

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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## IMPACT OF COMPANY'S PERFORMANCE AND GREEN STRATEGY ON ORGANIZATIONAL CULTURE: PHENOMENON OF INDONESIA

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### ABSTRACT

*Goal to be achieved in this research is to provide theoretical and practical contribution on the importance of green strategy which could be adopted into the culture of the organization to improve the performance of the company. Specific target to be achieved is to bring the businessman to pay attention to green environmental issues with strategies that could be collaborated on organizational culture. To achieve these objectives, this study used two (2) methods: regression analysis and Moderated regression analysis. The results obtained, showed that there's a relationship between organizational culture (hierarchical culture, group culture, development culture, and rational culture) on the company's performance, and green strategy strengthen organizational culture on company's performance.*

### KEYWORDS

organizational culture, green strategy, company's performance.

### 1. INTRODUCTION

Seeing the structure of Indonesia's economic growth in 2012 is unique, unlike the typical "tiger" Countries ASIA, Indonesia has grown as a result of consumption, not exports and manufacturing (<http://www.mckinsey.com>).

Economic growth is supported by consumption sector and large foreign investment. This still indicates that the quality of economic growth is still low, as the sustained growth of the consumption, micro business, natural resources and the informal sector tend hardness especially related to external factors, it is likely to be burdensome the economic growth in Indonesia. In 2013 Indonesia is expected to add 90 million people as "consuming class" and are in third position after China and India, energy demand could triple from current levels, the stores become leader of the "revolution" in the field of retail, and the greatest business opportunities available at financial service providers (Bisnis Indonesia, November 8, 2012). This actually has already been indicated by the World economic forum 2011-2012 The Global Competitiveness Index 2010-2011 rankings and comparisons, which Indonesia dropped from 2010 in position 44 and in 2011 in position 46, or down two positions of 142 countries.

If the growth is only sustained by the terrible growth on the consumer sector and foreign investment, how is the gait with Indonesia's manufacturing sector, why the export growth is not aligned with the growth of domestic consumption? Seeing this gap, it is immediately necessary how competitiveness could be improved so that it can actually have a competitive advantage compared with other manufacturing companies and even from other countries.

Competitive advantage becomes even stronger where there is a strong culture of the organization or company too ( Soedjono 2005, Roger, et al, 2006) .

However, if it's looked from several conclusions of the study of organizational culture on company's performance, still there're different conclusions. According to Adriana Victoria Garibaldi de Hilal (2009); Muafi (2010), organizational culture does not affect the company's performance. Meanwhile Simon A. Booth and Kristia Hamer (2009); Tom Cockcroft and Iain Beattie, (2009); Ruey-Jer "Bryan" Jean (2010); Dr. Muhammad Aslam Khan and Hassan Afzal, (2011); Jarrod Haar, et al (2009), organizational culture weakly effected on company performance. Adebayo Agbejule, (2011); Tsung-Hsien Kuoa and Yen-Lin Kuo (2010); Meiek Eker and Semih Eker, (2009); Martin Omar Gomez (2012); Irene Hau Siu Chowa and Liu, (2009), organizational culture positively effected on the company's performance, and the last Michael Naor (2008); Martin Omar Gomez (2012); Man Zhang and Patriya Tansuhaj, (2007); Keith R. Molenaar (2009); Ping Zhou (2011); Debrenna Agbényiga L., (2011); Joe Solberg And Richard Ringer, (2011); Michael Naor (2008), organizational culture has a strong influence on the performance of the company. This shows still indicated there's a gap in the research. For more summarized conclusions are shown in Table 1 below.



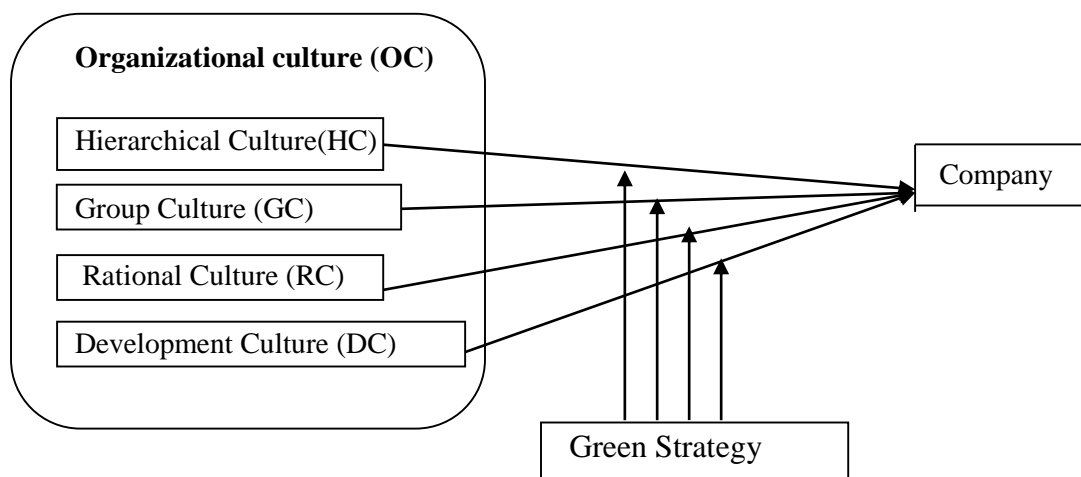
TABLE 1: ORGANIZATIONAL CULTURE ON THE COMPANY'S PERFORMANCE

Research Conclusion	Researcher
No influence	Adriana Victoria Garibaldi de Hilal (2009); Muafi (2010).
Weakly influent	Simon A. Booth and Kristia Hamer (2009); Tom Cockcroft and Iain Beattie, (2009); Tom Cockcroft and Iain Beattie, (2009); Ruey-Jer "Bryan" Jean (2010); Dr. Muhammad Aslam Khan and Hasan Afzal, (2011); Jarrod Haar, et al (2009).
Strongly influent	Michael Naor (2008); Martin Omar Gomez (2012); Man Zhang and Patriya Tansuhaj, (2007); Keith R. Molenaar (2009); Ping Zhou (2011); Debrenna L. Agbényiga, (2011); Joe Solberg And Richard Ringer, (2011).
Positively influent	Adebayo Agbejule, (2011); Tsung-Hsien Kuo and Yen-Lin Kuo (2010); Meiek Eker and Semih Eker, (2009); Martin Omar Gomez (2012); Irene Hau Siu Chowa and S.S. Liu, (2009).

Due to the phenomenon and research gaps, it is necessary to strengthen these variables, with the hope the results of research into more fitted and will be referred for further research specifically and applied to the business world in general.

Green strategy has become a fundamental aspect of organizational culture (Eccles et al, 2011). It becomes very important to improve behaviour with effort to encourage managers to prepare organizational behaviour for the company's employees, and this is very good to support the competence acceleration of employees' behaviour in adopting organizational culture (Marrelli, 2001).

FIGURE 1: RESEARCH MODEL



**2. RESEARCH ISSUES**

1. How does the influence of organizational culture characteristics on the company's performance in Indonesia?
2. How does the impact of green strategy will strengthen the organizational culture and the effect on the company's performance?

**3. RESEARCH PURPOSES**

1. To determine how organizational culture influences the characteristics of the performance in Indonesia.
2. To determine whether the impact of a green strategy will strengthen the organizational culture and affect on the company's performance.

**4. REVIEW OF THEORY**

**4.1. PREVIOUS STUDIES (ORGANIZATIONAL CULTURE AND COMPANY'S PERFORMANCE)**

Analysing the studies' conclusions of various organizational culture on the company's performance, there're still different conclusions. According to Adriana Victoria Garibaldi de Hilal (2009); Muafi (2010), organizational culture does not affect the company's performance. Meanwhile Simon A. Booth and Kristia Hamer (2009); Tom Cockcroft and Iain Beattie, (2009); Ruey-Jer "Bryan" Jean (2010); Dr. Muhammad Aslam Khan and Hassan Afzal, (2011); Jarrod Haar, et al (2009), organizational culture weakly affects on company performance. Adebayo Agbejule, (2011); Tsung-Hsien Kuo and Yen-Lin Kuo (2010); Meiek Eker and Semih Eker, (2009); Martin Omar Gomez (2012); Irene Hau Siu Chowa and S.S. Liu, (2009), organizational culture positively affects on the company's performance, and the last Michael Naor (2008); Martin Omar Gomez (2012); Man Zhang and Patriya Tansuhaj, (2007); Keith R. Molenaar (2009); Ping Zhou (2011); Debrenna Agbényiga, (2011); Joe Solberg And Richard Ringer, (2011); Michael Naor (2008), organizational culture has a strong influence on the performance of the company. These still indicated that there's a gap in the research.

**4.2. ORGANIZATIONAL CULTURE**

Since the establishment of the organization, consciously or not, the founders have laid the foundation for the organization. Organizational culture represents a common perception held by members of company. This situation clearly formed when defined as a togetherness system. Relations of Cultural with the organizational culture, is "organizational culture is a belief and values that become the main philosophy firmly held by members of the organization in carrying or operationalize activities within the organization".

Some definitions of organizational culture or the culture of the organization expressed by some experts as follows: McKenna and Beech (2000, P.18) defined that "Organizational culture is the values, beliefs, attitudes and behaviors held by members".

There are some basic elements of organizational culture, McKenna and Beech (2000, p.15) divided the elements of organizational culture as follows:

#### A. ARTIFACTS

Are things that can be seen, heard, felt, if someone associated with a new group with an unfamiliar culture. Artifacts including organizational structures and processes that are visible, such as products, services, and the behavior of group members.

#### B. VALUES ESPOUSED

It's the reasons why people make sacrifices for what is done. Culture of most organizations could track the values supported back to culture's inventor. Including the strategy, objectives and philosophy.

#### C. BASIC UNDERLYING ASSUMPTION

Which is considered as existed beliefs by members of an organization. Culture establishes the right way to do things in the organization, often times through assumptions that are not spoken, but the organization's members believe in the accuracy of such action.

#### 4.3. GREEN STRATEGY

Analysis and constructive criticism of Porter generic strategy in terms of the concept of hyper-competition, D' Aveni (1995) asserted that, in the context of technological breakthroughs must be relentless, because it is impossible to achieve sustainable competitive advantage, because the companies must constantly reinvent new sources for achieving a competitive advantage. This approach could be applied to certain products and processes using "green technology", which is always changing but it can hardly be applied to a broader global vision in responsible business behavior.

Green products have a strategic capability that is difficult for competitors to replicate, because: (1) the green product is a kind of market opportunity that is unique (2) the uniqueness of the product that is affected by products that are environmentally friendly and socially (3) the company could form a green product with environmental standards through proactive involvement with various government agencies (4) the company could patent the environmentally friendly products and production methods used to produce income for the company (5) the relationship between company's performance and the unique chain of value and environmentally friendly is causally ambiguous for competitors (6) dynamic capabilities that underlie the new development on green products that are environmentally friendly to grow over time, and thus cannot be easily copied by competitors, and (7) the reputation of the company which is responsible for the environment will evolve continuously and long-term, thus cannot be easily replicated by competitors (Michalisin, 2011).

### 5. RESEARCH METHODS

#### 5.1. RESEARCH VARIABLES AND MEASUREMENT

Measurement could help solving problems and as one of the ways to aid communication in research (Gooderham, 1997). The measurement of variables used the 7-point Likert scale, where 1 is very low and 7 is very high. The elaborations in this section are the Organizational Culture, the Green Strategy, and the Company's Performance

##### 5.1.1. ORGANIZATIONAL CULTURAL (OC)

Organizational culture in this study were divided into four (4) sections namely Hierarchy Hierarchical culture, Group Culture, Rational Culture, and Developmental culture.

##### 5.1.1.1. HIERARCHICAL CULTURE

The measurement of this variable using a 7-point scale adopted from Noar, et al, (2008) with four (4) indicators, namely (1). Any small activity should be referred to someone higher or supervisors/managers, (2). Every decision I make must have the approval of my leader, (3). There are proposals from the supervisors to complete the approval decision, (4). Our organization is very hierarchical.

##### 5.1.1.2. GROUP CULTURE

The measurement of this variable using a 7-point scale adopted from Noar, et al, (2008) with four (4) indicators, namely (1). Supervisors encourage employees who work as a team, (2). Supervisors encourage employees working for exchanging opinions and ideas, (3). Our supervisors often hold group meetings together, where employees who work really discuss things together, (4). Our company formed a team to solve problems.

##### 5.1.1.3. RATIONAL CULTURE

The measurement of this variable using a 7-point scale adopted from Noar, et al, (2008) with four (4) indicators, namely (1). The incentive system encourages employees to eagerly achieve the company's goals, (2). The incentive system of this company is reasonable to achieve the objectives of the company, (3). Our award system really recognizes employees who contribute to our company, (4). Incentive system in this company encourages us to achieve the objectives of plants

##### 5.1.1.4. DEVELOPMENTAL CULTURE

The measurement of this variable using a 7-point scale adopted from Noar, et al, (2008) with four (4) indicators, namely (1). We pursue a long-term program, in order to acquire the capability needs of our company, (2). We seek to anticipate new potential in practice and companies technology, (3). We remain a leading company in the sphere of new technologies in our industry segment, (4). We continue to think of the next generation in manufacturing technology.

##### 5.1.2. GREEN STRATEGY (GS)

This variable in the measurement using a 7-point scale adapted from Chen, et al., (2006). As the implementation of green strategy, researchers equivalent this strategy as a green product strategy, in which this strategy as moderating variables on the company's performance over the organizational culture, including four (4) indicators, namely (1). Companies select materials that generate the least pollution to perform product development or design, (2). Companies choose ingredients of products that consume the least amount of energy and resources to perform product development or design, (3). The company uses the least amount of material (reduce) for products in doing product development or design, (4). The Company carefully use if the products are easy to be recycled, reused, and easily biodegradable (decomposed) to conduct product development or design

##### 5.1.3. COMPANY'S PERFORMANCE (CP)

According to Neely, et al., (1995), the performance measurement is defined as the process of measuring the effectiveness and efficiency. This variable in the measurement using a 7-point scale adopted from Nandakumar et al, (2011) to nine (9) indicators, namely sales growth, net profit growth, changes in the market segment, Return On Assets (ROA), Return on Equity (ROE), Return On Sales (ROS), Current Ratio, success and overall company's performance and the competitive position of the company.

### 6. DATA ANALYSIS TOOLS AND TECHNIQUES

Reliability test is to look at the stability and consistency of measurements made in the research that also is often called measurement accuracy, reliability test can be measured by Cronbach's alpha coefficient. The research instrument called reliable if the test shows more than 0.7 alpha (Sekaran, 352, 2010). Item-Total Correlation of at least 0.3 is declared reliable (Nunnally, J. and Bernstein, H. (1994). Test of convergent validity indicated by the value of numbers of questions that measure the same concept will have a high correlation, i.e greater than 0, 4 (Hair, et al., 2006). Meanwhile, the construct validity using Anti Image Correlation declared invalid if the variables of each item is at > 0.5 (Peter Allen and Kellie Bennett, 204, 2010).

Testing specification models with the classical assumption test, namely multi colinierrity with VIF test, heteroscedasticity with glejser test, and autocorrelation with durbin Watson test.

Testing the model with multiple regression test:

$$CP = a + b_1HC + b_2GC + b_1RC + b_2DC + e_1 \quad (3.1)$$

And moderated regression test:

$$CP = a + b_1HC + b_2SH + b_3HC*GS + e_2 \quad (3.2)$$

$$CP = a + b_1HC + b_2SH + b_3GC*GS + e_3 \quad (3.3)$$

$$CP = a + b1HC + b2SH + b3RC*GS + e4 \quad (3.4)$$

$$CP = a + b1HC + b2SH + b3DC*GS + e5 \quad (3.5)$$

Description:

CP = Company's Performance      HC = Culture hierarchies  
 GC = Group Culture                      RC = Rational Culture  
 DC = Development Culture      a = Constanta  
 GS = Green Strategy                      b = slope                                      e = error

**7. RESULTS**

**7.1. RELIABILITY AND VALIDITY TEST OF INDICATORS VARIABLE**

On the Reliability and validity testing at the beginning of this, as in the table below indicates Initial of Factor Reliability Analysis .

**TABLE 2: INITIAL FACTOR**

Research Variable	Research Item	(Corrected Item-Total Correlation)	Internal Consistency (cronbach Alfa)
Hierarchical Culture (HC)	HC1	0,346	0,677
	HC2	0,130*	
	HC3	0,335	
	HC4	0,376	
Group Culture (GC)	GC1	0,163*	0,674
	GC2	0,306	
	GC3	0,264	
	GC4	0,191	
Rational Culture (RC)	RC1	0,270	0,554
	RC2	0,420	
	RC3	0,347	
	RC4	0,033*	
Developmental Culture (DC)	DC1	0,284	0,785
	DC2	0,434	
	DC3	0,406	
	DC4	0,323	
Company's Performance (CP)	CP1	0,470	0,834
	CP2	0,602	
	CP3	0,498	
	CP4	0,423	
	CP5	0,408	
	CP6	0,321	
	CP7	0,449	
	CP8	0,568	
	CP9	0,437	
Green Strategy (GS)	GS1	0,340	0,584
	GS2	0,383	
	GS3	0,210	
	GS4	0,019*	

There are four indicators that have to be reduced as a result of the lack Internal Consistency (Cronbach Alfa), so as to be less than 0.6 . Thus these indicators should be removed so that it'd lead to a better Cronbach alpha. It can be seen from the final factor.

In the following table is the result of the Final Factor that has met the reliability and validity rules, namely reliability analysis of Final Factor

**TABLE 3: FINAL FACTOR**

Research Variable	Research Item	(Corrected Item-Total Correlation)	Internal Consistency (cronbach Alfa)
Hierarchical Culture (HC)	HC1	0,283	0,742
	HC3	0,335	
	HC4	0,374	
Group Culture (GC)	GC2	0,244	0,661
	GC3	0,256	
	GC4	0,188	
Rational Culture (RC)	RC1	0,262	0,730
	RC2	0,405	
	RC3	0,338	
Development Culture (DC)	DC1	0,284	0,785
	DC2	0,434	
	DC3	0,406	
	DC4	0,323	
Company's Performance (CP)	CP1	0,470	0,834
	CP2	0,602	
	CP3	0,498	
	CP4	0,423	
	CP5	0,408	
	CP6	0,321	
	CP7	0,449	
	CP8	0,568	
	CP9	0,437	
Green Strategy (GS)	GS1	0,335	0,707
	GS2	0,383	
	GS3	0,209	

Results of final reliability produced, it appeared to have Corrected Item - Total Correlation which are poor despite but has Internal Consistency ( Cronbach Alfa ) 0.6 . So this study only used 25 of the initial 29 variables.

7.2. RESULT OF RELIABILITY AND VALIDITY TEST

TABLE 4: RESULT OF RELIABILITY AND VALIDITY TEST OF VARIABLE RESEARCH

No	Variable	Numbers Of Question	Numbers of Reliabel	Coefisien Alfa Cronbach
1.	Hierarchical Culture (HC)	4	3	0,742
2.	Group Culture (GC)	4	3	0,661
3.	Rational Culture(RC)	4	3	0,730
4.	Development Culture (DC)	4	4	0,785
5.	Company's Performance (CP)	9	9	0,834
6.	Green Strategy (GS)	4	3	0,707

Validity testing with internal consistency was excellent as it's above 0.7. Although there're 0.6 but researchers continued to be used, considering the importance of these indicators and 0.6 is still in the exploratory stage variable.

7.3. CLASSICAL ASSUMPTIONS TEST

This test uses three (3) types, namely multi collinearity test, In this test by using test of Variance inflationary gap (VIF) indicate that there're no symptoms of multi collinearity. This is because the VIF is in a position between 1 to 10. Test heteroscedasticity, testing with Glejser test showed that not a single indicator variable that was affected by heteroscedasticity symptoms. It could be seen from the residual value or residual which was absolved and became the independent variable, which did not generate significant value. It could be concluded that all indicators on variable of hierarchical culture had no symptoms of heteroscedasticity, and autocorrelation test. In autocorrelation testing with Durbin Watson test method generated 2.039 value. This indicated that there's no autocorrelation symptoms.

7.4. MULTIPLE REGRESSION TEST

TABLE 5: MULTIPLE REGRESSION TEST (Coefficients<sup>a</sup>)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	54.886	3.979		13.794	.000
TotBH	.035	.219	.113	2.161	.002
TotBK	.008	.238	.103	2.033	.004
TotBR	.825	.256	.290	3.223	.001
TotBP	.307	.166	.168	1.845	.046

a. Dependent Variable: TotKP

By using multiple regression test, it showed that the 4 variables showed significant results at alpha 5%. This could be seen in every variable that best significance level at variable RC (Rational Culture) of 0.01 while barely significant at the 5% CD (Development Culture) was 0.46.

7.5. MODERATED REGRESSION TEST

TABLE 6: MODERATED REGRESSION TEST (Coefficients<sup>a</sup>)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	47.349	1.923		24.616	.000
BHxSH	.003	.015	.024	2.200	.002
BKxSH	.003	.016	.022	2.158	.004
BRxSH	.057	.017	.463	3.365	.001
BPxSH	.027	.008	.346	3.544	.000

a. Dependent Variable: TotKP

Moderated regression test was also no different from the previous regression testing. The fourth moderation variables or interaction with variable green strategy (GS) showed that the overall results were significant at alpha 5%.

8. DISCUSSION

Discussion of the study will first explain the significance of each articulation of variable. However, before outlining it, will be outlined in advance about a summary of test results to facilitate the discussion. Here is a summary of the results of research of both regression and moderated regression.

TABLE 7: SUMMARY OF HYPOTHESIS TEST RESULT

Independent Variable	Multiple Regression Model		Multiple Regression Moderation Model	
	β	t	β	t
Hierarchical Culture (HC)	0,035	2,161**		
Group Culture (GC)	0,008	2,033**		
Rational Culture (RC)	0,825	3,233**		
Development Culture (DC)	0,307	1,845*		
HC*GS			0,003	2,200**
GC*GS			0,003	2,158**
RC*GS			0,057	3,365**
DC*GS			0,027	3,544**
F test	4,521		18,946	
R <sup>2</sup>	0,100		0,106	
Adj R <sup>2</sup>	0,078		0,089	

Variabel Dependent = Company's Performance (CP)

\*\* p<0,01

\* p<0,05

Based on the table above 4:12 proved that the presence of a green strategy (GS) further strengthen the organizational culture of a company. This is evidenced by the F test of 4.521 became 18.946. Similarly, the adjusted rsquared also showed the same thing ie 0.078 did rise to 0.89.

Testing with t student or t test, showed that the four variables, namely the hierarchical culture (HC), group culture (GC), rational culture (RC), and development culture (DC) was significant. HC, GC, and RC were even significant at alpha 1%.

Tests using apriori test, showed that each increase of one unit of HC will improve 0.035 of company's performance (CP). At GC variable, could be interpreted that each increase of one unit of GC would increase the CP of 0.008. At RC variable, could be interpreted that each increase of one unit of RC would increase CP of 0.825. At DC variable, could be interpreted that each increase of one unit DC will increase the CP Of 0.307.

In the moderated regression testing, pointed out that with t student or t test, showed that four variables, namely the interaction of HC and GS (green strategy), the interaction of GC and GS, interaction RC and GS, the interaction of DC and GS, overall significant at one percent.

Tests using apriori test, showed that each increase of one unit of HC\*GS will improve 0.003 of the company's performance (CP). At GC variable, each increase of one unit of GC\*GS will improve the company's performance (CP) of 0,003. RC variable, each increase of one unit of the RC\*GS will improve the company's performance (CP) of 0.057. At DC variables, each increase of one unit of DC\*SH will improve the company's performance (CP) of 0,027.

On further discussion, the researcher tried to examine further and deeper towards the performance implications on the basis of culture and the strengthening of the green strategy for organizational culture (OC). At HC could be analyzed that managerial decisions are absolutely respected and implemented, and this is due to a top-down policy of the company is in the leader. Therefore, in decision making of subordinates should also refer to the employer's decision or in other words should be on the basis of the approval of the leader. If there's a suggestion of a subordinate or other, then that will just as the completeness of the top agreement of leader, and not a change in the essence of the original leadership decisions. This hierarchy model is of course important, if the culture of decision-making by leaders designed this way so that the development culture of the product or design using culture of less pollution, selecting raw materials that are efficient in consuming raw materials and product development. Organizational culture that implements green management with the culture or management of the use of materials office tool that is easy to be recycled, reused and friendly to the environment.

In the variable of group culture (GC), the performance of organizations is strongly influenced by the supervision or oversight that encourages employees to work in a team, encourage the exchange of ideas, suggestions or opinions in a team. In addition, the need for a group discussion in solving problems together. Green management approach increasingly important in its position, in which these groups can promote a culture of communication that lead to indications support the environment. Communication in the form of discussion involving green management such as efficient use of materials, the material is biodegradable and easily recycled, becoming part of the discussion in the group on overall policy for the production process and services.

On a rational culture (RC). This variable indicates the system of incentives that encourage the quality, as the contribution from subordinate to the leadership, which will eventually reach the goal. Collaboration of green strategy (GS) should also not be underestimated. System of incentive for the leadership should also refer to this green strategy. For subordinates who use and exploit their behavior on green strategy, particularly on the application of green products and services, deserves a higher incentive. Here comes the green incentives. Green incentives become the paradigm for the use of green strategies and also implement green management for production processes and services.

In the development culture (DC), a green strategy in this position became increasingly dominant. Pursuing a long-term program to be a priority of organizational performance. The use of new technologies with the implementation of green strategy will further strengthen the practice of technology. With the green technology, it will make the leading organization in the medium and long term. Also to make future generations of employees understand and implement the green technology.

## 9. CONCLUSION

1. There is a significant relationship among hierarchical culture (HC), group culture (GC), rational culture (RC), and development culture (DC) on company's performance (CP).
2. There is a strong influence between hierarchical culture (HC), group culture (GC), rational culture (RC), development culture (DC) with green strategy (GS) on company's performance (CP).

## 10. SUGGESTIONS

1. Application model of this research is still deemed less conical. Researchers are expected to use one clear sample model on a particular industry, so that would be obtained a better-fit model.
2. Research to come, is expected to have or even implement green strategy as part of the corporate culture. So that a green strategy is no longer a separate indicator, but has been merged into a green corporate culture (green organization culture).

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## THE RELATIONSHIP BETWEEN CORPORATE ENTREPRENEURIAL ORIENTATION AND DUAL INNOVATION: THE MODERATING EFFECTS OF KNOWLEDGE RIGIDITY

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### ABSTRACT

*Corporate Entrepreneurial orientation has received substantial empirical attention due to its significant effect on ambidexterity innovation, while the mechanism of the effect has remained to be explored, examined and identified. Based on theoretical researches, the paper built up a conceptual model, using large sample questionnaire survey to empirically examine the mechanism of the relationship between corporate Entrepreneurial orientation and ambidexterity innovation, and moderating effects that knowledge rigidity poses on the relationship. This paper can, to certain extent, inspire high-tech enterprises on improving their knowledge management and innovation management.*

### KEYWORDS

corporate entrepreneurial orientation, dual innovation, knowledge rigidity, moderating effects.

### INTRODUCTION

Dual innovation is defined as improving existing technology and expanding existing products and services to meet the needs of existing customers by exploitative innovation, developing new technologies and new markets to meet future customers' needs by explorative innovation. Some studies found that exploitative innovation and explorative innovation are in a completely different way of thinking and management, however, whether dual innovation can be owned or not has become the controversial topic in academia. In practice, there are many firms succeed in implementation of dual innovation, and firms end in failure ultimately are not less. So how does corporate entrepreneurial orientation affect dual innovation? Unfortunately, we are lack of systematic empirical research currently.

Currently, not many empirical studies deal with the relation between corporate entrepreneurial orientation and dual innovation in the perspective of knowledge rigidity. In this paper, based on the integration of corporate entrepreneurial orientation theory and dual innovation theory we construct a conceptual model of the relationship between corporate entrepreneurial orientation, knowledge rigidity and dual innovation to study different dimensions of corporate entrepreneurial orientation, logical relationship between dual innovation and the role of knowledge rigidity. The paper uses mature high-tech enterprises as research objects as well, which are randomly chosen from eight different high-tech industries in Shenyang city and Dalian city of Liaoning province.

### THEORETICAL REVIEW AND HYPOTHESIS

#### CORPORATE ENTREPRENEURIAL ORIENTATION AND DUAL INNOVATION

In terms of the relationship between corporate entrepreneurial orientation and dual innovation, corporate entrepreneurial orientation as a strategic direction is an important guarantee to achieve dual innovation and it's the important driver of business innovation, and that have become the basic consensus of academia, but there are still some differences of the mechanism of the relationship between them (Kollmann & Stockmann, 2010). Corporate entrepreneurial orientation and its component dimensions have significant but different directions influence on explorative innovation and exploitative innovation (Dess & Lumpkin, 2005); in empirical research, that the influence of different dimensions of corporate entrepreneurial orientation have the same direction, but a different significant degree (Kollmann & Stockmann, 2010). Thus, it can be inferred that different dimensions of corporate entrepreneurial orientation may have different effects on dual innovation.

Enterprise with innovation not only reside in the use of existing strengths, but will actively engage in new opportunities and promote the arising of business innovation (Menguc & Auh, 2006); not only can it promote continuous development of new technologies, new products and explorative innovation, but also help enterprises to update existing products, expand existing markets and carry out exploitative innovation (Garud & Nayyar, 1994; Cho & Pucik, 2005; Kollmann & Stockmann, 2010). Thus we proposed the following hypotheses:

H1a : The innovativeness of corporate entrepreneurial orientation is significantly and positively correlated with explorative innovation.

H1b : The innovativeness of corporate entrepreneurial orientation and exploitative innovation have high positive correlation.

Taking pro-activeness strategy is an inevitable choice, through it firms can learn new rules of the game quickly, use the latest technology, develop new technologies continuously, actively participate in the global market competition, and constantly improve the management experience, management skills and financial resources to adapt to the new situation of enterprises and new institutional environment ( Peng & Health, 1996 ; Tan & Tan, 2005) . There also some people believe that pro-activeness can help firms introduce new technologies, improve products in future competition, and seize new opportunities, which have complicated relation with existing product lines, its essence is survey future trends in consumer demand while avoiding recession strategically( Lumpkin & Dess, 1996); strong willingness to move ahead will encourage enterprises to "seek related or unrelated opportunity of existing business to introduce new products ahead of the competitors( Zahra & Covin, 1995). " Then we put forward the hypothesis :

H2a : The pro-activeness of corporate entrepreneurial orientation and explorative innovation have high positive correlation.

H2b : The pro-activeness of corporate entrepreneurial orientation and exploitative innovation have high positive correlation.

Relatively speaking, the firm with lower risk-taking ability keep the view that high speed decision will hinder the analysis of existing products and technologies about their advantages and disadvantages, and blind action may also lead to reduced reliability of existing products (Cardinal, 2001), therefore explorative innovation and exploitative innovation will be postponed, responding to the changing environment conservatively (Hughes & Morgan, 2007). Visibly, risk-taking not only ensures the availability of resource in explorative innovation, but also reduces the previous path-dependence in the process of innovation, thus it has different effects on the two innovations. Then we put forward the following hypotheses:

H3a : The risk-taking of corporate entrepreneurial orientation and explorative innovation have high positive correlation.

H3b : The risk-taking of corporate entrepreneurial orientation and exploitative innovation have high positive correlation.

**THE MODERATING EFFECTS OF KNOWLEDGE RIGIDITY**

A high level of solutions to problems arising from the organization's past experience and its expansion of knowledge generates in the process of adaptation of the new situation( Sternberg, 1985); if this solution is proved to be effective, it may be rigid rules or practice during repeated execution, and the extent of its rigidity gradually increased with the continuous application of this specific knowledge. When it comes to the relation between outcome variables such as corporate entrepreneurial orientation and innovation performance, we should take the role of organization and environmental factors into consideration (Lumpkin & Dess, 1996), the structure , the processes and the rigid degree of the enterprise knowledge management should be an important consideration in the contextual study (Liao, 2002). Enterprise knowledge management structures and procedures are regarded as a key factor affecting the direction and degree of innovation in an uncertain environment because of its relating to the choice of new knowledge (Grant, 1996). In all kinds knowledge rigidity dimensions, the two dimensions proposed by Liao et al (2008) has been recognized by many scholars, and they have reliable measurement , the measurement of this paper pay more attention to the two dimensions of learning rigidity and empirical rigidity proposed by them.

The innovativeness, pro-activeness and risk-taking of corporate entrepreneurial orientation will generate a lot of new knowledge(including explorative and exploitative knowledge) which may be rejected in the rigid knowledge management process, and organizational learning rigidity especially with such characteristics (Liao et al., 2008 ; Sharifirad 2010) . Thus, even the corporate entrepreneurial orientation will lead to enterprise knowledge structure changes and promote innovation, learning rigidity has rigid characteristics that may reject any changes, high learning rigidity may inhibit the changes corporate entrepreneurial orientation brought. Then we suggest the following hypotheses :

H4a : The learning rigidity has negative regulation for the relation between corporate entrepreneurial orientation and explorative innovation.

H4b : The learning rigidity has negative regulation for the relation between corporate entrepreneurial orientation and exploitative innovation.

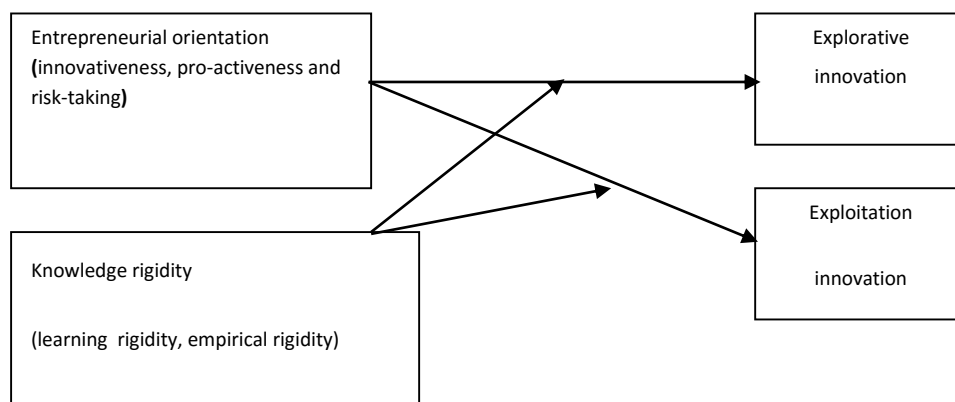
Bierly et al (2007) found that the degree of technical association and the application of explorative knowledge are negative correlation. In contrast, the new exploitative knowledge is acceptable for existing knowledge management experience (March, 1991); that the effect of incremental innovation is based on past learning effect, and previous methods or products enable enterprises to quit risky choice( Levinthal & March, 1993, Dess & Lumpkin, 2005). Therefore, in the enterprise which has a high degree of empirical rigidity, corporate entrepreneurial orientation may cause companies to tend to choose the existing knowledge, and strengthen the exploitative research and innovation, reduce the impact of corporate entrepreneurial orientation on explorative innovation as well. The hypotheses are as follows:

H5a : The empirical rigidity has negative regulation for the relation between corporate entrepreneurial orientation and explorative innovation

H5b : The empirical rigidity has positive regulation for the relation between corporate entrepreneurial orientation and exploitative innovation

Based on what are suggested above, this paper constructs the conceptual model: the moderating effect of knowledge rigidity in the relationship between corporate entrepreneurial orientation and dual innovation. As shown in figure 1.

FIGURE1



**METHODOLOGY**

**THE STUDY SAMPLE AND DATE COLLECTION**

There are two main reasons that the paper uses mature high-tech enterprises as research objects: first, the corporate entrepreneurial orientation and knowledge rigidity usually occurred after the enterprise being mature. Second, the high-tech enterprises have strong market competition, high innovation requires and concentration of innovations. Based on the existing research literatures, the chosen enterprises have operated for over five years since foundation. The paper uses mature high-tech enterprises as research objects, which are randomly chosen from eight different high-tech industries in Shenyang city and Dalian city of Liaoning province, using a large sample survey to collect the necessary data. This study was supported by the Shenyang and Dalian Science and Technology Sector (Technology Bureau), and this study provides basic data of high-tech enterprises in the two regions and assists accomplishing research activities. The team randomly selected high-tech enterprises which have operated for over five years since foundation, including service industry, electronics and information,



bioengineering and pharmaceuticals industry, software development, optomechatronics and three other industries, each type of the industries has 300 enterprises included.

After getting contact with people with the assistance of Technology Bureau, our team members hand out questionnaires by e-mail or coming to their house which are based on their personal time, we'll choose e-mail when their time does not permit or they offered to take e-mail, otherwise, we'll come to their house to send questionnaires, each of the methods take 50 percent of the total questionnaires in final. Middle management staffs these are familiar with knowledge management and technological innovation filled the questionnaires and we select one management staff each enterprise, the resulting questionnaires were sent directly back to the specified mailbox or directly sent to the team members. In the period between June and August of 2014, a total of 520 questionnaires were handed out, 289 (response rate at 55.58%) were collected in which 214 were valid, with effective response rate at 41.15%. To avoid recovery error, this study dose T-test to recycling companies and enterprises unrecovered in enterprise scale and age, the results show that the basic characteristics of two types of enterprises are no significant difference in the level of 0.01, indicating that the unrecovered errors can't threaten our study.

There may be a common method bias in the survey process. To avoid such problems, first , we should put similar contents into different positions in the design of the questionnaire to reduce common method bias by appropriate order of contents; then, Harman single factor test were adopted, we put all the items together to do not rotating exploratory factor analysis and extracted seven factors which explained 62.856% of the total variance together, where the total variance explanation of the first factor was 23.714%, lowering than 30% of determination requirements of the rate of total variance explanation (Podsakoff et al., 2003). So there is no serious common method bias.

**VARIABLE AND MEASUREMENT**

About the measurement of corporate entrepreneurial orientation, Miller (1983) transferred the research focus from individual entrepreneurial behavior into the level of entrepreneurial behavior of enterprises, and developed 3 dimensions scale which is the initial measurement of the company's entrepreneurial orientation. Lumpkin & Dess (1996) developed 5-dimensional construct and increased 2 dimensions, autonomy and competitive aggressiveness, based on Miller's two-dimensional construct.. Unlike Miller's (1983) scale, Covin & Slevin (1986) divided the conception of entrepreneurial strategic posture into three dimensions (including innovativeness, risk-taking and pro-activeness), and developed a new measurement scale, the scale is improved twice by them in 1989 and 1991. Currently, the 9-item and 3-dimension scale suggested by Covin & Slevin (1991) is so mature that it's often used to measure corporate entrepreneurial orientation in domestic, this paper use this scale as well. Dual innovation is a combined conception including explorative innovation and exploitative innovation. In terms of the measurement of dual innovation, this paper refers the study of Jansen et al.(2006) and He & Wong (2004), using 7-item to measure explorative innovation and exploitative innovation.

To measure knowledge rigidity, Liao et al. (2008) developed a two-dimensional scale of learning rigidity and empirical rigidity, using seven items represent learning rigidity and empirical rigidity respectively, the empirical study of Sharifirad (2010) and Fang et al. (2012) had adopted the scale. However, in the development of the scale there does not clearly definition of applicable level, resulting in a situation that the organizational level and the individual level all use the scale to conduct empirical studies, our team consulted 7 experts in this field and pre-tested 27 EMBA students, based on which we modified part terms of the questions and formed the formal questionnaire, making it more suitable to the organizational level.

We asked enterprise executives to indicate how thoroughly their firm show the described states of items and tasks using a five-point Likert-type scale varying from 1=strongly disagree to 5=strongly agree. This article also selected variables such as firm age, size, type of ownership and industry as its control variables to control the possible impact on dual innovation.

**RELIABILITY AND VALIDITY TESTING**

The exploratory factor analysis for corporate entrepreneurial orientation scale showed that a representative sample of adequate levels of KMO test value of 0.779, greater than 0.7, surpassing the sample restrictions of the factor analysis; Bartlett test value that representing a relative degree of association between the items is 641.666 (P <0.001) indicating that items are correlated and it's suitable for extracting common factors. Using principal component analysis three common factors were raised, we named them of innovativeness, pro-activeness and risk-taking based on past theory and they explained variances of 23.133%, 22.052%, 20.567% separately, accounting for 65.752% of the cumulative interpretation of the scale variance. Cronbach's alpha values of the three extracted factors were 0.674%, 0.775% and 0.746%, indicating the scale has high reliability. The exploratory factor analysis for explorative innovation and exploitative innovation scale showed that the KMO test value of 0.908, exceeding the sample restrictions of the factor analysis; Bartlett test value is 1395.446 (P <0.001) indicating that it's better to extract common factors. Using principal component analysis two common factors were raised, we called them explorative innovation and exploitative innovation based on past theory and they explained variances of 28.964%, 27.314% separately, accounting for 56.279% of the cumulative interpretation of the scale variance. Cronbach's alpha values of the two factors were 0.867% and 0.866%, the scale has high reliability. The exploratory factor analysis for the revised scale of knowledge rigidity illustrated that the KMO test value of 0.890 which beyond the sample restrictions of the factor analysis; suggesting sample is full; Bartlett test value is 1630.440 (P <0.001) indicating mutual association between items and it's better to extract common factors. Taking principal component analysis two common factors were raised, we called them learning rigidity and empirical rigidity according to past theory and they explained variances of 35.534%, 24.037% respectively, accounting for 59.571% of the cumulative interpretation of the scale variance. Cronbach's alpha values of the two factors were 0.929% and 0.819%, the scale has high reliability.

**EMPIRICAL ANALYSIS AND RESULTS**

The study applied SPSS21.0 to undertake reliability analysis, validity analysis, descriptive analysis, correlation analysis and hierarchical regression analysis of statistics collected from large sample questionnaire survey, analyzing the interaction relationship between variables systematically, thus test the hypothesis.

**DESCRIPTIVE STATISTICS AND CORRELATION ANALYSIS**

Table 1 summarizes the mean value, standard deviation and Pearson correlation coefficient of each variable. In the table, three dimensions of corporate entrepreneurial orientation were significantly positive correlated with the two dimensions of dual innovation. There was a significant positive correlation between learning rigidity and exploitative innovation, and the relation between learning rigidity and explorative innovation were positive but not significant; learning rigidity and 3 dimensions corporate entrepreneurial orientation had no significant correlation. Empirical rigidity had a significant negative correlation with explorative innovation and exploitative innovation; there was a negative correlation between the three dimensions of empirical rigidity and corporate entrepreneurial orientation as well, but just had a significant relationship with risk-taking. There was no significant correlation among the age, scale, types of corporations and dual innovation; however, the relation between the type of enterprise ownership and explorative innovation reached a significant level, indicating it's closely related to explorative innovation.

**TABLE 1: DESCRIPTIVE STATISTICS AND CORRELATION ANALYSIS**

Variable	Mean value	Standar-d deviate-on	1	2	3	4	5	6	7	8	9	10
Firm age	3.27	0.962	1									
Firm scale	2.93	1.170	-0.020	1								
Type of ownership	2.24	0.867	-0.092	0.024	1							
industry	1.60	0.674	0.184**	0.011	0.049	1						
innovativeness risk-taking	3.73	0.822	-0.034	0.047	-0.089	0.135*	1					
pro-activeness	3.52	0.919	-0.053	0.063	-0.069	0.135*	0.378**	1				
risk-taking	3.450	0.904	-0.032	0.033	-0.094	0.059	0.331**	0.572**	1			
Explorative innovation	3.87	0.776	-0.062	-0.030	-0.151*	0.040	0.332**	0.494**	0.537**	1		
Exploitative innovation	3.93	0.732	-0.109	0.022	-0.073	0.072	0.731**	0.337**	0.380**	0.557**	1	
Learning rigidity	2.94	1.075	0.036	-0.062	-0.070	-0.085	-0.026	0.013	0.103	0.108	0.181*	1
Empirical rigidity	3.40	0.716	-0.048	0.034	-0.068	-0.014	-0.064	-0.011	-0.132*	-0.171**	-0.264**	-0.137*

Remarks: \*\* significant correlation (bilateral) at the 0.01 level; \* significant correlation at the 0.05 level (bilateral)

**HIERARCHICAL REGRESSION ANALYSIS**

In this paper, we use hierarchical regression analysis to test the proposed hypotheses. In order to test the proposed theoretical assumptions, this paper using the hierarchical regression model of product terms which gradually adds control variable, independent variable, and the manipulated variable when performing date analysis. To avoid the multicollinearity problem caused after adding product terms, centralized processing is conducted to continuous variable and regulated variable, and then we calculate the interaction terms, substituting into the regression equation to analysis (Friedrich, 1982). Regression analysis results are shown in Table 2. Model 1 and model 5 are control variables to explorative innovation and exploitative innovation regression models, models 2 and model 6 are the main effects regression model of control variables and independent variables (innovativeness, pro-activeness and risk-taking) to explorative innovation and exploitative innovation, model 3, model 4, model 7 and model 8 are full-effects regression model added with interaction.

**TABLE 2: HIERARCHICAL REGRESSION RESULT**

	The dependent variable: explorative innovation				The dependent variable: exploitative innovation			
	M1	M2	M3	M4	M5	M6	M7	M8
Firm age	-0.072	-0.040	-0.024	-0.042	-0.136*	-0.081	-0.079	-0.093*
Firm scale	0.021	0.000	0.006	-0.001	0.021	-0.015	-0.003	-0.016
Type of ownership	-0.146	-0.093	-0.091	-0.104	-0.091	-0.005	0.003	-0.020
industry	0.074	-0.017	-0.011	-0.017	0.101	-0.012	0.004	-0.002
innovativeness		0.116*	0.198	-0.039		0.683***	0.682***	0.164
pro-activeness		0.243***	0.670**	0.289		-0.016	0.174	-0.073
Risk-taking		0.351***	0.370	0.097		0.161**	0.190	0.133
Learning rigidity			0.850**				0.517*	
Empirical rigidity				-0.436				-0.758**
Learning rigidity* innovativeness			-0.141				0.024	
Learning rigidity * pro-activeness			-0.732*				-0.319	
Learning rigidity * Risk-taking			-0.108				-0.124	
Empirical rigidity * innovativeness				0.207				0.690*
Empirical rigidity * pro-activeness				-0.044				0.095
Empirical rigidity *risk-taking				0.283				-0.002
F	1.921	17.750***	13.122***	12.066***	1.669	40.174***	29.813***	31.436***
R <sup>2</sup>	0.034	0.363	0.403	0.383	0.029	0.563	0.605	0.618
Regulated R <sup>2</sup>	0.016	0.343	0.372	0.351	0.012	0.549	0.585	0.598

Remarks: \*\*\* significantly related to the 0.001 level (bilateral); \*\* significant correlation at 0.01 level (bilateral); \* significant correlation at the 0.05 level (bilateral) The F value is 17.750 in model 2 of table 2, significant level is less than 0.001, indicating that the overall effect of the regression model is significant; the innovativeness ( $\beta=0.116$ ;  $p < 0.05$ ), pro-activeness ( $\beta=0.243$ ;  $p < 0.001$ ) and risk-taking ( $\beta=0.351$ ;  $p < 0.001$ ) of corporate entrepreneurial orientation are all significantly and positively correlated with explorative innovation and these results support H1a, H2a, H3a. In model 6, F value is 40.174, the significant level is less than 0.001 indicating that the overall effect of the regression model is significant; the innovativeness ( $\beta=0.683$ ;  $P < 0.001$ ) of corporate entrepreneurial orientation and exploitative innovation have high positive correlation which support H1b; the pro-activeness ( $\beta=-0.016$ ;  $P > 0.05$ ) of corporate entrepreneurial orientation and exploitative innovation have negative correlation indicating H2b is invalid; the risk-taking ( $\beta=0.161$ ;  $p < 0.01$ ) of corporate entrepreneurial orientation and exploitative innovation have high positive correlation, inconsistent with H3b.

Model 3 and Model 4 in Table 2 tested the role of two dimensions of knowledge rigidity in the relations of "corporate entrepreneurial orientation—explorative innovation". The results of model 3 show that the learning rigidity has negative regulation for the relation between 3 dimensions of corporate entrepreneurial orientation and explorative innovation, but just in pro-activeness dimension it's significant, so H4a is supported. The results of model 4 indicate that empirical rigidity has positive regulation for the relation between innovativeness and risk-taking dimensions and explorative innovation, inconsistent with H5a; empirical rigidity has negative regulation for the relation between pro-activeness dimension and explorative innovation conforming to hypothesis. H5a is partial supported. Model 7 and Model 8 in Table 2 tested the regulation of two dimensions of knowledge rigidity in the relations of "corporate entrepreneurial orientation—exploitative innovation". The results of model 7 show that the learning rigidity has negative regulation for the relation between pro-activeness and exploitative innovation, this is consistent with H4b; but it has positive regulation for the relation between innovativeness and exploitative innovation which is inconsistent with H4b, thus H4b is partial valid. The results of model 8 show that the empirical rigidity has significant and positive regulation for the relation between innovativeness dimension and exploitative innovation, it also has a positive regulation for pro-activeness and exploitative innovation, conforming to H5b; but the relationship between risk-taking and exploitative innovation are negative regulation, inconsistent with the hypothesis, so H5b is partial supported.

Through the contrast among model 2, model 3, and model 4 of table 2 variance explanation significantly increased from 36.3% to 40.3% after introducing the interaction items of learning rigidity and corporate entrepreneurial orientation; the variance explanation of model 4 also significantly increased from 36.3% to 38.3% after introducing the interaction items of empirical rigidity and corporate entrepreneurial orientation. Similarly, we can find that variance explanation significantly increased from 56.3% to 60.5% until introducing the interaction items of learning rigidity and corporate entrepreneurial orientation by comparison among model 6, model 7, model 8 in table 2; after the introduction of interaction term of empirical rigidity and corporate entrepreneurial orientation variance explanation of model 8 significantly increased from 56.3% to 61.8% as well. To further displaying the role of knowledge rigidity on the relationship between entrepreneurial orientation and dual innovation, in this paper, we take the regulation of learning rigidity for the relation between pro-activeness and explorative innovation, the regulation of empirical rigidity for the relation between innovativeness and exploitative innovation as examples, using simple regression analysis to analyze the relationship between variables and represented them by coordinate, as shown in figure 2 and figure3. The specific approach is to divide them into two groups firstly and then the two groups are conducted regression analysis respectively, the group are divided based on the sample dates and the mean value of learning rigidity (empirical rigidity). Figure 2 shows learning rigidity has a negative regulation for the relation between pro-activeness and explorative innovation, in the high value group of learning rigidity the value of  $\beta$  of pro-activeness is 0.320( $P < 0.01$ ); while in the low value group of learning rigidity the value of  $\beta$  of pro-activeness is 0.560; indicating that correlation of pro-activeness and explorative innovation is weaker in high learning rigidity than less learning rigidity. Figure 3 shows empirical rigidity has a regulation for the relation between innovativeness and exploitative innovation, in the high value group of empirical rigidity the value of  $\beta$  of innovativeness is 0.791( $P < 0.01$ ); in the low value group the value of  $\beta$  of innovativeness is 0.540( $P < 0.01$ ); indicating that correlation of innovativeness and exploitative innovation is stronger in high empirical rigidity than less empirical rigidity.

FIGURE 2: THE REGULATION OF LEARNING RIGIDITY FOR THE RELATION BETWEEN PRO-ACTIVENESS AND EXPLORATIVE INNOVATION

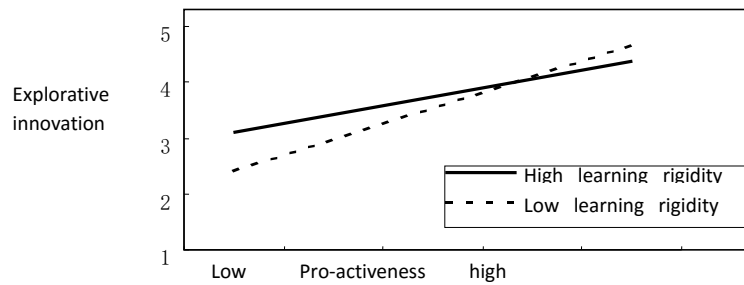
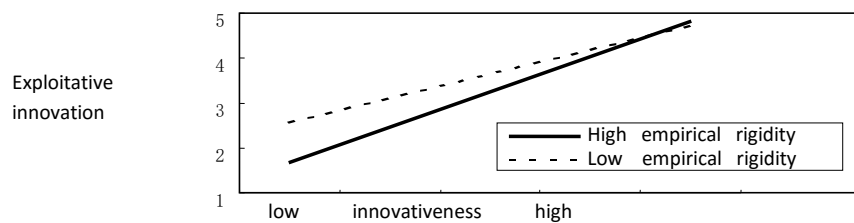


FIGURE 3: THE REGULATION OF EMPIRICAL RIGIDITY FOR THE RELATION BETWEEN INNOVATIVENESS AND EXPLOITATIVE INNOVATION



## CONCLUSIONS AND IMPLICATIONS

### RESEARCH CONCLUSIONS

This paper discusses the relation between corporate entrepreneurial orientation and dual innovation, and the moderating effects of knowledge rigidity. Studies have shown that corporate entrepreneurial orientation has different effects on explorative innovation and exploitative innovation, knowledge rigidity has regulation for the relation of them. To strengthen corporate entrepreneurial orientation's significant effect on dual innovation, enterprises should pay full attention to the promotion and hinder of knowledge rigidity.

First, significant positive correlation was found between three dimensions of corporate entrepreneurial orientation (innovativeness, pro-activeness and risk-taking) and explorative innovation. However, correlation between the three dimensions and exploitative innovation is more complex. The reason why three dimensions of corporate entrepreneurial orientation have significant positive correlations with explorative innovation is probably because it's easier to form a strong culture of innovation and entrepreneurial atmosphere in the corporation with entrepreneurial orientation, this kind of corporation often encourages staffs to propose new ideas and supports them to explore new technique and new markets, and make them tolerate the uncertainty of new products and new market expansion to a greater degree. The innovativeness and risk-taking of corporate entrepreneurial orientation and exploitative innovation have high positive correlation, however, pro-activeness is negative correlation with exploitative innovation but not significant. This may because the exploitative innovation emphasizes expansion, improvement and enhancement according to existing knowledge, skills, processes and structure to maintain a competitive position in existing markets, and the tendency of innovativeness inspires the enthusiasm of exploitation innovation. In some extent, risk-taking can also promote exploitative innovation, perhaps because a certain degree of high risk activities can be allowed under the premise of path dependence. However, this paper concluded that pro-activeness and exploitative development have no significant negative correlation, contrary to Cardinal's (2001) conclusion, the reason perhaps is that the tendency of rapid decision-making of pro-activeness is incompatible with robustness property of exploitative innovation which is based on the path dependence. Second, although effects of the three dimensions on dual innovation vary, there is no obvious conflict overall. In other words, it is considered that explorative innovation and exploitative innovation have the same direction. Conclusions of this paper is conflict with previous studies that dual innovation is driven by different factors, therefore there is "ambidexterity paradox" (March, 1991,2006), conclusions in this paper found that corporate entrepreneurial orientation makes dual innovation has common contributing factors, which conforms to the conclusion of Kollmann and Stockmann (2010), therefore, the conclusion of the paper provides empirical evidence on the "complementarity" of dual innovation in China.

Finally, research in this paper of regulations of knowledge rigidity for corporate entrepreneurial orientation and dual innovation expanding existing theories. Knowledge rigidity was found to negatively regulate corporate entrepreneurial orientation and explorative and exploitative innovation, which conformed to hypothesis of the research. This might due to the fact that knowledge rigidity emphasizes stability of routine process and constancy of source of knowledge, such rigidity is adverse to any kind of reform, and results in a negative regulative effect, which conforms to the conclusion that knowledge inertia will hinder organizational innovation of Huff & Huff (2000). In contrast, empirical rigidity has a positive regulative effect on corporate entrepreneurial orientation and explorative and exploitative innovation, which could result from the fact that as empirical rigidity is based on path dependence, it is prone to improvement and perfection of current path. This conclusion changes a common view of extant documents that (knowledge) rigidity is adverse to innovation in dynamic environment.

### MANAGEMENT IMPLICATIONS

Above all, enterprises should work as a positive role of corporate entrepreneurial orientation when promoting dual innovation management. Gaining a competitive advantage need to achieve dual innovation under the dynamic environment but dual innovation not easy acquired has been a problem troubled corporations in a long time. Many studies found that the dual innovation paradox is mainly because explorative innovation and exploitative innovation has heterogeneous antecedents (especially in the organization). Conclusions of this study show that corporate entrepreneurial orientation is an important antecedent to simultaneously promote explorative innovation and exploitative innovation. Enterprises can promote dual innovation through the implementation of corporate entrepreneurial orientation for obtaining sustainable competitive advantage in dynamic environment.

Then, enterprises should attach great importance to the promotion and repression of knowledge rigidity in innovative practices based on corporate entrepreneurial orientation. In the background that knowledge management has become the next "fashion", most companies are able to recognize the importance of knowledge for innovation, but they lack of understanding of learning rigidity and its impact on the mechanism of knowledge innovation awareness. For enterprises that urge for exploitative innovation, empirical rigidity should play an important role so as to invoke the positive effect of corporate Entrepreneurial orientation; but for enterprises which urge for explorative innovation, it is crucial to reduce or even avoid the influence of empirical rigidity.

In an unstable and ever-changing environment, enterprise's need for explorative innovation has been elevating, hence, highlighting the importance of overcoming empirical rigidity and breaking route dependence. Enterprises can encourage employees to adopt new ideas to solve problems to overcome empirical rigidity. At the same time, no matter what kind of innovation corporate conducts, enterprises should strive to overcome or avoid empirical rigidity.

## STUDY LIMITATIONS

Limitation of this paper is mainly reflected in dates. Data samples come from Shenyang and Dalian, Liaoning Province, which may affect the universality of conclusions, the follow-up studies should broaden the research area and according to this we could conduct comparative study of sub-regions, in order to test and improve the conclusions. At the same time, innovation has a significant time lag, studies also have found that the long-term impact of corporate entrepreneurial orientation is greater than the short-term impact (Zahra & Covin, 1995), the follow-up studies could consider dynamic tracking research method to carry out a longitudinal time series studies, which would make conclusions more convincing.

Studies on knowledge rigidity in this article are still worth exploring. Although founding knowledge rigidity has a positive or negative regulation for the relation between corporate entrepreneurial orientation and dual innovation, this paper did not make deep research in how to control or reduce knowledge rigidity. And the paper only discusses the relation between the interaction of corporate entrepreneurial orientation and knowledge rigidity and dual innovation, but for the problem on how to promote the relation of explorative innovation and exploitative innovation there is a lack of in-depth discussion, which also provides the right topics for further study. In addition, there may be other disturbance variables between corporate entrepreneurial orientation and dual innovation, such as the dynamic environment and so on, we recommend that future research could investigate other disturbance variables, in order to understand if there are any other factors that might affect the corporate entrepreneurial orientation and dual innovation.

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**FINANCIAL PERFORMANCE OF REAL ESTATE COMPANIES IN ANDHRA PRADESH**

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**ABSTRACT**

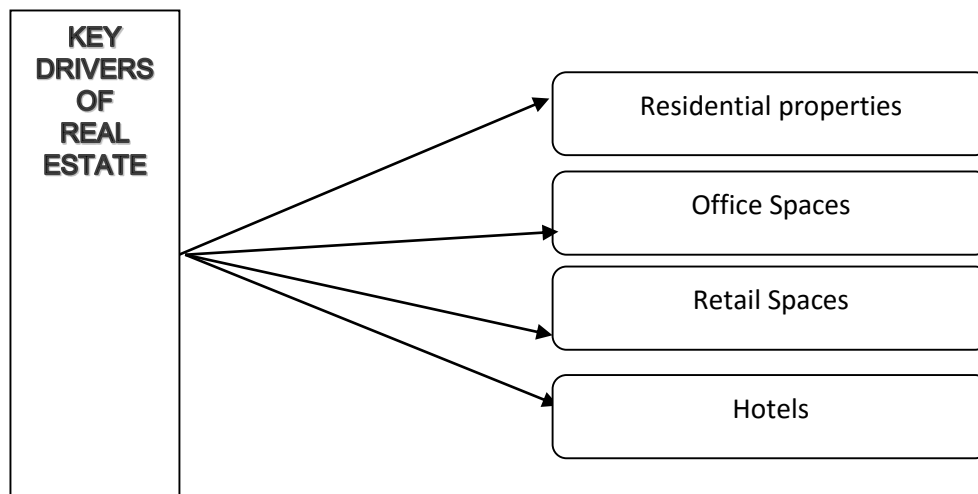
*Real estate business is one of the core businesses in fast developing states, but it is too challenging business as well. Scarcity of land has resulted in accelerating prices of land with every passing day. As a result of this changed economic environment, real estate business is becoming a very attractive business proposition. Andhra Pradesh is one of the fast growing states in India. The increased importance of Tier 2 cities like Hyderabad, Vijayawada in the overall economic scene of the country has made real estate business even more attractive. The increasing number of industrial units setting their bases in this state has resulted in increased demand for land – both industrial and housing. In this paper the focus is to analyze the performance of real estate business for the period of 2004-05 to 2013-14. The present study has made to analyze the Liquidity, solvency and Profitability performance of real estate companies in Andhra Pradesh.*

**KEYWORDS**

real estate, liquidity, profitability and solvency performance.

**INTRODUCTION**

**R**eal estate is an imperishable asset, ever increasing in value. It is the only indestructible and most solid security that human ingenuity has ever devised. The term real estate refers to land as well as building. The word 'land' includes the air above and the ground below and any buildings structures on it. The oldest use of the term real estate that has been preserved in historical records was in 1666. This is use of 'real' also reflects the ancient and feudal preference for land, and the ownership there of. Some people have claimed that the word real in this sense descended from the Latin word 'king'. In the feudal system, the king was the owner of all land, and every one to occupied land paid him rent directly or indirectly, in cash or goods or services.

**REAL ESTATE DEMAND DRIVERS****OBJECTIVES OF THE STUDY**

- To analyze the liquidity position of the select real estate companies.
- To analyze the solvency position of the select real estate companies.
- To analyze the profitability position of the select real estate companies.

**METHODOLOGY**

An attempt has been made in this study to analyze the financial performance of real estate companies. The financial performance has been analyzed 5 real estate companies IvrcI,Ncc,RamkyInfra, MadhuconProjects and Manjeera Constructions. Various statistical techniques such as mean, standard deviation, coefficient of variation have been applied to analyze this study. The study covers a period of 10 years,i.e.,2004-05 to 2013-14.

**RESULTS AND DISCUSSION**

**1. LIQUIDITY ANALYSIS**

**TABLE-1: CURRENT RATIO**

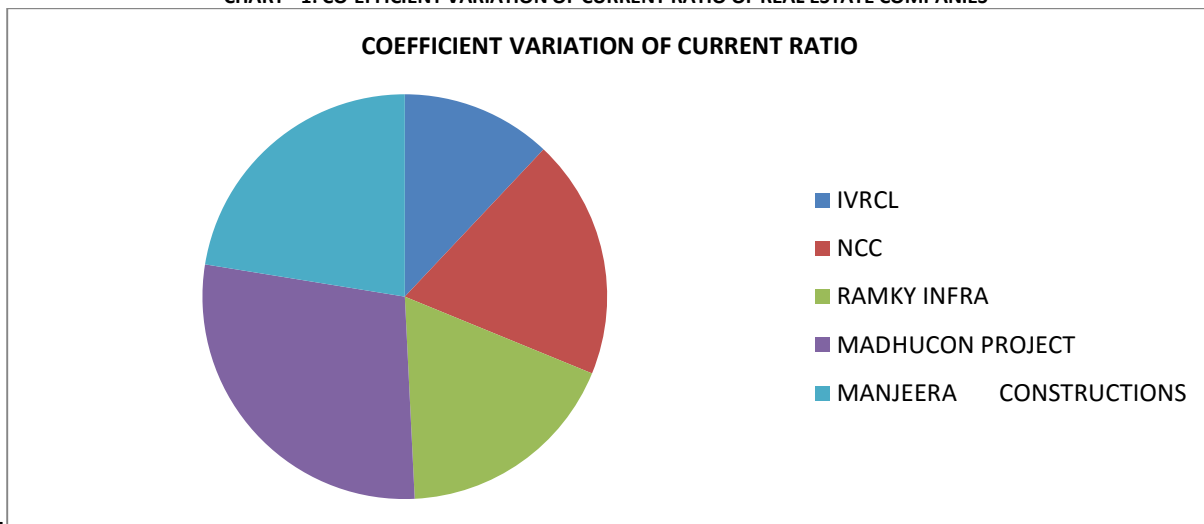
YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	1.30	2.29	1.23	1.29	0.45
2005-06	1.00	1.35	1.22	2.73	0.47
2006-07	1.30	1.02	1.77	1.62	0.49
2007-08	1.17	1.03	1.90	1.25	1.26
2008-09	1.11	1.13	1.79	1.37	1.26
2009-10	1.02	1.02	0.96	1.31	1.48
2010-11	1.01	0.98	1.03	0.71	1.67
2011-12	0.80	0.88	0.90	0.67	1.14
2012-13	0.77	0.85	0.89	0.57	0.89
2013-14	0.59	1.00	0.73	0.60	0.98
Mean	1.00	1.15	1.24	1.21	1.01
S.D	0.21	0.40	0.40	0.62	0.41
C.V	21.75	34.65	32.60	51.23	40.59

Source: Compiled Annual reports from 2004-05 to 2013-14

**INTERPRETATION**

The standard current ratio is 2:1, A high current ratio is an indication that the firm is liquid and has the ability to pay its obligations in time. A high ratio in the above table is 2.73 and 2.29 of Madhucon projects and Ncc in the years of 2005-06 and 2004-05. A low current ratio represents that the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties. A low current ratio was registered in IvrcI,Ncc,RamkyInfra,Madhucon Projects and Manjeera Constructions in the years of 2011-12 to 2013-14 better to improve the current ratio. A low current ratio may be the following reasons (i) there may not be sufficient funds to pay off liabilities.(ii) the business may be trading beyond its capacity.

**CHART - 1: CO-EFFICIENT VARIATION OF CURRENT RATIO OF REAL ESTATE COMPANIES**



**TABLE - 2: LIQUIDITY (QUICK) RATIO**

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	2.29	2.65	0.85	1.04	2.45
2005-06	1.80	2.05	0.99	2.51	2.98
2006-07	1.33	1.46	1.59	1.42	0.20
2007-08	1.72	1.57	1.70	1.05	0.32
2008-09	2.13	1.78	1.52	1.27	0.36
2009-10	1.76	2.01	1.11	1.18	0.53
2010-11	2.25	1.34	0.76	1.08	0.69
2011-12	1.95	1.31	0.89	0.91	1.15
2012-13	2.89	1.32	1.02	0.77	1.54
2013-14	2.33	1.36	2.14	0.83	1.39
Mean	2.04	1.68	1.26	1.21	1.16
S.D	0.41	0.41	0.43	0.47	0.88
C.V	20.0	24.76	34.23	39.22	76.48

Source: Compiled Annual reports from 2004-05 to 2013-14

**INTERPRETATION**

The standard norm of quick ratio is 1:1; from the above table it is clear that the high quick ratio was registered form the year 2004-05 to 2013-14. But quick ratio of Ramky infra was registered high in the year 2013-14 i.e.,2.14 and low ratio in the year 2004-05 i.e., 0.85. Madhucon projects was registered high quick ratio in the year 2005-06 i.e., 2.51 and quick ratio was low in the years of 2011-12 to 2013-14. The quick ratio of Manjeera construction was satisfactory in the years 2004-05 and 2005-06 and the quick ratio was registered low in the years 2006-07 to 2010-11.A high quick ratio is an indication that the firm is liquid and has the ability to meet its current liabilities in time and a low quick ratio represents that the firms liquidity position is not good.

2. LONG-TERM SOLVENCY RATIO

TABLE-3: DEBT EQUITY RATIO

DEBT EQUITY RATIO					
YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	0.97	0.49	0.89	0.41	0.76
2005-06	1.43	1.10	1.01	0.25	0.89
2006-07	0.42	0.57	0.62	0.45	1.47
2007-08	0.67	0.74	1.04	0.40	0.85
2008-09	0.77	0.68	1.21	0.60	0.89
2009-10	0.87	1.04	1.11	0.89	0.89
2010-11	1.06	0.85	0.76	1.08	0.65
2011-12	1.09	0.83	0.89	0.87	0.51
2012-13	1.15	0.91	1.02	0.71	0.71
2013-14	2.44	0.60	2.14	0.73	0.41
Mean	1.08	0.78	1.1	0.64	0.79
S.D	0.52	0.19	0.39	0.24	0.28
C.V	48.14	24.52	36.66	37.26	36.14

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

From the above table it is clear that the debt-equity ratio was registered high in Ivrc1 (2.44) and Ramkyinfra (2.14) in the year 2013-14. A high debt equity ratio denotes that the claims of outsiders are greater than those of owner's. As a very high debt equity ratio may not be satisfactory to select companies. The select companies may not be able to get credit without paying high rates of interest and without accepting undue pressures and conditions of the creditors. Manjeera construction, Madhucon projects were registered low except the years 2006-07 and 2010-11 whereas, Ncc also had registered low ratio except in the years of 2005-06 and 2009-10.

CHART-2: MEAN OF DEBT EQUITY RATIO

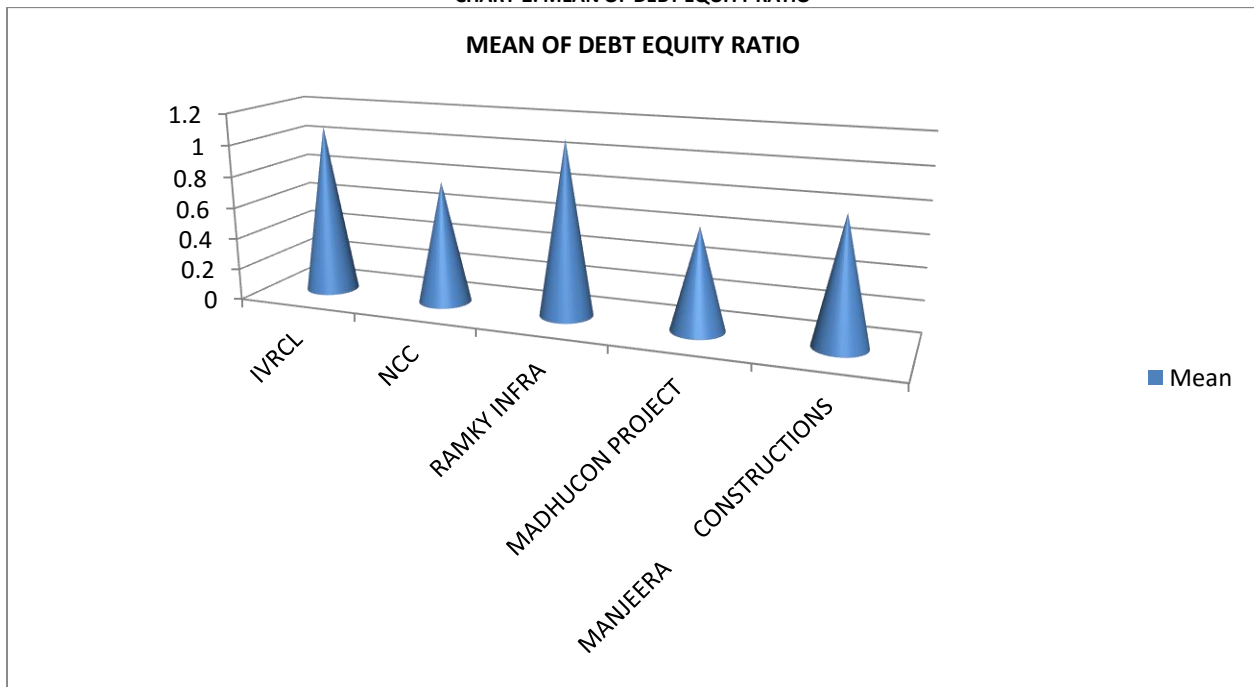


TABLE-4: LONG-TERM DEBT EQUITY RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	0.75	0.36	0.90	0.41	0.84
2005-06	0.23	0.62	1.01	0.25	0.10
2006-07	0.33	0.10	0.62	0.45	0.13
2007-08	0.82	0.15	1.04	0.40	0.83
2008-09	0.71	0.18	1.21	0.60	0.73
2009-10	0.20	0.20	0.21	0.89	0.77
2010-11	0.22	0.13	0.25	0.30	0.57
2011-12	0.17	0.07	0.16	0.28	0.26
2012-13	0.12	0.03	0.18	0.13	0.04
2013-14	0.06	0.08	0.22	0.13	----
Mean	0.36	0.19	0.58	0.38	0.43
S.D	0.27	0.17	0.40	0.22	0.33
C.V	74.98	87.13	69.15	57.89	76.74

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The above table clearly shows that, the long term debt equity ratio of the Ivrc1, Ncc is gradually decreased from the year from 2004-05 to 2013-14 whereas Manjeera construction was registered low ratio in the year 2012-13 i.e., 0.04. The long term debt equity ratio of RamkyInfra was high in the year 2008-09(1.21) and remaining years was fluctuated. The long term debt equity ratio of Madhucon Projects was registered low ratio from the year 2004-05 to 2013-14. A very long term debt equity low ratio indicates that the select companies had depended upon the owned funds rather than borrowed funds.

3. PROFITABILITY RATIOS

TABLE-5: GROSS PROFIT RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	10.35	10.17	5.95	9.18	21.34
2005-06	8.98	10.26	6.26	12.96	22.12
2006-07	8.34	11.32	9.79	10.34	23.95
2007-08	10.39	9.74	8.61	10.35	24.88
2008-09	9.97	11.51	8.82	8.07	21.75
2009-10	10.94	10.29	10.63	7.06	21.26
2010-11	9.72	6.02	10.73	7.26	25.83
2011-12	6.18	6.61	9.48	7.68	10.08
2012-13	5.54	5.15	7.50	12.08	3.39
2013-14	1.66	6.47	-25.73	16.60	0.13
Mean	8.21	8.75	5.20	9.12	17.47
S.D	2.77	2.28	10.43	5.31	8.88
C.V	33.73	26.06	200.57	58.22	50.82

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The above table shows that the Manjeera construction was registered high gross profit ratio in the year 2010-11 i.e., 25.83 whereas RamkyInfra produces negative results (-25.73) in the year 2013-14. Ivrc and Manjeera constructions were registered low Gross profit ratio in the year 2013-14. Ncc and Madhucon projects produces a low gross profit ratio in the years of 2012-13 (1.66) and 2009-10 (0.13) respectively. Remaining years of select companies gross profit ratio was fluctuated. There is no standard norm for gross profit ratio and it may vary from business to business but gross profit should be adequate to cover the operating and to provide fixed charges, dividends and accumulation of reserves. A low gross profit ratio indicates that high cost of goods sold due to unfavorable purchasing policies, lesser sales, lower selling prices, excessive competition, over-investment in plant and machinery.

CHART - 3: STANDARD DEVIATION OF GROSS PROFIT RATIO

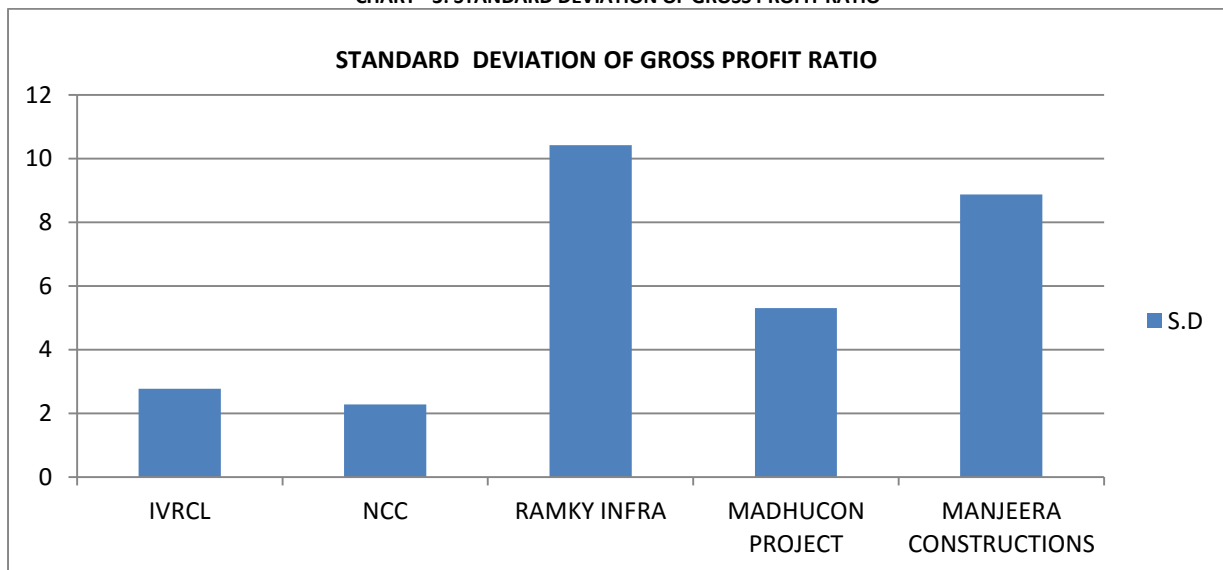


TABLE-6: NET PROFIT RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	5.33	5.62	4.35	5.20	22.32
2005-06	6.04	4.00	4.47	9.55	23.14
2006-07	5.94	4.60	5.39	7.81	22.96
2007-08	5.58	3.64	4.83	6.29	13.67
2008-09	4.45	4.80	4.62	4.49	15.83
2009-10	3.80	3.22	5.49	3.28	16.84
2010-11	2.76	0.68	5.73	1.89	12.42
2011-12	0.28	1.09	4.58	1.92	7.71
2012-13	-2.65	0.66	1.95	3.23	5.71
2013-14	-16.47	1.34	-24.30	3.66	7.42
Mean	1.51	2.96	1.71	4.73	14.80
S.D	-3.58	1.77	-6.47	2.38	6.26
C.V	-237.08	59.79	-378.36	50.31	42.29

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The above table shows that Manjeera construction represents a high net profit ratio in the year 2006-07 i.e., and RamkyInfra has a negative results in the year 2013-14 i.e., -24.30. Ivrc, Ncc and Madhucon projects net profit gradually decreased from the year 2006-07 to 2013-14. RamkyInfra and Manjeera construction ratios were fluctuated year to year. This ratio is very useful as if the profit is not sufficient, the firm shall not be able to achieve a satisfactory return on investment. This ratio also indicates the firm capacity to face adverse economic conditions such as price competition, low demand, etc. The high net profit of select companies denotes that all companies able to meet the obligations.



TABLE-7: INTEREST COVERAGE RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	4.09	9.85	4.25	19.40	7.58
2005-06	2.81	5.89	4.33	21.20	4.03
2006-07	3.22	4.58	3.81	35.58	8.26
2007-08	3.88	3.28	3.41	3.92	8.35
2008-09	3.91	3.55	2.59	11.02	4.25
2009-10	3.34	3.71	3.78	21.44	5.77
2010-11	2.58	1.14	5.39	3.20	2.13
2011-12	1.09	1.24	2.81	8.26	1.40
2012-13	0.80	1.01	1.53	3.66	1.31
2013-14	0.20	1.28	-2.20	1.90	1.39
Mean	2.59	3.55	2.97	12.96	4.45
S.D	1.33	2.62	1.73	10.50	2.74
C.V	51.35	73.80	58.24	81.01	61.57

Source: Compiled Annual reports from 2004-05 to 2013-14

**INTERPRETATION**

From the above table shows that Madhucon projects represents a high interest coverage ratio in the year 2006-07 i.e., 35.58 whereas RamkyInfra was registered a negative ratio in year 2013-14 i.e., IvrcI, Ncc and Manjeera construction interest coverage ratio was fluctuated among years. Interest coverage ratio indicates that the number of times interest is covered by the profits available to pay the interest charges. Generally, A high interest coverage ratio more safe the long-term creditors because even if earnings of the firm fall, the firm shall be able to meet its commitment of fixed interest charges.

TABLE-8: EARNING PER SHARE

EARNING PER SHARE						
YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS	
2004-05	33.40	10.06	24.32	29.78	7.43	
2005-06	8.69	5.55	26.47	9.02	8.24	
2006-07	10.91	7.08	54.52	11.27	9.33	
2007-08	15.77	6.72	10.32	12.80	4.25	
2008-09	16.93	9.07	13.75	12.71	8.08	
2009-10	7.91	6.37	20.79	6.20	8.11	
2010-11	5.91	1.40	27.51	4.39	8.24	
2011-12	0.68	2.24	25.12	4.71	6.13	
2012-13	-3.31	1.58	10.48	4.58	4.26	
2013-14	-23.36	2.01	-75.55	4.30	3.08	
Mean	7.35	5.21	13.77	9.97	6.71	
S.D	9.19	3.03	-10.55	7.38	2.03	
C.V	125.03	58.15	-76.59	74.02	30.25	

Source: Compiled Annual reports from 2004-05 to 2013-14

**INTERPRETATION**

RamkyInfra represents a high earning per share in the year 2006-07 i.e., 54.52 and produce negative earnings per share in the year 2013-14 i.e., -75.55. Madhucon projects, Manjeera construction and Ncc companies of earning per share were fluctuated among the years of 2004-05 to 2013-14. IvrcI was registered high ratio in the year 2004-05 i.e., 33.40 whereas to low earning per share in the year 2013-14 i.e., -23.36, the remaining periods were fluctuated. A high earning per share is a good measure of profitability and when compared with earnings per share of similar other companies, it gives a view of the comparative earnings or earning power of a firm.

TABLE-9: RETURN ON CAPITAL EMPLOYED

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	15.77	13.81	37.32	22.20	17.25
2005-06	13.59	14.21	35.99	9.83	18.74
2006-07	14.83	17.71	22.51	11.43	20.03
2007-08	17.12	16.18	18.74	12.87	15.18
2008-09	17.99	16.36	19.42	11.87	16.36
2009-10	18.64	10.91	22.61	9.42	12.95
2010-11	14.85	9.78	19.56	10.52	21.33
2011-12	11.63	11.15	18.16	13.14	10.54
2012-13	5.96	9.71	12.52	12.57	9.80
2013-14	2.34	14.28	-22.98	14.45	10.62
Mean	13.27	13.41	18.38	12.83	15.28
S.D	5.02	2.73	10.46	3.45	3.94
C.V	37.82	20.35	56.90	26.73	25.78

Source: Compiled Annual reports from 2004-05 to 2013-14

**INTERPRETATION**

The above table states that RamkyInfra represents a high return on capital employed in 2004-05 i.e., 37.32 and it produces a negative ratio in the year 2013-14 i.e., -22.98. IvrcI, Ncc, Madhucon projects and Manjeera constructions are fluctuated. Return on capital employed is a prime test of the efficiency of business. The return on capital employed was more than the standard norm of 12 percent. A high return on capital employed may help in devising future business policies for expansion or diversification.

**CONCLUSION**

Liquidity position of select companies was some extent satisfactory, whereas solvency performance of selected companies has been fluctuating in the study period and profitability performance was some extent satisfactory. Hence, it is better to initiate steps for enhancing the liquidity solvency and profitability position of the sample companies to increase the value of the companies. A low current ratio may be the following reasons (i) there may not be sufficient funds to pay off liabilities. (ii) the business may be trading beyond its capacity. A high quick ratio is an indication that the firm is liquid and has the ability to meet its current liabilities in time and a low quick ratio represents that the firm's liquidity position is not good. The select companies may not be able to get credit without paying high rates of

interest and without accepting undue pressures and conditions of the creditors. A very low long term debt equity ratio indicates that the select companies had depended upon the owned funds rather than borrowed funds. A low gross profit ratio indicates that high cost of goods sold due to unfavorable purchasing policies, lesser sales, lower selling prices, excessive competition, over-investment in plant and machinery. The net profit ratio is very useful as if the profit is not sufficient, the firm shall not be able to achieve a satisfactory return on investment. This ratio also indicates the firm capacity to face adverse economic conditions such as price competition, low demand, etc. The high net profit of select companies denotes that all companies able to meet obligations. A high interest coverage ratio safer the long-term creditors because even if earnings of the firm fall, the firm shall be able to meet its commitment of fixed interest charges. A high earning per share is a good measure of profitability and when compared with earnings per share of similar other companies. It gives a view of the comparative earnings or earning power of a firm. A high return on capital employed may help in devising future business policies for expansion or diversification. The management of the companies shall improve the current ratio either by increasing the quantifying of current assets or by reducing the current liabilities. The company shall deploy the more debt funds so as to enjoy the benefits of trading on equity. The management shall reduce the establishing expenses so as to improve the net profit performance.

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**A STUDY OF PERFORMANCE OF SELECT WOMEN CREDIT COOPERATIVE SOCIETIES**

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**BHUSAVAL**

**ABSTRACT**

Nowadays everyone talking about women empowerment and also act with this direction, in the Maharashtra the role of women is very important, basically in cooperative sector women playing a vital role in cooperative development, after the independence of India, this factor gain importance in domestically, culturally economically, educationally, politically, etc. and being a women, they performed very well in every sector of economy and they proved they are good administrator and under their administration business running successfully. With this they also performed well in cooperative finance sector, in cooperative sector they formed cooperative credit society for socially and economically development of women, with the help of cooperative credit societies they are become financially empowered and improve their standard of living with this they also improve their social and financial status in the society and being an administrator of these societies they proved that they are good administrator because of this credit societies improve their performance. So, in this paper I studied a performance of select credit cooperative societies belongs to Jalgaon district of Khandesh region of Maharashtra State.

**KEYWORDS**

credit societies, women empowerment, cooperative societies.

**INTRODUCTION**

India is the agro based country and more than 60% of population in dwells in rural India and cooperative is the base of Indian rural and agro based business. In Maharashtra number of cooperative societies working for financing the agriculture sector as well as small and tiny business or agro based business, almost 70 to 80% finance avail for cooperative sector, in these cooperative credit societies, especially women credit cooperative societies playing very vital role to provide basic financial services to women from different stages of society to improve their standard of living as well as to improve financial status in the society.

**COOPERATIVE HIGHLIGHTS OF JALGAON DISTRICT**

The Jalgaon district which covers 15 tehsils has good spread of cooperative movement. It includes cooperative banks and societies.

The District cooperative bank, Jalgaon Janta Sahakari Bank and Jalgaon Peoples Cooperative Banks have put their mark on the public at large. So also majority of population particularly from middle class and lower class still depends largely on cooperative societies in the region.

Even though 2 women banks which made mark on women development Pratibha and Indira banks are not functioning due to financial troubles, Jalgaon districts have 77 women cooperative societies, these women cooperative societies are doing the job of financially empowering women in the district.

**REVIEW OF LITERATURE**

**Dr. Rupali Raosaheb Shinde**<sup>1</sup>, in her thesis titled 'Role of Women Cooperative Bank in Social and Economic Development in North Maharashtra (1990-2000)' stated that, the attitude of need based loan and more importance to reason than guarantor are followed by Women cooperative banks in North Maharashtra and even though New Indira Mahila Sahakari Bank and Pratibha Mahila Sahakari Bank failed to work successfully, the role of women cooperative banks remains vital in women development.

**Dr. Pushpanjali Koli**<sup>2</sup>, in her research report 'Development of Women Cooperative Bank, problems and future' stated that, women cooperative banks can definitely make an development impact just like other cooperative institutions and now the question cannot be raised for its success. Such women banks can be established where there are no banks and this is challenge for women activists working in this domain.

**eSakal**, in article „Administrator will be appointed on Closed Societies“ states that, on 6 closed cooperative societies administrator will be appointed so that non recovered loan may be recovered and deposits will be returned to investors.

**eSakal**, in article „Recovery of Loan from Salaries of borrower and guarantor“ state that, cooperative department has now decided to recover loan from defaulters and guarantors from their salaries directly so that from such initiative sure recovery be ensured. The crores of rupees of hundreds of depositors are in trouble due to non-recovery of loan.

**eSakal**, in article "Cooperative Societies has to face 600 mark Camel Ranking" states that, from the year 2010-11, 600 points camel ranking has to be faced by cooperative societies. The few societies in „A“ grade are likely to downgrade to „B“ and „B“ to „C“ in this new assessment model.

**eSakal**, in article „Cooperative Societies in Bhadgaon Taluka are in Trouble“ states that, out of 29, 12 cooperative societies will be closed due to bad financial health. The investors who were earlier investing in these societies due to high interest rates are now turning to gold and land investments.

**IMPORTANCE OF STUDY**

In India, Jalgaon district known for district of former President of India, this study focus on women empowerment and performance of the select women credit cooperative societies in financial growth in Jalgaon district. Women credit cooperative societies running under the administration or management of women and these institutions also perform well under her guidance. This institutions also contribute for women socially and economically development. This study focus on performance of women credit cooperative societies and social and economically empowerment of women in this area.

**SCOPE OF THE STUDY**

For the purpose of data collection and study, the data has been collected from the present managers and members of select women cooperative credit societies. The purpose of the study is to go in depth for various factors associated with performance of cooperative credit societies including financial performance, customer satisfaction, services performance, computerization, use of information communication technology, loans and deposits and performance criteria of women credit societies are used. Geographical scope is considered for Jalgaon district only.

**STATEMENT OF THE PROBLEM**

The present paper tries to evaluate the performance of women cooperative credit societies in the Jalgaon districts. The assessment of performance of women cooperative credit societies for efficiency, effectiveness, social reach, customer satisfaction, women management and technology use is necessary was not carried out and whether these societies and contributing towards empowering women in the region for financial needs is not known. Just setting up women cooperative credit societies does not mean that the objective of making women financially empowered is achieved. It has to be assessed. Also the effectiveness, efficiency, management and technology use of Women cooperative credit societies need to be known and appropriate measures need to be taken for making Women cooperative credit societies more effective, efficient, techno savvy, customer centric, financially strong and working towards making women financially more and more empowered.

Thus the exact problem of study is –

**'A Study of Performance of Select Women Credit Co-Operative Societies in Jalgaon District'**

**OBJECTIVES OF THE STUDY**

1. To study of historical background of women credit cooperative societies.
2. To study of performance of select women credit cooperative societies.

**HYPOTHESIS OF THE STUDY**

Following Alternative Hypothesis set for assessment of the data.

1. Women credit cooperative societies perform well under the administration of women.
2. Financial Performance of women credit cooperative societies has been improved.

**RESEARCH METHODOLOGY**

This study is analytical and descriptive in nature.

The Primary data was collected from following two types of respondents:

Managers of Women Cooperative Credit Society – Simple Random Sampling

Members (Customers) of Women Cooperative Credit Society – Two Stage Random Sampling

**Population: All Women Cooperative Credit Societies in Jalgaon district, which includes 15 tehsils (Total 77 Women Cooperative Credit Societies) -**

**Simple Random sampling for selecting Managers of Women Cooperative Credit Society and as first stage for selecting Members (Customers) of Women Cooperative Credit Society:**

**Two Stage Random sampling for data collection from Members (Customers) of Women Cooperative Credit Society:**

**Sampling details according to Jalgaon districts:**

**TABLE 1**

DISTRICT	No. of Women cooperative credit Societies	20% Sampled Societies	5 Members from each sampled society
Jalgaon District	77	16	80
<b>TOTAL</b>	<b>77</b>	<b>16</b>	<b>80</b>

In the present paper, while drawing the samples and deciding the percentage of population, efforts are made for true representative sample, relatively small sampling error, controlling systematic bias and financial viability of research study. Also researcher tried to ensure that, the results of sample study can be applied in general for the universe with reasonable level of confidence.

**DATA COLLECTION****PRIMARY DATA**

In the present paper, the researcher has collected primary data from –

Managers of Women Cooperative Credit Society & Members (Customers) of Women Cooperative Credit Society by the sampling method as stated above.

Due to financial crises few women cooperative society are having government administrator.

**SECONDARY DATA**

The major sources of secondary data for present study are –

- Annual Reports of Cooperative Societies.
- Government of India reports.
- Financial Institutions and Economic institutions Reports
- Newspapers, Magazines and periodicals
- Internet, Websites, e-literature
- Books

The secondary data adopted gets duly recorded in the end of Review of literature and in Bibliography.

**DATA ANALYSIS**

**Data Processing** constituted of recording, editing, classification and tabulation of data.

**Statistical Methods** used for data analysis and testing of hypothesis consists of Quantitative and Qualitative Analysis and statistical tools like frequency, percentage, etc. used for statistical analysis depending upon need of the study.

We can say that the Jalgaon district has adopted cooperative movement from the state developments time to time. The financial progress of women is targeted by 77 cooperative women societies in Jalgaon district.

- The women cooperative credit societies in Jalgaon district takes initiative for following activities for women development – organization of competitions, fellowships, get-togethers, medical camps, promoting for saving, free water tankers, cultural activities, financial support to needy women etc.
- Societies also introduce attractive saving or loan scheme for home construction, education of child, marriage of daughter, business development etc.

The key performance parameters considered for study of women cooperative credit societies are as follows –

- Objectives of society
- Financial Progress
- Loans distributed
- Recovery
- Following norms for elections
- Managerial aspects
- Services Provided
- Computerization of Society
- Use of ICT
- Member (Customer) satisfaction
- Effectiveness

RESULTS & DISCUSSION

TABLE 2

Dhanashri Women Rural Non Agriculture Cooperative Credit Society Limited, Bodwad, Dist Jalgaon Establishment 24.07.1992									
Analytical Study of financial Performance for the period 01.04.1995 to 31.07.2008									
Sr. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	No. of Members	990	1,030	1,033	1,028	1034	1059	1084	1089
2	Share Capital	1125680	1199000	1416300	1672540	1877260	2111350	2314550	2314640
3	Deposits	11495652	13824984	20292418	28720882	30105523	37008585	41770995	38041458
4	Loan	9841827	12043064	13824984	20076403	21766322	25899466	30356229	30459313
	Investments	3334312	3100793	6319312	7997773	7813816	10585200	12375200	10216200
6	Profit	210582	226421	260223	455904	373535	409499	495925	483925
7	Reserve Fund	875996	1194696	1473568	1912123	2437505	3019951	3879025	3879025
8	Audit Class	A	A	A	A	A	A	A	A

Source: Annual Reports

FIG. 1

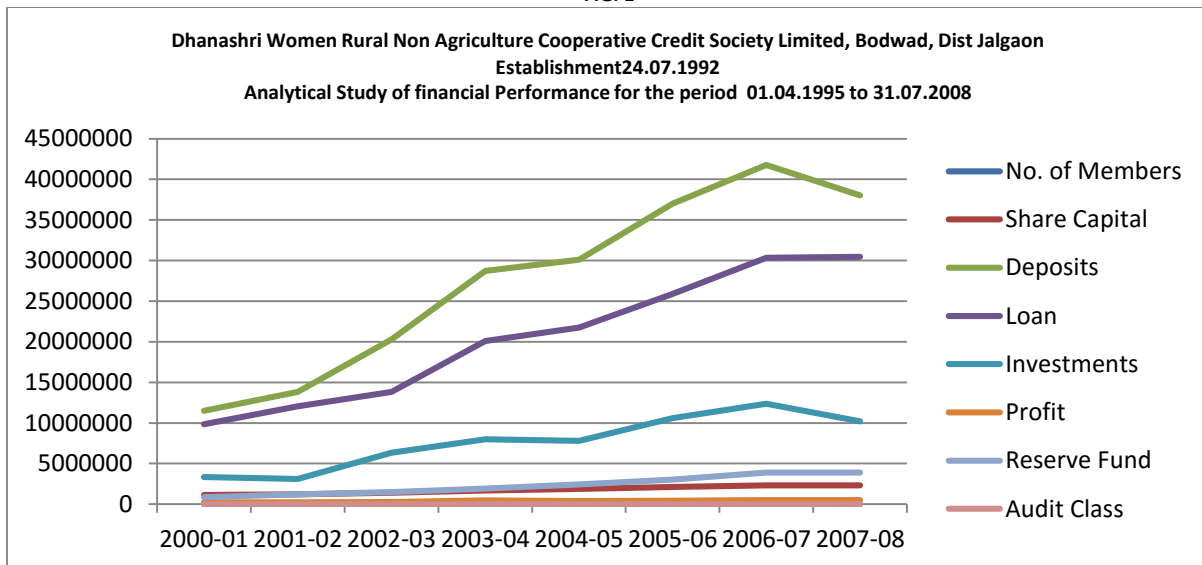


TABLE 3

Manasi Women Urban Cooperative Credit Society Limited, Erandol, Dist Jalgaon Establishment 17.10.2001										
Analytical Study of financial Performance for the period 01.04.1995 to 31.03.2008										
Sr. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	No. of Members	281	299	311	318	364	373	389	400	450
2	Share Capital	67000	93200	131750	211900	330950	428050	566950	591950	646150
3	Deposits	730131	1416882	1872886	1698560	2949063	4076834	5641395	3751369	3212479
4	Loan	242552	677150	1204700	1452427	2449790	3010846	4354041	3379190	1928980
5	Investments							1804813	1431259	2405000
6	Profit	---	---	---	40506	66769	106401	87239	158000	62672
7	Reserve Fund	1639	4762	7739	42539	42083	168719	247425	251847	267146
8	Audit Class	C	B	B	B	B	B	B	B	B

Source: Annual Reports

FIG. 2

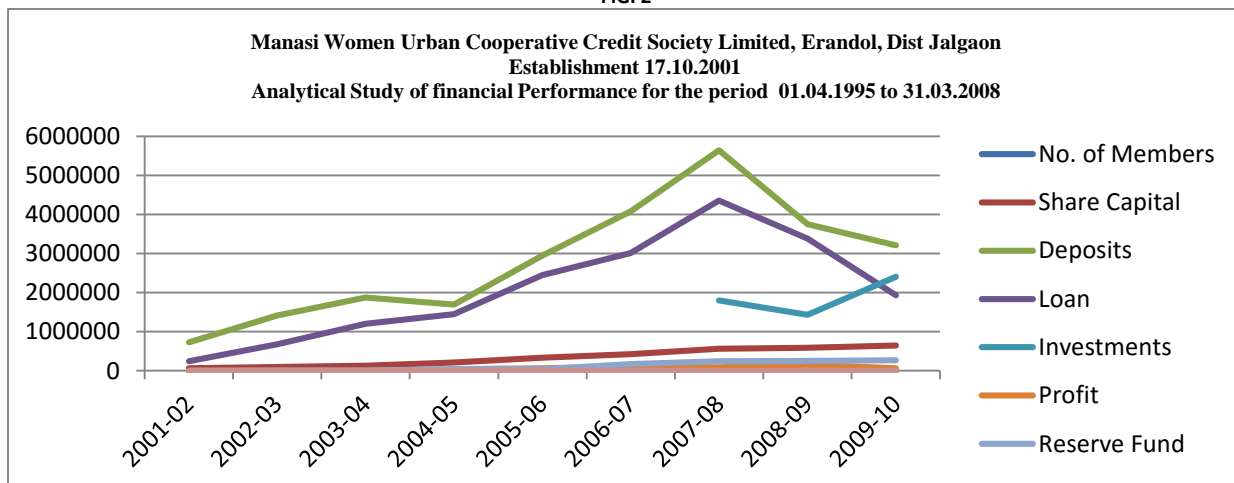


TABLE 4

Priyadarshani Women Rural Non Agriculture Cooperative Credit Society Limited, Bhadgaon Dist. Jalgaon Establishment 1997 Analytical Study of financial Performance for the period 01.04.1995 to 31.03.2008									
Sr. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	No. of Members	306	361	384	397	389	368	349	326
2	Share Capital	510850	611950	626449	635499	629119	612219	589640	575190
3	Deposits	944621	1136719	1092487	836028	734199	833724	890776	767108
4	Loan	1629920	1895340	1818652	1827379	1892222	1718157	1301336	1338003
5	Investments	759630	573844	1015155	972035	728287	963973	1441371	1274156
6	Profit	215789	211112	251401	252172	(5609)	(19964)	25932	57165
7	Reserve Fund	464158	628263	823727	1022155	1211764	1189053	1108192	1222056
8	Audit Class								

FIG. 3

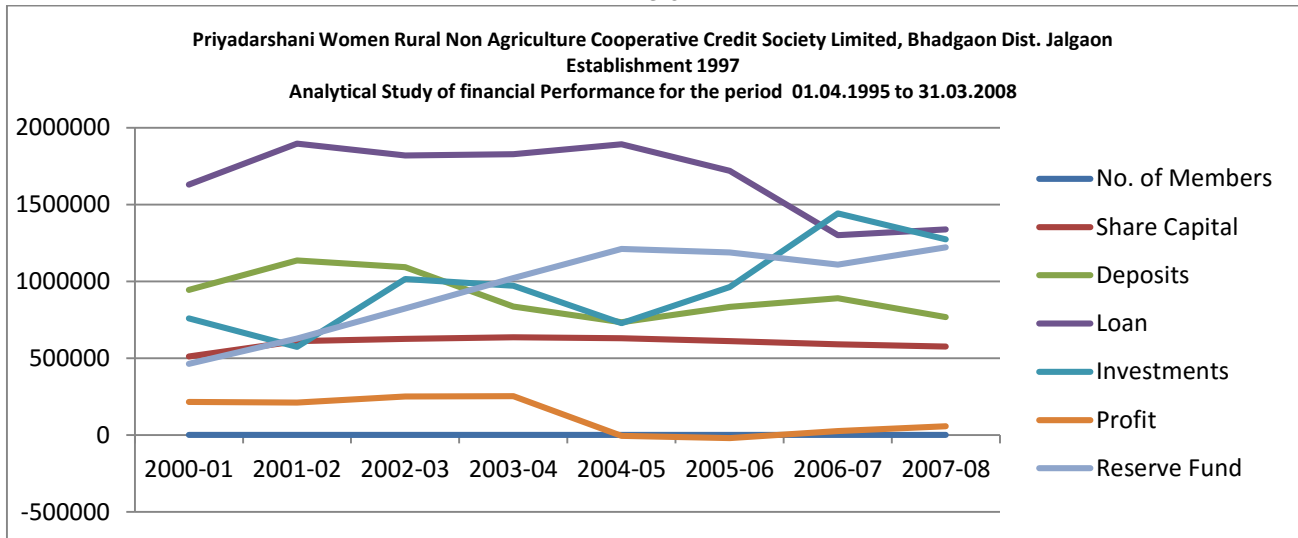
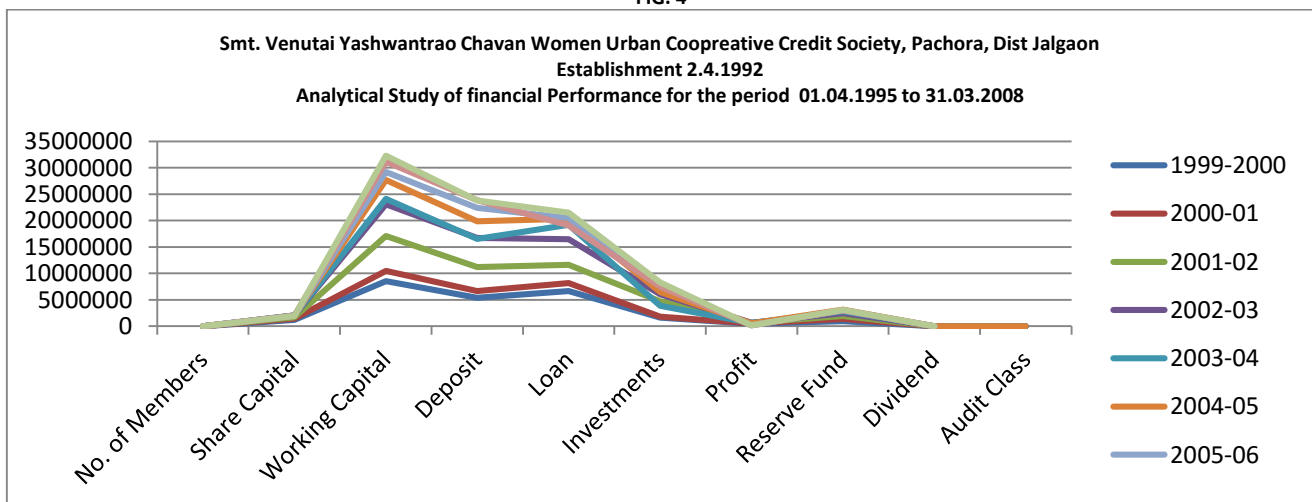


TABLE 5

Smt. Venutai Yashwantrao Chavan Women Urban Cooperative Credit Society, Pachora, Dist Jalgaon Establishment 2.4.1992 Analytical Study of financial Performance for the period 01.04.1995 to 31.03.2008										
Sr. No.	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	No. of Members	625	634	667	678	699	722	733	733	694
2	Share Capital	1211500	1436000	1695100	2019500	2048900	1979300	1989700	2002400	1926200
3	Working Capital	8513309	10456970	17040657	23093235	24075867	27648488	29195161	31115797	32294402
4	Deposit	5351513	6635096	11211262	16693814	16532745	19886870	22414088	23869321	23787072
5	Loan	6676831	8176862	11635404	16464756	19171930	20314517	20473822	19087536	21487460
6	Investments	1625112	1824081	4735327	6022241	3889467	6459281	7651791	7485164	8291501
7	Profit	475340	549847	627488	650000	601928	515945	162890	178295	193514
8	Reserve Fund	981476	1399735	1946792	2482160	2819370	3166714	3005683	3015033	3086576
9	Dividend	12 %	12 %	12 %	12 %	12 %	10 %	5 %	5 %	5 %
9	Audit Class	A	A	A	A	A	A			

Source: Annual Reports

FIG. 4



Due to some spacious problem we have put here limited or selected tables and graphs of the women credit cooperative societies. On the basis of these table and graphs we count performance of the women credit cooperative societies belongs to Jalgaon district. For this purpose to performance of these societies we consider progress in number of members, share capital, working capital, deposits accepted by the society, loan disbursed by the society, investment made by the society, profit earned or loss occurred, reserve fund, dividend declared, audit class given by the cooperative department, etc. the performance or increase or decrease in this figure shown performance of women credit cooperative societies.

#### The study has fulfilled specified objectives.

- The hypotheses were tested by using quantitative methods such as MS Excel and simple statistical tool and these tools also used for analysis.
- **1<sup>st</sup> Research Hypothesis:** Women credit cooperative societies perform well under the administration of women. The Hypothesis was tested and accepted by using on way of simple statistical tool.
- **2<sup>nd</sup> Research Hypothesis:** Financial Performance of women credit cooperative societies has been improved. The Hypothesis was tested and accepted by using on way of simple statistical tool.

**Findings from annual reports of select indicative Women Credit Societies in Jalgaon district showing Progress or Downfall of society.**

### PROGRESSIVE SOCIETIES

1. **Dhanashri Mahila Rural Non Agriculture Cooperative Credit Society Limited, Bodwad, Dist. Jalgaon**
  - No. of Members: Continuously increasing since 1995, it increase by more than 100% up to 2008
  - Share Capital: Since 1995, it is increase by more than 700% up to 2008.
  - Deposits: Since 1995, it is increase from Rs. 1416353 to Rs. 41770995 up to 2007 in 2008 deposit slightly down up to Rs. 38041458
  - Loan : Continuously increased since 1995 to 2008 from 14 lac to 3 crore plus.
  - Investment: Investment shows fluctuation but there is also increasing trend.
  - Profit: Profit also shown increasing trend, it is increase from Rs 14000 to Rs 483000.
  - Reserve Fund: it is also increased by almost 100%
2. **Manasi Women Urban Cooperative Credit Society Limited, Erandol**
  - No. of Members: Continuously progressive 281 to 389
  - Share Capital: Continuously progressive Rs. 67000 to 566950
  - Deposit: it is also progressive Rs. 730131 to Rs. 5641395
  - Loan: Continuously progressive Rs. 242552 to Rs 4354041
  - Profit: Profit also increasing. Rs. 40506 To 87293.
3. **Smt. Venutai Yashwantrao Chavan Women Urban Cooperative Credit Society, Pachora, Dist Jalgaon**
  - No. of Members: Continuously increasing since 1999, it increase up to 111.04% to 2008
  - Share Capital: Since 1999, it is increase up to 159.30 % to 2008.
  - Working Capital: Since 1999, it is increase up to 379.34% to 2008
  - Deposits: Since 1999, it is increase from Rs. 5351513 to Rs. 23787072 /- so, amount of deposit increase up to 444.49%.
  - Loan : Continuously increased since 1999 to 2008 from 6676831 to 21487460, amount of loan increase up to 321.82%.
  - Investment: Investment shows fluctuation but there is also increasing trend and investment increase up to 510% during this period.
  - Profit: Profit also shown decreasing trend and it is decrease by Rs. 281826.
  - Reserve Fund: it is also increased up to 314.43%%
  - Dividend: Due to decrease in profit dividend rate decreased by 7%
  - Audit Class: Society continuously secured A class.

### SOCIETIES IN TROUBLE

#### Priyadarshani Women Rural Non Agriculture Cooperative Credit society limited, Bhadgaon, Dist. Jalgaon

- No. of Members and Share Capital Slightly increased but, Deposits and loan decreased. Profit increased up to 2004 but afterwards it decreased and convert in loss but in 2007-08 society recovered loss.

From the observation and information collected from societies through interview, it found that, due to restriction of Reserve Bank of India regarding NPA provision, profit of these societies showing decreasing trends since 2005-06. But financial performance of the these societies still improving and perform well.

### FINDINGS

- Loan, fixed deposit and daily collection are the major business activities of the women cooperative credit societies in Jalgaon region 43.8% societies are involved in Loan, fixed deposit and 35% in Loan, fixed deposit and daily collection.
- Education support for child of member, loan to member with training is Major activities of Society for welfare of Women with 16% societies involved in all these activities.
- 96% managers say that elections are conducted regularly.80% say that elections are transparent, free and fair.
- The managers of 96% women cooperative credit societies in Jalgaon region claim that they provide regular loan to members as and when requested.
- There are 91% managers who say that regular board meetings are conducted and 61% managers regularly participate in board meetings.
- The percentage of societies who say that their loan recovery is regular is only 51%. And about 50% managers say that their society regularly distribute dividends to members.
- 80% managers say that, members do not complaint about society.
- In 60% women cooperative credit societies in Jalgaon region, no male employee is appointed.
- 79% managers accept that, members have choice of vote in choosing auditor.
- Only 20% managers of women cooperative credit societies in Jalgaon region express lot in board meetings.
- For rating to financial performance of the society, 39% managers say that society progressed, 10% say that it is highly progressed. 30% rate it average where as 10% poor and 9% very poor.
- As per managers of the societies, 50% societies are partly computerized, 20% computerized whereas about 30% societies are not computerized.

### CONCLUSIONS

- Women cooperative credit societies in Jalgaon region are having all women management as expected. While personally interacting with Managers- the management members, it is observed that, male life partner do interfere in working of societies with their life partner working on the board of management in some cases.
- Loan, fixed deposit and daily collection are the major business activities of the women cooperative credit societies in Jalgaon region.
- Education support for child of member, loan to member with training is Major activities of Society for welfare of Women. Social approach is largely accepted by women cooperative credit societies in Jalgaon region.
- The elections are conducted regularly and mostly in transparent, free and fair manner.

- The women cooperative credit societies in Jalgaon region provide regular loan to members as and when requested.
- Almost all management members agree that regular board meetings are conducted and not all managers regularly participate in board meetings. There is scope for improvement.
- Only half of the societies are successful in loan recovery and on other side half of the societies are not able to ensure regular loan recovery and this is concern for financial health of such societies.
- Also only half society regularly distributes dividends to members.
- Managers say that, majority of members do not complaint about society.
- Majority of women cooperative credit societies in Jalgaon region has no male employees.
- Members have choice of vote in choosing auditor for women cooperative credit societies in Jalgaon region.

## RECOMMENDATIONS

### FROM THE PRESENT STUDY WE MAKE FOLLOWING RECOMMENDATIONS FOR IMPROVING PERFORMANCE OF WOMEN COOPERATIVE CREDIT SOCIETIES IN JALGAON REGION:

- As women cooperative credit societies are managed by women managers, they should be trained by District Cooperative Department in effectively managing society, even though many of them are not much educated, it should not be big hurdle and interference of their life partner in the society management should be avoided.
- Attractive loan and fixed deposit schemes should be launched so that, those who go to money lenders should turn to society for their financial needs.
- As daily collection is major requirement of women who earn daily, effective mechanism should be implemented to promote them to save and collection should be done at convenient place and time of the individual.
- Even though there is pressure from various sources; loan to non-trustworthy member should not be given.
- The loan recovery should be given foremost importance and regular and strict approach should be adopted for timely recovery of loan for maintaining good financial health of such society.
- Societies should regularly distribute dividends to members, it's their right.
- Societies should implement proper complaint mechanism and any one should be able to freely put their grievance.
- Appointment of male employee should be avoided.
- Those societies having very, poor, poor, and average rating for financial performance should take immediate actions for improving financial health. Also those who have good rating should continue the path of excellence.
- The full computerization of societies must be done in phase wise manner.
- The loan rate should be moderate and attractive as compared to banks and should promote women who otherwise going to money lenders should turn to society for financial needs. Also the procedure of allotting loan should be as simplified as possible.
- The schemes of government should be reached to all members of society.
- The efforts should be made for societies to function in pure democratic way.
- The active participation of members in some or the other activity of society should be promoted.
- As per government of India policy for women, making them literate, education support for child of member, loan to member with supportive training, rehabilitation centers as per requirement, medical support to members should be initialized.
- The society management should take efforts for increasing awareness about saving with society's daily collection, fixed deposit and loan schemes in the public at large. They should conduct orientation program for self-help groups and maximum possible number of self-help group should be established. Also marketing platform should be made available for products of self-help groups.

## SIGNIFICANT CONTRIBUTION OF THE STUDY

- The study has significantly contributed in analyzing the growth or otherwise in the women cooperative credit societies in Jalgaon region. The study has reviewed important literature on cooperative movement, services, governance, computerization, and management of societies.
- The important stakeholders of women cooperative credit societies, management members which are referred as managers here and members are evaluated for important performance aspects.
- The results of assessment for cost efficiency, time efficiency, reducing efforts of society administration and customer satisfaction, financial performance, governance are presented.

## APPLICATIONS OF STUDY

- The study has application in deciding and amending policy, goals and objectives of the women cooperative credit societies. The study can help cooperative department and societies in preparing action plan for maintaining better financial health of the societies and use of ICT in society administration. Cooperative department of government of Maharashtra can use results of this study for enhancing existing cooperative system. The results are also applicable in other type of cooperative societies than women societies.

## SCOPE FOR FURTHER RESEARCH

- Further study can be expanded for wider span covering all the women cooperative credit societies in the Maharashtra state. Also study can be conducted at National and further at International level. The study can include e-banking component in further study.

## REFERENCES OF ANNUAL REPORTS OF THE WOMEN COOPERATIVE CREDIT SOCIETIES

- Annual reports of women cooperative credit societies' visited as per sampling plan are used as source for analysis of financial data for knowing growth or other wise and the researcher is duly acknowledging all such annual reports of the women cooperative credit societies.

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## A STUDY ON CONSUMER PREFERENCE AND SATISFACTION TOWARDS DIRECT-TO-HOME TELEVISION (DTH) SERVICE IN SALEM DISTRICT

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### ABSTRACT

*Advancement in science and technology has brought out many types of equipment, machineries and apparatus, which made human life more comfortable and enjoyable. Direct-to-Home (DTH) is one of the recent addition and has become a major entertainment medium by attracting the minds of everyone. Direct-to-Home (DTH) television is one of the recent contributions of science, which is meant mainly for dissemination of information and it is a remarkable achievement of the human brain. DTH is defined as the reception of satellite programmes with a personal dish, in an individual home and has become a powerful, useful and attractive mass media compared with cinema and cable TV. Emergence of middle class and increase in discretionary spending also promotes the growth of DTH services. Huge market potential has been one of the key factors augmenting the demand for DTH transmission. The objective of the study is to identify the factors influencing the consumer preference towards DTH services and to find the Brand preference and level of satisfaction of consumers towards DTH services. The shortcomings of cable operators had lead to the creation of DTH industry in India. Focus towards exclusive value added services by DTH players have also been a significant uptrend in the market. Hence fast and consistent penetration of DTH services and competition in these markets necessitates to examine consumer's preference and satisfaction towards DTH services.*

### KEYWORDS

Consumer Preference, Direct-to-Home (DTH), Satisfaction.

### INTRODUCTION

The history of Indian television dates back to the launch of Doordarshan, India's national TV network in 1959. In this period television was a luxury and the transmission was in black and white. In 1992, the cable TV industry was started which led to revolution. Every city in India had a complex web of co-axial cable running through the streets with a new breed of entrepreneurs called as cable wallahs or Local Cable Operators (LCO) taking in charge of distribution. There were simply too many cable operators in the country and the channels had a difficult time in getting its return as the existing system was a non-addressable and the operators could simply give a reduced number of subscribers to a mass profit. This led to the emergence of country's first DTH services and it has been awarded to Dish TV in 2003 which started its operations in 2004. DTH is the short form of Direct-To-Home technology and is defined as the reception of satellite program with a personal dish in an individual's home. Direct-to-Home (DTH) television is a very popular technology. It is satellite distribution that provided the consumers their first widespread opportunity to enjoy digital television. Since it is a wireless technology and the programmes are sent directly to the subscriber from the satellite, it eliminates the need of the cable infrastructure. DTH can also reach remote areas where terrestrial transmission and cable TV failed to penetrate. Apart from enhanced picture quality, DTH also allows for interactive TV services such as movie-on-demand, active music, active games, active dharshan, active english, active fun learn and so on.

### ADVANTAGES IN USING DIRECT-TO-HOME (DTH) TELEVISION

1. **Digital picture:** The picture quality in DTH TV is much better. The quality of picture is uniform across all channels, whereas in cable the quality of picture is inconsistent, some channels are clear but the balance is fuzzy and snowy.
2. **Digital audio:** It provides services with stereophonic sound which leads to better sound effects.
3. **Electronic Programme Guide (EPG):** It is an on-screen guide that shows the programme schedule or listing of all the channels.
4. **Payment modes:** DTH viewers pay only for what they watch and the service charges are paid in advance. Recharge is easy with various sources like the Internet, mobile phones, vouchers from vendors, etc.
5. **Interactive services:** This is one important point which differentiates the broadcasters. All the broadcasters offer interactive TV services. Apart from enhanced picture quality, DTH also allows for interactive TV services such as movie-on-demand, internet access, video conferencing and e-mail.

### REVIEW OF LITERATURE

Acharyulu, Raja and Sudhakar (2009) measured the customer preferences towards Direct-To-Home (DTH) Television services in India. They opined that DTH market is witnessing a fierce competition with entry of many new players. Based on this study it was found that quality of service is the key differentiator in DTH service operations. The study expressed that content differentiation may not be possible in the future and companies have to differentiate themselves only at their cost levels and quality of services. The study suggested that in order to increase the market share and to ensure the win-win situation the DTH players should design a good customer service strategy.

Dheeraj (2012) tried to analyse the Indian DTH Industry. He opined that shortcomings of cable operators had led to the creation of DTH services in India and that served as a better alternative to high-end cable networks. It was found that as television buyers in India gravitate to purchase more of flat panel displays this Direct-to-Home (DTH) satellite television has emerged as the choice of medium. The study suggested that DTH market players should offer latest bouquet of services so that people could be hooked towards DTH services. The study concluded that as DTH TV industry is currently in growth phase, it is expected to attract a large number of subscribers in near future.

Jayashree and Sivakumar (2013) examined the customer perception towards DTH services in Coimbatore City. Their study also analysed the competition that existed in the market regarding DTH services. It was found that, majority of the respondents prefer to buy Sun direct because it offers various kinds of packages with best picture quality and reasonable price. The study concluded that DTH service providers should pay attention towards customer service, picture quality and as well as reasonable price.

**STATEMENT OF THE PROBLEM**

DTH market in India is one of the fast growing segments of the segmented pay TV industry and it is witnessing significant growth on account of rising per capita income and government mandate of complete digitalization. Huge market potential has been one of the key factors augmenting the demand for DTH transmission. In addition, emergence of middle class and increase in discretionary spending also promotes the growth of DTH services. Increasing television penetration accompanied with attractive offers and price war has also been driving the market. With the entry of new players in the Indian DTH industry, competition is getting intense. Due to the intensifying competition, installation prices are declining and subscribers have a wide range of options to make choices. Fast and consistent penetration of DTH services and competition in these markets necessitates the DTH service providers to examine consumer's preference and satisfaction towards DTH services.

**OBJECTIVES OF THE STUDY**

The study has been undertaken with the following objectives:

1. To identify the reasons for preferring DTH services.
2. To find the Brand preference/Brand loyalty of consumers towards DTH services.
3. To study the level of satisfaction of consumers in Salem District towards DTH services.

**RESEARCH METHODOLOGY****SAMPLING TECHNIQUES**

The sample has been selected on the basis of proportionate stratified random sampling technique.

**SAMPLE SIZE**

Data has been collected from 75 selected sample respondents in Salem District.

**AREA OF THE STUDY**

The study was conducted in Salem District.

**SOURCES OF DATA**

**PRIMARY DATA:** Primary data was collected using a structured questionnaire.

**SECONDARY DATA:** The secondary data was collected from different sources like newspapers, magazines, journals, books, websites and pamphlets.

**STATISTICAL TOOLS USED FOR ANALYSIS**

Statistical tools such as Simple percentage analysis and weighted average method have been used for the study.

**RESULTS AND DISCUSSIONS****PROFILE OF THE RESPONDENTS**

In the course of selection of the respondents, due care has been exercised to cover all the sections of the society like different gender, age, education, occupation and income backgrounds.

**TABLE 1: PROFILE OF THE RESPONDENTS**

S. No	Demographic Variables	Category	No. of Respondents	Percentage
1.	Age (Years)	21 – 30	12	16.00
		31 – 40	20	26.67
		41 – 50	<b>25</b>	<b>33.33</b>
		Above 50	18	24.00
2.	Gender	Male	<b>54</b>	<b>72.00</b>
		Female	21	28.00
3.	Educational Qualification	SSLC/Martic	8	10.66
		Higher Secondary	14	18.67
		Diploma	9	12.00
		Under Graduation	<b>26</b>	<b>34.67</b>
		Post Graduation	18	24.00
4.	Occupational Status	Business	19	25.33
		Employees	<b>26</b>	<b>34.67</b>
		Professionals	15	20.00
		Agriculturists	12	16.00
		Home Maker	3	4.00
5.	Family Monthly Income	Below 10,000	8	10.67
		10,001 – 20,000	<b>34</b>	<b>45.33</b>
		20,001 – 30,000	18	24.00
		30,001 – 40,000	10	13.33
		Above 40,000	5	6.67

Source : Primary data

From Table 1 it is clear that, 33.33 percent of the respondents are in the age group of 41–50 years, 72 percent of the respondents are male, 34.67 percent of the respondents are Under Graduates, 34.67 percent of the respondents are Employees, 45.33 percent of the respondents' family income is between Rs. 10,001-20,000.

**SOURCE OF INFORMATION / PRODUCT AWARENESS**

After the need arousal, the consumer tries to solve it by gathering the information about the product. Depending upon the intensity of need, it produces two states in an individual. The first state is called heightened attention when the consumer becomes more receptive to the information regarding the item he needs. He becomes alert to information bearing on the need and its gratification. If a consumer needs to purchase a television, he will pay more attention to TV advertisements. He keeps remembering the remarks made by friends and associates about TVs.

**TABLE 2: SOURCES OF AWARENESS**

S. No.	Source of Awareness	No. of Respondents	Percentage
1.	Print Ads	12	16.00
2.	TV Ads	26	34.67
3.	Hoardings	9	12.00
4.	Internet	6	8.00
5.	Friends/ Relatives	22	29.33
	<b>TOTAL</b>	<b>75</b>	<b>100.00</b>

Source: Primary Data

Table 2 presents the source from which the respondents gained brand awareness regarding the DTH. 16.00 percent of the respondents opined that they learnt about DTH services from Print advertisements. 34.67 percent of the respondents stated that they came to know about the DTH services through television advertisements. 12.00 percent of the respondents have learnt through hoardings. 8.00 percent of the respondents gathered the information from the Internet whereas, 29.33 percent of the respondents came to know about the DTH services through their friends and relatives.

**REASONS FOR PREFERRING DTH SERVICE**

DTH services are available even in remote areas and locations however the penetration of cable TV is limited and failed to penetrate. Likewise there are few reasons like Reasonable Price, Superior Video Quality, Affordable Tariffs, Low Disturbance, Extra Services and Good reputation are identified as the reasons for preferring DTH service.

**TABLE 3: RANKING ON REASONS FOR PREFERRING DTH SERVICE**

Reasons	1		2		3		4		5		Weighted Total	Weighted Average	Rank
	No	Wgt	No	Wgt	No	Wgt	No	Wgt	No	Wgt			
Reasonable Price	26	130	14	56	18	54	12	48	5	5	293	22.10	II
Superior Video Quality	30	150	24	96	12	36	5	10	4	4	296	22.32	I
Affordable Tariffs	12	60	18	72	20	60	15	30	10	10	232	17.50	V
Low Disturbance	22	110	12	48	14	42	18	36	9	9	245	18.48	IV
Extra Services	15	75	25	100	20	60	10	20	5	5	260	19.60	III
<b>Total</b>	<b>105</b>	<b>525</b>	<b>93</b>	<b>372</b>	<b>84</b>	<b>252</b>	<b>60</b>	<b>144</b>	<b>33</b>	<b>33</b>	<b>1326</b>	<b>100</b>	

Source : Primary data

From Table 3 it is inferred that Superior Video Quality has been ranked first by the customers with the average weight of 22.32, Reasonable price has got the second rank with the average weight of 22.10. It is Extra services that have secured third rank.

**BRAND PREFERENCE OF DTH**

**BRAND OF DTH IN USE**

Because of arrival of new entrants, this industry has become very competitive which ultimately results in customers getting more benefits and options of latest technology. The major DTH brands in India that offer customized DTH channels and packages to the customers are Dish TV, Reliance Big TV, Sun Direct, Tata Sky, Videocon D2H, Airtel Digital TV, DD Direct plus.

**TABLE 4: BRAND OF DTH IN USE**

S. No.	BRAND OF DTH IN USE	No. of Respondents	Percentage
1.	Dish TV	16	21.33
2.	Reliance Big TV	10	13.33
3.	Sun Direct	20	26.67
4.	Tata Sky	8	10.67
5.	Videocon D2H	12	16.00
6.	Airtel Digital TV	6	8.00
7.	DD Direct plus	3	4.00
	<b>TOTAL</b>	<b>75</b>	<b>100.00</b>

Source: Primary Data

Table 4 reveals that 21.33 percent of the respondents are using Dish TV, 13.33 percent of the respondents opined that they are using Reliance Big TV, 26.67 percent of the respondents stated they are using Sun Direct in their homes, 10.67 percent of the respondents assured they are using Tata Sky, 16.00 percent of the respondents agreed that they use Videocon D2H, 8.00 percent of the respondents indicated that they are using Airtel Digital TV in their homes, 4.00 percent of the respondents revealed that they use DD Direct plus. It is clear that Sun Direct DTH is the highly preferred brand in DTH.

**LEVEL OF SATISFACTION WITH CURRENT DTH SERVICE PROVIDER**

The moment a DTH is purchased and used, customers begin to judge it. The level of satisfaction and dissatisfaction depends on how well the DTH performance meets the expectations of customers. If a DTH product or service performs as well as or better than expected, the customers will feel happy. If it falls short of the expectations, customers are not happy.

**TABLE 5: LEVEL OF SATISFACTION ABOUT CURRENT DTH SERVICE PROVIDER**

DTH Service Provider	Level of Satisfaction										Total	
	Highly Dissatisfied		Dissatisfied		Neutral		Satisfied		Highly Satisfied		N	%
	N	%	N	%	N	%	N	%	N	%		
Dish TV	-	-	3	18.75	3	18.75	4	25.00	6	37.5	16	100
Reliance Big TV	-	-	3	30.00	2	20.00	2	20.00	3	30.00	10	100
Sun Direct	-	-	5	25.00	4	20.00	6	30.00	5	25.00	20	100
Tata Sky	1	12.5	3	37.5	2	25.00	2	25.00	-	-	8	100
Videocon D2H	-	-	2	16.67	3	25.00	3	25.00	4	33.33	12	100
Airtel Digital TV	2	33.33	1	16.67	-	-	2	33.33	1	16.67	6	100
DD Direct plus	2	66.67	1	33.33	-	-	-	-	-	-	3	100
<b>Total</b>	<b>5</b>	<b>6.67</b>	<b>18</b>	<b>24</b>	<b>14</b>	<b>18.67</b>	<b>19</b>	<b>25.33</b>	<b>19</b>	<b>25.33</b>	<b>75</b>	<b>100</b>

Source: Primary data

From Table 5 it is clear that 25.33 percent of the respondents are highly satisfied with their current DTH service provider. 25.33 percent of the respondents stated that they are satisfied with their current DTH service provider whereas, 18.67 percent of the respondents opined that they neither satisfied nor dissatisfied by the current DTH service provider.

**FINDINGS**

- ❖ 33.33 percent of the respondents are in the age group of 41–50 years, 72 percent of the respondents are male, 34.67 percent of the respondents are Under Graduates, 34.67 percent of the respondents are Employees, 45.33 percent of the respondents' family income is between Rs. 10,001-20,000.
- ❖ 34.67 percent of the respondents stated that they came to know about the DTH services through television advertisements.
- ❖ 26.67 percent of the respondents stated they are using Sun Direct in their homes.
- ❖ From Table 3 it is inferred that Superior Video Quality has been ranked first by the customers with the average weight of 22.32, Reasonable price has got the second rank with the average weight of 22.10. It is Extra services that have secured third rank.
- ❖ 25.33 percent of the respondents are highly satisfied with their current DTH service provider.

**SUGGESTIONS**

1. DTH service providers should try to reduce the initial entry cost, and also the cost of additional charges so that it will have a good impact in attracting customers.

2. Installation of Dish and set-top-box could be made free to customers.
3. The DTH service providers must come up with more existing offers and discounts so that it will get a unique place in the minds of consumers.
4. The DTH service providers should try to come with many outlets and help the customers believe that DTH services are cost-effective.

### CONCLUSION

In the second decade of the new millennium, there is no topic closer to the hearts of marketers than customer satisfaction. It is because satisfaction is the key to the long-term relationships that provide benefit to both sides of the buyer-seller equation. The most positive outcome for achieving customer satisfaction is to gain customer loyalty. With the existing regulatory restrictions, increasing content cost and lack of transponders, DTH terrain appears too steep to climb. The increasing consumer awareness and expectations also make it difficult to satisfy the consumer. India being the home of entertainment hungry populace, volumes play the role of a growth driver. Attractively priced and feature rich package targeted at the critical mass is the mantra for sustaining the growth of DTH. Today's customer is sensitive to price as well as to quality. A prudent DTH operator should also take a serious look at the substitutes and complements. The final winner cannot be a pure DTH player but a convergent player who offers all in one to the value-conscious, price sensitive Indian consumer. Hence, in today's competitive environment, to make the DTH business more successful and to satisfy the consumers the DTH service providers will have to strive hard to attract and retain the customers.

### LIMITATIONS OF THE STUDY

The following are the limitations of the study:

1. The sample size of the study is 75 and it may not reflect the interest of the whole population.
2. The study is limited to Salem District only.
3. The result can be confined to Salem District alone and cannot be generalized for other areas.
4. Respondents' opinion are dynamic and they may change from time to time.

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## JOB STRESS AMONG THE EMPLOYEES OF TIRUPATI CO-OPERATIVE BANK, CHITTOOR DISTRICT, ANDHRA PRADESH

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### ABSTRACT

*Stress is inevitable in all walks of human life. There is a continuous change in social, cultural, economic, political, legal and technological environment. Banking plays a significant role in the economic development of a country. Stress upsets the balance of an individual and adversely affects his/her physical and psychological well being. Stress related problems cost crores of rupees to the national economy. This is one of the major factors for lagging in productivity. A modest attempt is made in this article to identify the causes of stress and its impact. The universe of the study is Tirupati Cooperative Bank (TCB). This study encompasses 42 employees in TCB. The study found that a majority of employees had job stress. The difference in job stress among the three levels of employees is significant. Nervousness in accomplishing the tasks assigned; difficulty to handle technological changes in the emerging banking sector; lack of proper interaction and communication between the officers and subordinates; poor management and unnecessary interference in the work are the main factors that cause job stress. Therefore, the study implies that job security coupled with reward; cooperation among the employees; incentive for honest, sincere and hard working employees; promotion; cooperation and interaction among the employees are the need of the hour.*

### KEYWORDS

job stress, bank, stressors, role ambiguity.

### 1. INTRODUCTION

Stress related problems cost the national economy crores of rupees. This is one of the factors that cause lagging in productivity. In fact, the relationship between stress and status of health is significant. Undoubtedly, stressed people often become nervous and develop chronic worry. They can be easily provoked. As a result, they are unable to relax. There are many studies on stressors at individual level. Role conflict, role ambiguity, role overload and under load are widely examined among individual stressors (Newton and Keenan 1987). Sources of managerial stress were well documented since the late 1970s. Ivancevich and Matteson (1980) and Schuler (1980) have identified four categories of work stresses such as physical environment, individual, group and organisational levels.

During the past decade, the banking sector had undergone rapid and striking change due to policy changes to globalisation and liberalisation, increased competition, entry of private banks, downsizing, introduction of new technologies and so on. As a result, bank employees experience a high level of stress. The advent of technological revolution in all walks of life coupled with globalisation and privatisation have drastically changed conventional patterns. These have affected the social, economic and psychological domains of bank employees and their relations. Evidence from the existing literature states that more than 60 per cent of bank employees have one or other problem directly or indirectly related to the aforesaid.

TCB is one of the leading banks under co-operative sector in the Rayalaseema region of Andhra Pradesh. The present study has been undertaken with the following specific **OBJECTIVES**:

1. to study the level of job stress among the employees working at TCB;
2. to identify the causes for job stress;
3. to determine the effect of stress on the employees' well being and their quality of work; and
4. to suggest strategies for manage of job stress among employees.

### 2. METHODOLOGY

The employees in the TCB are classified into three categories viz officers, clerks and sub staff. Forty two employees are conveniently selected. The data is collected with the help of well structured questionnaire. The job stress factors such as role overload, intrinsic to the job, role ambiguity, role relatedness, role career, role expectations and family role are identified (Table 1). The response of employees is obtained on a series of statements under a five point continuum scale. The scores of 5, 4, 3, 2 and 1 are assigned to a positive statement i.e. strongly agree, agree, neutral, disagree and strongly disagree respectively. The score is reversed in the case of negative statement. The total score of each respondent is computed. On the basis of average score of each factor, overall mean score is determined. Taking into consideration the total score, respondents are classified into the three categories like high job stress (60.00 to 68.00); medium/optimum job stress (48.00 to 59.00); and low job stress (30.00 to 47.00) (Singh, 1975).

In order to find out whether or not the employees working in the organization under study differed in their job stress, Krushkal Wallis Test (H-test) is used:

$$H = \frac{12}{N(N+1)} \sum_{k_i} \frac{R_k^2 - 3(N+1)}{nk_i}$$

Where:

N = total number of employees in all the three categories ( in the present study N= 42 )

K = number of samples or groups (in the present case K= 3)

n = number of cases or frequencies in the  $k_i$  sample

$R_k$  = the sum of all ranks in  $k_i$  samples/groups

$i$  = ranges from 1 to k (individual group)

**3. ANALYSIS**

**STRESS RELATED FACTORS**

It can be observed from the Table 1 the response of employees to statements. These are categorised into different job stress factors.

**TABLE 1: RESPONSE ON STRESS RELATED FACTORS**

Factor	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<b>Role overload</b>					
I feel that I have been overloaded with too many works	12 (28.6)	15 (35.8)	3 (7.1)	12 (28.6)	0 (0.0)
I do my work under considerable tension	14 (33.3)	20 (47.6)	1 (2.4)	7 (16.7)	0 (0.0)
Physical working conditions are poor	13 (31.0)	23 (54.8)	1 (2.4)	4 (9.5)	1 (2.4)
<b>Intrinsic to job</b>					
I feel harassment at work place	13 (31.0)	7 (16.7)	2 (4.8)	15 (35.7)	5 (11.9)
I have been assigned too much responsibility	10 (23.8)	14 (33.3)	9 (21.4)	9 (21.4)	0 (0.0)
I feel nervous when I fail to accomplishing my task in job	14 (33.3)	19 (45.2)	8 (19.0)	1 (2.4)	0 (0.0)
My working hours are excessive	14 (33.3)	18 (42.9)	8 (19.0)	1 (2.4)	1 (2.4)
<b>Role ambiguity</b>					
I feel over burdened in my role	13 (31.0)	20 (47.6)	1 (2.4)	6 (14.3)	2 (4.8)
Several aspects of my role are vague and unclear	12 (28.6)	18 (42.9)	0 (0.0)	3 (7.1)	9 (21.4)
<b>Role relatedness</b>					
Boss	6 (14.3)	17 (40.5)	14 (33.3)	5 (11.9)	0 (0.0)
Colleague	10 (23.8)	20 (47.6)	7 (16.7)	3 (7.1)	2 (4.8)
Customers	10 (23.8)	19 (45.2)	8 (19.0)	4 (9.5)	1 (2.4)
<b>Role career</b>					
I find difficulty in coping with the changes in the banking sector	14 (33.3)	15 (35.7)	0 (0.0)	10 (23.8)	3 (7.1)
There is less staff consultation when change is proposed	9 (21.4)	17 (40.4)	14 (33.3)	0 (0.0)	2 (4.8)
I don't have any difficulties to handle the technological changes in the emerging banking sector	3 (7.1)	11 (26.2)	3 (7.1)	25 (59.5)	0 (0.0)
I am informed when new developments occur related to the changing situation	6 (14.3)	31 (73.8)	2 (4.8)	3 (7.1)	0 (0.0)
<b>Role expectations</b>					
I don't have good environment to interact with my colleagues	12 (28.6)	28 (66.7)	0 (0.0)	0 (0.0)	2 (4.8)
I have no sufficient assistance to complete my assignment	11 (26.2)	27 (64.3)	2 (4.8)	1 (2.4)	1 (2.4)
I feel that people around me simply expect too much from me	17 (40.5)	15 (35.7)	0 (0.0)	9 (21.4)	1 (2.4)
<b>Family role</b>					
I don't have enough time to spend with family members	2 (4.8)	9 (21.4)	4 (9.5)	26 (61.9)	1 (2.4)
My role tends to interface with my family life	8 (19.0)	16 (38.1)	9 (21.4)	8 (19.0)	1 (2.4)

Source: sample survey

Of the stress factors, family role is prominent (3.64) followed by intrinsic to job (3.37).

**TABLE 2: FACTORS AFFECTING JOB STRESS AMONG EMPLOYEES**

Factor	Mean score	Rank
Role overload	3.16	4
Intrinsic to job	3.37	2
Role ambiguity	2.84	6
Role relatedness	3.21	3
Role career	3.16	4
Role expectations	3.10	5
Family role	3.64	1

Source: Table 1

Role relatedness (3.21), role overload and role career (each 3.16), role expectations (3.10) and role ambiguity (2.84) (see Table 2).

**DESIGNATION WISE JOB STRESS**

A cursory look at the Table 3.1 reveals that a little over 45 per cent of employees have medium level of job stress followed high level of stress (31 per cent) and rest 23.8 per cent have low level of stress.

**TABLE 3.1: DESIGNATION WISE LEVEL OF JOB STRESS AMONG EMPLOYEES**

Stress level	Designation				Chi-square
	Officers	Clerks	Sub-staff	Total	
High stress	3 (16.7)	10 (47.6)	0 (.0)	13 (31.0)	$\chi^2 = 12.86;$ $(p = 0.012)^*$ df= 4; TV = 9.49
Medium stress	13 (72.2)	5 (23.8)	1 (33.3)	19 (45.2)	
Low stress	2 (11.1)	6 (28.6)	2 (66.7)	10 (23.8)	
Total	18 (100)	21 (100)	3 (100)	42 (100)	

Source: sample survey

There is a significant difference in job stress among the categories of employees since calculated value of  $\chi^2$  is greater than the table value.

**VARIATION IN JOB STRESS**

In order to know whether the employees working in the TCB differ in their job stress or not, Krushkal Wallis Test was used.

**TABLE 3.2: VARIATION IN JOB STRESS SCORES AMONG SELECT EMPLOYEES**

Status of employee	Number of respondents	Sum of ranks	'H' value
Officers	(n <sub>1</sub> = 18)	R <sub>1</sub> = 26.03	6.57 df = 2 Sig p= 0.037
Clerical staff	(n <sub>2</sub> = 21)	R <sub>2</sub> = 19.52	
Sub staff	(n <sub>3</sub> = 03)	R <sub>3</sub> = 8.17	

\*significant at 5 per cent level.

The results show that there is a significant difference in job stress among the categories of employees as the calculated value (6.57) is higher than the table value (5.27).

**IMPACT OF STRESS ON WORK QUALITY**

It is evident from the Table 4 that two thirds of respondents have perceived that the stress has undoubtedly affected the quality of their work whereas the remaining opined conversely.

**TABLE 4: IMPACT OF STRESS ON THE QUALITY OF WORK OF SAMPLE EMPLOYEES**

Response	Frequency	Percentage
Yes	25	60
No	17	40
Total	42	100

Source: sample survey

It implies that a lion's share of employees perceived that stress has adversely affected their quality of work.

**STRESS RELIEVING TECHNIQUES**

**TABLE 5.1: ADOPTION OF STRESS RELIEVING TECHNIQUES AT TCB LEVEL**

Response	Frequency	Percentage
Yes	28	66.67
No	14	33.33
Total	42	100

Source: sample survey

Nearly 67 per cent of respondents have opined that the TCB had adopted stress relieving techniques and the rest negative.

On probing whether or not employees were satisfied with the job stress relieving techniques adopted by the bank, 75 per cent have satisfied while the rest did not.

**TABLE 5.2: SATISFACTION ON STRESS RELIEVING TECHNIQUES**

Response	Frequency	Percentage
Satisfied	21	75
Not Satisfied	7	25
Total	28	100

Source: Table 5

It may be said that there is a need to know the causes for dissatisfaction so as to initiate corrective action. Otherwise it may cause adverse affect on their job performance.

**TABLE 6: STRESS RELIEVING TECHNIQUES ADOPTED BY EMPLOYEES**

Response	Frequency	Percentage
Yes	35	83.33
No	7	16.67
Total	42	100

Source: sample survey

A perusal of the Table 6 shows that 83.33 per cent of respondents have adopted stress relieving techniques in one way or the other by themselves. While, the rest did not.

**TABLE 7: STRESS RELIEVING TECHNIQUES EMPLOYED SAMPLE BY EMPLOYEES**

Technique used	Frequency	Percentage
Yoga	28	66.67
Exercise	15	35.71
Relaxation in peaceful place	6	14.29
Mediation	10	23.81
Short break	4	9.52
Positive thinking	7	16.67

Note: Multiple answers

Among the techniques adopted by respondents to relieve from stress, the highest 66.67 per cent have adopted yoga followed by exercise (35.71%), meditation (23.81%), positive thinking (16.67%), relaxation in peaceful place (14.29%) and short breaks from busy routine schedule (9.52%).



#### 4. SUGGESTIONS

The respondents were asked to suggest measures to create conducive environment to free from any kind of stress.

**TABLE 8: SUGGESTIONS FOR CREATING STRESS FREE WORKING ENVIRONMENT**

Suggestion	Frequency	Percentage
Cooperation among employees	31	73.81
Efforts to develop an effective and supportive relationship	15	35.71
Fixation of realistic deadline to accomplish the assigned task	3	7.14
Provision for relaxation during working hours	25	59.52
Short training camps	18	42.86
Provision of rewards/incentives for the honest, sincere and hardworking employees	32	76.19
Job security	28	66.67

Source: sample survey data

A perusal of the Table 8 shows that the highest 76.19 percent have suggested rewards/incentives to relieve stress, 73.81 per cent cooperation among employees, 66.67 per cent job security, 59.52 per cent provision for relaxation during working hours, 42.86 per cent short training camps, 35.71 per cent effective and supportive relationship and 7.14 percent fixation of realistic deadline to accomplish the tasks assigned to them.

#### 5. CONCLUSION

Family role, intrinsic to job, role overload, role career, role expectation and role ambiguity cause job stress. A majority of the employees had medium/optimum level of job stress. There is a significant difference in job stress among the three levels of employees. There is a need to educate and motivate those employees who have not adopted any stress relieving technique by themselves. Yoga is the popular technique used by respondents for relief from job stress at personal level.

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**EFFECTS ON CONSUMER SALES PROMOTION: A MAJOR DEVELOPMENT IN FMCG SECTOR****T. RAJESH****LECTURER****THIRU.VI.KA. GOVERNMENT ARTS COLLEGE****TIRUVARUR****DR. P. ASOKAN****ASSOCIATE PROFESSOR****P.G. & RESEARCH DEPARTMENT OF COMMERCE****THIRU.VI.KA. GOVERNMENT ARTS COLLEGE****TIRUVARUR****ABSTRACT**

Today the retail sector is the most important addition in Indian economy. Retailing is the biggest industry of worldwide, the company introduce many sales promotion in the market either consumer oriented or trade oriented which is attracts and stimulates to purchase the products. The sales promotion scheme frequently changes because the competition among the companies. The research in this paper tries to identify the consumer is expecting sales promotions by developing effects on consumer sales promotion a major development in FMCG sector.

**KEYWORDS**

consumer, FMCG, Sales promotion, Retail, Trade.

**INTRODUCTION**

Today the fast moving consumer goods are fulfilling with consumers needs and wants. This sector product used to people at every day or every month etc... the market available of many FMCG products because FMCG companies face the competition. So competition faced FMCG companies introduce many promotional activities like advertisement, pop, price off etc... FMCG companies such as HUL, ITC, NESTLE, P&G, GSK, Marico, Heinz are contribute 70% of FMCG revenues in the country. Most FMCG companies spent 15 to 20% of their total turnover on advertisement and brand promotion. The FMCG is many more companies' product available in the market. These companies have to face competition and so they operate many sales promotions such as consumer oriented or trade oriented.

**REVIEW OF LITERATURE**

Gopal das (2011) in his study "effect of retail sales promotion on buying behaviour of customers: an empirical study" said that price promotions are increasing consumers buying behaviours. This paper highlighted sales promotion such as direct price discount, buy one get one free, buy one get another product free, media advertisement, store publicities are stimulate consumers buying decision in FMCG products.

Abhigyan bhattacharjee (2011) described FMCG products influenced to Medias are both visual and print medias. Advertisement and Medias as well as publicities are creating new demand of products. It is suitable for both rural and urban areas.

**STATEMENT OF THE PROBLEM**

Today Indian market has many FMCG companies and products. FMCG companies have introduced many sales promotions to consumers. The companies and consumers can't identify for which promotions is suitable for them. This research finds out which kind of promotions satisfied with consumers and companies.

**OBJECTIVES**

1. To understand the consumer behaviour towards the sales promotion activities followed by FMCG in Tiruvarur Town.
2. To find out effective consumer sales promotions
3. To find out consumer expecting consumer sales promotion

**RESEARCH METHODS AND SAMPLES**

The research type is descriptive research. A sample of 120 respondents was selected with the help of convenient sampling method. The sample has chosen from Vasan, Sahara, Vinayaga and Ramajayam supermarket purchasers in Tiruvarur Town. The data were collected from direct field survey data and journals references. Data were collected with the help of the interview schedules. It has tabulated, analyzed and interpreted.

**ANALYSIS AND RESULTS**

This section presents the analysis and interpretation of the collected data from the sample (size120) respondents spread throughout the area of Tiruvarur major four supermarkets. The focus of analysis is exploring the components of customer behaviours towards the consumer sales promotions in FMCG.

TABLE 1: DEMOGRAPHIC PROFILE OF RESPONDENTS

S.NO	Factor	Category	No. of Respondents	Percentage
1	Gender	Male	44	36.7
		Female	76	63.3
		<b>Total</b>	<b>120</b>	<b>100</b>
2	Age	Below 20 years	21	17.5
		20 to 30 years	37	30.8
		30 to 40 years	48	40
		Above 40 years	14	11.7
		<b>Total</b>	<b>120</b>	<b>100</b>
3	Education	Below HSC	18	15
		Graduate	44	36.7
		Post graduates	38	31.7
		Others	20	16.6
		<b>Total</b>	<b>120</b>	<b>100</b>
4	Monthly income	Below 7000	13	10.8
		7001 to 14000	18	15
		14001 to 24000	46	38.4
		Above 24000	43	35.8
		<b>Total</b>	<b>120</b>	<b>100</b>
5	Occupation	Business	27	22.5
		Students	26	21.7
		Employees	25	20.8
		Households	42	35
		<b>Total</b>	<b>120</b>	<b>100</b>

Source: primary data

From the table 1 it can be seen that most of the Supermarket purchasers were female and they have worked homemakers also their age between 30to40. Most of the purchasers are graduated and their monthly family income level is Rs 14000 to 24000. The supermarket purchasers' income and education is very vital role. It has most influenced to product selection.

TABLE 2: EFFECTIVE SALES PROMOTIONS AND THIS IS RANKS

Expect promotions	no of respondents	Percentage	Rank
Media advertisement	9	7.5	4
Print advertisement	7	5.8	5
Demonstration	1	0.8	10
Free trails	3	2.5	8
Free samples	5	4.2	6
Pop materials	2	1.6	9
Store display	22	18.4	3
Price offer	28	23.4	2
Quantity offer	34	28.3	1
Buy one get one free	5	4.2	6
Cross promotion	4	3.3	7
<b>Total</b>	<b>120</b>	<b>100</b>	

Sources: primary data

From the table 2 proves that most of the consumers have taken purchase decision through consumer offers and Advertisements. The effective consumer offer is quantity offers and Advertisement in store displays. The table 3 indicates that most of the consumer opinion to attractive package stimulates to purchase the products and the green practice package had attracted with other packages. Many consumers have been expecting for ten to twenty percentage of free offers from manufacturers. The consumers say product quality is important to creating brand images and repeatedly purchase those products. The consumers are expecting top five consumer promotion is ranked as quantity offer, price offer, store display, media advertisement and print advertisements.

## DISCUSSION

The research was found that effective consumer sales promotions and consumers behaviours towards the promotions. Consumer demographical factor is very important to promotions. Income and education is vital role of choose the stores and promotions. Most of the supermarket purchasers were female and they are home makers. The customer has taken purchase decision from consumer offers. It has been bettered with Advertisement and other sales promotions. Peoples are easily visible the product to store display and it has been helping to consumers for chose the products. It was more effectiveness with media and other Advertisements. The quantity offer is fulfilling to consumers expectations. Attractive package was stimulated to purchase the products. Many consumers are expecting 10 to 20 percentages of free offers from manufacturers. The product quality is creating brand images and repeatedly purchases those products. The top three effective and consumers expecting sales promotions are quantity offers, price offer and store displays.

## CONCLUSION

Consumers have an opinion that they are expecting different kind of sales promotions. This sales promotion has been related to their income and educations. Most super market purchasers are females and they are home makers because they have come to supermarket and purchase the products that time they are showing many products also bought those products and many consumers like consumer offers. More percentage offers have been creating negative impact of product quality that time consumers are not believe the product quality so branded product manufacturer avoid high percentage free offers. Today many home maker women's are watching television programmes for free times so the manufacturer will present advertisement through televisions and can improve their sales. This research results only suitable for modern trade sales promotions.

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## OPPORTUNITY COST: DAY IN AND DAY OUT

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### ABSTRACT

*Opportunity cost is a very important concept in economics, used by individuals, households, firms and Government. Opportunity cost is the next best alternative forgone. Wherever the wants/needs/things to be done exceed the means and means have alternative uses there is a decision and there is an opportunity cost. The different scenarios given makes the readers understand the concept of opportunity cost.*

### KEYWORDS

opportunity cost, alternate uses.

### CASE

**F**riedrich Freiherr von Wieser first coined the term Opportunity Cost or Alternative Cost theory, which was drawn from his study *Theorie der gesellschaftlichen Wirtschaft (Theory of social economy)*, published in 1914. Lionel Robbins in his work *An Essay on the Nature & Significance of Economic Science* published in 1932 calls it "Choice".

*"The conditions of human existence exhibit three fundamental characteristics. The ends are various. The time and the means for achieving these ends are at once limited and capable of alternative application. Here we are, sentient creatures with, bundles of desires and aspirations, with masses of instinctive tendencies all urging us in different ways to action. But the time in which these tendencies can be expressed is limited. The external world does not offer full opportunities for their complete achievement. Life is short. Nature is niggardly. Our fellows have other objectives. Yet we can use our lives for doing different things, our materials and the services of others for achieving different objectives. ... If I want to do two things, and I have ample time and ample means with which to do them, and I do not want the time or the means for anything else, then my conduct assumes none of those forms which are the subject of economic science. But when time and the means for achieving ends are limited and capable of alternative application, then behaviour necessarily assumes the form of choice.*

*Every act which involves time and scarce means for the achievement of one end involves the relinquishment of their use for the achievement of another. It has an economic aspect"* (Robbins Lionel, 1932, pp.12-14). This clearly explains wants are unlimited, means are scarce and means have alternative uses. Unlimited and recurring desires on the one hand and limited resources on the other makes the individual use the concept of opportunity cost – the next best alternative forgone, to maximize utility given the resources.

### BRIEF CONTENT AS CLUE TO SOLVE THE CASE

**Opportunity Cost:** The opportunity cost is the next best alternative forgone, in a situation in which a choice needs to be made between several mutually exclusive alternatives given limited resources.

**Not an Opportunity Cost:** Although there is a desire to own, the absence of ability to pay or acquire results in losing it or not obtaining it.

Read the following Scenarios faced by Rahul from his childhood to employment and marriage, and find out which is an opportunity cost and which is not.

Different scenarios each consisting of a decision and 2 other alternative preferences and background (variables influencing the decision making, and ability to seize the opportunity) are mentioned. Find out which is an opportunity cost and which is not.

#### SCENARIO 1:

7 year old Rahul on vacation is throwing tantrums to his father asking him to take to Disney world (China) or Film City (Bangalore), or Wonder La (Bangalore). The kid doesn't have a passport. Father takes the kid to wonder la.

#### PRICES OF DIFFERENT ENTERTAINMENT/TOUR PROGRAMMES

TABLE 1

	Wonder La	Disney world	Film City
Price	Rs. 750/-	Rs.6500/-(ticket amount in Rs.)	Rs.600/-

Opportunity Cost –

Not an Opportunity Cost –

#### SCENARIO 2

Rahul's father is a supervisor in mining industry with a salary Rs. 35000/-. His son Rahul who is an engineering student requests father to buy him a Ducati. However, a typical father suggests him to buy splendour plus which has better mileage and safe ride. Also, tells his son that Ducati is non affordable with his current salary and income. Finally, Rahul and his father decide on CBR 250R.

#### ON ROAD PRICES OF DIFFERENT TWO WHEELERS

TABLE 2

	CBR – 250R	Splendor plus	Ducati (streetfighter)
Cost	Rs. 1,60,000/-	Rs. 46,000/-	Rs. 22,81,000/-
Insurance	Rs. 3, 000/-	Rs. 700/-	Rs. 32, 500/-
Fuel(per month)	Rs. 5, 000/-	Rs. 900/-	Rs. 9, 000/-
Total	Rs.1, 68, 000/-	Rs.48, 200/-	Rs.23, 22, 500/-

Opportunity Cost –

Not an Opportunity Cost –

#### SCENARIO 3

Rahul, aspiring to get in to IIMs, writes CAT examination. The cut off for almost all the IIMs is above 95 percentile. He wishes join IIM-B, but scores 87.8 percentile in CAT. The other institutes he shortlists are XIME, Bangalore, Welinkars (Mumbai). Cracks XIME-B and Welinkars. Joins XIME-B.

## TUTION FEES OF DIFFERENT B SCHOOLS

TABLE 3

	XIME-B	IIM-B	Welingkars
Fees	Rs.8 Lakhs	Rs.17 Lakhs	Rs.8.6 Lakhs

Opportunity Cost –

Not an Opportunity Cost –

**SCENARIO 4**

Rahul has 25000 to buy a new smart phone. He likes Moto G, Moto X and iPhone 6s. Based on the specifications and features, he finally decides to buy Moto X.

**PRICES OF DIFFERENT MOBILE PHONES**

TABLE 4

	Moto G	Moto X	iPhone 6s
Price	Rs.13000/-	Rs.21000/-	Rs.53000/-

Opportunity Cost –

Not an Opportunity Cost:

**SCENARIO 5**

Rahul's dream company to work for is Google.Inc. He was elated when he got the internship from the same company during his MBA course. He was determined to convert this opportunity into a PPO(Pre Placement Offer). Unfortunately he couldn't convert Google.Inc. Ramachandramoorthy, Rahul's uncle owned a leather factory. Since Rahul has been visiting his uncle's factory since childhood he knew a lot about the business and had a desire to work and develop it further. During his graduation, he and his friends had come up with a business plan "APP INCUBATOR". It's a user friendly platform for anyone with an idea to develop a new application in itself. And this was the right time for them to implement the idea and start a new venture. They together were planning to launch "APP INCUBATOR". And they consider this as right time for them to implement the idea since India is currently the major hub for investments in StartUps. He makes a lot of calculations in terms income in terms of short term profit, long term profit, risk, comfort, social status. Each reader can have their own choice of career for Rahul and identify the opportunity cost for him.

**EXPECTED INCOMES FROM DIFFERENT JOBS BY RAHUL**

TABLE 5

	Google. Inc	Leather Factory	APP INCUBATOR
Expected Income per annum	Rs.15 Lakhs	Rs.8 Lakhs	Rs.2 Lakhs
Expected Income after 10 years per annum	Rs.36 Lakhs	Rs.21 Lakhs	Rs.40 Lakhs

Opportunity Cost –

Not an Opportunity Cost:

**SCENARIO 6**

Rahul likes the actress Aishwarya Rai very much. From his college days he always wished to marry her and he still does. He however, knows that he cannot marry her for obvious reasons.

At office, he fell in love with his colleague Nithya, who was very caring towards him. His parents without the knowledge of his love story arranged another girl Reshma for his marriage. She was good looking and well educated. He liked her too. But since he is already in love with his colleague Nithya, hence, he had let go off Reshma to marry Nithya.

**DREAM GIRL / PROBABLE SPOUSE FOR RAHUL**

TABLE 6

Aishwarya Rai	Nithya	Reshma
---------------	--------	--------

Opportunity Cost –

Not an Opportunity Cost –

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## APPLICATION AND CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARD TO INDIAN CORPORATE

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### ABSTRACT

*International Financial Reporting Standards (IFRS) is a set of accounting standards, developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements. It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, national funding regimes, and other international and professional organizations throughout the world. Two of the main advantages of adopting IFRS are those of more transparency and a higher degree of comparability. Both of these will benefit investors and are essential to achieving the goal of an integrated global and financial market place. Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS).*

### KEYWORDS

International Financial Reporting Standard, Objectives, Scope, Challenges.

### INTRODUCTION

International Financial Reporting Standards (IFRS) are standards and interpretations adopted by the International Accounting Standards Board (IASB). Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IASs were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS. IFRSs are considered a "Principles bases" set of standards in that they establish broad rules as well as dictating specific treatments.

International Financial Reporting Standards (IFRS) as a global accounting language seeks to bring about a convergence in the way corporate accounts are prepared and reported globally. The fundamental difference among IFRS, other countries' Generally Accepted Accounting Principles (GAAP) and US GAAP is the underlying principles on which these standards are based. Thus, GAAP in a few countries, including US, are formed on rule-based system where as IFRS is based on principle-based system. Such standards are qualitative and to apply them, capturing the economic substance underlying a transaction is essential. This process will result into more transparent and accurate financial reporting.

By 2015, it is expected that more than 150 countries including USA will move to IFRS. Presently, approximately 120 nations have accepted IFRS for domestic listed companies. Of these, about 90 countries have made it mandatory for their companies to follow IFRS. India has decided to converge than adoption of IFRS. In India, though the Government has deferred the implementation of IFRS which was due on April 1, 2011 but felt necessary that the industries should before they convert and understand their accounts. The government said the convergence will happen after various tax-related and company law-related issues are resolved. The convergence requires that the awareness levels and competency needs to be raised. The level of technical preparedness of industry, accounting professionals expertise with international standards and economic environment prevailing in the country would pose challenges to smooth switch to IFRS

### THE IFRS INCLUDES

- International Financial Reporting Standards (IFRSs)—developed by the IASB;
- International Accounting Standards (IASs)—adopted by the IASB;
- Interpretations originated from the International Financial Reporting Interpretations Committee (IFRICs)
- Standing Interpretations Committee (SIC)

There is also a Frame work for the preparation and presentation of Financial Statements which describes some of the principles underlying IFRS.

### OBJECTIVES OF IFRS

The basic objective of Accounting Standards is to remove variations in the treatment of several accounting aspects and to bring about standardization in presentation. They intent to harmonize the diverse accounting policies followed in the preparation and presentation of financial statements by different reporting enterprises so as to facilitate intra-firm and inter-firm comparison. In all 29 Accounting Standards have been prescribed. However their applicability is dependent on its size – Level I / II / III Company.

### SCOPE OF IFRS

The use of international financial reporting standards (IFRS) as a universal financial reporting language is gaining momentum across the globe. Over a 100 countries in the European Union, Africa, West Asia and Asia-Pacific regions either require or permit the use of IFRS. The Institute of Chartered Accountants of India (ICAI) has recently released a concept paper on Convergence with IFRS in India, detailing the strategy for adoption of IFRS in India with effect from April 1, 2011. This has been strengthened by a recent announcement from the ministry of corporate affairs (MCA) confirming the agenda for convergence with IFRS in India by 2011. Convergence to IFRS would mean India would join a league of more than 100 countries, which have converged with IFRS. But Indian Accounting Standards have not kept pace with changes in IFRS. There are significant differences between IFRS and I-GAAP, because Indian standards remain sensitive to local conditions, including the legal and economic environment.

Beyond the legal requirements to comply corporate in India perceive that converting to IFRS would help in enhancing their reputation and relationships with the financial community. Other benefits include increased consistency between internal and external reporting, comparability with international competitors, increased access to international market, improvement in risk rating, improvement in planning and forecasting. There will be in a better position to assess the tax liabilities of multinational companies receiving income from overseas as well as for foreign multinationals setting up shop in their own country.

**CHALLENGES FACES IN ADOPTING IFRS**

- Although entities are frequently required to adopt new accounting standards under their national Generally Accepted Accounting Principles ('GAAP'), adopting IFRS, is an entirely different basis of accounting, posses a distinct set of problems.
- Information may need to be collected that was not required under the previous GAAP.
- Practical experience of applying a principles-based system of Financials Reporting Standards such as IFRS does not exist in many entities.
- The requirements of individual standards will often differ significantly from those under an entity's previous GAAP.

**CONCLUSION**

A business can present its financial statements on the same basis as its foreign competitors, making comparisons easier. Furthermore, companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide. Adopting IFRS, we would be adopting a "global financial reporting" basis that will enable companies to be understood in a global marketplace. This helps in accessing world capital markets and promoting new business. It allows companies to be perceived as an international player. A consistent financial reporting basis would allow a multinational company to apply common accounting standards with its subsidiaries worldwide, which would improve internal communications, quality of reporting and group decision-making. IFRS allows a company to benchmark itself against its peers throughout the world, and allows investors and others to compare the company's performance with competitors globally.

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**HEDGING APPROACHES TO REDUCE FOREIGN EXCHANGE RATE EXPOSURE IN INDIAN PERSPECTIVE**

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**ABSTRACT**

Home currency invoicing and hedging permit worldwide engaged organizations to decrease their exposure to foreign exchange rate deviations. This paper talks about foreign exchange rate exposure and risk expressing transaction risk, translation risk and economic risk. The paper states that home currency invoicing and hedging with currency derivatives let a reasonably uncomplicated administration of transaction and translation exposure and risk and argues its feasibility of use in diverse situation. It's complicated to manage economic risk because of its characteristics, but the paper argues that normal hedging offers potential to manage it. In addition, the management techniques for foreign exchange rate exposure is discussed and accompanied with a study of their real application. This paper tries to assess the available options to the Indian corporate for hedging exchange risks. The paper also talks about the requirement of managing foreign exchange risks, and argues the ways by which it is accomplished.

**KEYWORDS**

exchange rate risk, invoicing currency, transaction risk, translation risk and economic risk.

**INTRODUCTION**

Risk is a natural phenomenon of human behavior. For that reason, it arises in perhaps every facet of human effort. Captivatingly, it is not easy to come across a general explanation of the notion of risk, as it arises by stimulating diverse forms reliant on the nature of person action. Individual attitudes towards risk are borne out of the universal belief that monetary returns and risks are nearly forever extremely tangled, both in amount as well as in concurrence. The progression of our society, when seen as a sequence of joint returns garnered by civilization, can inescapably be linked with risk-taking on the part of persons and societies who created.

Foreign exchange risk affects a business's financial situation by fluctuations in the currency exchange rates. The risk is mainly sensitive for businesses that do transaction in more than one currency (like, exporters and importers). On the other hand, other business organizations are in some way exposed to foreign exchange risk if, their business is based on imported goods and services.

Where upward and downward movement in the currency exchange rates put impact on the business's profitability, currency risk should be governed. In a business where the vital functions are unlike financial services, the foreign exchange risk should be controlled in such a way that the concentration of the business is on delivering the main goods or services with no exposure to financial risks.

Due to unforeseen fluctuations in currency exchange rates firms who deals in more than one currency has to bear a risk in terms of unanticipated loss or profit and is further exposed to foreign exchange exposure. Foreign exchange exposure's is a probable cash flow whose scale is not sure at the instant rather it depends on the rate of the foreign exchange. Foreign exchange risk management is the way of identifying risks faced by the firm and executing the process of securing from these risks by financial or operational hedging.

We may say that the foreign exchange rate risk relate to the consequence of unpredicted exchange rate changes on the value of the firm. It may also be said that due to unhedged foreign exchange exposure it is the likely direct loss or indirect loss in the business, value of assets and liabilities, cash flows, net income and, which in turn changes its market capitalization in the stock market from a move in the foreign exchange rate. Firms' with multinational operations should diagnose the precise current risk exposure and then decide the strategy to hedge and the alternative financial hedging instruments to deal with these currency risks.

To carry out national and international monetary transactions every country has its own currency. A pair of currency is involved for all the international business transactions. For example, say if a firm in India wishes to source funds from global fiscal marketplace in United States currency i.e., US dollars (foreign currency) for short duration or long duration then on the date of maturity the borrowed amount would have to be repay in specific decided currency along with accrued interest on loan amount. It illustrates that the borrowed US dollars (foreign currency) sourced in the country (India) will be exchanged into Indian National Rupees (home currency), and when borrowed money (in USD) are repaid to the lender then the home currency (INR) will be exchanged into lender's currency (USD). As a result, the currency units of a country engage an exchange of one currency for another.

Foreign exchange rate in general is the price of one currency for other currency. The foreign exchange market of a country offers the operational system to exchange different pair of currencies and consequently, it assist in transfer of purchasing power of currency from one country to another. Trading in foreign currencies has grown immensely over the past several decades due to enormous growth of international trade as can be seen in the figure 3.1(USD 17.3 trillion merchandise exports of 160 WTO members in 2012 and USD 17.8 trillion in 2013).

**TABLE 1: WORLD MERCHANDISE EXPORTS AND IMPORTS**

Year	1948	1953	1963	1973	1983	1993	2003	2013
World merchandise exports: USD (in billions)	59	84	157	579	1838	3684	7380	18301
World merchandise imports: USD (in billions)	62	85	164	594	1883	3800	7696	18409

Source: [https://www.wto.org/english/res\\_e/statis\\_e/its2014\\_e/its2014\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2014_e/its2014_e.pdf)

The firms are exposed to the risk of foreign exchange rate movements because of incessant change in the exchange rates. Due to fluctuations in exchange rates the foreign currencies denominated cash flows, assets and liabilities of a firm experience a change in the value over a period of time. This inconsistency causes foreign exchange rate risk in the worth of cash flows, assets and liabilities. From the time when the fixed exchange rate system was dropped out in the early 1970s, particularly in developed countries, the currency risk has turn out to be extensive for various business firms. Outcome of this is that, a range of risk hedging financial instruments like foreign currency futures, foreign currency forwards, foreign currency options, and foreign currency swaps are being used to hedge the foreign exchange risk. Exporters who invoice their receivables in foreign currency utilize currency derivatives and lock the foreign currency exchange rate at a high level so as to secure their earnings from the depreciation of the foreign currency. In a same way the importers who invoice their payables in foreign currency utilize currency derivatives and lock the foreign currency exchange rate at a low level so as to secure their earnings from the appreciation of the foreign currency. Investors from India who invests in a foreign currency denominated securities would use currency derivatives and lock the foreign currency exchange rate at a high level so as to secure their revenue from the depreciation of the foreign currency.

Foreign exchange speculators get a rewarding base due to high degree of volatility of conversion rates. Currency futures contracts are mainly used from the many available currency derivatives instruments. Currency futures are exchange traded contracts. These are offered and traded through an organized exchange. The fundamental purpose of the futures exchange is to relocate risk from the hedger to someone who is keen to bear the risk for profit. Organized exchanges offer customers protection and grievance procedures, beside other benefits. The futures contracts undertake the future exchange rate between the pair of currencies and can be obtained at the offered rate by the currency exchange for a particular date in the future. The most recurrent users of these contracts are exporters



who invoice their receivables in foreign currency. They wish to safeguard themselves from the depreciation in the foreign currency exchange rate through locking the future foreign currency exchange rate at a high level.

A main supposition in the notion of foreign exchange risk is that exchange rate movements are not predictable and that this is determined by how efficient the foreign exchange markets are. Soenen in 1979 in the research work concluded that, foreign exchange markets has been able to create only a weak form of the efficient market hypothesis categorically which implies that consecutive movements in currency exchange rates cannot be predicted by analyzing the past series of foreign exchange rates. In 1992 Giddy and Dufey has concluded that if the efficient markets theory is applied to the foreign exchange market under floating exchange rates there is some indication which advocate that the current prices appropriately replicate all available information. This suggests that exchange rates respond to latest information in an urgent and impartial manner, and this information could not be used as a base to earn profit by any one of the party to the foreign exchange transaction. Foreign exchange rates vary arbitrarily in case; information on trend of the rates arrives randomly. It signifies that to forecast foreign exchange rate changes, foreign exchange risk management cannot be through with by engaging means.

All those firms that have exposure to foreign exchange risk must sensibly administer & manage its exposure mutually with management of other risks because the risk that is caused by unfavorable movements in foreign exchange rates could result in a loss to the company. The magnitude of risk is derived out by multiplying the amount of exchange rate changes with the volume and duration of the foreign currency exposure.

In today's era foreign currency markets have turned into complex global exposure management due to globalization of financial markets and advancement in Foreign exchange market. It is multifaceted primarily for the reason that the companies as they develop internationally have to bear multiplicity of exposure because of increasing size and the mounting volatility & variations in currency conversion rates of the foreign exchange markets. Therefore, a rational and fair approach is essential in view of formulating firms' foreign exchange risk management strategy. The preliminary aspect in such a programme is to settle on the precise amount of the assets which are under risk.

### SOURCE OF FOREIGN EXCHANGE RISK

Foreign exchange risk for a business can crop up from a number of causes, such as:

- From which country the company imports or to which country the company exports
- If costs, for instance capital outlay, are denominated in foreign currency
- If proceeds of exports is customary in foreign currency
- If income, for instance dividends, interest and royalties received from foreign company
- where the firm's advances and/or borrowings are denominated (and thus receivable and/or payable) in foreign currency
- if the firm has assets in a foreign country such as foreign currency term deposits operations or auxiliary units that are valued in a foreign currency

### RISKS IN FOREIGN EXCHANGE TRADING

Foreign exchange risk is the probable direct loss to a firm due to unhedged foreign exchange exposure or indirect loss in the its cash flows, assets and liabilities, net profit and, in turn, its stock market value because of movement in the exchange rate. In general we may say that currency rate risk is related with the impact on the value of the firm caused by unanticipated changes in the exchange rate. Exchange rate risk inherent in global firms' operations can be managed by determining the precise kind of existing risk exposure, the hedging strategy and the accessible financial instruments to deal with these currency risks.

Since Global firms are into international operations they become participants in currency markets. Firm needs to recognize the kind of risks that it is exposed to and the quantity of risk they bear. The three main types of exchange rate risk are:

#### 1. TRANSACTION RISK

It is principally cash flow risk which deals with the consequence of foreign exchange rate fluctuation on transactional account exposure related to receivables i.e., export contracts, payables i.e., import contracts or repatriation of dividends. Whenever exchange rate varies in the currency of denomination of any such contract it will affect in a direct transaction exchange rate risk to the firm.

#### 2. TRANSLATION RISK

It is fundamentally balance sheet exchange rate risk. It tells about exchange rate changes to the valuation of a foreign subsidiary and, in line, to the consolidation of a foreign subsidiary to the parent company's balance sheet. For a foreign subsidiary translation risk is typically measured by the exposure of net assets (assets less liabilities) to probable exchange rate changes. While doing consolidation of financial statements, on the basis of accounting regulations affecting the parent company the translation could be completed either at the closing exchange rate or at the average exchange rate of the period. Hence, though income statements are generally translated at the average exchange rate over the period, balance sheet exposures of foreign subsidiaries are usually translated at the current exchange rate at the time of consolidation.

#### 3. ECONOMIC RISK

It reveals mainly the risk to the firm's present value of future operating cash flows from exchange rate fluctuations. In core we may say that, economic risk shows the outcome of exchange rate changes on revenues and operating expenses. Where cost of domestic inputs and imports are treated as an expense of the firm and domestic sales and exports are treated as revenue for the firm. Economic risk is generally applied to the present value of future cash flow operations of a firm's parent company and foreign subsidiaries.

To build up a strategy for managing currency risk recognition of the different kind of currency risk, together with their measurement, is crucial.

### OPTIMIZATION OF FOREIGN EXCHANGE RISK

As per their fundamental origin exposure management methods can be classified into internal and external techniques. The main aim of internal techniques is to diminish or avoid an exposed position to come up. Internal techniques are primarily exercise as a part of firm's regulatory financial management and intend to minimize its exposure to exchange risk.

External techniques fundamentally are the contractual actions to offer shield against an exchange loss which may occur from an existing translation or exposed position.

These techniques are executed to give security against the likelihood that exchange losses will result from the foreign exchange risk exposure which the internal techniques have not been able to reduce.

### INTERNAL TECHNIQUES

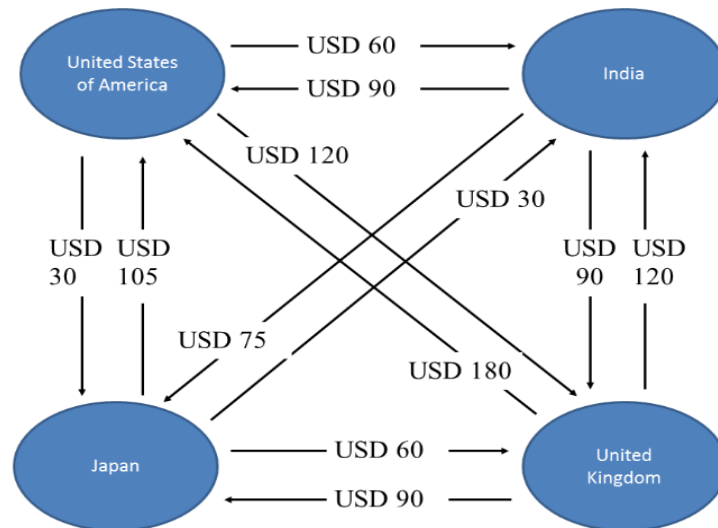
#### NETTING

Offsetting of exposures in one currency with exposure in the same or another currency is the concept of netting. In this exchange rates are likely to move high in such a way that losses or gains on the first exposed position should be offset by gains or losses on the second currency exposure. There are two types of netting i.e., bilateral netting and multilateral netting.

Each pair of subsidiaries nets out their own positions with each other in bilateral netting. Cash flows are reduced by the lower of each firm's purchases from or sales to its netting partner.

Consider an Indian Multinational Corporation with subsidiary in US, United Kingdom and Japan and the following foreign exchange transactions which may be seen in the figure:

FIG. 1



Assuming the exchange rate to be USD/INR 60.00, US will owe India USD 60 and India will owe USA USD 90. In nutshell India will owe USA USD 30 i.e., (USD 90 – USD 60). With this it may save one transfer, save float, save INR 1800 foreign exchange i.e., [(USD 90 – USD 60) x USD/INR 60]. India will owe United Kingdom USD 90 and United Kingdom will owe India USD 120. In nutshell United Kingdom will owe India USD 30 i.e., (USD 120 – USD 90). With this it may save one transfer, save float, save INR 1800 foreign exchange i.e., [(USD 120 – USD 90) x USD/INR 60]. United Kingdom will owe Japan USD 90 and Japan will owe United Kingdom USD 60. In nutshell United Kingdom will owe Japan USD 30 i.e., (USD 90 – USD 60). With this it may save one transfer, save float, save INR 1800 foreign exchange i.e., [(USD 90 – USD 60) x USD/INR 60]. Japan will owe US USD 105 and US will owe Japan USD 30. In nutshell Japan will owe US USD 75 i.e., (USD 105 – USD 30). With this it may save one transfer, save float, save INR 4500 foreign exchange i.e., [(USD 105 – USD 30) x USD/INR 60]. Japan will owe India USD 30 and India will owe Japan USD 75. In nutshell India will owe Japan USD 45 i.e., (USD 75 – USD 30). With this it may save one transfer, save float, save INR 2700 foreign exchange i.e., [(USD 75 – USD 30) x USD/INR 60]. United Kingdom will owe US USD 180 and US will owe United Kingdom USD 120. In nutshell United Kingdom will owe US USD 60 i.e., (USD 180 – USD 120). With this it may save one transfer, save float, save INR 3600 foreign exchange i.e., [(USD 180 – USD 120) x USD/INR 60]. Bilateral Netting would reduce the number of foreign exchange transactions as follows; Examine United States of America and Indian affiliate. Bilateral Netting: United States of America and India net out at USD 30, United Kingdom and India net out at USD 30, United Kingdom and Japan net out at USD 30, Japan and US net out at USD 75, India and Japan net out at USD 45 and United Kingdom and US net out at USD 60.

Before bilateral netting:

- Total funds (gross) to be moved: USD 1050

With bilateral netting:

- Total funds (net) to be moved: USD 270

This is a reduction of USD 780 in foreign exchange transactions.

Studies have shown the following benefits of netting:

- Decrease in the expenses associated with moving funds internationally.
- Decrease in the number of foreign exchange transactions (also reduces costs).
- Reduction in intra-company floats (wire transfers can take up to 5 days).
- Savings in administrative time.

**MATCHING**

Netting is relevant only to the operations of a multinational company relatively than exporters or importers. It is usually used only for inter company flows occurring out of groups receipts and payments. As compared to this, matching applies to both inter-company cash flows and third parties. It can be applied by the exporter, importer and the multinational company. Matching is the procedure in which a firm matches its currency inflows with its currency outflows with respect to amount and timing. Receipts received in a particular currency are used to make payments in that currency and consequently, it lessens the necessity to hedge foreign exchange risk exposure. Only for unmatched fraction of foreign currency cash flows hedging is required. If futures exchange rate seems cheaper than the expected spot rate then the aggressive firm may choose to capture futures contract on its currency payables and leave the currency receivables exposed to exchange risk.

There may be two types of matching:

- Natural Matching
- Parallel Matching

**NATURAL MATCHING**

In natural matching operation, two-way cash flow in the same foreign currency is required.

**PARALLEL MATCHING**

In parallel matching if the movements in two currencies are parallel, gains in one foreign currency are likely to be offset by losses in another. However, both sides of the parallel match lead to exchange losses or gains if the exchange rates move in opposite direction to expectations.

**LEADING AND LAGGING**

It is an adjustment of intercompany credit terms; leading means a prepayment of a trade obligation and lagging means a delayed payment. If an importer (payment) expects that the currency it is due to pay will depreciate, it may attempt to delay payment. This may be achieved by agreement or by exceeding credit terms. If an exporter (receipt) expects that the currency it is due to receive will depreciate over the next three months it may try to obtain payment immediately. This may be achieved by offering a discount for immediate payment. The problem lies in guessing which way the exchange rate will move. This is another way of managing exposures by shifting the timing of the exposures by leading and lagging payables and receivables. The rule of thumb is lead i.e. advance payables and lag i.e. postpone receivables in strong currencies and conversely in weak currencies.

Lead and lags in combination with netting form an important cash management strategy for multinationals with extensive intra-company payments.

It is principally intercompany technique while netting and matching are entirely defensive measures. Intercompany leading and lagging is a part of risk-optimizing strategy or an aggressive strategy that optimizes anticipated exchange gains. Leading and lagging requires a lot of discipline on the part of participating subsidiaries.

Lot of discipline is needed on the part of participating subsidiaries using leading and lagging. Global business firms which use leading and lagging strategy extensively may either assess subsidiary performance in a pre-interest basis or take into consideration interest charges and credits to conquer evaluation trouble.

## PRICING POLICY

There are two types of pricing strategy to control foreign exchange risk exposure.

- Price variation
- Currency of invoicing

**Price variation:** To defend themselves against exchange rate risk firms may increase selling prices to offset the unfavorable effects of exchange rate movements. However, the analysis of competitive situation, customer credibility, price controls and internal delays is required for making the decision to increase the selling price.

**Currency of invoicing:** A global firm may be able to move the complete exchange rate risk to the other party by invoicing its exports in its home currency and insist that its imports too be invoiced in its home currency. In simple terms, persist that all foreign customers pay in your home currency and that your company pays for all imports in your home currency.

However the exchange-rate risk has not disappeared, but it has just been passed onto the counterparty. Though opposite firm may not be satisfied with the strategy and just look for a substitute supplier. It may be attainable if firm is in a monopoly position, however in a competitive situation this is an impractical approach.

## EXTERNAL TECHNIQUES

Exporters and importers as well as multinational corporations use external techniques of hedging. External exposure hedging techniques cost are fixed and predetermined. The key external exposure management techniques are as follows:

### FORWARD EXCHANGE AGREEMENTS

An agreement in which two parties agree to exchange a pair of currencies with each other at a specified exchange rate on particular future date or within future specified duration is a forward agreement. Forward agreement diminish exchange risk ingredient in the foreign transactions. Forward price is paid to safeguard from the foreign exchange risk and optimum cost alternative should be selected to reduce the cost of purchase. However, some disagreement is there on how to calculate cost of forward cover primarily because there are two types of cost involved an ex-ante cost and an opportunity cost.

Assume an Indian exporter who expects to receive USD 1 million in six months. Suppose that the price of the dollar is Rs. 60 now. If the price of the dollar falls by 10 per cent, the exporter loses Rs.60 lakhs. But by selling dollars forward the exporter locks in the current forward rate of Rs. 60.50 which means even after dollar depreciating by 10 percent in the next 6 months, the exporter would still get Rs.60.50 per dollar. Thus, the exporter has fully hedged him i.e. he took a financial position to reduce his exposure to exchange rates.

### SHORT TERM BORROWING

Firms may hedge risks in the forward market through short-term borrowing technique. A firm may borrow dollar or any other foreign currency or the home currency. Short-term borrowing has a few benefits over forward cover. Using short term borrowing techniques, two major complexities of the settlement dates and the ongoing stream of foreign currency are simply solved. If the exposed receivable has been computable then the cost of short-term borrowing cover is the home currency amount which would have been received. The short-term borrowing technique yields the amount at the settlement date which is the foreign currency converted into home currency less the spot rate.

### DISCOUNTING

The fundamental objective of discounting is to exchange the proceeds from the foreign currency receivable into the home currency as quickly as feasible. This technique may be adopted to resolve the problems of ongoing foreign currency exposures and uncertain settlement dates. In discounting techniques, the effective discount rate less the home currency deposit rate is the cost.

### FORFAITING

Forfaiting as a hedging technique may be used as a resource to cover export receivables.

Forfaiting is the term usually used to indicate the purchase of obligations which is maturing at some future date and the obligation arising from deliveries of goods and services generally export transactions without recourse to any prior holder of the obligation.

The forfaiter will deduct interest in advance for the whole period of credit and give out the net proceeds instantly. The exporter thus nearly converts his credit based sales into a cash transaction. It almost removes the risk of nonpayment, once the goods have been delivered to the foreign buyer as per agreement with the stipulated conditions of sale. The exporter approaches a forfaiter before completing a transaction's structure. Once the forfaiter confirms the deal and sets the discount rate, the exporter can include the discount into the selling price. The exporter then accepts a commitment issued by the forfaiter, signs the contract with the importer, and acquire, if needed, a guarantee from the importer's bank that offers the documents needed to complete the forfaiting. The exporter delivers the goods to the importer and delivers the documents to the forfaiter who authenticates them and pays for them as settled in the commitment. The exporter delivers the goods to the importer and delivers the documents to the forfaiter who validates them and pays for them as decided in the commitment.

### GOVERNMENT EXCHANGE RISK GUARANTEE

In most of the countries in this world government agencies are providing insurance against export credit risk and have also initiated special export financing schemes for exporters in order to encourage exports. Some of these agencies have begun to provide exchange risk insurance to their exporters and the standard export credit guarantees. To avail this service the exporters have to pay a small premium on their export sales and for this premium the government agency take up the responsibility of all exchange losses and gains beyond an assured level. At earlier stages, such exchange risk guarantee schemes were launched to support capital goods exports where receivable exposures were of long-term nature. Government exchange risk guarantees can also be provided to cover foreign currency borrowing by public bodies. In all situations all the various exposure management techniques are not accessible because of restrictions imposed by the market-place and by regulatory system. In the similar mode, the availability of internal techniques is mainly a function of the international participation of each firm.

### FORWARD COVER

To hedge purchases as well as sales forward cover may be used. It may be two types' explicitly forward purchases cover and forward sales cover.

**Forward purchase cover** is extended to have terms and conditions associated with export of goods & services. Time period of delivery of currency should not be beyond seven days of the possible date of receipt as per the forward purchase cover. It may be provided for purchases of proceeds of foreign currency notes from licensed qualified money changers, provided that the currency notes were exported through the bank, for realization and credit to the bank's account. Hedging can be done for all other necessities associated to export.

**Forward sales cover** is extended to imports of goods & services in India, where the import is allowable as per the Import Control Regulation and repayment of foreign currency loans, approval from RBI for availing such loan should have been acquired. Such approval ought to have the information of currency, amount of interest and the repayment procedure.

The forward cover would have to offer repayment as per established terms & conditions. Repayment liabilities under such loans would be carried forward for several years and as the market would not forecast rate beyond six to seven months it would not be feasible to fix the forward rate for such future dates.

### OPTIONS

An option is a contract between two parties known as the buyer and the seller or writer where buyer of a contract buys a right to buy or sell an underlying on a specific future date at a predetermined price. Options are rights and not obligations to buy and sell underlying. It is an exchange traded contract. The buyer of a contract has to pay an option premium to the seller (*Foreign exchange*) of a contract for the right but not the obligation to buy or sell a certain amount of a specified quantity of one currency in exchange at a preset price for a specified period of time. The right to buy a currency is a call option and the right to sell a currency is a put option.

Foreign currency options are contracts that have an upfront fee, and give the owner the right, but not the obligation to trade domestic currency for foreign currency (or vice versa) in a specified quantity at a specified price over a specified time period. There are many diverse styles of options like puts and calls, European style, American style, and future-style etc. The vital variation between an option and the other hedging techniques is that an option has a nonlinear payoff profile. They allow the elimination of downside risk without cutting off the benefit from upside risk.

On the basis of the exercise time the determination of the payoff price or the prospect of a payoff there are diverse kinds of options. While several different ranges exist, there are a few that corporations have found functional for the use of hedging transaction exposures.

Out of many the one is the average rate option. Over the life of the contract this option has the average spot price as its payoff price. As a result these options can be valuable to a firm that has a stable stream on inflows or outflows in a particular currency over time. One large average rate option will fundamentally work as a hedge for the total stream of transaction. In addition, the firms will lock in an average exchange rate over the period. Since the average rate is relatively less volatile than the closing rate, this option will be cheaper than corresponding typical options. Thus the firms are able to reduce transaction costs and reap the benefits from the hedging in due course of the averaging effect.

Basket rate option is one more accepted exotic option for corporations. In place of buying options on a group of currencies individually, the firms can take an option based upon some weighted average of currencies that go with its transaction blueprint. Since currencies are not perfectly correlated the average exchange rate will be less volatile and this option will consequently be cheaper.

**FUTURES**

Futures are contract between two parties where buyer and seller of a contract do a contract to buy or sell an underlying on a specific future date at a predetermined price. It is an exchange traded contract. Future contracts are similar to forward agreement but are more liquid as these are traded on recognized exchanges. Since these are exchange traded and therefore have standardized and limited contract sizes, maturity dates, initial collateral, and several other features. Specified that futures contracts are available in only certain sizes, maturities and currencies, it is usually not likely to get a precisely offsetting position to entirely eliminate the exposure. These are traded on an exchange and therefore have a liquid secondary market. In case the contract timing does not go with the exposure timing then theses can be unwind easily in the secondary market.

**SWAPS**

Swaps is a contract between two parties, known as counter-parties, who agrees to swap payments between them for an agreed time period as per the rules agreed in the agreement. It is a financial transaction which engages two counter-parties who agreed conditions to exchange flows of payments or cash flows overtime on the basis of agreement at the commencement of the contract. Swap is similar to a sequence of forward agreements. Swaps engage a chain of exchanges between counter parties at particular futures dates.

**CHOOSING BETWEEN INSTRUMENTS**

The firm should take into consideration the costs and the decisive home currency cash flows which should also be properly adjusted for time value of every method based upon the rates available to the firm while selecting between these diverse financial techniques. The diverse techniques have different kind of cash flows at different points in time and this should also be taken into consideration by the firm. Considering the assumption of risk neutrality in efficient markets, all of these contracts must be priced so that their expected net present value is zero. This means that, techniques, like forward and futures, that have no upfront payment will have a zero expected payoff; while options, depending on their strike price and maturity, will have an expected payoff whose discounted value is equal to the upfront premium.

**TRANSACTION HEDGING UNDER UNCERTAINTY**

Hedging does not take the arguments of uncertainty about either the timing or the existence of an exposure.

**UNCERTAINTY ABOUT TRANSACTION DATE**

Many corporate treasurers are reluctant to commit themselves to the before time shelter of foreign currency cash flow. This is because, even though they are certain that a foreign currency transaction will take place, however they are not certain about the accurate date of the transaction happening. These sought of uncertainties crops up due to probable disparity of maturities of transaction and hedge are unsubstantiated. When more exact information is available firms may adjust the maturity date of financial contracts at a later date through the mechanism of rolling or early unwinding. The consequential risk borne by the firm from the maturity mismatch is generally reasonably small as compared to the total risk of leaving a transaction exposed in anticipation of superior information becomes accessible.

Let us take an illustration on an Indian exporter who had been expecting to receive, from a foreign purchaser, a payment of USD 5 million at a future date t. In the beginning, he had hedged himself by selling forward the USD 5 million at a forward price of USD1 = INR 60.00. Moving towards date t, he is intimated that his foreign customer will pay one month later at date t+1. As a result, at date t the Indian producer have to roll over his forward contract on the basis of the then prevailing exchange rates:

Spot rate at t (USD/INR): 58.35 / 45

One-month Franc discount 75 / 100 (Outright forward 59.10 / 59.45)

The Indian exporter's transactions can be seen below:

TABLE 2

Time	Transaction	Exchange rate	Cash Flow (INR in millions)
0	Forward sale of USD 5 million to t	USD/INR 60	0.00
t	Roll over: spot purchase of USD 5million	USD/INR 59.45	300.00
		USD/INR 60.20	- 297.25
	forward sale of \$1m to t+1	(59.45 + 0.75)	2.75
t+1	Execute forward contract		301.00

Observe that the rollover rate is not a usual forward rate. This rate is calculated by tagging the swap bid rate of 75 Indian National paisa relating normally to the exporter's forward sale of INR onto the current spot ask price of 59.45 USD/INR at which he has just bought USD. In view of the fact that the rollover only need the bank to enter a swap as opposed to a swap and a spot. On a spot purchase through a forward sale transaction, the bank does not charge a bid-ask spread for the forward round trip component.

Now the Indian exporter collects his INR in two installments. Assume he re-invests his profits on the original forward contract, INR 2.75m for 30 days at the INR deposit rate, which happens to be 9.00% at the time. This produces a small amount of interest equal to INR 0.20m. In total the exporter collects an amount equal to INR 301.00 + 2.75 + 0.20 = INR 303.95 millions. This can be decomposed as:

INR 303.95 = INR 300 + 3.75 + 0.20

or, the proceeds of the original forward rate contracted at time 0 for maturity t, plus the forward premium prevailing at date t for the extra month, plus the interest on the gain from rolling over the forward contract.

Despite the fact that it is not easy to separate the interest rate risk arising from the unanticipated delay of the payment which was inevitable and the basis risk arising from hedging the wrong maturity, we can see that the risky components of the roll over return (3.75 + 0.20) are small in size relative to the exchange rate risk that would have been borne if the transaction had not been hedged, even if incorrect. Thus the fact that the maturity of a recognized transaction is not known is not satisfactory reason to delay the hedging of the transaction.

**UNCERTAINTY REGARDING EXISTENCE OF EXPOSURE**

One more type of uncertainty that occur concerning transaction exposure is in submitting bids with prices fixed in foreign currency for future contracts. As a bid is accepted, the firm will either make payment or has to receive foreign currency denominated cash flows. Since it is a contingent transaction exposure this is an unusual source of exchange rate risk. An option is perfectly matched in such cases. The firm is actually concerned in getting insured against unfavorable exchange rate movements between the time the bid is submitted and the time it may be accepted. As a result an option is capable to guard the value of the foreign currency cash flows related with the bid against unfavorable currency movements. The option price, which can be incorporated in the bid, defend the value of the expected cash flows from declining below a predetermined level and signify the most the firm can lose due to currency risk. In these circumstances there are four probable results which may be the bid is either accepted or rejected and the option is either exercised or let to expire. The effective proceeds to the firm per unit of option contract are equal to the net cash flows of the project.

TABLE 3

<i>Circumstance</i>	<i>Bid Accepted</i>	<i>Bid Rejected</i>
If spot price is superior than exercise price then let the option expire	Spot Price	0
If spot price is inferior than exercise price then exercise the option	Exercise Price	(Exercise Price – Spot Price)

**OPERATIONAL TECHNIQUES FOR MANAGING TRANSACTION EXPOSURE**

Through implementing operational strategies that have the worth of offsetting existing foreign currency exposure we can manage transaction exposures. At the time when sound currency derivative market do not exist these techniques are particularly significant for the contracted foreign currencies.

These techniques comprises of:

**RISK SHIFTING**

To reduce the foreign exchange exposure firm should not have the foreign exchange exposure. By saying that it can be infer that if the firms do invoicing of all transactions in their home currency then it can stay away from transaction exposure. Since one party to a transaction has to bear transaction exposure for a foreign currency transaction therefore this technique cannot work for every firm. Usually the firm that is able to bear the foreign exchange risk at the lowest cost will bear the exposure. Certainly, the choice on which firm will bear the currency risk possibly will affect the concluding price at which the contract is finalized.

**CURRENCY RISK SHARING**

The contract may be agreed on in such a mode that any fluctuation in the foreign exchange rate from a settled upon currency rate for the date of the transaction will be divide between both the parties. This alternative of sharing the risk may be applied to evade the currency risk. As we know that one party's loss is the other party's gain therefore short terms transaction exposure is approximately a zero sum game.

Say for instance an Indian firm 'X' contracts to pay a US firm 'Y' USD 100 in 3 months based upon an agreed on spot rate for three months from now of USD/INR 60, thus costing the Indian firm INR 6000. However, under risk sharing the Indian firm and the US firm agree to share the exchange rate gain or loss faced by the Indian firm by adjusting the USD price of the goods accordingly. Thus, if the rate in 3 months turns out to be USD/INR 58, then rather than only costing the Indian firm USD 100 \* 58 = INR 5800, the INR 200 gain over the agreed upon rate is split between the firms resulting in the Indian firm paying INR 5900 and the US firm receiving USD 101.72. Alternatively if the exchange rate had fallen to USD/INR 62, then instead of paying INR 6200 for the good, the exchange rate loss to the Indian firm is shared and it only pays INR 6100 and the US firm accepts USD 98.39. Note that this does not eliminate the transaction exposure, it simply splits it.

**LEADING AND LAGGING**

As already discussed in earlier section one of the operating strategy to shrink the magnitude of transaction gains and losses involves playing with the timing of foreign currency cash flows. At the time when the foreign currency is appreciating in which an existing nominal contract is denominated, firm be keen on to pay off the liabilities before time and get the receivables later. The former is known as leading and the latter is known as lagging. Obviously when the foreign currency is depreciating in which a nominal contract is denominated, firm feel like to pay off the liabilities later and to get the receivables before time.

**REINVOICING CENTERS**

A re invoicing center is a separate corporate subsidiary that deals with in one location all transaction exposure from intra-company trade. The manufacturing associates export the goods to the foreign distribution associates only by exporting to the re invoicing center. The re invoicing center then exports the goods to the foreign distribution associate. The significance of the re invoicing center is that the transactions with each associate are carried out in the associate's home currency, and the re invoicing center takes up all the transaction exposure. The major benefits for using re invoicing centers are the advantage related with centralized management of transaction exposures from within company sales, the capability to place foreign currency prices in advance to help out foreign associates budgeting processes, and an enhanced capability to deal with intra associate cash flows as all associate settle their intra-company accounts in their local currency. Re invoicing centers are generally an offshore (third country) associate in order to meet the criteria for domestic nonresident category and benefit from the probable tax and currency market access advantages that arise during that distinction.

**OPERATING EXPOSURE**

Firm has to bear the changes in the relative prices due to the changes in the real foreign exchange rate. Competitiveness of the firm is affected by the changes in relative prices. As we know that diverse competitive situation entails a different economic actuality, it is improbable that the firm's main operational selection will be most advantageous. As a result, on the basis of its view regarding the determination of the real foreign exchange rate movement, the firm possibly will wish to do some changes in its operating strategy. In reply to the exchange rate change a firm requires some accessible elasticity that permits it some liberty to revise its operations. In the direction of purely carrying out the unfavorable foreign exchange rate movement the firm possibly will require short-term cash flow shield during the installation of elasticity or may be complete cash flow cover if the suppleness, or otherwise real operating options, does not exist. The firm may treat this operating flexibility or operating options as real hedges to save from financial dent itself from real exchange rate movement. By using financial instruments the firm may provisionally defend or insure cash flow. Consequently both real operational and financial hedging strategies are vital for the management of a firm's operating exposure to foreign exchange rates.

**OPERATIONAL STRATEGIES FOR MANAGING OPERATING EXPOSURE**

The impact of foreign exchange rate movements on the firm's real operations is operating exposure. So the firm managing this exposure should consider operation reactions to exchange rate movements. Preferably the firm would like to arrange its functional department like operations, production and manufacturing, sourcing of resources, sales and marketing in that way in which the firm can take action when there is a change in the real exchange rate in order to get gain of the enhanced competitive positions and also to restrict the damage caused due to competitiveness decline. These possibly will be the anticipated measures that offer the firm an operating alternative, or minor changes in the intensity of operations that strives to diminish the unfavorable impact of exchange rate movements on firm value. Operational strategies call for the firms to act in response to the new economic atmosphere which generates from the exchange rate change and formulate changes to the economic actions of the firm. In financial hedging, firm without taking any factual economic measures receive an agreed cash flow if there is any exchange rate change.

**DIVERSIFYING OPERATIONS**

Firm may come up with an alternative of diversifying into functional operations with offsetting exposures to the exchange rate so as to deal with the impact of exchange rate exposure on the firm's cash flows. This strategy generates a likely operating hedge that maintains total foreign currency cash flows balanced even at the time of fluctuations in real exchange rate. Say for instance; firm may merge the manufacture and exporting of the products with an importing operation that imports competitive customer products from foreign manufacturers. This strategy has its apparent advantages however; it has some probable weaknesses like it may make the firm doing the transactions which may not lead to any obvious comparative benefit which may make a way of incompetent source of funds. We may say that the firm may observe both the transactions as corresponding and permit cross subsidization to take place for longer duration of time and is not able to judge the financial feasibility of each operation.

Thus, if a firm is not able to execute this strategy vigilantly, this can become a costly strategy for hedging an operating exposure.

**FINANCIAL STRATEGIES FOR MANAGING OPERATING EXPOSURE**

The objectives of financial strategies for hedging operating exposure are assessing and supervising the currency composition of a debt of a firm, and considering that there should be inverse correlation between the net payoffs and the impact of real exchange rate change on firm value.

**CURRENCY DENOMINATION OF FIRM DEBT**

The ultimate objective of hedging is to optimize the impact of exposure. By matching foreign currency inflows with foreign currency outflows this may be achieved for managing real operating exposure. Long term currency flows affect operating exposure and foreign exchange rate fluctuations affect future foreign currency revenues therefore to offset the impact on anticipated cash flows the firm may adopt the hedging strategy denominating a few of their long term debt in foreign currency.

This can be understood with the following case:

An Indian subsidiary of a parent company in United States of America has a project that needs USD 2 million as a capital. Below are the cash flows from the Indian subsidiary to U.S. parent when the project is financed with USD 2 million loan. (Inflows are randomly determined, based upon negative exposure to Spot rate (USD/INR).

**TABLE 4**

Spot Rate (USD/INR)	60	55	65
INR Net Operating Inflows	INR 200	INR 210	INR 190
USD Inflows	USD 3.33	USD 3.81	USD 2.92
Pay Back USD Loan	- USD 2	- USD 2	- USD 2
USD to Parent Company	USD 1.33	USD 1.81	USD 0.92

Now consider cash flows to United States of America parent company with 10 million INR loan for the project:

**TABLE 5**

Spot Rate (USD/INR)	60	55	65
INR Net Operating Inflows	INR 200	INR 210	INR 190
Pay Back INR loan	- INR 100	- INR 100	- INR 100
Net INR Profit	INR 100	INR 110	INR 90
USD to Parent Company	USD 1.67	USD 2	USD 1.38

As a result the foreign currency debt has diminished volatility in the cash flow arising from the exchange rate exposure. Thus by denominating debt in foreign currencies in an estimated projected potential revenues that firm anticipate in coming years, it is able to decrease the impact of exchange rate movements on the value of firm.

If borrowing in foreign currencies is costly may be because foreign lenders have no knowledge about the borrowers or costs of issuing debt at foreign country are higher as compared to in home then, the firm is capable of borrowing in home country from their financial market and subsequently may go for a swap agreement for converting the home currency debts obligations into foreign currency debt obligations.

**SWAPS**

Swaps are the agreements in which it is agreed that the buyer can swap one set of cash flows for another. As a result the buyer of swap agreement gives consent to pay periodically agreed on some financial price and in return will receive payments periodically agreed on some other financial price. Interest rate swaps are mainly one of the most widespread swaps. In Interest rate swap agreement a firm be in agreement with the counterparty to pay the variable interest rate over time on a particular principal amount while at the same time receiving fixed interest rate payments on the same principal amount. Usually, the rates are computed in such a manner that the present value of the probable payments equal the present value of the fixed receipts. Therefore the swap is an agreement of zero net present value. In view of the fact that the principal amount is merely theoretical, it is used just to agree on the amount of the payments, no money is swapped up front or at the end.

In currency swaps firm may go for either fixed or floating interest rates since pair of currencies are involved. Fixed currency swaps are mainly the most accepted currency swaps in which a fixed rate in one currency is swapped with a fixed rate in another currency. Since pair of currencies is involved, original principal amounts is exchanged between both the parties to swap agreement. By and large these principal amounts are of identical value given the two currencies' spot rate. These original principals are exchanged back at the maturity of the swap agreement.

Below is an example of the cash flows to a firm entering a foreign currency swap. In this example the firms swap initial principal's amount, cash flows of interest payments take place periodically and at the maturity the firms make the terminal interest payments and swap back the initial principals amount.

An Indian firm comes to a decision that it should borrow USD for a long term in line to hedge the USD cash flows it US subsidiary. It evaluates that the cost of making a USD debt issue at New York is significantly more than its cost of issuing INR debt in New Delhi. In the same way, assume that a US firm comes to a decision that it should borrow INR for a long term in line to hedge the INR cash flows of its Indian subsidiary. It also evaluates that the cost of making a INR debt issue in New Delhi is considerably more than its costs of issuing USD debt in New York (not considering currency issue). The individual costs for 10 year debt are as follows:

**TABLE 6**

Firm	Borrowing Interest Rate	
	USD	EUR
Indian firm	8%	9.5%
US firm	8.40%	9%

In view of the fact that each firm has a relative benefit in issuing debt in its own market, these two firms could gain from issuing their debt domestically and agreeing on a currency swap. Presuming the swap rates are INR 8%/8.15% and USD 9% / 9.30%

The usual swap agreement denote that the principal amount swapped initially be roughly equal at the current spot exchange rate. In this example the swap could be agreed out bilaterally but, more typically, is carried out with the intermediation of a bank. In the above example, assuming that these amounts are USD 1 million and INR 60 million (i.e., the initial spot rate is USD1 = INR 60). At the beginning of the swap the Indian firm receives USD 1m from the financial counterparty and delivers to them INR 60m. After that the Indian firm makes half yearly interest payments of USD 0.0465m (USD 1m x 9.30%/2) to the counterparty (bank) and receives INR 2.52m (INR 60m x 8.40%/2) from them for the next ten years.

The US firm receives from the swap counterparty INR 60m and delivers to them USD 1m at commencement. The US firm then receives half yearly payments USD 0.045m (USD 1m x 9%/2) and pays INR 2.445m (INR 60m x 8.15%/2). Each year the bank retains the differences as its reward and at the end of ten years the parties re-exchange the original principal amounts with the counterparty.

In principle, the firms have agreed to a series of 20 half yearly forward agreements that require the exchange of INR 2.445m for USD 0.045m (for the US firm) and USD 0.0465m for INR 2.52m (for the Indian firm) and large long dated forward for the re-exchange of principles at INR 60m for USD 1m at year ten. The implied forward rates are such that the present values of the cash flows over the contract are equal, although at early cash flows have a negative present value for the Indian firm and the later cash flows have a negative present value for the U.S. firm. For both firms, this swaps acts as a hedge for the stream of foreign currency cash flows they expect to receive from their foreign subsidiary. The firms can exchange the original principals into home currency and use the proceeds to pay off outstanding debt, or even pay back the original loan used to create the swap, knowing that it will have to repay that amount of foreign currency at maturity.

Through sound developed swap markets that is presently available, and the increasing number of mediators offering to write swaps for customers, a firm can swap just about any set of cash flows for some other form of cash flows. Swaps can also be successfully executed to hedge other forms of macroeconomic risk.

**OPTIONS**

Currency options contract is an accepted technique for the firm to defend the home currency value of future foreign currency cash flows and reducing the impact of transaction exposure. Though exchange traded options contracts are available for a short tenure, OTC (over the counter) option can be bought or sold, even for a long tenure. A firm can balance a fiscal offset to the impact of likely unfavorable currency fluctuations on the flow of foreign currency cash flows through forming a portfolio of long tenure call options in foreign currency. Since the terms and conditions like price, quantity and expiry, etc. of the options are fixed by the exchange, it is almost not possible to have an ideal hedge because the accurate quantity of foreign currency cash flows is unknown at each point of time in the future.

Initially firm should recognize their operating exposure before applying currency options. In the case, when the home currency appreciates in terms of foreign currency and the value of their operating cash flows in the home currency reduces then the firm should take long position in the put option of foreign currency. In the case, when the home currency appreciates in terms of foreign currency and the value of their operating cash flows in the home currency increases then the firm should take long position in the call option of foreign currency. As options decreases risk they do not remove it like future contracts do.

Options contracts are dearer in particular if compared with futures contracts. When firm purchases options to hedge operating exposure, particularly when it is hedging for last quite a few years needed a significant large amount to pay option premium. However, considering the cash flows in foreign currency for some prospective advantage in the future organization may avoid paying option premium now.

There are a number of feasible ways out to deal with this dilemma. Firm may merely cut the level of cover that it is purchasing, may be going for less quantity of options; or may go for lesser amount of security they offer in terms of the exercise price. Firm may quit some of the excessive benefit of its foreign exchange exposure by writing a currency option on it to facilitate funding some of the shortcoming guard that firm is concerned in purchasing. Taking short position in out-of-the-money foreign currency call option the firm may go for taking long position in the long term out-of-the-money put option, this may offers the preferred safety against the unfavourable movement and the firm can acquire the cover at reduced price. Evidently the total price to firm will come to be identical as fraction of the total price is provisional, take in at the time of the firm offering its gain by maturing the call option and that too for extremely advantageous exchange rate movements. These are known as zero premium hybrid options contracts. Two European style zero premium hybrid options contracts are as follows:

**CONCLUDING VIEWS ON FINANCIAL HEDGING OF OPERATING EXPOSURE**

Some essential elements are present which requires to be considered regarding financial hedging of operating exposure. Hedging firm should consider that it is going to hedge the effects of real exchange rate movements on the firm by means of financial contracts that are denominated in nominal values. Consequently the firm is replacing home price risk for real exchange rate risk by locking in hedge of real operational flows with contracts on particular nominal exchange rates. Say for instance, an Indian exporting firm who wish to hedge the anticipated cash flows denominated in USD for the year by taking short position in currency futures at the USD futures price. Later unpredictably there was inflation in India and INR depreciates in terms of USD which has no impact on the real exchange rate. There would have no impact on the estimated USD cash flows, but the Indian exporting firm would have to exchange then at a higher USD/INR exchange rate than would now be applicable. Since the firm had hedged nominal exchange rate rather than real exchange rates, it has to bear an economic loss.

Hedger should also consider that financial hedging of operating exposure is a next finest way out. Where strategic hedging of exposure ends, hedger should start applying financial hedging to hedge operating exposure. Financial hedges contracts are for a predetermined magnitude and for a preset time period. They are not capable of modifying the new competitive situations which the hedging firm has to face, however they are able to reduce the shock of a real exchange rate fluctuations. Financial hedges are not a permanent measure for the hedging firm to protect from unfavorable movement in competitive environment rather it provides protection for a short period of time that permits it the economic competence to take a decision on how to respond in economic manner to the changed competitive environment.

**TRANSLATION OR ACCOUNTING EXPOSURE**

Translation exposure is impact of unexpected fluctuations in foreign exchange rates on the real home currency value of assets and liabilities, recorded in the financial statements of a firm.

**Following are the ways to translate foreign currency to home currency**

- **Current/Non-Current Method:** In this method the current assets and current liabilities of a firm are translated at current foreign exchange rate
- **Monetary/ Non-Monetary Method:** In this method the monetary assets and liabilities of a firm are translated at current foreign exchange rate
- **Temporal Method:** This method is same as Monetary/Non-Monetary method however inventory may be translated at current exchange rate if it is recorded in the financial books at market value
- **Current Rate Method:** In this method the position statement and income statement objects are translated at current exchange rate

Firm exposed with accounting exposure cannot control it like it is able to manage the economic and transaction exposure.

**APPRAISING HEDGING OUTCOMES**

We may treat hedging as an indemnity product. If any unfavorable event happens only then we use it. We do not wish to use it because we are not comfortable with adverse movements in the currency rate. As we know that nobody would like to face adverse event therefore, they go for hedging the foreign exchange exposure and spend money on it. Conversely, hedger spends money to buy the financial hedging instrument for having mental peace and protection against unfavorable happenings. Hedging is always done in anticipation of happening or not happening of some event therefore its success can be evaluated only on or after the date of maturity of the hedging contract.

Lowering a firm's exposure from major foreign exchange rate fluctuations firm has to assess and manage currency risk. Firms who are engaged in worldwide operations and investments are exposed to foreign exchange exposure. Their profit margin is affected by fluctuations in the currency exchange rate since it affects firm supplies, finished goods markets and the worth of assets and liabilities. Subsequent to the currency crisis incidents of the previous decade and the resultant keen global consideration of accounting and balance sheet risks has necessitated cautious management of currency risk.

Firms engaged into international business employ diverse hedging strategies on the basis of the particular sort of currency risk. Business managers have turned practical in managing these risks because these risks may perhaps be unfavorable to the profitability and the market valuation of a firm. Seeing the demand for protection against the currency risks financial engineers are coming up with a multiplicity of financial hedging instruments.

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**WOMEN ENTREPRENEURSHIP: GOVERNMENT AND INSTITUTIONAL SUPPORT**

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**ABSTRACT**

*In globalized arena, the hidden entrepreneurial potentials of women have gradually been changing with the growing sensitivity to the role and economic status in society. Today, Indian women are at par with men. They have come a long way from being known as just 'homemakers' to 'career-oriented' women. Modern day women are all set to break the stereotype and are focused on carving a niche for themselves in the business world. Women entrepreneurship has been recognised as an important source of economic growth. Women entrepreneurs create new jobs for themselves and others and also provide society with different solutions to management, organisation and business problems. However, they still represent a minority of all entrepreneurs. Women entrepreneurs often face gender-based barriers to starting and growing their businesses, like discriminatory property, matrimonial and inheritance laws and/or cultural practices; lack of access to formal finance mechanisms; limited mobility and access to information and networks, etc. The Indian Government has come up with various subsidy schemes for such budding women entrepreneurs. Women's entrepreneurship can make a particularly strong contribution to the economic well-being of the family and communities, poverty reduction and women's empowerment, thus contributing to the Millennium Development Goals. Thus, governments across the world as well as various developmental organizations are actively undertaking promotion of women entrepreneurs through various schemes, incentives and promotional measures. The present study is taken up to examine the various Policies and Schemes initiated by the Government and other Institutions to encourage Women Entrepreneurs and to examine the global best practices for Women-Owned Enterprise Financing.*

**KEYWORDS**

women entrepreneurship, women's empowerment.

**INTRODUCTION**

The 1991 Industrial Policy has envisaged special training programmes to support women entrepreneurs. Accordingly women entrepreneurs are receiving training through Entrepreneurship Development Programmes (EDPS) conducted by various organizations and institutions both at central and state levels. The Small Industries Development Organization (SIDO), with its field offices all over the country, has been carrying out development programmes for women entrepreneurs and providing technical schemes for setting up of SSI units. In view of the changing outlook for the promotion of women enterprises, the SSI Board in 1991 revised the definition of women enterprises by omitting the condition of employing 50 per cent women workers. Government of India defined women entrepreneurship as an enterprise owned and controlled by a woman having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women.

**OBJECTIVES AND RESEARCH METHODOLOGY OF THE STUDY**

The study is based on Secondary Data, which is collected from the published reports of MSMEs, journals, and different websites. The objectives of this paper are:

- ✓ To study various Policies and Schemes initiated by the Government and other Institutions to encourage Women Entrepreneurs.
- ✓ To examine the global best practices for Women-Owned Enterprise Financing.

**WOMEN ENTREPRENEUR ASSOCIATIONS**

The efforts of government and its different agencies are supplemented by NGOs and associations that are playing an equally important role in facilitating women empowerment. List of various women associations in India is provided below.

**DETAILS OF WOMEN ENTREPRENEUR ASSOCIATIONS IN INDIA**

- ❖ Federation of Indian Women Entrepreneurs (FIWE)
- ❖ Consortium of Women Entrepreneurs (CWEI)
- ❖ Association of Lady Entrepreneurs of Andhra Pradesh
- ❖ Association of Women Entrepreneurs of Karnataka (AWAKE)
- ❖ Self-Employed Women's Association (SEWA)
- ❖ Women Entrepreneurs Promotion Association (WEPA)
- ❖ The Marketing Organisation of Women Enterprises (MOOWES)
- ❖ Bihar Mahila Udyog Sangh/Bihar Mahila Udyog Sangh
- ❖ Mahakaushal Association of Woman Entrepreneurs (MAWE)
- ❖ SAARC Chamber Women Entrepreneurship Council
- ❖ Women Entrepreneurs Association of Tamil Nadu (WEAT)
- ❖ TiE Stree Shakti (TSS)
- ❖ Women Empowerment Corporation

**INDIAN GOVERNMENT SUBSIDY SCHEMES****BHARATIYA MAHILA BANK**

Started in 2013, Bharatiya Mahila Bank today, has 45 branches spread across India. The bank focuses on helping women who are economically neglected, underprivileged, unbanked or discriminated, but looking forward to starting their own business. The popular loans provided by this bank are:

- **BMB Shringaar:** Under this CGTMSE Scheme, a subsidiary free loan of up to Rs.1 crore can be availed for setting up a beauty parlor /saloon/spa. The interest rate at which the loan is provided is 12.25% (Base Rate + 2.00%) and the repayment can be done within 7 years.
- **BMB Annapurna:** This collateral free loan of up to Rs. 1 Crore is provided for food business and can be repaid in 3 years. This loan is categorized under CGTMSE Scheme and is provided at an interest rate of 11.75% (Base Rate + 1.50%).
- **BMB Parvarish:** Women willing to open a day care center can benefit from this loan provided under CGTMSE Scheme. The term of the loan is up to 5 years and the collateral free loan provided is up to 1 crore. The interest rate is 12.25% (Base Rate + 2.00%).

**TRADE RELATED ENTREPRENEURSHIP ASSISTANCE AND DEVELOPMENT (TREAD) SCHEME FOR WOMEN**

Provided by the Ministry of Micro, Small & Medium Enterprises (MSME), Trade Related Entrepreneurship Assistance and Development (TREAD) Scheme for Women offers a subsidy of up to 30% of the total cost of the project (that will be assessed by lending institutions). The rest of the loan assistance is to be provided by the lending institutions.

Women who can benefit from this scheme include those who are not being helped by banks. Generally, the applicants under this scheme are illiterate/semi-literate or lesser privileged women. The request for subsidy is considered for approval only if it is made through an NGO. Women have been among the most disadvantaged and oppressed section of our country with regard to access to and control over resources. Problems faced by them continue to be grave particularly for illiterate & semiliterate women of rural and urban areas. In order to alleviate their problems, Govt. of India launched a scheme entitled "Trade Related Entrepreneurship Assistance and Development" (TREAD) during the 9th plan period, which has slightly been modified and is now put in operation. The scheme envisages economic empowerment of such women through trade related training, information and counselling extension activities related to trades, products, services etc.

#### MAHILA COIR YOJANA

Providing assistance to artisan women living in rural areas (producing coir fibre), the Mahila Coir Yojana (MCY) Subsidy Scheme is a boon for women looking for funding options. It is the first women oriented self-employment programme in the coir industry, which aims to providing self-employment to rural women artisans in regions producing coir fibre. The conversion of coir fibre into yarn on motorized ratts in rural households provides scope for large scale employment, improvement in productivity and quality, better working conditions and higher income. The scheme is being implemented by the Government through the Coir Board under its plan scheme "Training, Extension, Quality Improvement, Mahila Coir Yojana and Welfare Measures".

#### SCHEMES FOR WOMEN-OWNED BUSINESSES

Of late, many reputed banks have come up with attractive lending schemes for female entrepreneurs. There are many schemes that are exclusively framed for women entrepreneurs. These schemes are advantageous for them since they provide relaxation both in terms of collateral security and rate of interests. In most cases, interest rate varies from 0.25 percent to 1 percent on applicable terms and conditions. Many banks even have special cells for female entrepreneurs. They provide proper training and counseling to the women business owners as well as show them avenues for promoting and marketing their businesses. Here's an insight into the various types of business loans for women in India.

TABLE 1

Scheme	Sponsoring Bank	Details	Products
ALEAP and CGTSI - Mutual Credit Guarantee Scheme for Women	Andhra Bank	Credit (Fund-based and/or non-fund-based) for single eligible borrowers in the micro and small enterprise sector.	Credit facility up to Indian rupees 10 million (\$181,818) for manufacturing and service sectors but excluding retail trade; without collateral security or third party guarantee for a tenure of five years.
Akshaya Mahila Arthik Sahay Yojna	Bank of Baroda	Financial assistance for professional, self-employed women and for women in retail trade and agriculture.	Movable and immovable asset-based term loans and working capital limits.
Cent Kalyani	Central Bank	Financial assistance to women entrepreneurs for economic pursuits in various sectors.	Loans up to Indian rupees 10 million (\$181,818) without any collateral security or third party guarantee.
Dena Shakti Scheme for Women Entrepreneurs	Dena Bank	Finance for women entrepreneurs in agriculture and allied activities, small enterprises, retail trade, micro credit, education, and housing.	Term loans and working capital limits with a ceiling of Indian rupees 2 million (\$36,364) in the priority sector and housing and Indian rupees 50,000 (\$909) under micro credit.
Schemes for professional and self-employed women	Oriental Bank of Commerce	For professional and selfemployed women.	For purchase of fixed assets (term loans) and to meet working capital needs. Maximum Indian rupees 500,000 (\$9,091) including working capital limit of Indian rupees 100,000 (\$1,818) Five to seven year tenure. 15 percent interest on loans above Indian rupees 25,000 (\$455).
Orient Mahila Vikas Yojana	Oriental Bank of Commerce	For women-owned MSMEs. Also, micro credit units provide doorstep services to women in rural areas.	Loans up to Indian rupees 1 million (\$181,818) without any collateral. Margin of 15 to 25 percent. Up to 2 percent concessions. No collateral security for small-scale industries for loans up to Indian rupees 2.50 million (\$45,455).
Priyadarshini Yojana	Bank of India	For women to set up small, village, and cottage industries. Covers payments for machinery.	No collateral required for loans up to Indian rupees 500,000 (\$9000). Interest rates relief from 0.5 percent to 1 percent for small-scale industries.
Udyogini Scheme	Punjab and Sind Bank	Loans on liberal terms for women entrepreneurs in agriculture, tiny/small-scale industries, and retail. Also for professional and selfemployed women.	Need based amounts. Collateral for loans above Indian rupees 25,000. Margins of 15 to 25 percent based on quantum and purpose of the loan.
PNB schemes for women	Punjab National Bank	Five schemes for women entrepreneurs: 1) To meet gaps in equity 2) To purchase infrastructure 3) Easier credit to finance crèches 4) To meet working capital credit requirements of allied agricultural activities 5) Margin concessions.	Interest rates to be relaxed by 0.25 percent in non-priority sector advances and 0.50 percent in priority sector advances. Margins to be reduced to 10 percent wherever the margin requirement is more than 10 percent. Waiver of 50 percent upfront fee where applicable.
Stree Shakthi Package for Women Entrepreneurs	State Bank of India	For women entrepreneurs (small scale units managed by one or more women entrepreneurs) with a stake of not less than 51 percent. Entrepreneurs who have undergone entrepreneurship development programs conducted by state-level agencies or programs cosponsored/sponsored by the bank are eligible.	Interest concessions of 5 percent based on business enterprise for self-employed women and SSIs. Interest rates lower than applicable. Collateral security waived for loans up to Indian rupees 500,000 (\$9091) for industrial units.
Marketing Fund for Women (MFW)	Small Industries Development Bank of India	Provides assistance to women entrepreneurs and organisations involved in marketing products manufactured by women entrepreneurs to increase their reach in domestic and international markets.	Flexible terms and conditions based on past track record and viability of project.
Annapurna Scheme for Financing Women for Establishing Food Catering Units	State Bank of Mysore	Supports women entrepreneurs setting up food catering units.	Maximum loan of Indian rupees 50,000. (\$9091) Composite term loan (50 percent working capital). 36-month tenure. Margin of 10 percent
Mahila Vikas Scheme	State Bank of Travancore	To provide term loan/working capital to units promoted by women entrepreneurs. Only enterprises owned and administered by woman entrepreneurs, having a minimum financial interest of 51 percent and providing at least 50 percent of employment generated to women.	Loan from Indian rupees 50,000 to 500,000 (\$900 to \$9000). Tenure of 60 months, cash credit 12 months. Margins of 25 percent for term loans and 20 percent for cash credit.
Special Benefits for Women Entrepreneurs in Micro and Small Enterprises Segments	Canara Bank	Provides special schemes for women	Nil margins and no processing fees for loans up to Indian rupees 50,000 (\$900). 10 percent interest rate and no processing fees for loans from Indian rupees 50,000 to 500,000 (\$900 to \$9000).

**WOMEN-OWNED MICRO, SMALL, AND MEDIUM ENTERPRISES**

Around 3.01 million women-owned enterprises represent about 10 per cent of all MSMEs in the country. Collectively, they contribute 3.09 per cent of industrial output and employ over 8 million people. Approximately 78 per cent of women enterprises belong to the services sector. Women entrepreneurship is largely skewed towards smaller sized firms, as almost 98 per cent of women-owned businesses are micro-enterprises. Approximately 90 per cent of women-owned enterprises are in the informal sector. The classification of women-owned businesses is shown in Table 2, while Table 3 shows the geographical location of women-owned MSMEs across India.

**TABLE 2: CLASSIFICATION OF WOMEN-OWNED MSMEs**

Category	Registered	UnRegistered	Total	Total versus all women-owned businesses (%)	Total versus all MSMEs (%)
Micro	274,059	2,655,318	2,929,377	97.62	9.40
Small	40,722	30,414	71,136	2.37	0.23
Medium	276	-	276	0.01	0.01
Total	315,057	2,685,732	3,000,789	100.00	10.25

Source: Research Report - The study conducted by Micro Save Pvt Ltd. for International Finance Corporation

**TABLE 3: GEOGRAPHICAL DISTRIBUTION OF WOMEN-OWNED MSMEs**

Prevalance of Women-Owned businesses	State-wise Share (Percent)	Number of states/Union territories (#)	States/Union Territories	Combined Share (Percent)
High	>10.00	4	Kerala, Karnataka, Tamil Nadu, West Bengal	51.9
Small	5.00-10.00	2	Andhra Pradesh, Madhya Pradesh	11.5
Medium	2.00-4.99	7	Rajasthan, Maharashtra, Punjab, Uttar Pradesh, Bihar, Gujarat, Odisha	26.7
Medium	<1.99	20	Rest of India	9.9

Source: Research Report - The study conducted by Micro Save Pvt Ltd. for International Finance Corporation

**DEMAND FOR FINANCING FROM WOMEN-OWNED MSMEs**

This study estimates that the total financing needs of women-owned micro, small, and medium enterprises are approximately Indian rupees 8.68 trillion (\$158 billion). Table 4 shows the demand for finances from women-owned enterprises in both formal and informal sectors.

**TABLE 4: DEMAND FOR FINANCING FROM WOMEN-OWNED MSMEs**

Type	Formal Sector		Informal Sector	
	Number of Units(in thousands)	Financing Demand Indian rupees trillion (\$ billion)	Number of Units(in thousands)	Financing Demand Indian rupees trillion (\$ billion)
Micro	274.06	0.19 (3.49)	2,655.32	1.86 (33.86)
Small	47.53	3.91 (71.16)	30.41	2.50 (45.54)
Medium	0.28	0.21 (3.75)	0.00	0.00 (0.00)
Total	321.86	4.31 (78.40)	2,685.73	4.37 (79.40)

Source: Research Report - The study conducted by Micro Save Pvt Ltd. for International Finance Corporation

**SUPPLY OF FINANCE TO WOMEN-OWNED BUSINESSES**

Total formal finance extended to women-owned MSMEs in 2012[10] was around Indian rupees 2.31 trillion (\$42 billion). This credit supply originated from various types of financial institutions such as public sector banks, non-banking financial corporations, and self-help group-bank linkage programs. A breakdown of types of institutions financing women-owned MSMEs is given in Table 5.

**TABLE 5: SUPPLY OF FINANCE TO WOMEN-OWNED MSMEs BY DIFFERENT INSTITUTIONS**

Source	Financing supply share
Public sector banks through microcredit	30
Public sector banks to small scale industries	38
Prime Minister's Rozgar Yojana	2
Swarna Jayanti Shahari Rozgar yojana	1
Swarna Jayanti Gram Swarozgar Yojana	4
Private sector banks	19
Foreign banks	5

Source: Research Report - The study conducted by Micro Save Pvt Ltd. for International Finance Corporation

**GLOBAL BEST PRACTICES FOR WOMEN-OWNED ENTERPRISE FINANCING****1) COMMERCIAL BANKS PROVIDING TAILORED FINANCIAL SOLUTIONS TO WOMEN-OWNED MSMEs**

• **Best practices of commercial banks from developed economies:** There are several examples of banks in developed economies that have successfully designed and implemented access to finance programs for women customers. But, three examples stand out - Wells Fargo Bank and American Express from the United States of America, and Westpac Banking Corporation from Australia.

**TABLE 6**

Sponsoring Banking Corporation	Details	Products	Non-financial services	Results
Wells Fargo	Wells Fargo is a diversified American financial services company that leads in financing women-owned businesses.	Tailor-made and customized products	<ul style="list-style-type: none"> <li>Training and networking opportunities</li> <li>Recognising achievements of women entrepreneurs</li> </ul>	Since the program was launched in 1995, Wells Fargo has extended credit of more than \$38 billion[13] to over 750,000 women entrepreneurs
Westpac Banking Corporation	WBC sought to become the "Bank of Choice for Women" by realizing the potential of Australia's businesswomen.	Westpac's focus on women is embedded into all existing segments, delivery models, products, and Organisational structure.	<ul style="list-style-type: none"> <li>Capacity building through the Davidson Institute.</li> <li>Outreach and advocacy through social media.</li> <li>Women Investment Advisory Service Unit.</li> </ul>	Westpac's Women in Business program contributed over \$2.5 billion to Westpac's bottom line in 2009.
American Express	American Express, the leading payment card issuer for small businesses in the USA, successfully promotes women entrepreneurs.	Active in promoting women entrepreneurs' access to government contracts	<ul style="list-style-type: none"> <li>Guidance through OPEN forum/Online Platform</li> <li>Give Me 5 Program</li> </ul>	Providing targeted training and mentoring/networking opportunities to women entrepreneurs

- **Best practices of Commercial Banks from Emerging Economies:** Banks in some emerging economies have had success with similar women-centric programs.

TABLE 7

Sponsoring Banking Corporation	Details	Products	Non-financial services
DFCU Bank	DFCU Bank in Uganda, as part of its SME business strategy.	DFCU created a "land loan" specifically for women	Business management and financial awareness training to women entrepreneurs
SME Bank	The SME Bank in Malaysia enhances the capacity of women entrepreneurs to run stronger businesses.	Manufacturing and Tourism	Incubation centers to encourage women to enhance business skills and grow businesses
Rawbank	Rawbank partnered with IFC to design and launch its "Women in Business" program	Lending strategy that eases collateral requirements for women entrepreneurs	Training and regular SME banking products for women entrepreneurs
Garanti Bank	Garanti Bank in Turkey borrowed a €50 million from European Bank for Turkish women entrepreneurs	Special project loans for women-owned SMEs, company insurance	Access to business and financial management training

Other banks in developing markets such as **Exim Bank** in Tanzania, **Access Bank** in Nigeria, **Sacom Bank** in Vietnam, and Bank International in Indonesia.

## 2) Finance for Women-Owned Businesses: A key focus of development finance institutions

- IFC assists BLC, Lebanon to increase its reach to SME clients through disbursement of new SME loans, of which 20 percent will be women entrepreneurs.
- IFC supports ABANK Turkey to grow its women-owned SME portfolio to 150 clients and \$100 million in outstanding loans by the end of 2016.
- African Development Bank's Growth Oriented Women Entrepreneurs (GOWE) program is a partial guarantee aimed at women entrepreneurs

## 3) Equity financing

- As with the rest of the MSME sector, equity finance, particularly in the early stages, is critical for the growth of women owned enterprises.
- Although commercial banks and microfinance institutions have been engaged in providing credit, other sources such as equity funds or angel/investment funds are required for equity support.
- The UK-based **Trapezia Fund** is the first equity fund dedicated to venture capital requirements of women-centred business in the United Kingdom and Europe.
- In South Africa the **Women Enterprise Development Initiative (WEDI)** is a seven-year, \$250 million closedend, women-owned SME equity fund.

## CONCLUSION

Women are increasingly becoming conscious of their existence, their rights and their work situations. Women across India are showing an interest to be economically independent. Women are coming forth to the business arena with ideas to start enterprises. They are willing to be inspired by role models- the experience of other women in the business arena. The Indian women proved their footage in the male dominated business arena. For a nation where the only identity of women some time back used to be that of a homemaker, hogging the corporate limelight has been a journey to empowerment & strength. Now days because of women empowerment women are stepping-stone into the industries and are taking the place of men. With education and training, the women have gained confidence to do all work, which was the prerogative of man and do it excellently, rather better than men. Over the years, the educated women have become ambitious, acquired experience and basic skills of competency and self-assurance. The myth that women cannot engage in productive employment needs to be dispelled. They can be encouraged to set up small and medium scale industries on their own initiative. Entrepreneurship development for women is an important factor in economic development of India. The government must evolve appropriate policies to help women entrepreneurs. Networking facilities must be provided as well as adequate entrepreneurship awareness training should be provided using the help of local NGOs. Credit facilities must be made available and marketing help must be provided. All these will help foster a culture of entrepreneurship among women in India.

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## EMOTIONAL LABOUR AS A PREDICTOR OF ORGANIZATIONAL COMMITMENT IN SELECTED CALL CENTRES LOCATED IN CHANDIGARH REGION

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### ABSTRACT

*Emotional labour is the hard work of making art, producing generosity, and exposing creativity. The present study has made an attempt to show emotional labour (independent variable) as a predicting variable for organizational commitment (dependent variable) in selected Call Centres located in Chandigarh region. Call Centres operate through telecommunication and internet sources, as a result the employees don't face the customer's directly. As a result, their organizational commitment is measured in the current study. Through research tools such as correlation and regression an attempt has been made to predict the relation of 200 respondents for the above stated variables.*

### KEYWORDS

emotional labour, organizational commitment, call centre.

### INTRODUCTION

According to Forreter (2012), "In this age of the customer, the only sustainable competitive advantage is knowledge and engagement with customers". In the fast moving world, companies have to provide non-stop services to customers. Missions and visions of the companies are set up by Corporate and Business levels. The actual conversion of state vision and mission is achieved by employees of the organizations. It is not the organization that interacts with the customers. In fact, employees act as a bridge between the two. Organizations need employees who act as a mannequin in the hands of the managers. However, organizations are not cold and dispassionate places. Employees care about their work and the work also depends upon the relationship which they share with their colleagues. As long as the work requires humans, emotions cannot be separated from them.

The term was first introduced by Hochschild (1983), "Emotional Labour", in her book "The Managed Heart- Commercialization of Human Feelings". According to her, Emotional Labour refers to "the management of feelings to create a publicly observable facial and bodily display.

Hochschild (1983) is of the view that management of emotional labour is required to manage perspective. It is based on the three types of "acting strategies" service provider performs. The first one is **surface acting**. It involves employees simulating emotions that are not actually felt, by changing their outward appearance (facial expression, gestures, or voice tone) when performing the required emotions while interacting with the customers or organizational staff. The second one is **deep acting**. It occurs when employees' feelings do not fit the situation. They then use their training or past experience to work up the correct emotions. It involves changing inner feelings by altering something more than outward appearance. The third one is **genuine acting**. This acting strategy was an addition to the work of Hochschild, 1983, by Ashforth and Humphrey 1993. Genuine acting is used to imply the situation where employees spontaneously experience and express the same emotions.

Emotional labour is that work which requires the engagement, suppression, and evocation of the worker's emotions in order to get the job done. In simple words, emotional labour requires affective sensitivity and flexibility with one's own emotions as well as those of others.

The objective of the current study is to measure emotional labour as a predictor of organizational commitment in selected Call Centre service organizations. A belief held by service employers is that high correlation is found between employees' smiling faces and increasing revenues. Employees of the Call Centre need not display of friendliness and enthusiasm as there is no face to face contact with the client, but through telephone the customers are influenced to buy new and innovative products and also help in repeated orders from the clients. Even when the employee faces fastidious and rough client, he is expected to keep a positive and smiling face so that organizational goals can be achieved. The following table 1 shows the tabulated presentation of review of literature.

**TABLE 1: REVIEW OF LITERATURE PREDICTING THE EFFECT OF EMOTIONAL LABOUR ON ORGANIZATIONAL COMMITMENT**

Author	Country	Field	Major objectives	Major findings
Guleryuj et.al (2008)	Turkey	Hospitals (Nurses)	To examine the relationship among emotional intelligence, job satisfaction and organizational commitment	The paper had 2 main findings, 1) job satisfaction was found a mediator between emotional intelligence and organizational commitment. 2) "self emotion" and "use of emotions" dimensions of emotional intelligence had direct effect on organizational commitment.
Yang and Chu (2007)	Taiwan	Hospitals (Nursing)	The paper aimed at questionnaire survey on variables such as emotional labour, job satisfaction and organizational commitment.	Surface acting strategy showed a negative relationship between job satisfaction and leading to low organizational commitment. On the other hand deep acting strategies of Emotional labour had positive relationship on job satisfaction and organizational commitment.
Lok and Crawford (2003)	U.S.A.	Hospitals (Nursing)	Investigating relationship between employees perceptions of organizational culture and job culture, job satisfaction and commitment	The paper suggested that managers should give focus on sub cultures of different nursing wards also.
Goserend (2003)	U.S.A.	Service sector	Had proposed a model having antecedents, moderators and outcomes	The findings showed that an employee high on positive affectivity, low on negative affectivity, and who feel supported by their organizations are having high job satisfaction
Gunlu (2000)	Turkey	Hospitality (managers)	To identify the effect of job satisfaction on Organizational commitment for managers	A positive relationship between extrinsic, intrinsic, and general job satisfaction on normative and affective commitment.
Yousef (1998)	U.S.A.	Service sectors	Explored the role of job satisfaction, multicultural environment and organizational commitment	Result showed positive relationship between job satisfaction and job security on one hand and on other job performance and organizational commitment

Source: Self Conceptualized

The table shows number of studies on the both variables jointly in foreign countries. Almost no research was found in Indian scenario. The present paper has made an attempt to show the relationship in India. **The need for conducting the present study, "Emotional Labour as a predictor of Organizational commitment in selected Call Centre service organizations located in Chandigarh Region" has been summarized in the following three points:**

1. To examine the interaction of employees with customers through tele-call interactions.

2. To examine the relationship of employer and employee under Sec15 (2) of Salary under the Income Tax Act, 1961 exists between the above two. If the employee works under the control and supervision of Employer and in words Employer is said to control the action and functions of the employee.
3. To examine employee's performance on the basis of frequent interaction with customers and other employees in routine work.

### CALL CENTRE SERVICE ORGANIZATIONS – AN OVERVIEW

A Call Centre is a centralized office used for the purpose of receiving and transmitting a large volume of requests by telephone. A Call Centre is operated by a company (belonging to India or multi-national company) to administer incoming product support or information inquiries from consumers. Outgoing calls for tele-marketing, clientele, product service and debt collections are also made (Subramaniam 2008). NASSCOM, (National Association of Software & Service Companies). Infosys BPO, for instance, which employs over 25,000 in multiple centres across India, the Philippines, China, Poland, Mexico and the US, spends 2.5 per cent of its \$500 million annual revenues on training. Raghavendra K., its human resources head, says attrition has more to do with social factors than compensation. As much as 42 per cent of its staff are women, and those married tend to move along with their husbands when they get transferred. "Operating in the metros will become untenable due to the challenges of transport, rentals and emerging options before the youth today," he says Indian Call Centre are typically characterized by formal, structured and rationalised Human Resource Management system with tightly controlled organizational structures. Human Resource Management plays a strategic role with a focus on several employee involvement and commitment work practices, (Budhwar et al., 2006)

TABLE 2: CHALLENGES IN CALL CENTRE FOR THE EMPLOYEES

1. Operators working from a script
2. Non-expert operators (call screening)
3. Incompetent or untrained operators incapable of processing customer's requests effectively
4. Overseas location, with language and accent problem
5. Excessive waiting time to be connected to an operator
6. Complaints that departments of companies do not engage in communication with one another
7. Close scrutiny by management
8. Low compensation
9. Restrictive working practices
10. Stress
11. Repetitive job task
12. Work performed in shifts
13. Health Problem
14. Nature of customers

Source: Self conceptualized

### GEOGRAPHIC SCOPE OF THE PRESENT STUDY

The geographical scope of the present study includes Chandigarh, a planned city, a union territory, and the capital to two states, viz. Punjab and Haryana, Mohali, city from Punjab and Panchkula, city from Haryana, also known as Chandigarh Capital Region. The area has been selected by the researcher on the basis of judgement and convenience.

### OBJECTIVES OF THE STUDY

1. To examine the relationship between emotional labour and organizational commitment among employees in selected Call Centre service organizations located in Chandigarh region.
2. To study employee's perception for emotional labour, and organizational commitment among employees in selected Call Centre service organizations located in Chandigarh region.
3. To explore the relationship between emotional labour, organizational commitment and socio- demographic variables among employees in selected Call Centre service organizations located in Chandigarh Region.
4. To suggest Call Centre organization manager's strategies to reduce emotional labour and leading to a committed work force.

### HYPOTHESES OF THE STUDY

H<sub>1</sub> shows the assumptions regarding the relationship between four dimensions of Emotional labour, namely surface acting, deep acting, emotional consonance and suppressions with organizational commitment.

H<sub>1</sub>: All the four dimensions of emotional labour predicts organizational commitment in Call Centre service organizations.

H<sub>02a</sub>: Employee perception for emotional labour, and organizational commitment in Call Centre organizations doesn't differ significantly.

### HYPOTHESES FOR SOCIO-DEMOGRAPHIC PROFILE

H<sub>03</sub>: There is no significant statistical association between emotional labour, organizational commitment, and socio-demographic variables.

H<sub>03a</sub>: There does not exist a significant statistical association between all the four dimensions of emotional labour, organizational commitment and gender of the employees.

H<sub>03b</sub>: There does not exist a significant statistical association between all the four dimensions of emotional labour, organizational commitment and different age groups of the employees.

H<sub>03c</sub>: There does not exist a significant statistical association between all the four dimensions of emotional labour, organizational commitment and education of the employees.

H<sub>03d</sub>: There does not exist a significant statistical association between all the four dimensions of emotional labour, organizational commitment and experience of employees.

### METHODOLOGY

Survey method of research was used to conduct the study. Four Call Centre namely, 1) COMPETENT SYNERGY (Domestic Call Centre), 2) Tata TELE SERVICES (Domestic Call Centre), 3) IBM DAKSH (International Call Centre) and 4) DELL (International Call Centre), were the sample organizations for the study. A total of 200 employees working in the stated Call Centre service organization became the sample respondents. The paper had two variables, independent one was Emotional labour and dependent variable was organizational commitment. Emotional Labour scale included items that represented the four dimensions of Emotional Labour described by using the Validation of the Dutch Questionnaire on Emotional Labour (Naring et al., (2005)) and organizational commitment includes items described by using the scale developed by Mowday et al., (1979). Demographic information was collected through questions on gender, age, education, experience and income. Analysis was performed using SPSS Version 16.0. For testing the objectives tools such as Pearson Correlation, Multiple-regression and ANOVA Test was used in the study.

TABLE 3: RESPONDENTS' PROFILE

CALL CENTRES		
<b>1.Gender</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Male	107	54%
Female	93	46%
n=	200	100%
<b>2.AGE</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Belocall centtrw 20 yrs	16	8%
Between 20-34	170	85%
Between 35-54	14	7%
35 and above	-	-
n=	200	100%
<b>3.Education</b>	<b>Frequency</b>	<b>Percentage (%)</b>
10 <sup>th</sup> -12 <sup>th</sup>	14	07%
Under-graduates	21	10.5%
Graduates	138	69%
Post graduates	27	12.5%
n=	200	100%
<b>5.Expereince</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Less than 5 years	138	69%
5 years-10 years	42	21%
10 years and above	20	10%
n=	200	100%
<b>6. Income</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Less than ₹ 3 lakh	93	46.5%
Between ₹ 3lak- ₹ 6 lak	58	29%
6 lak Above and above	49	24.5%
n=	200	100%

Table 3 represents the profile of respondents who participated in the study. As it can be seen from the Table 1, the percentage of male respondents are 54% that are 107 out of 200 whereas there are 46% female respondents that are 93 out of 200. At age 170 (85%) of respondents are between the age group of 20-34 years. There are 138 (69%) respondents who are Graduates, 27 (27%) are Postgraduates, 14 (7%) are qualified to senior secondary level and only 21 (10.5%) respondents are undergraduates. Out of 200 respondents, 20 (10%) respondents have more than 10 years experience, 138 (69%) respondents have experience below 5 years and the rest of the 42 (21%) respondents has experienced between 5-10 years. Further Experience demographic profile show that 58(29%) have income between ₹ 3 Lakhs- ₹ 6 Lakhs, 93(46.5%) respondents earned less than ₹ 3 lakhs while 24.5% of the employees had earning above ₹ 6,00,000.

**DESCRIPTIVE STATISTICS**

TABLE 4: MEAN AND STANDARD DEVIATION

S.No.	Dimensions	Mean	Standard Deviation
1	Surface Acting	3.77	0.65
2	Deep Acting	3.88	0.67
3	Emotional Consonance	3.99	0.82
4	Suppression	3.93	0.77
5	Organizational Commitment	4.18	0.47

Table 4 presents the Mean and Standard Deviation of all the observed variables for employees of selected Call Centre service organization. An investigation of table 2 reveals that the mean score of emotional labour dimensions is found to be 15.57 for respondents with SD 2.91. It also demonstrates that mean score of organizational commitment dimensions is 4.18 with SD 0.47. It shows that the scores on emotional labour and organizational commitment variables scores ranges from average to above average but normal.

**RESEARCH OBJECTIVE 1 - CORRELATION AND REGRESSION ANALYSIS**

The relationship between various dimensions of emotional labour and organizational commitment has first been investigated by using Karl Pearson correlation. The preliminary analysis reveals that there is no violation of the assumptions of linearity and homoscedasticity and all associations are found to be significant at the 95 percent level. Table 4 shows positive correlation between emotional consonance (r= 0.511, p<0.05), followed by suppression (r= 0.498, p<0.05) and deep acting (r=0.424, p<0.05) with organizational commitment. In a Call Centre, it is seen that employees have tele- interaction with the customers. They need not be physically present while performing the goals of the organization. So, it can be stated that employee is easy in expressing the positive emotions in front of customers and is found to be stuck for long periods in the organization.

TABLE 5: CORRELATION- EMOTIONAL LABOUR DIMENSIONS AND ORGANIZATIONAL COMMITMENT FOR CALL CENTRE SERVICE ORGANIZATIONS

	Surface Acting	Deep Acting	Emotional Consonance	Suppression
Organizational Commitment	0.413*	0.424*	0.511*	0.498*

1)Pearson Correlation

2)\*Correlation significant at .05 level

To explore the fit of multiple regression model and to discover the best predictor of organizational commitment, multiple regression has been used with the dimension of emotional labour as the predictors. The initial analysis reveals no violation of the assumption regarding sample size, multicollinearity, and outliers. In terms of casual relationship between four dimensions of emotional labour and satisfaction with information, the adjusted R<sup>2</sup> = 0.310 is found positively statistically significant.

Out of four dimensions, as shown in the Table 6, three dimensions, viz. emotional consonance (β=0.291, p<0.05), suppression (β=0.204, p<0.05) and surface acting (β=0.170, p<0.05) are significantly predicting organizational commitment. It means that in Call Centre employees while attending customers try to display emotions that they are expected to show at the time of service in Call Centres and also they try to hide their anger or any disgust happening that affect their satisfaction with information. The significance value of the F statistic is less than 0.05, which means that variation explained by model is not due to chance.

The value of the variance inflation factor (VIF) and tolerance value (TV) for linear multiple regression model is presented in Table 6. As indicated in the Table 5 the value of VIF, which served as an indicator of multicollinearity, ranges 1.439- 2.187, far below the cut-off value of 10. Besides, it can be seen that the tolerance value for each independent variable is closer to one that indicates there is no evidence of multicollinearity problem in the multiple regression model as shown.

**TABLE 6: MULTIPLE REGRESSION MODEL SUMMARY AND MULTICOLLINEARITY DIAGNOSTICS-IMPACT OF EMOTIONAL LABOUR ON ORGANIZATIONAL COMMITMENT FOR CALL CENTRE SERVICE ORGANIZATIONS**

Independent Variable		Standardized Regression Coefficients	t-value	Sig.	Tolerance value	Variance inflation factor
Constant			14.432	0.000		
Emotional consonance		0.291	3.531	0.001	0.509	1.963
Surface acting		0.170	2.402	0.017	0.685	1.439
Suppression		0.204	2.343	0.020	0.557	2.187
<b>Multiple R</b>	0.566					
<b>R<sup>2</sup></b>	0.320					
<b>adjusted R<sup>2</sup></b>	0.310					
<b>F</b>	30.802			<b>0.000</b>		
<b>Sample Size</b>	<b>200</b>					

1)Independent variable : dimensions of emotional labour

2)Dependent variable: organizational commitment

3)R<sup>2</sup> refers to the coefficient of determination that measures the proportion of the variance in the dependent variable that explained by the independent variables.

**Hypotheses Testing for H<sub>1</sub>** The above results reveal that hypothesis H<sub>1</sub> is partly accepted and partly rejected. The analyses also display that emotional consonance is the best predictor of organizational commitment.

**Research objective 2:** To study employee’s perception for emotional labour, and organizational commitment among employees in selected Call Centre service organizations located in Chandigarh region.

Independent t-test analysis has been used to analyses the perception of emotional labour, and organizational commitment in selected Domestic and International Call Centre employees. Table 6 shows the results of the analysis. The results indicate that Domestic and International Call Centre employees have different perception on emotional labour, and organizational commitment.

It is seen that out of the scale of four dimensions of emotional labour, not even in one dimension, namely surface acting, deep acting, emotional consonance and suppression, the employees of domestic Call Centres perceive emotional labour differently from international Call Centres.

It has been seen that out of scale of organizational commitment, the employees of international Call Centres perceive organizational commitment differently from international Call Centres. When applied Independent t-test analysis on the differences between the mean scores of three groups, the difference is statistically at the 95% level.

**TABLE 7: PERCEPTION OF EMPLOYEE’S ON ORGANIZATIONAL CULTURE, EMOTIONAL LABOUR, JOB SATISFACTION AND ORGANIZATIONAL COMMITMENT PERCEPTION DOMESTIC AND INTERNATIONAL CALL EMPLOYEES**

Emotional labour, and organizational commitment perception Domestic and International Call employees.	Domestic Centres	Call Centres	International Centres	Call Centres	f- value	Significance level
<b>Emotional Labour</b>						
Surface acting	3.78		3.77		0.078	0.780
Deep acting	3.85		3.92		0.811	0.369
Emotional consonance	3.89		4.10		0.906	0.342
Suppression	3.84		4.02		2.50	0.115
<b>Organizational Commitment</b>						
Overall commitment	4.02		4.35		4.30	0.039*

\*Significance Level 95%

The statistical significant difference in Emotional Labour and Organizational Commitment in Call Centres, perception exist in the following dimensions that relate to:

1) Organizational commitment (F value=4.30 , p=0.039 )

**Hypotheses Testing for H<sub>02</sub>**

The above results reveal that Hypotheses H<sub>02</sub> are partly accepted and partly rejected. The analysis exposes that **male and females** do not differ on all dimensions of emotional labour dimensions, in selected services, they only differ on organizational commitment towards their organization.

**Objective 3 Emotional Labour and Job Satisfaction across socio demographics (Gender, Age, Experience and Education)**

**TABLE 8: ANOVA STATISTICS**

S.no	Dimensions	Gender		Age		Experience		Education	
		F- value.	Sign.	F- value	Sign.	F- value	Sign.	F- value	Sign.
1	Surface acting	.006	0.936	1.362	0.258	1.362	0.258	.006	0.936
2	Deep acting	3.382	0.067	1.594	0.206	1.594	0.206	3.382	0.067
3	Emotional consonance	0.124	0.725	1.658	0.193	1.658	0.193	0.124	0.725
4	Suppression	1.744	0.188	1.533	0.219	0.219	0.219	1.744	0.188
5	Job satisfaction	2.184	0.141	2.15	0.119	2.15	0.119	2.184	0.141

Significance 0.05

There may be differences in perception of emotional labour and organizational commitment across age, gender, age, experience and education level. In order to see whether the average perceptions (of the issues or variables under investigation) were identical for all groups involved in this survey, the Kruskal-Wallis one-way ANOVA test was performed. It is seen that the employees of Domestic Call Centre perceive emotional labour and organizational commitment in same manner as International Call Centre for all socio- demographic profile.

No significant differences are found among surface acting, deep acting and emotional consonance and socio - demographics, namely Age, gender, experience and educational level.

**LIMITATIONS OF THE STUDY**

Every research work has its own limitations and this study is no exception. In designing the present paper, the researcher has endeavored to remain scientific throughout. However, to err is human. The present study, suffers from the following limitations.

1. The measures included in this research were based upon the perceptions of the employees of four different Call Centre service organizations. Therefore, the potential for data inaccuracies due to item misinterpretation or predisposition to certain responses on the part of the participant does exist.
2. The perception of employees in Chandigarh Region may vary from those of the rest of India.
3. The data was collected during the working hours from the respondents. As a result, respondents might not have been able to give all correct answers due to their engrossment in work.



**CONCLUSION**

It can be inferred from the above results that employee states that by showing organizational expected face to clients they feel committed towards organization. During the collection of primary data it was observed that employees were given coaching, mentoring and training for script learning which further leads to organizational commitment. Everything was pre written for the employee and only he needed to perform his work.

The result of the study was found supports with Mann 2005 and Morris et al., 1991 which shows positive relationship exist between emotional labour and organizational commitments. The study was different from the study conducted by Mann, 2005, because in her study, she had treated organizational commitment as an antecedent variable but in the present study the variable is treated as the outcome of emotional labour and its four dimensions i.e. surface acting, deep acting, emotional consonance and suppression.

Conclusively, the research has provided a peep into the nature of relationship among emotional labour, and organizational commitment of two domestic and two international Call Centre. The relationships that were revealed may provide additional insight into discovering the connection among the four variables even though there are some limitations surrounding the study.

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**A STUDY OF DEMOGRAPHIC FACTORS INFLUENCE ON CONSUMERS' IMPULSE PURCHASE BEHAVIOR**

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**ABSTRACT**

*The main purpose of the study is to determine the relationship between consumers' demographic factors and the impulse purchase behavior with use of correlation. Here influence of demographic factors has been studied with respect to impulse purchase behavior of consumers. This research paper includes both theoretical as well as research aspects. In the first part of study focus will be on theoretical insights and secondary research into impulse purchase. In the second part of study methodology and primary research results has been discussed. Hypotheses were set and tested on the basis of subject matter, research objectives, secondary research and result of primary research. To test the hypotheses, inter variable correlation and regression analysis was used as statistical tools. Result of the study shows that demographic factors (disposable income, age) have relationship with impulse purchase indicators as well as impulsivity collective indicator. Educational qualification and gender have marginal relationship with impulse purchase behavior. This research study also explains research limitations and implications for future researchers.*

**KEYWORDS**

impulse purchase, consumer behaviour, gender, age group, marital status, occupation.

**INTRODUCTION**

Now days consumers are passing through major transformation and turning from passive buyers towards active buyers, creating new consumption experiences and participating in the process of collaborative marketing. According to Hirschman & Holbrook, 1986 observed paradigm of consumer behavior sees consumption as a complete expression of representative meanings, emotional responses and physical pleasures. After looking this view, rational as well as evolutionary choice researchers have opposed that human experiences and impulse purchase should be seen as a result of cognition based interactions among humans and environments (Clark, 1997; Dreyfus, 1991).

It is obvious that individuals react to experiences in their way and it causes embodied cognition contextually and involve in the specific behaviors which leads to impulse purchase. It is not easy to recognize this concept base linking behavior in this context and developing the measures to ascertaining importance of consumers' demographic factors on their purchase behaviors. According to the previous studies related to shopping behavior emphasis were on some aspects of buyers' behaviors with respect to their purchase motives (Arnold & Reynolds, 2003; Eastlick & Feinberg, 1999; Buttle & Coates, 1984), shopping benefits (Babin et al., 1994; Park, 2003; Hwang, 2010) and their search experiences (Bloch et al., 1986; Mathwick et al., 2003). These studies have approached shopping behavior from both perspectives: rational and emotional.

Shopping involves different faces of shoppers and it requires a substantial level of interaction between the shoppers, salespersons and the atmosphere of store. Considering this characteristic, process of shopping involves sensory, emotional and rational experiences and shoppers can encounter it in interactive manner. For example, when a shopper enters a store, and comes into contact with the atmosphere of store that is having sensory appeals like store's display of merchandise, interiors, lighting, aroma and music playing in the background. These kinds of sensory appeals can evoke shopper's emotional responses like joy, delight among them. When shoppers search for desired goods they have rational experiences and also they look at alternative products and related information and this process they subconsciously go for impulse purchases.

It has been observed that owners of shopping mall trying to exploit the impulses, which are related with the basic needs and instant satisfaction. It is not necessary that a buyer in a shopping store will buy the confectionary goods like chocolates, sweets, biscuits, mints and bubble gums specifically. But this kind of confectionary items displayed at appropriate places will definitely attract buyers' attention and they will involve in the impulse purchases. This concept can be easily understood by two forces or principles as a result of review of literature of psychological part. According to these principles impulses are the consequences of these two forces or principles. These principles have been presented in the papers of Freud (1956) and Mai, et al. (2002). These two principles are as follows:

1. The pleasure principle
2. The reality principle

The first principle of pleasure has been related with immediate satisfaction of consumers and the second principle of reality is related with the delayed gratification. There is a competition exists between these two forces which are presented as principles in the buyer when they go to shopping store with some intentions of purchase. As a result impulse behavior occurs because impulse purchases are not easy to resist and also involves some pleasurable experiences according to Rook (1987). In this research paper relationship between demographic factors and impulse purchases will be identified. This study will be able to add value to the existing knowledge and also will give courage for further research in this field of consumer behaviors. This study will also help retailers as well as manufacturers who are interested in developing their understanding with respect to consumers' impulse purchase behavior.

**LITERATURE REVIEW**

Impulse purchase behavior is influenced by moods. According to the researchers respondents opinioned that most frequently moods stated for occurrence of impulse purchases was pleasure followed by care free and excited mood states. Consumers believe that impulse purchases will help in extending these kinds of feelings. Researchers explained n their findings that positive moods causes impulse purchases but some researchers also say that negative moods also facilitates impulse purchases (Gardner & Rook, 1987).

Negative moods always affect 'self-control' adversely, as a result, consumer feel prey for impulse purchases (Herman & Polivy, 2004). Consumers think that impulse purchase will alleviate their negative moods and they hope that it will change their unpleasant mood (Mick & Demoss, 1990). Some researchers found that there is a relationship existence between age and impulse purchase. Impulse purchase increases between age 18 to 39 and after that it declines (Bellenger & Robertson & Hirshman, 1978).

There is an inverse relationship between age and impulse purchase. This relationship was found as non-monotonic. It exists at higher level between ages 18 to 39 and gets lower after that age (Wood, 1998). Also there was a relationship between gender and age. Men and women differently relate the material possession. According to the researchers, women prefer items related with the elemental values and men prefer items related with finance and leisure. The reasons behind these different preferences were that women always want their possessions for relationship and emotional reasons. But men value for their possessions for functional instrument reasons. It was found that men buy items for their reasons of personal identity and independency. Whereas women purchase items for reasons of social identity (Ditmar et al,1995).

Impulsivity comes under personality trait and it has been defined as a tendency of acting without forethought, making cognitive decisions quickly and failing to appreciate the circumstances beyond the here and now (Barratt, 1993). It has been considered among those dimensions of individual differences those are associated with the personality on biological bases, a state that involves nonspecific physiological activation as well as the non-directional component of alertness (Anderson and Revelle, 1994).

From past fifty years researchers in the field of consumers are trying to form a better definition of impulse purchase. Previous studies on impulse purchase are restricted from managerial as well as retailers' interests. In this manner research placed emphasis on the taxonomic approach for classifying products between impulse and non-impulse items for facilitating marketing strategies like point of purchase advertising, in store promotions and merchandising. This approach has been limited by myopia of definition, and that equates impulse purchase with unplanned purchase (Bellenger et al., 1978; Kollat and Willet, 1967; Stern, 1962). Impulse purchase can be defined as spontaneous or sudden action to buy something and when compared with more contemplative approaches of decision making it has been considered as emotional, reactive and prone to occur with diminished regard for the consequences (Rook, 1987: 191). Impulse purchase is related with emotion (Eysenck et al., 1985), but evidence shows that cognitive component also lies in impulse behavior (Hoch and Loewenstein, 1991; Rook and Fisher, 1995); consumers are shown to consider impulsive act a priori then engage in the behavior because it is believed to be appropriate.

In the case of impulse purchase short term benefits are chosen in place of their potential for long term results and it depends on situation or chronic values of person (Puri, 1996). Although some individuals are more likely than others for satisfy hedonic goals by acting on impulse, "not all reward seekers are impulsive" (Ramanath anand Menon, 2006). Impulse purchase can be defined as unplanned and sudden purchases, and these are intimated on the spot and these impulses are accompanied by some powerful urge and pleasure feelings as well as excitement (Rook, 1987). To solve this definitional problem, researchers started focusing on identifying internal psychological states of consumers 'impulse buying episodes' (Rook, 1987; Rook and Gardner, 1993; Rook and Hoch, 1985). Impulse purchase has been redefined as occurrence of sudden, powerful and persistent urge for purchasing something immediately by consumers. This impulse for buying something is complex hedonically and it can stimulate conflict emotionally and impulse buying occurs with diminished regard for results (Rook, 1987). In the same manner, Hoch and Loewenstein (1991) defined impulse purchase similar with a struggle between the psychological forces of willpower and desires.

There is a shift in defining impulse purchase and this has drawn attention towards investigating factors those are responsible for impulse buying. This work will examine the relationship between mood and impulse purchase (Gardner and Rook, 1988; Rook and Gardner 1993); relationship between impulse purchase, affective states and in store browsing (Jeon, 1990); holistic processing and self-object meaning-matching in impulse purchase (Burroughs, 1996); normative influence on impulse purchase (Rook and Fisher, 1995).

There are many complementary models employed in consumer research for purchase behaviors, like utility maximization, behavioral influence, decision making, hedonic and meaning-transfer perspectives and purchase behavior is explained by a combination of perspectives (Arnould et al., 2004). Impulse purchase do not follow any economic, rational or decision making perspectives and seems to be associated with some complex hedonic psychological motivations as well as low effort and feeling based decision making (Holbrook and Hirschman, 1982; Hoyer and Macinnis, 2001). Previous research had described associated risk with product choices, innovativeness with respect to adoption of new products and retail facilities, purchase behavior varieties, browsing, window displays and shopping for recreation as the examples of consumer behavior in exploratory way. These kinds of behaviors have capacity to motivate individuals for novel and exciting purchase experiences, give relief from boredom and change the pace.

Affective responses are somewhat responsible for impulse purchase, feeling of excitement and pleasure has been predicted to take place before this unplanned behavior or it can happen after the purchase also. According to some research studies, sudden purchase urge has been considered as a type of pathological compulsive behavior and regret has been regarded as post impulse behavior as a consequence of buying something not needed actually (Dittmar & Drury, 2000). Now the question arises that the type of in store experience actually plays some kind of role in impulse purchase or not. According to previous research results positive atmosphere of store leads to approach behaviors and this encourages consumers to stay for longer period in the store, spending more money and engaging in impulse purchases (Donovan & Rossiter, 1982; Foxall & Greenley, 2000; Sherman et al., 1997). Affective experiences influenced impulse purchase behaviors (Donovan & Rossiter, 1982; Beatty & Ferrell, 1988), there is no study conducted to find relationship between demographic factors and impulse purchase.

The store atmosphere has been observed as important purchase inducing factor because it influences shopper's perception for store's image considerably and it is formed on the basis of store's tangible attributes like lighting, exterior or interior and display among others (Milliman, 1982; Sparks, 1992; Baker et al., 1994; Doyle & Broadbridge, 1999). Zimmer and Golden (1988) explained that image of store is an aggregate construct and represents its attributes, business type, overall impression, business typicality, behavioral relevance and product relevance. Previous studies explained that the affective responses to atmosphere of store are associated with the impulse purchase (Beatty & Ferrell, 1988; Donovan & Rossiter, 1982). Beatty and Ferrell (1988) said that atmosphere of store like display in the store, aroma, color and playing music draw attention of shoppers, affects motives of purchase, elicit mood states and make impulse purchase happen, and it clearly shows that there is a strong need of considering emotional as well as sensory stimuli inside the store when the effects of in store experiences on impulse purchases are examined.

Donovan and Rossiter (1982) found the relationship between the atmosphere of store and purchase intentions of shoppers by incorporating the Mehrabian Russell model and collected a sample of 11 retail outlets and studied that pleasure is the reason behind increased probability of overspending, and it provides support for the consideration of sensory experiences as an important source of pleasure in shopping and that causes impulse purchases. On the basis of this literature review, hypothesis for the study have been designed for analyzing and understanding the influence of demographic factors on the consumer impulse purchase behavior.

## PURPOSE OF THE STUDY

The purpose of the study is to find the relationship between independent variables (age, gender, income, educational qualification, occupation of the consumers) and dependent variable (impulse purchase behavior of consumers). In this study, consumers who shop in the area of Bangalore are included.

## HYPOTHESIS

After review of literature, following hypotheses have been formulated:

- H1:** There is a strong relationship exists between age and impulse purchase behavior of consumers.
  - H2:** There is a strong relationship exists between income and impulse purchase behavior of consumers.
  - H3:** There is a strong relationship exists between gender and impulse purchase behavior of consumers.
  - H4:** There is a strong relationship exists between educational qualification and impulse purchase behavior of consumers.
  - H5:** There is a strong relationship exists between occupation and impulse purchase behavior of consumers.
- The hypotheses are tested and limited to the primary data collected from Bangalore.

## RESEARCH METHODOLOGY

The objective of this study is to find out the relationship between demographic factors and impulse purchase behavior of consumers in Bangalore city. In this study stratified random sampling has been used and sample size was taken as 250. In this study primary data was collected by administering a closed ended questionnaire. Further, percentage analysis, correlation analysis and regression analysis are used as major statistical tools for analysis of data.

TABLE 1: DEMOGRAPHIC PROFILE OF CONSUMERS

Demographic Characteristics	Frequency	Percentage
<b>Gender</b>		
Male	121	48.4
Female	129	51.6
Total	250	100
<b>Age</b>		
18-25	24	9.6
26-32	113	45.2
33-39	88	35.2
40-46	22	8.8
Above 46	3	1.2
Total	250	100
<b>Disposable Income</b>		
Under 5000	23	9.2
5001-10000	101	40.4
10001-15000	84	33.6
15001-20000	39	15.6
Above 20000	3	1.2
Total	250	100
<b>Occupation</b>		
Govt. Employee	67	26.8
Private Job	163	65.2
Self Employed	20	8.0
Total	250	100
<b>Frequency of weekly store visit</b>		
Once a week	10	4.0
Twice a week	142	56.8
Thrice a week	80	32.0
Four times a week	13	5.2
More than four times a week	5	2.0
Total	250	100
<b>Marital Status</b>		
Married	170	68
Unmarried	80	32
Total	250	100
<b>Educational Qualification</b>		
SSC	90	36
HSC	98	39.2
UG	27	10.8
PG	28	11.2
Ph.D.	7	2.8
Total	250	100

TABLE 2: CORRELATION ANALYSIS BETWEEN DEMOGRAPHIC FACTORS

	Age (years)	Education	Impulse Purchase	Disposable Income	Occupation	Gender
Age (years)	1	.071	.201	.157	.014	-.050
Education	.071	1	.143	.052	.053	-.089
Impulse Purchase	.201	.143	1	.700	.103	.105
Disposable Income	.157	.052	.700	1	-.009	-.142
Occupation	.014	.053	.103	-.009	1	-.033
Gender	-.050	-.089	.105	-.142	-.033	1

TABLE 3: REGRESSION ANALYSIS FOR IMPULSE PURCHASE AND DEMOGRAPHIC FACTORS

	Impulse Buying			
	Estimate (R2)	S.E.	C.R.	P
Age in years	0.04	0.032	1.448	0.133
Educational Qualification	0.057	0.02	1.967	***
Disposable Income	0.188	0.02	6.113	***
Occupation	0.067	0.023	2.701	***
Gender	0.043	0.024	1.54	***

\*\*\* is significant at the 0.05 level.

Data has been analyzed with use of means, correlation and regression analysis. Tables 2 & 3 show correlation between variables used in the study. There is a strong relationship exists between impulse purchase behavior and age where the value of R is .201 and significant at .001 and hence hypothesis H1 is verified. It is clear from the table that both dependent variable impulse purchase behavior and independent variables demographic factors show significant relationships. Hence all provide support for hypothesis H2, H3, H4 and H5. In addition to study of relationship between demographic factors and impulse purchase behavior, also the important factors which impacts impulse purchase behavior of consumers were also determined. From the table it can be infer that educational qualification of respondents is minutely correlated with impulse purchase behavior and disposable income found considerably correlated with impulse purchase behavior. It is also clear from the table that gender and occupation does not have significant impact on the impulse purchase behavior of consumers. In this study there was one important research questions about amount of variance caused in impulse purchase because of demographic factors. The demographic factors cause total variance of 34.4% in the impulse purchase. Disposable income creates major variance of 18.8% in impulse purchase. Age in years did not have significant variance at 95% confidence interval level.

**CONCLUSION**

This study has identified a positive relationship between demographic factors and impulse purchase behavior of consumers. Impulse purchase behavior has a positive correlation with all the demographic factors, which have been considered in this study. That means that consumers with high disposable income and medium age show more impulse purchase behavior. Impulse purchase behavior is positively affected by demographic factors. According to the result of this study, disposable income creates majority of the variance in impulse purchase behavior of consumers. This proves that individuals with high income and have money to spend on shopping show more impulse purchase behaviors. On the other hand, age created non-significant variance in the impulse purchase behavior of consumers. There are several limitations in the results of this study. The small sample size in Bangalore city is the major limitation of this study. It is required to use a large as well as dispersed sample of consumers. This study will be able to develop a better understanding of the impulse purchase behavior of consumers and its causes. There are various causes behind the impulse purchase behavior of consumers, but demographic factors are the most important reason among all. This study of relationship between demographic factors and impulse purchase behavior of consumers is logical as well as useful and deserves further study.

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**VALUE CHAIN ANALYSIS OF ONION MARKETING IN SOME SELECTED AREAS OF PABNA DISTRICT**

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**ABSTRACT**

Onion (*Allium cepa* L.) is one of the most important and widely used vegetable and spice crops in Bangladesh as well as in many countries of the world. During winter, onion is widely cultivated all over Bangladesh. A large number of people are involved in the production and marketing of the onion. The imbalance in the supply-demand in onion is increasing every year due to low production coupled with an increased population. Realizing the increasing importance of onion as spice, the present study was undertaken with some objectives such as to identify the value chain & marketing channels. Many research and studies were conducted on Onion production and marketing is abroad. But in Bangladesh there are very few studies on onion marketing and value chain. Farmers in Pabna have achieved remarkable success in onion cultivation, officials said. Preliminary survey was conducted in Sujanagar upazila of Pabna district. The total sample size was 30, which include producer, faria, beparis, arathdar, wholesaler, retailer, consumer were selected purposively from different markets of Sujanagar Upazila. In the process of onion marketing the intermediaries are involved in a chain was: Farias, Beparis, Arathdars, Wholesalers and retailers. In the study area Faria purchased 100 percent from producer, beparis 66.67 percent from producer and 33.33 percent from faria. Arathdar buy 12.5 percent from producer, 25 percent from Faria and 62.5 percent from Bepari. Wholesaler purchased 11.11 percent from faria, 44.44 percent from bepari and 44.45 percent from the arathdar. Retailer purchased 54.29 percent from producer 31.42 percent from faria and 14.29 percent from wholesaler.

**KEYWORDS**

spice crop, consumer, intermediaries; value chain; marketing channel.

**1. INTRODUCTION**

 onion (*Allium cepa* L.) is one of the most important and widely used vegetable and spice crops in Bangladesh as well as in many countries of the world. It ranks first in production (889000 MT) and second in area (125101 ha) among the spices (BBS, 2008). It covers almost 36% of the total areas under spices. During winter, onion is widely cultivated all over Bangladesh. Farmers generally follow traditional method for cultivating onion in Bangladesh. Area and production of onion in Bangladesh during the last five years are given below; Although production of onion is increasing day by day, but in a land hungry country like Bangladesh it may not be possible to meet the domestic demand due to increase in population. There is an acute shortage of onion in relation to its requirement. Every year, Bangladesh has to import a big amount of onion from neighboring and other countries to meet up its demand. Total import of onion stood at 55499 metric tons in 2005 (BBS, 2007).

The imbalance in the supply-demand in onion is increasing every year due to low production coupled with an increased population. Onion suffers from many diseases, such as leaf blight, downy mildew, purple blotch, white rot, neck rot and Fusarium basal rot among which leaf purple blotch caused by *Alternaria porri* (Ellis) Cif. is a major one. This disease caused substantial loss of both bulb and seed yield of onion in most onion growing countries including Bangladesh. It is, thus, a serious bottleneck in the cultivation of onion. The extent of yield loss incurred by the diseases was not well documented; there were evidences of complete damage of a number of onion yields every year. Although water is regarded as the life blood for plants, it is generally believed that onion plants become susceptible to diseases when produced under irrigation.

So, many farmers do not apply irrigation to onion. Some farmers irrigate this crop, but with a lower amount and number of irrigation than required. However, proper irrigation practices and disease control measures may be the key components of the strategy to offset the imbalance in the supply-demand in onion. Onion is grown extensively during winter season in Bangladesh, occupying the first position both in area (291000 acre) and production (872000 m tons) (BBS, 2010). It is grown in more or less in all the districts of the country. It is grown in all the district of the Bangladesh and its cultivation on commercial scale is found to be concentrated in greater district of Faridpur, Dhaka, Rajshahi, Comilla, Rangpur and Pabna. There is an acute shortage of onion in relation to be requirement. This necessitates an improvement of per hectare yield, which is possible through adoption of high yielding varieties and judicious application of fertilizer. The mean yield of onion in Bangladesh is very low (2.96t/acre) compared to world average of 6.99 t/acre (FAO, 1999).

**2. OBJECTIVES OF THE STUDY**

The specific objectives of the study are as follows:

- To identify the value chain of onion.
- To identify the marketing channels involved in the onion.

**3. JUSTIFICATION OF THE STUDY**

Agriculture sector contains to play a very important role in the economy of Bangladesh. Agriculture sector attained modest growth and experienced slow transition during the two decades since independence. The goal of the sector was to replace the traditional and vulnerable agriculture by modern agriculture capable of sustained growth.

The study would be justified on the following issue-

- The research would be helpful for the government research, planning and the policy making.
- It would provide information to farmers, intermediaries and consumer in providing their efficiency in onion marketing in the country.
- It would provide information about the marketing channel, value addition about the onion market in Bangladesh.
- It would add new knowledge in the field of onion market and build a foundation for further research in this respect.

#### 4. REVIEW OF LITERATURE

The aim of the present chapter is to review empirical studies related to this price of research work. Many research and studies were conducted on Onion production and marketing is abroad. But in Bangladesh there are very few studies on onion marketing and value chain. Some important studies on onion production, which have been conducted in the recent past, are discussed below:

Rashid et al. (2002) conducted a study on an economics of Onion cultivation at Foridpur region in Bangladesh. They conducted that the profitability of the input utilization patterns in and the constraints to onion cultivation in Foridpur, Bangladesh were examined. Data for the crop year 1999-2000 were obtained from a sample of 100 onion farmers. Onion cultivated was profitable in study area. Excessive use of insecticides and fertilizers, lack of quality seeds and high cost of seedlings were some major production constraints of Onion production.

Farmers in Pabna have achieved remarkable success in onion cultivation, officials said. Although a majority of the onions produced in the country come from Pabna, the farmers in the district are more frustrated over poor market prices. According to the Department of Agricultural Extension (DAE) in the district, a total of 36,040 hectares of land in 9 upazilas in the district were brought under onion cultivation this year although the target was 33,100 hectares. Each hectare produced at least 10 to 10.5 tons of onions, while the amount was 8.5 tons last year, officials said.

Chanda (1990) conducted a study on onion and garlic in India. Area of production of onion garlic in the world and India, exports from other countries and factor limiting production and productivity in India are described. The research infrastructure, varietal improvement and productivity in India are described.

Mahmood (1995) examined the relative profitability of selected spices, compared with their competing crops. Among all competing crops onion was the most profitable crop with net profit of Tk. 26673, which was followed by potato (Tk 25875), lentil (Tk.20652.1) and garlic (Tk 16755.49) in respect of net return per hectare.

Singh (2005) conducted an economic study on production and marketing of vegetable in Bangladesh. He used data collected for the year 1997-98. The study analyzed the data on tomato, onion, arvia, okra, brinjal, and potato. He examined production costs and returns; marketable and marketed surplus; marketing cost; channels, margins and efficiency.

Hossain (1974) conducted a short analysis of consumer demand for onion in Maymshingh town. The elasticity of onion has been estimated to be from 0.38-0.94 which indicated that one percent increase in consumer's aggregate expenditure would bring less than one percent increase in the quantity of onion demanded. The computed elasticity with respect to aggregated expenditure indicated that onion has an inelastic demand with per capita daily consumption of onion was estimated to be 0.93 seers during its peak supply period. The income elasticity of onion for the urban panel consumers was estimated to be from 0.38-0.94, which indicated that onion was a normal good and not a luxury food item of urban consumers. Price elasticity's of onions ranged from (-0.56 to -1.26) for low income people, and it ranges from -0.61 to -0.95 for high income people. The analysis or cross price elasticity of onion with respect to potato, bean and cauliflower and cabbage provided pervasive results with unexpected signs.

Rahman (2004) studied effect of growth regulators on growth and yield of three varieties of onion growth from set. Three varieties of onion viz; Taherpuri, Zhitka, kalashnagar and four different growth regulators, namely IAA (200ppm), GA3 (100 ppm), NAA (200 ppm), CCC (500ppm) and control were used. The Taherpuri produced the highest, number of leaves per plant, bulb diameter, mean bulb weight, and bulb yield compared to control plants of onion.

From the above discussion, it is clear that several studies have been conducted on onion production and marketing in Bangladesh. The present study was, therefore undertaken to determine the profitability of onion and marketing of onion. Findings of the review would help conceptualization on the important aspects of the onion marketing system in general and understanding functions of the market actors in onion marketing in the selective areas in particular.

#### 5. METHODOLOGY OF THE STUDY

Farm management research depends on the proper methodology of the study. Proper methodology is a prerequisite of a good research. It's also involves collection of primary data from the farmers. The type of primary data to be collected however depends upon the nature of the study and its aims and objectives. It's also depends on availability of necessary resources, materials and time.

**5.1 SELECTION OF THE STUDY AREA:** Selection of the study area is an important step for the farm management research. "The area in which a farm business survey is to be carried out depends on the survey and the possible cooperation from the farmers" (Yang 1965). Such a study usually requires selection of an area for collecting data in accordance with the objectives set for the study.

The researcher himself conducted a preliminary survey in Sujanagar upazila of Pabna district to achieve the objectives of the study. Keeping this mind, five villages namely, Sadlapur, Vitbila, Raipur, khetupara, Bonkola under Sujanagar Upozilla in the district of Pabna were selected purposively because a large number of farmers grow onion in these areas.

The main considerations behind the selection of above Upazilas as study are as follows:

1. The Upazilas were found to be good onion growing areas.
2. There was high expectation to get cooperation from the farmers and intermediaries.
3. Easy accessibility and good communication in the Upazilas.

**5.2 PERIOD OF STUDY:** Since farming is seasonal one, a farm business survey should cover a whole crop year in order to have a complete sequence of crops. The researcher must determine to what extent the information for a particular year represents normal or average condition, particularly for crop yields, annual production and price level. Farmers generally plant onion from mid-December to January and harvest after three or four months. The data collection period, therefore pertained this period of 2012.

**5.3 SELECTION OF SAMPLE AND SAMPLING TECHNIQUE:** It is not possible to make a farm business survey covering all farms. For this reason, sampling was done to select representative farms to minimize time and cost of the study. Producers were selected from different villages under the Upazilas. Farias, Beparis, Arathdars, Wholesalers, and Retailers were selected from different markets. A total number of 30 farmers and intermediaries who cultivated and traded onion were selected purposively from different villages and markets of the sujanagar Upazilas of Pabna.

**5.4 PREPARATION OF SURVEY SCHEDULE:** Preparation of survey schedule is an important part of the study. A comprehensive survey schedules were set to collect necessary information from the farmers in such a way that all factors in the production of onion could be included in conformity with the objectives of the study. Before finalizing the schedule, it was pre-tested for judging its suitability with respondents.

**5.5 COLLECTION OF DATA:** Obviously, both technical and socioeconomic data are needed in the relevant research. The researcher himself collected the data by interviewing the selected respondents. It was very difficult to collect accurate data since farmers did not keep any written records of their farm activities. To overcome this problem, all possible efforts were made by the researcher to ensure the collection of reasonably accurate information from the field. At first, the objectives of the present study were explained to the farmers and were requested to provide correct information so far as they could remember.

#### 5.6 METHOD OF DATA COLLECTION

**5.6.1 PRIMARY DATA COLLECTION:** Primary data were collected from primary producers, Bepari, Faria, wholesaler, and Retailer. Selected respondents were interviewed personally with the help of pre-tested questionnaires. Framers' fields were also visited in order to get clear understanding, observations and perceptions about the production and marketing systems in the study area. Primary, secondary and terminal markets were also visited for primary data collection and, field perception and observation.

**5.6.2 SECONDARY DATA:** The secondary sources include govt. publications; annual reports, seminar papers, journals, published and unpublished thesis, and topic relected various books, BBS, web site etc.

**5.7 PROCESSING OF DATA:** The collected data were manually edited and coded. Then all the collected data summarized and scrutinized carefully. Data were processed to transfer to master sheets to facilitating tabulation in order to meet the objectives of the study. It may be noted here that information was collected initially in local units.

## 6. DESCRIPTION OF THE STUDY

This chapter presents a brief description of the study area. Knowledge of the study area is very essential to understand the location, physical feature and topology, soil type, temperature, rainfall, agricultural and economic condition, population, education and other socioeconomic infrastructure available in the area. This chapter aims at present the above-mentioned characteristics of the study area.

### 6.1 LOCATION

The study was conducted on five villages namely, Sadlapur, Vitbila, Raipur, khetupara, Bonkola under Sujanagar Upozilla in the district of Pabna. The selected villages are under the union council of Manikhat of the Sujanagar Upazilla.

Pabna district is bounded by Natore and Sirajganj districts on the north, Rajbari and Kustia districts on the south, Manikganj and Sirajganj districts on the east, Ganges River and Kustia districts on the west. Sujanagar Upazilla is situated 24 Km south-west to the district head quarter. It is bounded by santhia upazila on the north, rajbari sadar and pangsha upazilas on the south, bera upazila on the east, Pangsha and pabna sadar upazilas on the west. Main rivers are padma and atrai; noted depressions are Gajna Beel and Gandahasti Beel. The location of the study area is shown in Maps 4.2.1

### 6.2 MAP OF SUJANAGAR UPAZILA

Soils of the study area are silt loams, silt clay loams and heavy clays. General soil types predominately include Calcareous dark and Calcareous Brown Floodplain soils. Organic content is low. General fertility level is medium. The pH of topsoil ranges from 6.0 to 7.5 and organic matters of topsoil range from 0.8 percent to 2.1 percent (BBS 2010).



### 6.3 PHYSICAL FEATURES, TOPOGRAPHY AND SOIL TYPE

The study area belongs to the agro-ecological Zones of High Ganges River Floodplain and Low Ganges River Flood Plain. Main rivers are padma and atrai; noted depressions are Gajna Beel and Gandahasti Beel is founded in the study area.

### 6.4 AREA, POPULATION AND HOUSEHOLD

Total area of Pabna districts is 2371.50 km<sup>2</sup> of which 122.13 km<sup>2</sup> is riverine and .03 km<sup>2</sup> is under forest. Effective land area of Sujanagar upazila is 324 km<sup>2</sup>, riverine area is 2.28 km<sup>2</sup>. The Upazila cover 9.23 percent of Pabna district (BBS 2010).

The number of households in Pabna district was 448000, which was 1.68 percent of total households of total household of the country. The density of population was 910 per km<sup>2</sup>. The percentage of male and female was 51.17 and 48.83 respectively. However, number of households in Sujanagar Upazila was 49000 and total population was 214132 (BBS 2010).

### 6.5 CLIMATE

Yield of onion largely depends upon the temperature, humidity, day length and rainfall. So it is very important to know the climatic condition of the study area. The district is remarkable for its high temperature, Humidity and coldness. Maximum and minimum mean temperature during winter varies from 24.40C to 10.60C. During the summer maximum and minimum mean temperature varies from 36.70C to 25.30C. The dry winter season starts from October and continue up to march. Summer comes from April and continues up to June. The district average rainfall data shows that it was 1872 mm in 2010. Heavy rainfall occurs during monsoon while the rainfall is the lowest in December and January. Humidity is around 79 percent in January and 88 percent in July (BBS 2010).

### 6.6 AGRICULTURE AND ECONOMIC CONDITION

Agriculture of the selected villages was mainly based on crop production. The main crops of the study area were rice of different varieties, spices, pulses, jute, etc. moreover, different kind of fruits and vegetables are grown in the study area. Varieties of fish are caught from rivers, beels and paddy fields during the rainy season. Total area under the onion production in the Pabna district is 36040 ha in which 7750 ha in Sujanagr Upazila (DAE 2011).

### 6.7 MAIN OCCUPATION

Agricultural is the main source of income of the people of the study area. A small number of people were engaged in service, business, different government organization and NGOs. The main occupation of the landless farmers was wage labor, rickshaw pulling, petty business, etc. in Sujanagar Upazila 48.63 percent people was engaged in agricultural. While the 35 percent of the Pabna district.

## 7. MARKETING CHANNELS AND INTERMEDIARIES INVOLVED IN THE ONION MARKETING

Marketing channels have traditionally been viewed as a bridge between producers and users. However, this perspective fails to capture the complex network of relationships that facilitate marketing flows: the movement of goods, service, information, and so forth between channel members. The intermediaries involved in the vegetable marketing chain from producer to consumer are the Farias, Beparis, Arathdars, Wholesalers, and Retailers. Marketing and distribution were inextricably intertwined at the beginning of the 20th century.



**7.1 FARIA**

Farias are petty traders who buy onion from producers in the village or in the local market and sell them to Beparis, or sometimes directly to local consumers. Farias conduct their business independently, and most are self-financed. They normally do not have a permanent shop in the market, and they have no permanent staff. About half have been engaged in onion trading for more than 10 years. About half are seasonal traders; the rest do business throughout the year. Some Farias also deal in other commodities, such as jute or paddy. None of them is reported to offer credit.

**7.2 BEPARI**

Beparis are professional traders who buy goods from producers or Farias at the local markets, ship their consignments to urban wholesale markets and sell to retailers through commission agents. Most Beparis are independently organized and self-financed. They have no permanent shops or staff, but they do hire casual labor to perform a variety of marketing functions. Most Beparis have more than

Five years' experience in the onion business, and are involved in onion trading throughout the year; some also deal in other agricultural commodities. Cash sales or purchases are very common at this stage of the marketing channel. There exists strong competition among Beparis, and entry into this type of business has few barriers. As a result, Beparis cannot make excessive profits.

**7.3 ARATHDAR**

Arathdars are commission agents who operate from a permanent base (shop or other establishment). Most Arathdars are independently organized and self-financed. They employ both day (or monthly) laborers and other staff to perform various functions, and many employ a few permanent staff. Both licensed and unlicensed Arathdars are found in the wholesale markets. Arathdars charge commissions from Beparis and retailers; these commissions differ according to the vegetable. Arathdars often advance loans to Beparis (on condition that the Bepari sell his onion to the Arathdar) and provide shelter and occasional meals to Beparis. Competition at this stage is comparatively less and there are major barriers to entry (such as limited space in the market); as a result, Arathdars can make excessive profits.

**7.4 WHOLESALER**

Wholesaler buys onion from Beparis through Arathdars and sells them to retailers or consumers. They operate independently and manage their own capital; sometimes they borrow money from Arathdars. Wholesalers have no permanent staff and work on a cash basis. They do not have shops, but instead not like to wait a long time before selling their vegetables dispose of their stock to the Wholesaler at the Arath centers.

**7.5 RETAILER**

Retailers, the last link in the marketing channel, buy vegetables from Beparis through Arathdars and sell them to consumers. Most retailers are independently organized and have a permanent shop in the market, although some, particularly in low-income areas, have no shop, but use the open marketplace. Most retailers are self-financed, but sometimes borrow money from friends and relatives. Some big retailers in high-income areas employ one or two people. In high-income Localities, scarcity of space to set up a shop are an important barrier to entry, whereas in low-income areas, people who want to sell onion can simply sit in the open marketplace. Cash sales are very common in high-income areas, but in low-income areas retailers often sell vegetables on credit. Retailers sometimes make credit purchases from Beparis at Arath centers.

**7.6 DIFFERENT MARKETING CHANNELS OF ONION**

The following channels are investigated in detail in different studies discussed in the following sections:

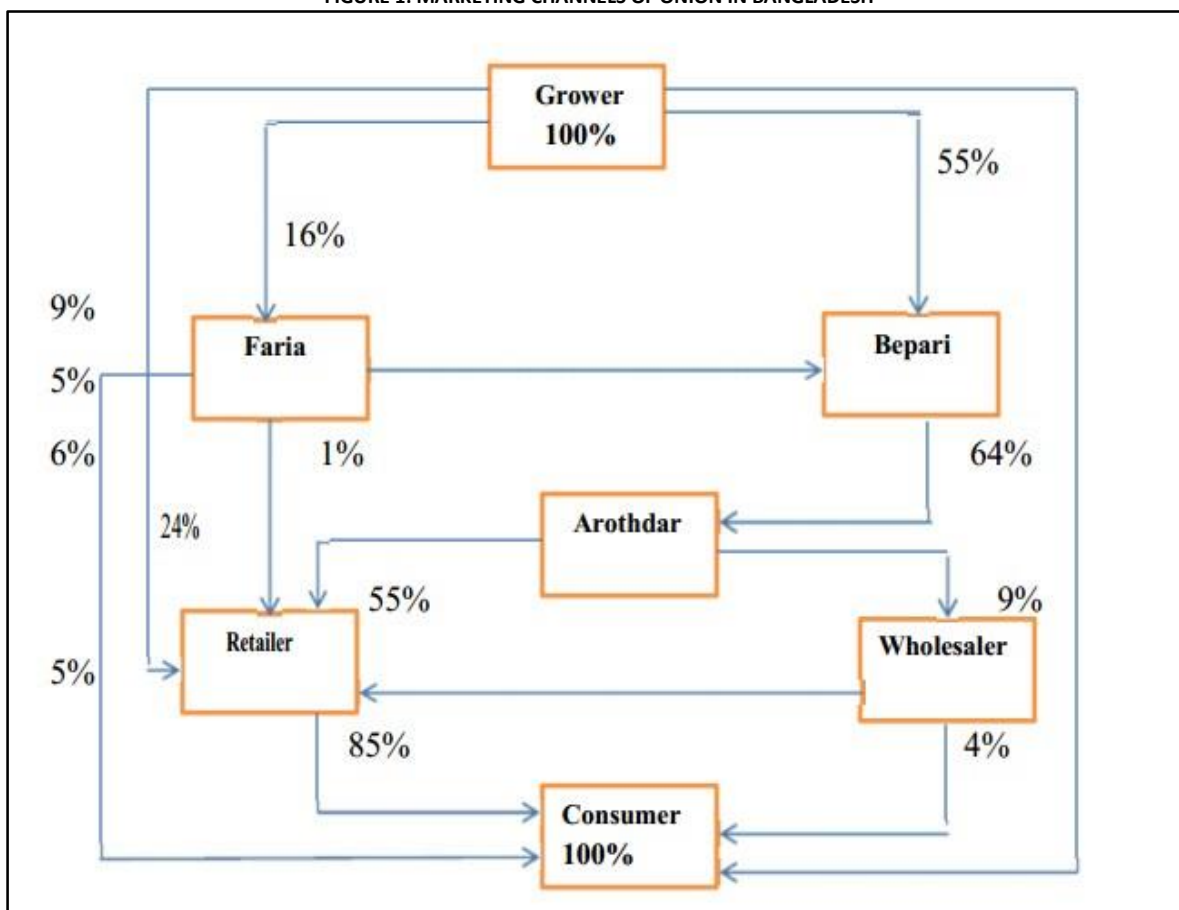
**TABLE 1: DIFFERENT MARKETING CHANNELS INVOLVED IN THE MARKETING OF ONION**

Channel-1	Channel-2	Channel-3	Channel-4	Channel-5	Channel-6
Producer	Producer	Producer	Producer	Producer	Producer
↓	↓	↓	↓	↓	↓
Consumer	Retailer	Bepari	Bepari	Faria	Faria
	↓	↓	↓	↓	↓
	Consumer	Arathdar	Paiker	Ratailer	Bepari
		↓	↓	↓	↓
		Retailer	Arathdar	Consumer	Arathdar
		↓	↓		↓
		Consumer	Retailer		Retailer
			↓		↓
			Consumer		Consumer

**7.7 MARKETING CHANNELS FOR ONION IN BANGLADESH**

In the channel of onion marketing in Bangladesh the product moves from the producers-sellers to ultimate consumers through a number of market intermediaries.

FIGURE 1: MARKETING CHANNELS OF ONION IN BANGLADESH



Source: Field survey (2012)

7.8 BUYING AND SELLING OF ONION

Buying and selling are the functions of exchange. Percentage of onion transaction by farmers and intermediaries at different levels are shown in table.

TABLE 2: BUYING OF ONION BY DIFFERENT MARKET INTERMEDIARIES (Sold at %)

Intermediaries	Producer	Faria	Bepari	Arathdar	Wholesaler	Retailer
Producer	.....	.....	.....	.....	.....	.....
Faria	100	.....	.....	.....	.....	.....
Bepari	66.67	33.33	.....	.....	.....	.....
Arathdar	12.5	25.00	62.50	.....	.....	.....
Wholesaler	.....	11.11	44.44	44.45	.....	.....
Retailer	54.29	31.42	.....	.....	14.29	.....

Source: Field survey (2012)

8. CONCLUSION

Onion is extensively cultivated species in sujanagar upazilla of pabna district. However, onion production was more profitable than any other spices production. The management practice of onion enterprise in the study area was not found efficient enough. The marketing channel of onion is so long. The farmers don't get the highest margin. Long marketing channel increase the product damage.

The well planned management training and the marketing practice in accordance to with their problems, need, goals, and resource base can lead to viable marketing practice and sustainable income from the onion production.

9. LIMITATIONS OF THE STUDY

1. The study was restricted to one upazilla where onion production was concentrated. The study might be meaningful results if it covered a number of upazilla producing potatoes.
2. Due to shortage of time the study could not cover wide side areas for collecting necessary information.
3. Some written records were maintained by the literate respondents, but maximum respondents had no written document. Therefore, the researcher had to depend solely on the memory of the respondents.
4. Respondents were very busy. A study that encloses interview of 30 samples cannot conclude anything accurately and as such, it was based on miss information.

10. RECOMMENDATIONS

The following suggestions are put forward with a view to improve the onion production as well as the existing marketing system of onion in the study areas.

- Operating capital is a problem for the resource poor farmers of the study area. Institutional credit program should be launched aiming at particularly the small and medium farmers. The commercial bank should be encouraged to provide loans at a low interest rate to enable farmers to operate their farming on commercial basis.
- Crop incurrence is new to Bangladesh. It was not experienced in study area. Farmers opined that if crop insurance could be executed they could be relieved from heavy loss due to natural climates.
- To avoid price fluctuation, support price should be ensured to the farmers.
- Market cost is high because of inadequate information, infrastructure, high price risk etc.

- So steps should be taken to ensure – fair price, quality of product, floor price, and the stability of production.
- Storage facilities and suitable market infrastructure should be improved at primary and secondary markets by establishing public and private go-downs and warehouse.
- Development of transportation system is essential for the improvement of trading and reducing cost of onion.

Moreover, a large number of people were involved in the production and marketing of onion. So, the farmers and intermediaries could be more benefited financially if production and marketing of onion were well expanded.

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**IDENTIFYING THE FACTORS RESPONSIBLE FOR SELECTION OF CHOOSING FARMING AS A CAREER****DR. KULDEEP CHAUDHARY****ASST. PROFESSOR****IMSAR****M. D. UNIVERSITY****ROHTAK****ASHA****RESEARCH SCHOLAR****IMSAR****M. D. UNIVERSITY****ROHTAK****ABSTRACT**

*As long as one can remember, agriculture has been considered a backward sector. Hence it was not viewed as an attractive alternative to other work sectors such as manufacturing, private, and public sector employment. The primary purpose of this research is to identify the push and pull factors that influence youth decision of choosing farming as career. In this context, hundred youth in haryana, india was selected as respondents from the population of farmer's in haryana. This study used quantitative method as the best way to address the issues of farming. Further, the open-ended question reveals other factors which influenced young people to choose farming as career optin are; family support, government support and promotion through carnivals and festivals. These findings provide insight to the government officials in the ministry of agriculture to resolve unemployment issues and achieve successful economic growth through the agriculture sector.*

**KEYWORDS**

factors, youth, farming as career option.

**INTRODUCTION**

In developing countries, 75 percent of the poor people live in rural areas and most of them depend on agriculture for their livelihoods. Agriculture thus remains vital for sustainable development, poverty reduction and food security. Agriculture is a critical sector of the Indian economy. Though its contribution to the overall Gross Domestic Product (GDP) of the country has fallen from about 30 percent in 1990-91 to less than 15 percent in 2011-12, a trend that is expected in the development process of any economy, agriculture yet forms the backbone of development. The experience from BRICS countries indicates that a one percentage growth in agriculture is at least two to three times more effective in reducing poverty than the same growth emanating from non-agriculture sectors. Given that India is still home to the largest number of poor and malnourished people in the world, a higher priority to agriculture will achieve the goals of reducing poverty and malnutrition as well as of inclusive growth. Since agriculture forms the resource base for a number of agro-based industries and agro-services, it would be more meaningful to view agriculture not as farming alone but as a holistic value chain, which includes farming, wholesaling, warehousing (including logistics), processing, and retailing. Further, it may be noted that in the last two Five Year Plans, it is clearly mentioned that for the economy to grow at 9 per cent, it is important that agriculture should grow at least by 4 per cent per annum. At the same time, interest in agriculture in general is low among the young generation, as is their ambition in pursuing careers in the agricultural sciences. Also, young professionals largely seem to be missing in strategic and policy debates on agricultural research for development. Therefore, along with the recently-renewed international attention for agriculture as a driver of economic development, new impetus is also required for engaging young people in the future of agriculture.

Attracting and retaining youth in agriculture is critical for Indian Agriculture. Most of the new innovations (both technical and institutional) require a skilled agricultural work force. For instance, promotion of high value agriculture, precision farming, organic cultivation, Hi-Tech horticulture, micro-propagation, Integrated Pest Disease & Nutrients Management, Post Harvest Management, development of backward and forward linkages etc, require well trained young farmers with enthusiasm and passion for farming and ability to take risks. The rural youth could be the ideal target for skill training in these new areas of agricultural growth and to do this effectively there is a need to mobilize young farmers. Organized groups of young farmers will be useful for introducing new production technologies and organizing effective input and output markets.

This study aims to assess the present situation of youth engagement in farming and it examines some of the underlying factors. The study further sets out to assess current relevant youth initiatives, both within and outside of the strict realm of agriculture, and makes recommendations for possible actions. Special attention is given to Haryana, a state full of natures gift of fertilizers. This study is largely based on a survey of literature and on data from secondary sources. In addition, key informants have been interviewed about particular initiatives. The main objective of this study is to find the factors that influence the decision to choose farming as a career and also to find the factors influence to choose other occupation.

**LITERATURE REVIEW**

India is losing more than 2,000 farmers every single day and that since 1991, the overall number of farmers has dropped by 15 million (Sainath, 2013). This has several implications for the future of Indian agriculture and India's food security. Young farmers can play an important role in ensuring food security if they are encouraged to involve in farming and the challenges they face are addressed. Over the past few years, rural youth have been shying away from agriculture and globally there is an increasing interest in finding ways of engaging youth in agriculture (IFAD, 2012; Paisley, 2013).

Generally youth are willing to adopt new ideas and technologies and therefore agricultural extension services should target youth to transform agriculture. The youth could be the ideal catalyst to change the poor image of persons involved in agriculture, especially in the rural communities given their greater possibility to adapt new ideas, concept and technology which are all important to changing the way agriculture is practiced and perceived. Agricultural extension services can effectively address these issues by encouraging and supporting youth participation in agriculture. Improving their capacities and increasing their involvement will also help in changing the negative perception about farmers as "uneducated and unskilled, physical laborers engaged in a glamour less vocation with extremely low economic returns". The Government of India (GOI) officially defines youth as persons between the ages of 13 and 35 years and it also varies depending on the programme. For instance, the National Youth Policy of India considers age group 10 to 34 yrs as youth. The United Nations (UN) and the International Labour Organisation (ILO), however, defined the youth as persons between 15 and 24 years of age for cross country comparison and analysis.

The population in the age-group of 15-34 in India increased from 353 million in 2001 to 430 million in 2011. More than half of India's population is under the age of 25, with 65 percent of the population under 35. The rural population is about 70%, and the indications are that the migration of rural youth to cities is around 45% in the country, which is quite alarming. The youth from low income families are disadvantaged due to poor telecommunication connectivity, poor quality of educational standards coupled with a high dropout rate beyond primary school stage is a major challenge. Such youth have very limited information about or access to various options in relevant skill training and are often also unable to pay the admission fees for such training. Having recognizing the importance of

agriculture sector, The Government of India has formulated its youth policy (NYP-2012 draft) to respond effectively to the changing conditions of the young people in the 21st century. This national policy aims to put young people at the center of country's growth and development by recognizing the problems of rural youth to be addressed through suitable interventions

**OBJECTIVES**

1. To find the push and pull factors selecting farming as a career.
2. Taking suggestions from young generation to make farming more attractive career choice for others

**RESEARCH METHODOLOGY**

**QUANTITATIVE METHOD**

The quantitative methods allows researcher to deduce research questions a priori from established theory, allowing to test theories and examine relationships between cause and effects proven or tested empirically (Higgins, 2009). Percentage is used as the method of analysis.

**SAMPLING DESIGN**

Random sampling method is chosen because of it is convenience and economical (Higgins, 2009). As such large number respondents are able to response at a minimum cost. This study used a simple random sampling where 100 youths in the state of Haryana, were selected as the respondents. Based on literatures, the sample consisted of the youths who are between 18 to 40 years of age with various demographic backgrounds in terms area, race, religious, marital status, income and education.

**QUESTIONNAIRE DESIGN**

A survey is a questionnaire that is designed to capture information about attitudes, behaviors, and beliefs (Haggins, 2009). The literature review and feedback from the seniors provides inputs or indicators for the development of the questionnaire (Samah et al., 2010). The indicators or items from the questionnaire in the quantitative study are taken from past literatures This questionnaire is divided into two (2) sections. Section A attempted to examine the socio-demographic profiles of respondents.

Section B explores the most and least affecting factors that influence youths to choose farming as a career. 5 point scale was used in this study. This scale is selected to ascertain data collected from the respondent is as accurate as possible. The last section which is section C is an open-ended question with the purpose to elicit other factors that will influence youth to choosing farming as a career.

**DATA COLLECTION**

The data collection begins with identifying the location and the target respondents to ensure accuracy of data. For the study, a total of 100 respondents were selected from state of haryana, . Data for this study was gathered using self-administered questionnaire survey. As an additional form to data collection, the researcher also resort door to door survey.

**DATA ANALYSIS**

Percentage is used to analyze the data. Because of the objectives, the main objective of the researcher in this paper is to find the most and least influencing factors to choose farming as a career. So, through percentage method researchers can find the most and least important factors.

**ANALYSIS**

Factors influencing the decisions are given in the following table:

TABLE 1

	NOT IMPORTAT	SO	SOMEWHAT IMPORTANT	NEITHER IMP. UNIMP.	NOR	IMPORTANT	VERY IMPORTANT
Love of farming	2		3	14		26	55
Attract by Quality of Life	2		3	20		31	44
Could be my own boss	4		4	17		34	41
Desire to stay close to home	10		10	24		29	27
Desire to carry on family tradition	12		11	23		21	33
My family was able to help me get started	23		9	20		24	24
Family expectations to farm	36		20	22		14	8
Less stressful than other occupations	23		25	32		14	6
Spouse wanted to farm	47		17	17		11	8
Better income than other options	17		27	39		11	6
Lack of other options	41		20	25		9	5

The motivation that received the highest rating was love of farming, with 80 percent of farmers indicating that it was either important or very important in decisions to become farmers (Table 1). Following in importance were quality of life considerations and could be my own boss. Seventy-five percent of farmers rated these factors as having been important or very important criteria in their decisions to farm. Desire to stay close to home(56), desire to carry on family tradition(54), and family ability to help get them started (48) were also rated as important or very important by a majority of respondents answer. Along with these factors several others factors like family expectations to farm (24), farming is less stressful than other occupations (20) etc. which affect the decision to choose farming as a career but not as much important factors as others.

**FACTORS INFLUENCING TO CHOOSE ANOTHER CAREER OPTION**

TABLE 2

	NOT IMPORTAT	SO	SOMEWHAT IMPORTANT	NEITHER IMP. UNIMP.	NOR	IMPORTANT	VERY IMPORTANT
Other occupations provided better income	8		4	14		24	50
Could not afford to buy the necessary equipment, land, crop inputs etc.	20		10	18		16	36
Not interested in farming	24		10	16		20	30
There is too much risk in farming	20		12	24		20	24
Rental and was not available	26		10	18		16	30
Farm profits are too low	22		10	26		16	26
Their spouse was not interested in farming	34		10	16		14	26
Family expectations to find another occupations	32		18	24		14	12
Not interested in living in the country	44		16	18		12	10
Farming requires too much manual labor	40		22	18		10	10

Having examined some of the reasons that influenced decision to farm, we now turn to those who decided not to farm. participants who had not entered farming were asked to rate the importance of factors that may have motivated them to select another occupation over farming.

In contrast to the factors influencing the decision to farm, most of the reasons that were rated as most important in the choice of a non-farm career were economic. The dominant reason, by far, was that other occupations provided better income. Seventy-four percent indicated that this reason had been play either important or very important role in their decisions to go into a field other than farming. Following in importance were inability to afford the necessary equipment, land, livestock and other factors of production (52), high land rents (50), high risk (44), and low farm profits (42).along with these factors some other factors like: their spouse was not interested in farming (40), family expectations to find another occupations(26) etc. but these are not as much important or very important as others are.

### SUGGESTIONS FROM YOUNG GENERATION

1. Improved access to training and capacity development.
2. Improved and easier access to resources such as
  - Land
  - Capital
  - Technology and information
3. Facilitating market opportunities.
4. Providing motivation and improving the image of agriculture.
5. Facilitating networking among youth.

### LIMITATIONS OF THE STUDY

One of the limitation of this study is that the sample taken only from one of the district in Haryana which restricted in terms of representativeness. There should be an attempt to cover the other states and district in India. The other limitation is the selected respondents were those aged between 18-40 and only male. Some respondent genuine feedbacks are that young people typically do not give an honest and accurately answers. Thus, precise information required was difficult to acquire.

### CONCLUSION AND RECOMMENDATIONS

This study has identified factors that influence the youth to choose farming a career: love to farming, quality of life etc. Besides, it has also investigated the factors which affect their decisions to choose other occupation as a career, and economic is biggest indicator for this. The study also identified other significant factors such as family support, government support and promotion through of festivals and carnivals.

From the findings, it was concluded that India is not on the right tract to attract more youth to enter in farming. To expedite the process though, more effort needs to be done. It is apparent that youth is a catalyst for the success of a country. Therefore, they should be alerted to the opportunities for self-advancement and that of their families and should not be overly selective in their selection of jobs. Self-employment might be the avenue for them to a better and brighter future. It is hoped that this research can act as a guideline or will explore new ideas for future researcher to conduct studies in similar issue. The findings will also help to enlighten the related authorities in their effort to have more youth in agriculture field. All in all, agriculture based businesses is the future to a more self-reliance nation like India.

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## EFFECT OF LIQUIDITY ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KAKAMEGA TOWN, KENYA

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### ABSTRACT

*Liquidity management is an integral activity in every organization that intends to pay its current obligation. These obligations include operating and financial expenses that are short term. The study specifically, explored the effect of liquidity on profitability of small and medium enterprises in Kakamega Town used as an indicator of performance. To achieve this, a sample of 384 small and medium enterprises was used to provide data. A descriptive survey research design, which provides insights into the research problem by describing the variables of interest and defines, estimate, predict and examine associative relationships was used. Inferential statistics such as simple and multiple linear regression and correlation analysis were used to determine the relationship between the independent and dependent variable. The outcome had some positive correlation between liquidity and performance of small and medium enterprises. The paper concludes that liquidity has a positive effect on the performance of small and medium enterprises in Kakamega town. On the basis of these findings the paper recommends that managers and owners of small and medium enterprises as well as academicians and policy makers should understand liquidity and the effect it has on performance of small and medium enterprises.*

### KEYWORDS

liquidity, performance of small and medium enterprises, profitability, small and medium enterprises.

### INTRODUCTION

Christensen (2004) indicates that global changes in the business environment in the recent years have led to an increasing number of large enterprises demanding innovation. Majority of the scholars have thought this as an attribute to success in financial performance of firms. The reasons for this include; competitive edge in the market, good returns to the shareholders, and last but not least financial performance of firms which has received little research interest (Zain & Hassan 2007). Therefore there is need to identify factors that affect performance of the firms.

In Germany, Baas and Schrooten (2005), Small and Medium Enterprises (SMEs) seem to suffer from limited access to external financial resources. Banks are reluctant to provide credit to this type of enterprises since there is relatively limited publicly available information about SMEs. Legal accounting requirements for these enterprises are low, so that managers of SMEs have only small incentives to invest in detailed information practices. It is often argued that this specific lack of information can be compensated by relationship banking, which enables banks to collect detailed information about an individual firm over time. Nevertheless this information is exclusive. That's why there exists a close linkage between the lending technique of a bank and the interest rate offered to a firm. While relationship lending leads to relatively high interest rates the burden is much lower in the case of financial statement lending.

In Pakistan, Qasim and Ramiz (2014) showed that liquidity management is an integral activity for every organization that intends to pay their current obligations on business which include operating and financial expenses that are short term. The researcher showed that the liquidity ratio affects profitability positively thus recommends managers to be capable of creating worth for their shareholders via reducing the digit of day's accounts receivable and inventories to a rational minimum.

A firm should ensure that it does not suffer from lack-of or excess liquidity to meet its short-term obligations. A study of liquidity is paramount to both the internal and the external analysts because of its close relationship with day-to-day operations of a business (Bhunia, 2012). The Dilemma in liquidity management is to achieve desired trade-off between liquidity and profitability (Nahum and Amarjit, 2013). This study seeks among other things, to investigate the problems of SMEs liquidity management in order to determine its effect on SMEs profitability.

### LITERATURE REVIEW

It is necessary for all businesses whether small, medium or large to do liquidity management. This entails collecting cash from customers in time to ensure no difficulty in paying short term debts. Therefore, when a business does not manage its liquidity well, it will have cash shortages and will result in difficulty in paying obligations. In this regard Ali Uyar (2009) opines that, in addition to profitability, liquidity management is vital for ongoing concern. Schilling (1996) suggests optimum liquidity position, which is minimum level of liquidity necessary to support a given level of business activity, it is critical to deploy resources between working capital and capital investment, because the return on investment is usually less than the return on working capital investment. Therefore, deploying resources on working capital as much as to maintain optimum liquidity position is necessary. Then he sets up the relationship between conversion cycle and minimum liquidity required such that if the cycle lengthens, the minimum liquidity required increases, and vice versa.

The management of working capital is one of the most important aspects of Financial Administration, according to Gitman (2003), net working capital is the amount by which a firm's current assets exceed its current liabilities. If the company fails to keep a satisfactory level of working capital, it will probably become insolvent. The current assets of enterprises must be at a level that can cover the liabilities at reasonable margin of safety.

According to Chandra (2001), normally a high liquidity is considered to be a sign of financial strength, however according to some authors as Assaf Neto (2003), a high liquidity can be as undesirable as a low. This would be a consequence of the fact that current assets are usually the less profitable than the fixed assets. It

means that the money invested in current assets generates less returns than fixed assets, representing thus an opportunity cost. Besides that, the amounts employed in current assets generate additional costs for maintenance, reducing thus the profitability of the company. However Arnold (2008) points that holding cash also provides some advantages, such as, provides the payment for daily expenses, such as salaries, materials and taxes. Due to the fact that future cash flows are uncertain, holding cash gives a safety margin for eventual downturns. And finally the ownership of cash guarantees the undertaken of highly profitable investments that demands immediate payment. Thus it is an important task for the financial manager to achieve the appropriate balance between the adequate liquidity and a reasonable return for the company.

Some empirical studies have attempted to examine the relationship between liquidity and profitability. In an attempt to measure the impact of liquidity on profitability, Lamberg and Valming (2009) carried out a study using a sample of companies listed on Shochholm Stock Exchange. Their focus was mainly on the impact of active liquidity strategies on company's profitability in and out of financial turbulence. The data was financial ratios which was generated from financial statements. Their findings suggested that the adaptation of liquidity strategies do not have a significant impact on return on assets. Only increased use of liquidity forecasting and short-term financing during financial crisis had a positive impact on return on assets. They also found out that the importance of key ratios monitoring companies' liquidity has not changed between the studied time points. Therefore, they concluded that the adjustment of liquidity practices is beneficial for the companies, even though benefits are not always directly measurable in profitability and, thus, recommended that companies should focus on liquidity and working capital management in an economic downturn.

Raheman and Nasr (2007) selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years, found out that there is a strong negative relationship between variables of working capital management and profitability of the firms. The study also shows a significant negative relationship between liquidity and profitability, and that a positive relationship exists between size of the firm and its profitability. Also, there is a significant negative relationship between debt used by the firm and its profitability. Variables used in their analysis included average collection period, inventory turnover in days, average payment period, cash conversion cycle, current ratio, debt ratio, size of the firm and financial assets to total assets ratio.

**IMPORTANCE OF THE STUDY**

The Government ministries and department collect taxes and spend public funds to meet their recurrent and development projects and program needs. In view of this, the Government benefitted a lot since the SME's were empowered through financial intermediation hence better performance, consequently income to the Government in terms of tax collected from them. Literature review was developed in that the results enabled other researchers to make reference on. A lot of existing literature on role of financial intermediaries and performance of SME's and by extension firms was enlarged and formed a strong foundation for the interested parties. Further, the findings of the study was useful to all those who were involved in the ownership and management of SME's in Kenya. The owners were able to make use of financial intermediaries to boost the performance of their businesses. The managers of financial institutions also benefitted from this information by having clear guidelines on how to embrace financial intermediation to benefit their institutions.

**STATEMENT OF THE PROBLEM**

The relationship between liquidity and performance of Small and Medium Enterprises (SMEs) has remained a source of disagreement among experts, researchers, professional financial analysts and even managements of profit-oriented businesses. Therefore, views on the actual relative importance of each in business enterprises have continued to differ.

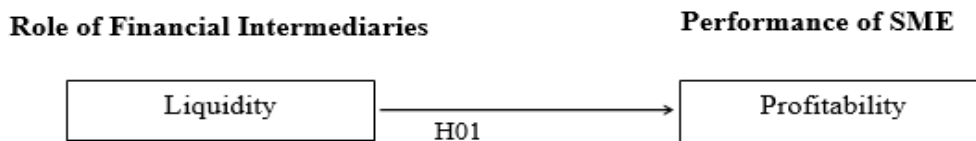
**STUDY OBJECTIVE**

The objective of the study was to determine the effect of liquidity on the performance of SMEs

**STUDY HYPOTHESIS**

H<sub>01</sub> Liquidity had no effect on the performance of SMEs.

**FIGURE 1: CONCEPTUAL FRAMEWORK ROLE OF FINANCIAL INTERMEDIARIES AND PERFORMANCE OF SME'S IN KAKAMEGA TOWN**



Source: Researcher's own conceptualization 2015

**RESEARCH METHODOLOGY**

The study used a descriptive survey (describing the characteristics of existing phenomenon) in soliciting information on financial intermediation in Kakamega Town. The population used in this study involved all the Small and Medium Enterprises (SMEs) in Kakamega Town, Kenya which totaled up to 4149 SMEs. A sample of 384 was determined however, to increase the scope of the study, the researcher issued 415 questionnaires and 400 of them were returned which were then used for data analysis. Questionnaires were used for the lead workers whereas the interview guide was used for the managers. The items in the questionnaires were subjected to cronbach alpha coefficient test to determine the reliability of the instrument. It yielded an r-value of 0.826. This indicated that the instrument is reliable. The data that was collected from the respondents was then descriptively and inferentially analyzed using frequencies, percentages and Pearson's product moment correlation coefficient test.

**RESULT AND DISCUSSION**

The questionnaire return rate was 96.4% since 400 questionnaires were returned out of 415 that were supplied. The response rate of at least 90% was considered a good rate according to (Saunders et al., 2007).

**GENERAL INFORMATION OF THE RESPONDENTS**

It was important to have general background information concerning the responses. This information was important to establish whether they were in a better position to respond to the questionnaires or not. The information sought for purposes of having background information included, gender, age bracket of the respondents, level of education and the number of years they have worked as SME's. The following were response recorded.

**GENDER**

The respondents indicated their gender and the results were recorded in Table 1 below.

**TABLE 1: GENDER DISTRIBUTION**

	Gender of Respondents		
	Frequency	Percentage	Cumulative Percentage
Male	267	66.8	66.8
Female	133	33.2	100.0
<b>Total</b>	<b>400</b>	<b>100.0</b>	

Source: Research Data, 2015



According to the results in Table 1 above, majority of the respondents were males (66.8%) while the rest were females (33.3%). It was an indication that more male participated in this study than females. This could be as a result of more male employees than female. Alternatively, women's traditional reproductive roles have to be combined with other activities, like employment leaving little energy and time for the latter (UDEC, 2002), may explain why the number of women who participated in this study is lower. However, the representation of women is enough in the study.

**AGE BRACKET OF RESPONDENTS**

The results in table 2 show that, between 20 and 30 years old, there were 10.8% of the respondents; between 31 years and 40 years, there were 38%; between 41 years and 50 years, there were 45%; while those who were 51 years old and above were 6.3%. From these results, it implies that majority of the respondents (83%) were in the active age bracket of 31-50 years.

**TABLE 2: AGE DISTRIBUTION OF RESPONDENTS**

Age Bracket	Age Bracket of Respondents		
	Frequency	Percentage	Cumulative Percentage
20-30 Years	43	10.8	10.8
31-40 years	152	38.0	48.8
41-50 Years	180	45.0	93.8
Over 50 Years	25	6.2	100.0
	<b>400</b>	<b>100.0</b>	

Source: Research Data, 2015

Age affects the level of motivation to perform any function in an organization. Majority of respondents were in the age range of between 31 to 50 years old. This age is important in a business setting for instance in the SME's because it is an active age that is quite productive.

**EDUCATIONAL LEVEL OF THE RESPONDENTS**

The level of education was very important in this study. This information was vital in making decisions on the role of financial intermediaries on the performance of SME's in Kakamega Town. The results were recorded in Table 3 below. The results illustrate that 1% of the respondents had primary education, 22% had secondary education, 20.8% had college education, 13.5% had university education, and 15.8% had post graduate education, while the remaining 27% had professional qualification. From the results, over 95% of the respondents have enough education background to fill and respond to the questionnaires with ease.

**TABLE 3: EDUCATIONAL LEVEL OF RESPONDENTS**

Level of Education	Frequency	Percent	Cumulative Percentage
Primary	4	1.0	1.0
Secondary	88	22.0	23.0
College	83	20.75	43.8
University	54	13.5	57.3
Postgraduate	63	15.75	73.0
Professional qualification	108	27.0	100.0
<b>Total</b>	<b>400</b>	<b>100.0</b>	

Source: Research Data, 2015

**NUMBER OF YEARS WORKED**

This section was also important to the study. It helped establish the years of experience they have in their business. The results were as shown in Table 4 below.

**TABLE 4: NUMBER OF YEARS WORKED**

Number of Years Worked	Frequency	Percent	Cumulative Percentage
Less than 5	67	16.75	16.8
5-10 years	187	46.75	63.5
Over 10 years	146	36.5	100.0
<b>Total</b>	<b>400</b>	<b>100.0</b>	

Source: Research Data 2015

From the results, 16.75% of the respondents have worked for less than 5 years, 46.75% have worked between 5 to 10 years while the remaining 36.5% have worked for over ten years. The results indicate that majority of the respondents i.e. 83.25% have worked for at least 5 years. This implies that they are in good position to have important information to the study regarding the performance of their businesses.

**DESCRIPTIVE STATISTICS OF LIQUIDITY**

Role of financial intermediaries was the independent variable on the conceptual framework shown in Figure 1. The construct under role of financial intermediaries was; liquidity. This variable was analyzed through dimension reduction of factor analysis (i.e. through central limit concept of varimax) and its mean was then computed and further used in the study. The following results demonstrate the outcome of the study.

There were several questions that aimed at establishing from the respondents how liquidity affected the performance of SME's. The respondents were asked to score the questions that were rated on the five (5) point Likert Scale ranging from 1= Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, and 5 = Strongly Agree. The results were as shown in Table 4.5 below. From the results the question; SME's maintain enough cash cover to pay for their short term debt had a mean of 4.7525 with standard deviation of 0.53099, SME's receive loans from the financial institutions like banks among others which improves their performance had a mean of 4.5625 with standard deviation of 0.63805, SME's receive varieties of credit facilities from banks to improve on their capital base had a mean of 4.5500 with standard deviation of 0.65847, The SME's repay their credit facilities on time and still manage to run their businesses had a mean of 4.5750 with standard deviation of 0.6167.

The mean scores are above 4 and their respective standard deviations are less than 1. SME's maintain enough cash cover to pay for their short term debt had a lower standard deviation than the other items and this implies that it's closer to the mean and actually shows that SMEs have enough cash to pay for their short term debt. However, very few SMEs receive variety of credit facilities from this same institutions and this could be as a result of high interest rates on this loans etc. This is indicated by a higher standard deviation which shows that the responses were spread out. This concurs with Lamberg and Valming (2009) carried out a study using a sample of companies listed on Shochholm Stock Exchange. Their focus was mainly on the impact of active liquidity strategies on company's profitability in and out of financial turbulence. The data was a financial ratio which was generated from financial statements. Their findings suggested that the adaptation of liquidity strategies do not have a significant impact on return on assets. Only increased use of liquidity forecasting and short-term financing during financial crisis had a positive impact on return on assets. They also found out that the importance of key ratios monitoring companies' liquidity has not changed between the studied time points. Therefore, they concluded that the adjustment of liquidity practices is beneficial for the companies, even though benefits are not always directly measurable in profitability and, thus, recommended that companies should focus on liquidity and working capital management in an economic downturn.

TABLE 5: DESCRIPTIVE STATISTICS OF LIQUIDITY

Descriptive Statistics of Liquidity on Performance		Mean	Standard Deviation
i.	SME's maintain enough cash to cover for their short term debt	4.7525	0.53099
ii.	SME's receive loans from the financial institutions like banks among others which improves their performance	4.5625	0.63805
iii.	SME's receive varieties of credit facilities from banks to improve on their capital base	4.5500	0.65847
iv.	The SME's repay their credit facilities on time and still manage to run their businesses	4.5750	0.61671

Source: Research Data 2015

## HYPOTHESIS TEST

TABLE 6: CORRELATION RESULTS OF LIQUIDITY AGAINST PERFORMANCE

Model Summary						
Model		R	R Square	Adjusted R Square	Std Error of the Estimate	
1	Predictors: (Constant), Liquidity	0.753 <sup>a</sup>	0.567	0.566	0.46958	
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant) Liquidity	2.030	0.116		17.56	0.000
		0.590	0.026	0.753	22.83	0.000

a. Dependent Variable: SME performance

b. Predictors: (Constant) Liquidity

Source: Research Data 2015

This correlation results in Table 6 above show that liquidity has a positive effect on the performance of SME's. The results indicate that 56.7% of the SME's performance can be explained by liquidity ( $r^2=0.567$ ) and the relationship followed a simple regression model of the nature  $P=\alpha+\beta_1L+e$ , where P is the SME performance,  $\alpha$  was the constant intercept of which in our case was 2.030 and beta  $\beta_1=0.753$ , L was liquidity and e was the standard error term.

The correlation results between the mean of liquidity and the mean of SME's performance (P) had a beta term  $\beta_1=0.753$  at  $p=0.01$ . In the hypothesis criteria, we were to reject  $H_0$  if  $\beta_1 \neq 0$ . However, from these results, the value of beta  $\beta_1=0.753$  and yet  $0.753 \neq 0$ . The study therefore rejects the null hypothesis and conclude that liquidity has a statistically significant positive effect on the performance of SME's in Kakamega Town.

## CONCLUSION

The study concludes that liquidity has a positive effect on the performance of Small and Medium Enterprises (SME's). The studies reveal that financial markets direct the flow of funds from savers to investors, by bringing buyers and sellers together, therefore affecting the wealth of individuals and how businesses behave, and the entire economy. In so doing, financial markets facilitate economic efficiency, and economic growth. Funds can be transferred by the financial market from savers to borrowers through direct transfers, investment bankers or use of intermediaries.

The study further recommends that Small and medium enterprises should aggressively engage in ensuring their businesses have enough cash cover. The study reveals that there is a statistically significant positive effect between liquidity and performance of SME's.

## LIMITATIONS

The research instruments that included questionnaires and interview schedules used for data collection was time consuming and costly. The researcher overcame this by setting time frames within which the interviews were conducted to save time and reduce costs. The respondents lacked trust and thus hide information crucial for the study from the researcher. To overcome this, the researcher assured them that the information was only confidential and would not be released to competitors. In addition, the Small and Medium Enterprises (SME's) subjected their views due to biasness because they were aware that the information generated from the study was useful to them. The researcher overcame this by citing other existing literature information on the area of study. The findings of the study were influenced by the researcher's subjectivity. The researcher addressed this through citing literary sources to support personal views to minimize subjectivity.

## SUGGESTIONS FOR FURTHER STUDIES

The following suggestions were made for further research based on the findings of this study. The study was done in Kakamega Town, which is found in Kakamega County. Further research is encouraged to have other counties also covered to check whether the results are still the same. In future a comparison should be done between the financial performance of Small and Medium Enterprises (SMEs) that have not embraced financial intermediation and the ones that have not. This may help in shedding light on whether embracing financial intermediation helps the SMEs to perform better than the other businesses.

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**GREEN ACCOUNTING: A STUDY ABOUT ITS IMPORTANCE AND CONCEPT****DR. R. JAYANTHI****LECTURER****DEPARTMENT OF COMMERCE****UNIVERSITY OF MADRAS ARTS & SCIENCE COLLEGE****(UNIVERSITY CONSTITUENT COLLEGE)****NEMMELI****ABSTRACT**

The Green Accounting term was first introduced into common usage by economist and Professor Peter Wood in the 1980s. The main purpose of this paper is to study and analyze the available literature based on the green accounting and to understand how it has been studied and evaluated by different authors who are working in this area. Current literature focuses on Green Accounting - importance and its Concept. The study suggests that there should be wide empirical studies in this area so that, through the Green accounting system we can analyze the environmental performance of each companies or organizations. One approach that is gaining momentum across the globe is "green accounting" whereby national accounts are adjusted to include the value of nature's goods and services. Mr Jairam Ramesh, the former environment minister, advocated greening India's national accounts by 2015 and encouraged policy makers to recognise the trade-off between pursuing high growth economic policies against the extensive impact they could have on India's natural capital. GDP growth has become virtually every nation's default measure of progress. For India, its slowing GDP continues to make headlines and is the subject of much debate. Like all emerging and growing economies, India is facing a catch-22 situation: On the one hand, there is pressure to maintain GDP growth as this is the perceived foundation upon which the future economic security of its growing population is based, but conversely, India must also take into consideration the costs of development and not self-cannibalise its rich natural capital wealth and jeopardise the very future of the people it is trying to secure. Over-reliance on GDP as a measure of economic health can be misleading. As noted long ago by Robert F. Kennedy: "it measures everything, in short, except that which makes life worthwhile."

**KEYWORDS**

green accounting, environmental performance.

**INTRODUCTION**

An account is a statement or measure that provides an assurance about the financial information. Accounting is discipline of measuring, communicating and interpreting the financial activity. Green accounting is considered as a subset or superset of accounting proper. Green accounting is a management tool used for a variety of purposes, such as improving environmental performance, controlling costs, investing in "cleaner" technologies, developing "greener" processes and products, and informing decisions related to product mix, product retention, and product pricing. It incorporates the environmental sources and assets into corporate accounts. It measures environmental, social and economic impact of business. It aims to incorporate both the economic and environmental information. It can be operated at company level or at national level or at international level. Green accounting is a growing field that identifies resource use, measures and communicates costs of a company or the national economy actual or potential impact on the environment. Green accounting is also referred to as environmental accounting which incorporates environmental assets and their source and sinks function into national and corporate accounts. It is a popular term for environmental and natural resource accounting.

**OBJECTIVES OF THE STUDY**

The objective of the present study is to review the following:

1. The importance of Green Accounting in India and
2. Analyze the Concept, Need, Advantages and limitations of Green Accounting for developing our Country India.

**RESEARCH METHODOLOGY**

The study has been done mainly on the basis of secondary data and information available from books and published works and reports.

**HISTORY OF GREEN ACCOUNTING**

- The term Green Accounting has been enounced since the 1980s and known as a management tools.
- The conventional SNA was first started in the USA in 1942.
- The present situation of green accounting and its most evolved from, sustainable accounting, has been receiving continues attention in the academic accounting literature in the early 1990s
- The concept started almost three decades ago in the early 1970s with important contributions.

**GREEN ACCOUNTING SYSTEM**

A Green Accounting system is composed of environmentally differentiated conventional accounting and ecological accounting. Environmentally differentiated accounting measures impact of the natural environment on a company in nominal or monetary terms. It measures the impact a company has on the environment, but in physical unit (e.g. Kilogram of waste produced) rather than monetary unit. It is closely related to sustainability.

**SUSTAINABILITY**

It is a characteristic of a process or state that could be afforded to be maintained at a certain level indefinitely. Often it is confused with sustained which means irreversible growth. Sustainability in its environmental usages, refers to the potential longevity of vital human ecological support systems, such as the planet's climatic system, systems of agriculture, industry, forestry, and fisheries on the one hand and the increasing pressure by human communities, their consumption patterns in general, and their impact on the various systems on which they depend, on the other hand.

**GOALS OF GREEN ACCOUNTING**

Green accounting is used to increase the amount of relevant for those who need it or can use it. Relevant data depends on the scale and scope of coverage. It is to increase the sustainable development.

**SCOPE OF GREEN ACCOUNTING**

The scope of Green Accounting (hereinafter called as Environment Accounting - EA) is very wide. It includes corporate level, national & international level. The following aspects are included in Green Accounting: Internal and External Aspects.

1. From Internal point of view investment made by the corporate sector for minimization of losses to environment. It includes investment made into the environment saving equipment devices. This type of accounting is easy as money measurement is possible.
2. From external point of view all types of loss are indirectly due to business operation/activities. It mainly includes:
  - a. Degradation and destruction like soil erosion, loss of bio diversity, air pollution, water pollution, noise pollution, problem of solid waste, coastal & marine pollution.
  - b. Depletion of nonrenewable natural resources i.e. loss emerged due to over exploitation of nonrenewable natural resources like minerals, water, gas, etc.
  - c. Deforestation and Land uses. This type of accounting is not easy, as losses to environment cannot be measured exactly in monetary value. Further, it is very hard to decide that how much loss was occurred to the environment due to a particular industry. For this purpose approx idea can be given or other measurement of loss like quantity of non-renewable natural resources used, how much Sq. meter area deforested and total area used for business purpose including residential quarters area for employees etc., how much solid waste produced by the factory, how much wasteful air pass through chimney in air and what types of elements are included in a standard quantity of wasteful air, type and degree of noise made by the factory, etc. can be used.

### TYPES OF GREEN ACCOUNTING (ENVIRONMENTAL ACCOUNTING)

**Environmental management accounting:** It is the identification, collection, estimation, analysis, internal reporting and use of materials and energy flow information. This type of accounting can be further classified in the following subsystems:

- a. **Segment Environmental Accounting:** This is an internal environmental accounting tool to select an investment activity, or a project, related to environmental conservation from among all processes of operations, and to evaluate environmental effects for a certain period.
- b. **Eco Balance Environmental Accounting:** This is an internal environmental accounting tool to support PDCA for sustainable environmental management activities.
- c. **Corporate Environmental Accounting:** This is a tool to inform the public of relevant information compiled in accordance with the Environmental Accounting. It should be called as Corporate Environmental Reporting. For this purpose the cost and effect (in quantity and monetary value) of its environmental conservation activities are used

**Environmental Financial Accounting:** It focuses on reporting environmental liability costs and other significant environmental costs.

**Environmental National Accounting:** It focuses on national resources stock and externality costs etc.

#### System of national account (SNA)

- SNA is the set of account which government compiles routinely to track the activity of their economic.
- SNA data are used to calculate major economic indicators GDP, GNP, saving rate and trade balance figure.
- The system of NA views the relationship between the environmental and the economy free economic perspective only.

#### STANDARD NATIONAL ACCOUNTS (SNA) FRAMEWORK

##### Net Domestic Product

$$NDP = C + I - D + X - M$$

Where:

NDP = Net Domestic Product

C = final Consumption

I = Investment (fixed capital)

D = Depreciation

X = Exports

M = Imports

Misleadingly used as measure of welfare: welfare not proportionate to consumption of produced goods

#### GROSS DOMESTIC PRODUCT

The gross domestic product (GDP) is one of the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period; you can think of it as the size of the economy.

- The sum of all officially recognized final goods and services produced within a country in a given period of time
- GDP can be measured using the income approach, the output approach and expenditure approach

**The formula for GDP is which measures the output of a nation by summing:**

$$GDP = C+I+G+Xn$$

Where

C – The total spending by households on goods and services

I – The investments firms make in new capital or that households make in real estate and homes

G – The spending government does on public goods

Xn – The spending of foreigners on goods produced by our country (Exports) minus the spending our consumers do on goods produced abroad (Imports)

The GDP of a particular nation in a particular year therefore equals the sum of C, I, G and Xn.

#### WHY IS GDP IMPORTANT?

GDP is considered by economists to be the most important measure of economic activity in nations for several reasons:

- It tells us something about the relative size of different countries' economies
- It is a monetary measure, so it tells us how much income a country earns in a year (assuming everything that is produced is sold).
- When we divide GDP by the population, we get GDP per capita, which tells us how many goods and services the average person consumes in a country.
- When real GDP grows more than the population, that tells us that people on average, have more stuff than they did before.
- If you believe that having more stuff makes people better off,
- Then GDP per capita tells us how well off people in society are.

#### TO ACCOUNT FOR WHAT GDP DOES NOT, ECONOMIST HAVE CREATED GREEN GDP

The green gross domestic product (green GDP) is an index of economic growth with the environmental consequences of that growth factored into a country's conventional GDP.

**Green GDP = GDP – the value of environmental degradation – P**

**P = all expenditures resulting from cleaning up pollution, avoiding further environmental damage, and health care costs of pollution-induced illnesses**

- Green GDP is an under-used measure of economic activity which subtracts from real GDP the losses to the environment and biodiversity resulting from economic growth.
- Places a monetary value on environmental degradation and subtracts this from the nation's GDP
- Is a measure preferred by environmentalists who believe that economic growth overstates increases in peoples' well-being due to the fact that it ignores the externalities that accompany growth?

#### IMPLICATIONS OF GREEN GDP

- Lower 'growth' rates

- High 'growth' rates would necessitate expenditure to protect and even enhance the environment

According to conventional methods of measurement, China's real GDP has been growing at over 10% per year (for several years), whereas the Green GDP method showed it to be close to zero in some Chinese provinces.

### IMPORTANCE OF GREEN ACCOUNTING

GDP growth has become virtually every nation's default measure of progress. For India, its slowing GDP continues to make headlines and is the subject of much debate. Amid concerns from the Government, the business community and citizens on what impact external events such as the evolving European sovereign debt crisis may have on India's growth and jobs, it might also be the perfect time to take a moment and reflect on India's economic journey over the last decade, and ask whether the remarkable GDP growth has been a true measure of the nation's wealth and more significantly, its economic sustainability.

Like all emerging and growing economies, India is facing a catch-22 situation: On the one hand, there is pressure to maintain GDP growth as this is the perceived foundation upon which the future economic security of its growing population is based, but conversely, India must also take into consideration the costs of development and not self-cannibalise its rich natural capital wealth and jeopardise the very future of the people it is trying to secure. Over-reliance on GDP as a measure of economic health can be misleading. As noted long ago by Robert F. Kennedy: "it measures everything, in short, except that which makes life worthwhile."

*(A catch-22 is a paradoxical situation from which an individual cannot escape because of contradictory rules. An example includes: To apply for a job, you need to have a few years of experience; but in order to gain experience you need to get a job.)*

GDP measures the value of output produced within a country over a certain time period. However, any depreciation measurements used, will account only for manmade capital and not the negative impact of growth on valuable natural capital, such as water, land, forests, biodiversity and the resulting negative effects on human health and welfare. For India, there is much to lose if action is not taken to preserve its natural environment. Its wide range of climate, geography and culture make it unique amongst biodiversity rich nations. Biodiversity is an incredibly valuable asset. It is the underlying foundation of the earth's ecosystems, the variety and abundance of species that inhabit them and the variability and diversity of genetic material found within them.

It provides numerous benefits, from food and fuel, to services such as freshwater, soil fertility, flood control, pollination of crops and carbon sequestration by forests that are crucial to both environmental and human well-being. To this end, biodiversity loss does not only mean the loss of species, but also the loss of ecosystem functioning. Although India's economic growth is to be encouraged, the double-digit GDP fixation is threatening India's biodiversity and ironically, its long-term growth and security.

For example, despite India having set in place a remarkable Protected Areas network (4.8 percent of the total geographical area of the country), it continues to be challenged by the loss of natural habitats. Over the course of the last fifty years, India has lost over half its forests, 40 percent of its mangroves and a significant part of its wetlands. At least 40 species of plants and animals have become extinct with several hundred more endangered.

Livelihoods have been lost, poverty increased, food security threatened and health risks raised. Today, annual economic costs of air pollution, contaminated water, soil degradation, and deforestation are estimated to be close to 10 per cent of India's GDP.

Better macroeconomic and societal indicators are needed to reflect the contribution of biodiversity and ecosystem services to human well-being. One approach that is gaining momentum across the globe is "green accounting" whereby national accounts are adjusted to include the value of nature's goods and services. Mr Jairam Ramesh, the former environment minister, advocated greening India's national accounts by 2015 and encouraged policy makers to recognise the trade-off between pursuing high growth economic policies against the extensive impact they could have on India's natural capital.

### GREEN LIFE CYCLE

The life cycle of a product, process, system or facility begins with (up-front) acquisition to make it green to the (back-end) decommissioning which can include toxic removal and remediation. Life cycle is a more systematic and complete assessment of a firm's long term costs.

### NEED OF GREEN ACCOUNTING

Practically for developing countries like India it is a twin problem about saving environment and economic development. As the country economic condition is not very strong, hence it should be improved first. A study by World Bank estimated that about 34,000 crores were lost by India due to environmental damage. Company like AT&T is implementing Green accounting.

### NEED OF GREEN ACCOUNTING AT CORPORATE LEVEL

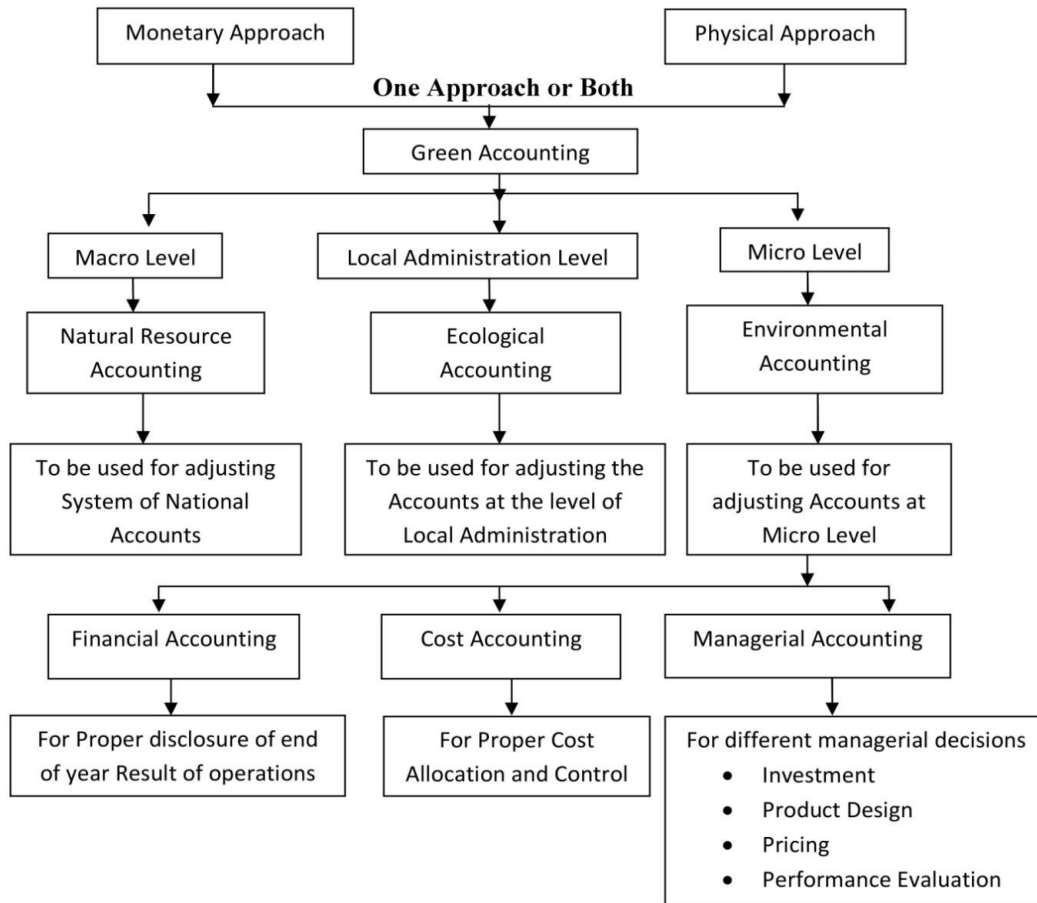
It helps to know whether corporation has been discharging its responsibilities towards environment or not.

Basically, a company has to fulfill following environmental responsibilities.

- Meeting regulatory requirements or exceeding that expectation.
- Cleaning up pollution that already exists and properly disposing of the hazardous material.
- Disclosing to the investors both potential & current, the amount and nature of the preventative measures taken by the management (disclosure required if the estimated liability is greater than a certain percent say 10 per cent of the company's net worth).
- Operating in a way that those environmental damages do not occur.
- Promoting a company having wide environmental attitude.
- Control over operational & material efficiency gains driven by the competitive global market.
- Control over increases in costs for raw materials, waste management and potential liability.

APPROACHES AND CLASSIFICATION OF GREEN ACCOUNTING

FIG. 1



**ADVANTAGES OF GREEN ACCOUNTING**

- Pollution control
- Sustainable development
- Projection, cost, estimating life cycle in the environment.
- Product circulation, administration form environmental prospective.
- Environmental-centered management system.
- Assessing, testing and reporting performance of environmental activities.

**LIMITATIONS OF GREEN ACCOUNTING**

- Lack of standard accounting method
- Social values for environmental goods and services are uncertain and change very rapidly.
- Valuation techniques for environmental goods and services are imperfect and shadow prices are only partial valuations. This applies to both deductive and interrogative techniques.
- Comparison between two countries or firms is not possible if method of accounting is different and which is quite obvious
- It mainly considers internal cost of the company and ignores cost to society.
- Since costs and benefits relevant to the environment are not easily measurable. Hence Input for Green Accounting is not easily available
- Initial cost for its tools and application is high.
- Since it is a long-term process. Therefore, to draw a conclusion with help of it is not easy.
- Large and well managed Business and the Government organizations don't adequately track the use of energy and material or the cost of inefficient materials use, waste management and related issue. Many organizations, therefore, significantly underestimate the cost of poor environment performance to their organization.
- It cannot work independently. It should be integrated with the financial accounting, which is not easy.
- There is no reliable industry data.

**ADVANTAGES OF GREEN ACCOUNTING FOR INDIA**

India is a big country which is heavily burdened with overpopulation, natural calamities, backlashes of global warming, climate change, pollution, exhaustion of natural resources, ozone depletion, desertification, species decimation, marine pollution and many more environmental hazards. To save and salvage the country, it is highly essential to enact laws and provisions and implement the same without further loss of time. Green accounting for green economy is an important concept that needs to be implemented in India.

India may gain the advantages of implementing green accounting as summarised below:

**GREEN ACCOUNTING**

- is meant to be used for both internal and external users;
- provides useful information regarding decision-making on the level and structure of production, value of investment, environmental costs, etc.;

- identifies and analyses the environmental costs and debts, identifies and manages the ratio between the environmental expenses and its afferent debt;
- identifies, collects and analyses data about raw materials, energy and other information about the environmental impact of the business, that will lead to more informed decision-making, with consequent implications for improved profitability and environmental protection;
- manages the acquisitions, consummation and sales of materials, including waste;
- contributes to a better management of energy and water costs, etc.;
- provides information regarding the performance of an economic entity which leads to a better relationship between partners and the external environment;
- brings new clients, a better image of the society;
- leads the managers to purchase materials that will minimise the costs;
- Creates accountability of the stakeholders towards environment.

### CONCLUSION

- Green accounting takes into consideration Environmental resources and changes in them, and integrate the result with the system of national account so as provide a valuable information base for planning and formulating policy for the integrated sustainable development and growth of the nation.
- Green accounting is in preliminary stage in India and whatever shows in the accounts in this regard is more or less compliance of relevant rules and regulation in the act.
- The environmental Ministry in India has issued instruction to prepare detailed environment statement.
- Actually unless common people of India are not made aware towards environment safety, development of this regard is a little bit of doubtful.
- It is the call of the time that corporate prepares a firm environmental policy.
- Take steps for pollution control.
- Comply with the related rules and regulations.
- Mention adequate details of environmental aspects in the annual statements.
- For sustainable development of country, a well-defined environmental policy as well as proper follow up and proper accounting procedure is a must.

### SCOPE FOR FURTHER ANALYSIS

This study has made an attempt to analyze the Importance's, Concept, Need and limitations of Green Accounting. However, no attempt has been made to make a comparative study of factors among the Green Accounting in corporate level, national & international level.

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**MANDATORY CSR AND ITS IMPLICATIONS FOR THE BUSINESS AND SOCIAL SECTOR IN KERALA****DR. RENJINI D.****LECTURER****SCHOOL OF MANAGEMENT STUDIES****COCHIN UNIVERSITY OF SCIENCE & TECHNOLOGY****KOCHI - 22****ABSTRACT**

Corporate social responsibility (CSR) can be an effective platform for engaging with the society meaningfully for corporate houses. Growing disparities in economic growth among different strata of the society is a matter of widespread concern in India and this has important ramifications for the country's corporate sector as well. Mandatory CSR spending as stipulated in the Indian Companies Act, 2013 has also contributed to the growing interest in the role of corporate sector in social development among practitioners and researchers in the area of CSR. Companies based in Kerala, despite having a long record of social involvement, have not been able to extend their sphere of influence beyond the local community and therefore the CSR initiatives do not lead to commercial benefits through enhanced brand reputation and public visibility for these companies. However, this situation is slated for change following the mandatory CSR clause in Companies Act as many companies are likely to seek more professional ways of managing CSR programmes because of the considerable size of mandatory CSR spend. This can definitely help the social sector in the state in several ways. Increased infusion of corporate funds will definitely be a boost to the sector. But this increased participation by corporate sector can also bring with it increased commercialisation and shifting of priorities in social sector. The present paper is an attempt to present a conceptual analysis of the role of corporate sector in the social development sector in Kerala in the present scenario. The analysis, which is based on extensive literature review of the relevant concepts, hopes to make significant contribution to the understanding of CSR by Kerala based companies and corporate participation in social sector in the state of Kerala.

**KEYWORDS**

corporate social responsibility (csr), mandatory csr, cross sector partnership, csr in kerala, corporate philanthropy.

**INTRODUCTION**

Business organizations are no longer evaluated by financial performance or legal compliance alone. Traditional bottom line has been replaced by triple bottom line and therefore, companies are expected to be accountable for social, economic and environmental impacts of their operations. Rising concern for sustainable development has led to higher standards in social responsibility and performance on the part of business. Civil society and governments have become extra vigilant in matters of business-impact on environment and society all over the world. Corporate social responsibility (CSR) of business assumes higher significance in countries like India given the poor state of socio-economic development and rising inequities in growth and development. Despite the high rate of growth in the economy and the rise in the fortunes of the private business sector, precious little has changed for those at the lower sections of the society. Against this backdrop, it is only natural that the society demands performance on social responsibility front from companies in India. In India corporate sector is not believed to have done enough on this count. As a percentage of GDP, corporate responsibility share of Indian corporate sector is low compared to other countries (Sundaram, 2011).

In the wake of the recently implemented Companies Act, 2013 provisions on CSR, debate on social responsibility of business and the impact of mandatory CSR on social sector and the business sector is a hotly contested one among academicians and business professionals. The present article is an analysis on the implications of mandatory CSR on the business and social sector in Kerala.

**REVIEW OF LITERATURE****THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY**

Corporate social responsibility of business as a concept has evolved a lot in literature from its early days. CSR is generally regarded as the moral obligation of business organisations towards society. Keith Davis defined CSR very broadly as "business decisions and actions beyond economic considerations". (Davis, 1973). Some scholars consider CSR as social concerns firms should have in addition to the primary concern of economic interests. Carroll (1979) puts forward four categories of social responsibilities of business, namely economic, legal, and ethical and discretionary responsibilities. CSR is generally understood as voluntary activities undertaken by corporate entities for the betterment of the society which includes environmental protection, community development, public health, and primary education etc. One can see a discussion on how responsibility is different from responsiveness where the latter indicates a deeper level of engagement than the former (Sethi, 1975; Ackerman & Baver, 1976).

Even though the term social responsibility appeared in literature only in 1950, the concept was practiced much earlier by firms in many parts of the world, including India. The concept has its origins the realisation by firms that they are part of the society, drawing valuable resources from it for the firm's existence. CSR can be defensive or proactive. Defensive CSR is taken up mainly as a protective measure against possible negative image due to adverse impact on environment or society, associated with one's business operations. Proactive CSR arises from the need to meet the expectations of stakeholder groups.

Social responsibilities as perceived by society have evolved over time. Changes can be seen in all categories of responsibilities. As society progresses, expectations undergo changes in economic, legal, ethical and discretionary fronts resulting from changes on competitive dynamics, legal requirements, social-cultural shifts, developments in technology etc. According to him, CSR was a process rather than an outcome (Jones, 1980). Companies are under pressure to demonstrate their social commitment in emerging economies because of the rapid economic growth in some of those countries has led to a widening gap in economic and social progress. Alignment of private and public interest is what is sought by integrating CSR into the very conduct of business.

However, there are scholars who argue against the concept of social responsibility of business in the sector. Among the voices of dissent, Friedman (1962) was the most prominent critic of the idea, who opposed the idea on the basis of the possibility of social concerns undermining the economic performance by diverting the focus of the firm from the core business. This line of argument is consistent with the conceptual ground that the primary responsibility of the firm is towards the shareholders i.e., to maximise profits. Pursuing social objectives may lead to less than optimal performance in making profit which is akin to lapse in fiduciary duties of the firm. However as the concept evolved and more companies started following CSR, the early apprehensions against the social responsibility idea slowly waned. Drucker (1984) dismissed the misgivings about CSR as being at odds with profit goals of the firm by pointing out the possibility of leveraging CSR for deriving economic benefits.

**WHY CSR?**

It is clear that CSR is basically approached by business as a tool to manage the existential concerns of their organisations for. Davis (1960) proposes that withdrawal from social engagement can lead to reduction in power of the firm. Thus enhancing social power is a strong incentive for active CSR initiatives by firms. Thus companies are expected to engage meaningfully in society so that they meet the expectations of the society in which they exist and thus protect their power and legitimacy. The primary reason for firms' interest in CSR seems to be the operational legitimacy concerns whereby firms seek to bridge the gap between own performance and societal expectations (Sethi, 1979). Firms attempt to legitimise its existence by 'giving back' to the society in the form of taking up responsibility for performance outside of legal requirements and economic functions



The 'business case' for CSR is also equally strong, given the literature support for this concept in varied sectors and settings. Impact of CSR on different facets of firm's performance has been the topic of research in management literature for years. The general results present a robust support for positive impact of CSR on performance of organisations. It is reported that corporate social responsibility leads to enhanced corporate reputation for the firm as general public and stakeholder groups are likely to have positive image of the firm due to its social performance (Brammer & Milington, 2005; Brammer & Pavelin, 2006; Hansen, 2004). Corporate reputation is regarded as 'publics' cumulative judgements of firms over time' (Fombrun & Shanley, 1990, p-235). Corporate reputation is an important success factor for firms as it indicates the effectiveness of the firm in meeting the expectations of the stakeholders (Freeman, 1984). Brammer (2005) argues that social expenditure of the firm helps the firm in stakeholder management, even protecting the firm against negative perceptions in the case of adverse impact of operations on society.

Corporate social responsibility is an effective tool in human resource management too. CSR has been positively associated with employee engagement and talent attraction (Mirvis, 2012). CSR is projected as an effective internal marketing tool whose power depends on its ability to satisfy the higher order psychological needs of the employees (Bhattacharya, Sen, & Kurschun, 2008). It is also believed that customers, one of the most important stakeholder groups for the company, also respond positively to the company's performance on the social front. Some regard CSR spend as good money that will come back as "goodwill refund" (Grow, Hamm, & Lee, 2005). Contention that CSR can be visibly rewarding to the companies is supported by research evidence on the link between perceived corporate social responsibility and consumer behaviour, especially when there is a "fit" between the business and the social initiatives (Becker-Olsen, Cudmore, & Hill, 2006). Close integration of social responsibility initiative into the core business operations of the firm is widely acknowledged to be an essential ingredient of a successful CSR strategy for any firm (Porter & Kramer, 2006). Strategic fit between the CSR initiatives and the core business of the firm is often emphasised as important for sustainability and success of CSR programmes. The 'fit' refers to the "consistency with prevailing business routines and resulting contribution to business performance" (Yuan, Bao, Verbeke, 2011, p.76). Fit with the business can be analysed in terms of consistency with other CSR projects, how it suits the business operations and how consistent CSR initiatives are with stakeholder expectations (Yuan, 2011).

### AN OVERVIEW OF THE NEW CSR POLICY IN INDIA

The recent companies Act, 2013 is a game changer for CSR field in the country. As per the relevant sections of the Act, companies having net -worth of INR 500Cr or more or a turnover of INR1000 Cr or a net operating profit of INR 5Cr are required to spend 2% of their three year average net operating profit on CSR. The act provides for the setting up of a CSR committee which is entrusted with the overall management of the CSR activities of the firm including planning, budgeting and monitoring. The act also gives in Schedule VI a list of activities that may be considered as CSR activities. The activities are wide ranging starting from poverty eradication to contribution to Prime Minister's Relief Fund. Education, public health, gender equality, environmental sustainability etc come under the term corporate social responsibility.

An interesting observation in view of the mandatory CSR in India, is that legally enforced CSR obligations is not considered in literature as real corporate social responsibility initiative. Only voluntary acts of business to contribute to social betterment can be regarded as CSR (Jones, 1980). E&Y estimates that 3000 companies in India will be required to participate in the mandatory CSR spending which will amount to a whopping Two billion dollar in CSR activities in India. Many look at it as a step in the right direction towards ensuring sustainable and equitable growth. Even though fully convinced of the need for corporate social responsibility, a common problem for most companies is that they have not figured out how to translate this into action (Porter & Kramer, 2002).

### CSR PRACTICES IN KERALA

CSR practices of companies is an under-researched area in India in general and Kerala in particular. Only one major study is available in the specific context of Kerala-based companies which is a descriptive analysis of the social responsibility practices in Kerala (CII, 2012). Corporate social responsibility in Kerala can be termed as mostly philanthropic in nature. Strategic angle seems to be missing in CSR initiatives of most of these companies. A content analysis of the report on CSR practices of Kerala-based companies by Confederation of Indian Industry (CII) reveals that most of the social programmes taken up by the companies are stand-alone philanthropic pay-outs to local government bodies or nonprofit organisations for social causes in the local communities (CII, 2012). Health care and education are the two most important area of CSR spending for the companies. All the companies covered by the study reported major part of CSR as healthcare – related. Financing medical camps, financial aid for medical expenses for the local community are the activities taken up by the firms in this regard. CSR activities in education also follow a similar path of granting financial aid. Local schools and individuals from local communities are the major beneficiaries of the above programmes.

Analysis of the CSR activities of selected companies in Kerala as per the above mentioned study reveals the following characteristics. One, corporate social responsibility is still at a philanthropic level in Kerala and is yet to reach a strategic plane. Therefore, we are still far from CSR as a contributor to competitive advantage as theorised in CSR literature. The strategic 'fit' between CSR and the firm's operations does not seem to be consideration in social initiatives of companies here. But CSR programmes are mostly local-area specific, concentrated around the location of the manufacturing facility of the firms. It can be considered as defensive as per the classification used in UN (2007).

Two, CSR initiatives are focussed on public health and education. These two sectors are attractive targets for the visibility they provide for the programmes. However, from a societal point of view, these two sectors are already priority areas for government action. Kerala is known to have made creditable progress on both fronts, at least by Indian standards. Therefore meaningful contribution to development by corporate sector is only a distant possibility through philanthropy or charity in these areas.

### IMPACT ON BUSINESS AND SOCIAL SECTOR IN KERALA

Mandatory CSR or legally-enforced CSR is often based on governments desire to promote participation by private sector in social and development arena. However a thorough analysis of costs and benefits of greater involvement of corporate sector in social sector is necessary for predicting the effectiveness of this step. With greater budget allocation for social activities, corporate sector will become a significant player in the social sector. Traditionally, state and nonprofit sector are considered the principal actors in the field. Many societies still consider the government as the principal agent of change and development due to its pervasive presence in the society as an allocator of resources and controller of implementation. However, there are certain inherent problems that come in the way of government as an effective and efficient mechanism for dealing with social problems. Government agencies often lack the experience or grass root level existence to handle social issues which often need deep understanding of the requirements of the beneficiaries (Salamon et al., 1999). Lack of decentralised planning and design of social programmes only exacerbate the problem. In social services, service design is an important factor impacting the effectiveness which in turn depends on proper identification of beneficiaries' needs and service-related behaviours. Government agencies are likely to be found wanting in this respect. This has prompted some scholars to insist on active government support to the nonprofit sector for enabling the sector for better social service design and delivery (Ryan, 1999).

Nonprofit sector is widely regarded as the ideal sector in not-for profit services. The sector's advantages come from its characteristics such as social-nature of mission, autonomy, grass root level existence etc. Organisational objectives of nonprofit organisations are social in nature and not profit-related. Hence these organisations can seek and serve those sections of society not attended by for-profit organisations in certain services. Government agencies may also not reach all pockets of population in a country as government action is guided by political process shaped by majority needs. Thus nonprofit organisations emerge as a result of the gap created by the missing government and for-profit corporate sector in public and/or social service.

In the wake of the new policies in CSR, nonprofit sector is likely to see a substantial growth in corporate funds reaching the sector. Business sector, aware of its own limitation in managing social programmes, may look at nonprofit organisations for partnership for any stage in the CSR programme design and delivery. Growth in cross sector partnership may be one of the most important characteristics of the post-mandatory CSR scene in social sector. This can contribute to the growth of the nonprofit sector in the state through capacity building, professionalising social services etc.

Mandatory CSR initiative has implications for the state's business sector too. The business sector in Kerala will definitely see bigger budgets for CSR activities for companies. Though an estimate on the likely total CSR spend in the state or the total number of companies covered by the CSR provisions is not yet available, some initial forecasts puts the figure at INR 350-400 Cr and 135 companies. Therefore, in the days to come CSR will move from the margins to the centre in business policy in the state. Companies head-quartered in Kerala, especially the banks may try to leverage the CSR activities as a differentiator in the market. If that happens, sustainability of CSR campaigns for the companies will improve and the corporate sector in Kerala can make meaningful contribution to development of the state.

## CONCLUSION

The new CSR policies will make a huge impact on the conduct of the business in social responsibility related matters. Social responsibility initiatives of firms are likely to come under more public scrutiny and therefore companies are likely to look for innovative ways of discharging their duties in this regard. The new policy, as discussed earlier in the paper is likely to lead to a substantial rise in the CSR spend of the companies in Kerala. Education and health, being the present focus of most of the companies in Kerala can be expected to get a large proportion of the funds. However, the analysis shows that companies will have to progress from the philanthropy approach to a more proactive approach in order to make real change in the society and to derive long term commercial benefits for business. The implications for the nonprofit sector are a mixed bag, consisting of positive outcomes such as access to funds and capacity building on one side and probable long term adverse effect on operational autonomy and resource dependence.

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## INTANGIBLE ASSETS DISCLOSURE: A STUDY OF INDIAN COMPANIES

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### ABSTRACT

*The present study reviews and evaluates the arguments in favor of reforming current accounting and disclosure practices related to intangible assets. The value attached to intangible assets has increased manifold in the current era of knowledge economy. But as the current accounting system still failed to give accurate and full information on most knowledge based unseen assets in the financial statements, the value relevance of financial statements is thus decreasing in the eyes of investors and many other users. So, accounting and disclosure of these unseen resources i.e. intangibles have become the big problem being faced by the companies. To bring light to the subject, the objective of present study is to review the disclosure practices followed by Indian companies for their intangible resources and factors affecting such disclosure and finally the format in which Indian companies disclose their intangible assets.*

### KEYWORDS

intangible assets, knowledge economy.

### INTRODUCTION

In the words of Albert Einstein (1879-1955), an American theoretical physicist; "Everything that can be counted does not necessarily count, everything that counts cannot necessarily be counted." The corporate business world has changed notably over the past two decades. As the time passed away intangibles became the main performance drivers of a firm (Pankaj M Madhani, 2009), which has brought a transition in the economy as well – i.e. from a traditional to a knowledge based economy. But even with this transformation in the business world, current accounting systems still appear to ignore most intangible and knowledge based assets in the financial statements.

And as now a days, the value of a company is no more driven only by its tangible resources and as discussed the value driven intangible assets are either not accounted or not properly accounted in financial statements, so today's investor do also not rely only upon the financial statements of a company as the primary source of information as it does not provide information about company's intangible assets, which makes him believe that it could mislead him. And because intangible assets are more complex and difficult to measure (Srivastava et al., 1998), challenges exist not only for the investors but also for the stock analysts who advise the investors. Moreover, the development of an accounting standard for intangible assets has taken a long time rather it has been still controversial (Lloyd Austin, 2007). And even after more than half a century have passed after the birth of modern financial reporting it is being felt that the work of national and international financial accounting boards is insufficient to correct the systematic weaknesses that persists in current era of knowledge based economy. So, accounting and disclosure of these unseen resources i.e. intangibles have become the big problem being faced by the companies. Though reporting of intangible assets is made mandatory by reporting standards, but it is in principle motivated by the same considerations as any other type of voluntary disclosure – that is, the desire to increase market valuation, enhance access to credit and attract investors. Disclosure is principally targeted at investors, although it may be also targeted at partners in cases of mergers or acquisitions or even to more specific categories of users such as potential employees, lawyers and bankruptcy judges in the cast of bankruptcy proceedings. In many cases, intangible assets disclosure is intended for multiple audiences and is thus prepared in such a way as to satisfy these specific categories of users (OECD, 2012). To bring a light on above mentioned is the objective to conduct the present study.

### LITERATURE REVIEW

**Michael G. Harvey and Robert F. Lusch (1999)**, emphasized that to balance the intellectual capital book organizations must recognize unfunded intangible liabilities. **Won W. Choi, Sung S. Kwon and Gerald J. Lobo (2000)**, examined the relationship between the reported value of intangible assets, the associated amortization expense and firm's equity market values. **John RM Hand's (2001)**, examined the fact that spending on intangibles specially on Brands, Research and Development and on other structural intangibles will exhibit increasing profitability returns to scale. **Enzo, Vittorio, Alberto, Raffaella (2002)**, argued that Intangible assets are increasingly considered the ultimate roots of company's success. **Baruch Lev (2003)**, discussed the accounting problems related to disclosure of internally generated intangible assets. He then discussed the consequences of the misreporting or absence of reporting of intangible assets. Further, he suggested the remedies that can be done to improve the situation. **Lloyd Austin (2007)**, believe that due to unusual measurement and recognition features attached to intangible assets, it is difficult to develop a comprehensive accounting standards. **Yu- Jing Chiu and Yuh-Wen Chen (2007)**, proposed a measurement system to value patents/ intellectual property that includes both quantitative and qualitative perspectives from multiple dimensions. **Rudolf, Marc & Gijs (2007)**, discussed various methods of valuation of intangible assets i.e. the cost approach, the market approach, the residual approach and the discounted cash flow approach. **Dr. Chander Subhash and Mehra Vishakha (2008)**, examine the voluntary disclosure practices of intangible assets of Indian drugs and pharmaceutical industry, by using annual reports of selected companies. **Ragini Chandra (2009)**, in her comparative study on corporate disclosure practices on intangibles concluded that Indian companies lag behind as compared to the Japanese and US companies through multi regression analysis. **Pankaj M Madhani (2009)**, explains through this study key components of intangible assets i.e. human capital, structural capital and relational capital, also highlights the cost associated with disclosure of intangibles. **Vinny Munjal and Gauri Sikka (2010)**, focussed its attention to the knowledge capital and its valuation. **Dr. Pandya Hemal and Ms. Jain Ankita (2015)**, examined the relationship between the intangible assets and firm's value for the companies in India.

### RESEARCH METHODOLOGY

This study falls into the scope of a analysis of different sets of practices as defined under six categories of research by Walton, Halter and Raffournier (1998). The main objective of this study is to examine the disclosure practices of intangible assets by the companies in India in their annual reports. Further, the study focuses its attention to examine the motives behind the disclosure of intangible assets and the format of their disclosure.

### INFORMATION GATHERING

Information was gathered from the annual reports of the sample companies and from the various past studies. The annual reports of these companies were analyzed using content analysis so as to examine the level of disclosure of intangible asset information. Intangible assets disclosure index based on the intangible assets framework as given by Sveiby (1997) and as used and tested by Guthrie and Petty (2000) and many other subsequent studies was modified and used for this study.

### PROCEDURE

As the present study contributes to the understanding of intangible asset disclosure practices by companies in India. In line with this objective, the first section explores the factors leading to the disclosure of intangible assets by the companies in India in their annual reports, second section explains the format of such

disclosures and the corporate governance variables that might affect company reporting practices. And the last section deals with the disclosure of intangible assets by the companies in India in their annual reports.

## INTANGIBLE ASSET DISCLOSURE

### FACTORS AFFECTING DISCLOSURE

The motivation for executives to disclose information on intangibles and report them to the board has already been discussed in the above section. However, the incentives for reporting this information externally (i.e. to the general public) may differ. Perhaps the primary motivation for disclosing such information is to bridge the information gap created by the inability of the current accounting frameworks to communicate the value of intangibles. While the overall rationale disclosing additional information on intangibles to the market is clear, however company-specific motives may differ.

There is no conclusive evidence that company size dictates the extent of intangible assets disclosure. Some studies have found that younger companies provide more IA disclosure because they are more likely to seek capital as opposed to mature listed firms that have access to funds. Recent evidence confirms that IA reporting by younger, technology intensive companies is beneficial. For instance, a project carried out by experts from the academia, government and companies in Spain in 2010 showed that a reliable and comparable report on intangibles is highly beneficial for these companies (Sanchez, 2011). OECD's work also found that financial markets especially reward SMEs for increased disclosure (OECD, 2006).

Further, it appears that better disclosure occurs in high technology sectors where IA are significant and where the gap between accounting and market values tends to be large. For instance, a recent study focusing on the Australian market found that although disclosures about intangibles was generally low, companies operating in high technology or knowledge-intensive industries had more extensive disclosure (Whiting, Woodcock, 2011). A study of IA disclosure of pre IPO firms on Copenhagen Stock Exchange also found that industry classification and ownership were variables found to most influence the extent of IA disclosure (Bukh et al, 2005). Recent surveys show that capital market-related incentives for IA disclosure are extremely important (ICAS, 2010) and indeed some evidence confirms that IA disclosure has a positive impact on market capitalization of companies (Abdolmohammadi, 2005; Lajili and Zéghal, 2005).

While most of this section has dealt with the benefits of external intangible assets disclosure, the benefits for management of not disclosing certain intangible assets also need to be addressed. First, the risk of litigation in connection with information disclosed in a narrative format – even without trying to quantify IA as per guidelines given under AS – 26. In the United States, the Management Discussion and Analysis section is governed by specific regulations and is subject to SEC oversight, leading to a more legalistic approach to narrative reporting by companies (PWC, 2007). In addition, companies might find it difficult to find auditors willing to issue an opinion on their intangibles. Second, situations where executives or some of the main shareholders do not wish to disclose information on IA such as innovations to be patented or other assets with significant future financial benefit as it could raise questions about market manipulation.

### FORMAT OF DISCLOSURE

In most jurisdictions, intangible assets were, and continue to be, recognized on the financial statements if their market value can be established through a transaction with a third party, as is the case of patents or trademarks which when acquired as part of a merger, can be considered as part of goodwill and periodically re-valued. The notion of "fair value" continues to dominate the thinking on asset recognition in IAS and IFRS (OECD, 2012). Many items, such as internally generated goodwill, brands, customer lists and some product development costs cannot be recognized. The recognition of intangibles as part of goodwill has been subject criticism on the basis that "goodwill is like soup, we do not necessarily know what is inside" (Zambon, 2011).

Attempts to value intangibles have been advanced by the work of the International Valuation Standards Council (IVSC). The IVSC, after four years of consultation with valuation professionals, auditors and users of reporting has released updated guidance on the valuation of intangible assets in 2010. In its report IVSC identifies principal techniques used for the valuation of intangible assets such as brands, intellectual property and customer relationships, and provides guidance on how these can be applied.

As a result of existing limitations to recognize intangible assets on company's balance sheets, disclosure has gravitated towards the narrative format. And narrative disclosure can take several forms: companies can publish an Intellectual Capital Statement or include a description of their intangible assets as a part of their broader narrative reporting. This does not mean that narrative reporting is purely qualitative. It can include valuations and external validation of reported figures but it does not form the part of financial statements. Although models to disclose IA qualitatively have abounded, models designed to provide a financial valuation of such capital are fewer and services for audit of valuations of intangible assets can be described as only emerging. A number of intangible assets disclosure methodologies favour the use of KPIs (Key performance indicators), which can be tailored based on the industry. This approach has been advocated by WICI's framework. It is also consistent with the findings of the OECD's work (OECD, 2006).

### CORPORATE GOVERNANCE AND INTANGIBLE ASSETS DISCLOSURE

The internal and external factors affecting the disclosure of intangible assets have already been discussed so it is imperative to discuss corporate governance variables also that affect the intangible assets disclosure for example, the composition of the board or the ownership structure of the company, could in principle have an impact on the disclosure of information on intangibles. Nonetheless, there are few governance variables that are thought to facilitate intangible assets disclosure.

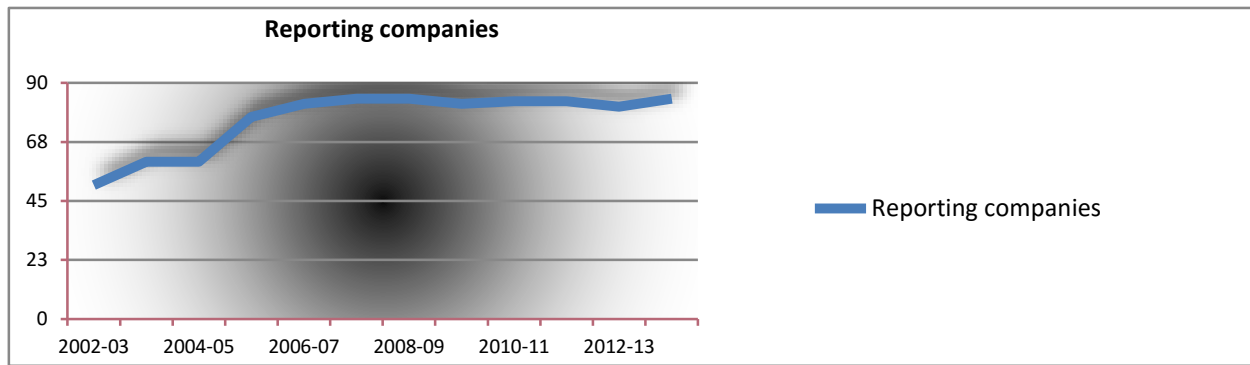
Board independence appears to be a factor positively correlated with enhanced intangible assets disclosure. In one study of UK listed firms, researchers concluded that intangible assets disclosure is positively correlated with a host of corporate governance factors including presence of independent directors and directors' breadth of experience (Li et al, 2011). In a sample of biotechnology companies in Australia, White et al (2007) found that the level of voluntary intangible assets disclosure was strongly related to board independence and company leverage. On the other hand companies with concentrated ownership structure are generally found to be less likely to provide extensive intangibles disclosure. This could be explained by the fact that companies with such ownership structures are less responsive to investors' information needs since dominant shareholders have regular access to information (Li et al, 2008). A review of practices by listed firms in Singapore found that firms with concentrated ownership and those with high level of executive director ownership were less likely to voluntarily disclose information; on the other hand, state-owned companies were more likely to do so (Firer, Williams, 2001). Concentrated ownership by professional investors appears to have a similar impact.

### DISCLOSURE ANALYSIS OF INDIAN COMPANIES

To analyze the disclosure practices of intangible assets by Indian companies in their annual reports BT (Business Today) top 500 companies were taken as population and out of those 500, BT top 100 companies were analyzed thoroughly by studying their annual reports for thirteen years i.e. from 2001-02 to 2013-14. Out of these BT top 100 companies only seven companies were excluded from the scope of the present study as annual reports were not available for those seven companies.

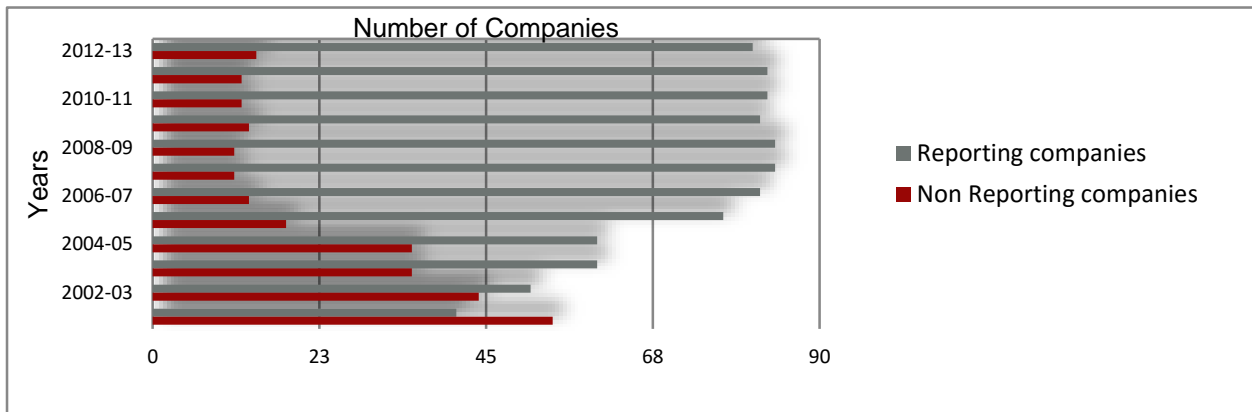
The study of the annual reports of BT 100 companies for aforesaid period shows that the number of companies valuing intangibles in their financial statements have increased more than 50% since 2001-2002. The following graph (i.e. graph -1) shows the increase in number of companies reporting their intangibles.

GRAPH - 1



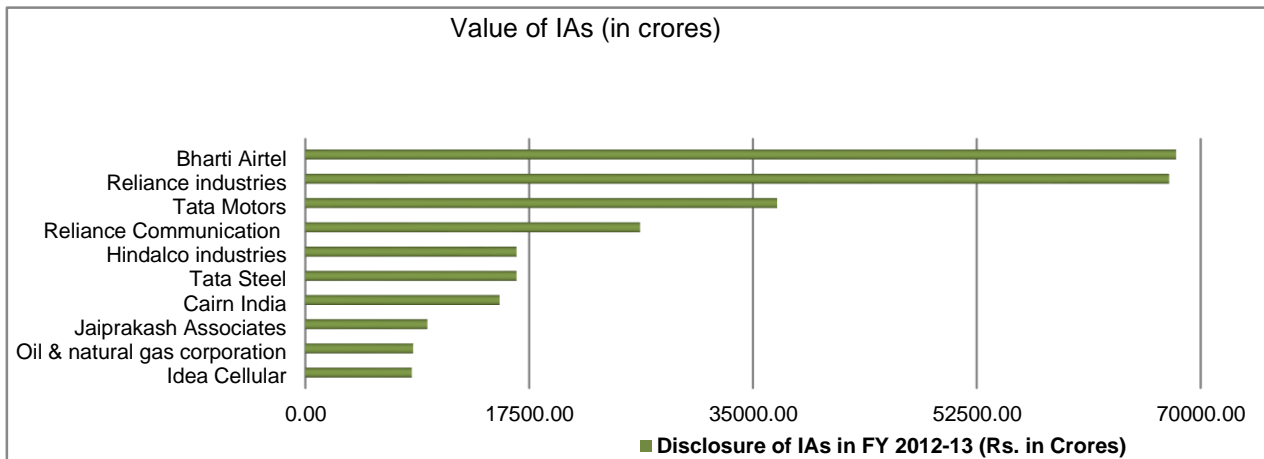
The above graph shows the increasing trend among the Indian companies to value intangible assets in their financial statements. Further year wise analysis has been done to observe the number of companies reporting and the number of companies not reporting their intangibles in the financial statements since 2001-02 to 2013-14. It has been observed that in 2001-02 only 41 out of 93 were reporting intangibles and in 2013-14 the number of companies reporting intangibles has increased to 84 out of 93 (as 7 companies out of BT top 100 companies were excluded from data).

GRAPH - 2



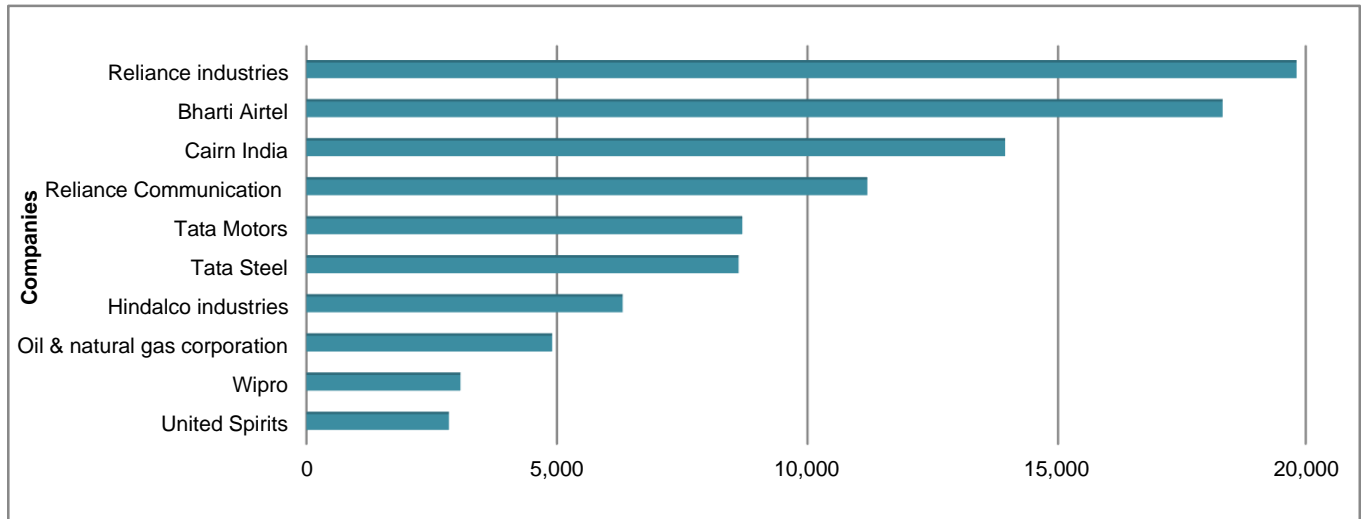
Further, the sample companies have been ordered on basis of intangible disclosure in their financial statements for FY 2013-14 from highest to lowest where, rank 1 being given to the company with the highest disclosure. Bharati Airtel have disclosed highest value of intangibles i.e. Rs. 68,080 crores among all the sample companies followed by Reliance Industries who have disclosed intangibles worth Rs. 67,533 crores and Divi's Laboratories being the last with no disclosure of their intangibles in their financial statements for the year 2013-14. Following graph shows the top 10 ranked companies among the sample companies which disclosed highest IAs in their financial statements for FY 2013-14.

GRAPH - 3



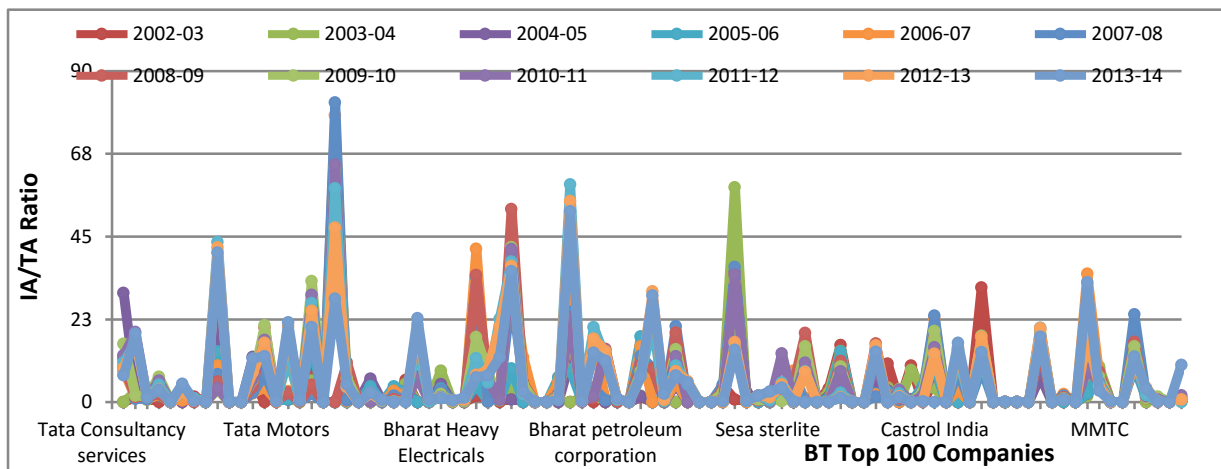
The sample companies were again ordered on the basis of average disclosure of intangibles in their financial statements from FY 2001-02 to 2013-14 from highest to lowest where, rank 1 being given to the company with the highest disclosure. Reliance Industries have disclosed highest value of intangibles with an average disclosure of Rs. 19,815 crores every year followed by Bharati Airtel who have disclosed average of Rs. 18,313 crores of intangibles every year for a period of 13 years and Divi's Laboratories being the last with no disclosure of their intangibles in their financial statements since 2001-02. Following graph shows the top 10 ranked companies among the sample companies which disclosed highest IAs every year in their financial statements on average basis since 2001-02 for the sample period of 13 years.

GRAPH – 4



As the economy has transformed from traditional to knowledge based, the intangibles have become the new value drivers for the businesses. This means that the value of physical assets should have reduced in comparison to these unseen assets in the annual reports. For analyzing the above, the annual reports for sample companies for the period of thirteen years i.e. from 2001-02 to 2013-14 have been studied in detail and the proportion of their intangible assets to total assets have been taken via IA/TA Ratio (intangible assets to total assets ratio) for all the sample of 93 companies (as seven been excluded out of BT top 100 companies). And it has been observed that IA/TA Ratio for the sample companies is highest in the year 2012-13. The following graph shows the year wise trend of IA/TA ratio for sample companies for the period of thirteen years.

GRAPH - 5: YEAR WISE TREND OF IA TO TA RATIO FOR INDIAN COMPANIES



**CONCLUSION**

It has been observed from the present study that indian companies have shown a positive trend in disclosure of information on intangible assets in their annual reports since 2001-02 and the number of companies disclosing such information have almost doubled since 2001-02. But still the intangible assets constitute small part of the value of total assets of indian companies which reveals that the indian companies still lag behind in valuing their intangible assets in their financial statements. The study further reveals that most of the indian companies disclose information on their intangibles as a part of additional information in their annual reports.

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**ECONOMIC VALUE ADDED (EVA): A PERFORMANCE MEASURE OF STRATEGIC FINANCE**

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**ABSTRACT**

*Economic value added has become the most fashionable measurement for determining the ability of a company to generate an appropriate rate of return. Profit maximization as a concept is age-old, wealth maximization is matured and value maximization is today's wisdom. Stern Stewart's EVA raises storm in corporate world and gives a new way to think about rewarding management. In this paper, an earnest effort has been made to explain theoretical foundation of EVA with its origination, meaning, computation, limitation and how it plays as a measure of organizational performance. EVA metrics provide managers with a commanding tool to weigh investment and spending decisions against capital requirements and investors' expectations.*

**KEYWORDS**

Capital Cost, Earnings Before Interest and Taxes (EBIT), Economic Value Added (EVA), Net Operating Profit After Taxes (NOPAT), Weighted Average Cost of Capital (WACC).

**INTRODUCTION**

In corporate finance, Economic Value Added (EVA) is an estimate of a firm's economic profit. It is value based performance measure that gives importance on value creation by the management for the owners. EVA measure gives importance on how much economic value is added for the shareholders by the management for which they have been entrusted with. Under conventional accounting, most companies appear profitable but many in fact are not. As Peter Drucker put the matter in a Harvard Business Review article, "Until a business returns a profit that is greater than its cost of capital, it operates at a loss. Never mind that it pays taxes as if it had a genuine profit. The enterprise still returns less to the economy than it devours in resources...until then it does not create wealth; it destroys it." But EVA adjusts all distortions that are very much prevalent in the information generated by conventional accounting. Thus, it is the most demanded tool for the owners in every situation. The decision role is very simple; if the EVA is positive, the company creates shareholder wealth. Negative EVA indicates that shareholder wealth is destroyed. Thus, EVA offers an indicator of wealth creation that aligns the goals of organization or division to the general corporate goals.

**LITERATURE REVIEW**

EVA is not a new discovery. In 1890, Alfred Marshall defined economic profit as total net gains less the interest on invested capital at the current rate. Finnish academics and financial press discussed the concept as early as in the 1970s. The concept of residual income did not get wide publicity and it did not end up to be the prime performance measure in great deal of companies. However EVA, practically the same concept with a different name, has done it in the recent years. Stern Stewart & Co., a New York based consulting firm trademarks EVA in 1990's when the tool is introduced and subsequently adopted by several major corporations. Stern (1990) observed that EVA as a performance measure captures the true economic profit of an organization. EVA-based financial management and incentive compensation scheme gives manager better quality information and superior motivation to make decisions that will create the maximum shareholders' wealth in an organization. Stewart (1994) has expended that EVA is a powerful new management tool that has gained worldwide recognition as the standard tool of corporate performance. Some literature evaluates EVA as a management tool from the point of view of the accounting measurement. O'Hanlon & Peasnell (1998) thoroughly discuss EVA as a value-based performance indicator. Anderson, Weaver and Bey (2004) believe that major consideration in the application of EVA is the adjustment of a large number of accounting variables.

**MEANING OF EVA**

EVA is a financial performance measure based on operating income after taxes, the investment in assets required to generate that income, and the cost of capital. It is the amount of economic value added for the owners by management. Under EVA, accounting profit is required to be converted into economic profit. Stewart defined EVA (1990) as Net operating profit after taxes (NOPAT) subtracted with a capital charge.

EVA can be calculated as follows:

$$\begin{aligned} \text{EVA} &= \text{Net Operating Profit After Taxes} - \text{Capital Costs} \\ \text{(or)} \\ \text{EVA} &= \text{EBIT} (1-T) - (\text{Total capital} \times \text{Rwacc}) \end{aligned}$$

Where,

Net Operating Profit After Taxes (NOPAT)	=	Sales – Operational Expenses – Tax
EBIT	=	Earnings Before Interest and Taxes
Capital Cost	=	Total Capital x Weighted Average Cost of Capital
Total Capital	=	Equity + Debt
Weighted Average Cost of Capital (WACC)	=	(Proportion of equity × Cost of equity) + (Proportion of debt × Post tax cost of debt)

EVA is superior to accounting profits as a measure of value creation because it recognizes the cost of capital.

**EVA AS FINANCIAL PERFORMANCE MEASUREMENT TOOL**

EVA is the simplest application which requires only two of the most commonly used financial statements; the balance sheet and the income statement, allowing it to be applied to virtually any company with accurate financial statements. It points managers and firms toward efficiency—essentially a goal of using EVA is to cause the firm to accomplish more profitably with as little capital as necessary.

EVA is a superior measure as compared to other performance measures on the grounds that

- i) it is nearer to the real cash flows of the business entity;
- ii) it is uncomplicated to calculate and understand;
- iii) it has a higher correlation to the market value of the firm and its application to employee compensation leads to the alignment of managerial interests with those of the shareholders, thus minimizing the supposedly dysfunctional behavior of the management.

Improvement in EVA (and therefore the firm's worth) is the goal that the managers aim for, resulting in the growth of a firm's value. EVA can also be used in Group-level controlling of operations. It may also ensure optimum capital structure by making the firm properly levered.



There are three variants of the relationship between the value of the EVA indicator and investors' behavior:

- 1) If  $EVA > 0$  (i.e., Positive EVA), the relevant company or its departments gain more than the weighted average value of the capital, therefore value creation occurs. The positive value of the EVA value shows an efficient use of the capital and represents an index of company value increase.
- 2) If  $EVA = 0$  (i.e., Neutral EVA), the analyzed company or its departments gain exactly as the capital cost level, meaning that the relevant company has the same value as in the moment investments were made in it. This is a notable feat, because the company capital owners recovered their investment and compensated the assumed risk.
- 3) If  $EVA < 0$  (i.e., Negative EVA), the relevant company or its departments do not recover the capital cost. Investors could have obtained a higher profit elsewhere, with the same risk. The negative value of the EVA indicator shows an inefficient use of the capital and a decrease of the company value.

#### EXAMPLE

TABLE NO. 1

Particulars	Company – A With Positive EVA	Company – B With Negative EVA
EBIT	Rs. 20 crore	Rs. 10 crore
Equity	Rs. 50 crore	Rs. 50 crore
Debt	Rs. 40 crore	Rs. 40 crore
$R_{wacc}$	11%	11%
Tax Rate	30%	30%
EVA =	$EBIT(1-T) - (Total\ capital \times R_{wacc})$ $(20 \times (1-0.30)) - ((50+40) \times 0.11)$ $14 - 9.9$ <b>EVA = 4.10</b>	$EBIT(1-T) - (Total\ capital \times R_{wacc})$ $(10 \times (1-0.30)) - ((50+40) \times 0.11)$ $7 - 9.9$ <b>EVA = -2.90</b>
Result	The Company-A maximizes shareholders' wealth.	The Company-B destroys shareholders' wealth.

Source: Own sources

#### ADJUSTMENTS FOR APPLYING EVA

Moreover, the formula suggested by Stern Stewart contains a multitude of adjustments, to eliminate the influence of the accounting policies. In this case, calculations become more complicated, but, at the same time, the obtained results are closer to the real value of company performance. Therefore, the first step in applying EVA is to decide the necessary adjustments to the accounting data. The main adjustment could be: recognizing research-development expenses as capital investments, recognizing other expenses as investments, adding depreciation to the profit, tax adjustment, and balance sheet adjustments. To decide what adjustments to make, first it should be decided that they are material, namely that they influence the value for the shareholders.

EVA is one of the ways to evaluate the usefulness of a performance measure. It identifies not only end results, but also the cost of the input of funds to get the results

#### EVA AS AN ORGANIZATIONAL PERFORMANCE MEASURE

EVA is a performance measure that can be used to assess the performance of the directors of a company. The idea is that directors will be motivated to improve EVA in one of four ways:

1. Invest in divisions where the returns on those divisions exceed the costs of capital.
2. Increase the operating performance of its existing divisions – thus increasing the net operating profits after tax without increasing the finance charge.
3. The firm can 'harvest assets' by closing down divisions where the return is less than the costs of capital, and either re-invest the proceeds in other divisions, or return the cash to shareholders as a dividend.
4. The firm can increase its debt to equity ratio, and thus reduce the weighted average cost of capital (as the cost of debt is less than the cost of equity). Clearly this must be done within the bounds of prudence, and the company should not become over-gearred.

As such, EVA is a useful tool for assessing the performance of the directors of a company and should motivate them to maximize the wealth of the shareholders.

#### EVA AS A DIVISIONAL PERFORMANCE MEASURE

EVA can also be used as a performance evaluation tool for divisional managers. In decentralized organizations, divisions are effectively companies in their own right, with the head office acting as a holding company. As such, using EVA encourages divisional managers to maximize the wealth of the division. Divisional managers may not have sufficient autonomy to make decisions about financing or gearing, so will not be able to change the weighted average cost of capital (WACC). However, using EVA should ensure that divisional managers only invest in projects where the return on the projects exceeds the costs of the company's capital.

#### LIMITATIONS OF EVA

EVA has a lot of advantages though it is not free of limitations. Some of the limitations are pointed out below:

- 1) EVA is criticized to be a short-term performance measure. Some companies have concluded that EVA does not suit them because of their focus on long-term investments.
- 2) EVA is probably not a suitable primary performance measure for companies that have invested heavily today and expect positive cash flow only in a distant future.
- 3) The periodic EVA fails to estimate the value added to shareholders, because of the inflation and other factors.
- 4) EVA suffers from wrong periodizing. A company may have a lot of undepreciated new assets in its balance sheet and it might show negative EVA even if the business would be quite profitable in the long run.
- 5) It was observed that EVA does not have incremental value in the predicting.

#### CONCLUSION

EVA is a ground-breaking concept on value creation, and is most likely to eliminate most of the performance evaluation problems. Most performance evaluation methods rely heavily on accounting conventions, which can easily be manipulated; EVA, however, through the use of economic concepts, focuses managers' attention on value-creating activities. The perception of EVA is based on the effective economic principle that firm's value increases only if it is able to generate surplus over its cost of capital. It can also be linked to a company's compensation system, so that managers are paid based on their ability to combine efficient asset utilization with profitable operating results. EVA identifies not only end results, but also the cost of the input of funds to get the results. However, this method must be cautiously applied to ensure that it is measuring economic effects properly. And the passing of a company from an income-based management to a value-based management will have significant effects on the aspects of the organization's life.

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