 1912: no date).

The Stars Look Down

Dr. A. J. Cronin's *The Stars Look Down* is one of the most fascinating novels, in that it examines British society with all the doctor's insight. The novel has the mining town of Sleescastle as its main stage, with London as an important side show. It portrays the changing values breaking futile on the power structure which remains as has been. The author's taste for socialism, the rise of trade unionism, the hope and disillusionment of the Labour Party, the class structure of the British society – all of these find a beautiful expression in this novel.

David Fenwick and Arthur Barras are the two most important characters for they represent new hope. Fenwick is a good example of the working class man rising to elite status. The son of a miner, he started his life in the pit, experienced the tragedy of coal miners first hand, and swore that he was going to do something to alleviate it. Jesus Wept, one of the characters, told him during his young days that "…no servant can serve two masters: Ye cannot serve God and mammon." And Fenwick chose to serve God, the coal miner pitting all his energies against the mammon. He obtained a scholarship, went to college, and started teaching as a jumping board. For he wanted to get into another, more active, more combative sphere - politics. The Neptune mine disaster that killed his own father did not propel him for any personal revenge against the owner, Barras. His quarrel was against the whole economic system that produced the disaster in the mine. And the political machinery which had produced the war was linked in his mind with this economic system (Cronin, 1950: 245, 249) that he wanted to end and politics was the means for him. Building up his base from worker through the union and going to parliament, he thought he could have his socialist ideas implemented. However, his enthusiasm and reformatory zeal outstripped reality, and when he found himself a failure against the power structure, he did not become frustrated, though he was disappointed. With the true working class mentality he went down into the pit, the same pit that killed so many, the same pit he wanted to improve through legislation, but failed.

At the other end of the spectrum, we have Arthur Barras, the conscientious and humanitarian son of Richard Barras, the upper class mine owner. Richard Barras is a sincere and principled man; he never abdicated responsibility to authority as is evident in the way he led the rescue work after the mine disaster (Cronin, 1950: 197-203). But he is also the representative of his class. All his actions were governed by self-interest. "He loved his possessions passionately, his pit, his house, his pictures, his property, everything that was his." (Cronin, 1950: 81). Everything else was subordinated in this self-interest. He could have avoided the disaster; but he sacrificed the miners, even his own son later, for his self-interest.

Arthur, though brought up in his family, was imbued with different values. His model was David, who in fact taught him privately for a while. But because he was a weakling, he submitted himself to the authority of his father. When he began questioning, he was got rid of by his own father, who wilfully dispatched him to prison under the pretext that he had refused to fight the war as a conscientious objector. Once out, he got a hold on himself and confronted his father. Having succeeded to the ownership of mines he wanted to reconstruct them as safe pits. The motto was "Fair play for everybody" (Cronin, 1950: 416). As an enlightened owner, he tried to do all he could for the miners who naturally distrusted his altruism and ideals because of his class and the known self-interest of the class. They thought all this benevolence was a subterfuge and that no one of his class would do anything without self-interest. Misunderstood, the miners destroyed him. And he also shared the same fate with David. Both went down the pit together, as workers.

Here are two people, David and Arthur, who wanted to get out of their class – people burning with enthusiasm to serve the cause of the poor. Both misjudged the power structure against which they were pitting themselves. And both lost their battles, for they were swimming against the stream. Their beliefs were not congruent with the prevailing culture and the system.

In *Hard Times* it is shown that trade unions had regained their lost position by the 1850s. In this novel we see their importance. The Labour Party, as Ernest Bevin once said, grew out of the bowels of the Trade Union Congress (TUC). David worked his way through the Union into the Labour Party, and went to parliament. The importance of the Union is shown in the help it rendered to the miners. Its power was evident in the fact that Robert, David's father, was restored to his job in the mine, not because Barras wanted him, but because of his friendship with Haddon, the miner's agent and Harry Nugent, Member of Parliament (MP) of the Federation. The possible trouble with the union got him his job.

The novel explains the working and ideology of the Labour Party. The Party works upward from down below. This is evident from the fact that though the executive of the Labour Party was against David's candidature for parliament for the second time, the Party had to give him the ticket because the miners' Federation wanted him (Cronin, 1950: 608). The socialist ideas of the Party on war, economy and the system in general are expressed in the views of David. Harry Nugent, MP, called the announcement of Lloyd George on Sir John Sankey's report a big swindle (Cronin, 1950: 469). David explained: "Our present mining system has grown haphazard - not as the result of economic causes - but because of historic and personal causes. As has been said, it is planned not for geological, but for genealogical reasons" (Cronin, 1950: 579). "Mining isn't like any other industry. It demands nationalization. The lives of the men depend on it. So long as you have private enterprise looking for a big profit, you'll find the safety factor out..." (Cronin, 1950: 495).

The manifesto of the Labour Party presented to the electorate, signed by J. Ramsay Macdonald, J.R. Clynes, Herbert Morrison, and Arthur Henderson, read thus: "The state of the coal mining industry is so tragic that measures would be immediately undertaken to alleviate the distress in the coalfields, reorganize the industry from top to bottom, both on its productive and marketing sides, and shorten the hours of labour. A Labour Party majority would nationalise the Mines and Minerals as the only condition for satisfactory working. It would develop the scientific utilisation of coal and its valuable by-products, now largely wasted" (Cronin, 1950: 533). Now that Labour was in power, David wanted immediate action to alleviate the misery of the of the coal miners. The temptation to play for time was great, and the Party did not want to antagonise the Tories by any revolutionary and precipitate move. And when David grew impatient and demanded immediate action, he was told by the Parliamentary Labour Party Committee:

"The point you forget is that we're in office here, we're not in power. We must make shift the best way we can. The Government is bound to compromise."

And he was advised: "We can't go and repudiate the present system offhand like we were throwing away an old boot. We've got to be careful. We've got to be constitutional. Damn it all, I'm too popular to do anything against the British Constitution" (Cronin, 1950: 538, 540). When ultimately the Bill reached the third reading stage, David was enraged to find it more a Tory Bill, all its content whittled away by amendments – an expression of compromise and procrastination. He expressed all his hopes and disappointment in his final speech (Cronin, 1950: 578-580).

It is evident the Party did not keep its promise. Nor did it stand up to the expectations of its own sincere members. Some members like Chalmers and Bebbington were bitten by the gold bug and so could not go entirely against the Tories and other financial bosses. The government was not governing but performing (Cronin, 1950: 539). It could not do anything radical, because it was in office, and not in power.

Then where is power?

The men of consequence in Sleecastle were Richard Barras, mine owner, connected with the school board, highly influential with authorities that be, as is evident in the inquiry into the mine disaster, chairman of the local tribunal for draft; James Ramage, the butcher, meat supplier to the hospital, contractor to the municipality, vice-chairman of the school board; Lynton Roscoe, a stooge; and the priest who was no more than Ramage's yes-man, because he supported him financially. These were the people who controlled the finance, school, employment, municipal government and society. These were the people who sent Robert Fenwick to jail, fired David Fenwick from school and ran a candidate against him later. The mine disaster was due to one of them. They were the ruling class. And any measure that threatened the privileges of the ruling class implied a transformation of the existing power relationship. As correctly envisioned by H.J. Laski in the 1930s, though Labour might come to power, it would be unable to carry out the programs of nationalisation. He wrote:

"The central weakness (of the orthodox labour) is due to the refusal of the Labour Party to recognize that the state is the instrument of that class in society which owns the instruments of production and that it cannot utilize that state for its own purposes as long as that class remains in possession of those instruments.... Unless a labour government is prepared to meet a crisis of the first magnitude the forces it will encounter will persuade it rather to operate the capitalist system than to move to its transformation" (Laski, 1947: 159).

The class system with its values is very well represented in the Barras and Fenwick families. The Barras family were upper middle class owners of coal mines. No doubt they were enlightened to an extent, but it was necessarily self-interest that ruled. There was participation by children in the family matters. So long as he towed his father's line, Arthur Barras was contributing equally to his father's decision-making. He was sacrificed only when he began working against this self-interest of his father – identified as the family interest. When his eldest daughter, Hilda, wanted to go out and study medicine, or when she got involved with the suffragette movement, she drew the disapproval of her father. She expressed her class consciousness when she disapproved of her sister, Grace's, romance "with a baker's lout" and even suggested that "…we can all get back to where we belong" after the war (Cronin, 1950: 346, 350). Arthur Barras expressed his *noblesse oblige* when he got David his job as school teacher. Everything in this house went with cold logic and unhurried precision to promote the self-interest of this ruling class.

The Fenwicks were working class, simple, proud, humble, honest, but the sufferers. Martha's pride was hurt when her husband was imprisoned, though on trumped up charges. David's father threw away the florin, given by Richard Barras. She did not like her son David studying. "She, coming of a long line of pitmen, a proudly class-conscious woman, despised book learning in her own kind, and felt that no good would come of it" (Cronin, 1950: 46). She did not approve of her other son's football ambitions. Nor did she approve of her daughters-in-law; for one was an ape-like imitator of the upper class, and the other belonged to fisher folk. She believed that they should rigidly confine themselves to their own class and work.

Then there was Stanley Millington, the foundry owner, a liberal, who believed that he should fight for his country. He left his prosperous business and beautiful wife in charge of a scoundrel, Joe Gowlan, who succeeded in appropriating both, he went to war, got hit by shrapnel and came back a wreck.

Gowlan, a co-miner with David, explained his philosophy thus: "... I have got to look out for myself. And I'm goin' to look out for myself. See! That is how to do it. Get there first or somebody'll get there afore ye" (Cronin, 1950: 13). English society gave him all the opportunity to be there, though not first. This scoundrel and scamp prostituted David's wife, got hold of Millington's fortune as well as his spouse, never returned the two pounds he had borrowed from

David, and ultimately beat David in parliamentary election with money and hooliganism. David went into the pit; Gowlan went to parliament.

The class struggle is shown in the incident consequent to the proposed Coal Decontrol Act. Arthur Barras, because of his contract commitments, did not like decontrol at that particular moment, and went to Probert of the Amalgamated Collieries, who was also a leading member of the Northern Mining Association, for help. Probert advised him that there was nothing that could be done except cut the wages by 40 per cent, and in case there was a strike, declare a lock-out. Thus we find a beautiful presentation of class interest and struggle depicted here.

Corridors of Power

Corridors of Power by C. P. Snow is about the rise of a new class in the old, traditional British society – a class consisting of scientists and higher civil servants. The purpose of the novel is to understand "the power-relations of men in organised society... since these power-relations determine so much of our working lives... you have got to understand how the world ticks if you are going to have any chance of making it tick better" (Snow, 1961: 15).

The novel mainly deals with four sets of people:

- Roger Quaife and other politicians;
- The new class consisting of higher civil servants such as Lewis Eliot, Sir Hector Rose and Douglas Osbaldiston, and scientists like David Rubin, Sir Franscis Getliffe, Sir Lawrence Astill and Michael Brodzinski;
- Pressure groups represented by the industrial tycoon, Lord Lufkin, who says that he is content with "a small room and a gas-ring" (Snow, 1964: 328); and
- Society women like Diana Skidmore and Mrs. Hennaker, with their own intelligent network going.

The question again is: where is power? It is an easy question, but a very difficult one to answer. What preoccupies Snow, as George Steiner wrote, "... is the problem of information and motive in democratic government, the mystery of how the political process is to absorb and handle the immense powers of the new scientific arsenal. There could hardly be a more urgent theme" (Steiner, 1964: 31-50).

Quaife, whose father was a design engineer, belonged to the provincial middle class – "not really out of the top drawer." A well informed person, he was very much concerned with the nuclear arms race, and believed that he could get some decisions through. "To make the real decisions, one's got to have the real power" (Snow, 1964: 35). He went all out to get it and tried it, only to fail. He expressed his belief thus:

"Look, a politician lives in the present, you know. If he's got any sense he can't think of leaving any memorial behind him. So you oughtn't to begrudge him the rewards he wants. One of them is just possessing the power – that's the first thing. Being able to say yes or no. The power usually isn't very much, as power goes, but of course one wants it" (Snow, 1964: 32).

He shows his political dexterity many a time. The way he tried to ease Lord Gilbey out of office through the use of Brodzinski is one of several examples of his political craftsmanship. He became involved in the scourge that decided the fate of the English politicians more than once – extra-marital relations. Fully aware of the fact that he was not backed well by his own party, but conscious of his mission, he went to parliament with his White Paper, came out beaten and disappeared into oblivion, with his mistress.

The traditional role of the civil servant as an anonymous, neutral, behind-the-scenes administrator, and the emerging one as an effective participant in the policy-making process, is well represented here. Rose felt that the new department was a good place to which to send an enemy. Not because he had any quarrel with the government about the general policy, but because the new department, like anything connected with modern war, spent money, but did not, in administrative terms, have anything to show for it. Their neutrality is well explained when Douglas Osbaldiston, the Permanent Secretary, says:

“We’d better try to be rational. If my minister wins, then I shall do my best for him. Of course, I shall be carrying out a policy in which I don’t believe. Well, I’ve done that before and I can do it again. I shall try to make the thing work without false modesty, I shall do it as well as anyone round here.”

These great administrative bosses, the Roses and Osbaldistons, scarcely ever heard a public word about themselves, certainly not a hostile one. Lewis Eliot explained to the security clearance officer that officials like they were had to fall back on codes of honour and behaviour. But they found themselves at a loss coming up against ministers like Lord Gilbey who, with extreme cordiality, would neither make a decision nor leave it to them (Snow, 1964: 17; 364, 27-28, 17).

The emerging situation was different. They were the new class, along with the scientists. The amount of influence they carried and their role in policy-making were evident throughout the novel. Osbaldiston expressed his concern over the expenditure on missiles and was eager to stop it. He persuaded the minister, Lord Gilbey. Brodzinski’s scheme on nuclear weapons was thoroughly discussed among the top brass, and the consensus was against it. Efforts were made to neutralise Brodzinski through the good offices of Eliot. The decision was that the minister should not answer the question in the House lest it might hurt his plan and influence, but instead let his Parliamentary Secretary face the music over essentially a civil service decision. The amount of influence they wielded was evident all through the episode of the White Paper. This was an accepted fact as expressed about Osbaldiston. We hear that “…it never occurred to him to pretend as Rose had always pretended and sometimes managed to believe - that he had no influence on events. It never occurred to him to chant that he was simply there to carry out the policy of his ‘masters’. On the contrary, Douglas (Osbaldiston) often found it both necessary and pleasant to produce his own” (Snow, 1964: 19, 107-108, 277). The influence of the scientists on policy-making was evident through the actions of Getliffe, Brodzinski and others. Rubin proved himself equally adept in both politics and science.

The relationship between the minister and civil servant was made clear in the conversations with Lord Gilbey and Quaife (Snow, 1964: 19-20 and 31). As Sir William Harcourt said, the minister was there to tell the civil servant “what the people won’t stand.” When Eliot and Osbaldiston tried to have ‘plan A’ implemented quickly, Lord Gilbey warned them for he believed in taking people with him.

Quaife explained his disenchantment with the attitude of Eliot, while telling a fact of value. He observed:

“The trouble with you, you like to sit above the battle. I don’t know that I have got much use for that. You’re prepared to get your hands a bit dirty, but not very dirty. I’m not sure that’s as creditable as you think. I must say, I sometimes lose my respect for people who know as much as you do, and still don't come and fight-it-out."

As we observe these civil servants talking high over the head of a common man, frequent exclusive clubs, and move in a close-knit group, we come out with an impression that they were a separate class. Eliot once observed with smug superiority: "These people's politics were not my politics. They did not know the world they are living in, much less the world that was going to come" (Snow, 1964: 8). Although it is difficult to say to what extent policy was actually initiated by them, it is evident that they had a great deal of influence. It surely was the duty of the administrative class. This "Oxbridge" group, products largely of the public school, belonging to the same clubs, and leading a typical social life, developed an *esprit de corps*. Apart from their regular formal conferences, they sorted out the problems informally over a cup of tea, and produced a coherent policy, as was evident from the frequent meetings in the clubs and coffee houses at all unearthly hours.

Still, the question remains: Where is power? Like the Indian God, it is everywhere, yet nowhere to locate, but still operating. Lord Lufkin represents a pressure group wielding enormous power. Once a minister himself, he was an industrial tycoon. With his high connections and great influence coupled with big money, he was a power to reckon with. He had a stake in the proposed nuclear policy, but was bought off by an aircraft contract. Diana Skidmore with all her lavish parties was an influential factor in this game of power. Much gossip was exchanged at her parties. "Since Diana had a marked preference for those on the rise, the frequency of a man's invitations to Basset bore a high correlation to his political progress" (Snow, 1964: 47). Quaife appointed Tom Wyndham as his Parliamentary Secretary, because his family connections could bring naval support to him. The Ministry of Labour was used as a mouthpiece of a pressure group against Quaife. The speech of Brodzinski in Los Angeles was a power factor. To swing the balance in favour of Quaife's policy, Eliot thought of a speech or two by uncommitted men in the House of Lords and even a letter to the *London Times* with some respectable signatures appended to it: a recognition of power factors (Cronin, 1964: 324). The power the back-benchers wielded is also evident when they voted against Quaife's policy, and Quaife regretted not cultivating them. It was not quite the truth the *London Times* wrote while reviewing Snow's book: "The reader is in the corridors, not in the power house itself"(*London Times,* 1964). Every John Citizen has power in every corridor, but with a caveat. As Quaife says, "No one was dangerous, unless he represents something" (Snow, 1964: 139). Representing something – that is where power is – interest and pressure groups. The individual has no place of power in a collectivist age.

The political system is explained at several places. "The Prime Minister, they used to say piously, was the first among equals. It might be so, but in that case, the first was a good deal more equal than the others" (Cronin, 1964: 349). Representing the department in both the Houses of Parliament was shared by the Minister and his Parliamentary Secretary. Also mentioned are such details like a three-lined whip, taking away the whip, the burning light on West Minister indicating that the House was in session, the ringing of the division bell in Quaife's house, among others. The entire life and death of the White Paper is an explanation of the working of the political system.

The British parliamentary form subscribes to the principle of collective responsibility of the Cabinet. This simply means that major policy decisions are made in a Cabinet meeting and if one Minister loses confidence of the House, it is tantamount to the loss of confidence in the entire Cabinet. But in the novel something queer happens. Quaife's White Paper was on a very important matter – nuclear deterrence. This was discussed in the Cabinet before it was presented to the House. The Prime Minister obviously had full knowledge of what the contents were and what Quaife intended. We have reason to believe that at least his tacit consent was implied. But as a Senior Minister, he did not give Quaife support in the debate, and when the debate took place and the battle was lost, he simply walked out, as if nothing had happened, or what had happened was no concern of his. The debate, instead of being treated as a defeat of Cabinet policy, was simply ignored by sacrificing Quaife (Schlesinger, 1964: 4). This aspect does not fit into the Cabinet government that we know of in England. It is also not evident why the Labour Party should vote against the measure. Though we do not know the contents of the White Paper, we have reason to believe that it was more in tune with the Labour Party views than anybody else's.

CONCLUSION

The preceding analysis of the novels results in the following conclusions which are in line with Beer's analysis. It is evident from *Gulliver's Travels* that the king was not all powerful. The power centres around the court - Flimnap, the Prime Minister of England, shows all political dexterity. The way political maneuvers took place, corruption and bribery were the *modus operandi*. And the common man had no role to play in the system. More of a satire, it essentially depicts the court life, and the declining power of the king with all historical veracity.

Dickens represented the evils of Poor Law in his *Oliver Twist* and in *Hard Times*. We see utilitarianism and *laissez-faire* as the prevailing cultural norms, and the system truly reflects them. The Bell and Lancaster educational system is critically examined. The evils of industrialisation and the lot of the poor are well represented. He wanted to discuss industrial strikes also, according to the original plan, but gave it up, for reasons better known to himself. Talking of power, it lay of course with the moneyed. Their interests counted, and the system responded accordingly. It was not an open system. The class character of the society is explained through the lives of Stephen Blackpool at one end and Mr. Gradgrind at the other.

In *The Stars Look Down* we see the distinct mark of change. The system became more open. Trade unions become active, and Labour Party comes to represent socialist ideas. The worker gets a voice. David's life itself mirrors the changes taking place in the British polity. This shows the transition actually. Yet, power still is with the upper middle class, moneyed interests. New cultural norms are coming up, but the system is yet to respond completely. Harry Nugent M P is a person who understood the times, and consoled the enthusiastic David. It was a time when the Lib-Lab coalition had a try at power. But they could only have the office, not power. The class system is best explained here in this novel. In *Corridors of Power* we are face to face with the problem. The system is opened up. We find all pressure groups operating in the collectivist age. The rise of a new class is portrayed with all consequences, and problems highlighted. The fact that Labour voted with the Conservatives proved the Beer thesis that parties tend to come to the centre (Beer, 1965: 352-390). Punnet also agrees that there is a consensus among parties on fundamental constitutional and political problems (Punnet, 1968: 22-28). We can fit in these conclusions into Organski's stages of political development. *Gulliver's Travels* stands testimony to the passing of the first stage, national unity. There is a complete central role, with little or no subject participation. There is next to nothing in the form of services to the people.

The second stage of politics is represented in *Hard Times* and *The Stars Look Down*. Use of the new economy is evident. We see traces of shift of power from the traditional elite, especially in the latter novel. There is the migration of people from rural to urban areas, and of course the concentration of capital.

The third and fourth stages of national welfare and abundance are evident in *Corridors of Power*. There is a complete mutual dependence of people and government, on one another. There is the rise of a new class, new elite and the birth of a new class structure. There is a sharp increase in the concentration of economic power. There is an identification between government and industry as seen in Lord Lufkin. The efficiency of the war machine is greatly improved.

From the previous discussion it also emerges clearly that at any stage of development of the system power tends to rest ultimately in an oligarchy. Perhaps it is true in any form of government that a small group of people would have a large share of political and economic power. But what is unique about Britain is that this oligarchy seems to have a social base, which means a class representation. This generalisation may not be completely true with regards to the politician-minister. For we see that some members of parliament and ministers go through trade union leadership, not necessarily the upper middle class or even aristocracy. But the administrative service tends to be class-oriented. Richard Rose is quoted observing that most people would reject "…the notion that there is in Britain today a 'conspiracy' by a completely dominant and totally exclusive Ruling Class, and a more accurate picture is probably that of a predominant (although not exclusive) share of political power being held by the upper-middle-class-public-school-Oxbridge-based elite" (Punnet, 1968: 415). This view is questionable in that we had seen how homogenous and close-knit a group the administrative class is. It is true that the bright young middle class or lower middle class student goes up the social scale through scholarships and college education, as David Fenwick in *The Stars Look Down* and Prime Minister Harold Wilson did. But it does not take long to socialise them into that ruling class.

Thus it is evident that these four novels depict English life and political systems at four different stages of development, starting with next to primitive to the latest (not the current 21st century). They explain not only the system but also project the problems of the day. What Irving Howe wrote of Orwell's *1984* may very well be applied here. He wrote that the novel "... is not a paradigm and hardly a puzzle; whatever enigmas it raises concern not the imagination of the author but the life of our time. It does not take us away from, or beyond, our obsession with immediate social reality." (Howe, 1957: 235-236).

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JOURNALISM VS. PUBLIC RELATIONS: SITUATION ANALYSIS

V. Kaul[1]

ABSTRACT

This paper examines why the relationship between public relations (PR) practitioners and journalists is so complex and antagonistic. It also raises important questions about the implications for both journalists and public relations practitioners of working within a relationship in which there are forceful and dichotomous conceptualisations by one party of another. The strength of ambiguous feeling evident in many of the statements suggests that there is a need to consider the impact on individuals and on professional decision-making processes of such entrenched, ardent, and in many cases, hostile, views, as well as to question the applicability of this kind of long-standing professional cultural 'stance' to today's changing media landscape. A number of researchers claim that prejudice against public relations is not due to negative personal experiences, but is rooted in journalism culture. What is the outcome of these relations and how do they affect journalism and news selection? Do journalism and public relations programmes belong in the same academic department? Are academic programmes in part responsible for perpetuating stereotypes and contributing to negative perceptions about public relations?

This study, based on interviews with both sides, identifies a close and continuous, though mostly one-sided, contact in which PR actors steadily provide journalists and editors with instrumental news angles with regard to news management. While the former claim that they often succeed in planting their promotional ideas in newspapers and programmes, the latter mostly deny such a claim. However, admitting that the PR sphere does constitute a skilful news producer, journalists relate that, in times of decreased editorial resources, they are dependent on material from outside sources. A mutually dependent exchange relation can thus be seen as a summarised picture of the PR-media relationship.

Keywords: Public relations; Media relations; PR-media; News management.

INTRODUCTION

We've entered an age when every company and every individual can be a media outlet with the capacity to create and syndicate content. At the same time, nimble media upstarts have mastered the art of headline histrionics. In so doing, they have siphoned off a growing share of the public's ever-divided attention spans from legacy media, which today are struggling to retain the influence they historically have enjoyed. The love-hate relationship between journalists and PR professionals has taken a distinct turn toward the latter in recent years and infects nearly every media beat. There are a number of reasons fueling the growing acrimony between the two professions, or at least the short fuses journalists have for many PR operatives.

Like oil and water, public relations and journalism are traditionally regarded as two distinct professions that cannot mix. Despite being extensively researched for almost a century, the relationship between journalists and public relations practitioners remains obscured in ambiguity, contradictions and an institutionalised acrimony that belies the reality of media practices. One side sells products; the other purveys truth as best as one possibly could. Because of the basic difference in functions, one stresses the positive qualities of one's product; the other presents the

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good and the bad in every situation. Having started my career in journalism, I am familiar with the terms 'hacks' and 'flacks'. The hack is a journalist pounding out copy as a deadline approaches. The flack is a PR pro trying to promote a client for positive mention in the copy being written. These signifiers deny any space for qualification by implying all journalists are hacks and all PR practitioners are flacks. In actuality, their co-existence comes from a symbiotic relationship that draws them together every day. Public relations and journalism do not inhabit separate worlds; in particular, the relationship between them is not that of sleazy liars seeking to seduce seekers after truth. Truth does not reside on one side only. Standards are not the monopoly of one and unknown to the other. Journalism cannot understand itself unless it understands what public relations has done to it; how murky and grubby the relationship can become, with the connivance of both, and how the relationship might work to the benefit of citizens who should be told something like the truth. It is a self-regarding conceit of journalism that we are the dogs for whom public relations furnish the lamp posts. Understanding that relationship, and explaining its claims and its silences, are increasingly indispensable to an understanding of public life. I'll add my own cynicism - most PRs and journalists add little value to truth-telling if they're nothing more than channels or conduits that distort and manipulate the original message - assuming, of course, that their roles are to do with truth-telling.

The enmity between journalists and PR people has been extensively documented, with many media scribes snobbishy dismissing the PR practitioner's valid role as a significant broker of useful media information. Regrettably, many people - including journalists who should know better - persist in using journalism standards to judge public relations activities. And, when this is done, public relations practitioners are inevitably found wanting and are castigated for being 'unethical'. While it's true that public relations once had its roots in journalism and many public relations people were once journalists, it is misguided and unfair to both professions to apply journalism standards to public relations today. Practitioners in both fields do use some similar skills, and both are communicators, but the two professions are fundamentally different with very different missions, goals, masters, and operating policies.

The muscles of journalism are weakening and the muscles of public relations are bulking up – as if they were on steroids. It is becoming increasingly common in universities for journalism and public relations to be considered as partner subjects. The border between journalism and public relations is being eroded in the context of a more general decline of normative inquiry and its replacement with inquiries into mere instrumental effectiveness. Some journalists argue that they are not influenced by PR while, at the same time, others point to the growth of PR and empirical evidence of media content contributed and influenced by PR as undesirable results of cutbacks in journalistic staff. In both cases, journalists claim that PR is a problematic influence on public communication, referring to the practice as 'the dark side' and its practitioners as 'flacks' and 'spin doctors'. When will the perpetual battle between public relations professionals and journalists finally be settled? It seems as though these two professions are immersed in a constant war zone, but the truth of the matter is: we need each other.

Meanwhile, the ranks and budgets of PR practitioners continue to swell, which suggests that PR is seen by employers as necessary and effective. PR people have got away with hoodwinking clients with "…peculiar algorithms that link the size of an editorial article on the page with the cost that it would have taken to secure an advert of the same dimensions" (Groom, 2013). Now the growth of social media has created better ways of evaluating success. But has social media, which has also become a stomping ground for self-promoters and snake oil salesmen speaking in tongues, duped many as to what PR is all about? It's an important question. Because this is about defining, or possibly needing to redefine, what it means to do PR. Certainly, that definition has shifted in recent years, depending on who you are and what you do. The debate probably begins here: If you're pitching direct to an audience - as opposed to some form of media outlet for editorial coverage - should you not define yourself as an advertiser and not as a PR professional?

"The deluge of badly-written press releases, silly events and photo stunts, 'news stories' without news value, and meaningless 'campaigns' have come to irk journalists and bore an increasingly cynical general public. If anything, it will be the changing nature of the media that will fundamentally alter the PR industry, weeding out the hapless and the disingenuous" (Webb, 2013). There is a need to consider the impact on individuals and on professional decision-making processes of such entrenched, ardent, and in many cases hostile, views, as well as to question the applicability of this kind of long-standing professional cultural 'stance' to today's changing media landscape. It is time for dialogue and commitment to work together on redefining the role of all media professionals in an open democracy.

PR is always changing. So is media. So is everything. The public relations industry faces massive changes as media fragments and the Internet enables consumers to fundamentally redefine their relationship with an organisation. The relationship between journalism and public relations has been described as a tumultuous, complex and necessary symbiotic liaison. Tensions, tempered with distrust and suspicion, exist on one hand and on the other, synergies within the relationship allow both to function to produce communication content for the intended effect. Sources, including public relations practitioners, are perceived as controlling access to, and managing, information, while journalists are seen as controlling sources for communication with the public. Another likely reason could be technological advances that are being made in both fields that are allowing people to create their own advances in their endeavours without actually meeting. If practitioners understand the media and the journalist's job, a positive relationship can be developed that is beneficial to all.

Journalism and PR might be seen as two sides of the same coin. One side has news it wants to get out and the other side needs news to cover. Journalism and PR are fields with much in common. There's a similar personality trait - the dilettante who flits from issue to issue with speed and decisiveness. Both understand the inherent danger - or value - in the careful choosing of a few words, and can deal with these potential minefields in a swift and business-like manner. Of course, PR hasn't been merely about the printed page for years - it's now a world of social media and digital expertise as well. But that doesn't really matter. The basic rules continue to infiltrate all modes of communication: get the message right. And let's not forget that journalism is also no longer just about newspapers. Top journalists are among the most skilled at managing their personal online 'brands' on Twitter. Social media interactivity on news websites means that stories are now written with a consideration for the potential to be linked to on LinkedIn et al. So to think that journalists can't 'do' social media is misguided.

Theoretical starting points

We have theories about many actions and events in public relations. Some theories serve us well because we test them regularly and observe the same relationships over time. The research questions that should be answered are the following: What do the experts think about the role of academic theories and methods in public relations (PR) practice? Which disciplines will have an impact on public relations' basic processes? Which theories and academic concepts will become more important for practical issues? There is reason to argue that, in recent times, the theory of information subsidy has increased its relevance to the everyday journalism reality as a consequence of the financial and personnel cutbacks many news organisations have undergone. Some analysts claim that this type of contact and exchange has forced journalism to become increasingly dependent on, and more easily affected by, outside influences – a transformation of professional conduct that has resulted in a more alienated journalism (Blumler & Gurevitch, 1995; Bennett & Mannheim, 2001). According to Davis (2002), the cutbacks are one explanation of the fact that PR practitioners have come to strongly influence today's news agenda. He argues that the material they present has become extremely successful in passing itself off as 'real news', and thereby, to a great extent, PR people have "worked to erode the autonomy of journalists at the micro level" (Davis, 2002: 172).

Insofar as theory building is one of the main goals of the scientific system (Luhmann, 1992; Poser, 2001; Van Fraassen, 1980), it is a pity that a recent content analysis of leading research journals again revealed a lack of theory building (Zoch, Collins & Sisco, 2007).What passes for news of politics is often an inextricable mixture of messages from different sources. Advertising, public relations, reports of opinion polls, and propaganda become mixed up in the news product along with facts and editorial opinions. It certainly tends to undermine any simple faith in the reliability and independence of news (McQuail, Graber & Norris, 1998: 253).The view of media professionals as manipulated by representatives of the PR industry easily leads to questions concerning the media's position as the fourth estate. The media's role as a public utility in this regard might be discussed, according to Davis, as a consequence of the activities conducted by, among others, PR practitioners: "The liberal description of the fourth estate media, based on an image of independent autonomous journalists seeking out news, has been severely undermined" (Davis 2002: 173). In accordance, Street reasons that "…journalists are the lapdogs of partial interests, not the watchdogs of the public interest" (Street 2001: 146). However, contrary to this view, McNair (2000) argues that editorial staffs are fully capable of evaluating and disregarding material sent to them by the PR industry.

Media and PR in society

Contemporary society is permeated by the media, to an extent that the media may no longer be conceived of as being separate from cultural and other social institutions. Under these circumstances, the task before us is instead to try to gain an understanding of the ways in which social institutions and cultural processes have changed character, function and structure in response to the omnipresence of media. This altered understanding of media's importance does not mean that traditional questions regarding aspects like the effects of mediated messages on public opinion or the purposes to which people use PR are no longer relevant. But it does mean that an understanding of the importance of media in modern society and culture can no longer rely on models that conceive of media as being separate from society and culture.

Today, public relations are an important management function as it has the important areas like crisis management, lobbying, relations with the public's reputation management and issue management. Especially, as a function of issue management, agenda-setting efforts have an important role for the public relations practitioners. Cutlip (1999) explains that PR assists in harmonising private and public policies and promotes mutual understanding between groups and institutions in a complex and pluralistic society. Public relations as a functional practice provides practitioners many possibilities in the communication area. Mass media components are very important for delivering a company's public relations messages to the target audience. Mass media has the power to make audiences pay attention to the messages and to influence their way of thinking about the issues. That is a good reason why PR specialists struggle to place their work in the mass media. Considering the fact that media messages have a power, it is possible for PR specialists to control media messages and to create harmony between media messages and corporate messages to reach corporate objectives. The media have become an increasingly important stage for organisations' external communication. The media, however, do not constitute a platform with actors of equal importance to PR practitioners. Too many journalists are living in what I call medialand. It's a virtual living space firmly removed from the basic day-to-day concerns of the working person. It's well-heeled, inward-looking, paternalistic and ultimately condescending to the rest of us poor Morlocks, shuffling through our brutish lives outside of it. It lives off the juicy crumbs of gossip swept off the rich men's dining tables of Washington, London, Berlin and Canberra and is very careful never to give serious offence to them.

On too many important issues, they fail to reflect honestly what a lot of ordinary people think and consequently they not only have lost the trust of the wider audience, but that audience is walking away from them. The circulation numbers spiral down and the number of viewers drift inexorably lower, because the content is quite frankly the sort of predictable pap most people are sick and tired of and can't relate to.

In medialand there are empty men, hollow men, talking to nobody but a declining audience and their like-minded chatterati. They're going nowhere and just simply repackaging the same old tired content from the legacy Multi-Screen Media (MSM) for the web isn't working either. If it isn't selling off the web, it most certainly won't sell on the web either. There's no content or genuine point to them. In the final analysis, there's nothing much substantial there.

Contrary to what most people in the sceptic community may think, it is the house-trained establishment journalist who is the one doing the most damage, not the blatantly green propaganda journalist. It is the former who has a greater audience, because while the naked propagandist will always be read by the shrinking community of true believers, the ordinary person soon tires of their preachy tone and dire warnings about what'll happen if we don't repent our evil ways.

The blatant propagandist journalism serves only one useful purpose for us: to alienate the general public with their diatribes. Given the material they hand us nowadays, deploying the humour weapon against them usually suffices, but never for a moment think can you somehow persuade them to our viewpoint. You can never change a fanatic's basic belief system, which is precisely why it should never be an objective. They are by now irrelevant to the common person, which is why the MSM, most recently Reuters, is cutting back on them and their input. Putting it in commercial terms, they just don't sell like they used to.

Rather, the media sphere appears as a media hierarchy. The features of the relationship between PR agents and news journalists vary with the type of organisation or consultancy they represent. Journalists often claim a sceptical approach to those representing commercial interests, as journalistic norms have long deemed textual product placement despicable. Representation in the interest of political organisations, on the other hand, sets a different tone because of these organisations' position as being fundamental to a democratic society and therefore considered to be legitimate opinion leaders. Their actions thus become 'in the interest of the public'. Public authorities are also by their nature obvious targets of media observation. Between the corporate interest groups and the political groupings stands a middle category – the non-profit organisations. Non-profit organisations with a clear social ideology are often treated much like a party or public authority by the media. Furthermore, representatives of non-social ideology groupings often aim for publicity by trying to pass off their PR-activities as relevant to policy or community matters, regardless of whether this is actually the case. In other words, they attempt to move the characterisation of a specific organisation and its activities from the commercial sphere up to the societal or political one. In short, however, one can say that the media's perceived understanding of the potential social impact of the organisations the PR-agents represent largely determines the conditions for the relation. One editor of a regional newspaper used as an example the publicity demands of an organisation defending the needs of disabled individuals: "It's an organisation that uses us for its own purposes. But I see no problem as long as we make our own journalistic judgement. We are aware of the fact that we are subject to persuasion, but I don't feel we avoid it as we would with attempts of product launches".

The editorial conditions

While many consider the media a fearsome adversary, it can be a powerful ally if approached strategically. Public relations programmes can often be created, managed, and executed effectively by small businesses. By taking the time to craft a press release and to participate in community service activities, a small business can generate significant good will with very little time and effort. The impact potential of the news media is of course a crucial factor in why journalists are a prioritised target of actions taken by the PR industry. However, there are at least two additional reasons for why media publicity is considered the best way to reach the public – and thereby to achieve a desired image and swing public opinion or parts of it in a favourable direction. First, publication in the media has a higher level of credibility than other communication channels do. Second, compared to advertising, media publicity is a cost-effective method. It should be added that today's senders, whether they are professionals within an organisation or hired consultants, find it fairly easy to get material published in newspapers. The prevailing conditions are the result of decreases in editorial staff in recent years and increasing demands for raised production goals for each journalist. "Today, we are so pressed by shrinking advertising revenue and diminishing circulation rates, that we try to save, we cut back wherever we can", said one editor. The work climate has created an increasingly stressful situation and resulted in less time for journalistic fieldwork, especially with regard to investigative efforts. That, in turn, has created an increased need for access to raw material from sources outside of the news desks. The senders – or agents promoting a specific interest – are well aware of the situation and use it consciously: According to a PR consultant, the everyday work of a journalist is very stressful so they often consider contacts with PR agents as useful if serious work conduct is practised and no gold digging is done because they know exactly what journalists want.

The information flow directed towards the editorial staff has thus allegedly increased, partly as a result of a much more flexible attitude towards promotion-related activities from the communications sector. In addition, those who aim to influence today know how to get through the editorial filters: "If you can bring in something that looks like news material, you can have a great deal of influence", as one journalist from a nationwide morning newspaper put it. During the interviews for this study, editorial staff members repeated the change in conditions and claimed it has brought about problems: Today the news desks experience an in-flow of information never seen before, especially from the corporate sector. As an editor of a regional newspaper put it, ”The input is overwhelming – if previously it was a stream, it's now more like a river. Handling this flood of information is problematic, and there is a risk that journalists will get caught up in it and thereby decrease their ability to control the news agenda". This raises questions of whether the media may become dependent on this subsidy of information and material. Some journalists reflecting over their own work situation suggested there is a risk that reporters will become dependent on the influence of different activist experts. Even journalists with special beats sometimes experience a lack of knowledge, especially those within technical, medical and natural-science-related subject areas: "While we become too specialized, we also become too dependent", said one public service TV journalist.

And the editor of an evening newspaper agreed: "PR people call both openly and under cover to try to sell an idea to us. It's presented in a very feasible way and then we're under extreme pressure to put together a paper for the next day. They know our work situation and they know exactly what things to pull". By serving the media with news material, the activities of PR actors have caused their industry to move towards taking on the shape of a news desk located outside the media. In this study, one interviewed managing director of a PR consultancy in fact went so far as to suggest that PR firms "…really are about being a satellite news desk".

Perceptions on relationship between PR – journalists

The relationship between public relations practitioners and journalists is, and has always been, a complex and necessary symbiotic liaison. Tensions, tempered with distrust and suspicion, exist on one hand and on the other synergies within the relationship allow both to function to produce communication content for the intended effect. Sources, including public relations practitioners, are perceived as controlling access to, and managing, information, while journalists are seen as controlling sources for communication with the public.

Journalists' mainly sceptical approach to PR is familiar to those working in the PR sphere. It is mirrored in the strategies of the latter – how to present material as well as how to present themselves in order to establish contact – and perhaps also in their professional self-image. Some of the interviewed consultants pointed to the fact that they are always straightforward in their contacts with the media and always explain whom or what interests they represent. Others commenting on the matter said that, on the contrary, they are careful not to give away that they are consultants, because then "…they usually hang up the phone". Some also reasoned about the ambivalent approach they feel journalists have towards them: Journalists have a type of love-hate approach towards PR agents. On the one hand, there's contempt for them and for their well-paid work; on the other hand, there're many times a use for their service in journalistic work. In their comments on PR agents, the interviewed journalists tended to group information officers and consultants. Both groups were viewed to have the same task and thus to be "of the same breed", as some journalists expressed themselves. The journalistic approach seems to be that there is actually no need for any PR agents. Meanwhile, in reality, the relation in itself may function differently depending on whether a PR person is placed inside or outside an organisation – the latter case often making it more restrained. Still, some journalists claimed to make use of consultants in terms of information overviews and ideas for suitable sources. In addition, while they also fill a censoring role, information officers admittedly seem to be useful in negotiating contacts higher up in the organisations. Journalists, however, often find these officers annoying, as they want to speak with the person in charge; they do not to wish to get filtered answers. In this specific matter, journalists and PR consultants actually seem to agree. The latter claimed they should never be the voice of the organisation they represent. Rather, their work is to organise the contact set up. It is always the client who should talk to the journalists, and "…it would be absurd to have a consultant between the journalist and the corporation". Yet many journalists claimed that they are constantly subjected to information flows controlled by PR consultants. The discrepancy in the perception of the situation is likely to be a result of opposing relational perspectives on who controls the terms for the contact and in whose interest it is taken.

Journalists' mainly sceptical and negative approach to PR experts was accompanied by an attitude of rejection towards them when discussions during the interview sessions lead to the topic of what the relationship is actually like in reality. When the PR agents, on the other hand, voiced their opinion about the same reality, it was largely through opposite understandings of good and well-working relationships, common interests and sometimes collaboration.

What does the relation between PR agents and journalists look like? Perhaps the best answer to the question of what characterises the relation between PR representatives and news journalists is one provided by an interviewed radio journalist: "It seems they have a better relation with me than I do with them". Overall, the interviewed PR agents claimed to have well-functioning relations with journalists and news desks. "We have a great relationship", was a typical attitude. None of the journalists expressed themselves in even a remotely similar manner. Very few spoke of such a relationship unless provoked to do so – it is obviously a sensitive topic from a normative perspective. Some journalists claimed to have no connection to PR people at all or that they avoid and reject such contact. Others had a more distanced approach to the relationship, saying that it constitutes "…a role-play; they do their work and we do ours", or that the relation is completely neutral: they are neither positive nor negative. According to an editor of an evening newspaper, “I have no relationships with them at all actually. These very open-minded consultants that call me, my reaction is ‘No thanks’, instantly. I want nothing at all to do with them”.

Rather than describing a relationship, most journalists did claim to be in contact – a less loaded word from a normative perspective – with PR agents. The contacts, mostly initiated by PR agents, may occur frequently, especially for news editors and reporters at newspapers with specialised beats. This generally consists of a daily information exchange, and in some cases, up 10 to 15 calls a day. One trade press editor stated that “I can no longer have my cell phone turned on without it being bombarded with phone calls”. The interviewed PR representatives generally agreed with the journalists on this. However, specific ideas about the perceived situation varied somewhat with seniority, as many of the more experienced communications strategists are more frequently in contact with the media. The perception of the information exchange also varied with the relevant topic and the client. A PR consultant who was interviewed said, ”I have a lot of contacts with journalists. It consists of everything; the ones I e-mail every day, talk to, have lunch with and the ones I get ideas from or talk to for updates. I give information to them as news in the same way as I advise clients”.

Establishing relations with the media is crucial to the success of a PR agent. It is decisive to create and maintain well-functioning relations with relevant editorial staff. The “fundamental objective is to make sure to build personal relationships with ‘your’ editorial staff”, as one of them stated. Maintaining the relationship is a constantly on-going process, where the aim is to create a long-term relationship with journalists so they will know exactly where they stand in relation to them and so they can trust that they will be given conclusive information. Meanwhile, PR agents cannot constantly pursue journalists’ attention, as they would run the risk of straining the relationship.

A PR consultant commented that “Many journalists feel that PR consultants are extremely annoying. It depends on whether you call them and terrorise them indiscriminately and try to shower them with information they don’t want – then things can take a wrong turn. If you, on the other hand, respect them and try to be of help to them in their work, you serve the purpose you’re supposed to”. Well-functioning relations with editorial staff are, of course, of crucial importance to PR agents who work with topics related to social issues and politics. However, as brand awareness has arisen as a pronounced goal for actions within the PR industry, these relations have become more important for those focusing on marketing-related communication. “It pertains to the whole thinking process in terms of brand awareness and recognition”, as the CEO of one consultancy firm stated.

It is essential for a PR agent to not only make contact, but to establish ‘the right’ connections. This means aiming for media that fit clients’ ideas or products in terms of content and audience. In addition, consultants have to identify individual journalists who might be interested in the specific topic for which they are seeking publicity. This also means finding out what the editorial staff are currently interested in so as to prepare for consultation on suitable actions. The consultancies direct special resources to map out where to turn in order to maximise media coverage for exclusive news announcements and which individuals to contact for attaining the best results. As one interviewed information officer put it, this is the ability and knowledge – or professionalism – that PR consultancies offer their clients. “The first thing is to make connections with the right people; to know which journalists write about which topic and who covers a particular industry. Thus you conduct media analyses – analyse which journalists write about which type of questions”.

The relationship-building activities of the PR industry serve several purposes. Apart from, for example, aiming for publicity for one particular opinion project, a second purpose is to be recognised among the editorial staff as the consultancy – and as the individual – with the best in-depth and general knowledge of a certain topic. If such status is achieved, the hope is to lead journalists to initiate contact in their search for general knowledge or standpoints and comments when reporting on the topic. Several interviewed consultants claimed that they receive these types of phone calls fairly often, but none of the journalists participating in this study mentioned that type of contact. One of them said, however, "I try to use them as administrators in bookings or interviews with corporate representatives to facilitate my work". In other words, the consultant is used as an in-house spokesperson. But there are consultants who do not focus at all on media relations or media influences, but concentrate on strategic and planning management. They are primarily senior and well-established consultants with their own businesses, which allow them to choose and direct their tasks much more freely. One commented: "I have no media relations of that type to constantly try to affect. I don't call and nag at them all the time. Besides, you destroy the relation by nagging all the time. It's not adult behaviour. But I can get things into papers when I need to".

The information exchange between the two parties seldom consists of direct personal contacts in the sense of meetings, as often is the case for contacts between journalists and political or institutional representatives. Rather, the communicative exchange between journalists and PR agents largely concerns phone calls or e-mail correspondence – of which especially the latter has grown to be a very common method in recent times. "I have relations with the media but I know no journalists, I have no personal relationships with them", stated one of the PR agents who was very representative of the collective. The interviewed journalists agreed more or less categorically with the statements and dismissed all talk about a colleague-like relationship. According to many journalists, however, one common tactic among PR agents is to "…try to establish a friendly relationship even though the two parties have never met". In this lies the risk of becoming too friendly with each other; "…the danger lies in friendship corruption", as one journalist at a business magazine put it. Meanwhile, as the most senior of the interviewed journalists stated, after years or perhaps decades of exchanging information "…developing a pretty close relationship can't be avoided".

Agents belonging to the division of the PR industry that acts as lobbyists or works with lobby-like activities, however, do meet journalists in person, for example, at political party and labour union events. One PR consultant described how the work can involve spending a whole week at a party convention, registered as an 'observer': "It is very much a networking event to me – being around, getting to know people, finding new business opportunities and making new connections, interpreting the atmosphere and talking to representatives I know or get to know. The most important thing is to observe the debate on general matters and matters of relevance to my clients' interests. Finding out what makes the agenda and if there are any opponent representatives to my clients' interests. And you might as well admit, it's a lot about talking to journalists".

A close and well-working relation with media professionals and an in-depth understanding of journalistic professionalism are, as we have seen, prerequisites of and a basic strategy for influencing experts in their aim to set the agenda. Although the attention to a client's interests is often obtained through contacts around specific campaigning, long-term success is best secured through on-going everyday relations and networking. Therefore, their work incorporates continuous updates and questioning and appearances at press conferences as well as attempts to spend time with journalists at different events that bring media professionals together, such as seminars, breakfast meetings, entertainment happenings and sports-related events. Journalists, for their part, are well aware of the strategy, as the editor of a business magazine commented: "A clever PR person should network and talk to people around just about anything, that's how you establish a relation you can use later on. If you have established a relation you know the journalist will return to you to ask about more things we do the same thing". Journalists also network for the purpose of "…building a relation we can make use of in a longer perspective". Personal connections are really important to their businesses. A journalist from an evening newspaper said that if they can produce something that fits into the media logic and its plot, it will result in coverage regardless of whether they have had lunch with a journalist.

Common travels and dinner parties arranged by corporations – which used to be a common way of socialising – have largely disappeared, if one is to believe the interview responses of both parties. In general, today's editorial staff says they decline such offers, and corporations are allegedly restrictive about such activities. However, travels that include seminars, field trips and interview opportunities with powerful leaders still seem to occur, even if they occur less often today and have taken on a different form.
Corporate management still orchestrates such events, but today the media organisations often seem to cover the journalists' expenditures. During one of the interview sessions, a former information officer remembered travelling in the US a couple of years ago: "Oh yes, journalists were on trips where we had seminars and further training for them along with visits to facilities. They didn't write about it then, but they might have written about it six months later, in total agreement with how we had laid out the situation. It's obvious there were elements of bribing or of an inbetween zone".

A particular type of relationship pertains to situations where both parties have journalistic backgrounds, i.e. when the PR expert is a former journalist and thereby perhaps a former colleague or at least a former member of the same profession as the approached journalist. Some journalists perceive this type of situation as especially troublesome, while to others it is completely unproblematic. Some PR agents with a journalistic background also coach corporate leaders and other organisation representatives on how to tackle the media. The interviewed journalists' opinions on this matter seem to split the professional group in two. Some dislike the phenomenon very much. They perceive it as training aimed to manipulate journalists, as a way to teach corporate leaders to "…talk about hot topics and deliver half truths". The other half of the group consider it a good thing, as corporate representatives learn about the role of the media in society, so that they can master not "…walking into traps or being fooled by a lie" and not being hesitant when "…confronted with experienced journalists".

A legitimate supply of information or a matter of manipulative influence?

It is pretty much a non-negotiable fact that the interests of organisations continuously serve to provide the news media with material. More questionable is, however, whether the material consists of information that should rightfully be the subject of a news valuation process or whether the action attempts to influence and manipulate beyond the normative boundaries for journalists' information exchange with their sources. Hardly any of the interviewed PR agents in this study talked about trying to influence the editorial work or control the journalistic news valuation process. Instead, they used expressions saying that they inform, tip and give suggestions, or perhaps the most common one, that they deliver ideas for news, as part of their work. They defended themselves in a more or less categorical way in response to the allegation that their professional task involves any kind of manipulation of the media.

To the journalists, the question actually consists of two questions. The first one pertains to whether they themselves or their news desks are subject to influences from certain interest groups or their PR consultants chasing publicity. To this question the answer is undoubtedly 'Yes'; the flood of material and the amount of incoming information are generally viewed as activities aimed at influencing targeted media. The interviewed journalists showed clear standpoints in this matter. An editor of a business magazine said: "You have to be careful with all messengers as they have a purpose, or at least they try to present you with a manipulated version of reality. They might well want to tell you the truth about their corporation as they feel that their truth never gets any space. One thing is for certain and that is that it is never the whole truth". Another journalist from a national morning newspaper stated: “They use the press all the time and the press constantly lets itself be used. It’s part of the nature of the whole thing”. That’s not what the journalism textbooks say but that’s how it is.

The other question concerns whether media organisations actually are affected in the sense that they publish what outside sources want them to. Among the journalists as a group there seems to be an ambivalent attitude towards allegations that they allow themselves to be influenced by specific groups. Some journalists categorically said, “I never allow myself to be affected” or that they do not fit the description of what they call ‘bulletin’ or ‘megaphone’ journalists. However, they did not feel that this rejecting attitude towards outside influence was always realised in full in reality. One senior journalist at a national morning daily pondered the matter and suggested that “…no one would admit to having been manipulated, even if that was the case”. A business magazine editor agreed that many journalists have a completely “…mistaken self-image of being extremely independent and having a high level of integrity”. Some talked about the matter in terms of being subconsciously affected, as “…the implementation methods are very sophisticated”. And a journalist with a public service radio agrees: “Of course we are affected, it’s pretty obvious. It’s very easy to say ‘I was invited to this meeting about a new pharmaceutical but I didn’t go’. Then you can say ‘I wasn’t affected’ but you were anyway”.

There is a genuine suspicion towards that type of material. First, there are the old types of press releases that talk about new product launches. According to the editor of a regional newspaper,

“We are pretty good at resisting being influenced by such things, occasionally it gives us something to publish. Then there’s another type, like opinion and lobby material, that isn’t as easy to see through”.

From the perspective of the PR agents, the response to allegations of attempts to manipulate the media generally consists of references to the widely accepted view of journalistic decisiveness. It is up to the news desks to value the material they receive. The interviewees in this study maintained the perspective that the media live up to their gate-keeping role and that media professionals can handle the news valuation process in accordance with the prevailing norms of the journalistic profession. It was generally concluded that inherent in the editorial news valuation process is an assurance that external material not fit for publishing will be omitted. The journalists had, as would be expected, the same standpoint when asked whether the news valuation process functions as a filter for the material sent in by the PR industry: “I believe most do”, said one television reporter in a manner representative of journalists as a professional group.

A journalist from a national newspaper’s business section feels most PR agents should be given credit for being pretty clear on what works or doesn’t work in journalism: ”I can’t remember having felt fooled, rather they tried to market the corporations in an honest way – of course with the hope that it would pay off in publicity”. And according to a PR consultant, their task is not to dump material not worthy of reading on anyone: “We can’t make up news stories, as the journalists can say ‘No’ to them. If we want to get something in the paper we have to make sure it’s good enough. It’s their job to be sceptical towards us, and it’s our task to make sure the material is good enough”. The interviewees’ perception that the news valuation process in journalism works well in accordance with journalistic norms became less clear-cut when the question was further defined during the interview sessions. The answer to whether PR agents succeed or fail in their attempts to create publicity is, according to the consultants, that they mostly succeed. “I feel we do pretty well, we mostly succeed, in 70-80 per cent of the cases. However, in the 20 per cent where we fail, we often fail big”, were the words of one consultant.

However, the journalists’ reactions varied much more. None of them responded with a straightforward ‘Yes’. Starting with those who admitted that outside sources might have been somewhat successful in affecting them, the other end of the continuum contained those who were relatively certain they have never contributed to any ‘successful’ publicity outcome initiated by

PR agents. Some said they have never been affected by outside pressure and completely denied outside influences, while several others readily mentioned situations in which sender organisations and PR bureaus have succeeded. “I believe they feel they pull off quite a lot because otherwise they wouldn’t continue to call and send us stuff. So I guess they feel they have succeeded. I’m sure there are techniques that we don’t see through. Naturally, it’s something of a problem”, admits a public service radio journalist, “I can’t remember that I’ve subconsciously fallen victim to a PR coup. I absolutely believe I haven’t, I’m far too sceptical for that. At the same time, you can deliberately give in to a PR act by using it in a report”.

During interview sessions in which the question of influence was explored in more depth and discussed with reference to whether the journalists themselves would choose news topics suggested by PR agents, many believed they would not. To some, this question evoked reflections on how journalism perceives and communicates reality. That there are many ways to describe the same reality seems to be a well-known fact. “You have to realise that it is a myth that journalists can present some kind of objective truth”, said one editor. Many of the reporters and editors realised that a portion of news ideas originate from places other than their own news desks. Those who mentioned this claimed to have become increasingly aware of the fact that story ideas often come from outside sources such as organisational interests with specific objectives. The flood of material from the PR industry was in all instances perceived to be intense, to some even an annoying and irritating occurrence. One editor went so far as to say “…most of what is published is commercial texts”. In this case, it should be mentioned that the discussion largely pertained to adapted material, mostly research results and “well-done investigations”, rather than traditional press releases and invitations to various events.

The main part of today’s journalism is based on some kind of advancement of some party – political parties, corporations, organisations, other actors. “In that sense, you could say that journalism today is actually mainly about reacting to outside impulses”, maintains the editor of a business magazine, “I’m convinced that a greater part of the news than we realise has an outside origin. We have ourselves at times tried to determine whether a particular idea started among the editorial staff, and the results are not uplifting”. The editor of the largest Swedish national morning daily feels that it may also be that someone has read something but the question remains where that topic actually comes from.

Meanwhile, some journalists claimed that PR agents are of assistance to them, even though their normative framework might depict them as opponents. In fact, some media professionals even added a positive and appreciative tone, as did the editor of a trade magazine who said: “I can get great ideas from PR consultants”. Others spoke in a less enthusiastic tone, like the television reporter who admitted that “…they make our work easier because they produce reports and reduce the time we spend on investigation – and that’s pretty scary”. At times, the interview conversations on the theme of influence ended up almost describing a symbiosis – a situation of common needs and interests that constitute the exchange between PR agents and journalists. Several reporters expressed the opinion that “…the aims may in some cases coincide…” or that “…the goal of a PR agent and our goal have coincided”. A radio medical reporter gave the following example: “If it’s about a symposium where you talk about a certain disease, you might say we have coinciding goals”. Meanwhile, some journalists appeared to have difficulties speaking in terms of collaboration; they would rather say that “…some research results we have published have probably coincided with someone’s interest” (not the other way around, that someone’s interests in publicity for a particular cause have been advanced by a news desk). One of Sweden’s most recognised television journalists voiced the following thoughts on the influence of outside sources: “These PR agents, consultants and representatives of the powerful people in society are of value to us journalists, if you use them in the right way”.

Journalists are aware that they receive a lot of interesting material from PR people, and so get an idea of what’s going on. Then the objective is to not let themselves be controlled by them. Of course they are subject to attempts at manipulation, but if they feel they are somewhat independent and read up on the topic they're covering, they don't let themselves be manipulated; they use these people for their own purposes. It's mutual usage, according to a TV journalist. Discussions concerning a potentially wider range of sources for journalists and their ability to affect the journalistic work easily lead to reflections on news agenda-setting and the distribution of power in the relation between PR experts and the media. The interviewed PR agents claimed a number of cases in which they had set the agenda or at least made sure a topic was put on the agenda. At the same time, with some exceptions, they generally did not talk about any kind of power for themselves in the matter. One of them, though, reflected that "…we are just another factor involved in affecting their news agenda and the power of journalism". A senior consultant expressed it differently, saying that PR activities "…are of course aimed at reducing the influence of the media, because they are an uncontrollable factor, and management is all about gaining control".

With regard to the news production process, the interviewed journalists rejected suggestions that power can be located to any parties other than themselves. However, one editor with long experience was not convinced that journalists have all the power. Another editor reflected on agenda-setting from a much wider perspective: "We're aware that we're under pressure all the time and a popular target for their work. The question of who sets the agenda is central. It's very much a question of democratic values" (see Larsson 2005; 2006).

Relationship building

Public relations have a vital and strategic role to play in building and enhancing on-going or long-term relationships with an organisation's key constituencies, including the media public. The importance of effective long-term relationships with strategic segments of the public for the achievement of organisational goals through various communication programmes has been widely acknowledged by many scholars and practitioners (Grunig, 1992). Ledingham and Bruning (2000) define public relations as relationship management. Other scholars have attempted to expand Ledingham's definition to question the value or benefit of relationships – what do the relationships do, what do they achieve and what are they for?

Focusing on the transactional aspect of relationships, Broom, Casey and Ritchie suggest that relationships consist of the transactions that involve the exchange of resources between organisations and the public, these being represented by patterns of "…interaction, transaction, exchange, and linkage between an organisation and its public" (Broom & Ritchie, 2000: 18).

In addition, several scholars have tried to define and research the factors that determine organisation-public relationships. Grunig and Hon (1999) developed a scale examining the organisation-public issues of trust, control mutuality, commitment, satisfaction, communal relationships and exchange relationships. Trust was defined as the level of confidence that both parties have in each other and the willingness to open oneself to the other party. The dimensions to trust include integrity – a belief that the organisation is fair and just; dependability – the organisation will do what it says it will do, and competence – a belief that the organisation has the ability to do what it says it will do. Satisfaction is defined as the extent to which each party feels favourably towards the other because positive expectations about the relationship are reinforced, and the benefits outweigh the costs.

Although most of these criteria may be used to measure organisation-public relationships in general, perceptions of relationships with specific segments of the public may need additional specific criteria to be examined depending on the nature of the public and the relationship being examined.

CONCLUSION

Journalists and public relations practitioners play distinct roles in their respective professions. Their roles and paths often cross, creating a situation that has always been viewed as a love-hate complexity, at times symbiotic and with camaraderie, at other times tinged with suspicion and distrust. The survey seems to indicate that public relations practitioners believe more strongly that the information they provide to the journalists enables them to perform more satisfactorily compared to the journalists who think less strongly of the contribution made by the public relations practitioners. The public relations practitioners seem to think that there is more of a symbiotic relationship between the two groups than the journalists do.

Generally, the two media professional groups mutually trust one another and think that each is honest in its dealings with the other. Nevertheless, the public relations practitioners believe more strongly than the journalists that the former control news about an organisation and that the journalists tend to report more on what is controversial and negative about an organisation.

Public relations practitioners seem to think that giving gifts to journalists is less of a breach of ethics compared to the journalists. They consider gift-giving as a token of appreciation. In addition, the public relations practitioners seem to believe that journalists expect gifts for covering events more than the journalists do. Nevertheless, neither group agrees that cash gifts are acceptable. However, junior journalists have fewer qualms about receiving cash as a gift compared to senior journalists.

Generally, there are some differences and similarities in perceptions held by public relations practitioners and journalists on satisfaction with contributions made to each other, their interdependence, and trust of each other and on ethical practices. Public relations practitioners seem to hold more positive perceptions than the journalists do on the various aspects of their symbiotic relationship.

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BOOK REVIEW

By M.R Mey and K. Weatherall-Thomas

Bluen, S. 2013. Research: Talent Management in Emerging Markets. (1st edition). Johannesburg: Knowres Publishing. Pages 365, including index. ISBN 9781869221942.

Prof Steve Bleun obtained his PhD in Industrial Psychology from the University of the Witwatersrand. Steve was appointed as a Professor in Human Resources at the Gordon Institute of Business Science at the University of Pretoria. He also manages a consultancy, which has worked with several multinational corporations on global talent management practices. Prof Bleun is a contributing editor to this book, which also includes contributions from various academics and practitioners in the field of talent management.

The current competitive operating environment requires closer scrutiny and evaluation of the manner in which talent is attracted, developed and retained. However, limited guidelines relating to managing talent in emerging markets are available. This book provides the reader with critical considerations for managing talent through exploring the theory and practice of talent management. A number of relevant case studies involving leading multinational organisations such as Standard Bank, Pick n Pay, and SABMiller are included.

The book is divided into three focus areas. In part 1 the fundamental characteristics of managing talent in emerging markets is outlined. In part 2 the diverse challenges experienced by MNC operating in emerging countries is addressed via the exposition of seven case studies. These case studies provide first-hand experiences of the challenges faced and how the respective companies addressed these challenges. Part 3 concludes with key learnings derived from parts 1 and 2, and presents practical guidelines for emerging-market talent management for practitioners, line managers and scholars alike.

Chapter 2 provides a definition of dynamic markets using empirical evidence gathered from 12 countries across a range of relevant measures.

Chapter 3 covers the specific challenges faced by MNCs in emerging markets. In this chapter Prof Bluen proposes a Talent Management model for Emerging Markets. According to this model the broader global business plan is linked to the three main components of the talent management strategy, namely core talent value chain, underpinning processes and key stakeholders.

In chapter 4 the need for leaders and managers to think differently about diversity and the benefits thereof is explored. It is argued that an Inclusive Leadership competence, underpinned by an awareness of diversity, is critical when operating in an emerging market.

Chapter 5 provides an outline of the role of In-Market Action Learning as a leadership development approach. In-Market Action Learning places a strong focus on out-of-classroom, real-world learning and is proposed/offered as a powerful tool for bringing new ideas and energy into an organisation.

Chapter 6 provides a description of how to set up performance management systems in emerging markets and offers practical guidelines to ensure MNCs adopt effective performance management approaches. The impact of globalisation on remuneration; the purpose, strategy and elements of reward and remuneration; and the complex subject of international remuneration is addressed.

In Chapter 7 the challenges faced by MNCs in managing local talent in emerging markets are highlighted. In this chapter alternative forms of employment to traditional expatriate roles are outlined and the vexing issue of replacing expatriates with local talent explored.

In Chapter 8 it is argued that People Professionals need specific attributes, competencies and behaviours to manage effectively in emerging countries. An overview of the changing world of work in emerging markets is provided and the six critical features that differentiate emerging from developed markets outlined.

Chapter 9 provides a description of the central role played by talent management in SABMiller's globalisation endeavours. This includes an exposition of the factors that supported SAB's global expansion, and highlights the company's strong people focus and sound people processes that enhanced the establishment of a global footprint across Africa, Europe and the Americas.

In Chapter 10 the manner in which a company-wide change programme, Project ONE, helped rebuild AngloGold Ashanti's business processes and enabled the company to deal with its many talent management challenges. The company's 10 core managerial, leadership and engagement practices which helped shape this successful approach to talent management is discussed.

Chapter 11 provides an explanation of how values, culture and guiding principles served as the foundation for Pick n Pay's move into Africa. The talent challenges experienced and how these were addressed are outlined.

In Chapter 12 the manner in which a four-year change management project yielded positive talent management consequences is presented. A variety of innovative organisational development techniques were used to unleash the potential of Unilever Brazil's key talent. The positive consequences that accrued, both from an organisational and individual perspective, are presented in this chapter.

Chapter 13 provides a description of Standard Bank's talent management strategy and how it supported the bank's push into Africa. The key features of this talent strategy include leveraging Standard Bank's brand to attract talent; providing the right environment in which talent can thrive; actively growing capability through leadership development and increasing technical depth in key areas; formalising the talent review process to enhance the identification of key talent in the Group; and proactively deploying talent across its African operations through blending the use of expatriates whilst developing local talent in host countries.

In Chapter 14 the implementation of a transformation process undertaken in the Ukraine is outlined. In this scenario linguistic and cultural challenges far outstripped those relating to infrastructure and technology. This case study highlights how tone at the top, on-boarding at a shopfloor level, changes in working conditions, addressing challenges associated with attracting and retaining top talent, and empathetic downsizing, all contributed to a more productive working environment.

Chapter 15 provides a description of the process undertaken in transforming a traditional South African workplace into a world-class operation. The British American Tobacco case study identifies many of the critical success factors that underpin an effective talent management strategy.

In Chapter 16, the final chapter, Bluen synthesises the key learnings, derived from the preceding 15 chapters and presents them within the Talent Management in Emerging Markets framework. The intention of this final chapter is to provide the readers who are interested in managing talent in emerging markets with a condensed set of learnings to apply in practice.

This book is regarded as essential for HR practitioners, students and academics as it makes an important contribution to the field of talent management in emerging markets. It emphasises that "one size does not fit all" in that talent management strategies developed and implemented for more developed markets may not prove to be successful in emerging markets.

JDL JOURNAL POLICIES

Aims and scope

The Journal for Development and Leadership (JDL) is a peer-reviewed journal of the Faculty of Business and Economic Sciences at the Nelson Mandela Metropolitan University in Port Elizabeth, South Africa. This journal is aimed at providing practical guidance and empirical evidence to researchers and practitioners specialising in Business and Economics and related fields.

The journal provides a communication forum to advance entrepreneurship, innovation, small business management and various disciplines in Business and Economics, as well as the application of the disciplines in practice. Its aim is the improvement and further development of these fields and it is designed to appeal to academics, researchers and practitioners.

A double-blind review process is followed, supported by a national and international Editorial Peer Review Board.

Full academic accreditation will be applied for at the DoHE when the set requirements have been met.

The mission of the Journal for Development and Leadership (JDL) is to be a dynamic and internationally-recognised academic journal of excellence that will stimulate sustainable development and leadership by generating and disseminating of cutting-edge knowledge and understanding.

It is envisaged that the JDL will serve as a platform for presenting information central to the concerns of academics, researchers and practitioners. In this manner, research will grow and simultaneously shape theories for future application in the relevant societal contexts.

The journal is published bi-annually, in June and December by the Faculty of Business and Economic Sciences of the Nelson Mandela Metropolitan University.

The views expressed in the journal are those of the respective authors.

INFORMATION FOR CONTRIBUTORS OF ARTICLES

Editorial policy

The editorial policy includes taking cognisance of the journal's objective to advance all disciplines, fields and sub-fields within the Faculty of Business and Economic Sciences, such as those mentioned above and, in addition, the advancement of entrepreneurship , innovation, small business development, among others, as well as the application of the various, relevant disciplines in practice.

The primary purpose of the journal is to publish research articles in the various fields, to disseminate information and to serve as a publication vehicle for academics, researchers and practitioners. For example, practical papers, empirical papers, new approaches and techniques, case studies, and conceptual papers will be considered for publication, as well as book reviews and, when appropriate, conference papers.

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The decision of the Editorial Committee to publish a given article is based on the judgement of the reviewers, who are all knowledgeable in their respective fields.

Authors will be informed of the committee's decision, including any relevant comments, after the article had been reviewed. Neither authors nor reviewers are identified in the review process.

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When submitting articles, authors have to agree that:

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- They will only submit articles and empirical reports that have not been published previously.
- Their articles are prepared according to the prescribed style of JDL.
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Font and font size should be Arial or Times New Roman in 12 pt font size. The margins should be 3cm left, 2cm right and 2.54 top and bottom of each page.

Abstract

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Papers should be written in English (preferably South African English). (In MS Word go to Tools, Language, Set Language and then select "English, South Africa".)

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This page should contain the title of the article and the name, affiliation, full address and contact information of every author. If the article is co-authored, then the name of the author to whom correspondence should be sent has to be marked with an asterisk (*).

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The article has to be typed on one side of the page only in 1.5 line spacing. Appropriate headings and sub-headings should be used to segment the article to enhance readability. The length of the article should not exceed 10 000 words of typed text (approximately 30 type-written A4 pages).

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Headings and sub-headings should not be numbered. All headings have to be formatted in bold upper case, and sub-headings in bold lower case (for example, using initial capitals and the rest lower case). Sub-sub headings should be in regular lower case.

Manuscript contents

Articles should include: abstract, introduction, identification of a problem, aims of the study, method and sample, measuring instruments, procedure, followed by interpretation and articulation of the results.

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Tables and figures should be applied in the text, as close as possible and relevant to the appropriate explanation. They should be numbered consecutively in Arabic numerals.

Captions above tables and figures should be flush with margin and in bold and lower case.

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Full stops and no spaces between initials in prelims list, article opener - for example: Professor H.R. Lloyd;

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Black. Brown and White (2013: 45)
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Journal article:
Black. P.P. 2009. Employment testing: old theories and new research findings. *Journal of Human Performance,* 9(1): 130-145.

Internet:
Brown. T.P. 2012. *Cityproject.* Available online at: http://www.larcities.com [Accessed 6 January 2013].

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Nelson Mandela Metropolitan University

ISSN: 2226-0102