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EDITOR’S INTRODUCTION

Welcome to the Vol.6, No.2 (December, 2016) issue of the SIU Journal of Management, which is an academic journal publishing papers in a wide range of subjects relating to management, broadly defined.

In this issue, I am pleased to be able to present four double-blind, peer-reviewed academic papers. Paper authors are from Bangladesh, Nigeria and Vietnam and this helps to reinforce the SIU Journal of Management’s commitment to publishing research from the global south.

First, Mohammed S. Chowdhury, Zahurual Alam and Mohammed Mizanur Rahman identify issues relating to the future of the ready-made garment industry in Bangladesh and they consider this to be a sector of vital importance to the overall economy. It is threatened by the exploitation of workers and industrial accidents and, also, recent revelations about the continued importance of the widespread use of child labour in all sectors.

Second, Olabanji E. Obadara makes a timely claim about the value of collective bargaining as a tool in seeking to bring about equitable relations in the workplace. Since the unwelcome triumph of neoliberalism in the west and its subsequent spread around the world, its hegemonic ideology has militated against the rights of workers and employees of all sorts to the extent that it has become increasingly difficult for workers to claim any rights at all. With the blossoming of the exploitative gig economy and the threat of automation, fighting for these rights will become even more important in trying to resist growing inequality.
Third, Suman dey, Md. Sahidur Rahman and Mouri Dey provide a review of the power sector of Bangladesh and the role of public-private partnerships in increasing the scope and scale of power generation and distribution. Much of Bangladesh remains under-powered and this makes it more difficult for the poor, especially the rural poor, to obtain a decent standard of living. Renewable energy sources play a very limited role in this regard. Finally, Nguyen Thi Hoai Thu, Pham Manh Hung and Thi Lan Anh write about the relationship between corporate performance and governance in Vietnam. Their results are somewhat mixed, which suggests that governance issues are still at an early stage of development in that country and that further refinement of appropriate systems will help to bring results of future research more into conformity with those found elsewhere in the world.

Conference reports and book reviews complete this issue of the SIU Journal of Management, which has now completed six years of publication. The year of 2016 has been a very terrible one for the world in many ways, with the continuing flourishing of tyranny and suppression of human rise, as well as the crises of democracy signified by the British EU referendum and the electoral triumph of Donald Trump, not to mention the deaths of some much-loved figures. Intensifying global climate change, the growing threat of terrorism and related flows of refugees and the overwhelming increase in inequality make this a difficult time to be optimistic about the future.

John Walsh, Editor, SIU Journal of Management.

Opinions expressed in this introduction belong to the editor alone and should not be ascribed to Shinawatra University as a whole or any individual member of it.
PEER REVIEWED RESEARCH PAPERS
The Future of the Ready-Made Garment Industry of Bangladesh

Mohammed S. Chowdhury, Zahurul Alam and Mohammed Mizanur Rahman

Abstract

The ready-made garment industry (popularly known as RMG), counts for almost 81% of the total exports of Bangladesh. This sector was the first to provide large-scale employment opportunities to women in a country where they traditionally have not worked outside the home. However, the challenges are many, varied and possibly insurmountable, raising the question of the sustainability of its present growth and its future growth as well. The purposes of this paper have, therefore, been to identify the present problems, the strategies to overcome these problems and finding the answers to the question(s) raised in the study. This study followed a qualitative research approach. Data were collected from secondary sources like project contracts and records, media reports and publications, documents and articles from relevant agencies. The findings indicated that to the extent that the cultivation of a spirit of openness, transparency and democratic governance were installed and political strife confrontational politics and labour unrest were reduced or eliminated, the present success story of the RMG sector would remain sustainable, guaranteeing a bright future. Implications and recommendations for future research are included.

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1. Introduction

Though Bangladesh does not produce cotton, the ready-made garment sector (popularly known as RMG) accounts for almost 81% of the total exports of Bangladesh. The RMG has achieved a strong footing in international market and has reached 5% of the world apparel market share (Ahmed, 2015). This sector has also helped women to come out of poverty, as 3.6 million women are employed in the RMG sector (Islam, 2015).

The RMG industry has been playing a significant role in the economic growth of Bangladesh. By providing direct employment to almost four million people, of which over 80% are female workers, as is evidenced from 2014 report released by the Bangladesh Garments Manufacturers and Exporters’ Association (BGMEA), this sector has been instrumental in bringing women into the labour force and has a potential lead in the social transformation of the country. The arrival of garments factories, it can be argued, has affected school enrollment, employment, marriage and childbearing decisions for Bangladeshi women. Indeed declining fertility, increasing age at marriage and rapid increase in girls’ educational attainment in Bangladesh over
the last 25 years may be attributed to some extent to the rise in
garment factories. The number of factories increased almost
11 times from 1992 to 2014. As of 2014, there were in total
5,615 units in 2012-2013 in the RMG sector of Bangladesh.
Of these, 2,723 are woven products factories, 1,383 knitted
products, 629 woollen knitted and 880 sweater factories
(BGMEA, 2014). So, it can be seen that the woven sector
comprises is the largest with the sweater sector being the
lowest. This tremendous growth has, therefore, played a
significant role in the socio-economic development of the
country, accounting for over 80% of Bangladesh export
earnings (BEPB, 2014).

However, this sector is not without unmixed blessings. Although the number of factories increased consistently from
1992 to 2013, there has been a certain drop in the number of
factories in the year 2013-2014 (BGMEA, 2014). This decline
resulted from the fire in Tazreen Garment factory and the
collapse of the Rana Plaza Garments Factory Building. Recent
developments like damaged infrastructure, compliance and
safety issues, poor worker-management relations resulting in
strikes and lockouts, the occurrence of fires in factories, the
unplanned building of factories and political strife have now
gulled the RMG sector of Bangladesh. The Ghushan
tragedy (which featured the killing of foreign buyers of
garments) at Dhaka this year (2016) has added fuel to the fire
in this industry. In view of these and other problems, the
RMG industry has been at stake and its survival has been
under question by academia, the business community and
researchers alike. This research project is aimed at addressing
these issues and concerns that affect the future of this
industry. The study will contribute to the literature since these
issues and problems affecting the future of this industry have
not been widely researched and validated.
2. Objectives of the Study

The objectives of this study are as follows:

1. To identify the strengths, weaknesses, opportunities and threats that this industry faces;
2. To identify the strategies for overcoming the impediments (threats and weaknesses) faced by this industry and
3. To identify the future of the RMG.

The research questions to be answered by this study are as follows:

1. What are the strengths, weaknesses, opportunities and threats faced by this industry?
2. What are the strategies to overcome the impediments faced by this industry?
3. What is the future of this industry?

Our assumption is that raising workers’ productivity and skills, increasing the minimum wage for the workers, eliminating political strife, improving infrastructure, planned building of factories, environmental compliance, ensuring foreign investors’ safety and security, safe and secure work environment and, more importantly, instituting a transparent and democratic government would be instrumental for the sustainable growth of the RMG industry and achieving its vision of $50 billion of RMG exports in 2021, as envisioned by the BGMEA, when the country will celebrate its 50th anniversary of independence.

3. Background of the Study
Formerly East Pakistan, Bangladesh came into being in 1971, when the two parts of Pakistan split after a bitter, nine-month long civil war, which also involved India. Its population of 170 million people, with an area of 55,598 square miles, makes Bangladesh the eighth most populous in the world with a high level of density (CIA, 2008). Among the large population, poverty is rampant and there is a systematic lack of educational and medical resources. Since its inception in the 1970s, political strife has also contributed to making the country one of the world’s poorest. The adult literacy rate is 43.1% (53.9% for males) and the average life expectancy at birth is 64 years (ibid.). The county is trying to diversify its economy, with industrial development a priority. As a result the growth of industrial sector averaged 8.3% during 2001-02 to 2006-07, compared with a 2.1% growth rate in the agricultural sector over the same period (Mansur, 2008). Manufacturing is now an overwhelmingly important component of Bangladesh’s export composition, thanks largely to the rapid expansion of the RMG sector. From a small base of only around US$32 million in 1984, garment exports have grown to around US$25 billion in 2014, thereby accounting for around 81% of the total export earnings of the country (Raihan, 2014) and its contribution to the country’s overall GDP is 10% (BGMEA, 2014).

Though the history of the RMG sector of Bangladesh is a fairly recent one, nonetheless it has a rich and varied tale. This sector started its journey in the 1980s. The industry emerged at a time when Bangladesh, after its independence, began a new struggle for economic emancipation and leading the country to prosperity with limited natural resources. The three largest industries at that time were Riaz Garments, Jewel Garments and Paris Garments. Among these, Riaz Garments was the most famous and the oldest in the industry in that time. From 1978, the company started exporting products
abroad with a consignment of one million shirts to a South Korean Company named Olanda (Chowdhury et al., 2014). Desh Garments is another pioneer of the Bangladesh RMG sector. In 1979, Desh Garments started a joint project with South Korean company Daiyuu (ibid.). The growth of the RMG sector now has put a positive impact on the overall economy and the human development index of the country. The RMG, within a short span of time, has become crucial to the economy as a source of export earnings and employment creation.

The RMG sector is basically a labour-intensive one and needs limited financial investment and relatively simple technology compared to other more highly technical industries. The success story of the garment industry in Bangladesh is the story of how the RMG sector was transformed from the late seventies, when it was an insignificant non-traditional export item, to a very highly contributing sector to the economy. Bangladesh RMG factories have given Western brands and retailers what they want. RMG is a vertical industry that manufactures high quality knitwear and woven goods, using both manmade fibres and cotton, including tops and bottoms, underwear and outerwear. As a result, in a period of 25 years, Bangladesh has risen from next to nowhere to become the world’s second largest supplier of apparel.

Although a bright prospect exists for Bangladesh in the export oriented production of garments, the industry is engulfed with many problems: poor labour law; poor infrastructure; low compensation for workers; lack of environmental compliance; lack of transparent and democratic government; lack of safety and security for both workers and foreign investors; political strife and confrontation and others. The industry and the country must address these critical issues to sustain the progress that has been made so far and brighten its future.
The study is divided into the following sections: methodology; current status of RMG in Bangladesh; strengths and opportunities; major issues and concerns (weaknesses and threats); strategies for eradicating issues and concerns; a look into the future and conclusions and recommendations.

4. Methodology

This study employed a qualitative research approach. Data were collected from secondary sources such as project contracts and records, media reports and publications, documents, articles from relevant agencies and the BGMEA. This study mainly focused on the problems faced by the sector and strategies for overcoming these problems, mostly gathered from secondary sources.

The researchers have explored the following secondary sources to meet the objectives of the report: data from the inventory of Bangladesh Export Promotion Bureau (BEPB) relating to RMG exports and from data from the inventory of the BGMEA; data and articles from the Dhaka Apparel Summit, 2014; online news archive of newspapers and news agencies from home and abroad and the Bangladesh Apparel and Safety Exposition, Chittagong 2015.

5. Present Situation of the RMG Industry

Although a quarter of its 170 million people still live below the poverty line, Bangladesh has clocked growth of around 6% nearly every year since the turn of the millennium, largely thanks to garment exports, which have become the lifeblood of its economy (Ford, 2016). Bangladesh is now the second largest exporter of RMG behind only China (McKinsey, 2011). The top three export destinations for Bangladesh garments were Europe, which accounted for US$ 12.6 billion,
followed by the US and Canada, which accounted for US$5.0 billion and US$980 million, respectively (ibid.).

The main apparel items exported from Bangladesh are shirts, trousers, jackets, shirts and sweaters. It can be seen from the Table 1 below that the exports have been increasing each year for each of these items to reach the highest levels now.

<table>
<thead>
<tr>
<th>Year</th>
<th>Shirts</th>
<th>Trousers</th>
<th>Jacket</th>
<th>T-Shirts</th>
<th>Sweaters</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>993.4</td>
<td>3,035.4</td>
<td>1,350.4</td>
<td>3,145.5</td>
<td>1,795.4</td>
</tr>
<tr>
<td>2010-11</td>
<td>1,566.4</td>
<td>4,164.2</td>
<td>1,887.5</td>
<td>4,696.6</td>
<td>2,588.2</td>
</tr>
<tr>
<td>2011-12</td>
<td>1,733.5</td>
<td>4,686.4</td>
<td>2,231.2</td>
<td>4,713.1</td>
<td>2,340.3</td>
</tr>
<tr>
<td>2012-13</td>
<td>1,972.9</td>
<td>5,185.5</td>
<td>2,634.3</td>
<td>5,143.2</td>
<td>2,620.7</td>
</tr>
<tr>
<td>2013-14</td>
<td>2,173.7</td>
<td>5,690.8</td>
<td>2,973.2</td>
<td>5,863.8</td>
<td>2,932.9</td>
</tr>
</tbody>
</table>

Table 1: Main Apparel Items Exported from Bangladesh (value in US$ million); source: BEPB

Recent incidents like fire in the Tazreen factory that killed more than 110 people and the collapse of the Rana Plaza garment factory building in April, 2015 that killed over 1,100 people and injured more than 2,500 have been disasters in the history of Bangladesh’s RMG (The Daily Sun, 2015). This could be because of the absence of qualified and skilled management or could be the outcome of labour unrest and political strife that have been persistent in this country. As a result, the US government in June suspended Bangladesh from the Generalized System of Preferences (GSP), which allows duty-free entry of over 5000 goods to the US market.
from least developed countries like Bangladesh (BGMEA, 2014).

Although Bangladesh has a strategic advantage in terms of wages, India and Myanmar are breathing over the country’s shoulder in this regard. Moreover, the low wages of workers in Bangladesh might be eroded since productivity there is lower than it is in India or Myanmar. In addition, India is poised strategically to attract US interest to counter potential Chinese supremacy, while China is likely to use Myanmar as strategic hub for cost minimization in the expansion of its interests. As a result, Bangladesh in the near future might lose its market share in the US and China. Further, concern persists that Bangladesh, wracked by political instability since independence in 1971, is sliding into deeper chaos, with police feeling themselves under pressure police and responding by arresting every month countless people, many affiliated to political opponents, in desperate attempts in the name of cracking down on terrorists. The recent Gulshan tragedy in Dhaka in July, 2016 is a terrible and horrific one that reflects how security has deteriorated in the country. This violence represents a serious threat to the economy and is likely to keep fashion buyers away in forthcoming months.

Foreign buyers are becoming skeptical of the sustainability of this sector and some existing foreign buyers are reported to be cancelling their orders. RMG products (which make up most of the US imports from Bangladesh) are not included in the list of duty-free products in GSP. Losing the GSP facility is costing Bangladesh millions of dollars in taxes. It also influenced the European Union (EU) to take similar action. The European Parliament threatened to withdraw GSP, which is the duty and quota-free access to EU market that Bangladesh enjoys. The EU buys more than $12 billion in
Bangladeshi garments each year or, roughly, three-fifths of the country’s production (BEPB, 2014).

Owing to the recent political strife and unrest, the Bangladesh RMG sector has lost billions of taka every day. The blockades put the garment sector in a tight corner as exporters were counting losses from order cancellations amid rising transport costs. Buyers were cancelling orders since exporters failed to meet lead-times due to the transportation crisis. Some buyers also imposed penalties in the event of delayed shipments, cutting the prices of garment products since transport costs have surged by around 30% due to expensive air shipment costs. Many factories have halted production as they could not bring imported raw materials from foreign countries.

6. Strengths and Opportunities of the RMG Sector

Despite all of the preceding, the RMG sector remains a success story for Bangladesh. It started in the late 1970s, expanded heavily in the 1980s and boomed in the 1990s. The rapid expansion of the industry was possible because of the following unique features of the industry:

- technology is less complicated (easy to transfer);
- machinery is cheap and easy to operate (sewing machines) and
- a large female labour force that is easy to train is readily available.

Besides the low cost of labour, one of the major factors behind the success of the RMG sector is the availability of offshore financing for world-priced inputs through back-to-back letters of credit (L/C) under the special bonded
warehouse scheme. The presence of foreign buyers is also a major factor that helped introduce the system of international sub-contracting. Foreign buying houses not only bring the international market to the doorstep of local entrepreneurs, they also ensure the availability of essential inputs such as imported fabrics and accessories for the industry. They also did the greatest favour for the RMG sector of Bangladesh by introducing the latest designs and by monitoring output quality. These measures especially were very influential in enabling inexperienced garments entrepreneurs to establish a strong foothold during the 1980s.

The strengths of this sector are its opportunities. The greatest opportunities lie in the apparently unlimited market outside of Bangladesh. In a quota-free world, the United Nations Commission for Trade and Development (1999) estimated that removal of the Multi-Fibre Agreement (MFA) and tariffs by developed countries will expand exports of clothing by 135% and textiles by 78%. In the knitting sector, Bangladesh gained substantial competitive advantage over her competitors. According to the Bangladesh Knitwear Management and Exporters Association (BKMEA), the cost of yarn production per kg is only US$1.48, whereas in India it is $1.78, in Pakistan $1.60, in Japan $2.38, in Korea $1.73 and in Thailand $2.78. Other opportunities lie in attracting new buyers by establishing new buying houses and encouraging new joint ventures.

7. Weaknesses of and Threats to the Sector

Dependence on others for raw materials, low productivity, limited knowledge in international marketing information, poor infrastructure, political instability, disruptive trade unionism, inefficiency in port management and excessive dependence on raw materials from outside are some of the
major weaknesses of the industry. Of these weaknesses, two of them (dependency on others for the supply of materials and low productivity of workers) merit particular discussion.

7.1. Dependence on Others for the Supply of Raw Materials

The industry is heavily dependent on others for outsourcing of raw materials such as clothing and accessories. Bangladesh is currently importing raw materials (e.g. gray fabrics) for its RMG factories from countries like India, China and Thailand under back-to-back L/Cs. In a quota-free environment, these countries will obviously try to export finished apparels to North American markets rather than sell fabrics to countries like Bangladesh. With equal access to the world market, these direct competitors will either stop selling materials to their competitors like Bangladesh (a strategic move) or charge higher prices for their materials (because of increased internal demand). In either case, Bangladesh will face difficulty in procuring the required raw materials at reasonable prices.

7.2. Low Productivity of Workers

Another major shortcoming of the apparel sector is the low productivity of its workers. Labour productivity of Bangladesh is much lower than that in historical rivals Sri Lanka, South Korea and Hong Kong. Low productivity might erode the advantage of the low cost of labour in Bangladesh. Productivity is not as high as one would expect. The importance and impact of productivity on the apparel industry is significant and profound. Productivity is defined as the efficient use of resources – i.e. labour, capital, land, materials, energy and information - in the production of various goods and services. Lower productivity means accomplishing less with the same amount of resources or achieving lower output.
In a competitive global market, buyers demand shorter lead times and appropriate compliance as well as consistently higher quality products with low prices. At the same time, entrepreneurs expect profits and business growth. Lower productivity leads to business failures since it means suppliers cannot meet the demands of the buyers. Productivity increase is, therefore, a major factor in bringing about a balance between buyers and owners and eventually leads to sustainable business in a market economy.

7.3. Threats

India, Sri Lanka and Myanmar are the biggest threats to the Bangladeshi RMG and textiles exports. Bangladesh is surrounded by India on three sides, which are north, west and east. India is now the biggest emerging threat to the Bangladesh RMG sector. States of India such as West Bengal, Assam, Tippera and Megalaya, which border Bangladesh, are significant hubs of low wage workers but with higher levels of productivity compared to Bangladesh. Political and industrial unrest and the confrontational politics of Bangladesh can result in industrial sabotage since the owners and workers of the factories are divided along political lines. This becomes a blessing for India’s garment sector since, under these circumstances, foreign buyers might migrate to India. India, the closest neighbour of Bangladesh, has been enjoying a relatively peaceful and secure industrial climate since its inception. Unfortunately, the government, the people and the political parties have not been able to draw the appropriate lessons from this.

A threat has also emerged from fierce competition from efficient producers like Hong Kong, China, Thailand, Sri
Lanka, Vietnam and many Caribbean countries. Threats might come not only from marketing but also from outsourcing. The potential danger is that these countries might either stop selling their raw materials to Bangladesh or increase the price of their materials significantly. Moreover, the low productivity of workers of Bangladesh compared to these other countries is also another threat.

Environmental issues, labour standards and the Trade Related Aspects of Intellectual Property Rights (TRIPs) might also represent deadly threats to developing countries like Bangladesh. Other issues like child labour have already proved to be sensitive issues in western markets. Regionalism is another threat to the industry. The growing concern and consensus among the Garments Exporters and Owners is that over the medium term it is also possible that North American Free Trade Agreement (NAFTA) may lead to a displacement of East Asian RMG imports to the US and Canada. These threats will also contribute to Bangladesh losing its competitive edge in the world market.

8. Strategies for Overcoming Existing Problems

To capitalize on the next industrial revolution, particularly in the apparel industry, Bangladesh needs to build on current strengths and carefully align investment with the needs of the RMG sector. The RMG sector needs to invest in human capital, relevant technologies, innovative and competitive enterprises. Every effort must be made to remove obstacles to the development and competitiveness of this industry. The following actions are suggested:
8.1. Transparency and Democratic Governance

The most important challenge is the cultivation of a spirit of openness, transparency and democratic governance. Corruption has become the bane of all aspects of life of the people of Bangladesh. Political structures have remained highly confrontational. Personal and political enmity between political rivals has led to the killing, kidnapping and cross-firing of political opponents by the ruling party, with an attendant lack of respect for the elementary principles of democratic governance and this has become the principal characteristic of the national political system. No society, no matter the amount of knowledge embedded in its people, can prosper if corruption rules as king. Corruption will exist as long as confrontational politics and governmental anarchism prevails. Consequently, a transparent and democratic government is the critical need of the day for this country.

8.2. An Efficient Innovation System and Technology Adoption

Schumpeter (1934) defined innovation as the process by which new products or new methods of production are introduced. Firms must be able to tap into the growing stock of global knowledge, assimilate and adopt it to local needs and create new products and new methods of production. Establishing research and development (R&D) systems, as well as good governance and efficiency improvements will pave the way for an efficient innovation system in the country, thereby leading to the growth and development of industry in the country. Through research, this industry can enrich its knowledge and capability so that sector players can utilize the research with a view to competing globally. A research centre can play a vital role in providing ideas about product diversification, innovation and the development of new products and markets.
Although automation has remained somewhat limited in the RMG sector, since in many instances production in RMG involves manual operation of machines and the materials need proper feeding through the machines (Yunus & Yamagata, 2012), industry competitiveness in this digital world depends on the ability to respond quickly to demand with a variety of newer techniques and technologies. For example, companies in apparel markets today strive to cope with ever-changing fashion styles by reducing the time it takes to design, produce and deliver goods. Desired levels of production and quality can only be achieved by the adoption of newer technologies and techniques.

8.3. Product Diversification

The majority of Bangladesh’s RMG exports are concentrated in five basic product lines. If this sector is to enter the market for some higher-end products, like suits or blazers, lingerie, jackets, swimwear, sportswear, uniforms, raincoat and fishing wear, among others, this industry requires technological upgrading and strong human capabilities to process and package garments products for marketing nationally and internationally.

8.4. Human Capabilities

The human capabilities issue relates to the absence of qualified and skilled workers. These workers are at the heart of the RMG sector. Productivity improvement is a critical need of the industry.

“We are living in an age of knowledge and information, fraught with opportunities and dangers. There are opportunities for the underprivileged and poor to become rich and strong. But at the same time
there is a danger that gap between the rich and the poor could widen. The message is clear. We must continue to develop our human resources. The success or failure of individuals and nations as well as the prosperity of mankind depends on whether we can wisely develop our human resources (UNDP, 2001).”

Bangladesh labour productivity is known to be lower when it is compared with that of Sri Lanka, South Korea and Hong Kong. In addition, India, Myanmar and Cambodia, which are neighbours of Bangladesh, have enough capacity to build their industry even further. Bangladesh must concentrate on productivity and capacity utilization to start with and must look for ways to improve the productivity of its labour force if it wants to continue to compete globally.

Although the BGMEA, along with the government and other international organizations, has taken the initiative in developing the skills of workers, yet many more initiatives are required to meet the demands of the industry and enhance the productivity of local companies. The government and the companies must establish more technical institutes and utilize the existing vocational institutions to help produce more skilled manpower for the apparel industry and the whole economy. The potential and capacity of a vibrant workforce can be turned into a power through a set of productive skills, which will unlock the huge potential offered by this labour-intensive RMG sector.

8.5. Working Conditions and the Safety of Workers

Working conditions in the RMG factories of Bangladesh have long been criticized as being less than ideal with a lack of sufficient space, light and supply of purified drinking water. Health and safety hazards in RMG factories have been
pointed out as being depressing in nature. Some of the factories are operated in rented accommodation where industrial building standards become difficult to maintain. In the collapsed Rana Plaza, the building was over stressed with machinery and 4-500 people were working in each of the five floors used as garments factories in a space of only 6,000 square feet on each level.

Following the collapse of the Rana Plaza factory building and awareness of problematic labour and fire safety conditions in other factories, the RMG sector of Bangladesh has received considerable international criticism. Dhaka lacks an efficient operating network of fire stations and fire brigades. Poor infrastructure hinders rapid response in the event of emergencies. Access roads to the factories are often narrow and unpaved. The factories are poorly equipped with hydrants and fire extinguishers and the water hoses are mostly in worn out conditions, while the first responders in the factories are often poorly trained.

Bringing the garment industry and Bangladesh Fire Service together is seen as a way out of this situation. The training of fire inspectors, the development and implementation of decentralized fire stations located near the factories and making the access roads to the factories paved and wider is now deemed a key priority in Bangladesh to ensure the desired protection of RMG factories and their workers.

The lack of unified security and compliance standards are also notable in the RMG sector. RMG experts argued that the existence of unified parameters of safety and compliance would enable the BGMEA to monitor the work of apparel factories efficiently. Without creating a safe workplace, the country cannot create a safe and sustainable RMG industry.
8.6. Environmental Sustainability and Compliance

Everything that is happening around us has an impact on the environment. The same is true for the garments business and all other business sectors as well. The traditional concept of doing business as the activity of making, buying or selling goods and services in exchange for money no longer exists. Rather, it encircles us with the obligation to do more for the society and environment in which we live and conduct our businesses. Business can no longer be viable without its important stakeholders being responsible to the existence of the environment and this is also true for the RMG sector, which is responding by attempting to go green.

The demand for green products has been on the rise from global buyers. It is now the time for the RMG sector to take into consideration the sustainable fashion approach called Eco-Fashion. Eco-Fashion is a part of the growing design philosophy related to the trend of sustainability. Environmentally sustainable products are one area that is created and produced with consideration for the environmental and social impacts of production. If necessary measures are taken to become eco-fashion and environmentally-friendly, the future of the RMG sector in this country will remain bright.

8.7. Industry-Academy Partnerships and Productivity Improvements

An old Chinese proverb observes that giving a person a fish feeds the person for that day but teaching a person to fish feeds the person for a lifetime. In today’s knowledge economy, one more level needs to be added for developing countries: teach the person how to process and package fish for export and market it, then we can see the improvement in

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knowledge and economic development. This is true for the RMG sector. Transforming the industry from a labour-driven one to a knowledge-driven one is of utmost importance. What is vital at this situation for the RMG sector is the need to harness knowledge, both locally and globally. This knowledge can leverage the attainments of industry to facilitate a design industry, a fashion industry, an RMG-focused communication industry, service industries (e.g. education, banking and insurance) all specialized in some way to serve the RMG sector and inject further dynamism into the economy. Needless to say, investment in education and training is the principal weapon for productivity improvements among workers who are at the heart of the industry.

To facilitate the aforementioned growth needs, the garment industry must collaborate with the knowledge industry and academia in particular, where the needs of the industry can be better identified, elaborated, distributed, archived and continuously upgraded through ongoing programmes of education, training and research. The potential synergies could create a pool of talented and highly skilled workers for the RMG sector, thereby driving the growth and employment in this sector as well as in other economic sectors.

8.8. Labour Unrest

Labour unrest is a big concern for factory owners. This has led to huge losses in production and destruction of the lives and properties of factories and workers. We cite here a few episodes of labour unrest in this study, as described by newspapers.

I. The labour unrest that started in May and lasted until the end of June 2006 accounted for the following incidents (see
Marriott, 2010):

a. 4,000 factories went on wildcat strike;
b. 16 factories were burnt down;
c. Hundreds of factories were ransacked and looted;
d. Pitched battles were fought with cops and private security forces in work places and workers’ neighbourhoods;
e. Main roads were blocked;
f. The workers were shot dead, thousands were injured and
g. The army was called in to restore order.

This was a working class revolt that spread beyond the workplace and became generalized so as to involve the wider working class community.

In August of 2015, garment factory workers clashed after demanding a taka (the name of the currency of Bangladesh) rate of 8,000 as minimum monthly wage, which would be equivalent to US$100. Many factories closed because of various clashes. In November, 18,800 people lost their jobs because of a fire in Standard Group. The factory was among the ten biggest in the country and it was the biggest supplier of Gap in Bangladesh and this was a huge setback for the country (The Daily Sun, 2015).

Several studies (e.g., Alamgir, 2010; Absar, 2001) and the daily newspaper reports have explored the number of causes of labour unrest in the RMG sector with the following conclusions: (a) the low levels of wages and benefits; (b) worsening living conditions of RMG workers; (c) deprivation
of basic human needs (e.g. bread, butter and water); (d) the lack of housing facilities; (e) lack of safety and security of the workers; (f) discrimination against women workers in terms of wages and other facilities like training; (g) non-compliance with labour laws by the factory owners and (h) confrontational politics and political strife.

History tells us that the uprising of the workforce arises from the struggle for decent and dignified living and it can never be subdued. Coercive measures to disperse agitation only antagonise the workforce which, in turn, can turn instead to revolution (Yunus & Yamagata, 2012). Consequently, the government and all other stakeholders must take necessary actions to solve labour unrest issues.

8.9. Infrastructure

Power is the biggest logjam in the physical infrastructure of Bangladesh. Frequent power failures and low voltage transmission stand as big hurdles for the RMG sector. The shortage of electricity is another major deterrent to investment. Under these circumstances, the costs of products increase. The adequate supply of electricity, gas and energy needs to be ensured as these act as the engine involved in running the industry.

Infrastructure constraints are stumbling blocks for the country’s ability to attract investment and inspire development. It is widely believed that delays in shipping and customs clearance, congestions and customs delays at Chittagong port, as well as inadequate telecommunications infrastructure, all contribute to the high costs found in Bangladesh’s textile and apparel industry.
8.10. Government-Industry Relationship

The government of Bangladesh has a critical role to play in dealing with all of the above named issues, by fulfilling its proper role as the protector of workers’ safety, providing order and certainty, protecting the lives and properties of foreign investors, establishing transparent multi-stakeholder mechanism regularly to review the minimum wage, ensuring the supply of high quality inputs such as physical infrastructure, educated citizens, setting the rules of competition and providing good governance so that productivity and innovation will govern success.

9. Conclusion and Recommendations

This paper has discussed and analysed the strengths, opportunities, weaknesses and threats to the RMG sector in Bangladesh, including those resulting from recent developments. The discussion has revealed that opportunities are immense. The “Made in Bangladesh” tag has made inroads at the highest echelons of global society. Bangladesh factories have given Western brands and retailers what they want: a vertical industry that manufactures high quality knitwear and woven products, using both manmade fibres and cotton, including tops and bottoms, underwear and outerwear. The other side of the story is that challenges are also plentiful. These include high dependence on EU and U.S. markets, safety and environmental compliance, the quality of the labour force, political strife since its inception (1971), confrontational politics, foreign supremacy and dominance over the political affairs of Bangladesh, which have all become difficult challenges for the RMG sector of Bangladesh.
In fact, to save this industry from falling apart, leading to possible unemployment for millions of workers, while hoping to capture the huge potential of the industry, what is needed is a comprehensive plan and effective agencies to implement it. That plan must include time bound necessary steps: (1) to ensure payment of compensation to the families of the killed, not less than their lifetime possible earning, as well as to the injured to compensate them for the loss of their lifetime ability to earn; (2) to ensure exemplary punishment to those who are responsible for disasters; (3) to ensure security at the workplace and sustainability of the sector, so as to develop national capability; (4) to fix the national minimum wage at the living wage level (i.e. it must be higher than the poverty level of income) and to work for establishing a global minimum wage and (5) to ensure the right to organize.

Above all, for sustaining the present growth of this industry and taking it to the next level, there is no other alternative but the cultivation of a spirit of openness, transparency and democratic governance. If these are not ensured and put into action, we fear that the RMG sector’s future will be at stake and the industry will fail to sustain its present rate of growth.

9.1. Implications

The implications of this study are that opportunities for the growth of this industry are huge. The dangers are also many. In order to exploit these opportunities, the country needs to ensure a congenial and productive environment in which the workers will remain well-paid, entrepreneurs can make profits, investors will remain safe and industrial espionage and sabotage will not occur. Every stakeholder (the government, the creditors, the investors, the suppliers, the buyers) must realise that workers are at the heart of the industry. It is the sole responsibility of the government to act
as protectors of the workers and other stakeholders. This implies that the government should enforce and uphold existing labour standards and statutes with enforced penalties against those who violate them.

Bangladesh is already facing stiff competition from a large number of apparel producing countries, including notably China, India and Pakistan. India is the most powerful and close neighbour of Bangladesh. Labour unrest and confrontational politics in Bangladesh have major implications for the survival and growth of this industry. India, China and Pakistan are all more productive than Bangladesh. For example Bangladesh’s productivity rated at only 77% of that of India (Kochan & Zack, 2015). This has major implications for the competitiveness issue.

9.2. Recommendations for Further Research

This study used secondary data. It would, therefore, be useful to explore this study empirically. The role of government, industrial associations, technology transfer and work environment are all contentious issues that need to be researched further. Further study is also needed to explore the impact of industrial espionage and industrial sabotage on the future of the RMG sector of Bangladesh.

10. References


Effectiveness of Collective Bargaining as a Tool for Industrial Disputes Resolution

Olabanji E. Obadara

Abstract

This paper examines the effectiveness of collective bargaining as a tool for industrial disputes resolution. A descriptive survey design was used for the study. A sample of four academic trade unions and 16 chapters of the unions in southwest Nigeria was drawn using a proportionate stratified random sampling technique. Also, simple random sampling was used to select 65 respondents from each chapter, which amounted to 1,040 respondents all together. The study developed and used a questionnaire entitled “Collective Bargaining and Industrial Dispute Resolution Questionnaire (CBIDRQ)” with correlation coefficient (r) of 0.77 and complemented with structured interviews. The Pearson product moment correlation coefficient (r) was employed to analyse the data. While the null hypotheses developed for the study were tested at the 0.05 level of significance, the findings revealed that there is a significant relationship between collective bargaining and arbitration; collaborative law; mediation and conciliation. It is, therefore, recommended among other things that governments, business organizations, employers of labour, employees, organizations and all stakeholders in industrial relations should endeavour to embrace collective bargaining as the machinery to resolve industrial disputes, so as to promote industrial harmony, enhance employees’ performance, increase productivity and improve the living standards of the generality of the people.
Keywords: dispute resolution, employees, industrial conflict, negotiation, trade unions

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1. Introduction

Workers all over the world desire recognition, better salaries and wages and great improvements in the terms and conditions of work. Workers have formed associations for the purpose of realising this main objective. By forming associations and banding together, workers have a more effective basis to realise improvements in working conditions. At times, a general discontentment is discoverable among workers with regards to their job prospects in terms of remuneration, social regards, their performance and other issues. Right from the colonial period, the average Nigerian worker had always been in conflict with the employer due to the unsatisfactory condition of the job or the inability of the employer to meet the needs of the worker. Agitations for better working conditions have resulted in industrial disputes culminating in strikes, work to rule, lock outs and other actions. Although many reasons could be advanced for industrial unrest, the fact remains that Nigerian workers have tended to replicate their colonial condition of service for Civil Servants. The workers’ collective demand for wage increase dates back to the early 40s. In fact, in 1942, due to the inflationary spiral of that period, the needs and agitation of workers during the Second World War resulted in the “cost of living allowance” granted to workers.

However, with the dawn of independence in 1960, it was expected that the conditions of service would have improved
considerably, but this was not a reality. In fact, the matter was made worse by the civil war (1967-1970) which disrupted the implementation of the country’s social, political and economic development programmes. The war put every Nigerian, especially the workers, in a state of fear and suspense. The prosecution of the war worsened the condition of the workers as they had to face a lot of hardship including high inflation. A number of rights and privileges of workers were withdrawn. In fact, there were occasions for wage freezes and suspension of workers. Also, the biggest cause of frustration which brought a lot of changes in the Nigerian workers’ attitude to work came in the 70s just immediately after the civil war and, coincidentally, during the period of the oil boom. During this period, the Federal Military Government embarked on a programme of reconciliation reconstruction and rehabilitation, popularly called the 3Rs (Obadara, 1997).

With the dawn of a new civilian regime in 1979, there were expectations of better packages for Nigerian workers. However, this was not realised as workers’ promotions were virtually based on political consideration. In such a situation, workers tend to become disgruntled, frustrated and demoralized. As Nigerian workers resigned themselves to their fate, they were getting more and more dissatisfied with their job with every passing day. There are always conflicts and disagreements between employers and employees, either on wages or on the general condition of service of the workers. In a bid to check this, workers experiencing conflicts come together and form unions (i.e. trade unions). Trade comes together, thus realizing the amount of influence they can wield as a group for effective industrial relations.

The government as a pacesetter and the largest employer of labour should lead other employers in its policy implementation. The government restructured the trade unions
in both the public and private sectors to enhance the
effectiveness of collective bargaining processes, but the
government seldom uses the machinery in the public sector in
comparison to other approaches obtained in the private sector.
This scenario gives the government room for unilateral
determination of terms and conditions of employment which
is a negation of the “partnership in progress” doctrine outlined
in the National Labour Policy. As Fashoyin (1992) observes,
the inequities associated with unilateral decision-making and
the unwillingness of the public employer to use the bargaining
machinery has made striking to be the means of ensuring
favourable employment conditions in the public sector that is
crucially important. Besides, labour-management negotiations
are achieved through informal means or through political
pressure mounted by the unions. The existing statutory
machinery for the settlement of disputes, as could be found in
the Trade Disputes Act 1976 and all subsequent amendments,
has not been effective in terms of delays experienced by
aggrieved parties as well as on the cumbersomeness of the
procedure. Oftentimes, judgements drag on for years and
justice delayed is justice denied. Further, the statutory dispute
settlement procedure has not fostered an industrial harmony to
a large extent (Chidi, 2010). The statutory settlement
mechanism is exemplified by mediation, conciliation,
industrial arbitration panel and the national industrial court.

The major activity of trade unions in most countries became a
collective bargaining over pay and conditions, with trade
union officers also acting to resolve any grievances of
individual members, or of small groups, within the workplace.
Collective bargaining according to Flanders (1970) is a social
process that "continually turns disagreements into agreements
in an orderly fashion." In industrial relations, collective
bargaining involves workers organizing together (usually in
unions) to meet, discuss and negotiate upon the work
conditions with their employers. Such bargaining normally results in a written contract setting forth the wages, hours and other conditions which the parties agree on for a stipulated period (Bureau of Labour Statistics, 2008). It is the practice in which union and company representatives meet to negotiate a new labour contract (O’Sullivan & Sheffrin, 2003). In various national labour - and employment - law contexts, the term collective bargaining takes on a more specific legal meaning. In a broad sense, however, it implies the coming together of workers to negotiate their employment conditions.

Collective bargaining involves a process of consultation and negotiation of terms and conditions of employment between employers and workers, usually through their representatives. It involves a situation where the workers union or representatives meet with the employer or representatives of the employer in an atmosphere of mutual cooperation and respect to deliberate and reach agreement on the demands of workers concerning certain improvements in the terms and conditions of employment. Consequently, two essential conditions for collective bargaining to occur include the freedom to associate and the recognition of trade unions by employers. This means that workers must be at liberty to associate and to join or form trade unions in order to be able to bargain collectively.

Okere (2008) claimed that collective bargaining is a term generally used as negotiation of working conditions and terms of employment between employers, a group of employers or one or more employers’ associations on the one hand and one or more representative workers organizations on the other, with a view to reaching agreement. Reaching agreement is perhaps what makes negotiation equal to bargaining (Fajana, 2006). Otherwise, when negotiations go on endlessly without concrete agreement, no bargain could have been struck. A
collective agreement therefore functions as a labour contract between an employer and one or more unions. Collective bargaining consists of the process of negotiation between representatives of a union and employers (generally represented by management, in some countries or by an employers’ organization) in respect of the terms and conditions of employment of employees, such as wages, hours of work, working conditions and grievance-procedures, and about the rights and responsibilities of trade unions. The parties often refer to the result of the negotiation as a collective bargaining agreement (CBA) or as a collective employment agreement (CEA).

Adodo (2005) conducted a study on collective bargaining in formal organizations in Nigeria and concluded that the bargaining process represents negotiations on issues which both the trade union and the management have divergent positions. He found that the process is based on the principle that workers have a right to make a contract with their employers with regards to wages and other conditions of service and that the employers recognise that right. Contrary to Adodo’s position, Omole, Noah and Powell (2006) conducted a state-by-state analysis of the impact of collective bargaining among teachers on workers performance. The results of their findings according to them show that bargaining among workers and management does not have any significant effect on the workers’ welfare as most agreements reached during collective bargaining are not implemented. They discovered that most union leaders sell out to management during negotiations. Fashoyin (2004) pointed out that negotiation is concerned about improvement of workers’ welfare that will enhance their socio-economic status. In other words, the ability of union to negotiate issues that will directly lead to enhanced socio-economic status of
their members in both social and economic activities without engaging on strikes will be satisfactory.

2. Purpose of the Study

The study examined the effectiveness of collective bargaining as a tool for industrial disputes resolution among the trade unions in Nigeria. Specifically, it explored the relationship between collective bargaining and various methods of dispute resolution such as arbitration, collaborative law, mediation and conciliation with the aim of using its findings to make useful recommendations on how adequately to negotiate issues that will directly lead to enhanced socio-economic status of the union members without engaging on strikes.

3. Methodology

The study used a descriptive survey design to establish the relationship between collective bargaining and industrial dispute resolution. The population consists of trade unions in Nigeria; while due to size of trade unions in Nigeria it has been narrowed down to four academic trade unions, namely: Academic Staff Union of Universities (ASUU), Academic Staff Union of Polytechnics (ASUP), Colleges of Education Academic Staff Union (COEASU), and the Nigeria Union of Teachers (NUT) using sixteen (16) chapters, that is, four chapters of each trade union in south west Nigeria as the population sample. The sample was drawn using a proportionate stratified random sampling technique. Also, simple random sampling was used to select 65 respondents from each chapter, which amounted to 1,040 respondents all together. A self-developed questionnaire entitled the “Collective Bargaining and Industrial Dispute Resolution Questionnaire (CBIDRQ)” with correlation coefficient (r) of 0.77 was used and complemented with structured interviews.
The Pearson product moment correlation coefficient (r) was employed to analyse the data. The null hypotheses developed for the study were tested at .05 level of significance. The following research hypotheses were explored in this study:

Ho₁: There is no significant relationship between collective bargaining and arbitration.

Ho₂: There is no significant relationship between collective bargaining and collaborative law.

Ho₃: There is no significant relationship between collective bargaining and mediation.

Ho₄: There is no significant relationship between collective bargaining and conciliation

4. Findings

The results of the study are presented below according to the hypotheses generated for the study.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>df</th>
<th>r-cal.</th>
<th>r-tab.</th>
<th>P</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective Bargaining</td>
<td>104</td>
<td>241</td>
<td>334</td>
<td>103</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>49</td>
</tr>
<tr>
<td>Arbitration</td>
<td>104</td>
<td>232</td>
<td>311</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 1: Relationship between Collective Bargaining and Arbitration; source: Original Research

The results in Table 1 above show that the calculated $r$ - value $= 0.244$ and the tabulated $r$ - value $= 0.049$ at the 0.05 level of significance. The calculated $r$ - value is greater than the tabulated $r$ - value. Consequently, the null hypothesis, which states that there is no significant relationship between collective bargaining and arbitration is rejected. So, that there is a significant relationship between collective bargaining and arbitration is supported.

$H_{02}$: There is no significant relationship between collective bargaining and collaborative law.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Me</th>
<th>Std. Dev</th>
<th>df</th>
<th>$r$-cal.</th>
<th>$r$-tab.</th>
<th>P</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective Bargaining</td>
<td>104</td>
<td>253</td>
<td>321</td>
<td>103</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>Sig.</td>
</tr>
<tr>
<td>Arbitration</td>
<td>104</td>
<td>205</td>
<td>271</td>
<td>30</td>
<td>0.3</td>
<td>0.5</td>
<td>0.5</td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Relationship between Collective Bargaining and Collaborative Law; source: Original Research

The results in Table 2 above show that the calculated $r$ - value $= 0.236$ and the tabulated $r$ - value $= 0.049$ at the 0.05 level of significance. The calculated $r$ - value is greater than the tabulated $r$ - value. Consequently, the null hypothesis, which states that there is no significant relationship between collective bargaining and collaborative law is rejected. So,
that there is a significant relationship between collective bargaining and arbitration is supported.

Ho$_3$: There is no significant relationship between collective bargaining and mediation.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Me</th>
<th>Std. Dev</th>
<th>df</th>
<th>r-cal.</th>
<th>r-tab.</th>
<th>P</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective Bargaining</td>
<td>104</td>
<td>212</td>
<td>284</td>
<td>103</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>Sig.</td>
</tr>
<tr>
<td>Arbitration</td>
<td>104</td>
<td>204</td>
<td>210</td>
<td>103</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>Sig.</td>
</tr>
</tbody>
</table>

Table 3: Relationship between Collective Bargaining and Mediation; source: Original Research

The results in Table 3 above show that the calculated $r$-value = 0.213 and the tabulated $r$-value = 0.049 at the 0.05 level of significance. The calculated $r$-value is greater than the tabulated $r$-value. Consequently, the null hypothesis, which states that there is no significant relationship between collective bargaining and collaborative law is rejected. So, that there is a significant relationship between collective bargaining and mediation is supported.

Ho$_4$: There is no significant relationship between collective bargaining and conciliation.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Me</th>
<th>Std. Dev</th>
<th>df</th>
<th>r-cal.</th>
<th>r-tab.</th>
<th>P</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
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<td>321</td>
<td>377</td>
<td>103</td>
<td>0.4</td>
<td>0.0</td>
<td>0.0</td>
<td>Sig.</td>
</tr>
</tbody>
</table>

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Table 4: Relationship between Collective Bargaining and Conciliation; source: Original Research

The results in Table 4 above show that the calculated $r$ - value = 0.441 and the tabulated $r$ - value = 0.049 at the 0.05 level of significance. The calculated $r$ - value is greater than the tabulated $r$ - value. Consequently, the null hypothesis, which states that there is no significant relationship between collective bargaining and collaborative law is rejected. So, that there is a significant relationship between collective bargaining and conciliation is supported.

5. Discussion of Findings

The study recorded the significant relationships between collective bargaining and arbitration; collaborative law; mediation and conciliation. This implies that collective bargaining is an effective tool for industrial dispute resolution. These results might not be unconnected with the fact that arbitration, collaborative law, mediation and conciliation are statutory settlement mechanisms. The findings from this present study corroborate Benjamin and Hideaki (2004), who observed that collective bargaining is, essentially, a recognised way of creating a system of industrial jurisprudence. It acts as a method of introducing civil rights in the industry; that is, the management should be conducted by rules rather than arbitrary decision-making. Collective bargaining constitutes an important means by which workers seek to satisfy their economic and social interests. Consequently, successful collective bargaining is crucial to the attainment of industrial peace in Nigeria.
Arbitration is a form of alternative dispute resolution (ADR), which is a legal technique for the resolution of disputes outside the courts, wherein the parties to a dispute refer it to one or more persons (the "arbitrators," "arbiters" or "arbitral tribunal"), by whose decision (the "award") they agree to be bound. It is a settlement technique in which a third party reviews the case and imposes a decision that is legally binding for both sides (O’Sullivan & Sheffrin, 2003). Arbitration is most commonly used for the resolution of commercial disputes, particularly in the context of international commercial transactions. The use of arbitration is far more controversial in consumer and employment matters, where arbitration is not voluntary but is instead imposed on consumers or employees through fine-print contracts, thereby denying individuals their right to access the courts.

Arbitration can either be voluntary or mandatory and can be either binding or non-binding in nature. Non-binding arbitration is, on the surface, similar to mediation. However, the principal distinction is that whereas a mediator will try to help the parties find a middle ground on which to compromise, the (non-binding) arbitrator remains totally removed from the settlement process and will only give a determination of liability and, if appropriate, an indication of the quantum of damages payable (Buhring-Uhle & Kirchhof, 2006).

Collaborative law refers to a new method of solving legal disputes that avoids traditional court proceedings. Rather than filing a lawsuit, each side voluntarily agrees to a series of sit-down negotiations between the parties, their attorneys and any number of experts and therapists trained in the subject matter of the dispute. These meetings allow the parties openly to exchange information and discuss the matter with an understanding that nothing communicated will later be used
against them in court. The collaborative law process is founded on good faith. By taking a cooperative approach, rather than an adversarial one, parties can resolve difficult issues that would otherwise lead to expensive and time-consuming litigation. People tend to use collaborative law to settle highly emotional cases such as business partnership dissolutions, wrongful discharge claims and so forth.

In industrial relations, mediation offers an informal method of dispute resolution, in which a neutral third party, the mediator, attempts to assist the parties in finding resolution to their problem through the mediation process. Although mediation has no legal standing \textit{per se}, the parties can (usually with assistance from legal counsel) commit agreed points to writing and sign this document, thus producing a legally binding contract in some jurisdictions specified therein. Mediation differs from most other conflict resolution processes by virtue of its simplicity and in the clarity of its rules. It is employed at all scales from petty civil disputes to global peace talks (Boulle, 2005). It is thus difficult to characterize it independently of these scales or specific jurisdiction - where 'mediation' may in fact be formally defined and may in fact require specific licenses (Cremin, 2007).

Mediators use appropriate techniques and/or skills to open and/or improve dialogue between disputants, aiming to help the parties reach an agreement (with concrete effects) on the disputed matters. Normally, all parties must view the mediator as impartial. Disputants may use mediation in a variety of disputes, such as commercial, legal, diplomatic, workplace, community and family matters. A third-party representative may contract and mediate between unions and employers of labour, as an example. When a workers’ union goes on strike, a dispute takes place and the employer of labour hires a third
party to intervene in attempt to settle a contract or agreement between the union and the employer of labour.

Conciliation sometimes serves as an umbrella-term that covers all mediation and facilitative and advisory dispute-resolution processes. Conciliation is also an ADR process whereby the parties to a dispute (including future interest disputes) agree to utilise the services of a conciliator, who then meets with the parties separately in an attempt to resolve their differences. S/he does this by lowering tensions, improving communications, interpreting issues, providing technical assistance, exploring potential solutions and bringing about a negotiated settlement. Conciliation differs from arbitration in that the conciliation process, in and of itself, has no legal standing, and the conciliator usually has no authority to seek evidence or call witnesses, usually writes no decision and makes no award (Charlton & Dewdney, 2004). Conciliation also differs from mediation in that the main goal is to conciliate, most of the time by seeking concessions. In mediation, the mediator tries to guide the discussion in a way that optimizes parties’ needs, takes feelings into account and reframes representations. In conciliation the parties seldom, if ever, actually face each other across the table in the presence of the conciliator.

Collective agreements are of two parts; the substantive and procedural agreements. The substantive agreement relates to wages and salaries, hours of work and terms and conditions of employment whilst the procedural agreement pertains to procedures to be followed in the event of dispute resolution, periodicity of meetings and duration of agreement *inter alia*. Kornhauser, Dubin and Ross (1954), as cited in Rose (2008), claimed that collective bargaining is the great social invention that has institutionalised industrial conflict. This implies that,
without collective bargaining, industrial conflict would threaten not only the industrial order but also social stability.

Gomez-Mejia, Luis, Balkin and Cardy (2003) explain that parties are said to be showing good faith in bargaining when they are willing to meet and confer with each other at a reasonable time and place; they are willing to negotiate over wages, hours and conditions of employment; they sign a written contract that formalizes their agreement and binds them to it; and each party gives the other adequate notice of termination or modification of the labour agreement before it expires. Similarly, there should also be genuine willingness on the part of the parties to give and take at the bargaining table, cooperation and consideration of fairness under the process.

Collective bargaining is, therefore, a rational process in which it appeals to facts and to logic that reconciles conflicting interests in the light of the common interest of both parties (Bendix, 2011). Hence, the application of the agreed set of rules to govern the substantive and the procedural terms of employment relationship between the employer and employee will influence the industrial relations environment. The amount of trust built up between management and the trade union representatives, in particular, and management and workforce generally, during the process is a major factor in the quality of industrial relations. Where the trust is high, it is less likely that one side or the other will resort to sanctions (Cole, 2002).

6. Conclusion

Collective bargaining is an effective tool for dispute resolution in every organization while confrontation, demonstration or strike actions are injurious not only to the
employers and the employees but also to society at large. Collective agreement can be reached through any of these alternative dispute resolutions: arbitration, collaborative law, mediation and conciliation. Collective bargaining is the process of arriving or attempting to arrive at a collective agreement. This present study’s result observed that collective bargaining is significantly related to arbitration, collaborative law, mediation and conciliation; there is no doubt that collective bargaining is an effective tool for dispute resolution.

Collective bargaining is essentially a rule-making process. It lays down rules to be observed when labour is bought and sold, in the same way that the state by legislation may regulate jobs. The parties to collective bargaining conclude procedural arrangements which regulate their own relationships such as their behaviour in settling disputes. Collective bargaining, therefore, provides inducement by which union and management can accommodate each other’s view through compromise and persuasion. This quality is an important aspect of the system and provides the underlying basis for industrial peace, among its several other functions. The right to collective bargaining contributes to improving economic and trade performance and it is recognised as an instrument for social justice.

7. Recommendations

From the findings of this study, it is revealed that collective bargaining is the most effective approach to resolving industrial disputes at the workplace. Based on this, the following recommendations were proffered:

- Governments, business organizations, employers of labour, employees, organizations and all
stakeholders in industrial relations should endeavour to embrace collective bargaining as the machinery to resolve industrial disputes so as to promote industrial harmony, enhance employees’ performance, increase productivity and improve the living standards of the generality of the people;

- It should be noted that the most important step in the collective bargaining procedure is for the employer or the employers’ association to recognise the trade union as a bargaining agent for the employees within the bargaining unit, in relation to terms and conditions of employment and

- Collective bargaining is highly imperative to achieving social, political and economic transformation through increased productivity, job security, motivation and involvement in trade union activities. Consequently, it should be employed by all stakeholders in human resource management as one of the most effective approaches to resolve industrial disputes.

8. References


Public Private Partnerships: A Study on the Power Sector of Bangladesh

Suman Dey, Md. Sahidur Rahman and Mouri Dey

Abstract: The power sector of Bangladesh is facing major challenges in coping with increasing demand from users. Consequently, the Bangladesh government is accorded a high priority to finding solutions to shortfalls in supply. Load shedding is a major problem in the power sector and, in recent times, it has taken serious shape in urban areas. This article has been designed to find out the implementation of Public Private Partnership (PPP) projects in Bangladesh. This paper aims to justify the viability of PPPs in the country and one of the key findings of this study is the lack of institutional and legal framework for PPPs in Bangladesh, which is hindering the successful implementation of such projects in the country.

Keywords: Bangladesh Power Development Board, community development block grant, foreign direct investment, infrastructural development, public private partnerships

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1. Introduction

The public-private partnership (PPP) is a relatively new concept for Bangladesh. It is a contractual agreement formed between a public agency and a private sector entity. It allows greater private sector participation in the delivery of services. It helps facilitate the public and private sectors working together. Well-structured PPPs can enable all parties to utilise their resources better by promoting efficiency and transferring the various levels of risk to those who are best equipped to manage it.

The forms PPP in developing countries have taken are legion, ranging from the construction of physical infrastructure to public administration and the provision of health and social services. However, the focus of this paper is on physical infrastructure. PPPs have proven to be a principal vehicle for foreign direct investment (FDI) into public utilities and infrastructure in developing countries.

The majority of developing countries have pursued PPPs in infrastructure and other public goods. However, over the last eight years, PPP projects have declined in number. Investors have discovered that the risks associated with these investments are often very costly and the returns are not as high as expected. Projects have unravelled in the face of public protests, investor withdrawal or as a result of government dissatisfaction.

PPP projects in developing countries have become increasingly popular as a method of initiating public works through the private sector. PPPs have the potential to increase the output of public goods and the economic benefits associated with them through innovative use of resources as well as managerial expertise. The prevailing idea among
development circles is that PPP arrangements, particularly in infrastructure, allow governments and municipalities to shift risks to the private sector.

2. Objectives of the Study

The main objective of the study is to identify the PPP projects in the power sector of Bangladesh. The specific objectives are:

- To discuss the theoretical background of PPPs;
- To explore the different approaches of PPPs;
- To address the total power position for ‘Vision -2021’ in Bangladesh;
- To establish action plans for PPP projects in Bangladesh and
- To provide some suggestions about implementing PPP projects in Bangladesh.

3. Methodology of the Study

Secondary data were used for the present study. The pertinent secondary information was accumulated from relevant articles, newspapers, different position papers and action plans of the government and relevant websites. A significant portion of the information has been gathered to help form the literature review. Important publications of the government of Bangladesh including “Vision-2021” of the ruling party of the country and government websites of Bangladesh have been included in the content analysis procedure.
4. Theoretical Background of Public-Private Partnerships

The PPP concept has deep roots in urban economic development concepts in the USA. It has also been fashioned in both other developed and developing countries so as to become a worldwide phenomenon in the last two decades. Internationally, it has been recognised that PPPs might be vital for building the overall competitiveness of urban regions and for solving urban environmental problems.

Walzer and York (1998) found that PPPs have expanded in US urban regions since the 1980s. Their base sample is 344 urban regions that reported the presence of PPPs for economic development via mail surveys conducted in 1994 by the International City and County Management Association. In a follow-up with these urban regions in 1996, 194 responded, which accounted for 56.4% of the 344 urban regions. A background comparison between the urban regions reporting partnerships and those not reporting shows that “partnerships cities are substantially larger” and less wealthy and have a higher poverty rate. However, “no significant differences are found between the two city types in terms of unemployment rate.” This suggests that PPPs are tools that might be useful for larger and poorer urban regions in promoting economic development.

Walzer and York (1998) reach the following conclusions about the trends of PPPs in the US urban regions surveyed: (i) PPPs are viewed by the survey respondents as an “integral component” of their local economic development initiatives. Nearly four-fifths rated partnerships as “important” or “very important”. Also, “the number of partnerships had increased during the previous five years” and (ii) the investment by the city government is “essential to lasting economic
development partnerships.” There is a variety of investment vehicles for urban regions, such as direct financial investment, loans from urban funds, technical assistance by urban employees, land write downs and Community Development Block Grant (CDBG) projects involving infrastructure. Land and infrastructure have continued to be important in expanding the industrial and commercial base of urban regions; (iii) Most urban regions (79.8%) reported the presence of a performance monitoring arrangement such as periodic reports by businesses and annual meetings with business leaders; (iv) Local governments take PPP seriously.

Based on these findings and the tasks facing urban regions regarding tax base building and job creation and retention, Walzer and York (ibid.) conclude that PPPs in US urban regions will continue to expand in the future. Outside the US, PPPs have been developed in other western countries and in developing countries across Latin America, Africa and Asia. In Britain, PPPs emerged as a new institutional approach to urban economic development in the late 1980s after the Conservative government’s privatization strategy failed to achieve expected successes.

Almost all developing countries have undertaken PPPs in infrastructure since 1990. Some countries and sectors, as well as some forms of PPP, have been much more prominent than others but this should not disguise the quasi-universal nature of the phenomenon. Differences across regions and sectors have nevertheless been significant and provide valuable policy lessons from the PPP experience.

5. Different Approaches to PPPs

PPPs are widely used for different purposes. However, there are divisions among scholars about the uses of PPP in
practice. Some researchers focus on PPPs as an inter-organizational arrangement between different institutions in which the PPP is used as a governance or management tool; some concentrate on PPP as a development strategy; whereas some think it is a discursive term or a 'language game' (Teisman & Klijin, 2002). This paper will explore how the concepts of PPP are viewed in each of these approaches.

5.1. PPPs: A Tool of Governance or Management

A popular way of defining a PPP is as a tool of governance or management. The dominant theme is that a PPP provides a novel approach to delivering goods and services to citizens, with the novelty being the mode of managing and governing (Hodge & Greve, 2005). The authors who utilize this approach tend to focus on the organizational aspects of the relationship. Most definitions that focus on governance and management tools emphasize that a PPP is either inter-organizational or a financial arrangement between the public and private actors involved.

One definition of the PPP is provided by the Dutch public management scholars Van Ham and Koppenjan (2001:598) through the lens of organizational relationships. They identify a PPP as “cooperation of some sort of durability between public and private actors in which they jointly develop products and services, and share risks, costs, and resources which are connected with these products.” This definition has several features. First, it underlines cooperation of some durability, where collaboration cannot only take place in short-term contracts. This collaborative feature is supported by Carr (1998) and Bovaird (2004). Second, it emphasizes risk-sharing as a vital component. Both parties are in a partnership together and, therefore, have to bear parts of the risks involved. Third, they jointly produce something (a
product or a service) and, perhaps implicitly, both stand to gain from this mutual effort. Similar features are evident in the definitions of PPPs that are provided by Klijn and Teisman (2000) and Commission on UK PPPs (2001), where PPPs are described as “… sustainable cooperation between public and private actors in which joint and/or services are developed and in which risks, costs and profits are shared (Klijn & Teisman, 2000)” and as “… a risk-sharing relationship between the public and private - including the voluntary sector - to bring about a desired public policy outcome (Commission on UK PPPs, 2001:2). Stratton's (1989) definition is very similar, although, it included “business and non-profit sectors” in the private sector. This is also supported by Salamon (1995).

5.2. The PPP: A Tool of Financial Arrangements

Some definitions of PPP stress the importance of financial relationships. There are promises that PPPs reduce pressure on government budgets because of using private finance for infrastructure and because they also provide better value for money in the provision of public infrastructure. These usages of PPPs are prominent in the literature on infrastructure building. These mostly include BOT (Build-Operate-Transfer), BOOT (Build-Own-Operate-Transfer) and BOO (Build Own-Operate). The most common of these arrangements is BOT.

5.3. The PPP: A Tool of Development Process

The PPP is emerging as a new development arrangement. The prominent arguments are that PPPs can maximize benefits for development through collaboration (World Bank, 1999) and enhanced efficiency (Brinkerhoff & Brinkerhoff, 2004). Thus, the PPP is seen as a significant method of promoting
development (Agere, 2000) and a tool for development (Paoletto, 2000). The ADBI studied several PPPs programmes in Asia and the Pacific and defines PPPs as “… collaborative activities among interested groups and actors, based on a mutual recognition of respective strengths and weaknesses, working towards common agreed objectives developed through effective and timely communication (ADBI, 2000:42).”

The World Bank's (1999) definition of the PPP is closely aligned to that of the ADBI. It defines PPPs as joint initiatives of the public sector in conjunction with the private, for profit and not-for-profit sectors, also referred to as the government, business and civic organizations. In these partnerships, each of the actors contributes resources (finance, human, technical and intangibles, such as information or political support) and participates in the decision-making process. The notions of the development strategy of a PPP are covered by Osborne (2001), who states that the PPP has traditionally been associated with urban renewal and economic development in the USA.

5.4. The PPP: A Language Game

Another alternative view of the PPP is that it is a language game. The language of PPP is a game designed to “cloud” other strategies and purposes. One such purpose is privatization and the encouragement of private providers to supply public services at the expense of public organizations. Savas (2000) admits that “contracting out” and “privatization” are terms that generate opposition quickly and that expressions such as “alternative delivery system” or PPPs are more acceptable. Savas (ibid.) considers that now PPPs enable private organizations to obtain a market share of public service provision. However, he also states that PPPs invite
more people and organizations to “join the debate.” Some characterize PPPs as “a loose term” (Stern & Harding, 2002) and “just a fashionable word” (Gibelman & Demone, 1983; Bovaird, 1986; Kettner & Martin, 1989). Consequently, all agree that the use of the term PPP can be seen as a pejorative term just like “contracting out” or “privatization” (Teisman & Klijn, 2002; Stern & Harding, 2002; Linder, 1999; Savas, 2000). Another author sees PPP as an attractive word and argues that “… there is clearly a danger that the PPP term is just another catchy piece of terminology that governments would like to promote to keep off the attention of the more mundane contracting for public services arrangements (Greve 2003:60).”

6. Findings of the Study

The present government is committed to implementing "Vision 2021" for building Bangladesh as a happy, prosperous country of medium income status through maintaining macroeconomic stability and achieving rapid economic growth by 2021. In the outline of the Bangladesh Perspective Plan (2010-2021) (BPP), it is projected that GDP growth rate will increase from the existing 6% to 105 by 2021 and targets for increasing per capita income from US$690 to around US$2,000 have established. A prerequisite for achieving this growth is the ensuring of adequate investment in the designated National Priority Sectors.

According to the BPP, a preliminary estimate of expected increase in investment in order to reach the projected GDP growth rate requires investment to be 32% of GDP by 2015 and 38% of GDP by 2021. Analysing the investment situation of past years, it is observed that the contribution of public investment to total investment has comparatively declined, while the importance of the private sector has increased. In
the fiscal year 2008-09, investment in public and private sector was respectively 19.6% and 4.6% of GDP. It is projected that this rate will increase to respectively 25.9% and 6.1% by 2015. The lion's share of the mentioned investment will be achieved through PPPs, private sector investment and FDI. It is emphasized that a strong infrastructure is necessary to attract private and foreign investment.

The energy and power supply deficit in the existing infrastructure has become an impediment to achieving development goals. The government is firm about creating an investment-friendly atmosphere to attract private ventures according to the set target. The government has given priority to infrastructure development, especially in the power and energy sectors as a means of attaining higher growth. Currently, the shortage in electricity production is about 1,500-1,800 MW short of demand at peak hours. As the concept of applying an energy mix has not been given due consideration, there is an overwhelming dependence on natural gas as the primary fuel for power generation. At present, 88% of power plants are run by natural gas. Owing to limited gas extraction, these power plants cannot generate enough power.

Moreover, around 63% of total production comes from the public sector, while the contribution from private enterprises is inadequate. In addition, there are also problems relating to management of the growing demand. The government has already adopted a comprehensive plan to resolve the prevailing difficulties. According to this plan, the shortage of electricity production will be overcome through PPPs and private investment alongside government investment by 2012, and electricity for all will be ensured by 2021. Besides, the use of coal and other fuels will be enhanced in order to reduce dependency on natural gas for power generation. The demand
for electricity will also be addressed through the use of renewable energy and regional cooperation. Initiatives have been taken to bring qualitative change in demand side management and use of fuels in order to save power and energy. In future, such initiatives will continue and will be well-arrayed.

6.1. Shortage of Electricity

The shortage of electricity may be considered in two aspects. Firstly, there is the review of the scenario of per capita electricity consumption and percentage of population having access to electricity in Bangladesh compared to other countries. Secondly, there is the determination of the gap between demand and supply of electricity in the perspective of the country's economic situation and GDP growth.

6.2. Per Capita Electricity Consumption: The Extent of Increase

The progress in per capita electricity consumption cannot be significant if population grows faster. The per capita electricity use was 220 KWH in April 2010, which has been raised up to 236 KWH (7.2% growth) by now as the present government took a number of immediate measures. It is seen that comparing with the per capita electricity consumption of BRICS countries (Brazil, Russia, India, China and South Africa) as well as SAARC (South Asian Association for Regional Cooperation) countries such as Pakistan and Sri Lanka, the per capita consumption of Bangladesh is very low.

6.3. Access to Electricity: The Extent of Expansion

The government has taken up a number of programmes to bring the whole population under electricity coverage by
2021. By implementing various development programmes, 49% of the total population has been brought under electricity coverage by April 2011. It was 47% in April 2010. Electricity production under solar energy and bio-mass has been enhanced by means of individual and collective efforts in rural and sub-urban areas. Thus, overall electricity supply in the rural areas has increased, with the combination of supply from the national grid and the renewable energy sources.

6.4. Enhancement of Electricity Generation Capacity, Load Shedding and Supply: The Extent of Change

The derated production capacity in April 2010 was 5,376 MW. During April 2010-April 2011, new power plants of 912 MW capacity have been established. Of late, the derated generation capacity has reached 6,208 MW as the generating capacity of a few older power plants has declined. As a result, the amount of load-shedding has also been reduced. Average daily load shedding of 1,200-1,500 MW in April 2010 has been reduced to 1,000-1,200 MW. Besides, the number of electricity connections for manufacturing units and irrigation were 129,218 and 149,581 respectively in April 2010, which has been increased to 133,000 and 2,41,000 respectively in April 2011.

As many power plants are old and retiring, increasing electricity production has become challenging. However, electricity production capacity has turned out to be more than the demand created during April 2010-April 2011. Accordingly, the amount of load shedding also decreased. In 2010, daily electric production was 500-800 MW less than the capacity due to shortage of gas supply, which has now come down to 400-800MW. Apart from this, on account of repairs and maintenance, another 800-1,200MW cannot be produced. However, the process for recruitment of consultants is
underway to carry out required maintenance work. Meanwhile, the maintenance work of the projects (4 and 5 units of Karnafuli Water Development Plant, Khulna 60 MW Thermal Power Plant, Bheramara Power Plant Unit-1, Shahjibajar 20 MW Unit 5 & 6) have been completed.

<table>
<thead>
<tr>
<th>Subject</th>
<th>April 2011</th>
<th>April 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed generation capacity</td>
<td>6,813 MW</td>
<td>5,873 MW</td>
</tr>
<tr>
<td>Derated generation capacity</td>
<td>6,208 MW</td>
<td>5,376 MW</td>
</tr>
<tr>
<td>Highest generation</td>
<td>4,699 MW</td>
<td>4,406 MW</td>
</tr>
<tr>
<td>Electricity Demand (peak demand)</td>
<td>6,500 MW</td>
<td>5,800 MW</td>
</tr>
<tr>
<td>Population under electricity coverage</td>
<td>49%</td>
<td>47%</td>
</tr>
<tr>
<td>Per capita electricity use</td>
<td>236 KWH</td>
<td>220 KWH</td>
</tr>
<tr>
<td>Load Shedding</td>
<td>1,000-1,200 MW</td>
<td>1,200-1,500 MW</td>
</tr>
</tbody>
</table>

| Table 1: Power Sector: Updated Comparative Data; source: Power Division, 2012 |

Government power plants are used to monopolise electricity production in Bangladesh. In April 2010, about 60% of total electricity production used to be generated by the government power plants; of which BPDB’s share was 76%. A competitive market environment has been created in electricity generation by reducing dependence on public sector power plants, as well as the BPDB. Of late, nearly 56% of total electricity production originates from public sector power plants, whereas the private sector provides the remaining 44%. By 2016, the private sector is expected to take the lead and generate nearly 58% of the total electricity produced. Statistics related to electricity generation from public and private sector are given in Table 2.
<table>
<thead>
<tr>
<th>Year</th>
<th>Bangladesh Power Development Board (BPDB)</th>
<th>Ashuganj Power Station Company Limited (APSCL)</th>
<th>Electricity Generation Company of Bangladesh (EGCB)</th>
<th>Small Independent Power Producer (SIPP)</th>
<th>SIPP (BPDB)</th>
<th>SIPP (REB)</th>
<th>Rural Electrification Board</th>
<th>Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2452</td>
<td>536</td>
<td>240</td>
<td>1271</td>
<td>99</td>
<td>226</td>
<td>482</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>2620</td>
<td>606</td>
<td>255</td>
<td>1271</td>
<td>99</td>
<td>226</td>
<td>1131</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,228</td>
<td>2,078</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,481</td>
<td>2,727</td>
</tr>
</tbody>
</table>

Table 2: Electricity Produced by Government and Private Sectors: A Comparison; **source:** Power Division, 2012
6.5. Use of Different Types of Energy

Natural gas is used as the primary energy source in most of the existing power plants. 88% of total electricity is produced from gas-based power plants. Besides gas, a small amount of electricity is produced using diesel, furnace oil and coal. In addition, almost 3% of total electricity is produced from the Karnafuly Hydro Power Plant. Owing to the increase in multiple uses of gas in fertilizers, industries, factories and other sectors, it is not possible to supply adequate quantities of gas (extracted from the existing gas fields) to meet the demand of the power plants. Owing to the insufficiency of gas supply at present, approximately 500MW less electricity is produced from existing power plants than might be produced.

<table>
<thead>
<tr>
<th>Fuel</th>
<th>% of use (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furnace Oil</td>
<td>2.81%</td>
</tr>
<tr>
<td>Diesel</td>
<td>1.75%</td>
</tr>
<tr>
<td>Hydro</td>
<td>3.39%</td>
</tr>
<tr>
<td>Coal</td>
<td>3.77%</td>
</tr>
<tr>
<td>Gas</td>
<td>88.29%</td>
</tr>
</tbody>
</table>

**Table 3:** Rate of Use of Different Types of Energy in Producing Electricity; **source:** Power Division, 2012

From the above discussion, it is evident that in the power sector, the following issues are to be addressed with due importance at the moment: i) Inadequacy of supply of electricity compared to demand; ii) Dependency on a single energy source (gas) for electricity generation; iii) Investment or participation of private sector in electricity generation is at a minimal level; iv) To meet the increasing demand for electricity, a huge amount of investment is needed, the lion's share of which should come from private sector or from PPPs; v) Shortage of electricity is not attributable to the generation sector alone but the transmission and distribution sectors are also responsible.
for the existing short fall and vi) Limited use of renewable energy sources.

The perspective plan of the government and the work plan framed in according to the perspective plan towards mitigation of the above mentioned problems are discussed in the following sections.

6.6. The Power Sector in The Outline Perspective Plan of Bangladesh

The following vision for power sector development has been described in the Outline Perspective Plan of Bangladesh (2010-2021):

i) Electricity Generation in the country by 2013 – 8,500 MW
ii) Electricity Generation in the country by 2015 - 11,500 MW
iii) Electricity Generation in the country by 2021 - 20,000 MW
iv) Electricity for all by 2021 (Outline Perspective Plan of Bangladesh (2010-2021)).

The government of Bangladesh has conducted intensive planning to strengthen the power sector so as to ensure energy security for all by 2021. To make the vision a success, we need sector-wise participation to diversify financial risk, sector efficiency, corporate culture and service excellence, diversification in energy deployment, reduction in system loss and good governance.

To address these issues, the following constraints, possibilities and strategies are identified.

**Constraints:** The identified constraints in power sector development are mainly threefold: absence of adequate public and private investment in power generation; cost reflective tariffs and the primary
energy supply chain are major constraints hindering the initiation and implementation of projects.

**Possibilities:** Coal-based power plants (domestic and imported coal); nuclear power plant (Ruppur) and natural gas (offshore and onshore) are emerging possibilities to overcome energy (input) constraints. There are adequate opportunities for the local and foreign investors (public and private) to devote money in this potential sector to reap profitability in the future.

**Strategies:** Some strategic moves should be taken to ensure input procurement, implementation and control. Firstly, diversification of primary energy sources to avoid shortage of any particular source (e.g. dual energy plants); secondly, exploration of renewable sources (solar, wind, hydro and nuclear); thirdly, a managerial approach with adequate attention to detail.


7.1. **Power Generation**

In the Outline of Perspective Plan of Bangladesh, the main driving force for the power sector will be the PPP initiative. The power sector is characterized by its time-consuming nature of raising funds and requirement of large scale initial investments. To address these limitations through the PPP initiative, an IPP policy was formulated in 1996. The private sector has been drawn in to the power generation through IPP, SIPP, Rental, Quick Rental and Joint Venture policies under the PPP framework. In addition, road-shows have been organized in London on 15-16th December, 2009 and in Singapore and USA on 25-29th January, 2010. These initiatives have prompted a huge positive response from foreign investors.
7.2. Power Generation Programme

The Government has prepared a Power Sector Master Plan 2010 (PSMP, 2010) to realize the goal of providing access to electricity to all. According to the PSMP, the maximum demand in 2015, 2021 and 2030 would be around 10,000, 19,000 and 34,000 MW respectively. To meet the demand with reasonable reliability, installed capacity will be increased to 24,000 MW and 39,000 MW by 2021 and 2030 respectively. To meet the increasing demand for electricity, a number of expansion projects are at varying stages of implementation. According to the existing generation expansion programme, a total of 15,000 MW of new generating capacity will be added to the national grid between FY 2010-2016. The present status of the existing generation programmes is given in Appendix 1.

7.3. Diversification of Energy Sources

According to the plan, the high level of dependency on gas-based power generation has been reduced in the short and medium terms and the plants that will be newly-built are designed to be dual fuel based. In addition, emphasis has been placed on various power saving efforts so that the saved power can be transmitted to other areas under significant pressure. The Compact Fluorescent Lamp (CFL) distribution programme is due to start on June 19\textsuperscript{th}, 2010 through which a total of 200-350 MW of electricity can be saved.

According to the energy source diversification plan, there is a continued effort to produce and buy captive power from both renewable and non-renewable sources. So far, contracts have been signed to purchase 88 MW of electricity from captive generation sources. Initiatives have been taken to import electricity from neighbouring countries and export (in future) through sub-regional cooperation mechanisms. According to an agreement at the Prime Ministerial level with India, works have already been started to build a 400 KV transmission line and HVDC (High Voltage Double Circuit)
substations through Regional Grid Interconnection. India has made the commitment to supply 250 MW of electricity from their Unallocated Resource stock.

The use of renewable energy has risen considerably in recent times in both developed and developing countries. In Asia, India and China have achieved considerable success in innovating and using the technologies of renewable energy. Although the initial installation cost of renewable energy is higher, it will gradually decline and will come within the reach of the purchasing capacity of the people. As the global reserve of fossil fuels is gradually decreasing and the threats of environmental degradation and global climate change becoming more evident, the government has taken steps to extend and develop the use of renewable energy to ensure future energy security. Under this plan, targets have been set to produce electricity from renewable sources at 5% of total production by the year 2015 and 10% by 2020. A Renewable Energy Policy has also been adopted to attract and encourage the private sector. In addition, the government is going to establish the Sustainable Energy Development Authority (SEDA) which is intended to help expand and develop renewable energy, to promote energy saving and energy efficiency and to create awareness of these issues among the users of electricity.

7.4. Power Tariff

The per unit production cost of electricity is expected to rise (20%-30%) in the next two or three years due to the installation of high cost liquid fuel-based peaking plants which are implementable in 18-24 months. Accordingly, the Energy Regulatory Commission may increase the tariff of power on a step-by-step basis. However, the power tariff will come down after 2014 as the programme of implementation of gas and coal based power plants will be completed.
7.5. Transmission and Power Distribution

In addition to power generation, it is very important to develop a dependable and high quality power transmission and distribution network to ensure high quality and uninterrupted power supply to the consumers. To transmit the newly produced power to the doorsteps of the consumers, it is urgently required to build new transmission and distribution infrastructure systems in addition to renovation and preservation of existing distribution networks. In resolving the electricity crisis, the government has some plans to increase electricity generation and at the same time has undertaken massive development plans for creating efficient and uninterrupted transmission and distribution systems. At present, the total length of 230 KV electric line that has been upgraded stands at 2,644.5 circuit km and, for 132 KV electric lines, the length is 5,715 circuit km. For strengthening the electricity transmission system and for meeting the gradually increasing future demand for electricity, the government has set the target of "Providing electricity in every house by 2021." As part of achieving this target, the government has already undertaken a priority-based investment plan (i.e. a three-year road map for power sector reform) for the years 2007-9, under which a massive work plan has been established for building an additional 3,000 km of transmission lines by 2015. In this regard, the PGC B has undertaken activities for building concerned transmission lines for supplying electricity through regional co-operation mechanisms.

The distribution system consists of 33 kV, 11 kV and 0.4kV lines. In 1995-96, the total of distribution lines in the BPDB system was 35,962 km, which decreased by about 29,991 km in FY 2010-11 due to some distribution lines having been handed over to REB & WZPDCL (see below). The number of consumers also increased to 210,059,440 in FY 2010-11 from 200,067,338 in FY 2009-10. At present, five organizations are responsible for power distribution. These are: i) Bangladesh Power Development Board (BPDB); ii) Rural Electrification Board (REB); iii) Dhaka Power Distribution
Company (DPDC); iv) Dhaka Electric Supply Company (DESCO) and v) West Zone Power Distribution Company (WZPDC). In order to increase power generation as well as to improve customer service and bring more people under electrification, an integrated power distribution programme has been undertaken. Up to June 2011, about 12.5 million consumers are connected with electricity as a result of the construction of 278,000 km of distribution lines. The achievement of the distribution sector are summarised in Table 4 below.

<table>
<thead>
<tr>
<th>Total Distribution Lines</th>
<th>278,000 KM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Consumers</td>
<td>12.5 million</td>
</tr>
<tr>
<td>Irrigation Consumer</td>
<td>2.77 Lac</td>
</tr>
<tr>
<td>Access to electricity</td>
<td>50%</td>
</tr>
<tr>
<td>Distribution Loss</td>
<td>12.75%</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>2.22 Equivalent months</td>
</tr>
</tbody>
</table>

*Table 4: Achievements of the Distribution Sector; source: BPDB, 2012*

7.6. Year-Wise Expected Power Demand and Supply

It should be possible to meet the prevailing power deficit by 2011 through the plan of generating 2,800 MW of excess electricity into the system by 2011 to resolve the power scarcity problem. Currently, there is a shortage of 1,250 MW in the electricity supply as compared to demand. The probable power shortage from the year 2009 to 2010 and the probable power surplus from the year 2011 to 2015 is shown in the following figure.
The following table outlines the overall scenario of expected power supply and demand after increases in electricity production.

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probable Demand</td>
<td>5566</td>
<td>5808</td>
<td>6298</td>
<td>6832</td>
<td>7709</td>
<td>8699</td>
<td>9812</td>
</tr>
<tr>
<td>Capacity Retired (MW)*</td>
<td>-</td>
<td>48</td>
<td>-</td>
<td>-</td>
<td>448</td>
<td>378</td>
<td>-</td>
</tr>
<tr>
<td>Expected Supply Excluding Quick rental (MW)</td>
<td>4289</td>
<td>4956</td>
<td>5177</td>
<td>7029</td>
<td>8326</td>
<td>9545</td>
<td>11625</td>
</tr>
<tr>
<td>Expected Supply including quick rental (MW)</td>
<td>4289</td>
<td>5109</td>
<td>6363</td>
<td>8683</td>
<td>9764</td>
<td>10527</td>
<td>12601</td>
</tr>
<tr>
<td>Deficit/ Surplus Excluding quick rental (MW)</td>
<td>-1277</td>
<td>-852</td>
<td>-1121</td>
<td>197</td>
<td>617</td>
<td>846</td>
<td>1813</td>
</tr>
<tr>
<td>Deficit/ Surplus Including quick rental (MW)</td>
<td>-1277</td>
<td>-699</td>
<td>65</td>
<td>1851</td>
<td>2055</td>
<td>1828</td>
<td>2789</td>
</tr>
</tbody>
</table>

**Table 5:** Year-Wise Possible Power Demand and Supply; **source:** Power Division, 2016.
7.7. Power Saving Activities

To ensure energy conservation and the efficient use of electricity under load management and systems supervision, it has been possible to save around 350 MW of electricity by undertaking actions like keeping shopping malls and shopping centres closed after 8 p.m. and establishing solar panel systems in government, semi-government, autonomous bodies and industries. Stakeholders are encouraged to maintain air conditioning temperatures at 25°C or higher and are prohibited to use air-coolers at all during the evening peak hours. Initiatives have been set underway to establish 2,000,000 pre-paid metres countrywide to facilitate electricity bill payments by consumers and to control and determine power loads by the distributing institution. A number of steps have been taken to control electricity demand at the receiving end by using handy power-saving equipment. Steps have been taken to replace around 40,000,000 ineffective electric lamps with power-saving Compact Fluorescent Lamps (CFL) under the Efficient Lighting Initiatives for Bangladesh (ELIB) programme. It will be possible to install 10,050,000 power saving CFL bulbs by 2010. This will also ensure that Clean Development Mechanism (CDM) facilities will become available.

In order to overcome the present power deficit situation, targets have been established in the outlines of the Bangladesh Perspective Plan and, on reaching these goals, it will be possible to achieve access to power by all citizens by 2021. A huge investment is required to be able to move towards the preferred level from the prevailing power deficit situation. Initiatives have been created so as to try to ensure public as well as government-sector private investment and FDI. In this sector, investment to the US$9 billion is required, of which US$8 billion is expected to be sourced from the private sector in order to raise power generation to 11,625MW by 2015. Initiatives have been taken in this comprehensive plan to transmit, distribute and adopt demand side management, use renewable fuels, rationalise prices separately at both private investor and consumer level because to the
existing difficulties of transmission, distribution, power supply and sources along with production in the power sector. The prevailing power crisis will be reduced if this plan is implemented on time and every citizen will have access to power by 2021.

8. Recommendations

This paper now tries to accommodate some recommendations for addressing the issues highlighted above. The possible solutions are: i) emphasis should be given to privative and decentralize renewable energy projects to isolated areas so as to improve access to power; ii) facilitation of PPPs in the renewable energy sectors should be conducted by government; iii) awareness of PPP concepts and an understanding of the role that different government departments need to undertake should be developed; iv) sector efficiency reform measures must be implemented; v) diversification of the use of primary energy sources (such as gas, coal and liquid fuel) for power generation is required; vi) increasing power generation by renewable sources, such as solar, wind and small hydro, should be implemented; vii) implementing nuclear fuel based power plant and viii) financing power generation projects through PPP should be facilitated.

9. Conclusion

The target for achieving higher economic growth under conditions of a power supply deficit has overshadowed other achievements in the infrastructural development of the country; consequently, private investors are not showing much interest in investing in this area. Power is one of the most significant inputs for all sorts of industries starting from agricultural industries to include all the others. Electrification is also necessary for increasing socio-economic developmental activities in rural areas. In order to overcome the present power deficit situation, targets have been fixed in the Outline Perspective Plan of Bangladesh. If the country goes ahead as planned, it will be possible for all citizens to have access to power by 2021. In
addition, the use of coal for power generation will be enhanced through reducing the dependence on natural gas and the contribution of renewable energy sources in electricity production will also be increased.

It is true that there are some inbuilt uncertainties in the production plan for power or primary energy resources. Power plants are not yet installed as per schedule and there are inevitable delays. The transmission and distribution capacity does not always match the power generation capacity. In producing primary energy resources such as gas, not all programmes have been successful, even the identification and development of gas wells may fail. The success rate in exploration activity is unpredictable. Considering all these uncertainties, planning in this sector always needs to be ambitious but rational. Following this theme, the action plan prepared by the present government is certainly ambitious and it is to be hoped that it will be successful in fulfilling the desire of the nation.

10. References


See also:

Ministry of Finance, Bangladesh, web link available at: www.mof.gov.bd

## Appendix 1

### Table 6: Year-Wise Power Generation Plan from 2010 to 2016 (in MW); source: Power Division, 2012

<table>
<thead>
<tr>
<th>SI. No.</th>
<th>Name of the Power Plant</th>
<th>Capacity (MW)</th>
<th>Owner</th>
<th>Expected Commissioning Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Faridpux 50 MW Peaking Power Plant</td>
<td>54</td>
<td>BPDB</td>
<td>September, 2011</td>
</tr>
<tr>
<td>2</td>
<td>Doudkandi 50 MW Peaking Power Plant</td>
<td>52</td>
<td>BPDB</td>
<td>September, 2011</td>
</tr>
<tr>
<td>3</td>
<td>Gopalganj 100 MW Peaking Power Plant</td>
<td>109</td>
<td>BPDB</td>
<td>September, 2011</td>
</tr>
<tr>
<td>4</td>
<td>Bern 70 MW Peaking Power Plant</td>
<td>71</td>
<td>BPDB</td>
<td>15 September, 2011</td>
</tr>
<tr>
<td>5</td>
<td>Fenchuganj 90 MW CCPP EPC: M/S Harbin Power Eng.</td>
<td>105</td>
<td>BPDB</td>
<td>September, 2011</td>
</tr>
<tr>
<td>6</td>
<td>Dohazari 100 MW Peaking Power Plant</td>
<td>102</td>
<td>BPDB</td>
<td>15 September, 2011</td>
</tr>
<tr>
<td>7</td>
<td>Hathazari 100 MW Peaking Power Plant</td>
<td>98</td>
<td>BPDB</td>
<td>20 September, 2011</td>
</tr>
<tr>
<td>8</td>
<td>Sylhet 150 MW Power Plant</td>
<td>150</td>
<td>BPDB</td>
<td>25 October, 2011</td>
</tr>
<tr>
<td>9</td>
<td>Chandpur 150 MW CCPP</td>
<td>106</td>
<td>BPDB</td>
<td>October, 2011</td>
</tr>
<tr>
<td>10</td>
<td>Siddhirganj 2X120 MW Peaking Power</td>
<td>105</td>
<td>EGCB</td>
<td>November, 2011</td>
</tr>
<tr>
<td>SI. No.</td>
<td>Name of the Power Plant</td>
<td>Capacity (MW)</td>
<td>Owner</td>
<td>Expected Commissioning Date</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------------</td>
<td>---------------</td>
<td>-------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>1</td>
<td>Amnura, Chapainawabgonj Sponsor; Sinha Power</td>
<td>50</td>
<td>Rental (BPDB)</td>
<td>September, 2011</td>
</tr>
<tr>
<td>2</td>
<td>Keranigonj Sponsor: Power Pack</td>
<td>100</td>
<td>Rental (BPDB)</td>
<td>September, 2011</td>
</tr>
<tr>
<td>3</td>
<td>Julda, Chittagong Sponsor: Acom Infra. Service Ltd</td>
<td>100</td>
<td>Rental (BPDB)</td>
<td>October, 2011</td>
</tr>
<tr>
<td>4</td>
<td>Katakhali, Rajshahi, Sponsor: NPSL</td>
<td>50</td>
<td>Rental (BPDB)</td>
<td>23 October, 2011</td>
</tr>
<tr>
<td></td>
<td>Sub-Total (Private)</td>
<td>300</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total (Under Construction) (A)</td>
<td>1779</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 7: Public Sector Facilities under Construction; source: Power Division, 2012**

**Table 8: Private Sector Facilities under Construction; Source: Power Division, 2012**
<table>
<thead>
<tr>
<th>SI. No.</th>
<th>Name of the Power Plant</th>
<th>Capacity (MW)</th>
<th>Owner</th>
<th>Expected Commissioning Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Chapainawabganj</td>
<td>100</td>
<td>BPDB</td>
<td>November, 2012</td>
</tr>
<tr>
<td>2</td>
<td>Kodda, Gazipur 150 MW Power Plant</td>
<td>150</td>
<td>BPDB-RPCL</td>
<td>December, 2012</td>
</tr>
<tr>
<td>3</td>
<td>GhorasaX 200-300 MW Peaking</td>
<td>290</td>
<td>BPDB</td>
<td>March, 2013</td>
</tr>
<tr>
<td>4</td>
<td>Siddirganj 450 MW CCPP</td>
<td>450</td>
<td>EGCB</td>
<td>December, 2013</td>
</tr>
<tr>
<td>5</td>
<td>Bhola 150 MW CCPP</td>
<td>150</td>
<td>BPDB</td>
<td>December, 2013</td>
</tr>
<tr>
<td>6</td>
<td>Haripur 360 MW CCPP</td>
<td>360</td>
<td>EGCB</td>
<td>January, 2014</td>
</tr>
<tr>
<td>7</td>
<td>Barapukuria 250-300 MW (3rd Unit)</td>
<td>250</td>
<td>BPDB</td>
<td>June, 2014</td>
</tr>
<tr>
<td>8</td>
<td>Ashuganj 150 CCPP</td>
<td>150</td>
<td>APSCL</td>
<td>June, 2014</td>
</tr>
<tr>
<td>9</td>
<td>Shikalbaha 150-225 MW CCPP</td>
<td>150</td>
<td>BPDB</td>
<td>June, 2014</td>
</tr>
<tr>
<td>10</td>
<td>Bheramara 360 MW CCPP</td>
<td>360</td>
<td>NWPGC</td>
<td>December, 2014</td>
</tr>
<tr>
<td>11</td>
<td>Ashuganj 450 MW CCPP</td>
<td>450</td>
<td>APSCL</td>
<td>March, 2015</td>
</tr>
<tr>
<td>12</td>
<td>Meighnagat 750 MW (3rd Unit)</td>
<td>750</td>
<td>BPDB</td>
<td>March, 2016</td>
</tr>
<tr>
<td>13</td>
<td>Dhaka North</td>
<td>750</td>
<td>JVC RPCL and Local or Foreign entrepreneur or through export credit financing</td>
<td>March, 2016</td>
</tr>
</tbody>
</table>

Sub-Total (Public) | 4360 |

**Table 9:** Public Sector Facilities in Process; source: Power Division, 2012
<table>
<thead>
<tr>
<th>SI. No.</th>
<th>Name of the Power Plant</th>
<th>Capacity (MW)</th>
<th>Owner</th>
<th>Expected Commissioning Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tangail 20 MW</td>
<td>20</td>
<td>IPP (REB)</td>
<td>June, 2012</td>
</tr>
<tr>
<td>2</td>
<td>Chandpur 15 MW</td>
<td>15</td>
<td>IPP (REB)</td>
<td>June, 2012</td>
</tr>
<tr>
<td>3</td>
<td>Narayangonj 30 MW</td>
<td>30</td>
<td>IPP (REB)</td>
<td>June, 2012</td>
</tr>
<tr>
<td>4</td>
<td>Shantahar Peaking Plant</td>
<td>50</td>
<td>IPP (BPDB)</td>
<td>November, 2012</td>
</tr>
<tr>
<td>5</td>
<td>Syedpur Peaking Plant</td>
<td>100</td>
<td>IPP (BPDB)</td>
<td>November, 2012</td>
</tr>
<tr>
<td>6</td>
<td>Jamalpur Peaking</td>
<td>100</td>
<td>IPP (BPDB)</td>
<td>November, 2012</td>
</tr>
<tr>
<td>7</td>
<td>Camilla (Jangalia) Peaking</td>
<td>50</td>
<td>IPP (BPDB)</td>
<td>September, 2012</td>
</tr>
<tr>
<td>8</td>
<td>Khulna Peaking</td>
<td>100</td>
<td>IPP (BPDB)</td>
<td>November, 2012</td>
</tr>
<tr>
<td>9</td>
<td>Dhaka (Aminbazar) 100 MW Power Plant</td>
<td>100</td>
<td>IPP (BPDB)</td>
<td>September, 2012</td>
</tr>
<tr>
<td>10</td>
<td>Dhaka (Aminbazar) 50 MW Power Plant</td>
<td>50</td>
<td>IPP (BPDB)</td>
<td>September, 2012</td>
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<td>11</td>
<td>Chittagong (Patenga) 100 MW Power Plant</td>
<td>100</td>
<td>IPP (BPDB)</td>
<td>November, 2012</td>
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<tr>
<td>12</td>
<td>Chittagong (Mohora) 50 MW Power Plant</td>
<td>50</td>
<td>IPP (BPDB)</td>
<td>October, 2012</td>
</tr>
<tr>
<td>13</td>
<td>Rajshahi (Ishwardi) 100 MW Power Plant</td>
<td>100</td>
<td>IPP (BPDB)</td>
<td>November, 2012</td>
</tr>
<tr>
<td>14</td>
<td>Rajshahi (Natore) 50 MW Power Plant</td>
<td>50</td>
<td>IPP (BPDB)</td>
<td>November, 2012</td>
</tr>
<tr>
<td>15</td>
<td>Khulna (Labonchora) 100 MW Power Plant</td>
<td>100</td>
<td>IPP (BPDB)</td>
<td>November, 2012</td>
</tr>
<tr>
<td>16</td>
<td>Barisal 50 MW Power Plant</td>
<td>50</td>
<td>IPP (BPDB)</td>
<td>September, 2012</td>
</tr>
<tr>
<td>17</td>
<td>Bhola 150-225 MW CCPP</td>
<td>147</td>
<td>IPP</td>
<td>October, 2012</td>
</tr>
<tr>
<td>18</td>
<td>Kaliakoir Peaking Plant, Gazipur</td>
<td>100</td>
<td>IPP</td>
<td>November, 2012</td>
</tr>
<tr>
<td>No.</td>
<td>Project Name</td>
<td>Capacity (MW)</td>
<td>Fuel Type</td>
<td>Operator</td>
</tr>
<tr>
<td>-----</td>
<td>--------------</td>
<td>--------------</td>
<td>-----------</td>
<td>-----------</td>
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<tr>
<td>19</td>
<td>Savar Peaking Plant, Dhaka</td>
<td>100</td>
<td>IPP</td>
<td>March, 2013</td>
</tr>
<tr>
<td>20</td>
<td>Bibiana 300-450 MW CCPP (1 Unit): SCGT Unit</td>
<td>222</td>
<td>IPP</td>
<td>May, 2013</td>
</tr>
<tr>
<td>21</td>
<td>Bibiana 300-450 MW CCPP (2 Unit): SC GT Unit</td>
<td>222</td>
<td>IPP</td>
<td>May, 2013</td>
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<tr>
<td>22</td>
<td>Meghnaghat 300-450 MW CCPP (2&quot; Unit) Dual Fuel: SC GT Unit</td>
<td>220</td>
<td>IPP</td>
<td>June, 2013</td>
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<td>Keraniganj 150 MW CCPP: SC GT Unit</td>
<td>100</td>
<td>IPP</td>
<td>June, 2013</td>
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<td>24</td>
<td>Madangan 150-225 MW CCPP: SC GT Unit</td>
<td>100</td>
<td>IPP</td>
<td>June, 2013</td>
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<tr>
<td>25</td>
<td>Bhola 150-225 MW CCPP (2 unit): ST Unit</td>
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<td>IPP</td>
<td>August, 2013</td>
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<td>26</td>
<td>Bibiana 300-450 MW CCPP (1 Unit): ST Unit</td>
<td>119</td>
<td>IPP</td>
<td>March, 2014</td>
</tr>
<tr>
<td>27</td>
<td>Bibiana 300-450 MW CCPP (2 Unit): ST Unit</td>
<td>119</td>
<td>IPP</td>
<td>April, 2014</td>
</tr>
<tr>
<td>28</td>
<td>Meghnaghat 300-450 MW CCPP (2&quot; Unit): ST Unit</td>
<td>115</td>
<td>IPP</td>
<td>April, 2014</td>
</tr>
<tr>
<td>29</td>
<td>Keraniganj 150 MW CCPP : ST Unit</td>
<td>50</td>
<td>IPP</td>
<td>June, 2014</td>
</tr>
<tr>
<td>30</td>
<td>Madanganj 150-225 MW CCPP: ST Unit</td>
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<td>IPP</td>
<td>June, 2014</td>
</tr>
<tr>
<td>31</td>
<td>Sirajgan 300-450 MW CCPP</td>
<td>300</td>
<td>IPP</td>
<td>June, 2014</td>
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<tr>
<td>32</td>
<td>Chittagong 150-300 MW Coal Fired Power Project</td>
<td>150</td>
<td>IPP</td>
<td>Sept. 2014</td>
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<td>33</td>
<td>Khulna 150-300 MW Coal Fired Power Project</td>
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<td>IPP</td>
<td>Sept. 2014</td>
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<tr>
<td>34</td>
<td>Khulna South</td>
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<td>PPP (JV) IPP</td>
<td>March, 2015</td>
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<tr>
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<td>Description</td>
<td>Capacity (MW)</td>
<td>Model</td>
<td>Date</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------</td>
<td>---------------</td>
<td>-------</td>
<td>------------</td>
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<tr>
<td>35</td>
<td>Maowa, Munshiganj 300-650 MW Coal Fired Power Project</td>
<td>300</td>
<td>IPP</td>
<td>Sept. 2015</td>
</tr>
<tr>
<td>36</td>
<td>Chittagong 300-650 MW Coal Fired Power Project</td>
<td>300</td>
<td>IPP</td>
<td>Sept. 2015</td>
</tr>
<tr>
<td>37</td>
<td>Chittagong</td>
<td>1300</td>
<td>PPP (JV) IPP</td>
<td>June, 2016</td>
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<td>Sub-Total(Private)</td>
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<td>Total (Under Process)(B)</td>
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<td></td>
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<tr>
<td></td>
<td>Gross Total (A+B)</td>
<td>12,738</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 10: Private Sector Facilities in Process; source: Power Division, 2012**
An Empirical Study of Corporate Governance and Banks’ Performance in Vietnamese Commercial Banks

Nguyen Thi Hoai Thu, Pham Manh Hung and Nguyen Thi Lan Anh

Abstract

In the process of restructuring the Vietnamese banking system, corporate governance in banks has become a topic of concern for a wide range of authorities, bank executives and researchers. This paper examines the effect of corporate governance on banks’ performance in Vietnamese commercial banks through representing factors including size, independence level and diligence of board and auditing board, institutional and foreign ownership. Panel data collected from 26 commercial banks during the period from 2008 to 2014 is used. The paper uses a combination of pooled least squares regression and specific techniques of panel data which are fixed effects and uncertain effects. In addition, a generic generalized-method-of-moments approach is also considered. Applying a panel regression technique, the paper finds that size and institutional ownership have positive relation with banks’ performance, while independence level has a negative impact. Moreover, performance in Vietnamese commercial banks has no clear correlation with independence level or foreign ownership.

Keywords: bank performance, corporate governance, ownership structure, Vietnamese commercial banks

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Ms Nguyen Thi Lan Anh, Banking Academy of Vietnam. Email: anhntl@hvnh.edu.vn

1. Introduction

The corporate governance system has developed and evolved over time. The operating mechanism of corporate governance is often adjusted in response to companies’ failures or crises. The first failure of corporate governance in the 1700s created a revolution in business law and practices in England. The bulk of US securities’ law had been issued after the collapse of the stock market in 1929. Corporate governance is currently defined in a variety of ways, in which the guidance of the OECD is the most comprehensive.

Corporate governance for commercial banks is of greater importance than for other companies in achieving and maintaining public trust and confidence in the banking system. Weak corporate governance is linked to bank collapses, leading to economic and social losses. The global crisis in 2008 following the bankruptcy of Lehman Brothers is an example of this. Consequently, corporate governance in banking is one of the vital tasks involved with protecting stakeholders’ interests.

Corporate governance in Vietnamese commercial banks is becoming a popular term and has received attention from authorities and researchers (Dao, 2012). However, there has not been issued a comprehensive regulation about corporate governance in Vietnamese commercial banks but only recommendations. In the context of globalization, there is a demand for restructuring of the Vietnamese banking system, especially with respect to corporate governance. Moreover, according to the Financial Development Report (2012) by the World Economic Forum, covering 62 countries, the capacity of corporate governance in the field of banking and finance in Vietnam was ranked 56th and this was the lowest among the included Asian countries. Research studies on the current situation of corporate governance in Vietnamese commercial banks emphasized the
weakness of banking management, including the lack of a suitable management framework, managing and organizational structure, and internal governance. In order to analyse the effect of corporate governance on Vietnamese commercial banks’ performance, a set of corporate governance index (CGI) indicators for Vietnamese commercial banks has been developed which pointed out that CGI has a positive correlation with banks’ performance, which is represented by return on assets (ROA), return on equity (ROE) and COI (cost of invested capital).

Based on the demand in the current situation, this paper focuses on effect of corporate governance on Vietnamese commercial banks’ performance using empirical research. It uses data from 26 Vietnamese commercial banks in the period from 2008 to 2014, involving 175 observations in total. Section 2 presents the literature review, while the data and model are delivered in Section 3. Remarkable findings and conclusion are summarized in Section 4.

2. Literature Review

Ownership structure is one of the most important factors in shaping the corporate governance system of any country (Zhuang, 1999). It decides operation management in corporations and better corporate governance leads to higher productivity (Tandelilin et al., 2007). In addition, this study developed a model called the 'triangle gap' that consists of three constructs – corporate governance, risk management and banks. When bank owners and managers try to maintain a good corporate governance system, then market credibility will be increased, leading to capital accumulation at a lower cost and lower risk, thereby resulting in higher performance.
Jensen and Mecking (1976) pointed out that firm performance is affected by corporate governance through agency cost. Empirical studies by Mang’unyi (2011) also showed that ownership structure has a great effect on commercial banks’ performance through operation management methods. State, foreign or private ownership has direct effects on the Board of Directors, including size, characteristics and composition, compensation mechanism and bank’s independent audit, which affects a bank’s revenue, income and loans.

![Diagram: Triangle Framework on Bank Corporate Governance]

**Figure 1:** Triangle Framework on Bank Corporate Governance; **source:** Tandelillin et al. (2007)

In addition, other empirical research studies also confirmed that good corporate governance leads to higher performance. Klapper and Love (2003) conducted research on 14 emerging markets and concluded that corporate governance in commercial banks has a close relationship with banks’ performance and market value. La Porta et al. (2002) researched companies in 25 developed countries and found that performance is higher in countries with better protection for minor shareholders.
Similarly, Coleman (2007) surveyed 103 listed companies in Ghana, Nigeria, Kenya and South Africa and found that an independent board enhances firms’ value. This research also pointed out that larger board sizes relate to higher debt finance and the independence of boards has an inverse relationship with short-term debt. Jiang, Yao and Feng (2009) argued that differences in corporate governance have significant impacts on bank performance. Coleman (2007) showed that supervisory committee sizes and frequency of their meetings have positive effects on market-based performance indicators, thereby enhancing a firm’s market valuation. The main theoretical assumption of this research relies on the agency framework, as described below.

2.1. Board Sizes

From the lender’s perspective, larger boards reduce debt costs since these firms have better supervision in terms of financial accounting reporting, thereby increasing performance (Anderson, Sattar & Reeb, 2004). Ebrahim, Abdullah and Faudziah (2014) researched 162 non-finance sector listed companies in the period of 2011-2012 in Malaysia and showed a positive correlation between board size and performance. However, according to Yoshikawa and Phan (2003), smaller boards reduce costs while larger boards can increase influence and conflict between members. Jensen and Ruback (1983) pointed out that a board should have a maximum of eight members. In addition, Lipton and Lorsch (1992), Barnhart, Marr and Rosenstein (1994) and Shakir (2008) found that smaller boards will improve firms’ performance.

Consequently, the relationship between board sizes and performance is not consistent and may differ according to specific characteristics.

2.2. Board Independence

Board independence is an important factor in supervising management performance and minimizing agency costs. High-calibre independent
boards enhance the prohibition on members from personally profiting (Baysinger & Butler, 1985; Ezzamel & Watson, 1993; Block, 1999; Choe & Lee, 2003; Adebayo, Ayeni & Oyewole, 2013 and Zahra & Pearce, 1989).

On the other hand, Brick and Chidambaran (2007) pointed out the negative relationship between the independence level of the board and performance.

Moreover, recent research by Tong, Junarsin and Davidson (2013) on 3,019 listed companies in Chinese stock market, including 2,174 state owned companies and 845 private companies, compared the relationship between independence level and performance in these two samples. While high-level independent boards in state owned companies are linked to more efficient performance, results did not show this positive relationship in private firms.

2.3. Board Diligence

Board diligence is determined by the frequency of board meetings. This is a crucial factor in determining a board’s performance (Vafeas, 2003). Abbott et al. (2003) observed that the board meetings represent shareholders’ interests. A diligent board pays attention in terms of the supervision of managers in order to meet the expectation of shareholders. Moreover, when boards record the frequency of meetings, they maintain their understanding and updating of company’s operations, which enables them to take effective and timely actions.

2.4. Audit Committee Size

In companies, the owners and managers are probably not the same people. The owners need to supervise the activities of managers and ensure the balance of interest for both sides. Consequently, an audit committee is created to improve the quality of financial accounting
reporting and performance (Pincus, Rusbarsky & Wong, 1989). The Cadbury Commission suggested that an audit committee should have three members. In Vietnam, an audit committee is, by regulation, to have 3-5 members.

Many research studies have pointed out the positive relationship between audit committee size and performance. Larger audit committees have better resources than smaller audit committees (DeZoort & Salterio, 2002). Burton, Pathak and Zigli (1977) also found that larger audit committees ensure consistency in terms of firms’ operations, increase audit committee performance and limit wrong decisions due to member’s collusion.

2.5. Audit Committee Independence

Many studies found that the performance of an audit committee is associated with the independence level of the audit committee, which has influence on a firm’s performance. Independent audit committees contribute to avoiding the intervention of managers in financial accounting reporting (Beasley, 1996). High-calibre independent audit committees contribute to more effective supervision of managers since the audit committee does not have economic and personal relationships with managers (Abbott et al., 2003).

However, empirical research studies by Klein (2002), Weiss (2005), Coleman (2007) and Kajola (2008) showed that there is no correlation between the independence level of audit committees and commercial banks’ performance.

2.6. Audit Committee Diligence

Similarly to board diligence, the number of meetings is a good proxy for audit committee diligence. It means that, in order to ensure diligence and performance of audit committees, their members are required to focus on their function (Kalbers & Fogarty, 1993).
However, Rebeiz and Salameh (2006) conducted empirical research and indicated that the quality of the meeting is highly important, whereas the higher frequency of meetings does not have clear linkages with more effective performance. In addition, Huang, Lai and Wen (2008) also pointed out that there is no correlation between the diligence of an audit committee and firm performance.

2.7. Foreign Ownership

There are many studies on the relationship between ownership structure and the performance of commercial banks. Görg and Greenaway (2004) argued that foreign ownership encourages both revenue and firm performance, especially in the economic globalization. However, many research studies also point out that the effect of ownership structure on performance may differ in different economies. Empirical research on industrial countries by De Young and Nolle (1996), Genay et al. (2000) and other developing countries by Bonin, Hasan and Wachtel (2005) and Clarke et al. (1999) indicated that commercial banks under foreign ownership have higher incomes than local commercial banks in developing countries but lower income in industrial countries.

2.8. Institutional Shareholder Ownership

Most studies showed a positive correlation between proportion of institutional involvement and firm performance (Chaganti & Damanpour, 1991; Han & Suk, 1998). The higher percentage of institutional stock ownership is associated with higher operating cash flow returns since these shareholders are willing to use their ownership rights to act in the best interest of the shareholders by putting pressure on managers (Cornett et al., 2007).
3. Methodology

3.1. Regression Model

This study uses unbalanced panel data from 26 Vietnam commercial banks over the period of 2008 to 2014, with a total of 175 observations. The reasons for using this sample are: (i) the availability of data relating to the variables which it was desired to use in the model; (ii) the commercial banks in the model can represent the Vietnamese banking system in terms of asset and equity size, market share and corporate governance issues. The data is collected from the annual reports and corporate governance reports of individual banks.

Based on the theoretical framework and hypotheses described below, this study proposes the following regression formula:

\[
\text{Efficiency} = \beta_1 + \beta_2 \times BS + \beta_3 \times BI + \beta_4 \times BD + \beta_5 \times ACS + \beta_6 \times ACI + \beta_7 \times ACD + \beta_8 \times FRG_{OWR} + \beta_9 \times INST_{OWR} + \beta_{10} \times LG + \beta_{11} \times CAR + \beta_{12} \times GDP + \beta_{13} \times M2 + \epsilon_{it}
\]

In which:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency</td>
<td>Vectors of three dependent variables (ROA, ROE, NPL (non-performing loans)) measuring the effectiveness of bank i in year t (%)</td>
</tr>
<tr>
<td>BS</td>
<td>The number of directors on the board at the end of each year</td>
</tr>
<tr>
<td>BI</td>
<td>The percentage of independent directors on the board at the end of each year</td>
</tr>
<tr>
<td>BD</td>
<td>The number of board meetings in a financial year</td>
</tr>
<tr>
<td>ACS</td>
<td>The number of members on the audit committee at the end of each year</td>
</tr>
</tbody>
</table>
Dependent variables: ROA and ROE are used in many studies to evaluate the profitability of enterprises in general and banks in particular. According to Rhoades (1998), ROA often incorrectly reflects a bank's profitability due to the amplification of liabilities; consequently, ROE is used as in combination. Basically, the higher ROA and ROE are, the more effectively banks operate.

Also, NPL is introduced to explore asset quality across banks. NPL is calculated by dividing impaired loans to gross loans. Many studies indicated that corporate governance can affect the ratio of bad debts (Poudel & Hovey, 2013). The lower the NPL is, the better the quality of bank assets and operation is.

Explanatory variables: the model uses six explanatory variables related to the board of directors and the audit committee. It has been argued that there is a relationship between corporate governance and ownership composition. Consequently, two variables FRG_OWR (foreign ownership) and INST_OWR (institutional ownership) are included in the model.

In addition, the performance of banks is also influenced by macroeconomic conditions as well as a bank’s internal specific...
factors. Consequently, this paper also uses these variables as control variables in the model: LG, CAR, GDP and M2. In particular, LG and CAR are two bank level variables, while GDP and M2 are two macro level variables.

Since the data is panel data, this study uses a combination of pooled least squares regression (PLSM) with year dummies and specific techniques of panel data which are fixed effects (fixed effects) and the uncertain effects (random effects). Besides, other techniques of panel data such as the generic generalized-method-of-moments (GMM) approach are also considered. Although GMM only requires the specification of certain moment conditions, its use with small sample sizes might result in a finite sample bias, especially in the case that the used instruments have near unit root properties (Melewar & Woolridge, 2001).

3.2. Descriptive Statistics

Table 1 shows the descriptive statistics of the variables in the regression model. Generally, Vietnamese commercials banks have a mean value of board size equal to 7.2 people, with the independency level approximately equal to 10.5%. This is consistent with the recommendations of Jensen and Ruback (1983), who pointed out that number of members in the board of a commercial bank should not exceed 7-8 people in order to ensure efficiency of operations. In addition, the frequency of the meetings of the board of directors is about 18 times during a financial year. Meanwhile, these figures for the auditing board are 3.4, 7.7% and 4.7 respectively.
Table 1: Descriptive Statistics of Dependent and Independent Variables; source: Original Research

In terms of ownership structure, foreign ownership of commercial banks in Vietnam is still relatively low in comparison with shares owned by institutional shareholders (average 8.9% versus 51.3%) due to the regulations on the cap on foreign ownership by the State Bank.
When it comes to efficiency variables, the average value of NPL is less than 3%, which meets the requirements of the State Bank of Vietnam. Meanwhile, the ratios of ROE and ROA are maintained at a relatively high level, at 11.5% and 1.1% respectively.

3.3. Correlation Analysis

The correlations between dependent and independent variables are presented in Appendix 1. The results show that board size, proportion of independent members and meeting frequency of the board are positively correlated with the performance of the bank. In terms of the auditing committee, this relationship is not consistent. According to Appendix 1, banks have superior performance with higher rate of foreign ownership. With regards to the board of directors, an increase in size leads to an increase in independence and frequency of meetings. For auditing committees, the relationship between size and degree of independence and frequency of meetings is higher.

In the research study conducted in 2007, Tabachnick and Fidell observed that a multicollinearity problem exists if the correlation between independence variables is higher than 0.9. As shown in the correlation matrix, the highest figure is just 0.49 (between BS and FRG_OWR). Consequently, multicollinearity is not an issue in this regression model.

Based on analysis of the descriptive statistics, the results are generally consistent with previous studies. This raises the issue of the hypotheses of this research with expected signs of explanatory variables, as shown in the following.
Table 2: Explanatory Variables and Expected Signs in the Regression Model; source: Original Research

3.4. Regression Results

All regressions include year dummies (not shown here). Symbols ***, **, * represent significance level of 1%, 5% and 10% respectively. The result for the regression model is as follows.

<table>
<thead>
<tr>
<th>Explanatory Variables</th>
<th>ROA</th>
<th>ROE</th>
<th>NPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>BS +/-</td>
<td>+/-</td>
<td>+/-</td>
<td>-/+</td>
</tr>
<tr>
<td>BI +</td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BD +</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>ACS +/-</td>
<td>+</td>
<td>+/-</td>
<td>-/+</td>
</tr>
<tr>
<td>ACI +/-</td>
<td>+/-</td>
<td>+/-</td>
<td>-/+</td>
</tr>
<tr>
<td>ACD +/-</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>FRG_OWR +</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>INST_OWR +</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>ROAA</th>
<th>ROAE</th>
<th>NPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.688** (0.77)</td>
<td>-16.446** (6.49)</td>
<td>6.100*** (1.49)</td>
</tr>
<tr>
<td>BS</td>
<td>0.032 (0.03)</td>
<td>0.66** (0.32)</td>
<td>-0.005 (0.07)</td>
</tr>
<tr>
<td>BI</td>
<td>0.001 (0.01)</td>
<td>0.022 (0.04)</td>
<td>-0.028*** (0.008)</td>
</tr>
<tr>
<td>BD</td>
<td>0.0021 (0.003)</td>
<td>0.023 (0.03)</td>
<td>-0.014** (0.005)</td>
</tr>
<tr>
<td>Variable</td>
<td>ACS</td>
<td>ACI</td>
<td>ACD</td>
</tr>
<tr>
<td>-------------------</td>
<td>------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td></td>
<td>0.163* (0.09)</td>
<td>1.53** (0.75)</td>
<td>0.225 (0.16)</td>
</tr>
<tr>
<td></td>
<td>-0.005** (0.002)</td>
<td>-0.051** (0.03)</td>
<td>0.018** (0.008)</td>
</tr>
<tr>
<td></td>
<td>0.029 (0.03)</td>
<td>-0.241 (0.33)</td>
<td>-0.020 (0.05)</td>
</tr>
<tr>
<td></td>
<td>-0.004 (0.005)</td>
<td>-0.01 (0.05)</td>
<td>-0.024** (0.01)</td>
</tr>
<tr>
<td></td>
<td>0.004 (0.002)</td>
<td>0.044** (0.02)</td>
<td>0.006 (0.005)</td>
</tr>
<tr>
<td></td>
<td>0.007*** (0.002)</td>
<td>0.038* (0.02)</td>
<td>0.005* (0.04)</td>
</tr>
<tr>
<td></td>
<td>0.009 (0.01)</td>
<td>-0.213*** (0.05)</td>
<td>0.021* (0.99)</td>
</tr>
<tr>
<td></td>
<td>0.225** (0.11)</td>
<td>2.752*** (0.91)</td>
<td>0.262** (0.205)</td>
</tr>
<tr>
<td></td>
<td>0.004 (0.01)</td>
<td>0.04 (0.09)</td>
<td>-0.028 (0.02)</td>
</tr>
<tr>
<td>R Square</td>
<td>0.168</td>
<td>0.283</td>
<td>0.202</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>R 0.106</td>
<td>0.229</td>
<td>0.143</td>
</tr>
<tr>
<td>F statistics</td>
<td>3***</td>
<td>6.17***</td>
<td>3.62***</td>
</tr>
</tbody>
</table>

**Table 3:** Results of Pooled Least Squares Regression; **source:** Original Research

Table 3 shows the results of the regression model examining the relationship between corporate governance and the operational efficiency of banks using Pooled Least Squares regression. The regression result indicates that explanatory variables of corporate governance (BS, BI, BD and ACI) have positive influences on the
banks’ performance. Meanwhile, with regards to the audit committee variables, only the variable reflecting independency (ACI) has this effect. Audit committees’ size and diligence show inconsistent results between dependent variables.

With a significance level of 5%, foreign ownership and institutional ownership have positive impacts on the efficiency of banking performance. The control variables, generally, do not show any significant effect on bank performance. Since the R-square value in all regressions ranged from 17% to 28% and the F-statistic is uniformly significant at 1% level or better, this suggests that regressions have significant statistically explanatory power as a whole.

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>ROE</th>
<th>NPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.263  (0.78)</td>
<td>-9.544 (7.26)</td>
<td>6.306 (1.72)</td>
</tr>
<tr>
<td>BS</td>
<td>0.111** (0.05)</td>
<td>1.307*** (0.47)</td>
<td>-0.044 (0.11)</td>
</tr>
<tr>
<td>BI</td>
<td>-0.011** (0.005)</td>
<td>-0.021 (0.05)</td>
<td>-0.02* (0.01)</td>
</tr>
<tr>
<td>BD</td>
<td>-0.009 (0.007)</td>
<td>0.078 (0.07)</td>
<td>0.005 (0.02)</td>
</tr>
<tr>
<td>ACS</td>
<td>0.189** (0.09)</td>
<td>0.960 (0.84)</td>
<td>0.037 (0.19)</td>
</tr>
<tr>
<td>ACI</td>
<td>-0.008** (0.003)</td>
<td>-0.029 (0.03)</td>
<td>0.018** (0.01)</td>
</tr>
<tr>
<td>ACD</td>
<td>-0.004 (0.040)</td>
<td>-0.594 (0.41)</td>
<td>0.022 (0.09)</td>
</tr>
<tr>
<td>FRG_OWR</td>
<td>-0.025*(0.01)</td>
<td>-0.334*** (0.12)</td>
<td>-0.032 (0.03)</td>
</tr>
<tr>
<td>Variable</td>
<td>INST_OWR</td>
<td>LG</td>
<td>CAR</td>
</tr>
<tr>
<td>----------</td>
<td>---------</td>
<td>----</td>
<td>-----</td>
</tr>
<tr>
<td></td>
<td>0.005 (0.005)</td>
<td>0.003 (0.002)</td>
<td>-0.013 (0.01)</td>
</tr>
<tr>
<td></td>
<td>-0.007 (0.05)</td>
<td>0.063*** (0.02)</td>
<td>-0.166* (0.09)</td>
</tr>
<tr>
<td></td>
<td>-0.002 (0.01)</td>
<td>-0.007* (0.004)</td>
<td>0.056** (0.02)</td>
</tr>
</tbody>
</table>

**Table 4:** Results of Fixed Effect Regression; **source:** Original Research

Table 4 presents the results of the fixed effects regression examining the relationship between corporate governance and bank performance. Result from the Hausman's test gives Prob value <0.05 with explanatory variable ROA and Prob <0.1 with explanatory variable ROE. Consequently, the fixed effects regression is more appropriate to reflect the relationship between corporate governance and bank performance with regards to the two dependent variables (ROA, ROE). In terms of the NPL variable, the random effects are more influential.
<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>ROE</th>
<th>NPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.456** (0.7)</td>
<td>-14.807** (6.39)</td>
<td>6.031 (1.48)</td>
</tr>
<tr>
<td>BS</td>
<td>0.056 (0.04)</td>
<td>0.959*** (0.37)</td>
<td>0.001 (0.09)</td>
</tr>
<tr>
<td>BI</td>
<td>-0.006 (0.05)</td>
<td>-0.009 (0.05)</td>
<td>-0.024** (0.01)</td>
</tr>
<tr>
<td>BD</td>
<td>-0.003 (0.005)</td>
<td>0.039 (0.04)</td>
<td>-0.008 (0.01)</td>
</tr>
<tr>
<td>ACS</td>
<td>0.178** (0.09)</td>
<td>1.309* (0.78)</td>
<td>0.135 (0.18)</td>
</tr>
<tr>
<td>ACI</td>
<td>-0.007** (0.003)</td>
<td>-0.038 (0.03)</td>
<td>0.018*** (0.006)</td>
</tr>
<tr>
<td>ACD</td>
<td>0.022 (0.04)</td>
<td>-0.135 (0.35)</td>
<td>-0.010 (0.08)</td>
</tr>
<tr>
<td>FRG_OWR</td>
<td>-0.010 (0.008)</td>
<td>-0.089 (0.07)</td>
<td>-0.027 (0.02)</td>
</tr>
<tr>
<td>INST_OWR</td>
<td>0.003 (0.003)</td>
<td>0.026 (0.03)</td>
<td>0.005 (0.007)</td>
</tr>
<tr>
<td>LG</td>
<td>0.005** (0.002)</td>
<td>0.052*** (0.02)</td>
<td>-0.009** (0.004)</td>
</tr>
<tr>
<td>CAR</td>
<td>0.003 (0.008)</td>
<td>-0.169** (0.07)</td>
<td>0.031** (0.016)</td>
</tr>
<tr>
<td>GDP</td>
<td>0.215*** (0.09)</td>
<td>2.681*** (0.79)</td>
<td>-0.594*** (0.18)</td>
</tr>
<tr>
<td>M2</td>
<td>0.006 (0.009)</td>
<td>0.017 (0.08)</td>
<td>-0.029 (0.019)</td>
</tr>
<tr>
<td>R Square</td>
<td>0.226</td>
<td>0.261</td>
<td>0.196</td>
</tr>
<tr>
<td>Adjusted Square</td>
<td>R</td>
<td>0.127</td>
<td>0.242</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>F statistics</td>
<td></td>
<td>37.39***</td>
<td>53.54***</td>
</tr>
<tr>
<td>Lagrange Multiplier</td>
<td></td>
<td>20.63***</td>
<td>19.5***</td>
</tr>
</tbody>
</table>

Table 5: Results of Random Effects Regression; source: Original Research

Table 5 shows the results of the random effects regression models. The Lagrange Multiplier test with significance at the 1% level suggests that the random effects method explains better than pooled the least squares method. In both fixed and random effects, the R² of regressions typically ranged between 20-26% and this shows that the variables could explain changes in the performance of Vietnam’s commercial banks.

4. Conclusions

From the result of the pooled regression, as well as fixed and random effect used in the model, it can be seen that: firstly, two scale variables (BS and ACS) are positively related to ROA and ROE (at 1%, 5% and 10% significance level, except for the nexus between ACS and the dependent variable ROE). This means that board size and auditing board size have positive relationships with commercial banks’ performance. According to the models’ results, these two abovementioned boards’ sizes have relatively strong effects on the ROE of commercial banks in Vietnam. This finding is completely in line with the reviewed literature and our hypothesis. Secondly, the variable BI is negatively linked with NPL with a significance level of 5% when using both fixed and random effects (-0.02 and -0.024 respectively). Consequently, the independence level of the board of directors is strongly related to the NPL ratio of Vietnamese banks. Meanwhile, the result of ACI shows that the independence level of
auditing boards has a negative impact on banks’ performance. It can be explained that the auditing boards of Vietnamese commercial banks have not functioned well in controlling the operation of boards. For many banks in Vietnam, an auditing board has been created but has no real impact on accounting operation inspection.

Thirdly, with two variables regarding the boards’ and auditing boards’ diligence (BD and ACD), the regression model points out that there is no clear relationship between boards’ meetings and banks’ performance. Consequently, in most commercial banks in Vietnam, banks’ performance does not relate to how often directors hold meetings in a financial year.

In addition, the variable FRG_OWR has positive effects on bank performance and the coefficient of this variable with NPL is negative (-0.024). At the same time, the result shows that banks with higher ratios of foreign ownership do not have high return ratios (with negative coefficients of -0.025 and –0.034 respectively, with a significance level of 5% and 1% for ROA and ROE in the fixed effects model). On the contrary, institutional ownership is positively correlated with bank performance. This indicates that in Vietnamese commercial banks, the impacts of foreign ownership structure on performance are not yet clear and need to be examined over a longer period of time. One of the reasons for this result may be that the ratio of foreign ownership in Vietnamese commercial banks is limited to lower than 30%. In addition, Vietnamese banks have just started acquiring foreign ownership since 2006; therefore, banks may need more time to identify the ownership effects on their performance. Typically, participation of foreign ownership seemingly takes years to transpire in any significant sense. Moreover, the short time interval, combined with differences in culture, may cause modern management schemes and the advanced technology of foreign owners to be unsuitable when implemented in the local market. Also, the presence of foreign executive directors in the board of directors is still uncommon. As a consequence, external
investors, with an ownership level of less than 30%, might not have sufficient ability to involve themselves in special decision-making. On the other hand, before the reform process began, the government held an important portion of banks’ ownership and assets. As a result, the transfer of ownership and assets to the private sector may have overwhelmed influences attributed to foreign ownership involvement. This problem is quite similar to the evidence from the Colombian financial sector in the 1990s (Barajas, Steiner & Salazar, 1999).

In summary, corporate governance has a relationship to Vietnamese commercial banks’ performance through representing factors including size, independence level and the diligence of boards and auditing boards, as well as institutional and foreign ownership. Applying a panel regression technique, the paper finds that size and institutional ownership have positive relation with banks’ performance, while independence level has a negative impact. Moreover, performance in Vietnamese commercial banks has no clear correlation with independence level or foreign ownership.

In order to develop this research topic in the future, an increased sample size with additional variables might be used as proxies for corporate governance quality, such as executive and director remuneration, qualifications of leaders and consistency of ownership, which should all be considered.

5. References


### Appendix

<table>
<thead>
<tr>
<th></th>
<th>NPL</th>
<th>ROE</th>
<th>ROA</th>
<th>BS</th>
<th>BI</th>
<th>BD</th>
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**Table 6:** Correlation Matrix; **source:** Original Research
CONFERENCE REPORTS
9th International Conference on Management, Finance and Entrepreneurship and the 8th International Conference on Global Business Environment, Shinawatra International University, Graduate Campus, Bangkok, July 23rd, 2016

The SIU Research Centre continued its successful cooperation with the International Foundation for Research and Development (IFRD) (ifrnd.org) with another in the series of biannual international, double-blind peer review conferences held at our Graduate Campus at the BBD Building in Bangkok. This was a well-attended event with representation not just from Thailand but Myanmar, Nepal, South Africa, Ghana, Indonesia, Germany and elsewhere.

Keynote speakers Hon. Prof. Dr. Charnvit Kotheeranurak and Dr. Somprasong Boonyachai (all photos by the author)

Two excellent keynote speeches helped to set the tone for the day. Hon. Prof. Dr. Charnvit Kotheeranurak spoke on the subject of Medicine 4.0, taking the theme of a new generation of medical treatments and conditions applying to the contemporary world and
drew implications from that. Subsequently, Dr. Somprasong Boonyachai spoke on the subject of the digital economy, which is a subject on which he could speak authoritatively, given his extensive experience with AIS and now InTouch Holdings. The audience warmly appreciated both speakers. Ajarn Chanchai Bunchapattanasakda graciously agreed to open proceedings.

The remainder of the day was occupied by the technical sessions, in which academics from a number of different countries presented their research with the audience.

Dr. Petcharat Lovichakorntikul and Dr. Sirirat Ngamsang help to fly the flag for SIU.

Three of our SIU students from Myanmar were able to attend, two of whom – Ms Khin Kyi Zin and Daw Sandi Win – were presenting academic work for the first time, which is always a somewhat daunting task. Particular congratulations are due to Khin Kyi Zin for her Best Paper award.
Ms Khin Kyin Zin, Mr. Soe Myint Than and Daw Sandi Win presented their research conducted at the Mandalay campus of SIU.

The range of topics presented was wide, ranging from work-like balance among women in positions of management to healthcare company development, communication, business ethics, stock market analysis and marketing. As ever, we endeavoured to maintain a harmonious, friendly atmosphere in which academics and students could exchange knowledge and ideas and learn about one another’s work.
I am grateful to all those who attended, including Dr. Ijaz who was representing our partner the International Foundation for Research and Development (ifrnd.org) and our own conference team, led by Aj Ratana Palasak and Dr. Wilaiporn Lao-Hakosol. As usual, staunch support was received from the library team, especially Aj. Boonta Wisswaapaisal and K Suntirach Lerdmanee. Thanks are also due to the IT and domestic teams.

*John Walsh, Shinawatra University*

The most recent International Case Management Conference took place in the wake of the tragic loss of our most respected and beloved colleague, the late professor G.D. Sardana, the founder and mainstay of this conference and of so much else besides.

The conference began in an emotional and somber atmosphere cheered somewhat by the ability of the audience and participants to celebrate and commemorate the life of the professor. In this spirit, the conference was opened in the traditional fashion by the lighting of the candle of learning by the dignitaries and keynote speakers. This was followed by presentations to Professor Sardana’s widow and daughter and the announcement of the perpetual honours granted to him.

Professor Chaturvedi Opens the Conference; source: Author

The conference itself was well-attended and the double-blind peer-reviewed entrance process highly contested. More than one hundred
proposed abstracts were submitted for consideration and just under 70 case studies made it to the stage of presentation at the conference itself. As ever – and a fitting tribute to Professor Sardana – all the edited papers were included in a pair of handsome volumes from Bloomsbury and distributed to participants at the conference itself.

One of the two volumes of conference proceedings

Delegates to the conference came from a number of different countries with, in addition to India, substantial cohorts from both the USA and Finland, as well as Canada, Japan, Nepal and, of course, Thailand. The usual high standard of cases was maintained and a number of papers will be eligible for publication in several SCOPUS-listed journals and other journals in due course. The conference was again organized in conjunction with The School of Policy Government and International Affairs, George Mason University, Arlington, Virginia (USA).
The two keynote speakers came from Britain to attend. The first was Dr. Nick van Dam, Partner, Client Advisor, & Global Chief Learning Officer of the world renowned consulting firm McKinsey & Company and professor of management at Nyenrode Business University, Amsterdam. He is an internationally recognized consultant, author, researcher, teacher, and thought leader on Adult Learning and Corporate Learning & Development.

The second was Trevor Williamson, who is a Principal Lecturer at Manchester Metropolitan University Business School, UK, where he oversees development of programmes in the financial services/planning area at undergraduate and postgraduate level. He previously held several senior management positions in banking and finance.

Both speakers gave very well-received addresses. During the technical sessions, prominent speakers included Hanna Lehtimaki (Ph.D. School of Management, University of Tampere), Kristine Brands (assistant professor at Regis University in Colorado Springs, CO), Tojo Thatchenkery Tojo (Professor and Director of the Organization Development and Knowledge Management Program at the George Mason University- Schar School of Policy & Government, Arlington, Virginia, USA), Paivi Eriksson (Professor of Management at the University of Eastern Finland Business School and adjunct professor at Aalto University and University of Tampere), Ken Nishikawa (professor of Konan University, Okamoto, Higashinada, Kobe, Hyogo, Japan and Co-Director of OD Association in Japan), Debora Elam (software engineering team leader for New York Air Brake, adjunct professor for Colorado Technical University Online in the IT and Computer Science undergraduate and graduate programs and consultant for Media Technics Corporation), Dr. H. M. Jha “Bidyarthi” (Professor and Head, Department of Business Administration and Research, Shri Sant Gajnan Maharaj College of Engineering, Shegaon, Maharashtra, India), Dr. Johanna Kujala (Associate Professor of Management and Organization at the University of Tampere School of Management), Connie Corley,
MSW, MA, PhD (Professor, School of Leadership Studies at Fielding Graduate University and Chair, Creativity Longevity and Wisdom Doctoral Concentration and Professor Emeritus at California State University, Los Angeles), Terry Vida (a management consultant, specializing in conflict situations), Valerie Nishi (an associate with the Refinery Leadership Partners based in Vancouver Canada and a PhD alumni of Fielding Graduate University), Ram Tenkasi Ramkrishnan (professor of Organizational Change with the PhD Program in Organization Change with the PhD program in Organization Development and Change at Benedictine University in Chicago) and Ajoy Kumar Dey (Professor, Operations Management & Decision Sciences and Head of the Internal Quality Assurance Cell at Birla Institute of Management Technology, Greater NOIDA, India). Professors Tatchenkery and Dey were conference co-chairs, the latter nobly stepping up to try to fill Professor Sardana’s shoes.

Numerous academic and staff colleagues contributed to the smooth running of the conference.

John Walsh, Shinawatra University
Food Insecurity Experience Workshop with Deutsches Institut für Entwicklungspolitik (DIE)

On December 14th, 2016, the SIU Research Centre hosted a one day workshop on the subject of food insecurity. This workshop represented the opportunity for the first presentation of results from the project organized for Deutsches Institut für Entwicklungspolitik (DIE) using the UN Food and Agriculture Organization’s Food Insecurity Experience Survey in four countries (Lao PDR, Myanmar, Thailand and Vietnam) covered by the East-West Economic Corridor. More than 200 questionnaires in each country were collected for subsequent analysis.

Provost Ajarn Chanchai Bunchapattanasakda Introduces the Proceedings
For DIE, Michael Bruentrup Outlines the context of the Research

Project Leader Aimee Hapfel-Milagroso Describes the Next Steps for the Research

The workshop was attended by members of Shinawatra University and stakeholders and was successfully concluded by the country researchers and the lead researcher. More details of the research itself will be provided in the next issue of the *SIU Journal of Management*.

*John Walsh, Shinawatra University*
BOOK REVIEWS
Thomas Piketty: The Economics of Inequality


ISBN: 978-0-674-50480-6

VII + 142 pp.

Translated by Arthur Goldhammer

Although Thomas Piketty rose to prominence in the English-speaking world for his phenomenal and bestselling Capital in the Twenty-First Century (2014), he has been writing and publishing excellent and well-informed work in French for many years. The success of his book has meant that some at least of that work is becoming available to a wider audience: the difference between French and English is not that great and most people with an open mind who can speak one can generally make sense of the other; the differences between English and Japanese or Chinese are rather more significant and that makes access to academic literature in these languages, which are not translated as often as would be desired, somewhat more problematic. Consequently, it is a good idea to support translations such as the current work for no other reason than that. However, this work has a great deal else to recommend it. Inequality has become recognised as one of the most important phenomena of the contemporary world and, along with global climate change, one of the greatest threats to social
order and stable societies. Piketty has clearly understood this for some time and has been able to explain, using relevant data and published works, to outline the basis in economics for diagnosing the development and spread of inequality and the damage that it does, together with, vitally, what can be done to try to remedy these problems. The problem with the book – which is fully acknowledged in an initial note to the reader – is that it was written first in 1997 and has not been systematically revised since then. That means that it is uninformed by the events of the past twenty years and by the academic literature that has been published in the meantime. In the first case, it would have been more than interesting to hear the author’s thoughts on the financial crisis of 2008 and the subsequent crisis of austerity, although in truth these are likely to be quite predictable – we have, after all, known since the time of Keynes how to deal with economic castes, even if right-wing politicians and their supporters in the popular media conspired to make the situation worse so as to further their own class interests.

Perhaps more important would have been the engagement with contemporary literature. Piketty observes: “… recent research has demonstrated that there are important historical variations in the capital-income ratio and the capital shares in national income, and not only in the concentration of capital ownership at the individual level. That is, the macroeconomic or functional distribution of national income and national wealth is substantially less stable than I was taught in graduate school and what I report in this book (p.vii).” This instability is likely to have a particularly dismal effect in the UK after the ramifications of the shameful, racist Brexit decision become increasingly clear.

The purpose of the book, as envisaged in the 1990s, is to address from an explicitly Rawlsian (1972) approach to the competing claims to inequality and its causes from both right and left: “… only a detailed analysis of the socioeconomic mechanisms that generate inequality can sort out the competing truth claims of these … versions of redistribution and perhaps contribute to the elaboration of a more just
and effective set of policies (p.2).” This, then, is the tone of the book: a dispassionate evaluation of evidence as it is presented primarily in the peer reviewed academic literature. It is an approach that rewards careful reading and re-reading. Economics, as is well known, has a rational basis but many problems spring from the very practice of treating human beings as rationally-driven utility maximisers, as has become evident through the works of such as Kenneth Arrow (1963), who have demonstrated that asymmetric information stocks and flows mean market failures are inevitable in a wide range of cases. As Piketty observes, “… the incentive and information problems that are responsible for credit rationing exist in any intertemporal market, including, in particular, the market for insurance. This may be the reason why the market has proved incapable of providing adequate social insurance, thus justifying the need for the compulsory government-provided social protection schemes that form the heart of the modern welfare state (p.114).” Understanding the limits of markets makes it self-evident that the state should have a role in leading and organizing redistribution because it alone has the resources and capabilities to manage the information and risks involved. The state, though, requires assistance in the form of evidence to formulate appropriate policies. Unfortunately, few governments seem to be willing to accept evidence-based policies and prefer the goggles of ideology or the lies of populism. The world would be a better place if more people listened to Piketty.

References


John Walsh, Shinawatra University
Ha-Joon Chang, the well-known Korean development economist who authored this report, argues that industrial policy is necessary for African governments because the growth that some countries have achieved in recent years has been largely based on commodity exporting. As he points out, no state has been able to create and sustain a high level of national income (apart from small oil-rich Gulf states or entrepôts) without having first built a significantly-sized manufacturing sector. It is industrial policy that enables a government to take the actions required to create that sector. A great deal of nonsense has been spoken about industrial policy, mostly by people trying to explain away for ideological reasons the role of the state in
promoting economic development and enacting state-level developmental goals. Chang has calmly dissected these arguments in the past and uses this current opportunity to outline the current state of industrial policy thinking, while linking this to the particular issues affecting African governments:

“Establishing the right political base requires a Government to have an embedded autonomy that invests in solutions rooted in the needs of its society while having the conviction to execute ‘best fit’ policies (p.4).”

While all developing countries face some similar problems, the specific historical, geographic and political factors that affect each country call for individual policy mixes (which is not to say that there are ‘meta-structural’ factors that explain the economic trajectory of African states as a whole). This is because: “… all economies – in whichever continent they are – at low levels of development look rather similar to each other, due to the lack of specialization and diversification in the production structure, which then leads to high degrees of homogeneity in occupational structures, social organizations, and lifestyles (p.8).”

After an introductory chapter, Chapter 2 is concerned with “From African Growth Tragedy to ‘Africa Rising-’ Debunking the Myths” and outlines the reasons why African countries have struggled to grow in the past but are now at the stage of preparing to unleash the so-called African lions (after the Asian tigers) on the world. Some of this requires quite straightforward analysis of the type which has made him a prominent academic figure and, indeed, something of a public intellectual. For example, he points out that many countries are landlocked and this represents a barrier to growth, while at least some of those demographic characteristics of a society that were once claimed to hold back economic growth are now celebrated as contributing to creativity. Ethnic diversity and climate, which were once thought to hinder economic growth in one way, are now thought to act in quite a different way. Chang tellingly points out that, no more
than a century or two ago, observers from the then advanced countries looked at both Germany and Japan and found numerous cultural, historical and societal reasons why they would supposedly always be lagging behind in economic terms. His own home country has also received the contempt of the west, with no less a personage than Beatrice Webb describing “degraded, sullen, lazy … savages … [living in] … filthy, mud huts (p.14).”

The next section discusses the reasons for the more optimistic view of Africa’s prospects that has emerged in recent years. These include the more pluralistic and open political regimes that have become possible in the post-Cold War and post-apartheid period, the significant drop in the level of violence across the continent, the lessons learned from the policy mistakes of the 1960s and 1970s and the spread of a technological revolution personified by mobile telephones and convenient internet access. In addition, social indicators have improved as disease and poverty have been tackled and infrastructure developed, while demographic variables suggest more positive growth in the future. However, Chang observes that growth has been uneven, less than had been observed elsewhere and not always obviously sustainable. This is because the growth that has been achieved has relied principally upon extractive industries. To achieve the kind of protracted, sustainable growth that is desired should be based on manufacturing, since that opens possibilities for adding value in production, attracting inward investment and fostering technology transfer and industrial deepening. This argument then leads to the main part of the book, which is an analysis of the type of industrial policy that might help in encouraging the development of such a sector, which offers particular benefits because “… thanks to the fact that it lends itself much more easily to mechanization and chemical processing than do other types of economic activities, the manufacturing sector has faster productivity growth than agriculture or services (p.31).” It also helps in the diffusion of technology throughout the economy as a whole, from distribution to retail to after-sales service.
In terms of the arguments for industrial policy, Chang divides these into interdependence arguments (demand complementarities, externalities and coordination of competing investments), capabilities arguments (regulation of direct technology imports and support for small and medium-sized enterprises) and risk and uncertainty (the ‘deepest pocket’ argument, under-writing downside risk and under-writing workers’ risk). These arguments inform the design and implementation of appropriate policies. This section, like the others, is studded with examples of Chang’s knowledge of suitable examples ranging widely in time and space and these help to overcome the problem witnessed in the past that proponents of industrial policy have employed a theoretically-impoverished discourse that means they have been unable to elucidate the full range of benefits that can be provided and permitting ideological opponents to dismiss such discourse on the basis of assertion only.

Chapter 4 then describes actual examples of industrial policy from various countries in the past and present. Acknowledging that no case study can exist as a model directly to be emulated, Chang makes the claim that case studies do provide useful interpretations of theoretical arguments and can act as part of a bank of knowledge:

“… we deliberately present a wide range of cases – from Britain in the 18th century to today’s Rwanda, from the electronics industry to the salmon industry – in order to free the policy imagination of developing country (especially African) industrial policy-makers. Real-life policy experiences are based on policy options that simply cannot be imagined purely on theoretical bases (p.59).”

The conclusion to this chapter include the awareness that long-run economic success critically depends on the development of productive capabilities, for countries at earlier stages of economic development, the development of these capabilities requires that the country defies comparative advantage and promotes infant industries and that the experiences of successful economies demonstrates that there are many
paths to achieving those productive capabilities (p.110). The tools that can be used to reach these goals include: tariffs and trade restrictions; subsidies; coordination of complementary or competing investments; licensing policies; formal and informal regulation of foreign direct investment; use of state-operated enterprises, state-run venture capital or state equity participation in private sector firms; government procurement policies; establishment of public agencies and public-private partnerships; promotion of industrial clusters, private sector joint ventures and cooperatives and the strategic use of patent laws and intellectual property rights legislation. The fifth chapter discusses means of selecting and implementing suitable policy regimes using these tools in the contemporary environment in which the World Trade Organization’s rules are among the many bilateral and multilateral arguments that now constrain the acts that states may take, while the rise of global value chains has further contributed to the so-called shrinking policy space available to states.

Chang outlines the impact of these changes, noting the numerous trade agreements in place (and assuming, perhaps, no state would behave so recklessly as to try to exit such arrangements) and indicating where action is still possible. He also discusses how countries can benefit from introducing global value chains (as China has done) and guiding investment into preferred sectors and activities. His final conclusion is that knowledge is power (p.164). That is, developing country policymakers have been more or less obliged to accept Washington Consensus-style solutions to economic problems for lack of awareness of the many alternatives available to them. With this report, those policy-makers will find themselves and their countries much empowered.

*John Walsh, Shinawatra University*
Martin Heidegger: Nature History State 1933-1934

Translated by Gregory Fried and Richard Polt

Contributions from Robert Bernasconi, Peter E. Gordon, Marion Heinz, Theodore Kistel and Slavoj Žižek

London: Bloomsbury, 2015

ISBN: 9-781441-116178

VIII + 202 pp.

This is the first full-length English translation of Heidegger’s 1933-4 seminar series entitled “Nature History State.” The text is not the original of Heidegger’s words but rather notes taken by one or more attending students submitted for his approval. Since Heidegger, on a couple of occasions, makes interpolations to these notes, it is considered reasonable to suppose both that these are accurate summaries of how the seminars went and are acceptable to the original author as representations of what he intended to say. Critiquing the notes, then, is critiquing the Heideggerian original.

As the title suggests, the thought contained in the seminar is a re-examination of Being and Time (2010), since nature relates to existence, while history and state relate to time and space. The principal observation is that Germany, in Heidegger’s imagination, has entered a stage in which these three elements have coalesced into the figure of the leader (Fuhrer), who will enact a role of
destiny for the state-people-being. As Gordon (2015) observes in one of the penetrating essays accompanying the rather slender original text, the work during this period is particularly problematic because of its relationship with National Socialism: “At one pole lie the critics who find the evidence so damning they no longer feel Heidegger’s works merit inclusion in the philosophical canon at all. At the other pole are readers who wish to salvage whatever they can and thus cleave to a prophylactic distinction between Heidegger’s philosophical ideas (in which they see enduring value) and the ideological deployment of those ideas (which they are free to condemn) (pp.85-6).” He then goes on to conclude: “At issue … is question of interpretative schemes: not the fact that Heidegger was a Nazi but the meaning we assign to this fact (p.86).”

There are various grounds for reaching this conclusion, many of which refer to others of Heidegger’s works and are, therefore, beyond the scope of this review. Within the seminar text, the central passage (or, at least, one of the central passages) comes from Session 8, which took place on February 16th, 1934:

“For the Being of the people, as a human way of Being, space is not simply surroundings, or an indifferent container. When we investigate the people’s Being-in-space, we see that every people has a space that belongs to it. Persons who live by the sea, in the mountains, and on the plains are different. History teaches us that nomads have not only been made nomadic by the desolation of wastelands and steppes, but they have often left wastelands behind them where they have found fruitful and cultivated land – and that human beings who are rooted in the soil have known how to make home for themselves even in the wilderness. Relatedness to space, that is, the mastering of space and becoming marked by space, belong together with the essence and the kind of Being of a people. So it is not right to see the sole ideal for a people in rootedness in the soil (pp.54-5).”

It is worth repeating this passage at length, not just to give a flavour of the text and the way the arguments move from one point to another but, also, to show the deficiencies in thinking and the ways in which these deficiencies foreshadow the horrific consequences to come. Heidegger may have retreated (quietly, as ever) from his support for the central group of National Socialist
leaders by 1938 (he seems to have drawn a distinction between that group and the mass of the people) but, at the time of the seminar, he was rector of the University of Freiburg and centrally involved in the reinvention of Germany’s tertiary education institutions as being entirely wedded to the overriding concept of the unity and purpose of the state. As such, he is spreading supposed learning that is not just incorrect – most nomads live in a sophisticated and harmonious balance with their ecologies – but is politically divisive. In what ways would people living by a mountain differ from those who live by the sea? They might have access to different types of food and consumer goods but that is what trading is for and history in reality teaches us how extensively it has been conducted around the world. Constant trading, intermarriage and exchanges of all sorts have enabled different groups come to resemble each other more than they otherwise would and have mitigated against the disastrous warfare that would have most probably have destroyed humanity by now rather than just been an endemic disaster that has blighted uncounted millions of lives. National Socialism, of course, pursued a different ideology in which the German people, once ‘free’ of its non-German elements, would have not just the freedom but the requirement to find the space that matches its requirements. Heidegger observes elsewhere that it is through ‘interaction’ that the people will manage this spatial transformation and some essayists find some consolation in the thinking that that interaction might suggest some form of peaceful negotiation. Of course, we know that Hitler embarked on the most violent and terrifying form of interaction imaginable. Heidegger contributed to that outcome, to some extent.

The nature of the seminars themselves and the way they are organized are also susceptible to more than one interpretation. On a first reading, it appears that the professor offers the opportunity to the students to participate in an open discussion session. Unfortunately, some of the students – older ones, for the most part – are unable to join the discourse in the desired way and so, in subsequent sessions, the professor feels it is necessary to take a more central role and guide the students towards understanding. This seems a wholly believable scenario and one which I might find myself in the absence of a better thought-out teaching strategy. However, re-evaluation of the scenario suggests a darker reading, in which the professor deliberately sets out to lead students into the error of apparent confusion and lack of direction the better to require them to grasp firmly the coattails of the powerful professor who
leads them out of the valleys of ignorance to the commanding heights of enlightenment.

The final word goes to Slavoj Žižek (2015), who unleashes his dialectics on the subject in spectacular fashion. His conclusion is dazzling and to quote it in part runs the risk of quoting out of context what would appear scandalous without the framework of reversals, negations and intuitive leaps on which it is based. Let it be said only that Žižek can envisage a revolutionary, Communist Heidegger given some changes in circumstance and events. It is an invigorating way to end the book – reading Heidegger, at least in part, was one of my New Year’s resolutions for 2016 and I managed to fit it in right at the last. The reason why I care about this is because Heidegger is so revered in modern intellectual discourse, particularly in continental Europe. My interest is based on his approach to phenomenology. Gordon (2015) quotes Hannah Arendt (1971) on this subject:

“Heidegger never ‘thinks’ about something; he thinks something. In this entirely uncontemplative activity, he penetrates to the depths, but not to discover, let alone bring to light, some ultimate, secure foundations which one could say had been undiscovered earlier in this manner. Rather, he persistently remains there, underground (ibid.).”

The world needs more Hannah Arendts and probably has had enough Mertin Heideggers. However, this seems likely to be a definitive text for this seminar – assuming that the translation is as accurate and workable as it seems to be.

References


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