

Global Journal of **Business Research**

VOLUME 5

NUMBER 3

2011

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WHAT HAS WORKED IN OPERATIONAL RISK?

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ABSTRACT

Financial institutions have always been exposed to operational risk – the risk of loss, resulting from inadequate or failed internal processes and information systems, from misconduct by people or from unforeseen external events. Both banking supervision authorities and banking institutions have recently showed their interest in operational risk measurement and management techniques. This newfound prominence is reflected in the Basel II capital accord, including a formal capital charge against operational risk, based on a spectrum of three increasingly sophisticated measurement approaches. The objective of this paper is to increase the level of understanding of operational risk within the financial system, by presenting a review of the literature on the modelling techniques proposed for approach such risk in financial institutions. We perform a comprehensive evaluation of commonly used methods, with a view to compare the performance of different estimators and quantitative estimation methods, for implementation of operational risk measurement. We find that there is currently high variability in the quality and quantity of disclosure on operational risk so, as our conclusion, we try to offer instructive and tractable recommendations for a more effective operational risk measurement.

JEL: G21

KEYWORDS: operational risk management, Basel II

INTRODUCTION

Operational risk has always existed as one of the core risks in the financial industry. Although there is no agreed upon universal definition of operational risk, the Risk Management Group (RMG) of the Basel Committee have recently developed a standardized definition of operational risk. It is commonly defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events (e.g. unforeseen catastrophes). This definition includes legal risk, but excludes strategic and reputational risk (Basel Committee, 2004, 2005 and 2006; Coleman, 1999). While firms in general are beginning to more explicitly discuss the importance of operational risk, the new Basel Capital Accord explicitly requires the financial services industry to manage that risk. Particularly Hiwatashi (2002) argues that banks have already begun to consider operational risk because of advances in information technology, deregulation, and increased international competition. The growth of e-commerce, changes in banks' risks management or the use of more highly automated technology, have led, regulators and the banking industry to recognize the importance of operational risk in shaping the risk profiles of financial institutions. In this paper we discuss operational risk and its applications to financial services firms.

Our main focus is a review of the literature and the issues in this critical area in international corporate finance. It is somewhat ironic that while the major focus of regulators and institutions in the financial services sector over recent years has been on developing models for measuring and managing credit risk, most of the large losses in financial institutions over this time have been sourced to operational risk. Large operational losses as a result of accounting scandals, insider fraud, and rogue trading, to name just a few, have received increasing attention from the press, the public, and from policymakers. Considering the size of these events and their unsettling impact on the financial community, as well as the increase in the sophistication and complexity of banking practices, an effective operational risk management and measurement system, becomes increasingly necessary. In the banking world, large financial institutions

WHICH SOCIAL CLASSES ARE MORE EXCLUDED FROM FINANCIAL SERVICES IN ITALY?

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ABSTRACT

Previous researches have found that large numbers of households lack basic financial products. Specifically, the financial exclusion phenomenon has been the subject of increasing interest. The literature shows there are many families that do not have a current bank, a building society account, a home contents insurance, savings or access to consumer credit facilities. The aim of this study is to outline the financial exclusion of Italian households, highlighting which social classes are more excluded from social and financial services. Data published by the Bank of Italy concerning a survey on Italian household income and wealth in 2008 is utilized. The study uses a multi-disciplinary approach and analyzed using a multivariate statistical analysis. A multiple correspondence analysis is used to define the determinants of the financial exclusion. Next cluster analysis is used to categorize groups of individuals characterized by similar financial, economic and social analyzed variables.

JEL: E21, G20, G21, C80

KEYWORDS: Financial exclusion, Italian families characteristics, Multivariate Statistical Analysis.

INTRODUCTION

The debate surrounding the social classes that are more excluded from financial services has been the subject of increasing attention (Lee, 2002). Financial exclusion is currently the subject of widespread debate and interest, as those who lack access to even basic financial services are also often excluded in other areas, thus re-enforcing wider social exclusion (FSA, 2000). Financial exclusion has been identified as a multidimensional construct and as a result providing a simplistic definition is somewhat problematic. However financial exclusion can be defined as a situation where a proportion of potential consumers do not have access to, and consequently do not use, mainstream financial services in an appropriate form (Panigyrakis, Theodoridis and Veloutsou, 2002; Claessens, 2005). The provision of banking and financial services, which are considered socially necessary to customer segments that qualify as marginal, is defined in the “social banking” literature (Anderloni, 2003).

The financial exclusion of individuals is discussed in North America and Europe, particularly in United Kingdom, France, Sweden, Belgium and Germany. Numerous efforts have been made, including through appropriate legislative measures, to spread financial services to traditionally excluded individuals (Kempson, Atkinson and Pilley, 2004; IFF, 2000; Pesaresi and Pilley, 2003).

The aim of this research is to analyze financial, economic and social characteristics of Italian households to identify social classes that could have difficulty accessing financial services. The research uses a multi-disciplinary approach and is developed through the collection and elaboration of data published by the Bank of Italy on the income and wealth of Italian households in 2008.

The data is analyzed through a multivariate statistical analysis. Firstly a multiple correspondence analysis (MCA) is used to define determinants of financial exclusion. Secondly cluster analysis is used to identify some groups of individuals characterized by similar aspects. The remainder of the paper is organized as

EARLY OBSERVATIONS ON THE QUALITY OF IFRS REPORTS: EVIDENCE FROM TURKEY

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ABSTRACT

Integration of the world economies has mandated the global inception and recognition of IFRS not only for large companies but also for SMEs. We examine wide-ranging real-life IFRS practices experienced in the world while devoting a particular focus to Turkey. We show that although the countries seriously considering the practice of IFRS confronted some severe obstacles, the conduct of IFRS will return the businesses operating in those jurisdictions as significant cost savings.

JEL: M41, M48.

KEYWORDS: IFRS, Financial reporting, Convergence, Harmonization, SMEs

INTRODUCTION

The United Nations Conference on Trade and Development (UNCTAD) signifies the importance of companies' possessing such accounting infrastructures that are (a) promptly responsive to the changes in and (b) all the way prepared for the promulgation of any sophisticated standards. It points that developing countries and the countries in transition yet lack a rigorous foundation to build the International Financial Reporting Standards (IFRS) on. Developed countries that have been long aware of the difficulties of weak accounting system have already construed the advisable infrastructure (UNCTAD, 2008).

The international adaptation process to IFRS actually started in 1973, with the agreement of 16 professional associations across Japan, Mexico, Australia, Canada, Germany, France, Holland, England and the U.S. to build 'International Accounting Standards Committee (IASC)'. IASC was to be named 'International Accounting Standards Board (IASB)' later on. The process accelerated with the introduction of a regulation by 'International Organization of Securities Commissions (IOSCO)' in May 2000 to require all the listed (quoted or publicly held) companies to exercise the IASC standards. The process has been further advanced by the decision of the European Union (EU) in 2002. This decision was geared towards the enforcement of IFRS on rather the consolidated accounts of all the listed companies residing within the EU (UNCTAD, 2008).

Until now, over 110 countries across the globe have acknowledged and started to implement IFRS (Selimoğlu, 2008). The countries that will initiate the enforcement through completing the synchronization with IFRS enclose Japan, India, Korea, the majority of South and Central America as well as Canada (PwC, 2009). It is high likely that one of the most influential transition processes to IFRS will be observed in the U.S. in the foreseeable future (PwC, 2009). At present, although there is not any binding rule yet obliging companies to enforce IFRS in the U.S., many of them consider that the harmonization with (convergence to) IFRS will be soon ensured in absolute terms anyway, and have therefore started to work on this platform already (PwC, 2009). In addition, the process on the harmonization of generally accepted accounting standards in the U.S. (U.S. GAAP) with IFRS is still continuing (PwC, 2009). However, 2016 rather than 2014 is often cited as the anticipated year for the transition to IFRS there (PwC, 2009). Therefore, a considerable amount of time is yet needed for the completion of the transition cycle not only for the developing but for the developed countries as well.

CPA'S DUTIES TOWARD FRAUD DETECTION AND REPORTING: TAIWAN REGULATIONS

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ABSTRACT

This paper aims to review CPAs' responsibilities for fraud detection and reporting. It will first explore, through literature analysis and review of Taiwan regulation, the accounting professions' changing stand toward CPAs' responsibilities to detect and report fraud. In addition, Taiwan's existing laws and profession promulgations on CPAs' fraud-related responsibilities will be examined and discussed. Finally, the 2002 US Sarbanes-Oxley Act's impact on Taiwan CPAs' duties in fraud detection and Taiwan government's responses to such duties by expectations gap will be examined.

JEL: M42; M48

KEYWORDS: Auditor's responsibility, fraud detection, auditing regulations, audit profession,

INTRODUCTION

In Taiwan, the series of corporate failures since 2000, notably Chung Shing Bank and Procomp Informatics, is reminiscent of Enron and WorldCom in notoriety. Their collapse due to management's fraudulent or misrepresented financial statements typically occurs within such short period that shareholders have insufficient time to respond, resulting in huge investment losses.

The question naturally arises: Who is to blame? Responsibilities placed by the Taiwan investing public on CPAs over the veracity and accuracy of financial statements have often been far above what the accountant himself deems he can handle. The claim traditionally made by Taiwan accountants is: "Fraud is very difficult to detect." Some insist this ought to be understandable (Cheng, 2004, Liao, 2006). Taiwan corporate businessmen are especially cunning and expert at camouflaging material they do not want you to see, making it virtually impossible for you to implicate them due to lack of direct evidence. But the public asks, "If you are unable to detect fraud, then what do we need you for?" Accountants rebut by contending that business collapse due to company fraud is corporate responsibility, not accountants', because undetected fraud does not equate to audit failure, and accountants only have to answer to audit failure. But from the point of view of financial statement users, their expectations cannot be met, hence the gap persists (Liao, 2006; Ma, 2006a). And this seemingly impossible to eliminate expectation gap fluctuates with ever-changing external conditions- each time a big case involving fraudulent financial reporting erupts, the gap widens. If this gap continues to broaden to the point when public trust buckles, that would signify the start of the breakdown of capital market.

In relation to the audit expectations gap, the CPA's responsibility to detect fraud is probably at its widest when company failures are publicized amid insinuations of fraud and malpractice. This paper focuses upon CPAs' responsibilities for fraud detection and reporting. It will first explore, through historical analysis and review, the accounting professions' changing stand toward CPAs' responsibilities to detect and report fraud. In addition, Taiwan's existing laws and profession promulgations on CPAs' fraud-related responsibilities will be examined and discussed. Finally, the US 2002 Sarbanes-Oxley (hereafter SOX) Act's impact on Taiwan CPAs' duties in fraud detection and Taiwan government's responses to such duties are examined.

EVIDENCE ON THE ADOPTION OF E-TOURISM TECHNOLOGIES IN NAIROBI

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ABSTRACT

The advent of the internet in the early 1990s revolutionized commerce by facilitating efficient communication and operations in numerous industries. The concept of e-tourism is revolutionizing the tourism industry operations across the globe, including Kenya, albeit a slow adoption owing to various challenges. The aim of this paper is to analyze the merits and demerits of embracing the internet in Kenya's tourism industry by exposing some of the strengths, weaknesses, opportunities and threats presented by the adoption of e-tourism. Data was collected from executives in the travel and tourism industry in Kenya's capital city, Nairobi, including both domestic and international tourists. Although there were several merits including flexibility and interactivity, adoption of e-tourism is confronted by various challenges including connectivity issues and redundancy of intermediaries. These changes have the potential to edge out many tourism businesses, which could increase unemployment in Kenya. It is therefore imperative for the government to support the country's tourism industry particularly the small and medium enterprises in implementing e-tourism technologies.

JEL: L83; L86

KEYWORDS: Tourism organizations; E-Tourism; SWOT Analysis; Enterprises; Internet

INTRODUCTION

Tourism has evolved and grown over time and has changed in terms of travel motivators, destinations and number of participants. Today, it is a major economic activity worldwide and a major contributor to the global economy. For instance, tourism in Kenya accounts for 10 percent of the Gross Domestic Product (GDP), making it the third largest contributor to Kenya's GDP after agriculture and manufacturing, and Kenya's third largest foreign exchange earner after tea and horticulture (KNBS, 2007). Tourism has also been identified as one of the key drivers in achieving the goals of the Vision 2030 (GOK, 2009).

The internet has become a significant sales and marketing distribution channel in hospitality and tourism (Lee and Morrison, 2010). The introduction of the computer brought with it technological innovations that have caused major shifts in the way operations are managed. Businesses have gained efficiency and effectiveness as a result of technological advancements. These advancements seem to have a never-ending life cycle, as various technologies continuously improve and develop upon their previous forms and functions.

Communications have become easier, faster and convenient globally since early 1990s. Indeed, the true potential of the internet in the tourism industry has recently been uncovered. Computers and computerized devices have slowly revolutionized the tourism industry and contributed to its growth and development.

E-tourism refers to any tourism activities carried out via the internet. The various functions of the internet have been diversified and as a result, the internet provides an un-matched potential for growth and

TOTAL QUALITY MANAGEMENT ADOPTION IN A PUBLIC HOSPITAL: EVIDENCE FROM MAURITIUS

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ABSTRACT

Total Quality Management (TQM) has emerged as a potential solution to improve the efficiency and effectiveness of health care provision and is becoming increasingly important for the successful operation of public hospitals. The aim of the study is to determine the extent to which TQM can be adopted in public hospitals in Mauritius. The objective of the study is to assess management and employees perceptions on the critical factors influencing effective TQM adoption in public hospitals. A questionnaire comprising of items on a 5-point Likert scale was used to capture the perceptions and the data was analyzed using descriptive statistics and t-tests. The findings showed that the TQM dimensions have a significant impact on the perception of management and employees. Analysis of variance (ANOVA) was further employed to examine if the critical factors were perceived differently by management and employees. The results also revealed that management perceives TQM adoption as being relevant and effective, in the case of public hospitals.

JEL: M31

KEYWORDS: TQM adoption, Management, Employees, Public hospitals, ANOVA

INTRODUCTION

One of the fastest growing industries in the service sector is the health-care industry (Andaleeb, 1998). The health care industry has restructured its service delivery system in order to survive in an unforgiving environment resulting from maturation of the industry, reduced funding, and increased competition (Williams, 1994; Cho *et al.*, 2004). Total Quality Management (TQM) is a philosophy with the aim of achieving an overall performance. TQM has become a globally strategic force, which may lead to several benefits: improved customer satisfaction, greater employee focus and motivation, reduced waste and improved overall performance (Juran, 1988). TQM has thus emerged as a potential solution to improve the efficiency and effectiveness of health care provision and is becoming increasingly important for the successful operation of public hospitals. Many hospitals are turning towards TQM adoption for cutting costs and overall improvement in the quality of the services provided. It is argued that the measurement of quality is not yet well established in the health care industry although there are some measurement mechanisms in place (Huq, 1996; Yang, 2003; Huq, 2005).

There is also the growing consensus that customer satisfaction is an important indicator of health care quality and many hospitals are searching for ways to change the delivery of patient care through TQM (Schalk and Dijk, 2005). Although TQM has been extensively researched for many years now in the manufacturing sector, there is still significant interest in and need for empirical studies on TQM given the fact that many service organizations are adopting and implementing TQM and its diffusion is on the increase globally (Ehigie and McAndrew, 2005). Therefore, it is imperative that a proper study is carried out to ensure that the adoption of TQM is a worthwhile initiative in public hospitals. Public hospitals have always been criticized for their poor service quality and to implement a quality improvement program management in public hospitals may not be aware of the benefits of adopting and implementing a quality improvement program. Thus this study aims to investigate the extent to which public hospitals in

THE INFLUENCE OF BRAND PERSONALITY EVIDENCE FROM INDIA

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ABSTRACT

Nokia tops the list this year among India's most trusted brands. The purpose of this research is to analyze the influence of brand personality of NOKIA to perceived quality. Approximately 214 respondents from a well known management institute are selected for this purpose. Respondents are asked to rate five dimensions of brand personality (sincerity, excitement, competence, sophistication, ruggedness) on a five point rating scale. Similarly, they are asked to rate the four dimensions of perceived quality on a three point rating scale. This paper will help marketers frame proper marketing strategies for the same.

JEL: M31

KEYWORDS: trusted brands, perceived quality, dimensions, sophistication, ruggedness

INTRODUCTION

The results of the 2009 India brand equity survey are surprising. Nokia tops the list among the most trusted brands category and Colgate, which topped the 2008 list was second. Many factors lead to the success of Nokia. Newspaper reports reveal that the quotation "Handle with care" fits well for the success of Nokia phones. The brand has been handled with lot of care and finally succeeded in maintaining and winning the peoples trust. The importance of brand personality in the Indian context is increasing with each passing day.

Brand personality is defined as the articulation of brand personality traits. According to Aaker (1991), "Brand personality is a set of personal characters associated and related with the brand." Jennifer Aaker defined brand personality as "a series of human characters associated with the brand". Brand personality has become an important tool for positioning brands in the market. It also acts as an important tool for formulating advertising policies and selling. There are various methods for measurement of brand personality. A popular methods is the brand personality scale developed by Jennifer Aaker (Acker, 1997). The scale takes into consideration 42 traits which are reduced to five dimensions; Sincerity, excitement, competence, sophistication and ruggedness.

Perceived quality on the other hand is defined as the opinion which the customer forms about the ability of the product or brand to fulfill his or her expectations. Usually perceived quality is based on firms current public image, customer experience with the product and influence of opinion leaders and others. It is also defined as customer perception of the overall quality or superiority of a product or service with respect to intended purpose. The dimensions of perceived product quality include, reliability, durability, serviceability and style and design. The various dimensions of service quality include tangibility, reliability, responsiveness, assurance and empathy.

This paper seeks to analyze the influence of brand personality to perceived quality in India. The paper begins with a discussion of the relevant literature. The data and methodology and results sections follow. The paper closes with some concluding comments.

ADVERTISING TO ADOLESCENTS: AN EXAMINATION OF SKEPTICISM

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ABSTRACT

Various studies have been done to further understand adolescent skepticism, its antecedents and consequences, and the affect of skepticism on the processing of advertising and persuasion attempts among adolescents. Given the substantial purchasing power and advertising dollars currently spent on this group, further understanding of this group is imperative. There appears to be a gap to bridge between marketing literature and developmental literature in dealing with this issue. This paper conceptualizes skepticism as a result of a developmental stage more than its current role as a dependent variable within the advertising and persuasion research context. A brief discussion of literature in the area of adolescents and advertising, and extant research on adolescent skepticism toward advertising is included. The conceptualization of the Skepticism-Dogmatic axis and its relation to advertising to adolescents is posited. Findings of previous studies are discussed with respect to findings of skepticism in adolescents. In light of previous findings and the obvious relevance of studying adolescents in terms of the characteristics of their developmental stages, this paper advances the idea that inclusion of developmental factors is should be an element of consideration in any future research which examines marketing to adolescents.

JEL: M37

KEYWORDS: Children, adolescents, skepticism, advertising, persuasion, epistemic development.

INTRODUCTION

Studies have shown that an average child will have spent almost 20,000 hours exposed to television programming by the age of 18 years (Kline, 1993). A significant portion of that programming time is devoted to advertising. Indeed, twenty-five years ago it was found that America's most naive viewers were exposed to between 22,000 and 25,000 commercials per year (Weisskoff, 1985). A 2006 policy statement from *Pediatrics*, the official journal of the American Academy of Pediatrics, indicates the current number of television commercials children are exposed to annually has doubled to over 40,000 plus an undisclosed number of internet ads (*Pediatrics*, Committee on Communications, 2006).

In addition to the pervasive nature of advertising in the lives of adolescents, also adding practical importance to this issue is the economic impact of the group. Marketers and advertisers also spend a large amount of resources marketing to the adolescent target market. The current body of literature regarding adolescent attitudes toward advertising is sparse at best, despite the staggering \$200B in current U.S. purchasing power of the pre-teen/adolescent market (Kadaba, 2009). Additionally, advertisers spend \$1.5B annually attempting to reach this market. With so many dollars being spent annually on this group, it is important that research in this area should be well-developed and rigorous. Current research regarding adolescents and pre-teens' response to advertising, with one or two exceptions, leaves out a very important dimension of the adolescent psyche: their developmental stage and the impact this has on researchers' ability to accurately assess adolescents' response to advertising.

Some might consider it unsettling that we know so little regarding how children think, feel, and develop knowledge with respect to such a controversial but pervasive influence. Several bodies of literature examine children's capabilities to cogitate, perceive, and understand the world around them. Stage-

EVIDENCE ON THE CONTENT OF PHYSICIAN WEBSITES

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ABSTRACT

We provide data regarding the current status and trends in physician website development. We surveyed over 200 family practices to determine whether or not they have a practice website. The results indicate that a majority of family practices do not have a website. We then conducted a detailed investigation of more than 60 physician websites to determine what kind of information, features and services are included in the websites. Our results indicate that there is a large gap between consumer preference for physician website capabilities and current websites.

JEL: M31

KEYWORDS: Physician website marketing, internet marketing, website development

INTRODUCTION

This paper examines the current status and trends in physician websites. The internet is a useful tool for service providers to market their services. In the world of health care there is enormous potential for internet use, especially with President Barack Obama advocating e-prescriptions and electronic medical records. The number of e-prescriptions last year nearly tripled from the prior year (Martin, 2010). There is also great potential for physicians to use the internet to communicate with and improve their relationships with patients (Sanchez, 2002). Consumer interest in the internet as a health resource is growing strongly. In a recent survey, more than half of the respondents indicated that they believe that incentives for doctors and hospitals to use electronic medical records will be effective or very effective at improving the overall performance of the health care system (Deloitte, 2010). In addition, current economic conditions are leading to pressure for the healthcare industry to cut costs and to justify every sales and marketing initiative (Gronlund, 2010). Physicians are beginning to understand that websites can be a good, cost effective way to attract new patients, provide better service and patient satisfaction, and maintain patient loyalty.

Some recent estimates say that 80% of American internet users regularly search the web for health information (LSW, 2010). However, there has been little research to help identify the information consumers want in physician websites to help them choose a doctor. Likewise, little research has investigated how websites might improve doctor service. Examining the content of physician websites is important because without a firm understanding of the content of physician websites, it is not possible to make recommendations for improvement. Once there is an understanding of the current status of physician websites, physicians can compare their websites to those others in the same industry and can better design their own websites for improved patient satisfaction and well as improved service and treatment.

We present the results of an investigation into the present status of physician websites. We surveyed more than 200 family practices to determine if they have a website. We then conducted a detailed investigation of over 60 physician websites, including determining if the websites contain the factors and services determined by consumers in a prior study (Sanchez and Sanchez, 2006) to be important. Our

INFORMATION TECHNOLOGY USE PATTERNS: EVIDENCE FROM ALBANIAN ENTREPRENEURS

Kozeta Sevrani, University of Tirana
Klodiana Gorica, University of Tirana
Dorina Kripa, University of Tirana
Edlira Luci, University of Tirana
Erjon Zoto, University of Tirana

ABSTRACT

This paper examines the level of IT usage by companies in the Albanian commercial centers. The paper provides an discussion of the relevant literature on the importance of adapting information technology (IT) by entrepreneurships in a given country. Specific application to some specific businesses are provided. The paper examines large firms because of their increasing presence in the economy, their vital role in rural development and their importance to the country's economic, social and general welfare. The paper identifies the main reasons for entrepreneurships use of IT. The paper identifies an important issue considering growth trends of the domestic market and relationships with other non-Albanian companies, that have already applied IT solutions. The paper identifies efficiency and effectiveness levels of Albanian companies and the impact of customer demands for service quality.

JEL: M15; O32

KEYWORDS: IT, entrepreneurship, marketing, commercial center

INTRODUCTION

Information and Communication Technology (ICT) is an important part of society and an integral part of the international business world. Forrester Research predicted that ICT transactions worth \$6.8 trillion were likely worldwide in 2007. Nevertheless, large segments of the international trade world do not use the Internet. This is certainly to change. This paper examines to Albanian entrepreneurs. The paper conducts a survey of how the internet has improved their business operations, processes, financial systems, etc. The number of native enterprises that use ICT for daily tasks is growing at an exponential rate. These trends signify this is not a casual or a short-term phenomenon. The goal of this paper is to provide feedback to Albanian entrepreneurs on the use of IT by Albanian businesses. Though there is a large amount of literature regarding this and similar topics worldwide, this is not the case for Albania. This paper is the first known attempt to address specific issues related to Albania.

In the following section, we discuss the literature related to the topics in question. Section 3 introduces the data selected and research methodology used, while Section 4 gives a more detailed analysis and interpretation of the data. Section 5 provides concluding comments and further implications of the study.

LITERATURE REVIEW

Berthorn, Pitt and Warson (1996) stated that most companies worldwide could not estimate properly the huge potential that the World Wide Web offered as a alternate marketing tool. While internet usage was increasing exponentially, its effect over the marketing process and overall economic activity was as yet unknown. On the other hand, Lichtenthal and Eliaz (2003) argue that IT usage, especially internet usage, would help firms create certain traffic for their products and services, thus building their name in the online environment.

NEW EVIDENCE ON RATES OF RETURN TO EDUCATION IN PAKISTAN

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ABSTRACT

Relatively few articles have examined the rates of return to education in Pakistan in recent years. This paper uses data from the 2001-02 Pakistan Integrated Household Survey to compute returns from different levels of education. Returns to education are found to be higher for females than for males at the lowest level of schooling. The results presented here support the findings of other researchers. In addition the result have significant policy implications for educators and policymakers.

JEL: J24; J31

KEYWORDS: Education, Returns, Pakistan

INTRODUCTION

After a flurry of studies in the 1970s and 1980s, there appears to have been a barren period in which little attention was directed towards computing rates of return to education in Pakistan. Recently however, some studies, both published and unpublished have investigated this important area. This article updates, and provides comparisons with the results of some of these studies. Most of these studies, including this one, determine that the returns to females are higher than they are for males. This is a finding with considerable policy significance.

Pakistan is estimated to have a population of approximately 160 million. The labor force participation rate is 46%, reflecting the large number of children in the population who cannot work. The participation rate is only 19% for women. This is not surprising, given the social and cultural factors which often prevent women from engaging in paid employment. Agriculture is the mainstay of the economy accounting for 43% of all employment. The unemployment rate of 6.2% reported officially, is widely regarded as being significantly understated. As much as 73% of employment outside agriculture is in the informal sector, which is largely unregulated and untaxed. The literacy rate is 53%, but is only 40% for women.

This paper uses data from the 2001-2002 *Pakistan Integrated Household Survey* to compute reported results. While generally supportive of results from previous studies, the use of new data reinforces these earlier findings. The paper provides a survey of some of the more recent studies. It uses a modification of Oaxaca's model suggested by Cotton (1988) and Neumark (1988) to estimate results. Empirical findings are reported thereafter.

The remainder of the paper is organized as follows. In the following section, a survey of the literature is provided. Next, the methodology and data used in the study are discussed. The empirical results are presented and discussed. The paper closes with some concluding comments.

LITERATURE REVIEW

Hamdani (1977) used data from the 1975 *Socio-Economic Survey of Rawalpindi* carried out by the *Pakistan Institute of Development Economics*. The same data was used by Haque (1977) and Guisinger *et. al.* (1984) in calculating rates of returns to education. A fourth study by Khan and Irfan (1985) used

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