

***SESSION 6 – PRIVATE SECTOR,  
INFRASTRUCTURE, AND  
ENTREPRENEURSHIP:  
COMPETITIVENESS FOR PRIVATE  
SECTOR LED TRANSFORMATION***  
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# BEGINNING WITH THE END IN MIND

- What do we know?
  - An old paradigm
  - The current paradigm
- New horizons
- Implications for Transformation & Development
- Policy/tactical recommendations

# AN OLD PARADIGM

- Comparative Advantage
- Factors of Production: Exploitable Potential
  - Natural Endowments
    - Tourism
    - Natural resources
    - Land management/agriculture
    - Port
    - Water
  - Created Advantages
    - Education/human capital (was once)
  - Destroyed advantages
    - Port
    - Education
    - Tourism – under way - deforestation/environmental destruction/no aesthetics in town and country planning
    - Land management – poor, discriminatory tenure system restricting investment and labour mobility
- Limitations
  - Turning Potential into High & Sustainable Standards of living

# THE CURRENT PARADIGM

- Competitive Advantage
- Guru – Michael Porter
  - The Competitive Advantage of Nations (1990)
  - Diamond framework
- Ability to turn Potential into Reality

# THE CURRENT PARADIGM

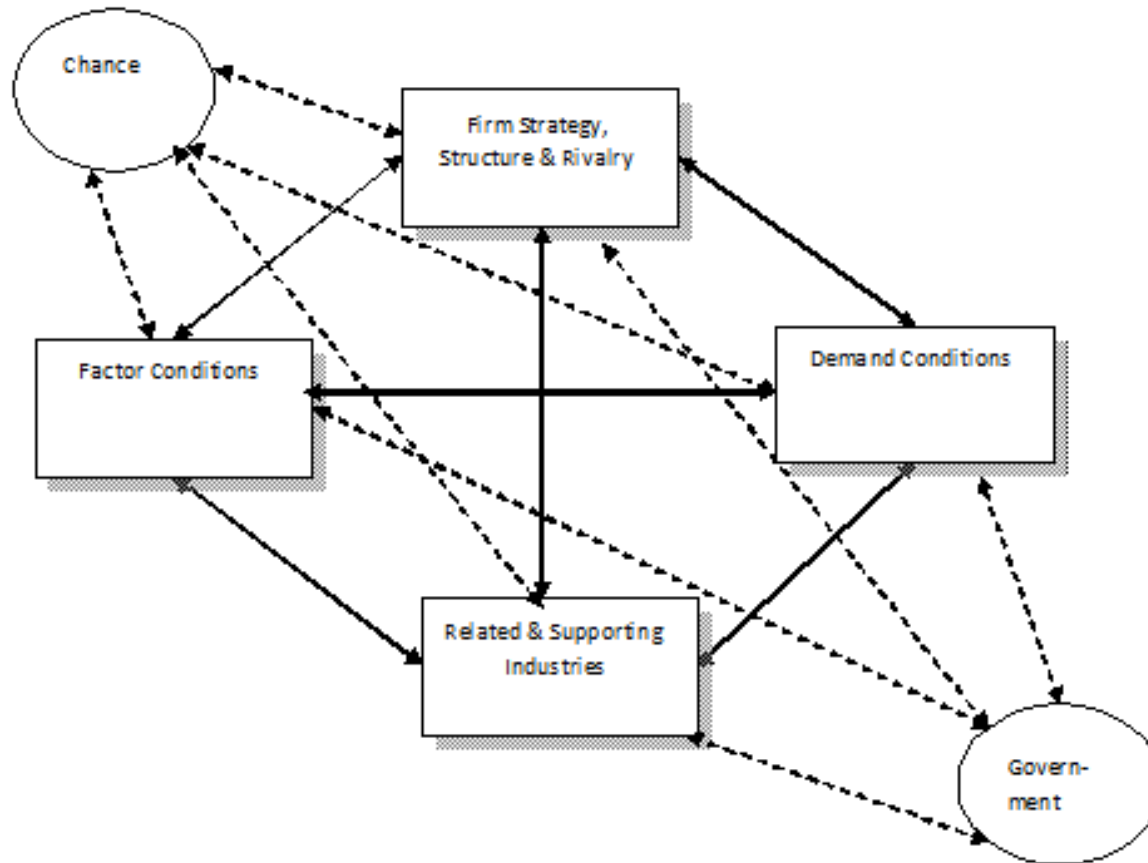


Figure 1: The Diamond - Classical Porter Model of the determinants of National Advantage

Source: Porter (1990: 127)

# THE CURRENT PARADIGM

## ○ Goodies

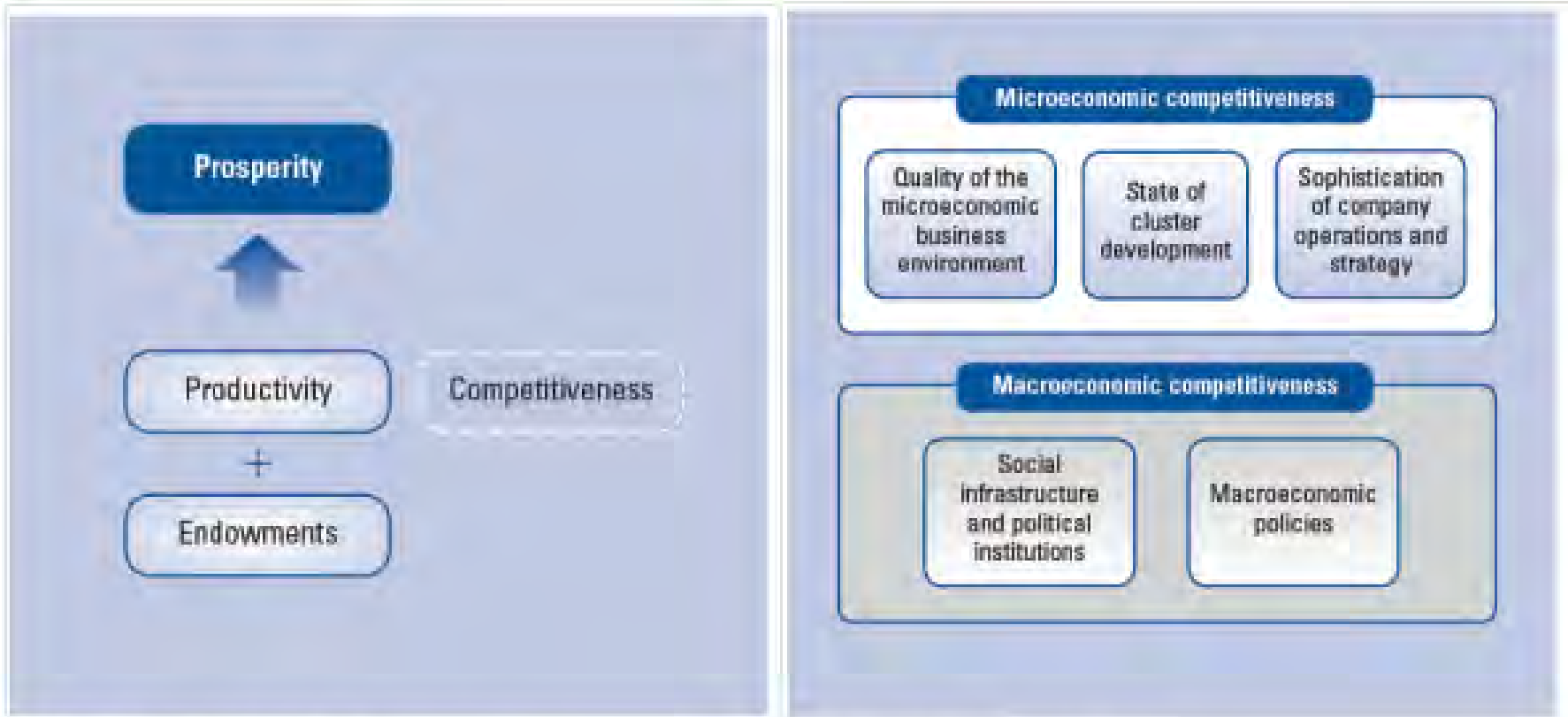
- Strong on Microeconomic foundations of national competitiveness
- Implicitly recognises the role of a country's history and culture

## ○ Not so goodies

- Does not account for the role of history and culture
- Growth literature finds SIPI factors have greatest link to national competitiveness
- Diamond framework may only be ex-post achievable
- Countries must first build strong ex-ante Institutions

## ○ So What?

# NEW HORIZONS



(a) Defining Competitiveness

(b) Foundations of Productivity

**Figure 2: Defining Competitiveness & the Foundations of Productivity**

Source: Porter & Schwab, 2008: 45.

# NEW HORIZONS

- World Economic Forum's Global Competitiveness Index (GCI)
  - Current Index refined in 2008 with Porter in lead
  - FJP non profit partnership to include SL & Liberia from 2012
  - Diamond shown as microeconomic contributor
  - Macro influences, lead by SIPI, outside Diamond
  - Macro influences measured by GCI on outcome basis
  - No theory available to explain the mechanics of SIPI factors
- DBA Research 2007-2011 with Sierra Leone case study
  - Heriot Watt University, Scotland
  - Sought to plug gap – the role of culture in NCPOS

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# NEW HORIZONS - 12 PILLARS OF THE GCI

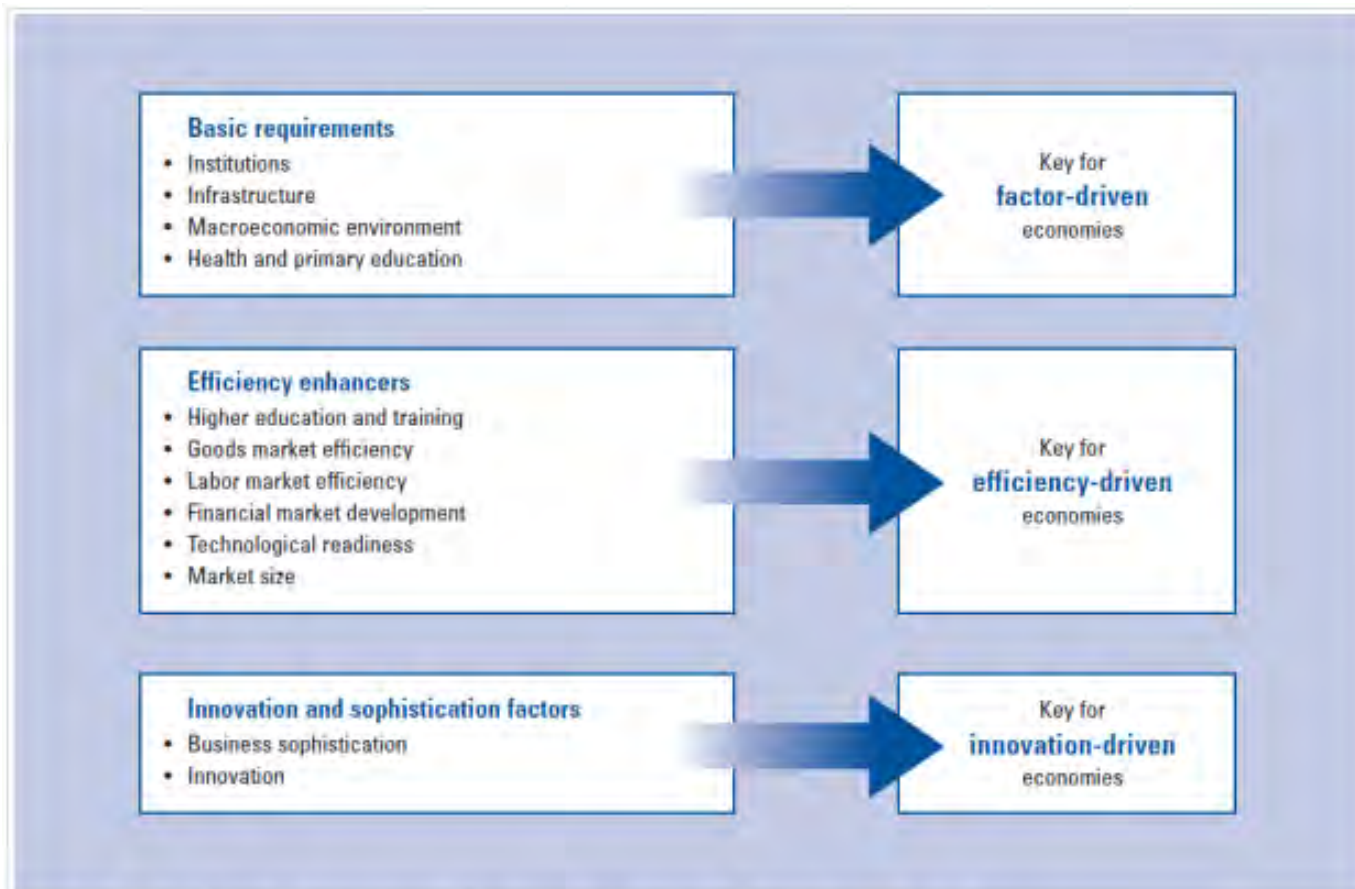


Figure 3: GCI's 12 Pillars of Competitiveness & their relationship to stages of economic development

Source: Schwab, 2010: 9

# NEW HORIZONS - CULTURE IN NAT COMP

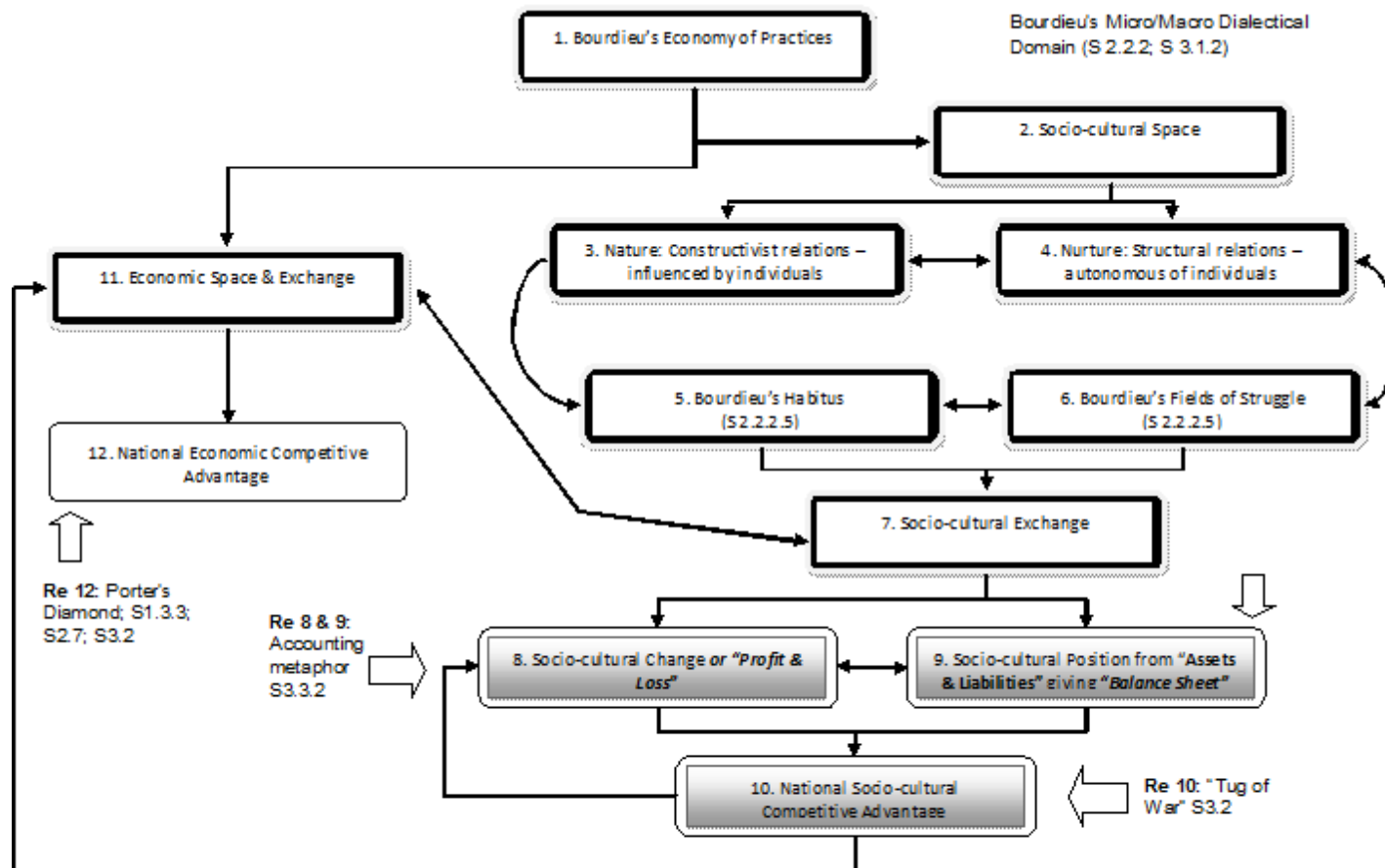


Figure 4: Conceptual Framework for the Analysis of National Socio-Cultural Competitive Advantage  
Source: Author construction

# NEW HORIZONS - IMPLICATIONS

- Culture – Predictor Variable, leading indicator
  - Pierre Bourdieu – competition for resources - appropriate tool for understanding mechanics
  - Putnam – theory of social capital– much weaker
- Economy – Outcome Variable, lagging indicator
- Get Culture Wrong:
  - Your children will certainly Pay
  - (if God keeps you) You may Pay
  - Thatcher/Reagan era & Global Financial Crisis
- 4Cs – Countries & Companies do not Compete, Cultures do!

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR

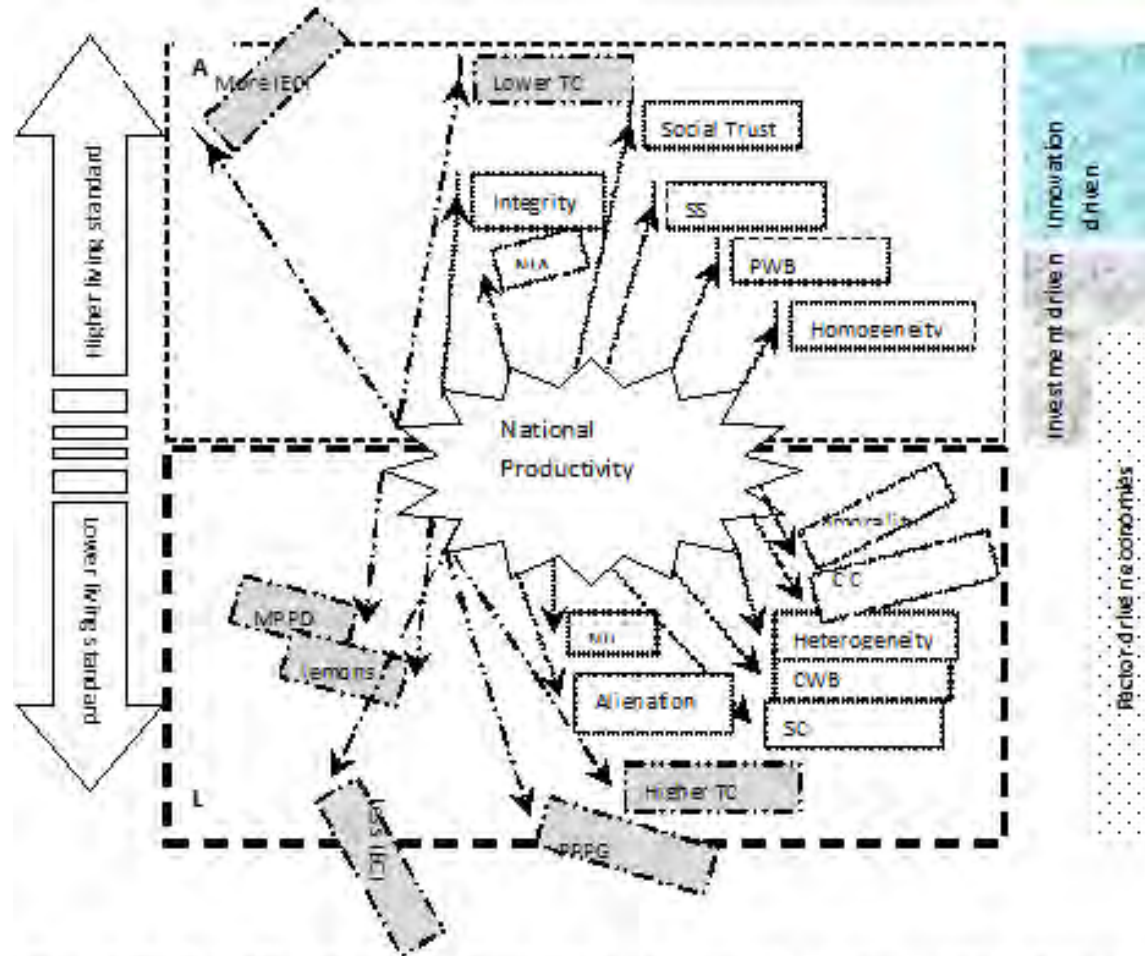


Figure 5: The Tug of War: How National Productivity bridges national economic competitive advantage and national socio-cultural competitive advantage

Source: author construction

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR – HOMOGENEITY VS HETEROGENEITY

- Economic effects of heterogeneity – Explains Africa’s lag – Skin colour not issue:
- individuals derive positive utility to well being of members of their group & negative utility to that of members of other groups
- more efficient for individuals to “transact preferentially with members of one’s own type...” especially where there are market imperfections such as asymmetric information, quality uncertainty, opportunism and integrity is an issue
- diversity impacts on the “production function” through an inability to agree on common public goods and public policies
- ethnic fragmentation negatively correlated with measures of infrastructure quality, literacy and school attainment; & positively correlated with infant mortality
- public provision of private goods- PPPG – targeted to benefit specific individuals and groups – higher i.e. Often positive correlation between fragmentation and ethnically based patronage
- Democratic elections - a stage for dysfunctional Bourdieurian competition along lines of heterogeneity – the more elections you have and the more frequent – then the greater the destabilisation of productivity, competitiveness and standards of living
- Winner takes all politics heightens these tensions and can lead to violence, especially in poor economies – vicious cycle held in place by Nash equilibrium

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR – VALUES

- ACC 2007:
- “Sierra Leone is experiencing a rapid erosion of ethical values. There are hardly any morally sound examples in public life to emulate especially for the present generation of young people. Dishonesty, insincerity, un-fairness, disregard for the “golden rule” (do unto others as you would want them do unto you), grabbing public property, greed and cheating are common place. Such combination of vices constitutes a negative value system that generates general apathy and self-serving attitudes and breeds corruption”.

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR – SOCIAL EXPECTATIONS

- Research evidence - Omodele Jones 2007-2010 – longitudinal action research & cross sectional survey/principal components analysis on **key** accounting and auditing sector: indications of “Societal Cynicism”
  - At the individual level, Social Cynicism refers to “a negative view of human nature, a view that life produces unhappiness, that people exploit others, and a mistrust of social institutions” (Bond, Leung et al (2004a: 553)).
  - At the collective level, Societal Cynicism relates to “a lower emphasis on striving for high performance”, which is unsurprising “if there is a general suspicion of the social system and a general expectation of negative outcomes” (Bond, Leung et al (2004a: 559)).



# NEW HORIZONS - PRODUCTIVITY TUG OF WAR – BAD SOCIO-CULTURAL EQUILIBRIUM

- Vicious Cycle – Bad Culture sustains Bad Economic Choices
- Preponderance of Akerlof’s “Lemons” – vicious cycle - decimation of goods and services markets (auditing, health, engineering, law, electronics, food, pharma etc) due to opportunistic selling behaviour based on erosion of standards in environment (“excessive informality”) where buyers have weak information/high uncertainty on quality of goods and services
- Evidence of Hardin’s “Tragedy of the Commons” in land, water & forestry, environment:
  - Variant of multi-person prisoner’s dilemma: Collective ruin from unregulated freedom of individuals to rationally satisfy their “ego-serving decisions” (Hardin, 1998: 682).
  - Morality is “system-sensitive”: a system with poverty-producing values may sustain itself, as bad consciences tend to drive out good consciences (1968: 1246).
- Mere appeals to conscience of individuals does not rectify unmanaged commons or Lemons - effective regulation through “mutual **coercion**, mutually agreed upon” (Hardin, 1968: 1247) - i.e. generating and sustaining institutionalised Enlightened Self Interest.



# NEW HORIZONS - PRODUCTIVITY TUG OF WAR – BREAKING BAD SOCIO-CULTURAL EQUILIBRIUM

- Cost high: once individuals are in a bad equilibrium, unilateral deviations are costly so that they can be locked in that equilibrium. Fehr & Tyran (2005: 52)
- “Corruption has been an established disorder, cutting across all sectors of society. People of integrity fighting to revamp uprightiness are often treated as societal deviants and subjected to mockery. In fact the saying, “this man nor cam for beteh,” has often been used to cry down men of relative integrity in society”. Anti-Corruption Commission of Sierra Leone, 2007: 4. QED
- Translation: This fellow will end up in poverty”

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –BAD SOCIO-CULTURAL EQUILIBRIUM

- Birth pains spotted 1968:
- (Fyfe & Jones, 1968: xii) :
- “...The warning was clearly given – planning imposed from above can only be effective if understood and accepted willingly by those whose lives are being planned. Otherwise it generates new and worse problems... Mr S. R. Dixon-Fyle put one unanswered question into clear focus...- how are society’s rules to be enforced in the absence of an accepted sanction?...what are the society’s rules?...the organised sanctions of the past have lost their hold. Neither the strict norms of old-fashioned Krio conduct, nor the cohesive traditional bonds of the tribal communities are any longer generally accepted. It is not clear what is replacing them...”

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –BAD SOCIO-CULTURAL EQUILIBRIUM

- ...And Much Earlier:
- Newland (1916:189-190)
- “...There are too many differences between the various tribes, in customs, traditions, beliefs, habits and ideas for any one tribe to accept the sovereignty of another, or to form – at any rate for many centuries – a homogenous self-governing community. In Sierra Leone, for example, the Temne would not recognize the rule of the Mendi or the Susu, still less would any one of the three acknowledge the authority of the Creole...”

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –SOLUTIONS- HETEROGENEITY

- Recognise reality of harmful effects of heterogeneity
- Design institutions to mitigate harm
- Politics :
  - Current system designed for homogeneous Europe
  - fewer layers of elections, less frequently: added benefit of making cost of democracy sustainable
  - One general election – to local councils which serve as electoral colleges to select parliamentary representatives
  - Spinoff – save money – stop banana state begging for aid for elections
  - No relationship between accountability and number of elections
  - Less frequent – every 8-10 years to allow for long periods of economic and social growth
  - Configure system to produce German style coalition governments– to avoid winner takes all tensions

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –SOLUTIONS- HETEROGENEITY

- Institutions more generally
- “mutual **coercion**, mutually agreed upon”
- Policed by ACC
- focus on all professional sectors to ensure global standards and codes of behaviour, ethics and conduct are implemented, monitored, policed and enforced
- Object to raise standards & work behaviours through neutral professional cultures and reverse Lemons and Tragedy of the Commons/Multi-person prisoners’ dilemmas more generally
- Replace “excessive informality” with policed systems, standards & codes of conduct

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –SOLUTIONS- VALUES & EXPECTATIONS

- ACC focus on change of counterproductive work behaviours through delegated and monitored action by sector – engineers, nurses, doctors, lawyers, politicians, accountants, auditors, public procurement specialists etc
- Not just one ACC – effectively create several mini-ACCs policing standards and codes across all professional sectors. Authority to expel and deny right to practice plus ACC fines & asset seizures (USA RICO-style).
- Professional bodies & utilities regulators operate under purview of ACC
- E.g. PPRC becomes PPPRC
- Scientific surveys of values and social expectations are performed regularly by ACC to provide evidence of progress – building on indicative work done in research on Sierra Leone by O Jones
- Abolish NATCOM & invest in more efficient Multi Sectoral Public Utilities regulator like Gambian PURA – to cover communications, water, energy, ports, transport, post/courier, oil&gas, healthcare providers
- Implement Companies Act 2009 & Corporate Affairs Commission
- Press for resource sector participation in emerging International Integrated Reporting Initiative – track social & environmental costs

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –SOLUTIONS- VALUES & EXPECTATIONS

- Demand Statistics Sierra Leone delivers timely data on Critical Success Factors – the **few** indicators that must go right if 2035 socio-economic goals to be met
- Define the CSFs. Avoid information overload
- Ensure Statistician General in attendance at all cabinet meetings – to create culture for evidence based decisions & make SSL relevant
- Statistics are the SATNAV of Nat Comp car – You define road map – they show you which road you are on!
- Implement FJP 2009 strategy for SALHOC/National Housing Crisis/national land tenure system

# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –SOLUTIONS- VALUES & EXPECTATIONS

- ACC prosecution is Cure
- ASSL/IA/NPPA systems audits are Prevention!
- Invest NATRES windfall to build capacity to:
- Implement FJP 2005 strategy for NPPA
- Procurement & HR & financial audits of IA (need to increase operational autonomy and create single management structure)
- Performance & financial audits of ASSL
- Smart investments with strong accountability which will pay for themselves multiple times in reduced malfeasance
- Should be pre-condition for infrastructure investments
- Essential to build social, cross ethnic trust in use of common resources and avoid **malign competition**

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# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –SOLUTIONS- NET INFORMATION POSITION/BOUNDED RATIONALITY

- People are the Real Wealth of a Nation – Invest in Quality Education & Health
- Set operating standards & investment reqts for healthcare providers – to encourage amalgamation, acceptable standards and FDI for hospital tourism with local service quota. Police thro Utilities regulator.
- Education was once a comparative advantage. Can be again.
- Ghana has now taken the crown and exploits competitive advantage in health and education
- Avoid illusory warmth of education numbers –Remember WASSCE 2009- 90% failure
- Copy Francophone system – Invest NATRES windfall to create world class centres of excellence in primary, secondary & tertiary education to produce next gen administrators and entrepreneurs
- Consider ethnic quotas for COE mixed with open access element
- COEs should be boarding schools to create cross ethnic trust & common civic values
- Ensure rigid merit to access COE education resources.
- Bond COE graduates or give them loans paid from earnings
- COE graduates will grow economy and help spread system wider
- Invest in Labour Market Information System (LMIS) to track improvements in GCI labour market efficiency

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# NEW HORIZONS - PRODUCTIVITY TUG OF WAR –SOLUTIONS- AGENTS OF CHANGE

- Mid level ACC policed sectoral setters/enforcers of professional standards and codes
- Action research piloted this for Accounting & Audit sector – created SLAF/CSAAG as umbrella standard setter- work in progress
- Multi-sector utilities regulator. Banish NATCOM.
- Public sector leadership essential to private sector success: Create National Planning & Coordination Ministry - Head with Prime Minister status –head of government
- Invest NATRES windfall in autonomous Statutory Thinktank along lines of Kenya KIPPRA to increase accountability in policy development and implementation.
- Strategic Principles of Competitiveness should be cross party to ensure that parties compete on their ability to implement the agreed principles and we avoid destabilising shifts in policies.

# ENDING WITH THE BEGINNING IN MIND

- What do we now know?
  - An old paradigm – Comparative advantage
  - The current paradigm – Diamond Framework for National Competitiveness
- New horizons- 4Cs- Countries & Countries do not Compete, Cultures Do.
  - Productivity Tug of War
  - Homogeneity vs Heterogeneity
  - Values, Social Expectations and Work Behaviours
  - Net Information Position/Bounded rationality
  - Economic agents of Bad Social Equilibria
    - Nash equilibria
    - Akerlof's Lemons
    - Hardin's Tragedy of the Commons
    - Williamson's Transaction Cost Economics
    - Kahneman's Behavioural economics –loss aversion/prospect theory
  - Socio-cultural competitiveness is leading indicator
  - Economic competitiveness is lagging indicator
- Implications for Transformation & Development: Mutual Coercion, Mutually Agreed through professional sector standards & codes
- Policy/tactical recommendations
- THANK YOU!