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**CONTENTS**

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	<b>DIFFERENCE IN THE BUSINESS STRATEGIES ADOPTED BY BANKS: A REVIEW OF BANKS IN THE UAE</b> <i>DR. KAUP MOHAMED</i>	1
2.	<b>CUSTOMER'S CRITERIA IN SELECTING A BANK: A CASE OF PAKISTANI BANKING INDUSTRY</b> <i>DR. ANSAR ALI RAJPUT, SABIR HUSSAIN KALHORO &amp; SAIMA AMMAR</i>	4
3.	<b>THE RELATIONSHIP BETWEEN THE FOREIGN DIRECT INVESTMENT AND BANKING INDUSTRY</b> <i>MEHDI BEHNAME &amp; MOHAMMAD JAVAD RAZMI</i>	9
4.	<b>IMPORTANCE AND IMPACT OF FOREIGN DIRECT INVESTMENTS IN GCC COUNTRIES AND ITS INWARD FLOW</b> <i>GEEVARGHESE PHILIP MALAYIL &amp; ARINDAM BANERJEE</i>	12
5.	<b>ISLAMIC BANKING IN INDIA: DEVELOPMENTS, PROSPECTS AND CHALLENGES</b> <i>MANZAR ALI KHAN &amp; NAZIMAH HUSSIN</i>	24
6.	<b>ETHICS AND JOURNALISM EDUCATION IN NIGERIA</b> <i>DR. IFEDAYO DARAMOLA &amp; IBUKUN AKINSULI</i>	29
7.	<b>DIVERSIFICATION AS A BUSINESS GROWTH AND SUSTAINABILITY STRATEGY IN GAINING COMPETITIVE ADVANTAGE</b> <i>ESTHER WANJIRU MAINA</i>	34
8.	<b>THE IMPACT OF COMPLIANCE WITH INFORMATION DISCLOSURE IN FINANCIAL STATEMENTS ON TOTAL ASSETS, PROFITABILITY AND EARNINGS PER SHARES OF QUOTED COMPANIES IN NIGERIA</b> <i>SAMUEL IYIOLA KEHINDE OLUWATOYIN &amp; UMOGBAI, MONICA E.</i>	39
9.	<b>FERTILITY DECISIONS OF HOUSEHOLDS IN RESPONSE TO ENVIRONMENTAL GOODS SCARCITY: THE CASE OF SEKOTA DISTRICT, WAG HIMRA ADMINSTRATE ZONE OF THE AMHARA REGION, ETHIOPIA</b> <i>ZEWDU BERHANIE</i>	51
10.	<b>INVESTMENT POLICY OF COMMERCIAL BANKS IN INDIA</b> <i>DR. BHAVET, PRIYA JINDAL &amp; DR. SAMBHAV GARG</i>	62
11.	<b>IS THERE A WAY OUT? (A CASE STUDY ON DEBT TRAP)</b> <i>DR. K. SANTI SWARUP</i>	68
12.	<b>ANALYSIS OF CAPITAL ADEQUACY OF PRIVATE SECTOR INDIAN BANKS</b> <i>SULTAN SINGH, MOHINA &amp; SAHILA CHOUDHRY</i>	71
13.	<b>CHANGING PARADIGMS OF INSURANCE COMPANIES - A STUDY</b> <i>P.MANIVANNAN</i>	75
14.	<b>A STUDY ON THE IMPORTANCE OF SOFT SKILLS AND POSITIVE ATTITUDE AS PERCEIVED BY INDUSTRY WITH SPECIFIC REFERENCE TO FRESH ENGINEERS</b> <i>B R VENKATESH</i>	78
15.	<b>PROSPECTS AND CHALLENGES OF WOMEN ENTREPRENEURSHIP WITH SPECIFIC REFERENCE TO DALITS</b> <i>DR. ANNAPOORANI &amp; P.DEVI BHUVANESHWARI</i>	86
16.	<b>PROBLEMS OF RURAL MSMEs: A STUDY IN THENI DISTRICT</b> <i>DR. J.MARY SUGANTHI BAI &amp; DR. R.GUNASUNDRADEVI</i>	90
17.	<b>THE DEFINING MOMENTS OF SOCIAL ENTREPRENEURSHIP</b> <i>L. JIBON KUMAR SHARMA &amp; MEMCHA LOITONGBAM</i>	95
18.	<b>DEVELOPMENT AND VALIDATION OF FINANCIAL LITERACY SCALE</b> <i>S.SUGANYA, DR. S. SAKTHIVELRANI &amp; K.DURAI</i>	99
19.	<b>THE ROLE OF MICROFINANCE IN THE DEVELOPMENT OF COTTAGE &amp; SMALL SCALE INDUSTRIES IN NORTH EASTERN REGION OF INDIA</b> <i>DR. HARSH VARDHAN JHAMB &amp; MUSHTAQ MOHMAD SOFI</i>	105
20.	<b>EXCELLENT PRACTICES OF EXPATRIATE RELATIONSHIP MANAGEMENT (ERM) IN INFORMATION TECHNOLOGY ENABLED SERVICE SECTOR</b> <i>RAGHAVENDRA A.N. &amp; DR. NIJAGUNA G.</i>	113
21.	<b>THE ROLE OF MEDIA AGENCY IN ADVERTISING INDUSTRY</b> <i>NEHA SULTANIA &amp; G.TEJASVINI</i>	119
22.	<b>LIQUIDITY, SOLVENCY AND PROFITABILITY ANALYSIS OF MANUFACTURING INDUSTRIES: A STUDY WITH REFERENCE SELECTED MANUFACTURING INDUSTRIES IN INDIA</b> <i>KUSHALAPPA. S &amp; REKHA SHETTY</i>	123
23.	<b>A STUDY ON NPA MANAGEMENT IN INDIAN BANKING INDUSTRY</b> <i>DR. SAMBHAV GARG, PRIYA JINDAL &amp; DR. BHAVET</i>	128
24.	<b>A HUMAN RESOURCE DOWNGRADING - JOB HOPPING</b> <i>DR. M. JANARTHANAN PILLAI &amp; R.V.NAVEENAN</i>	133
25.	<b>WORK LIFE BALANCE: AN OVERVIEW OF INDIAN COMPANIES</b> <i>DR. KARAMVIR SINGH SHEOKAND &amp; PRIYANKA</i>	138
26.	<b>ORGANIZED RETAIL SECTOR IN INDIA – OPPORTUNITIES AND CHALLENGES IN PRESENT ASPECTS</b> <i>DR. RAGHAVENDRA DWIVEDI &amp; RAM KUMAR</i>	144
27.	<b>AN EMPIRICAL EXAMINATION OF PERFORMANCE MANAGEMENT ON EMPLOYEE RETENTION</b> <i>L.R.K. KRISHNAN, SUDHIR WARIER &amp; KETAN KANAUIA</i>	148
28.	<b>AN EMPIRICAL STUDY OF EFFECTIVENESS OF SALES PROMOTION ACTIVITIES IN A BANK</b> <i>ANKITA SRIVASTAVA &amp; NIRAJ KISHORE CHIMOTE</i>	157
29.	<b>A STUDY ON OCCUPATIONAL HEALTH HAZARDS AMONG WOMEN BEEDI-WORKERS OF MURSHIDABAD DISTRICT IN WEST BENGAL</b> <i>CHANDRA KANTA DAS</i>	163
30.	<b>A PERCEPTUAL STUDY ON BUYING BEHAVIOR OF CUSTOMERS TOWARDS READYMADE GARMENTS</b> <i>IRSHAD AHMAD BHAT</i>	167
	<b>REQUEST FOR FEEDBACK</b>	172

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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**DIFFERENCE IN THE BUSINESS STRATEGIES ADOPTED BY BANKS: A REVIEW OF BANKS IN THE UAE**

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**ABSTRACT**

*Banks are faced with competitive business strategies in the world. Most of the banks adopt business strategy neck to neck in order to achieve their competitive advantage. In this research, MB & SCB have been taken into consideration to check the difference in the business strategies adopted by these banks. It has been concluded in this research that there is a difference in the business strategies adopted by the MB and SCB.*

**KEYWORDS**

Bank, Hypothesis, Business Strategies.

**INTRODUCTION**

Bank comprises of bundle of financial commodities that has facilitated trade, commerce and investment. Bank's competitive changes have forced adaptations and have improved the level and efficiency of services offered to clients, thereby increasing transactional volume. "Dynamic efficiency" is characterized by product and process innovations. (Roy C. Smith, Indo Walter, 2003). Product innovation is the creation of new financial instruments by bundling or re-bundling existing ones. Process innovation includes contract design methods of settlement. Internet application has reduced cost of information and transaction cost.

Competitive challenges of banks have been a major concern. The strategies adopted by these Banks in the United Arab Emirates have been very aggressive. Most of the bank customers in the UAE purchase the products and services of the bank due to aggressive marketing & finally, the customers became indebted to the banks' financial cycle. Strategic positioning involves chalking out the target market in which the bank finds out the most attractive opportunities in the market for growth. The prospective market structure is also another competitive challenge in which the bank finds as to what the competitors are doing.

**BANK**

Today, SCB has operations in over 70 countries, and leads the way in emerging markets in Asia, Africa and the Middle East. In India, Standard Chartered has 83 branches across 33 cities, which services 1,500 Indian corporations, and 2.1 million retail clients. Besides being crucial to its operations, India is the top contributor to the Standard Chartered Group's profits, and houses the largest unit of the group's service and operations hub, employing over a quarter of the bank's 73,000 people.

SCB has continuously invested in people, products, infrastructure and technology. SCB is committed to being the Right Partner to customers, people, the community, and the regulators. Standard Chartered is setting up a \$500 million **micro-finance facility** that will touch an estimated 4 million people in emerging markets. The bank is aiming to **partner** with over 20 micro-finance institutions by December 2008.

Standard Chartered acquired American Express Bank and launched Standard Chartered Private Bank in 2007. Experienced relationship managers, and a strong portfolio of clients across a number of key centres has given the bank's business critical mass needed to become a leader in the sector. The acquisition of brokerage Standard Chartered Capital Markets supports the growth of this business because of its **equities trading capability**.

Standard Chartered Bank offers it local customer's wide variety of financial services. All the major retail account holders are assigned to **Relationship managers** who maintain regular and close contact to cater to their needs. The objective of this department is to maintain a thorough knowledge of the clients' business and to develop positive relations with them. This is maintained through interactions to offer timely advice in an increasingly competitive business environment. The trade finance of Standard Chartered bank takes care of the commercial activity related issues, particularly those related to import and export finance services, confirming export L/C and issuing of import L/Cs, etc. The Bank's treasury specializes in offering solutions to those who wish to manage interest rate and currency exposures that result from trade, investment and financing activities of other dynamic economies of the region.

Mashreq bank, one of the oldest banks in the UAE, has excelled very well in having competitive edge over other banks. In the last 30 years, Mashreq bank has made impressive records of "**firsts**" in every realm of maintaining competitive edge. It was the first to introduce several privileges to the customers including ATM cash dispenser, debit/credit cards, travelers cheque etc. It has kept innovation, technology and new product development and service loyalty at the prime level. The major strategy of the MB is to maintain customer service excellence.

The **core values** propagated by the Mashreq bank are worth noting. A bold, transparent, fair, relationship driven and individual responsibility have been core values in order to provide convenience and peace of mind to the customers.

The **products and services** offered by the MB are marvelous with lots of privileges and benefits attached with the same. The **deposits** with MB including all range of current accounts focused on all the segments of the customers. The current account premium provides a wide range of privileges to the customers such as free international ATM withdrawals, gold credit card, accident insurance of AED 300,000/-, etc.

**LITERATURE REVIEW**

The Strategy is the direction and scope of organization for a long duration, which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations. Therefore, strategy decisions are about long term directions of an organization activities, gaining advantage over competition, addressing changes in business environment, building resources and competency ( capability ) and values and expectations of stake holders.

Strategic Management includes understanding the strategic position of an organization, strategic choice for the future and managing strategic in action.

1. Strategic Position – is concerned with identifying the impact on strategy of the external environment, an organization strategic capability (resources and competence) and the expectations and influence of stake holders.

The organization exists in the context of a complex political, economic, technological, environmental and legal world. This change is more complex for some organization than for others. It is therefore necessary to understand the environmental effects and changes in variables which may give rise to opportunities and threats on the organization.

The Strategic Capability of an organization is to consider its strengths and weakness ( for example : where it is at a competitive advantage or disadvantage).

The Major Influence of the Stakeholder expectation is on organizations purpose which encapsulates organization's vision, mission and values. This raises the issues of corporate social responsibility and ethics. This also examines cultural and historical influence on strategies.

2. Strategic Choice – involves understanding the future strategy and options for developing strategy. For example: an organization might have to choose between alternative moves for entering into markets. For instance. International strategy is a form of diversification into geographical markets.

3. Strategy in Action – is concerned with ensuring that strategies are working well in practice. As identified, there are three key issues for strategy in action namely :

a) Structuring an organization to support successful performance (matrix organization etc.).

- b) Processes are required to control the way in which strategy is implemented. Managers need to ensure that strategies are implemented according to plan, check on progress and make necessary adjustments.
- c) Managing strategic change – which emphasis at the styles that could be adopted for managing change.

**OBJECTIVES OF RESEARCH AND HYPOTHESIS**

The main objective of this research is to test the following hypothesis by using statistical methods:  
 "There is no difference in the business strategies applied at the Mashreq Bank and Standard Chartered Bank in the UAE". (Re: Q.No. 1.4)

**RESEARCH METHODOLOGY**

The study through this research involved the use of deductive methodology, whereby a survey method was chosen for receiving the response from the customers. Questionnaires and interview methods have been used as the research instruments. Statistical analysis has been done by using statistical tools, tabulations, illustrations, bar charts, pie charts, percentages for analyzing the variables under study. The hypothesis has been testing by using the above statistical analyses beside, using statistical testing tools through SPSS software. In this research, a sample size of 220 customers have been considered, out of which 110 customers are from the Mashreq Bank’s customers and remaining 110 customers are from Standard Chartered Bank. The customer characteristics are the retail customers using the services of the banks such as the Account Holder, the credit card holder, the loan holder etc. The primary data collection was administered with the aid of structured questionnaires to find out the satisfaction and dissatisfaction level of the consumers.

**FINDINGS & DISCUSSION**

The under-mentioned hypothesis have been evaluated, analyzed and tested depending upon the requirements of this research. The outcome through an appropriate research framework has provided necessary recommendations in adopting the banking strategies for having a competitive edge in the market and to improve customer satisfaction level.

The statement of hypothesis is appended below:

Null Hypothesis ( $H_0$ ) : *There is no difference in the business strategies applied at MB & SCB. ( $H_0 : \mu_1 = \mu_2$ )*

Alternative Hypothesis ( $H_A$ ) : *There is a difference between MB & SCB business strategies. ( $H_A : \mu_1 \neq \mu_2$ )*

The question No. 1.4 have been used, which relate to the customer satisfaction survey in order to test this hypothesis No. 4 namely:

*"There is no difference in the business strategies applied at the Mashreq Bank and Standard Chartered Bank in the UAE."*(Re: Q.No. 1.4)

The **question No. 1.4** of the customer satisfaction survey relates to the agreement or disagreement with the various attributes of the MB/SCB. The mean scores for question No. 1.4 are as under:

Q 1.4				
	MB Mean Score	MB Interpretation	SCB Mean Score	SCB Interpretation
Mashreq Bank talks to me and understands my needs	3.635	Neither satisfied nor dissatisfied	3.22	Neither satisfied nor dissatisfied
I feel much secured, banking with Mashreq Bank	3.676	Neither satisfied nor dissatisfied	3.663	Neither satisfied nor dissatisfied
The service at Mashreq Bank is accurate, convenient & fast	3.579	Neither satisfied nor dissatisfied	3.445	Neither satisfied nor dissatisfied
Mashreq Bank has made my banking experience smooth and exciting	3.735	Neither satisfied nor dissatisfied	3.084	Neither satisfied nor dissatisfied
Mashreq Bank caters to all my financial needs	3.764	Neither satisfied nor dissatisfied	3.121	Neither satisfied nor dissatisfied
Mashreq Bank is my preferred destination for innovative offerings product and service	3.35	Neither satisfied nor dissatisfied	3.219	Neither satisfied nor dissatisfied
Mashreq Bank products offers great value added services	3.532	Neither satisfied nor dissatisfied	3.256	Neither satisfied nor dissatisfied
<b>Average Mean Score</b>	<b>3.610</b>	<b>Neither satisfied nor dissatisfied</b>	<b>3.286</b>	<b>Neither satisfied nor dissatisfied</b>

(Re: Q NO. 1.4)

This table reflects on the major attributes of the MB/SCB with specific reference to customer satisfaction. The average mean score of MB (3.610) is higher than the average mean score of SCB (3.286). However, the interpretation remains same as "neither satisfied nor dissatisfied". It is apparent from the table that MB has made banking experience to customers smooth (mean score 3.735) and exciting and also caters to all the financial needs (mean score: 3.764). However, SCB customers feel much secured banking with them (means score : 3.663) & also feel that the bank offers accurate, convenient and fast service (mean score: 3.445). An appropriate outcome through this research framework could help the banks to evaluate their business and consumer developmental strategies. The following hypotheses were tested by using z-test analysis:

This research is to test the hypothesis at the 0.05 of confidence level with the following interpretations:

$H_0 : \mu_1 = \mu_2$  ..... **Null hypothesis : There is no difference**

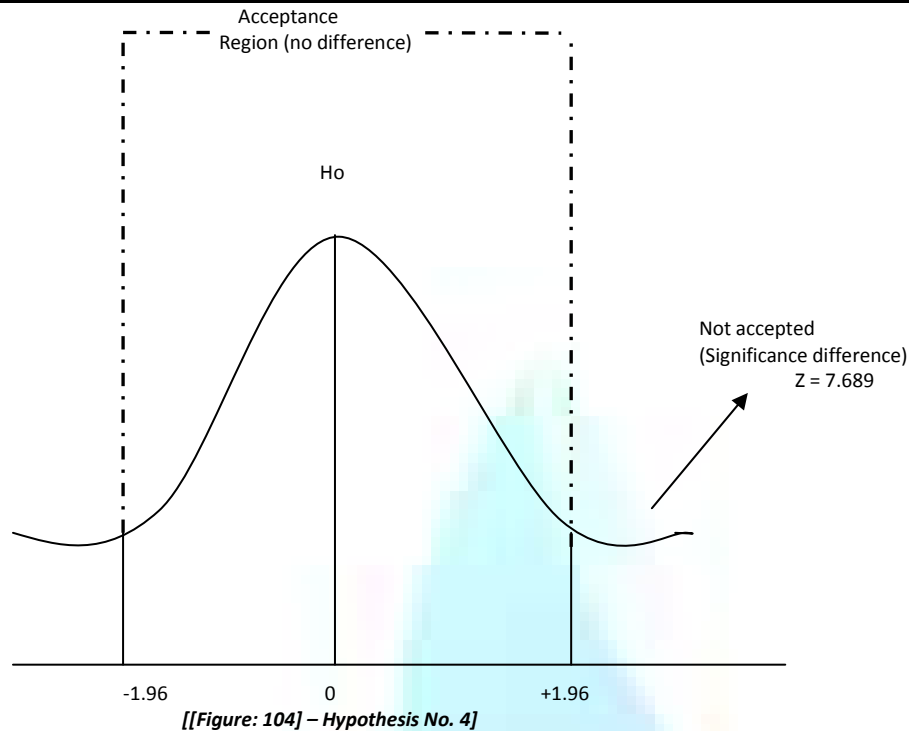
$H_A : \mu_1 \neq \mu_2$  ..... **Alternative Hypothesis: A difference exists**

$\alpha = 0.05$  ..... Level of Significance for testing this Hypothesis

The question No. 1.4 (MB & SCB) of the customer satisfaction survey has been used to test this hypothesis. The following table gives the mean score and standard deviation of the MB / SCB.

	Mean Score	Standard Deviation	Size of Sample
MB	3.6093 (x1)	0.8192	N1 = 733 (combined sample)
SCB	3.2898 (x2)	0.8201	N2 = 813 (combined sample)





This hypothesis testing could be illustrated graphically. In figure 104, the significance level of 0.05 corresponds to the 2 areas, each of which contains, 0.025 of the area. The acceptance region contains 2 equal areas of 0.475 each. Because both the samples are large, we can use the normal distribution. From the table, we could determine the critical value of “z” for 0.475 of the areas under the curve to be 1.96. The z value is calculated as under:

$$z = \frac{(\bar{x}_1 - \bar{x}_2) - (\mu_1 - \mu_2) H_0}{\sqrt{\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2}}}$$

$$= \frac{(3.6093 - 3.2898) - 0}{\sqrt{\frac{(0.8192)^2}{733} + \frac{(0.8201)^2}{813}}}$$

**Z = 7.689**

Based on the above calculation the z value is equal to 7.689. It is demonstrated that the standardized difference between 2 samples means lies outside the acceptance region. Therefore, the null hypothesis of no difference is rejected and concluded that the population mean differ that is “there is a difference between the MB & SCB’s business strategies.

## CONCLUSION

It is evident from the above analysis that the business strategies adopted at MB and SCB are different. Their focus on customers is different with a total different market segment. For instance, MB concentrates on all income groups whereas; the SCB mostly concentrates on high income group customer base.

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**CUSTOMER'S CRITERIA IN SELECTING A BANK: A CASE OF PAKISTANI BANKING INDUSTRY**

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**ABSTRACT**

*This study surveyed 270 customers of bank services in the capital city of Pakistan-Islamabad, and investigated from them as to what factors they consider while selecting a bank. Reliability tests on the customers responses were carried out, and Cronbach's Alphas were estimated, as follows: BS = 0.714, SQ = 0.702, SE = 0.707, TI = 0.785, FB = 0.847, PL = 0.704, RE = 0.781, AD = 0.821, AT = 0.792, BR = 0.879, SY = 0.733 and OS = 0.757. After getting reliability analysis tests results in good ranges, data on elements of constructs were averaged row-wise to generate data on desired variables. Correlation analysis suggests that the degrees of associations estimated between dependent variable 'Bank selection' (BS) and various independent variables were, though, not too strong, but these were highly statistically significant ( $p < 0.01$ ) in almost all cases, except of one independent variable financial benefits. The results suggest that the bank customers give much preference to bank's services efficiency (ease and convenience in getting bank services, with little waiting time and speedy bank transactions), bank's advertisement (banks' promotional activities through electronic and print media), bank attraction (physical facilities and interior décor of bank/branches should be attractive relative to other banks), security (good security arrangements for transactions, funds and customers), technological innovations (ATM and online banking facilities), proximity (vast network of branches located at convenient places and adequate parking facilities), bank reputation (good status and repute in the market), 'other services' (religion-based services, respect for culture, and provision for payment of utility bills and salary-drawn services), and service quality (error free, up-to-date and wide-ranging banking services).*

**KEYWORDS**

Customers' criteria, bank selection, econometric model, Pakistani banking industry.

**INTRODUCTION**

The customer has to select the number of factors while choosing a bank. A review of some of the most recent studies would help identify such factors. For instance, while writing on the topic 'How to Pick a Bank in 2011', a writer presented a checklist of important criteria wherein emphasis had been on putting on the fees of the banks, proximity of the ATMs or bank branches, the quality of the bank services, and saving rates Torabi (2011). On a similar topic entitled 'Choosing a Bank', another author contributed a paper in three parts; in part I, the author stated that a very interesting and difficult choice people faced, regardless of if they were looking for a savings or checking account, which bank to put their money in. While there were several factors influencing this decision, one of the biggest issues was deciding between a smaller, local bank or a bigger national-level bank. In such a situation, an 'easy account access' was the main thing to consider. The author further stated that this was probably the biggest factor in one's decision to choose a bank which had branches all across the country, and if one had been moving very frequently, it could make life a lot easier to not change banks. Easy account access on vacations was not only the key factor within the country, the national banks also had affiliations with foreign banks, and became very useful if one used to travel out of the country. However, in contrast to the national level banks, local banks were providing superb personal service. Many local banks even knew their customer by name when he/she walked in the door (Hagin 2010).

Jahiruddin and Haque (2009) added that significant differences among the customers exist on the basis of gender and education and income levels in Bangladesh. In addition, bank customers placed highest emphasis on different factors related to their convenience in availing required banking services in selecting their banks. Another study examined the impact of demographic disparities on the bank selection criteria applied by diversified customers of the domestic Islamic banks in Bangladesh and suggested that Corporal efficiency, Core-Banking services, Confidence, etc were given higher weights by a majority of the respondents. (Rashid and Hassan, 2009). The same study recommended the introduction of complete E-Banking solution, increase of advanced marketing efforts and hiring of experienced human resources for better Islamic Banking activities.

**LITERATURE REVIEW**

Anderson and Cox's (1976) study of bank selection is considered one of the most important studies by researchers in bank selection. Their study revealed five most important bank selection factors, which include: friend's recommendations, reputation of the bank, availability of credit, friendliness of staff & service charges on accounts. Their findings were strongly criticized by other researchers like Dupay & Kehoe (1976), Linneman & Davis (1978) for inconsistency of results with previous researchers that stated location as the most important selection factor. However later studies empirically proved Anderson and Cox's findings. According to several studies, sociological influences (recommendations of friends and relatives) and trust are also the significant factors for customer's choice of bank. This is consistent with the views of Anderson and Cox (1976) and Tan and Chua (1986) that the consumer decision to choose their bank is greatly impacted by the sociological factors. The same study conducted in Malaysia by Haron and Ahmad (1992) however found that social factors were the least influential factors if compared to others.

Zineldin (1996) conducted a research in Sweden. From his research five factors were identified as most important for customers in their choice of a bank. These were: trust & confidence, price competitiveness on loans & other services, flexibility in tailoring services, contacts with bank decision maker and speed of transaction. Almosawi (2001) conducted a research in different universities in Bahrain. In this study it is revealed that the college students consider bank's reputation, availability of parking space near the bank, friendliness of bank personnel, and the availability and location of automated teller machines (ATM) as

important factors while selecting a bank. Marlowe and Lee (2003) conducted a survey in Athens and Georgia to determine the criteria used by the customers while selecting a bank through focus group interviews.

It was found that there were some distinct differences in the criteria that younger consumers and older consumers used in selecting a bank. Aish et al (2003) compared the bank selection decisions of the business people across the UK and Egypt and the results suggest that brand plays major role in the bank selection decisions of the small businesses at both UK and Egypt. The study reinforces the opinion that technical quality (quality of service itself) is more important than functional quality (quality of the service provider) in bank selection decisions.

In case of Pakistan, Jamal et al. (2003) took a survey of 300 customers of a specific bank and studied the determinants of customer satisfaction in the retail banking in Pakistan. Their results indicate a strong relationship between service quality and customer satisfaction. Rehman and Ahmad (2008) collected a data from the customers of Lahore (Pakistan) to determine the criteria for selecting a bank. In their study factor analysis and principle component analysis was employed. Their study revealed that the most important variables influencing customer choice are customer services, convenience, online banking facilities and overall bank environment.

Okumus (2005) discovered the customer's choice of selecting a bank in Turkey. Descriptive statistical analysis was used to analyze the data. He revealed that customers mostly based their decisions on the basis of religion, staff friendliness, efficiency and speedy transactions. He also stated that customers in Turkey least bother rate of return while selecting a bank. Olorunniwo and Hsu (2005) revealed that service quality that includes empathy, responsiveness, and reliability is important selection criteria factors. Furthermore Lymperopoulos, Chaniotakis, Soureli and Ravichandran (2006) also confirmed that service quality is an important determinant for selecting a bank.

Safakli (2007) in his study suggested that the chief factors determining customers' bank selection are: Service Quality and Efficiency, Bank Image, Convenient Location, Parking facilities, Financial factors and Affected opinion. In this research to test and factor analysis was used to analyze the data. The basic aim of this study was to search for the basic motivational factors in consumer bank selection in northern Cyprus.

According to Jagelaviciene, Stravinskiene and Rutelione (2006) the image of the bank plays a very important role in customer's criteria for bank selection. The author stated that the image is very important for every bank activity and makes it possible to remain competitive. The bank image has to be managed, because it can influence customers' behavior. Another survey was conducted by Mokhlis and Salleh (2008) to analyze the factors customers while selecting a bank. The study found that Male respondents gave more value to financial benefits and marketing promotion than female respondents. Female respondents, on the other hand gave more importance towards 'ATM service', 'proximity', 'attractiveness' and 'people influences' than their male counterparts.

Zhang (2009) revealed that Price, Reputation, Service Quality, Effective Advertising, Involuntary Switching, Distance, and Switching Costs have an impact on customers' decision to choose a bank. Ongena, Alkan and Vermeer (2009) conducted a study in Czech Republic to investigate how corporate firms choose their banks. This study revealed that the reputation of banks, speed of services, and service charges are important factors firms consider while choosing a bank. Other authors like Hanzaae & Sadeghi (2010) also confirmed that E-Banking is an important selection factor in the banking industry. Maiyaki (2011) conducted a study on Nigerian retail banking to determine the Bank's Selection factors. In this study Chi-square statistical test of independence was employed to analyze the data. The author found that factors such as size of bank total asset and availability of large branch network have a great influence on customers' choice of banks.

In Pakistan banking sector has progressed over time and played its role in the economic development. In 1991 the government issued licenses to ten new banks in the private sector. The government also denationalized two banks that are: the Muslim Commercial Bank (MCB) and the Allied Bank (ABL). The government also privatized all state-owned banks (commercial and development banks) with the exception of the National Bank of Pakistan. All this calls for a great need to have a research in the banking industry which can help bank management to focus on those factors that customer consider while selecting a bank. But literature reveals that a very little work is done in this area in Pakistan. Thus, current literature on banking in Pakistan lacks studies on bank selection criteria and this study is an attempt to bridge this gap.

## RESEARCH MODEL

A study of the materials in preceding section helped identify various factors which the customers of bank services now-a-days consider while choosing a bank; these factors in general are: ease and convenience of opening an account, efficiency in availing required banking services, speedy bank services, quality of bank services, employees' courtesy and response, fees of the banks/low service charges, high interest on saving, zero balance account facility, wide range of bank services, proximity of bank/bank branches/ATMs, parking facility, innovative services and products, E-Banking facility, value-added services, security, family and friends' recommendations, advertisement, and bank reputation.

In order to provide a scientific base for the study, a research model containing some specific hypotheses was developed to test important factors determining the choice of banks by the bank customers; the hypotheses were based on the following chosen factors: service quality, service efficiency, bank reputation, family and friends' recommendations, technological innovation, advertisement, attractiveness of banks physical decor, financial benefits, proximity, security and other services.

The research model was presented below, and the related hypotheses were provided, as follows.

$BS = F(SQ, SE, TI, FB, PL, RE, AD, AT, BR, SE, OS)$

- H<sub>1</sub> Service quality has a significant effect on selection of a bank.
- H<sub>2</sub> Service efficiency has a significant effect on selection of a bank.
- H<sub>3</sub> Technological innovation has a significant effect on selection of a bank.
- H<sub>4</sub> Financial benefit has a significant effect on selection of a bank.
- H<sub>5</sub> Proximity has significant effect on selection of a bank.
- H<sub>6</sub> Family/Friends' recommendation has a significant effect on selection of a bank.
- H<sub>7</sub> Advertisement has a significant effect on selection of a bank.
- H<sub>8</sub> Attractiveness has a significant effect on selection of a bank.
- H<sub>9</sub> Bank reputation has a significant effect on selection of a bank.
- H<sub>10</sub> Security has a significant effect on selection of a bank.
- H<sub>11</sub> 'Other services' offered by the bank has a significant effect on selection of a bank.

## RESEARCH METHODOLOGY

The sample size taken for the study was the customers who visited the bank during the data collection. A total of 420 questionnaires were administered out of which 370 were completely filled in. Thus, a response rate of over 88% was achieved.

### SAMPLING TECHNIQUES

This research study was based on primary data. To obtain such data a questionnaire was developed which was given in Annexure 1. A pilot study was conducted to test questions for appropriateness of the instructions. Twenty pilot questionnaires were distributed in Islamabad. The original questionnaire was modified based on the feedback from participants. Then modified questionnaire was distributed to people belonging to different fields of life in different area of Pakistan. For the analysis, the data were collected from 370 respondents through a specifically designed questionnaire covering the various attributes that general public perceives as important in their choice of a commercial bank. The convenience sampling technique was adopted. Surveyed customers were not selected by any criteria.

A structured questionnaire was developed to gather the needed information on several variables. Questionnaire consisted of two parts (demographic determinants of bank selection decision using bank attributes identified and employed by previous studies in the literature). For measuring the data Likert scale was used (1 = Strongly Disagree and 5 = Strongly Agree). Eleven different factors were listed in this category and most of these were derived from similar studies conducted in other countries (Zineldin, 1996, Safakli 2007, Mokhlis, Salleh 2008, Maiyaki 2010). Reliability test was conducted for these factors. In addition to

the testing of the reliability of the responses collected through the measuring instruments used and carrying out of correlation analysis of various variables involved, regression analysis of the following type was also used.

## RESEARCH FINDINGS

According to information provided on gender in Table 4.1, 66 respondents or 24.40 percent were female and 204 respondents or 75.60 percent were male. The Distribution of respondents by gender. There were 204 males (75.60%) and 66 were females.

Age-wise distribution: The respondents' age ranged between 18 and 72 years; their average age stood around 30 years with standard deviation of 11 (Table 4.2).

TABLE 1: DISTRIBUTION OF RESPONDENTS BY AGE, EDUCATION AND EXPERIENCE

Particulars	Minimum	Maximum	Mean	St. Deviation
Age (years)	18	72	30.4926	10.9919
Education (years)	6.00	21.00	14.8741	2.1468
Affiliation with bank (years)	1	42	7.4963	7.8185

### EDUCATION LEVEL

The respondents' level of education ranged between 6 and 21 years; they, on average, had education of 14.87 years with standard deviation of 2.15 years.

### DURATION AND TYPE OF AFFILIATION

The respondents remained affiliated with banks for, on average, 7.50 years with standard deviation of 7.82 years; the duration of bank affiliation varied a lot (Coefficient of variation = standard deviation/mean value = 1.0430), between 1 year to 42 years.

Of 270 total numbers of respondents, 174 or 64.40 percent were having current account, 77 or 28.5 percent saving account and 19 or 7.1 percent other accounts in the banks.

Eleven factors have been taken from the literature. These constructs were then used to measure bank-customers responses regarding factors that the customers of bank services considered while choosing a bank.

### RELIABILITY TEST

Responses on the elements of all stated constructs (BS, SQ, SE, TI, FB, PL, RE, AD, AT, BR, SY and OS) were entered in SPSS software and reliability tests conducted; the following Cronbach's Alphas were estimated (Table 1.4).

TABLE 2: RESULTS OF RELIABILITY TEST

Construct	Cronbach's Alpha
Bank selection (BS)	.714
Service quality (SQ)	.702
Service efficiency (SE)	.707
Technological innovation (TI)	.785
Financial benefits (FB)	.847
Proximity of bank location (PL)	.704
Recommendations (RE)	.781
Advertisement (AD)	.821
Attractiveness (AT)	.792
Bank reputation (BR)	.879
Security (SY)	.733
Other services (OS)	.757

In general, reliability less than 0.60 is considered to be poor, that in the 0.70 range, acceptable, and that over 0.80 are good (Sekaran, 2003). The reliability tests of our constructs happened to be in the acceptable-to-good ranges.

### CORRELATION ANALYSIS

The econometrics model suggested checking of Pearson correlation (the strength of the degree of association) between dependent variable Bank selection (BS) and independent variables Service quality (SQ), Service efficiency (SE), Technological innovation (TI), Financial benefits (FB), Proximity of the bank location (PL), Recommendations (RE), Advertisement (AD), Attractiveness (AT), Bank reputation (BR), Security (SY) and Other services (OS). The above referred needed correlations were estimated, and the respective results are mentioned below:

### CORRELATION ANALYSIS: ESTIMATION OF THE DEGREE OF ASSOCIATION BETWEEN BANK SELECTION (BS) AND FACTORS THAT CUSTOMERS CONSIDER WHILE CHOOSING A BANK

The degrees of associations estimated between dependent variable 'Bank selection' (BS) and various independent variables were, though, not too strong, but these were highly statistically significant ( $p < 0.01$ ) in almost all cases, with the exception of one independent variable FB, which was statistically significant at  $p = 0.013$ .

### REGRESSION ANALYSIS

The methodological framework on research methodology suggested carrying out of econometric analysis of the type:

$$BS = f(SQ, SE, TI, FB, PL, RE, AD, AT, BR, SY, OS)$$

Where

BS = Bank selection, SQ = Service quality, SE = Service efficiency, TI = Technological innovation, FB = Financial benefits, PL = Proximity of bank location, RE = Recommendations, AD = Advertisement, AT = Attractiveness, BR = Bank reputation, SY = Security, OS = Other services.

The discussion and analysis of the data on demographics (gender, age, education level, and duration and types of affiliation) made in the earlier part of this chapter justified that such aspects should also be taken into account while analyzing the factors having consideration in selection of banks.

### INTERPRETATION IN TERMS OF RESEARCH HYPOTHESES

**H<sub>1</sub>:** *Service quality has a significant effect on selection of banks.*

H<sub>1</sub> was accepted as bank's service quality (SQ) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in SQ would bring a 0.049 unit positive change in BS at  $p < 0.10$ .

**H<sub>2</sub>** *Service efficiency has a significant effect on selection of banks.*

H<sub>2</sub> was accepted as bank's service efficiency (SE) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in SE would bring a 0.107 unit positive change in BS at  $p < 0.01$ .

**H<sub>3</sub>** *Technological innovation has a significant effect on selection of banks.*

H<sub>3</sub> was accepted as technological innovations (TI) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in TI would bring a 0.050 unit positive change in BS at  $p < 0.01$ .

**H<sub>4</sub>** *Financial benefit has a significant effect on selection of banks.*

H<sub>4</sub> was not accepted as variable representing financial benefits (FB) appeared highly insignificant as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.4. H<sub>4</sub> became acceptable at a very low significance level ( $p = 0.399$ ).



**H<sub>5</sub> Proximity has significant effect on selection of banks.**

H<sub>5</sub> was accepted as proximity of the bank location (PL) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in PL would bring 0.061 unit positive changes in BS at  $p < 0.05$ .

**The H6Family / Friends' recommendation has a significant effect on selection of banks.**

H<sub>6</sub> was not accepted as a variable representing the family and friends' recommendations (RE) appeared highly insignificant as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.4. H<sub>4</sub> became acceptable at low significance level ( $p = 0.168$ ).

**H<sub>7</sub> Advertisement has a significant effect on selection of banks.**

H<sub>7</sub> was accepted as bank's advertisement (AD) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in AD would bring a 0.065 unit positive change in BS at  $p < 0.01$ .

**H<sub>8</sub> Attractiveness has a significant effect on selection of banks.**

H<sub>8</sub> was accepted as attractiveness variable (AT) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in AT would bring a 0.050 unit positive change in BS at  $p \leq 0.01$ .

**H<sub>9</sub> Bank reputation has a significant effect on selection of banks.**

H<sub>9</sub> was accepted as bank reputation (BR) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in SE would bring a 0.050 unit positive change in BS at  $p < 0.05$ .

**H<sub>10</sub> Security of funds and oneself has a significant effect on selection of banks.**

H<sub>10</sub> was accepted as security at the bank (SY) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in SY would bring 0.089 unit positive changes in BS at  $p < 0.01$ .

**H<sub>11</sub> 'Other services' offered by the bank has a significant effect on selection of banks.**

H<sub>11</sub> was accepted as 'Other services' (OS) appeared as one of the determinants of bank selection (BS) in terms of regression analysis carried out in model 4.7; one unit increase in OS would bring 0.047 unit positive changes in BS at  $p < 0.05$ .

**INTERPRETATION IN TERMS OF RESEARCH OBJECTIVES**

Objective 1: To find out what factors Pakistani customers of bank services consider while choosing a bank.

Based on the tests conducted through econometric modeling (model 4.3 to 4.7), Pakistani customers for bank services, while selecting a bank, consider factors like Service quality (SQ), Service efficiency (SE), Technological innovation (TI), Proximity of the bank location (PL), Advertisement (AD), Attractiveness (AT), Bank reputation (BR), Security (SY) and Other services (OS).

Objective 2: To check which of such factors receives high priority/degree of acceptance and which low.

Based on model 4.4 and model 4.7, there were eleven major factors which determine bank selection; whereas the first model categorized these eleven factors into two major groups, statistically non-significant factors (FB and RE) and significant factors (SQ, SE, TI, PL, AD, AT, BR, SY and OS), the latter model categorized the nine significant factors into three further groups, namely:

**Factors Level of significance**

SE, AD, AT and S  $p < 0.01$ , TI, PL, BR and OS,  $p < 0.05$  SQ  $p < 0.10$

Hence, factors like SE, AD, AT and SY received the highest priority/degree of acceptance, followed by factors namely TI, PL, BR and OS, and then factor namely SQ.

**CONCLUSION AND DISCUSSION**

First, the detailed review of relevant global literature helps us arrive at sixteen factors which represent the needs and requirements of customers of banking services; these sixteen factors include eleven factors {Service quality (SQ), Service efficiency (SE), Technological innovation (TI), Financial benefits (FB), Proximity of bank location (PL), Recommendations (RE), Advertisement (AD), Attractiveness (AT), Bank reputation (BR), Security (SY) and Other services (OS)} which customers of banking services consider while selecting a bank and five demographic factors like gender, age, level of education and duration and type of affiliation with the bank.

Second, when the above stated sixteen factors are put to econometrics test, all five demographic and two other factors {financial benefits (FB) and family and friends' recommendations (RE)} are found insignificantly contributing. Nine factors {Service quality (SQ), Service efficiency (SE), Technological innovation (TI), Proximity of the bank location (PL), Advertisement (AD), Attractiveness (AT), Bank reputation (BR), Security (SY) and Other services (OS)} are found to be significant contributing towards bank selection. It means that people usually don't take into consideration financial benefits offered by the bank and family or friend's recommendations into consideration while selecting a bank rather they give preference to service quality and technological innovation while selecting a bank.

Third, of the nine significant contributing factors, four factors Service efficiency (SE), Advertisement (AD), Attraction (AT) and Security (SY) is contributing at the highest significance level ( $p < 0.01$ ), followed by four factors Technological innovations (TI), Proximity (PL), Bank reputation (BR) and Other services (OS) at  $p < 0.05$ , and one factor Service quality (SQ) at  $p < 0.10$ .

Fourth, the appearance of financial benefits (FB) and family and friends' recommendations (RE) as insignificant explanatory variables means that bank customers do not give much weight to the fact whether banks charge low interest rates on loans or they offer high interest rates on saving (FB), and whether or not the bank customers' family members or friends recommend (RE) the banks; the bank customers give much preference to bank's services efficiency (ease and convenience in getting bank services, with little waiting time and speedy bank transactions), bank's advertisement (banks' promotional activities through electronic and print media), bank attraction (physical facilities and interior décor of bank/branches should be attractive relative to other banks), security (good security arrangements for transactions, funds and customers), technological innovations (ATM and online banking facilities), proximity (vast network of branches located at convenient places and adequate parking facilities), bank reputation (good status and repute in the market), 'other services' (religion-based services, respect for culture, and provision for payment of utility bills and salary-drawn services), and service quality (error free, up-to-date and wide-ranging banking services).

Therefore the bankers should make it possible for customers to provide them these facilities as much as possible. Not only that these facilities should be provided in existing banks but also these should be taken into consideration by newly established banks.

**RECOMMENDATIONS**

The bank customers give the highest priority to bank's services efficiency (ease and convenience in getting bank services, with little waiting time and speedy bank transactions), bank's advertisement (banks' promotional activities through electronic and print media), bank attraction (physical facilities and interior décor of bank/branches should be attractive relative to other banks), and security (good security arrangements for transactions, funds and customers). The bankers should therefore prefer to provide such facilities and make arrangements for the provision of the stated facilities on top priority basis. The bankers should also take note of the stated desires of customers of bank services, and should arrange such facilities to the extent possible. The bank regulators, especially the State Bank of Pakistan, should make provision of such facilities a part of its policy for the establishment of new banks as well as running an existing bank in the country.

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**THE RELATIONSHIP BETWEEN THE FOREIGN DIRECT INVESTMENT AND BANKING INDUSTRY**

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**ABSTRACT**

*This article investigates to study of causality relationship between FDI and banking industry in Asian countries. Panel unit root tests show that the variables are stationary at the first deference level. Pedroni test indicates that there is the long run relationship between FDI and banking industry. The Hausman test shows that the fixed effects model should apply. 12 countries from Asian countries have been chosen over the period 1995-2009. The results show that there is a bidirectional relationship between these variables (the feedback relationship) in the long run and short run. It means that FDI reinforce banking industry and banking industry attracts foreign direct investment. For FDI attraction governments should devote attention on banking industry.*

**JEL CLASSIFICATION**

F21, O16.

**KEYWORDS**

Foreign Direct Investment; FDI; Banking Industry; Panel Data; Granger Causality.

**INTRODUCTION**

nowadays, attracting foreign direct investment is an economic importance for all the countries. Nearly, all the countries around the world have the programs for FDI attraction such as granting of loan, decreasing of tax, subsidies,...Therefore, it seems that the study of factors which attract FDI is very important beside these policies. One of these factors is the banking system. Foreign investment not only increases national product and employment, it also affects other macroeconomics variables indirectly by spillover of knowledge and technology. It is why the developing countries are trying like the developed countries to attract such capitals in the recent years.

Dani Rodrik (1997) considers it impossible to study the miraculous development of the East Asia without taking into account their governments' policies in private investment. He proves that there is a strong correlation between good institutions and economic growth in Eastern Asia. It is worth mentioning that before 1980's, developing countries have not had a positive attitude towards foreign investment, but during the past thirty years, foreign investment have been increased significantly among the developing countries.

In 1990s, multinational firms' outputs from abroad have been 16% from World's total industrial output (Lipsey (1998)). In this connection, the countries members of Organization Islamic Conference (OIC) in the two decade have had a rapid growth in financial market and banking systems and FDI inflow share in these countries has consistently augmented as compared with the entire World. So that, this rate in the period 1982-1987 has been 4.6 and 1996 has been 5.5 (UNCTAD 2000). Therefore, a positive relationship between financial markets and FDI was expected.

The capital flow to Asian countries initiated in 1990 with an increasing rate following a decrease in 1980. The FDI has been increased in Asian developing countries from 396 million dollars in 1980 to 102,066 million dollars in 2001. This rate is equal to 13.9% of the whole FDI in 2001 (UNCTAD 2002). The recognition of FDI attraction factors helps these countries to foreign direct investment attraction. Since, the one of these factors is financial market and banking, the purpose of this paper is to study of the relationship between FDI and banking industry in Asian countries. The search shows whether FDI is the cause of banking industry or banking industry is the cause of FDI in Asian countries.

Adam and Tweneboah (2009) have found a long run relationship between FDI and financial market in Ghana. Al Nasser and Soydemir (2010) have conducted Granger causality tests between FDI and financial market for Latin American countries. They have shown a unidirectional relationship from banking sector to FDI and not the reverse. Kholdy and Sohrabian (2008) and Dutta and Roy (2011) have shown that political risk factors can influence the relationship between FDI and Banking. Soumaré and Tchana (2011) with the various variables for financial market have indicated that some of the financial market and FDI variables have bidirectional and others unidirectional relationship.

**THE BANKS AND FOREIGN DIRECT INVESTMENT**

Macroeconomics theories show that investment is a function of interest rate and national income. Interest rate is the capital cost. When in host country there is a strong financial market, this means the capital cost is low then, it attracts FDI. On the other hand, FDI bring with them a large funds for host country, therefore, there is a feedback between these sectors. Desai et al (2006) and Henry (2000) believed that increasing in FDI inflows increases funds available and improve financial markets and banking sectors. When developed countries invest in host countries; they support politically financial and economic market in this country thus economic and political risks decrease. A low risk in host country attracts FDI. FDI bring the high technology in banking industry and lead to improve the banking sector.

Desai et al (2006) believed that the existent of smart financial market in an economy is a sign for openness and dynamic economy and an economy with low risk. These factors attract FDI and prepare a good environment for FDI. FDI inflow affects on banking in tow ways: direct and indirect. FDI directly bring the funds for private investment and indirectly these firms have the relationship with international finance markets that this relation strengthens financial market in the host country. Henry (2000) has shown that a strong banking increases FDI and private investment. Because improvement of financial market has a positive correlation with other changes that decrease operational risk in multinational firms.

Soumaré and Tchana (2011) in their article discuss that "Desai et al (2006) answer the following question theoretically as well as empirically: how do capital controls affect the cost of capital for foreign investors? Their theory is that because most often a considerable portion of the funding for the local affiliates of multinational investors comes from local loans, the higher interest rates that result from capital controls increase the cost of capital and can be expected to discourage FDI. Capital controls affect local investments by multinational firms because they influence local borrowing rates and increase the cost of repatriation. Furthermore, the costs associated with capital controls undoubtedly discourage many potential investors from establishing affiliates in the first

place. Supporting this theory are data from United States-based multinational firms that suggests that capital controls are accompanied by high interest rates and that firms respond to capital controls by distorting profit reports and dividend repatriation policies, incurring substantial organizational and regulatory costs in the process. Liberalizing capital controls appears to initiate periods of considerably faster growth in the local activities of multinational firms".

**METHOD AND DATA**

This paper applies the panel data model for estimation of the parameters for Asian countries (e.g. Bangladesh, India, Maldives, Pakistan, Sri Lanka, Turkey, China, Thailand, Kuwait, Qatar, Pakistan, and Malaysia) over the period 1995-2009. The limitation of country and period selection come from the lack of data for certain countries. Following Kolstal and Villanges (2004) in this research foreign direct investment has divided to GDP and fixed capital formation (FCF) for normalization of FDI. Of course, some of the researchers apply population for normalization (Harms (2002)). For these variables the sources are World Bank's World Development Indicators data base and UNCTAD. Therefore, our variables for FDI are the ratio of FDI to GDP (FDI/GDP) and the ratio of FDI to FCF (FDI/FCF). Other variable for banking sector is the ratio of commercial bank assets divided by central bank assets plus commercial bank assets (CBA) in Asian countries. This variable was applied for revealing of banking industry effects on foreign direct investment. The sources of data for this variable are Bankscope database, IMF and World dataBank. The average of each variable for each country was computed.

For studying of relationship between banking industry and foreign direct investment in Asian countries a Granger causality model following Arellano (2003) was applied. In this research is considered the specifications of a bivariate VAR (2) model for the FDI and CBA variables. Individual and time effects are included in both equations. The form of the model is:

$$FDI_{it} = \alpha_{1t} + \phi_1 FDI_{i(t-1)} + \phi_2 FDI_{i(t-2)} + \beta_1 CBA_{i(t-1)} + \beta_2 CBA_{i(t-2)} + \gamma_1 ECT_{t-1} + \eta_{1i} + v_{1it} \quad I$$

$$IBA_{it} = \alpha_2 + \delta_1 CBA_{i(t-1)} + \delta_2 CBA_{i(t-2)} + \lambda_1 FDI_{i(t-1)} + \lambda_2 FDI_{i(t-2)} + \gamma_2 ECT_{t-1} + \eta_{2i} + v_{2it} \quad II$$

Where  $\alpha_{1t}$  and  $\alpha_{2t}$  capture the time effect and  $\eta_{1i}$  and  $\eta_{2i}$  capture the individual effect. The hypothesis that FDI does not Granger-cause CBA,

conditional on individual and time effects imposes the restrictions  $\lambda^1 = \lambda^2 = 0$ . Conversely, to test whether CBA Granger-causes FDI, this research examines the

restrictions  $\beta^1 = \beta^2 = 0$ .

This article first estimates the VAR model including of equations (I) and (II) and then use a Wald-type test to validate these two non-causality restrictions. The research applies two-step generalized method of moments (GMM) estimator.

**RESULTS**

For studying the correlation of the variables the below table has been calculated.

**TABLE 1: CORRELATION BETWEEN FDI AND BANKING INDUSTRY**

	FDI/GDP	FDI/FCF	CBA
FDI/GDP	1		
FDI/FCF	0.89	1	
CBA	0.12	0.11	1

Table 1 indicates positive correlation between FDI/GDP, FDI/FCF and CBA. Since, the correlation between two variables of investment FDI/GDP and FDI/FCF is 0.89 thus; the variable of FDI/FCF was deleted from our model. The correlation between foreign direct investment and banking industry is positive. In the table 2, for avoid from spurious regression the unit root tests have been carried out. Our tests include LLC, IPS, ADF-F and PP-F. These tests indicate that the variables of FDI/GDP and CBA are stationary at the first difference, then it has avoided from spurious regression. For studying of long run relationship between FDI/GDP and CBA the co-integration test was run in table 3.

**CO-INTEGRATION TEST**

In order to study the long-run relationship between FDI/GDP and CBA Pedroni co-integration test was used. If  $H_0$  hypothesis is rejected, there is a long-run relationship between the two variables. The maximum lag in panel co-integration model is 3 based upon SIC criterion. Based upon the statistics of table 3, there is a long run relationship between the variables. Therefore, long-run VAR model and short-run Granger causality test has been applied for the two FDI/GDP and CBA variables.

**TABLE 2: PANEL UNIT ROOT TESTS**

Method	FDI/GDP	$\Delta$ FDI/GDP	CBA	$\Delta$ CBA
Levin, Lin and Chu	-2.25	-8.43*	-1.41	-8.45*
Im, Pesaran and Shin	-3.12	-7.63**	-1.76	-7.56*
ADF-Fisher	41.34	98.65*	43.61	89.67**
PP-Fisher	65.26	74.87*	21.41	88.90**

\*, \*\* indicate that the variables are stationary at 1% and 5% level respectively.

**TABLE 3: PEDRONI PANEL CO-INTEGRATION TEST**

Panel weighted statistics	probability
Panel $V$ -statistic	1.21 (0.01)***
Panel $\rho$ -statistic	0.02(0.00)***
Panel pp-statistic	-0.34(0.04)*
Panel ADF-statistic	3.25(0.01)***
Group statistic	probability
Group $\rho$ -statistic	0.34(0.05)*
Group pp-statistic	-5.14(0.05)*
Group ADF-statistic	-4.11(0.04)*

\*, \*\*\* show that the statistics are stationary in 10% and 1%.

Table 4 presents short-run and long –run results of Granger causality. This test has been performed in two phases. First, the equation  $FDI/GDP = \alpha_{it} + \delta_{it} + \gamma_{it} IBA_{it} + \epsilon_{it}$  has been estimated and then, its residual has been used for estimating the coefficient of error term. According to equation 1, foreign direct investment has a positive effect on banking industry, and banking industry is the cause of FDI. The Hausman (1978) test shows the fixed effects model should apply. An examination of the sum of the lagged coefficient on the respective variables indicates that there is a bidirectional relationship in short run and long run. In general, it can be concluded that the causality relationship between banking industry and FDI is bidirectional. That means there is a feedback between these variables. It means that foreign direct investment reinforces banking industry and banking industry attracts foreign direct investment. These results are for short run and long run, because, Pedroni test has indicated that there is the long run relationship between banking industry and FDI and the coefficients of ECT are significant. Therefore, in short run and long run was expected banking industry attracts foreign direct investment. Soumaré and Tchana (2011) achieved the same results in their study and Tajgardoon, Gholamreza., Behname, Mehdi., Noormohamadi, Khosro., (2012) show the same results for Islamic banking but, Adam and Tweneboah (2009) have found a long run relationship between these variables. Al Nasser and Soydemir (2010) have conducted a unidirectional relationship from banking sector to foreign direct investment.

TABLE 4: PANEL CAUSALITY TESTS RESULT

Dependent variable	sources of causation (independent variables)		ECT
	short-run		
	$\Delta$ FDI/GDP	$\Delta$ CBA	
(2) $\Delta$ FDI/GDP	---	3.12(0.41) [0.00] <sup>a</sup> [0.05] <sup>c</sup>	-0.12 [0.00] <sup>a</sup>
(3) $\Delta$ CBA	2.05 (0.67) [0.00] <sup>a</sup> [0.03] <sup>b</sup>	---	-0.21 [0.02] <sup>a</sup>

Values in brackets are t-statistics. Values in parentheses are p-values associated with Wald test statistics. c(b,a) denotes statistical significance at the 10%, 5% and 1% levels respectively.

**CONCLUSION**

The aim of this article is studying of the relationship between FDI and banking industry in Asian countries. For this subject first, three variables are chosen FDI to GDP, FDI to fixed capital formation and banking industry (the commercial banks assets in Asian countries divided by central bank assets plus commercial bank assets). Since the correlation table has indicated that FDI/GDP and FDI/FCF are 0.89 correlations thus, the FDI/FCF was deleted. Unit root tests have shown that the variables are stationary in the first difference. Pedroni co-integration test reveal that there is a long run relationship between these variables. Thus, long-run VAR model for the two FDI/GDP and CBA variables have been applied in Granger causality test.

Granger causality test in short run and long run shows that there is feedback relationship between banking industry and foreign direct investment. This means banking industry reinforces FDI and FDI reinforces banking industry in Asian countries. Banking industry is a part of financial market that affects foreign direct investment. Investment requires usually to funds and bank services therefore, a strong banking could prepare the funds for firms. The existence of smart banking shows that the host country has a low risk and dynamic economy then, it is suitable environment for FDI. FDI itself brings funds in host economy because the multinational firms have the relationship with international finance markets and they spend the funds for investment. Therefore, FDI can reinforce banking systems.

Our article shows that banking industry brings FDI and FDI reinforces banking industry in Asian countries therefore, these countries could devote attention on banking industry for more FDI.

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# IMPORTANCE AND IMPACT OF FOREIGN DIRECT INVESTMENTS IN GCC COUNTRIES AND ITS INWARD FLOW

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## ABSTRACT

*In today's highly competitive markets, organizations are struggling to expand their business and thereby, finding their ways to reach new horizons and reap profits. Companies are waiting for opportunities and finding ways to expand their business in countries other than their own. In the same way, countries are also trying to attract institutions to their own country, which will directly or indirectly contribute to the prosperity. Foreign Direct Investments (FDI) plays a major role in every country's growth. In the past decade, the member countries of Gulf Cooperation Council (GCC) have also realized the importance of Foreign Direct Investment institutions. This study intends to do research on Importance and impact of inward Foreign Direct Investments in GCC countries.*

## JEL CLASSIFICATION

F21

## KEYWORDS

Diversification, foreign direct investments – FDI, Gulf Cooperation Council – GCC.

## INTRODUCTION

Foreign Direct Investment (FDI) can be defined as a company of one country making a physical investment in a foreign country. Institutions may decide to invest in a particular country based on the attractiveness and growth opportunity by using the resources in the host country. The Gulf Cooperation Council (GCC) is located in Arabian Gulf, consists of six states, named Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. The Gulf has become steadily more significant over the past decade. The region's stability and growth has already created important expansion opportunities for international companies. Currently, the gulf economy is worth \$ 1.1 trillion. The region's share of the world economy is expected to grow by 4.5% by 2020 and the combined Gross Domestic Product (GDP) of the GCC states is projected to be \$20 trillion. Some comparative statistics on GCC as below:

Index	Bahrain	Saudi Arabia	Kuwait	Oman	Qatar	United Arab Emirates
Inward FDI Performance Index	1	4	6	3	5	4
Outward FDI Performance Index	2	5	1	6	4	3
Index of Economic Freedom	1	6	3	4	2	5
Network Readiness Index	3	4	6	5	2	1

Bahrain Economic Development Board, Retrieved November 20, 2011, from [http://www.bahrainedb.com/m\\_BusinessInBahrainIntro.aspx](http://www.bahrainedb.com/m_BusinessInBahrainIntro.aspx)

Metrics	Bahrain	Saudi Arabia	Kuwait	Oman	Qatar	United Arab Emirates
Ease of Doing Business Ranking	18	13	37		52	46
FDI Inward(MM USD)	1756	24318	1138		123	13253
Balance of Trade(Import Vs. Exports)	2	145	-865		41	35

Saudi Arabian General Investment Authority (SAGIA), Retrieved November 20, 2011, from <http://www.sagia.gov.sa/en/Investor-tools/Comparison-charts1/>

## REVIEW OF LITERATURE

### DEFINITION OF FOREIGN DIRECT INVESTMENT (FDI)

[Hymer's, 1960] seminal research contribution perhaps provided an earliest explanation of Foreign Direct Investment (FDI) where he viewed FDI as a process that firms engage in order to organize production in another country through knowledge transfer along with other assets, both tangible and intangible. During the similar period, [Vernon's 1966] product life cycle concept extended the FDI definition that included a firm's setting up of production facilities abroad for products that had already been standardized and reached maturity in the home markets. In the late 1970s and 1980s, [Buckley and Casson 1976] and [Rugman 1981] attempted to explain the why and how of production decisions among international firms in the context of foreign investments. Among institutions, [International Monetary Fund (IMF), 1993] defines FDI in its *Balance of Payments Manual* as an investment made to acquire lasting interest in enterprises operating outside the economy of the investor. An extended definition, as provided by [Organisation for Economic Cooperation and Development (OECD), 1996] in its *Benchmark Definition of Foreign Direct Investment*, where it refers FDI as a "direct investment enterprise as an incorporated or unincorporated enterprise



in which a single foreign investor either owns 10% or more of the ordinary shares or voting power of an enterprise". In its classical form, FDI is defined as a company from one country making a physical investment into building a factory in another country. It is the establishment of an enterprise by a foreigner. [Sullivan, Sheffrin, 2003]. In its most simplistic version, FDI means "the ownership of assets in one country by the resident of another country" [Sen, 2004].

#### DETERMINANTS OF FDI

In one of the latest researches, it has been revealed that though, a large number of studies have been conducted to identify the overall determinants of inward FDI flows, no consensus has emerged, on the "true" determinants of FDI, [Kok & Ersoy, 2009], as well as institutional determinants of FDI [Bellos and Subasat, 2011]. An inverse relation exists between FDI inflows and financial infrastructure, corporate governance and accounting standards in developing countries [Loungani and Razin, 2001]. At the same time, [Chakrabarti, 2001] identifies factors such as labor costs, trade barriers, trade balance, exchange rate, R&D and tax as FDI determinants. [Dunning, 1993] attempted to answer the most pertinent question as to "Why do companies invest abroad?" through his seminal ownership, location and internalization (OLI) framework. Based on his earlier established eclectic paradigm [Dunning, 1980], several empirical studies have found that size of market, market's growth potential, transportation, barriers to trade, production, wages and other costs, political stability, psychic distance, and host government's trade and taxation regulations affects FDI's location decisions. Dunning's study relates to the relation between, FDI and ownership-specific advantages ("O") such as proprietary technology, location-specific advantages ("L") in host countries, such as low factor costs, and potential benefits from internalization ("I") of the production process abroad. In a similar study, [Frenkel & Funke, 2004] identifies the factors based on which an investor selects a location for a project, these include the availability of local inputs such as natural resources, the size of the market, geographical location, the position of the economy, the cultural and political environment, factor prices, transport costs and certain elements of the economic policy of the government (trade policy, industrial policy, budget policy, tax policy, etc.) [UNCTAD, 1998; Mallampally and Sauvart, 1999; Dunning, 2000] identifies four main reasons that motivates MNCs to undertake international production activities, namely market seeking, resource seeking, efficiency seeking and strategic asset seeking. In their detailed study, [Ramasamy & Yeung, 2010] identifies market size and growth potential, lower cost of doing business, cost of labour, cost of capital, larger pool of skilled labour, established infrastructural, degree of international openness, Servicing home-based customers and existence of lower risk factors as determinants of FDI in the service industry.

While most available literature establishes a positive link between good governance and FDI inflows, the most recent empirical work by [Bellos and Subasat, 2011] points out that in selected transition countries, opacity and corruption leads to increased FDI flow as against the commonly held wisdom. Thus, studies on the relationship between information sharing by host country and degree of FDI inflow have always provided conflicting results.

### IMPORTANCE OF THE STUDY

#### THE CASE FOR THE GCC STATES

The Gulf Cooperation Council (GCC) is a cooperative framework of six Gulf States, Bahrain, Kuwait, Qatar, Saudi Arabia, Oman and the United Arab Emirates, formed in 1981 with the objectives of better coordination, integration and inter-connection between Member States<sup>1</sup>. It has a total population of approximately 43 million and a GDP per annum estimated at just under US\$1,000 billion.<sup>2</sup>

The region is primarily natural resource-based with the largest proven crude oil reserves in the world. As of December 2010, the GCC has a proven oil reserve of 495.2 billion barrels that accounts for 35.8% of the world's total oil reserves, additionally it boasts of 22.5% of world's total natural gas. The region also ranks as the largest producer as well as exporter of petroleum and plays a leading role in the world in general and OPEC in particular<sup>3</sup>. Powered by the surging oil price, the GCC states enjoyed a record economic upsurge till late 2008 with the size of the GDP of the combined states tripling to \$ 1.1 trillion during the period of 2002 to 2008. As per IMF projections, almost 90% of the region's revenue comes from oil and gas sector.<sup>4</sup> The surging oil prices have also fuelled some of the largest sovereign wealth funds (SWF) in the region. Among the top 52 SWFs in the region, 13 are based out of the GCC contributing to 34% of share<sup>5</sup>.

Being primarily led by oil, the region did not find much incentive to attract foreign investments. FDI inflow in the region has been a late phenomenon. Over the last twenty years, FDI in the region has grown from a small figure of 166 million dollars (US) in 1990, to 39,870 million dollars (US) in 2010, an increase by almost 240 times,<sup>6</sup>. But the surge in FDI has been a recent phenomenon.

FDI in the GCC peaked during the period of 2004-2008 during which the flow of inward FDI in all the GCC states combined totaled \$187,509 million dollars, which is almost 4.26 times that they received during the period of 1970- 2003 and almost double that they received during the period of 2009-2010. Thus, it is clear that FDI floe in the GCC states has been a very recent phenomenon.

Thus, unlike other developing countries, FDI in the GCC region is a relatively very new phenomenon.

Cumulative Inward FDI - 1970 -2010 US Dollars at current prices in millions						
	2009 - 2010	2004-2008	1994-2003	1984-1993	1970-1983	1970-2003
Bahrain	413	8,378.9	4,372.5	1,607.4	-144.5	5,835.3
Kuwait	1,195	484.5	282.2	55.3	31.5	369.1
Oman	3,516	9,197.1	625.5	1,222.5	882.0	2,730.0
Qatar	13,659	15,677.6	3,239.1	125.5	91.4	3,456.1
Saudi Arabia	60,205	92,151.1	3,524.5	5,057.4	16,486.2	25,068.1
UAE	7,951	61,619.5	5,296.3	775.1	532.9	6,604.3
GCC	86,939	187,509	17,340	8,843	17,880	44,062.8

Source: UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

The Government's in the GCC states have also shown heightened interest in attracting foreign investments by creating special economic zones, namely the free zones that are<sup>7</sup> either sector specific or generalized or sometimes both. UAE itself has more than 30 free zones. At the same times, the Gulf States are predominantly known to be information opaque in terms of information sharing<sup>8</sup>.

GCC countries were mostly depending on their own capital as they were taking advantage of Oil richness and scarcity of the same in almost all other countries in the universe and hence GCC countries are the most attractive amongst the developing countries because of their spending nature, per capita income of the people and growth prospects. Developments in a country mainly depending on FDIs in the most modern world and hence the trends in GCC countries too got leaned towards inviting FDIs since 1990s. FDIs too got attracted towards this region because of the huge growth opportunities mentioned above. The institutions

<sup>1</sup><http://www.gcc-sg.org/eng/index895b.html?action=Sec-Show&ID=3>

<sup>2</sup>Economist Intelligence Unit & CIA World Factbook, April 2011

<sup>3</sup>BP Statistical Review of World Energy, June 2011, [bp.com/statisticalreview](http://bp.com/statisticalreview)

<sup>4</sup>Global Research, GCC Economic Outlook 2011, June 2011

<sup>5</sup>Sovereign wealth funds institute

<sup>6</sup>UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

<sup>7</sup><http://www.uaefreezones.com/>

<sup>8</sup>Corruption perceptions index 2010, transparency international, [www.transparency.org](http://www.transparency.org)

were mainly attracted towards various sectors in GCC such as retail, real estate, infrastructure, tourism, oil sectors etc. In the recent times, FDIs are contributing much more in the growth of GCC countries.

**STATEMENT OF THE PROBLEM**

Since Foreign Direct investments can play a major role in a country’s growth, governments in almost all the countries take several necessary steps to attract business and to increase investor’s confidence on that country. From investor perspective, it is necessary to know which countries are investors friendly. Also, Investor should know the scope of business in a particular country before starting an investment. Since opportunities may vary from country to country, sector to sector and depends on various factors, a lot of studies have to be conducted by the investors. To achieve this, a study should be conducted on expectations and perceptions of other institution as a whole, region wise and country wise. Once the comparison is done, an investor can proceed with the investment. The study reveals that, in recent years, the contributions by FDIs are drastically increased in the GCC member countries. Hence it is necessary to study the importance of Foreign Direct Investments in GCC countries. It is also ideal to study the impact of FDIs in different sectors of GCC countries like Real estate, retail sectors, Oil industries etc. and its inward flow.

**OBJECTIVE**

The focus of the research is to study the importance of inward FDI in GCC countries and to know how FDI can help in the growth and development of GCC countries. It also aims to study the impact of FDI in different sectors in GCC Countries and the methods adopted by the GCC countries to attract FDI.

**RESEARCH METHODOLOGY**

The methodology for the carrying out the research objective of the study includes:

- Study of the previously conducted research and to find out various processes involved in FDIs in different sectors.
- Collection of primary data and also preparation of discussion guide with inputs of industrial experts.
- Collection of secondary data from different sources.
- Gap analysis of the Expectation and Perceptions of Investors Globally and Middle East region
- Gap analysis of the Expectation and Perceptions of Investors in GCC Countries

**RESULTS AND DISCUSSIONS**

The Expectations and Perceptions of investors on various factors are collected from different parts of the world, on United States of America, United Kingdom, and European countries, Nigeria, India, Pakistan, China, Bahrain, Oman, Kuwait, Qatar, Saudi Arabia, United Arab Emirates, Iran, Iraq, Lebanon and Jordan. To compare Expectations and Perceptions of Investment community in Global(Except Middle East region), Middle East region(Except GCC Countries) and GCC countries, the data collected from United States of America, United Kingdom, European countries, Nigeria, India, Pakistan, China are consolidated as Global(Except Middle East region) Investment community. The data of Iran, Iraq, Lebanon and Jordan consolidated as Middle East Region (Except GCC Countries).

Gap analysis of Statpro is used to compare the Perception and Expectations of different countries. The result of those analysis are consolidated and provided in the following matrix.

**CATEGORY WISE COMPARISON OF EXPECTATION AND PERCEPTION OF ALL COUNTRIES**

Category	Globally (Except ME)		Middle East (Except GCC)		BAHRAIN		KUWAIT		OMAN		QATAR		SAUDI		UAE	
	Expectation	Perception	Expectation	Perception	Expectation	Perception	Expectation	Perception	Expectation	Perception	Expectation	Perception	Expectation	Perception	Expectation	Perception
Country Attractiveness	4.4	4.4	3.1	2.9	3.9	3.7	4.1	3.8	4.0	3.8	4.1	3.9	4.0	3.8	4.8	4.7
Country Risk	4.6	4.4	3.2	3.1	4.4	4.4	4.4	4.3	4.6	4.6	4.6	4.8	4.5	4.2	5.1	5.1
Governance	4.4	4.3	3.1	3.0	3.9	3.7	4.2	4.0	4.0	3.7	4.1	4.0	3.9	3.9	4.5	4.5
Corruption	4.1	3.7	3.1	3.0	4.0	3.9	4.2	3.7	4.0	3.7	3.8	3.6	4.1	3.8	4.1	3.7
Social Responsibility	4.3	4.2	3.0	3.1	3.8	3.8	4.1	4.1	4.1	3.9	3.9	4.1	3.8	3.9	4.5	4.4
Human Resources	4.5	4.4	3.2	3.0	3.7	3.7	3.9	3.8	4.0	3.8	4.0	4.1	3.9	4.0	4.5	4.4
Resources	4.4	4.4	3.4	3.3	4.3	4.4	4.6	4.6	4.4	4.3	4.6	4.7	4.5	4.7	4.9	4.7
Vision- Long term investment/return	4.4	4.1	3.2	3.1	3.9	3.7	4.3	4.0	4.2	3.9	4.1	4.1	4.5	4.1	4.7	4.4
Overall Average	4.4	4.2	3.2	3.1	4.0	3.9	4.2	4.0	4.1	4.0	4.2	4.1	4.2	4.0	4.6	4.5

**EXPECTATION AND PERCEPTION GLOBALLY (EXCEPT MIDDLE EAST REGION)**

Section	Attributes used for Analysis	Expectation	Perception	Difference of Exception and Perception	p-value
Country Attractiveness	As a tourist destination	4.1	4.3	-0.2	0.0
	Geographical location to attract business	4.3	4.2	0.1	0.0
	English Language(usage, awareness and local/government support)	4.7	4.6	0.1	0.0
	Tendency to spend more money	4.5	4.3	0.2	0.0
Country Risk	Political Stability	4.6	4.4	0.1	0.0
	Ease of travelling to the country	4.5	4.3	0.2	0.0
	Ease of travelling out of country	4.7	4.5	0.2	0.1
Governance	Legal assistance	4.5	4.3	0.1	0.0
	Government support to investors	4.4	4.4	0.1	0.0
	Government support to the employees	4.4	4.2	0.2	0.1
Corruption	Less Bribes in government entities	4.0	3.6	0.4	0.3
	Less Bribes in private entities	4.2	3.8	0.4	0.5
Social Responsibility	Focusing on Welfare to the public	4.3	4.0	0.2	0.0
	Promoting national heritage and culture	4.3	4.3	0.1	0.0
	interacting with local communities through Games sponsoring	4.3	4.3	0.0	0.2
Human Resources	Availability of skilled Human resources	4.5	4.5	0.0	0.3
	Availability of un skilled Human resources	4.6	4.5	0.2	0.1
	Salary levels of skilled resources	4.3	4.4	-0.1	0.2
	Ease of hiring local employees	4.8	4.8	0.1	0.1
	Ease of hiring foreign employees	4.0	4.0	0.0	0.5
Resources	Availability of local training avenues	4.6	4.5	0.1	0.5
	Availability of natural resources (like minerals, raw materials, petroleum related products, agriculture etc.)	4.4	4.3	0.1	0.4
Vision	Availability of Infrastructure (like roads, buildings, water and power supply, telecommunication assistance, network connectivity etc.)	4.5	4.4	0.1	0.1
	Future Plans - Long term investment/return	4.4	4.1	0.2	0.1
	Average	4.4	4.3	0.1	0.2

Category	Globally(Except ME)	
	Expectation	Perception
Country Attractiveness	4.4	4.4
Country Risk	4.6	4.4
Governance	4.4	4.3
Corruption	4.1	3.7
Social Responsibility	4.3	4.2
Human Resources	4.5	4.4
Resources	4.4	4.4
Vision- Long term investment/return	4.4	4.1

Globally (Except Middle East Region), once the attributes are categorized, Country Risk is the important factor than anything else and Human Resource is also an important factor for Investment community. Investors are more inclined towards countries which are having less Country Risk and high Human Resources availability. As far as investment community is concerned, Globally (Except Middle East Region), countries are politically stable and highly available Human resources. Also, it is noticed that, Expectation is higher than the perception on all those categories

Section	Attributes used for Analysis	Expectation	Perception	p-value	Expectation	Perception	Difference of Exception and Perception	p-value
Country Attractiveness	As a tourist destination	4.1	4.3	0.0	3.0	2.7	0.2	0.2
	Geographical location to attract business	4.3	4.2	0.0	3.1	3.0	0.1	0.4
	English Language(use, awareness and local/government support)	4.7	4.6	0.0	3.0	2.7	0.3	0.1
	Tendency to spend more money	4.5	4.3	0.0	3.3	3.3	0.0	0.0
Country Risk	Political Stability	4.6	4.4	0.0	3.1	3.2	-0.1	0.2
	Ease of travelling to the country	4.5	4.3	0.0	3.2	3.0	0.1	0.1
	Ease of travelling out of country	4.7	4.5	0.1	3.3	3.1	0.1	0.1
Governance	Legal assistance	4.5	4.3	0.0	3.2	2.8	0.4	0.0
	Government support to investors	4.4	4.4	0.0	3.0	3.2	-0.1	0.3
	Government support to the employees	4.4	4.2	0.1	2.9	3.1	-0.1	0.1
Corruption	Less Bribes in government entities	4.0	3.6	0.3	3.1	3.0	0.1	0.4
	Less Bribes in private entities	4.2	3.8	0.5	3.2	3.1	0.1	0.2
Social Responsibility	Focusing on Welfare to the public	4.3	4.0	0.0	3.2	3.0	0.2	0.2
	Promoting national heritage and culture	4.3	4.3	0.0	3.1	3.4	-0.3	0.3
	interacting with local communities through Games sponsoring	4.3	4.3	0.2	2.7	2.8	-0.1	0.4
Human Resources	Availability of skilled Human resources	4.5	4.5	0.3	3.3	3.1	0.2	0.1
	Availability of un skilled Human resources	4.6	4.5	0.1	3.3	3.2	0.1	0.3
	Salary levels of skilled resources	4.3	4.4	0.2	3.0	2.9	0.2	0.5
	Ease of hiring local employees	4.8	4.8	0.1	3.5	3.3	0.2	0.3
	Ease of hiring foreign employees	4.0	4.0	0.5	3.0	2.8	0.2	0.2
	Availability of local training avenues	4.6	4.5	0.5	3.0	2.9	0.1	0.5
Resources	Availability of natural resources (like minerals, raw materials, petroleum related products, agriculture etc.)	4.4	4.3	0.4	3.6	3.4	0.2	0.5
	Availability of Infrastructure (like roads, buildings, water and power supply, telecommunication assistance, network connectivity etc.)	4.5	4.4	0.1	3.2	3.2	0.0	0.4
Vision	Future Plans - Long term investment/return	4.4	4.1	0.1	3.2	3.1	0.1	0.5
	Average	4.4	4.3	0.2	3.1	3.0	0.1	0.3

Category	Middle East (Except GCC)	
	Expectation	Perception
Country Attractiveness	3.1	2.9
Country Risk	3.2	3.1
Governance	3.1	3.0
Corruption	3.1	3.0
Social Responsibility	3.0	3.1
Human Resources	3.2	3.0
Resources	3.4	3.3
Vision- Long term investment/return	3.2	3.1

In Middle East region (Except GCC Countries), once the attributes are categorized, Human Resources and Country Risk are the important factor than anything else. Investors are more inclined towards countries which are having less Country Risk and high Human Resources availability. As far as investment community is concerned, Middle East Region (Except GCC Countries) is little bit politically stable and highly available Human resources than any other factors provided. Also, it is noticed that, Expectation is higher than the perception on all those categories

Section	Attributes used for Analysis	Difference of Exception and Perception		Expectation		Difference of Exception and Perception	
		p-value	p-value	Expectation	Perception	p-value	p-value
Country Attractiveness	As a tourist destination	0.2	0.2	3.8	3.3	0.5	0.4
	Geographical location to attract business	0.1	0.4	4.0	4.1	-0.1	0.3
	English Language(use, awareness and local/government support)	0.3	0.1	3.7	3.3	0.3	0.3
	Tendency to spend more money	0.0	0.0	4.2	4.0	0.2	0.5
Country Risk	Political Stability	-0.1	0.2	4.3	3.8	0.5	0.5
	Ease of travelling to the country	0.1	0.1	4.3	4.5	-0.2	0.5
	Ease of travelling out of country	0.1	0.1	4.4	4.8	-0.3	0.5
Governance	Legal assistance	0.4	0.0	4.0	3.4	0.6	0.4
	Government support to investors	-0.1	0.3	4.2	4.1	0.1	0.1
	Government support to the employees	-0.1	0.1	3.6	3.6	0.0	0.3
Corruption	Less Bribes in government entities	0.1	0.4	3.8	3.8	0.0	0.3
	Less Bribes in private entities	0.1	0.2	4.2	4.0	0.2	0.3
Social Responsibility	Focusing on Welfare to the public	0.2	0.2	4.0	3.8	0.2	0.1
	Promoting national heritage and culture	-0.3	0.3	3.8	3.9	-0.1	0.3
	interacting with local communities through Games sponsoring	-0.1	0.4	3.5	3.6	-0.1	0.2
Human Resources	Availability of skilled Human resources	0.2	0.1	3.7	3.8	-0.1	0.4
	Availability of un skilled Human resources	0.1	0.3	3.3	3.4	0.0	0.5
	Salary levels of skilled resources	0.2	0.5	3.8	3.7	0.1	0.2
	Ease of hiring local employees	0.2	0.3	3.9	3.8	0.1	0.5
	Ease of hiring foreign employees	0.2	0.2	4.2	4.1	0.1	0.2
	Availability of local training avenues	0.1	0.5	3.6	3.5	0.1	0.2
Resources	Availability of natural resources(like minerals, raw materials, petroleum related products, agriculture etc.)	0.2	0.5	4.0	4.1	-0.1	0.5
	Availability of Infrastructure(like roads, buildings, water and power supply, telecommunication assistance, network connectivity etc.)	0.0	0.4	4.5	4.8	-0.3	0.2
Vision	Future Plans - Long term investment/return	0.1	0.5	3.9	3.7	0.2	0.4
	Average	0.1	0.3	3.9	3.9	0.1	0.3

Category	BAHRAIN	
	Expectation	Perception
Country Attractiveness	3.9	3.7
Country Risk	4.4	4.4
Governance	3.9	3.7
Corruption	4.0	3.9
Social Responsibility	3.8	3.8
Human Resources	3.7	3.7
Resources	4.3	4.4
Vision- Long term investment/return	3.9	3.7

In Bahrain, once the attributes are categorized, Human Resources and Country Risk are the important factor than anything else. Investors are more inclined towards countries which are having less Country Risk and high Human Resources availability. As far as investment community is concerned, Bahrain is politically stable and highly available Human resources than any other factors provided. Also, it is noticed that, Expectation is same as perception on some categories like, country risk, Human resources and Social responsibility. Also, it is noticeable that, the Expectation and perception does not have much variance and have high Expectation and perception levels as compare to the Middle East region (Except GCC Countries).



Section	Attributes used for Analysis	Expectation	Perception	Difference of Expectation and Perception	p-value
Country Attractiveness	As a tourist destination	4.1	3.3	0.8	0.1
	Geographical location to attract business	4.3	4.3	-0.1	0.3
	English Language(use, awareness and local/government support)	3.7	3.5	0.3	0.2
	Tendency to spend more money	4.3	4.1	0.1	0.4
Country Risk	Political Stability	4.5	4.2	0.3	0.1
	Ease of travelling to the country	4.2	4.3	-0.1	0.3
	Ease of travelling out of country	4.5	4.4	0.1	0.4
Governance	Legal assistance	4.4	3.9	0.4	0.5
	Government support to investors	4.4	4.3	0.1	0.2
	Government support to the employees	3.7	3.6	0.1	0.2
Corruption	Less Bribes in government entities	4.1	3.6	0.5	0.3
	Less Bribes in private entities	4.3	3.9	0.4	0.4
Social Responsibility	Focusing on Welfare to the public	4.3	4.3	0.0	0.3
	Promoting national heritage and culture	4.2	4.2	0.0	0.1
	interacting with local communities through Games sponsoring	3.7	3.8	-0.1	0.6
Human Resources	Availability of skilled Human resources	3.9	3.7	0.2	0.4
	Availability of un skilled Human resources	3.6	3.4	0.2	0.5
	Salary levels of skilled resources	4.1	3.9	0.2	0.4
	Ease of hiring local employees	3.9	3.7	0.2	0.5
	Ease of hiring foreign employees	4.4	4.4	0.0	0.2
	Availability of local training avenues	3.7	3.8	-0.1	0.5
Resources	Availability of natural resources (like minerals, raw materials, petroleum related products, agriculture etc.)	4.6	4.4	0.2	0.3
	Availability of Infrastructure (like roads, buildings, water and power supply, telecommunication assistance, network connectivity etc.)	4.6	4.7	-0.1	0.3
Vision	Future Plans - Long term investment/return	4.3	4.0	0.3	0.4
	Average	4.2	4.0	0.2	0.3

Category	KUWAIT	
	Expectation	Perception
Country Attractiveness	4.1	3.8
Country Risk	4.4	4.3
Governance	4.2	4.0
Corruption	4.2	3.7
Social Responsibility	4.1	4.1
Human Resources	3.9	3.8
Resources	4.6	4.6
Vision- Long term investment/return	4.3	4.0

In Kuwait, once the attributes are categorized, Natural Resources, infrastructure and Social Responsibility are the important factor than anything else. Investors are more inclined towards countries which are having more Natural Resources, infrastructure and with high Social Responsibility. As far as investment community is concerned, Kuwait is rich in natural resources and infrastructure with high Social Responsibility. Also, it is noticed that, Expectation is same as perception on some categories like, Natural Resources, infrastructure and Social Responsibility. Also; it is noticeable that, the Expectation and perception does not have much variance and have high Expectation and perception levels as compare to the Middle East region (Except GCC Countries).

Section	Attributes used for Analysis	Expectation	Perception	Difference of Expectation and Perception	p-value
Country Attractiveness	As a tourist destination	4.1	3.6	0.5	0.4
	Geographical location to attract business	4.2	4.2	0.0	0.3
	English Language(use, awareness and local/government support)	3.8	3.4	0.3	0.2
	Tendency to spend more money	4.0	3.9	0.1	0.2
Country Risk	Political Stability	4.8	4.6	0.2	0.1
	Ease of travelling to the country	4.3	4.8	-0.4	0.5
	Ease of travelling out of country	4.6	4.5	0.1	0.3
Governance	Legal assistance	4.2	3.6	0.6	0.4
	Government support to investors	4.2	4.0	0.2	0.2
	Government support to the employees	3.6	3.7	-0.1	0.2
Corruption	Less Bribes in government entities	3.9	3.4	0.5	0.5
	Less Bribes in private entities	4.1	4.1	0.1	0.3
Social Responsibility	Focusing on Welfare to the public	4.1	3.9	0.2	0.4
	Promoting national heritage and culture	4.3	4.3	0.0	0.3
	interacting with local communities through Games sponsoring	3.8	3.7	0.1	0.3
Human Resources	Availability of skilled Human resources	3.7	3.7	-0.1	0.5
	Availability of un skilled Human resources	4.2	3.8	0.4	0.2
	Salary levels of skilled resources	4.0	3.8	0.2	0.3
	Ease of hiring local employees	3.9	3.8	0.1	0.5
	Ease of hiring foreign employees	4.3	4.2	0.1	0.5
	Availability of local training avenues	3.8	3.5	0.3	0.5
Resources	Availability of natural resources (like minerals, raw materials, petroleum related products, agriculture etc.)	4.3	4.0	0.3	0.3
	Availability of Infrastructure (like roads, buildings, water and power supply, telecommunication assistance, network connectivity etc.)	4.5	4.6	0.0	0.2
Vision	Future Plans - Long term investment/return	4.2	3.9	0.3	0.5
	Average	4.1	3.9	0.2	0.3

Category	OMAN	
	Expectation	Perception
Country Attractiveness	4.0	3.8
Country Risk	4.6	4.6
Governance	4.0	3.7
Corruption	4.0	3.7
Social Responsibility	4.1	3.9
Human Resources	4.0	3.8
Resources	4.4	4.3
Vision- Long term investment/return	4.2	3.9

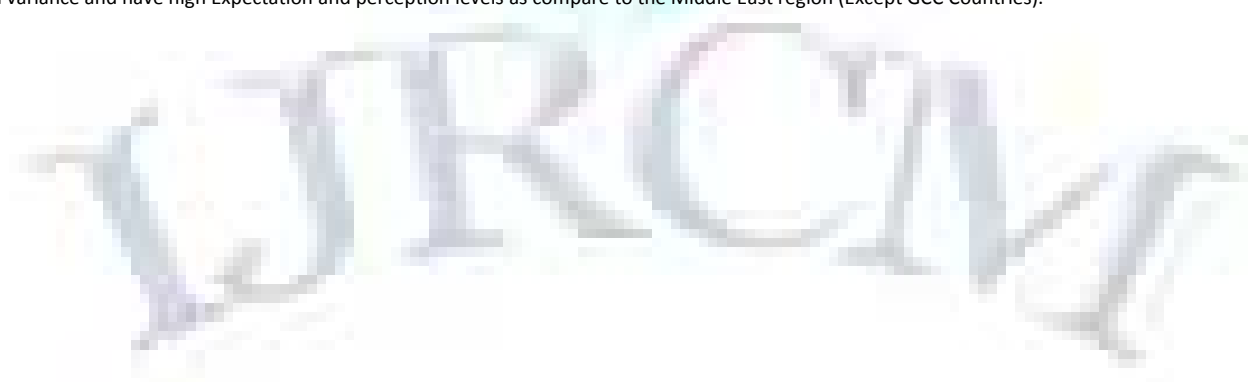
In Oman, once the attributes are categorized Country Risk is the important factor than anything else. Investors are more inclined towards countries which are having less Country Risk. As far as investment community is concerned, Oman is politically stable.



Section	Attributes used for Analysis	Expectation	Perception	Difference of Exception and Perception	p-value
Country Attractiveness	As a tourist destination	3.8	3.5	0.3	0.5
	Geographical location to attract business	4.3	4.5	-0.1	0.1
	English Language(use, awareness and local/government support)	3.9	3.4	0.5	0.4
	Tendency to spend more money	4.2	4.1	0.1	0.4
Country Risk	Political Stability	4.7	4.7	0.0	0.3
	Ease of travelling to the country	4.5	4.7	-0.2	0.5
	Ease of travelling out of country	4.7	4.9	-0.2	0.3
Governance	Legal assistance	4.1	3.9	0.2	0.3
	Government support to investors	4.3	4.2	0.1	0.4
	Government support to the employees	3.9	3.9	0.0	0.2
Corruption	Less Bribes in government entities	3.7	3.5	0.2	0.3
	Less Bribes in private entities	4.0	3.8	0.2	0.2
Social Responsibility	Focusing on Welfare to the public	4.3	4.1	0.2	0.2
	Promoting national heritage and culture	3.8	4.3	-0.5	0.0
	interacting with local communities through Games sponsoring	3.6	3.9	-0.2	0.2
Human Resources	Availability of skilled Human resources	4.1	4.1	0.0	0.3
	Availability of un skilled Human resources	3.8	3.7	0.1	0.2
	Salary levels of skilled resources	4.0	4.3	-0.3	0.4
	Ease of hiring local employees	4.3	4.2	0.2	0.5
	Ease of hiring foreign employees	4.3	4.5	-0.1	0.2
	Availability of local training avenues	3.8	4.0	-0.2	0.2
Resources	Availability of natural resources (like minerals, raw materials, petroleum related products, agriculture etc.)	4.4	4.5	-0.1	0.4
	Availability of Infrastructure (like roads, buildings, water and power supply, telecommunication assistance, network connectivity etc.)	4.8	4.8	-0.1	0.4
Vision	Future Plans - Long term investment/return	4.1	4.1	0.0	0.4
	Average	4.1	4.1	0.0	0.3

Category	QATAR	
	Expectation	Perception
Country Attractiveness	4.1	3.9
Country Risk	4.6	4.8
Governance	4.1	4.0
Corruption	3.8	3.6
Social Responsibility	3.9	4.1
Human Resources	4.0	4.1
Resources	4.6	4.7
Vision- Long term investment/return	4.1	4.1

In In Qatar, once the attributes are categorized, Natural Resources, infrastructure and Political stability are the important factor than anything else. Investors are more inclined towards countries which are having more Natural Resources, infrastructure and with high Political stability. As far as investment community is concerned, Qatar is rich in natural resources and infrastructure with high Political stability. Also, it is noticeable that, the Expectation and perception doesn't have much variance and have high Expectation and perception levels as compare to the Middle East region (Except GCC Countries).



Section	Attributes used for Analysis	Expectation	Perception	Difference of Expectation and Perception	p-value
Country Attractiveness	As a tourist destination	3.9	3.2	0.7	0.1
	Geographical location to attract business	4.6	4.3	0.2	0.2
	English Language(use, awareness and local/government support)	3.7	3.3	0.4	0.4
	Tendency to spend more money	4.1	4.3	-0.2	0.2
Country Risk	Political Stability	4.5	4.5	0.0	0.4
	Ease of travelling to the country	4.5	4.2	0.3	0.4
	Ease of travelling out of country	4.5	4.1	0.5	0.4
Governance	Legal assistance	4.1	3.8	0.3	0.4
	Government support to investors	3.8	4.1	-0.3	0.4
	Government support to the employees	3.8	3.7	0.1	0.3
Corruption	Less Bribes in government entities	4.1	3.9	0.2	0.2
	Less Bribes in private entities	4.1	3.8	0.3	0.5
Social Responsibility	Focusing on Welfare to the public	4.1	4.0	0.1	0.4
	Promoting national heritage and culture	3.8	3.9	-0.1	0.5
	interacting with local communities through Games sponsoring	3.7	3.9	-0.2	0.2
Human Resources	Availability of skilled Human resources	3.5	3.6	0.0	0.5
	Availability of un skilled Human resources	3.8	3.9	-0.1	0.3
	Salary levels of skilled resources	4.1	4.2	-0.1	0.3
	Ease of hiring local employees	3.9	3.9	0.0	0.3
	Ease of hiring foreign employees	4.5	4.6	-0.1	0.4
	Availability of local training avenues	3.6	3.8	-0.2	0.3
Resources	Availability of natural resources (like minerals, raw materials, petroleum related products, agriculture etc.)	4.7	5.0	-0.3	0.4
	Availability of Infrastructure (like roads, buildings, water and power supply, telecommunication assistance, network connectivity etc.)	4.4	4.4	0.0	0.4
Vision	Future Plans - Long term investment/return	4.5	4.1	0.4	0.3
	Average	4.1	4.0	0.1	0.4

	SAUDI ARABIA	
Category	Expectation	Perception
Country Attractiveness	4.0	3.8
Country Risk	4.5	4.2
Governance	3.9	3.9
Corruption	4.1	3.8
Social Responsibility	3.8	3.9
Human Resources	3.9	4.0
Resources	4.5	4.7
Vision- Long term investment/return	4.5	4.1

In Saudi Arabia, once the attributes are categorized, Natural Resources, infrastructure and Political stability are the important factor than anything else. Investors are more inclined towards countries which are having more Natural Resources, infrastructure and with high Political stability. As far as investment community is concerned, Saudi Arabia is rich in natural resources and infrastructure with high Political stability. Also, it is noticeable that, the Expectation and perception doesn't have much variance and have high Expectation and perception levels as compare to the Middle East region.

Section	Attributes used for Analysis	Expectation	Perception	Difference of Exception and Perception	p-value
Country Attractiveness	As a tourist destination	4.7	4.5	0.2	0.4
	Geographical location to attract business	4.8	4.7	0.0	0.4
	English Language(use, awareness and local/government support)	5.0	4.9	0.1	0.3
	Tendency to spend more money	4.7	4.5	0.1	0.2
Country Risk	Political Stability	5.0	5.0	0.0	0.4
	Ease of travelling to the country	5.2	5.2	0.0	0.2
	Ease of travelling out of country	5.2	5.1	0.1	0.4
Governance	Legal assistance	4.5	4.5	0.0	0.2
	Government support to investors	4.5	4.6	-0.1	0.3
	Government support to the employees	4.5	4.4	0.1	0.3
Corruption	Less Bribes in government entities	4.0	3.7	0.3	0.2
	Less Bribes in private entities	4.3	3.8	0.5	0.5
Social Responsibility	Focusing on Welfare to the public	4.6	4.3	0.3	0.3
	Promoting national heritage and culture	4.4	4.4	0.1	0.2
	interacting with local communities through Games sponsoring	4.5	4.4	0.0	0.1
Human Resources	Availability of skilled Human resources	4.3	4.3	0.0	0.4
	Availability of un skilled Human resources	3.8	3.7	0.1	0.4
	Salary levels of skilled resources	4.6	4.6	0.0	0.5
	Ease of hiring local employees	4.6	4.5	0.2	0.2
	Ease of hiring foreign employees	4.9	4.7	0.2	0.5
	Availability of local training avenues	4.5	4.6	-0.1	0.5
Resources	Availability of natural resources (like minerals, raw materials, petroleum related products, agriculture etc.)	4.7	4.6	0.2	0.5
	Availability of Infrastructure (like roads, buildings, water and power supply, telecommunication assistance, network connectivity etc.)	5.0	4.8	0.1	0.4
Vision	Future Plans - Long term investment/return	4.7	4.4	0.2	0.3
	Average	4.6	4.5	0.1	0.3

In In UAE, once the attributes are categorized, Natural Resources, infrastructure, Governance and Political stability are the important factor than anything else. Investors are more inclined towards countries which are having more Natural Resources, infrastructure, Governance and with high Political stability. As far as investment community is concerned, UAE is rich in natural resources and infrastructure, Governance with high Political stability. Also, it is noticeable that, the Expectation and perception doesn't have much variance and have high Expectation and perception levels as compare to the Middle East region.

Category	UAE	
	Expectation	Perception
Country Attractiveness	4.8	4.7
Country Risk	5.1	5.1
Governance	4.5	4.5
Corruption	4.1	3.7
Social Responsibility	4.5	4.4
Human Resources	4.5	4.4
Resources	4.9	4.7
Vision- Long term investment/return	4.7	4.4

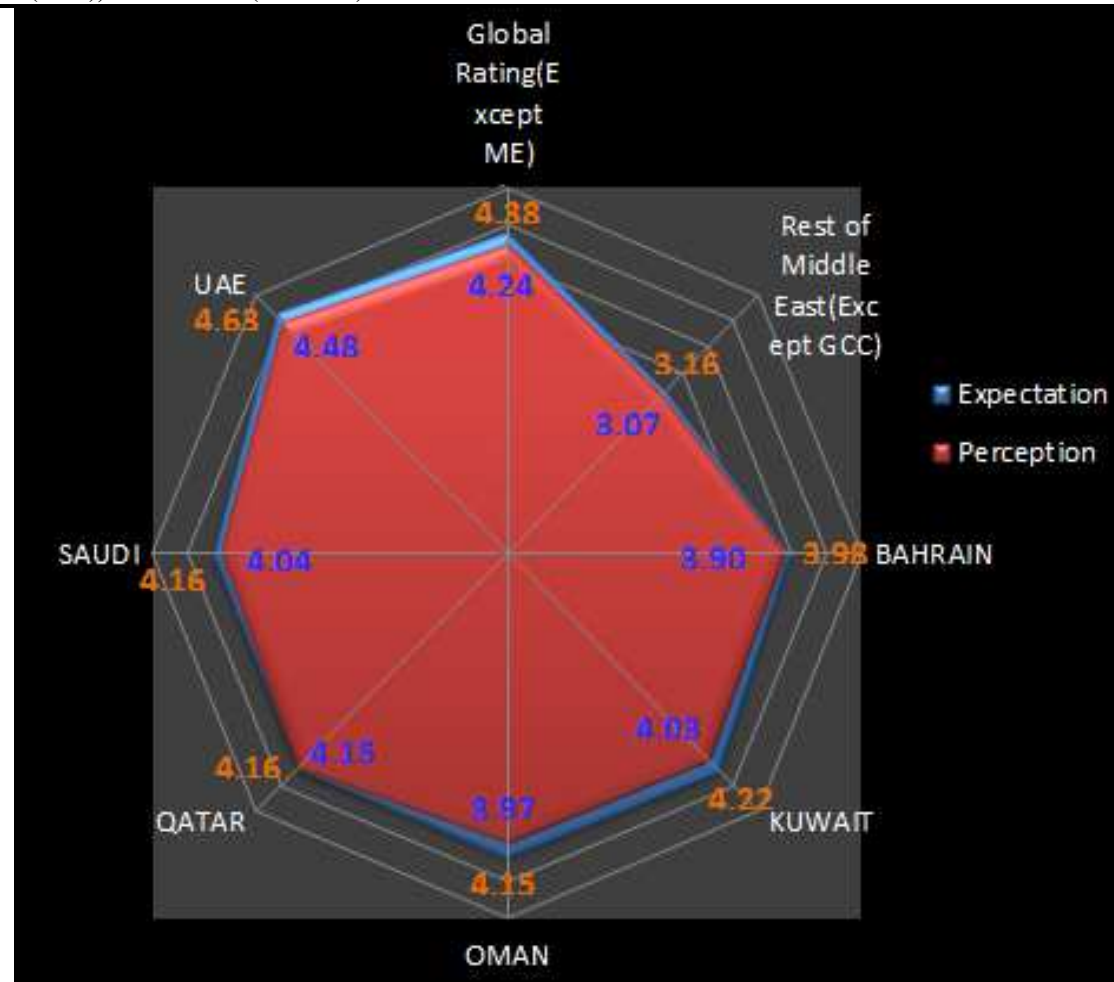
**OVERALL EXPECTATION AND PERCEPTION**

	Expectation	Perception	Difference
Globally (Except ME Region)	4.38	4.24	0.15
Middle East (Except GCC Countries)	3.16	3.07	0.09
Bahrain	3.98	3.90	0.08
Kuwait	4.22	4.03	0.19
Oman	4.15	3.97	0.18
Qatar	4.16	4.15	0.01
Saudi Arabia	4.16	4.04	0.11
UAE	4.63	4.48	0.15

**RESULTS DISCUSSION AND FINDINGS**

From the averages of all countries, Expectations and Perceptions of Middle east region (Except GCC Countries) is lesser than Global (Except Middle East Region) or GCC countries. Gap between Expectations and Perceptions of QATAR is far less than anybody else in GCC Countries. From the data analysis, it is concluded that, GCC countries are the best to invest when compares with Global (Except Middle East Region) and Middle East Region (Except GCC Countries).





## CONCLUSION

Hence based on facts derived from the Analysis as shown before, GCC countries are the paradise for Foreign Direct investment Institutions. From the data, it's obvious that, the ratings given for the GCC countries are greater than Global countries (Except Middle East Region), which is greater than the Middle East region (Except GCC Countries). Also, it is important to note that, the ratings on Expectations and Perceptions are greater for GCC countries as compared to Global (Except Middle East region) or Middle East region (Except GCC countries). We found that, the Expectations and Perceptions of Foreign investors on United Arab Emirates are very high as compare to any other GCC countries; hence, FDIs can play a vital role in the growth of GCC countries, in the coming years.

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**ISLAMIC BANKING IN INDIA: DEVELOPMENTS, PROSPECTS AND CHALLENGES**

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**ABSTRACT**

*Indian financial system has witnessed lot of changes in recent past. The most important of them all are deregulation of Indian banking sector and the opening of new banks. Islamic bank is a new global phenomenon, which India should recognize in developing Indian financial system. This study is carried out to evaluate the developments and to measure the prospects as well as the challenges faced by the movement of Islamic banking in India. This paper reveals that Islamic banking in India has real potential to grow along with the conventional banking system. Our aim is to draw the attention of Indian regulators, Islamic finance scholars and business activists to think over the measures to be adopted in developing Islamic banking in India. It also provides necessary measures to allow conventional banks to carry on Islamic banking business using the existing financial infrastructure.*

**KEYWORDS**

Islamic Banking, Developments, Prospects, Challenges, India.

**1. INTRODUCTION**

Islamic Banking is a system of banking based on Islamic law (known as Shariah). Shariah forbids the payment or acceptance of interest (known as *riba* or usury) for the well being of the society. Interest from the conventional bank and economic arguments can lead to the divide between the rich and poor, and inflation which can create financial and economic instabilities. Islamic banking has grown out from the conventional banking only in the year 1971. However, still at infancy stage, its growth has been tremendous and impressive. Now, not only Muslim countries but also Western countries have adopted Islamic banking. Despite the growth and confidence towards Islamic banking, there are still few countries which have not implemented Islamic banking in their economies, including India. This paper, hence, is aimed to discuss Islamic banking in India.

**2. GLOBAL OUTLOOK ON ISLAMIC BANKING**

Islamic Banking is a value based system that principally aims at ensuring moral and material well being of the individual and society as a whole (Ahmad, 1994; Naqvi, 1981; Zarqa, 1983). Islamic banks were almost non-existent 40 years ago. However, it started to grow in mid 1980s; the first financial company in recent history based on Shariah was the Mit Ghamr savings project in Egypt. The Mit Ghamr co-operative society allowed depositors to borrow for fruitful reasons. In addition, the project attracted funds to invest in projects on a profit-sharing basis. In 1971, the project was incorporated in Nasser Social Bank. From a handful of banks in the late 1970s, including the Islamic Development Bank and Dubai Islamic Bank, there has been significant growth in Islamic banking industry (Warde, 2000).

Since the late 1990s the industry has been growing at an annual rate of 10–15%. The number of banks offering Islamic financial services is growing and is no longer limited to small niche banks. Nowadays, conventional banks jointly contribute to the growth of Islamic finance via Islamic Window (Schoon, 2008). Islamic banking has become a worldwide inclination. There are over 500 Islamic banking institutions operating all over the world from Africa and Europe to Asia and Australia. According to International Islamic Finance Forum, the total assets under management world over in Islamic Banking and Finance are predicted to increase to \$1 trillion by 2013 (Shamshad, 2011). The Asian Development Bank projected Islamic Banks' annual growth at more than 50% over the next 5-10 years. Highly Potential global market of 2 billion Muslims is drawing tremendous attention from players all over the world (Khan et al., 2012).

To support the growth and development of Islamic banking and finance in Singapore, the Monetary Authority of Singapore has set the development of Islamic finance as one of its priority and has accordingly aligned tax policies. Even, China has opted for Islamic banking to pool Islamic Investment Funds. Malaysia has proven itself as pioneer of Islamic banking and finance. There are 16 Islamic banks and 5 International Islamic banks in Malaysia (Bank Negara Malaysia, 2011). More than 40% of the investors and 60% borrowers in Malaysian Islamic banks are non-Muslims. One-fifth customers of Islamic banks of Britain are non-Muslims. Therefore, it can be said that Islamic banking is not just for Muslims but it's a mechanism for financing business to all without charging interest. Segrado (2005) has observed that Islamic banking is growing at an average rate of 15% a year, which makes it the fastest growing sector in the financial markets of the modern-day world. The Asia-Pacific region accounts for 60% of the global Islamic banking market and this proves the potential of Islamic banks (Platt, 2009). According to Zaher and Hassan (2001), Islamic banking is making waves in all corners of the world from Malaysia, through the Middle East and Africa, to Europe and America.

**3. DEVELOPMENT OF ISLAMIC BANKING IN INDIA****3.1 HISTORICAL DEVELOPMENTS**

The work on Islamic finance in India has started in the beginning of the 20th century. According to Shariq Nisar, it can be classified as literary and practical. The literature available was primarily in Urdu, the rest being either in English or in Arabic. The first book published in English on the Islamic finance was *Islam and the Theory of Interest* in 1946 written by Professor Anwar Iqbal Qureshi of Usmania University Hyderabad. On the practical side, *Anjuman Mowudul Ikhwan* a welfare association, established in 1890 by a famous *alim* of Hyderabad. This was later managed by his son Syed Mohammad Badshah Husaini. The society collected donations and skins of sacrificed animals from the public and provided interest free loans to weaker section (Nisar, 2002).

In north India, the Muslim Fund Tanda Bavli, Rampur was established in 1941. Unfortunately, the fund was closed due to partition of India. After about fifteen years since partition, the Muslim Fund Deoband (MFD) was established in the year 1961, and is still operating. Muslim Fund Najibabad (MFN) was established on the model of MFD in 1971. In 1990, MFN floated a subsidiary, Al-Najib Milli Mutual Benefits Ltd. (Bagsiraj, 2002a).

In western India, the Patni Co-operative Credit Society, Surat (Gujarat) was established in 1938 and is still in operation to provide interest free loans to its members without any collateral security or service charges. This region showed great efforts to establish a co-operative credit society. The result of the efforts was recognized in the form of establishment of the Modern Education Social and Cultural Organization (MESCO) by a few college students of Bombay (now

Mumbai) in the year 1968. MESCO led to the establishment of Baitun-Nasr Urban co-operative credit society (BUN), commenced functioning in the year 1973. Restriction on the operation of the society beyond the geographical boundary of Bombay and certain other restrictions leads to the formation of Barkat Investment Group (BIG) in the year 1983 (Nisar, 2002). BIG and Tata Mutual Fund came together in 1996 to launch a mutual fund scheme especially designed for Muslims in view of their inhibitions about interest, though it has never been regarded as Shariah compliant fund as no Shariah advisor involved for screening of the fund. The scheme named Tata Core Sector Equity Fund. But, the fund name was changed four times due to various reasons in past and presently known as Tata Ethical Fund (Adajania, 2011).

### 3.2 RECENT DEVELOPMENTS

Over the last decade, a number of significant changes have occurred in the Indian banking sector with a view to raise the efficiency and productivity of banks as a whole.

#### 3.2.1 ANAND SINHA COMMITTEE

With an objective to reach the banking system to more people in India, Reserve Bank of India (RBI) had constituted a committee in June 2005 to examine financial instruments used in Islamic banking headed by Mr. Anand Sinha, deputy director of RBI. Two observations were made by the committee; First, appropriate modification should be made in banking regulation act 1949 along with separate rules and regulations. Secondly, taxation proposition have to be examined. But, the idea of Islamic banking was rejected by RBI saying that it is not feasible for Indian banks to undertake Islamic banking or to allow their branches to carry out Islamic banking operations abroad without amendments in current related banking and other laws.

#### 3.2.2 RAGHURAM RAJAN COMMITTEE

In 2008, the Planning Commission of India appointed a committee, headed by International Monetary Fund (IMF) former chief economist, Raghuram Rajan, to recommend various ways to take the country's financial sector reforms forward. Raghuram Rajan committee has made two major recommendations. These recommendations have given a boost to the demand of Islamic banking in India. First, committee recommended that measures should be taken to permit the delivery of interest free finance on a larger scale, through the banking system and this is in accordance with the objectives of inclusion and growth through innovation. The committee affirms that interest free banking is currently provided in a limited manner through Non Banking Financial Companies (NBFC) and cooperatives. Second, the committee believed that it would be possible only through appropriate measures to create a framework for such products without any adverse systemic risk impact.

#### 3.2.3 PARLIAMENTARY COMMITTEE

Apart from the two important committees, there was another important development which has provided strength to the demand of Islamic banking and finance in India. It was revealed from the report of the Parliamentary committee set up by Prime Minister, headed by Mr. Rahman Khan, Ex-deputy chairman Rajya Sabha has recommended to create a Hajj pilgrimage fund based on Shariah principles. Lack of Shariah compliant investment opportunities in India has discouraged Muslims to invest, not only through banks but also through stock market. The Securities and Exchange Board of India (SEBI) has given approval for India's first official Shariah compliant mutual fund scheme "Taurus ethical fund" in 2009. The Taurus Mutual Funds and Parsoli corp. had applied the fund's offer document in October 2007, initially SEBI had some reservations on the fund, as it targeted a particular community (Islamic Finance News, 2009).

#### 3.2.4 KERALA GOVERNMENT INITIATIVE

In 2010, Kerala State Industrial Development Corporation (KSIDC), a wholly owned Kerala state government company, got into an agreement with Al Barakah group to offer Shariah compliant finance to the Muslim community. In the proposed Islamic financial institution, KSIDC holds 11% stake. However, The government order was challenged by Janata Party leader Subramanian Swamy in the Kerala High Court arguing that association of government agencies in setting up Islamic investment company goes against secular principles preserved in Indian constitution and was stayed on grounds of violation of Article 14, 25, and 27. In February 2011, Kerala High court has dismissed the petition filed by Subramanian Swamy and maintained setting up of an Islamic investment company.

#### 3.2.5 PRESENT SCENARIO

In June 2012, Chairman of national commission for minorities has proposed to Ministry of Finance (MoF) to take a fresh account of the matter after RBI has again rejected the possibility of Islamic banking in India. Consequently, MoF has asked the RBI to examine the possibility of Islamic banking model a part of Indian banking system. In October 2012, RBI governor confirmed their discussion with MoF on amendments in existing laws to accommodate Islamic banking in India (Unnikrishnan, 2012). This positive move of RBI certainly paves a path and gives an insight of the future of Islamic banking in India.

India has strong ability to emerge as a potential market for Islamic banking, provided there is supportive political environment and increased awareness among people in India as a whole. Presently, there is no Islamic bank in India except few Shariah compliant funds and several other Islamic financial institutions and credit cooperative societies. India is in prime need of an Islamic bank because as per Sachar committee report, about 80% Indian Muslims are financially excluded due to interest based deposit and credit from conventional banks. In addition to that, RBI reports that Muslims have a Credit Deposit Ratio (CDR) of 47% against the national average of 74% (Majumdar, 2008). It is to note that CDR is a monetary tool which maximizes the credit flow and ensures better deployment of credit. As per the RBI, if the CDR is low, the weaker sections will be the most affected along with other borrowers. Hence, the lesser credit flow from banks to Muslims would widen the gap between the weaker sections and economically sound sections.

## 4. PROSPECTS AND BENEFITS OF ISLAMIC BANKING IN INDIA

The prospects of Islamic banking in India are bright; with reference to demographic structures and the benefit of Islamic banking in itself.

### 4.1 DEMOGRAPHIC ADVANTAGE

India is at an advantage due to its Muslim population. Islamic banking has been augmented in Asia-Pacific region, now account for 60% of the global Islamic banking market. Despite its rise in the rest of the region, the adaptation in India of the same has been low. It is very surprising mainly because according to Pew Research Center, India is the 3<sup>rd</sup> largest Muslim populated country after Indonesia and Pakistan, having approximately 177 million Muslims, which is 14.6% of total Indian population (Grim and Karim, 2011). According to India census 2001, Muslim population enumerates at over 138 million.

In terms of the state wise distribution, the majority of the Muslims in India are based mainly in four states Uttar Pradesh, Bihar, West Bengal and Maharashtra with at least 10 million Muslims each. Uttar Pradesh has the largest Muslim population in India with around 30 million Indian Muslims living, as shown by the census 2001. The other states with a considerable Muslim population are Kerala, Andhra Pradesh, Assam, Jammu and Kashmir and Karnataka with a population of between 5 to 10 million Muslims each. Rajasthan, Gujarat, Madhya Pradesh, Jharkhand and Tamil Nadu have Muslim population of between 3 to 5 million each. Delhi, Haryana and Uttaranchal have 1 to 2 million each.

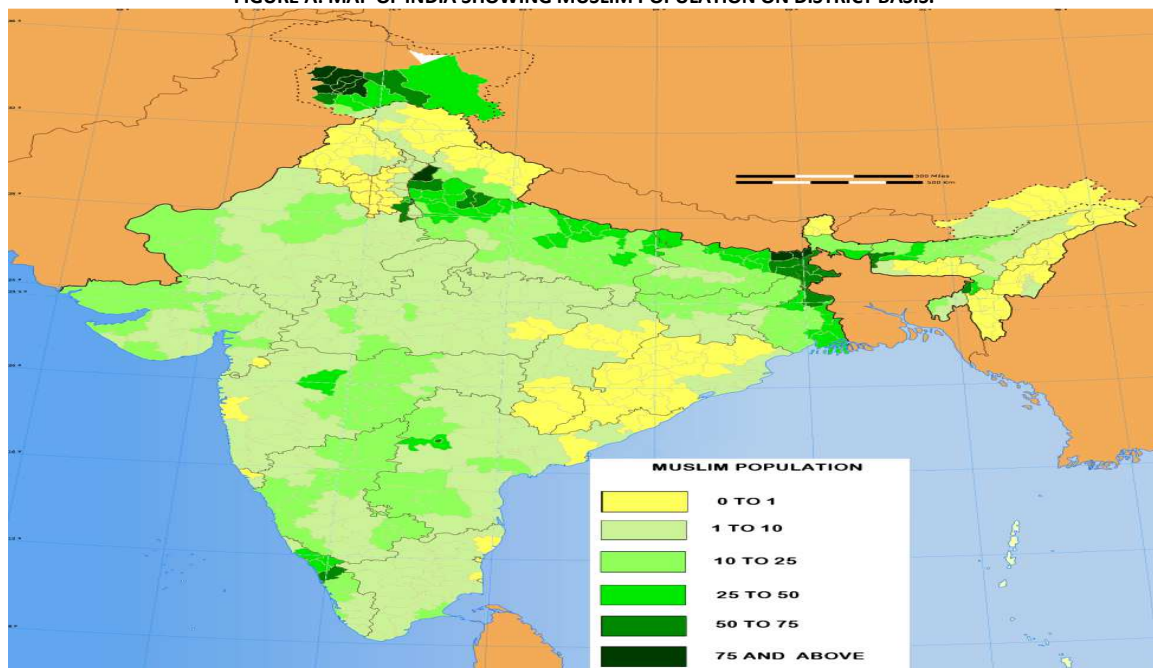
TABLE 1: NUMBER OF DISTRICTS BY MUSLIM POPULATION SIZE AND CONCENTRATION, CENSUS 2001

Percentage of Muslims in the total population of the district	Number of districts
75 or more	9
50 or more but less than 75	11
25 or more but less than 50	38
10 or more but less than 25	182
1 or more but less than 10	276
Less than 1	77
Total	593

*A report on social, economic and educational status of the Muslim community of India (Sachar, 2006).*



FIGURE A: MAP OF INDIA SHOWING MUSLIM POPULATION ON DISTRICT BASIS.



*A report on social, economic and educational status of the Muslim community of India (Sachar, 2006).*

According to district wise distribution, Committee reports that out of 593 districts in India, 20 have Muslim majority. Nine have over 75% Muslim population; these include Lakshadweep and eight districts in Jammu and Kashmir as shown in table 1. The other 11 districts have between 50 to 75% Muslim population. These are extended in following states: 6 districts of Assam, 2 districts of Jammu and Kashmir, as well as 1 district each for West Bengal, Bihar and Kerala. Nearly 18 Million people lived in these districts, making about 13% of India's Muslim population as shown in table 1 (Sachar, 2006).

A further 38 districts have a noteworthy Muslim population of between 25 to 50%. These are scattered in a number of states as follows. Uttar Pradesh 12 districts, West Bengal 5 districts, Kerala 5 districts, Assam 4 districts, Bihar 3 districts, Jharkhand 2 districts, Delhi 2 districts and 1 district each in Andhra Pradesh, Haryana, Jammu and Kashmir, Uttaranchal and Pondicherry. These districts accounts for around 30 Million people, about 22% of the Muslim population.

182 districts have a significant Muslim population between 10 to 25%. These districts accounted for nearly 47% of the Muslim population, around 65 Million people. In about 276 districts Muslim population is between 1 to 10% of the population. For the remaining 77 districts Muslim population is between 0 to 1% and these 353 districts have nearly 25 Million people, about 18% of India's Muslim population.

The demand for Islamic banking by Muslims in India is supported by a survey conducted by Bagsiraj (2002b) which revealed that 80% urban Muslims in India are all set to deposit or invest on Profit Loss Sharing (PLS) basis and 67% urban Muslims are willing to borrow from Islamic financial institutions.

#### 4.2 SIGNIFICANT FLOW OF FUNDS

The absence of Islamic banking is an obstacle to the flow of substantial funds into the market. According to Shariq Nisar, Director, TISIS, there is approximately INR 50 billion unclaimed interest in Kerala state alone. People generally choose to invest their money in gold or jewellery, which is regarded as worst kind of investment. There are at least 300 Islamic societies which accept deposits and lend money, but can't make a business of it because of the Shariah prohibition of interest. And these Islamic societies cannot convert themselves into bank because the regulation restricts interest free banking. Some of these societies have collected more than INR 2 billion in interest-free deposits, but they do not have any opportunity to invest the fund (Sampath, 2008).

#### 4.3 EVADING PETRO-DOLLAR LOSS

Islamic banking is expected to benefit Indian government through diplomatic rewards in financial dealings with Muslim dominated nations. Particularly, trillion dollars finance from Gulf Cooperation Council (GCC) countries can be attracted. The GCC countries interest in venture capitalism and real estate financing can help in infrastructure development in India. In 11th five year plan the expected total investment in infrastructure is to be INR 2,056,150 crores (1 crore = 10 million). Out of which INR 1,436,559 crores are expected to be met from public investment and Rs.619,591 crores from private investments (Planning Commission of India, 2008). Due to absence of Islamic banking, India is losing millions of petro-dollars which are now moving to countries like UK, China, Singapore, Malaysia and Japan.

#### 4.4 LARGE NUMBER OF SHARIAH COMPLIANT COMPANIES

According to Ashraf Mohamedy, MD, Idefa investments, there are almost 80% of the Indian companies are Shariah compliant to the extent their business in India is concern. In the year 2009, SEBI has given licenses for Shariah compliant portfolio products. In 2011, National Stock Exchange (NSE) with Ratings Intelligence Partners (a London/Kuwait-based global Islamic consulting company) has launched NSE Shariah Index S&P CNX 500 Shariah. Whereas, in the same year Bombay Stock Exchange (BSE) with Taqwa Advisory and Shariah Investment Solutions (TASIS) has launched a Shariah Index known as BSE TASIS Shariah 50. According to Shariq Nisar, the Director of TASIS, BSE has the highest number of Shariah compliant companies across the globe.

#### 4.5 PROJECT FINANCING FOR ECONOMIC GROWTH

The financing in Islamic banking concerns more with the viability of projects instead of credit worthiness of borrowers. In other words, Islamic banking is financing projects which link to the economic growth. According to Siddiqi and Khan (2003) interest based loans give advantage to credit-worthy individuals and do not necessarily finance profitable projects. Conventional banking system priorities credit worthiness of the client rather than expected profitability of the project. At times promising projects might fail to receive finance if it comes from one who does not have a guarantee to support the project. The emphasis on equity and profit sharing which is the key aspect to determine whether a project is worth financing is a valuable asset of implementing the Islamic banking in India.

Furthermore, the inadequate capital investment in unorganized sector can receive a boost through equity finance promoted by Islamic banking. This sector normally lacks collateral, hence are not eligible for debt financing. Islamic banking can overcome this situation and thus can lead to the next revolution in agriculture and unorganized sector.

#### 4.6 SAFEGUARD AGAINST ECONOMIC DECLINE

As per the global downturn scenario, Islamic banks are a solution to the economic decline. One of the important factor which leads to international financial crisis are innovative financial products, transactions and short selling. Islamic banks are shielded from interest based transactions because Shariah prohibits interest as well as short selling.

#### 4.7 INCOME DISPARITY REDUCTION

According to United Nations Development Programme (UNDP) human development report, India needs to draw attention towards increasing income disparity as they reported it to be 36.8, quite close to worlds average and with a rising trend (UNDP, 2011). This wide income disparity in its severe ravenous from has lea

to widen the divide in society. Muslims who follow Shariah do not avail credits and remain isolated. Hence, Islamic banking would assist in the upliftment and the disparity reduction.

#### 4.8 INCREASED PARTICIPATION IN STOCK MARKET

It is expected that the introduction of Islamic banking and development of Islamic funds would lead to addition of new stock trading accounts, thereby giving a rise in the stock market. In line with Dow Jones' Islamic index, similar Indian Islamic indexes like *BSE TASIIS Shariah 50* and *S&P CNX 500 Shariah* will attract funds from Muslims wishing for Shariah compliant investments.

#### 4.9 ISLAMIC WINDOW FOR BUSINESS DIVERSITY

A growing number of commercial banks around the globe are considering the prospects of offering Islamic financial products. Banks are not only planning to offer services to a growing Muslim population, but also motivated to tap the growing global investors attracted to Shariah-compliant products. Considering the idea, Indian banks may want to explore the potential of this market, and hence may be interested in launching a pilot project.

There have been arguments that banking based on religion has limitations to spread in a secular country like India; which is not true. Britain, with less than 2 million Muslims population, already has 6 Islamic banks, of which 3 were set up in 2008. According to Ali Ravalia, associate, UK Financial Services Authority, people have started to realize that Islamic banks are not a threat but an opportunity for economic growth. In addition to the large and available Muslim population, Islamic banking is currently beginning to catch the attention of non-Muslim customers, who are interested in alternative way of banking. Indeed, a growing number of non-Muslims are turning towards Islamic banking; as customers are frightened by chaos in the western banking system. Secondly, this sector is considered safer and well connected to the real economy. According to Fiorina (2008) Islamic banking will be benefited from the new customer's interest and grow even more quickly than it recently did. In addition, corporate giants like Tesco (UK) and Toyota (Japan) have used Islamic financial instruments to fulfil capital requirements (DiVanna and Sreih, 2009). This proves that not only individuals, but also corporate giants have showed confidence in Shariah compliant financial instruments.

### 5. CHALLENGES OF ISLAMIC BANKING IN INDIA

Despite the prospects and benefits of Islamic banking in India, various challenges and obstacles for introducing Islamic banking prevails. India is a secular country and its banking system is fully based on conventional banking. India has 88 scheduled commercial banks (SCBs), 26 are nationalize banks (Government of India holding a stake), 21 are private banks and remaining 41 are foreign banks. These SCBs have a combined network of over 69,160 branches and 60,153 ATMs. Although, several institutions are operating on the Shariah principles but they are treated as NBFCs which functions like a bank. However, NBFC does not accept demand deposits and cannot issue cheques. Following are the major challenges to be faced by Islamic bank in India.

#### 5.1 ADVERSE REGULATORY FRAMEWORK

One of the major challenges is the regulatory framework governing banks in India. The lack in accounting, auditing, and credit analysis standards for Islamic banks exist until now. Significant amendments in regulations are to be done, such as stamp duty, banking regulations act, corporate and other tax regulations to evolve a different system of regulation and control. None of these laws provide a room for the possibility of an Islamic banking system in India. Countries such as France, Germany, Switzerland, Singapore, Japan, Malaysia and the UK have adopted Islamic banking and amended the regulatory framework to be favourable to Islamic banking. The Indian government can choose and apply any model which is reasonable to the Indian scenario.

The RBI appointed Anand Sinha committee to elucidate if Islamic banking can be introduced in India. The committee evaluated options and concluded that Islamic banking cannot be offered by Indian banks as well as the overseas branches of local banks under the present legal framework. Except for a basic current account, almost no other banking product in India can be modified to meet the Islamic banking requirement. Few Indian banking laws extracted from Indian banking regulation act 1949 are the barriers in the ways to Islamic banking are listed as below:

*Al Wadiah* (for saving bank account): Section 21 requires payment of interest on such deposit.

*Mudarabah* (for term deposit or investment): Section 21 disallows such products where the bank can invest the money in equity funds.

*Mudarabah and Musharakah* (for project finance and SME credit): Sections 5 and 6 indicate the forms of business a banking company can undertake, and does not allow any kind of profit-sharing and partnership contract.

*Ijarah* (for leasing): As against Islamic banking where the banks owns the asset and hold the title, Section 9 prevents the bank from any sort of immovable property other than private use.

*Istisna* (for home finance): Besides the usual curbs on acquiring immovable property, offering Islamic banking products may not be bankable due to stamp duty, central sales tax and state tax laws that will apply depending on the nature of the transfer.

#### 5.2 INTERPRETATIONS OF SHARIAH PRINCIPLES

The second major challenge in introducing Islamic banking in India involved the varying interpretations of Shariah principles across regions, countries and even within the same country. Shariah council, an independent bank appointed panel of scholars determines the Islamic practice and its interpretation. Therefore, based on the interpretation of what is considered Islamic in Bahrain may not be accepted in India. This absence of uniform standards might affect the bank's ability to duplicate and apply Islamic banks and products across geographies and its expansion to other states.

#### 5.3 INVESTOR'S ASSURANCE

The third challenge is captivating investor's assurance. The conventional banks have the facility of deposit insurance and credit guarantee which develops sense of security and confidence among investors. The investors may demand for the same from Islamic banks.

#### 5.4 LOW LITERACY RATE

The fourth challenge in introducing Islamic banking can be examined from demographic characteristics of Muslims in India. One of it involved the education status of the Muslims in India. For instance, census 2001 shows that the literacy rate among Muslims is 59.1% which is below the national average i.e. 65.1%. It has also been observed 26% of those aged 17 years and above has completed high school but again this percentage below national average accounted 17% of Muslims. While 7% of those aged 20 years and above are graduates, this percentage is less than 4% amongst Muslims. Illiteracy prevails among Indian Muslims which is the major cause of ignorance towards religious regulations and aspects.

#### 5.5 NON-AVAILABILITY OF BANKING FACILITIES

In addition to low literacy rate, the Sachar committee report shows that the access of bank credit to Muslims is low and inadequate (Sachar, 2006). The average size of credit is also meagre and low compared with other Socio-Religious Categories (SRCs) both in Public Sector Banks and Private Sector Banks. The situation is same with respect to finance from specialized institutions such as Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD). The data from census 2001 reveals that the percentage of households availing banking facilities is much lower in villages where the share of Muslim population is high. One of the reasons for such an outcome could be non-availability of banking facilities in these villages. The report concluded that the financial exclusion of Muslims has far reaching implications for their socio-economic and educational upliftment. It was suggested that to empower Muslims economically, it is necessary to support self-employed persons as it is the main source of income to Muslims. This can be done through ensuring flows of credits to the Muslims in India. The committee observes that some banks use the practice of identifying 'negative geographical zones' on the basis of certain criteria where bank credit and other facilities are not easily provided. Such practice is referred to as 'red lining' in the United States. It is possible that in some of these areas the share of Muslim population is high and yet the community is not able to benefit fully from the banking facilities.

### 6. SUGGESTION

Indian government should allow conventional banks to open an Islamic banking window for early development of Islamic banking system. Islamic window is a facility within a conventional bank through which customers can make use of Shariah compliant products (Kamaruddin et al., 2008). The concept of Islamic banking window has been successful in Malaysia, Pakistan and Hong Kong. Currently, India has strong setup with 88 SCB and these banks have a joint network of over 69,160 branches. According to Khan and Ahmad (2003) to function in globalised economy, banks have to meet international standards. Islamic banks have



to learn a lot from conventional banks, especially on their managerial skills, financing tools and transparency standards. The conventional banks will not only provide infrastructure to Islamic banking window but will also provide the initial experience needed to establish the same. Considering large network of conventional banks in India, India is suggested to start Islamic banking by opening Islamic window to reach the prospective customers.

Opening an Islamic window will require the bank to establish the suitable measures to avoid the mixing of Islamic and conventional funds. Once a conventional bank has run an Islamic window and gathered a substantial clientele base for its Shariah compliant products, it may choose to launch a full-fledged Islamic bank. Indian government may consider Malaysian Islamic window as a role model. The first Malaysian Islamic bank was Bank Islam Malaysia Berhad established in 1983 did not get anticipated success. Therefore, in 1993 the government allowed conventional banks to offer Islamic banking services through Islamic window assuming it will be more effective and efficient in increasing the number of Islamic financial institutions and lowering cost within short span. The effectiveness of Islamic window is proven as it has led to an improved performance and enhanced efficiency of banking industry (Mokhtar et al., 2006).

In addition to that, for the growth of the Islamic banking in India, proper amendments in the different acts and regulations should be made to accommodate Islamic banking. This is to ensure that Islamic window division can work according to Shariah principles within the existing setup. So that, funds at the disposal of such mixed banks cannot be pulled from Shariah prohibited earnings.

## 7. CONCLUSION

India has a huge market potential for Islamic banking. The growth of Islamic banking in Southeast Asian countries like Malaysia and Singapore shows it as a viable option for India. The entry of Islamic banks is positive in terms of growth, product innovations and financial inclusion and may encourage the adoption of best practices among the present banks as:

- Islamic banking can help in eradicating poverty by lowering down the economic disparities as there is no interest obligation on the part of the unfortunate borrowers.
- It can induce the habit of savings among people and create the financial insertion required in India. Islamic banking draws finances from both Muslims and non-Muslims alike.
- Islamic banks offer financial instruments that are not only profitable but also reasonable and are ethically fair.
- Islamic banks would give advantage to entrepreneurs who have profitable proposals but lack collateral.

For these, Indian government should look for the opportunities and take a stand in introducing Islamic banking. However, there are challenges to be faced to introduce Islamic banking in India:

- The Indian banking regulation acts are desired to be duly modified to launch Islamic banking in India.
- New standard accounting practice has to be developed.
- Lack of experts in the field of Islamic finance, differences in interpretation and compliance with Shariah makes the situation more challenging.
- The main challenge is a favourable political environment, presently which goes against growth of Islamic Banking in India.

In conclusion, the initiatives in establishing Islamic banking in a secular nation of India may face various political, legal and societal constraints. However, the support of the government in implementing Islamic banking would bring various benefits to India.

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**ETHICS AND JOURNALISM EDUCATION IN NIGERIA****DR. IFEDAYO DARAMOLA****LECTURER****DEPARTMENT OF MASS COMMUNICATION****ADEKUNLE AJASIN UNIVERSITY****AKUNGBA****IBUKUN AKINSULI****LECTURER****DEPARTMENT OF MASS COMMUNICATION****LAGOS STATE POLYTECHNIC****LAGOS****ABSTRACT**

*Ethics is a branch of philosophy. Like philosophy, it has no universal definition. Philosophers, however, agree that it deals with values, good conduct, good behaviour and the issue of morality as it affects human relation and society. Since 1977 Nigeria policy on Education has always been directed at producing sound, knowledgeable and highly skilled citizens with good character. It appears from the policy that policy makers desired to produce ethically or morally sound generation of Nigerians from kindergarten to tertiary institutions. This is why it is regularly restated at convocation ceremony that certificate, diploma and degree are awarded because the institution found the awardees worthy in character and learning. This statement is a manifestation of one of the goals of Nigeria policy on education which among other things says: The goals of tertiary education shall be to: (i) contribute to national development through high level relevant manpower training, (ii) develop and inculcate proper values for the survival of the individual and society (iii); develop the intellectual capability of individuals to understand and appreciate their local and external environments, e.t.c. From the letter and spirit of goal (ii) above, it is clear that education and ethics (character) are very important; they serve as building blocks for every society. Professional ethics, like ethics of journalism is also important for the growth of the profession. Hence code of conduct (ethics) was drawn by the founding fathers of journalism in Nigeria. This ethics forms part of the curriculum of journalism education in all tertiary institutions offering mass communication or its adjuncts (advertising and public relations) as courses of study with the purpose of building good and worthy professionals for the future. Ethics and law are the major means of regulating journalism practice in the contemporary world. While journalists endeavour to operate within the ambit of media law because of fear of sanctions, they violate media ethics with impunity because sanctions seldom accompany such violation. This makes ethics the biggest problem confronting journalism as a profession today. This is why this paper examines ethics and journalism education in Nigeria, using absolutist, relativist and situational theories of ethics as the theoretical pillars. In conclusion, the paper found that unethical practices in journalism cut across broadcast and print journalists. The paper therefore, recommends stringent means of enforcing ethics of the profession and training programmes in ethics for newly recruited journalists.*

**KEYWORDS**

Ethics, Education, Philosophy, Profession, Nigeria Policy on Education.

**INTRODUCTION**

The word "ethics" is derived from the Greek word "ethos" which means customs. Ethics is a branch of philosophy. Like philosophy, it has no universal definition. Thomas Hobbes (1588 – 1679) defined it as the science of "virtue or vice". This definition is premised on the fact that good and bad (or right and wrong) actions are known in classical moral philosophy as virtues and vices. Joad (cited in Akinawonu, 2005) defines ethics as the theory of right and wrong, which among other things seeks to discover basis and impulsive power of duty and obligations. In other words, ethics deals with values and issues that relate to moral obligations and duties we owe to our fellow human beings and our society. It addresses questions about morality- that is, concepts such as good and evil, right and wrong, justice, virtue, etc. Good values, good conduct and good behavior are so important in a society or profession, that their absence will result in a disconnect and the society or profession may not progress at the pace it should.

Philosophy (Western philosophy) as we know it started in Greece in 600BC. Thales, Anaximander, Anaximenes, Heraclitus and Parmenides were leading lights in early Greek philosophy (Molokwu, 2002: 31 – 32). But during the time, philosophy was purely metaphysics (the study of reality or being). Socrates cited in Molokwu later emerged on the scene and insisted that philosophy should not only examine reality, but that it should look at human life in the light of good, bad, right, wrong, just and unjust. Thus, he introduced ethics into philosophy. Ethics is further divided into three areas. These are: Normative ethics, meta ethics and applied ethics.

Normative ethics "deals with norms, standards and principles" (Egbe; 2002:87), while Meta ethics deals with the analysis of ethical terms. Applied ethics, on the other hand, deals with the application of ethical standards and principles to professional practice. This is where ethics of journalism practice is located in the philosophical enterprise.

Aristotle (384 BC) maintained that nature intends man to live in a society, and that it was because of this that nature gave man the gift of speech. But society is a complex arrangement of various and contending components. This made regulation imperative, so that the society can be orderly. Over-time, Ethics, Religion and Law have been the means through which the society is regulated. Ndubuisi (1999:7) maintains that, "As rational and social beings, man understandably becomes religious as a way of finding solutions even if (it is) of illusory dimension to his problems". However, ethics cannot be narrowed down to religion or law. Without doubt, most religions advocate high ethical standards, yet as Valesquez, Andre, Shanks and Meyer (2010) posit, if ethics were confined to religion, then ethics would apply only to religious people. Whereas ethics applies as much to the behaviour of the atheist as to that of the saint. It is a fact that religion can set high ethical standards and can provide motivations for ethical behavior. But religion is not the same as ethics. The problem with religion is that there is too much hypocrisy in it. People profess what they do not really believe in or convinced about. This is the reason why Nigeria remains a very corrupt nation, despite her being a very religious nation. Ethics on the contrary is based on conviction, and that is why there are many people in the society who do not profess any religion, but exhibit a high sense of morality. Therefore, morality is not dependent on religion. In other words, things will definitely go wrong in a society, where so much is done to promote religion and so little is done to promote ethics. This is because religion is based on belief and it is laden with hypocrisy, while ethics is based on conviction.

In the same vein, the fact that one is law abiding does not mean that one is ethical. The law often incorporates ethical standards for which most citizens agree. But laws can deviate from what is ethical. Ethics stands on a higher pedestal than law. This is because ethics is based on conviction and therefore individually enforced, whereas, law is socially enforced. That is, police, army, navy and all the armed forces are needed to enforce law. It is doubtful if all the law enforcement agents in Nigeria are more than five million. Yet, the population of Nigeria is put conservatively at one hundred and sixty million. The question now is how can 5 million people monitor 160 million people effectively? Definitely, this is a herculean and impossible task. This explains why laws are broken with impunity every minute all over the world and in the case of Nigeria, the culprits are rarely apprehended. Therefore, a system that is based on social

enforcement cannot sanitize a society. Rather a system of individual enforcement (ethics), complimented with a system of social enforcement (law), and religion will go a long way to sanitizing a society. That Nigeria has not done this is the reason why so many vices or immoral practices like fraud, dishonesty, embezzlement of public funds, neglect of duty, greed and intolerance are plaguing the nation.

We can therefore subscribe to Velasquez et al (1987:2) definition of ethics as well-founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, and specific virtues. According to them, ethics refers to those standards that impose the reasonable obligations to refrain from rape, stealing, murder, assault, slander and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion and loyalty.

In journalism practice, the major regulations of the profession are law and ethics. Here again we affirm the superiority of ethics over law, because it is based on conviction and individual enforcement. This makes ethics indispensable to journalism education in Nigeria and also brings into reckoning with the second definition offered by Velasquez et al (ibid). This time, ethics is defined as the study and development of one's ethical standards, the regular examination of one's standards to ensure that they are reasonable and well-founded. They therefore submit that ethics is a continuous effort of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly based.

## THEORETICAL FRAMEWORK

The prevalence of crime and low level of etiquette all over the world calls for concern. Hence this paper is located in absolutist theory and relativist theory of ethics. Ethical theories propounded by Tschudin (1992), Rossouw (1994), Marvil and Lowenstein, (1979) cited in Okunna (2003) are divided into two major categories which are teleological and deontological. Teleological theory of ethics is that theory which believes the rightness or wrongness of an action is determined by consequences of that action while deontological theory of ethics is based on the philosophy that judging an action as right or wrong is determined by the intrinsic value of the action and not the consequences. Absolutist and relativist theories of ethics are arms of deontological ethics.

The basic assumption of absolutist theory of ethics is that ethics is a universal phenomenon that should also attract universal application. It goes further to say that a right action should be right in all places, at all times and in all circumstances.

Therefore, journalists are by this theory expected to abide by good professional conduct and avoid actions that are considered unworthy, wherever they are. Such virtues as truthfulness, fairness, accuracy, balance and objectivity, should according to Okunna, (2003:27) attract universal application.

Standing in opposition to absolutist theory of ethics is relativist theory which maintains that moral standards should vary according to cultures, circumstances and time. The proponents of relativist theory of ethics believe that what is right or wrong is relative to a number of considerations and circumstances. From the perspective of this theory, what is right in one country may not be right in another country. Therefore, they advocate that people should not be judged by the same yardstick because of the situation. Our positions in this paper does not agree with relativist theorists which, amount to providing cover for unethical practices based on situations and place where such action is committed. For example, a journalist in Nigeria, who demands for gratification to publish or not to publish a story of public interest, just because his employer has not paid his salary, is considered to be doing the right thing. This position of the relativist theorists is not acceptable to us.

## ORIGIN OF JOURNALISM ETHICS IN NIGERIA

For almost a century that newspaper came out in Abeokuta (1859 – 1955), there was no documented code of professional ethics for Nigerian journalists. As a matter of fact, many of the earliest journalists were missionaries, engineers, merchants, solicitors and teachers. There were mainly foreigners and Creoles (freed slaves) and people who were driven by nationalist struggle and not by the desire to pursue journalism as a profession. Besides, many of the earliest journalists were conversant with the journalism standard under the British government since Nigeria was a colony of Britain (Jakande, 1989). Professionalism came into Nigeria journalism in the beginning of the second half of 20th century. Sometimes in 1955, Nigerian journalists got together to establish a professional association known as Nigerian Union of Journalists (NUJ). One of the resolutions of the new association was the establishment and maintenance of professional standards in Nigeria journalism. Further to this, the union formulated a professional standard or code of conduct for Nigerian journalists (Jakande, 1989). This was the first of its kind in Nigeria but it was to guide professionals in the practice of the profession. The code of conduct is as follows:

1. It is the primary duty of a journalist to tell and adore the truth.
2. It shall be a professional misconduct if, during the course of his duty, a journalist corruptly demands and receives monetary or material reward in consideration of publishing or suppressing news or views.
3. It is against the ethics of the profession to divulge information received in confidence, no matter what the consequences for refusing to do so.
4. The profession demands good appearance at all occasions. Therefore, a journalist must always be properly and decently dressed.
5. Every journalist must show good manners in public. It shall be a professional misconduct to behave otherwise.
6. A journalist is, first and foremost, a citizen of his country. His loyalty therefore, must at all times, be to his country and not to any other country.
7. It is unethical for a journalist to deprive indirectly or directly a professional colleague of his means of livelihood by unscrupulous methods or to seek promotion at the expense of another journalist.
8. It shall be professional misconduct for a journalist to cheat or plagiarize.
9. It shall be improper for a journalist to insult or treat a fellow journalist with contempt, be he a superior or a subordinate professional colleague.
10. No bona fide journalists should fraternize with fakes. Anyone who knows any of the fakes and does not expose him is guilty of professional misconduct.
11. In obtaining news or pictures, reporters or press photographers should do nothing that will cause pain or humiliation to innocent, bereaved or otherwise distressed persons.
12. A journalist should fully realize his personal responsibility for everything he sends to his paper or agency. He should not distort, falsify information or documents or mis-represent facts.

The code of ethics of the Nigerian Union of Journalists inspired the Nigerian Guild of Editors (NGE) to come up with its own Code of Conduct from inception. The Nigerian Guild of Editors (NGE) was inaugurated in May 21, 1961, a year after Nigeria's independence (Daramola, 1999:254).

The Guild proclaimed the following Code of Ethics:

1. We believe that the public is entitled to the truth and that only correct information can form the basis for sound journalism and ensure the confidence of the people.
2. We believe that it is the moral duty of every journalist to have respect for the truth and to publish only what, to the best of his knowledge is the truth.
3. We believe that it is the duty of the journalist to publish all the facts, never to suppress such facts as he knows, never to falsify either to suit his purposes or for the purpose of satisfying ends other than the truth dictates or the facts bear out.
4. We believe that it is the duty of the journalist not to demand and to refuse if offered any bribes in cash or kind for publishing news or comments.
5. We believe that the journalist should employ only fair methods in the collections of news, photographs and documents and shall defend at all times the rights to seek information;
6. We believe that once information has been collected and published, the journalist should observe the universally accepted principle of secrecy and shall not disclose the source of information obtained in confidence;
7. We believe it is the duty of every journalist to do everything in his power to publish corrections or allow the retraction or amplification of any information which he had earlier published and which he subsequently discovers either to be incorrect or harmful to the individual or society or if it is likely to be injurious to public morality.



8. We believe that Journalists should recognize and make a distinction between news reports and expressions of opinion. News reports should be free from opinion or bias of any kind, news or comment must never outrage the moral conscience of the public.
9. We believe that it is immoral for a journalist to commit plagiarism; a journalist should give credit to colleagues whose article he reproduces.
10. We believe it is immoral for a journalist to cause his colleague's dismissal by offering to work at lower salary. Journalist and publishers have a moral duty to foster fellowship among colleagues of the profession and to incorporate loyalty and strengthen confidence between the press and the public.
11. We believe that the press should avoid the publication of news, comments, photographs or advertisements which tend to undermine the security of the state or solidarity of the nation.
12. We believe that the press should refrain from publishing anything likely to undermine the loyalty and allegiance of any member of the armed forces.
13. We believe that in reporting proceedings of Court of Law or Tribunals of Inquiry especially proceedings of trials which have a political significance, care should be taken not to suppress versions or material evidence or arguments presented, by either the prosecution or the defense.
14. We believe that if and when it is absolutely necessary to report an unconfirmed story, it must be clearly explained that the story is unconfirmed and it must not be given prominent display. For the record statements, whether made in private conversation or at formal press conferences, should not be published unless it is absolutely necessary in the public interest to do so.
15. We believe it is the duty of journalists to promote national unity to avoid news items or pictures capable of inciting one- tribe against the other or of inciting religious hatred or conflicts or making any section of the Nigerian Community feel they are second class citizens. News items calculated to promote peace and harmony and help in the maintenance of law and order should be given prominence and, precedence over other news items.
16. We believe that all editorial comments and .expression of opinion should be restrained and be free from scurrilous attacks against leader's of the community, and there should be no incitement to violence.

In 1962, the Newspaper Proprietors Association of Nigeria (NPAN) which was the umbrella association of proprietors, directors and publishers of newspaper and magazines was founded (Jakande, 1989, Daramola, 1999). On August 18, 1973, the association (NPAN) took the initiative which eventually produced a Nigerian Code of Professional Ethics for Nigerian journalists. The NPAN called the other two bodies, NUJ and NGE to join to form the Nigerian Press Organization; which would be a forum for the consideration of matters of common interest to the Nigerian Press as a whole. The first formal meeting of the Nigerian Press Organization took place on January 15, 1979. The inaugural meeting of the NPO formulated and adopted a common code of ethics for Nigerian Journalists. The Code was according to Jakande (1989:4) formally launched at an impressive ceremony attended by the country's leading media men and women. The Code was enthusiastically received by all sections of the mass media and of the journalistic profession. The code was signed by the Presidents of the three (3) Press Organizations (NUJ, NGE and NPAN). And it was accepted by all and sundry as essential, absolutely necessary, and practically enforceable. Journalists of all categories passed resolutions declaring themselves totally accepting the code. The Code reads thus:

#### **TRUTHFUL, FAIR AND ACCURATE INFORMATION**

A journalist is expected at all times to tell the truth no matter how bitter. He should be fair by ensuring that news comments and criticism are balanced. There shall not be exaggeration. Information should be accurate without falsification, distortion, and unprofessional biased selection.

#### **RECTIFICATION OF HARMFUL INACCURACIES AND RIGHT OF REPLY TO CRITICISM**

Journalists should rectify promptly harmful inaccuracies in the media; ensure correction and apologise to the offending party. Apologies should be published whenever appropriate and accorded due prominence.

#### **INFORMATION SHOULD NOT BE OBTAINED BY CROOKED MEANS**

Journalists should not obtain information, photographs and other illustrations by crooked means such as paying or offering bribe to obtain information except in over-riding consideration of public interest.

#### **INTRUSION INTO PRIVATE GRIEF AND DISTRESS**

It shall be considered unethical for any journalist to intrude into private grief and distress except on overriding public interest.

#### **PROTECTION OF CONFIDENTIAL INFORMATION**

As a cardinal rule, journalists should not disclose confidential sources of information. The reason being that such source might be endangered.

#### **INDUCEMENT OR FREEBIE TO INFLUENCE EDITORIAL CONTENT**

Journalists should not accept bribe (freebie) and other documents to influence editorial content or suppress news, comments or criticism

#### **ADVERTISING CONSIDERATION**

Journalists should not distort or suppress truth for the sake of advertising or other considerations.

#### **VIOLENCE**

It is an unethical practice for any journalist or media organization to present a report, act of violence, armed robbery, terrorist activities or vulgar display of wealth in a manner that glorifies such acts in the eyes of the public.

#### **PLAGIARISM**

A journalist should not copy whole sale or in part other people's work without attribution.

#### **SERVICE OF SOCIAL RESPONSIBILITY**

Journalists should not originate materials which encourage discrimination on grounds of race, colour, greed, gender or sexual orientation or use the means for axe-grinding or setting scores.

Members also subscribed to the idea that new employees into journalism profession should make a declaration of faith in the code of conduct. It is, however, not clear if new entrants are made to swear to the code on receipt of letters of appointment in various media organizations. The code was given wide publicity in the mass media. Posters were also printed and booklet containing the code was published and sold (Jakande, 1989:8).

#### **JOURNALISM EDUCATION IN NIGERIA**

Education is defined as the principal mechanism for developing human skills and knowledge Todaro, 1977, Lennards, 1980 cited in Daramola, (2005: 112) simply defines education as the deliberate and organized transmission of values, knowledge and skills. Mckee (1981), cited in Daramola (2005:112) similarly sees education as a deliberate, organized transmission of values, knowledge and skills. According to him, education implies "a set of actors, (teachers and students) meeting at a designated time and place to pursue a systematically defined learning objective in a setting deemed appropriate for the purpose at hand". In a nutshell, education is a systematic intellectual and moral training aimed at developing knowledge, abilities, character and mental power. It is the means by which an individual become a useful member of the society, the means through which an individual is integrated into his immediate environment. And in the case of formal education, it is a means by which an individual is integrated into a chosen career or profession.

Education ranks as one of the most important institutions in modern and complex societies of today. Apart from the family which is the primary and basic institution where the infant begins the learning process and socialization, education also offers another opportunity of socializing the infant into social values of the society. Schools teach the rules of the society; they also teach and equip the individuals with life-long career and occupation (Daramola, 2005).

Educational institutions – primary, secondary and tertiary are concerned with the transmission and creation of culture, occupation and skills that would make one achieve its potentials in life.

There are three types of education - informal, non-formal and formal. Formal education, which is our concern in this paper, is the hierarchically structured, chronologically graded educational system that is offered in a classroom setting with teachers and students (Lennards, 1980, cited in Daramola 2005:112). Journalism education falls within the formal education system.

Since 1977 Nigeria policy on Education has always been directed at producing sound, knowledgeable and highly skilled citizens with good character. It appears from the policy that policy makers desired to produce ethically or morally sound generation of Nigerians from kindergarten to tertiary institutions. This is why it is regularly restated at convocation ceremony that certificate, diploma and degree are awarded because the institution found the awardees worthy in character and learning. This statement is a manifestation of one of the goals of Nigeria policy on education which among other things says:

The goals of tertiary education shall be to: (i) contribute to national development through high level relevant manpower training, (ii) develop and inculcate proper values for the survival of the individual and society (iii); develop the intellectual capability of individuals to understand and appreciate their local and external environments, e.t.c.

From the letter and spirit of goal (ii) above, it is clear that education and ethics (character) are very important. They serve as building blocks for every society. Professional ethics, like ethics of journalism is also important for the growth of the profession. Hence code of conduct (ethics) was drawn by the founding fathers of journalism in Nigeria. This ethics forms part of the curriculum of journalism education in all tertiary institutions offering mass communication or its adjuncts (advertising and public relations) as a course of study with the purpose of building good and worthy professionals for the future.

### JOURNALISM TRAINING INSTITUTIONS

The idea to set up an umbrella association for Nigerian journalists was first mooted by H. Antus Williams, proprietor and editor of Nigerian Daily Telegraph (Omu, 1978:238). Williams, who later changed his name to Akin Fagbenro Beyioku in response to cultural nationalism of the period, had on 17 August, 1929 invited his professional colleagues towards the formation of an umbrella professional association. All the available newspapers of the period except The Pioneer and Eleti Ofe were represented at the maiden meeting.

The following resolution was taken at the meeting:

This meeting is of opinion that the time has arrived for the formation of a Nigerian Press Association and that the principal objects of such an Association should be to safeguard the interest of the local press, to raise its tone, to develop political thought and direct opinion on lines that would lead to the industrial, commercial and educational progress of the country (Omu, 1978:238).

In addition to the objectives indicated above, the association wished to develop schemes for the attraction of local talents into journalism, to secure adequate wages for all engaged in newspaper work, to establish a library for the use of its members, to develop a co-operative scheme for the collection and distribution of news to the various newspapers and to settle disputes among members in their professional conduct. Any editor disassociating himself from the association would be denied official recognition. Members were to pay a monthly subscription of 2 shillings and the Executive Committee would comprise the Patron, Vice-Patron, President, Secretary, Treasurer and Librarian.

Unfortunately, however, the association remained a born-to-die child following disagreement that arose in the first election to the Executive Committee. Consequently, the Association could not carry out its aims and objectives which probably would have included training of local talents and members in institutions of higher learning abroad.

By 1955, an association to promote the interest of practicing journalists, Nigeria Union of Journalists (NUJ) was formed. The formation was spearheaded by Chief Olu Oyesanya who later emerged as the Secretary-General of the Association when it was inaugurated; Chief Mobolaji Odunewu of the West African Pilot emerged as the first president (Daramola, 1999). With the formation of an umbrella association for journalists, it dawned on interested journalists that they needed formal training to sharpen their skills. At that time, the training they received was within their newspaper houses, particularly that of Daily Times and West African Pilot. The only Nigerian that could be said to have been formally trained in journalism then was Dr. Nnamdi Azikiwe, publisher of West African Pilot who later became the first Governor-General of Nigeria (1957-1960) and later President (1963-1966) of the Federal Republic of Nigeria (Ikime, 1995). In other words, the training available for earliest Nigerian journalists was in-house or on-the-job training.

### DAILY TIMES GIANT STRIDE

As part of its responsibility, Daily Times had from 1962 under the leadership of Alhaji Babatunde Jose began aggressive training for reporters and technicians. In pursuit of this programme; Daily Times started recruiting trainee reporters with West African School Certificate with credit in English Language and Secondary School class four certificate for technical trainees in the production department. The trainee reporters were trained by experienced journalists released to Daily Times by the International Publishing Corporation, United Kingdom (Jose, 1987:238). As time went on, the educational qualification was increased to Higher School Certificate or Advanced Level General Certificate of Education. The first set of young men with such qualification (HSC) recruited by Daily Times are Dipo Ajayi, Femi Sonaike and Segun Osoba. An English Journalist, Mr. Guy Wells organized formal training for them. It is on record that Femi Sonaike later went to university and became a Ph.D holder in Mass Communication; Segun Osoba attended several training institutions in the UK and US including Harvard University in Cambridge, Massachusetts, USA where he won the prestigious Nieman Fellowship Award in 1974 – 1975 (*Ibid*). Segun Osoba later became Ogun State governor, first under the Social Democratic Party between 1991 - 1993 and again under the Alliance for Democracy, 1999 – 2003.

Another set of ten young Nigerians comprising three girls and seven boys were according to Jose (*Ibid*) recruited in 1965 for further training for one year by the Daily Times. They included Agbeke Ijaoba (later Mrs. Ogunsanwo), Fola Adewumi (later Mrs. Oduwole) and Miss Alatishe. The boys were Taju Kekere-Ekun (later a dental Surgeon), Wazee Ajibola, Gbolabo Ogunsanwo, Idowu Sobowale, Christopher Kamalu, Chris Ikeokwu, and Yemi Malud. Of interest here is that many of the men and women later pursued their education to university level, many became editors or Chief executives in Daily Times or other newspapers and a number of them became university scholars including Idowu Sobowale, who is a professor of Mass Communication at the Covenant University, Ota, Ogun State Nigeria, two times special adviser on Education to Lagos State Governor and Commissioner of Education in Lagos State.

Daily Times did not stop at the last ten men and women mentioned, rather the newspaper set up a training centre, Times Training Centre for formal training of journalists, salesmen, accounting and advertising staff. The training centre first started in a flat at the company's house at 13 Cooper Road, Ikoyi, Lagos. It is now situated at Eric Moore Road, Surulere, Lagos. The first batch of university graduates was given professional training at the centre under an Australian Mr. Leslie Riley. When Mr. Tony Momoh (now Chief) left the university, he joined Daily Times. He was sent to Britain for further training particularly to learn how to train others. When he returned, he was redeployed to the Times Training Centre as the head of the centre, Chief Tony Momoh rose to become the Editor of the Daily Times, General Manager Publication Division and Minister of Information under General Ibrahim Babaginda administration (*ibid*).

The newspaper was always sending its staff to Britain and other journalism training institutions overseas. The newspaper enjoyed training facilities offered by International Publishing Corporation training centre in Plymouth, England, Commonwealth Press Union in England, International Press Institute in Switzerland and Nigerian universities. Indeed, Daily Times at a time became a human resources development centre for media practice in Nigeria.

### JOURNALISM TRAINING IN AFRICA

In African continent there was no university offering journalism or mass communication until in the 1930s when the American University in Cairo, Egypt, North Africa began a course in journalism. The university was established in 1919 by an American resident in Cairo. Situated under the Faculty of Arts and Science, the University awarded Bachelor of Arts degree in journalism (Jibril, 1999:78-85).

Jibril (*Ibid*) noted that after the take-off of the programme, the Institute of Writing, Translating and Journalism in the Faculty of Arts rolled out a three-year diploma programme at the Egyptian University. He goes further to say that the first University in sub-Saharan Africa to begin courses in journalism or mass communication was the University of Nigeria, Nsukka in 1960. The school of journalism was named after John Payne and Horatio Jacksons of the famous Weekly Record (1891-1930).

The University of Nigeria, Nsukka was according to Jibril (*ibid*) established by the Eastern Nigerian Regional Government with substantial grants and assistance from the U.S. It was the first university in Nigeria to be patterned along the American University system. The Department started with a four year North American-style journalism programme. The American Agency for International Development provided funds for the take-off of the University (Ashby, 1964 as cited by Jibril 2009). This was the first experiment with the American system of organizing higher education in Black Africa.

At the convocation ceremony of the first batch of graduates of the Jackson's School of Journalism in 1964, Dr. Nnamdi Azikiwe, President of the Federal Republic of Nigeria (as he then was) and whose administration as the Premier of Eastern Region founded the University happily remarked:



We are making history tonight in that we have gathered here to honour the prospective graduates of the Jackson College of Journalism who will receive their baccalaureate degrees in few days. This incident will be history in the making because, for the first time in the annals of West Africa, an indigenous university will endorse the professional competence of journalists who have passed through the crucible of systematic university education.

The 1954 UNESCO worldwide survey of journalism education programmes reported approximately 650 programmes in institutions of higher learning across the five continents of the world. Out of this figure, Jibril contends that about 550 or slightly over three quarter of the world's journalism education programmes in higher institution were in the United States of America. About 64 programmes were scattered across Europe and other parts of the industrialized world, while only 26 programmes existed in 16 countries of Asia, Africa and Latin America. The African continents had only two programmes, which were both in Egypt (Cooper, 1987 as cited by Jibril 1999). By 1965, another UNESCO survey cited by Jibril (ibid) reported four more programmes established in Congo, Ghana, Madagascar and Nigeria. In 1986, a similar research conducted by the Centre for Foreign Journalists and reviewed by Cooper (1987) found that ten more programmes had been created in Africa in addition to the earlier five programmes reported by the 1965 UNESCO survey. However, four decades after the UNESCO report, Nigeria alone recorded more than 60 universities and polytechnics (government and private owned) offering a four-year degree and non-degree programmes in journalism, mass communication and other related areas.

The University of Lagos established its Department of Mass Communication with the purpose of training journalists in 1968. In 1971, the Newspapers' Proprietors Association of Nigeria (NPAN) in conjunction with Nigeria Union of Journalists (NUJ) established the Nigeria Institute of Journalism (NIJ) in Lagos and Jos.

From then till now, journalism education has been enhanced and improved upon. As at today, not less than 60 institutions-university, polytechnic, monotech and training institute produce qualified and practically oriented journalists and its allied services in Nigeria. The curricular have been further enriched at both undergraduate and postgraduate levels. Students are now taught webcasting, on-line journalism and multimedia system. The Nigerian polytechnics that offer mass communication programme according to the Joint Admissions and Matriculations Board (JAMB) are now very many. (JAMB BROCHURE, 2006).

### CURRICULUM DEVELOPMENT AND ETHICS

It is not clear when media ethics and law relating to press performance were inserted into the curriculum of journalism and mass communication. But given the rate at which the former Governor-General of Nigeria, Lord Fredrick Laggard was rolling out press laws during his tenure (Daramola, 1999), it is believed that the earliest trainees must have been exposed to British standard of journalism practice and press laws.

Professional ethics is necessary in any profession to guide potential men and women who have decided to pursue career in such profession. As a matter of fact, professional ethics is a necessary tonic to build such professionals and to serve as compass for them. In modern Nigeria, many children are losing home training or etiquette because parents have no time to groom their children. A course in ethics, character building and societal values is necessary, if not compulsory so as to put up coming generation on good track. There is hardly any institution offering mass communication that is not offering media law and ethics as one of its subjects today.

### RECOMMENDATIONS

The major challenge of ethics in journalism is enforcement. Because it is individually enforced, it is violated with impunity by practitioners. As a way out of this situation, we advocate a serious semi-social enforcement, an arrangement in which professional bodies and media houses impose heavy sanctions on journalists violating the ethics of the profession. The operative words here are heavy sanctions. This is because; it is observed that journalists are more careful when dealing with media law than media ethics. The reason being that there are heavy sanctions that attend breaking media law. Journalists are likely to take their professional ethics more seriously if serious sanctions like termination of appointment or suspension attend violating professional ethics.

Another challenge of ethics in journalism is the fact that many practicing journalists do not have formal training in journalism. This implies that they know little or nothing about the ethics of their chosen profession. In this situation, ethics of the profession are violated not only with impunity, but also out of ignorance. As a way out of this, we suggest that training programmes in ethics should be organized for newly recruited journalists. Journalists should read widely especially books in philosophy, history, political science, English language, sociology and science. Journalists should also pay premium to the values, norms and mores of the society where they practice.

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## DIVERSIFICATION AS A BUSINESS GROWTH AND SUSTAINABILITY STRATEGY IN GAINING COMPETITIVE ADVANTAGE

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### ABSTRACT

*Diversification is Strategic action aimed at creating value for the organization. SACCO'S have created value through diversification by spreading core competencies that are generating competitive advantage in one business to other businesses. The financial advantages of diversification include; capital allocation efficiency, risk reduction and tax advantages. This paper analysis how diversification can enhance growth, sustainability and competitiveness as a strategy to remain competitive, The Saccos being key players in the financial sector have adopted diversification in terms of human resources, venturing in new markets, re-branding of their existing products, and improvement on loan portfolio quality as well as installation of modern technology. The conclusion is that, through diversification many Saccos have managed to acquire a national identity, hence increasing their market share, capital and customer base, raise the liquidity levels as well as upgrading the personnel skills to remain competitiveness. The major recommendation is that the Saccos need to provide more competitive financial products and services, concentrate more on creating awareness of their services and as well consider widen their market scope through research and innovation to avoid customer desertion and to remain competitive.*

### KEYWORDS

Competitiveness, Diversification, Business Sustainability and Growth, Competitive Advantage, Strategy and SACCO's as the Business Enterprises.

### INTRODUCTION

The Commercial Banks and Micro-finance institutions are threatening the survival of Saccos by denying them of their market share and offering attractive packages. In the past, most SACCOs have been content to continue serving a narrowly defined client base with an equally limited range of products. However; most Saccos are now awakening to the realities of changing circumstances. The traditional niche market of SACCO's is invaded by a rapidly growing number of micro finance institutions and by mainstream banks going down market. The said institutions bring with them increased competition, new and more efficient technologies, wide range of attractive products and an overall focus on customer satisfaction. Consequently, this exposes the Saccos to diverse challenges in their course of business; key among them being increasing competition in the financial sector wherein the formal banks and micro-finance institutions are increasingly venturing into the Saccos traditional markets; adoption of new technology which is a requirement in the modern approach to business; Low liquidity levels which ushers in financial hindrances; unskilled manpower resulting to poor customer service hence eroding the Saccos customer base and market share; very high loan default rates culminating in poor loan portfolio.

The SACCO's are responding through development of new products, re-branding the existing ones, venturing into new markets, and adoption of the new technology and upgrading of the personnel skills through training and recruitment of qualified managerial personnel. The Saccos must be more attuned to their shareholders changing needs and to competitive environment, which is likely to be offering alternatives. This further calls for Saccos to understand and respond to their clients evolving demands for financial services or face customers desertion to more-responsive market -driven competitors.

### SUSTAINABLE COMPETITIVE ADVANTAGE

Organizations can use their resources to create and sustain a competitive advantage that is to provide greater value for customers than competitors can. A competitive advantage becomes sustainable when other companies cannot duplicate the benefits it provides and have. To compete effectively and achieve the sustainable competitive advantage, the organization need to employ the porter's generic strategies namely; the cost leadership strategy, differentiation strategy and focus strategy.

#### **Cost leadership strategy**

This strategy emphasizes on organizational efficiency so that the overall cost of providing products and services are lower than those of competitors. This low-cost approach entails careful attention to minimizing cost in every aspect of the business. For effectiveness of this strategy, a business must be a cost leader. The management should as well consider making at least those products or services that are very important to customers depending on their desired needs. The rural Saccos tariffs are low and friendly as compared to the competitors. This results to the customers and members preference to the Saccos.

#### **Differentiation Strategy**

This Strategy attempts to develop products and services that are viewed as unique in the industry. Differentiation allows the business to charge premiums or prices above average profits. Differentiation takes many forms such as design or brand image, technology, and customer care. Due to changes in customer tastes and needs, businesses following differentiation strategy must carefully assess the customers' shifting requirements. This strategy is more relevant to the current study since the Saccos regularly repackage the existing products; adopt new technology as well as employing qualified personnel to suit the customers changing tastes and needs.

#### **Focus Strategy**

This Strategy entails specializing by establishing a position of overall cost leadership, differentiation or both; but only within a particular portion or segment of an entire market. The rationale is that by specialization, the organization can serve the market segment more effectively than can competitors who cover the entire market. The business segment may be a particular group of customers, a specific geographic area, or a certain part of the product or service line. The SACCOs main focus is on the low-income earners who occupy the biggest business share as compared to other economic classes.

Source: Michael E. Porter, Competitive Strategy, (New York: Free Press, 1980)

### SUSTAINABLE COMPETITIVE DIVERSIFICATION STRATEGIES ADOPTED BY SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES

Saccos are taken to mean the Savings and Credit Co-operative Societies which command a substantial portion of the membership of the co-operative movement which was incepted way back in 1884 in a small city called Rochdale in Manchester England during the industrial revolution. In Kenya, the movement traces its roots to the period immediately after the country's independence. The movement has grown to an extent of becoming a shining example of how common people can come together; pool their financial resources and assist each other with small loans, which transform their lives positively. To date, the co-operative movement commands a substantial portion of the Nation's wealth. There is about eleven thousand (11,000) Co-operative societies in Kenya with a membership of 5.7 million drawn from both rural and urban Saccos. (Economic Survey, 2007). The rural Saccos' were basically agri-based while the urban Saccos' only used to render the 'Back-Office' services until in recent years when they diversified to Front-Office operations. The government promotes the movement and as a result, they demonstrate their capacity in poverty reduction by promoting equity and providing opportunities for the members to improve their lives.

Saccos use their resources to create and sustain a competitive advantage by providing greater value for customers than competitors. A competitive advantage becomes sustainable when other companies cannot duplicate the benefits it provides and have. To compete effectively and achieve the sustainable competitive advantage, the Saccos employ the porter's generic strategies namely; the cost leadership strategy, differentiation strategy and focus strategy. The Saccos offer fast and affordable services concentrating more on the low-income earners.

## CONCEPTUAL MODELS IN DIVERSIFICATION STRATEGIES

Diversification is a risk reduction strategy that involves adding products, services, location, customers and markets to a company portfolio. Saccos are no longer operating from their traditional markets rather they are undertaking market diversification strategies in order to expand the market share, clientele base as well as liquidity levels. The Saccos have ventured into new markets through borderless operational areas, adopted new technology, and disengagement from the common bonds as well as engaging professional at the top managerial levels. This has made the Saccos to compete effectively with the competitors who offer similar products and Services. Through diversification the Saccos have managed to adapt to competitive modern business model approach leading to innovativeness and invent ness. The notable approaches include; entering new markets, Re-Branding of the Existing Products, Development of New Products, Adoption of Technology, Personnel development, Improved Loan Portfolio and Customer Satisfaction. The Saccos no longer operate within limited boundaries and certain common bonds of membership. This makes it possible for them to extend services to several markets without limitations as well as branch networks as their competitors. The new markets increase the clientele base as well. The Saccos have access to the government support funds as some of the mainstream banks; which they Saccos use to advance the respective enterprises. The said funds have improved the Saccos liquidity levels and profitability in terms of interest income as well as the corporate image. The Saccos have created other new markets in the rural areas where they take services closer to their members making the Saccos retain their customers and be well positioned as compared to the competitors who are not in a position to provide the same. The Saccos have diversified their businesses and markets depending on the economic activity undertaken by their members. As a result, there is an increase in market share and the customer base, which translates to high productivity and profitability as well.

In response to the changing needs and demand, the Saccos have modified the already existing products and services to make them more appealing to cope with their shareholders changing needs as well as match the competitors who are likely to offer alternatives. This Saccos as a result have managed to retain their customers and increase the customer loyalty. The Saccos are keen to redesign the existing products giving the same a new lease of life through new features which include opening/ minimum saving balances, withdrawal terms, loan restructuring and waiting time, collaterals or guarantees. The pricing aspect has been taken care of by the Saccos through customer friendly tariffs such as transaction costs, interest rates and maintenance fees. New products development calls for enhanced research. This is achieved through senior brainstorming sessions and environmental scanning by the marketing department. The SACCOS are segmenting the various clients to assess their distinct financial needs, in order to respond appropriately by developing suitable products for the specific need. They also embark on promotions to create awareness of the new products through advertising; public relations; direct marketing; publicity and customers' educational forums.

The SACCOS have been able to retain their customers through the established products and has drastically reduced the numbers of customers shifting to the competitors to seek for similar products. To enhance efficiency and effectiveness of service delivery, SACCOS have continued to invest in the Information, Communication and Technology (I C T). However, due to the complexity of this project, the level of adoption is rather slow. SACCOS have installed the computer systems. AS a result, the SACCOS have continued to encounter some computerization challenges key among them being lack of system integration causing problems of information flow and lack of qualified IT personnel to oversee the development and progress of the project. It is also capital intensive. Saccos are adjusting their operations to fit in the dynamic technological environment by gradually upgrading, improving and acquiring new technology that is compatible and relevant to the market situations. Some of the SACCOS have already installed ATMs through co-op switch by Co-operative Bank of Kenya while others are offering modern technological E-banking services like M-pesa and inter-linking of their branches. This is an indication that the SACCOS are able to compete effectively with other competitors hence achieving a competitive advantage. Although the adoption process is slow due to hindrances of funds availability, the Saccos are in a position to offer similar services and products as the competitors.

To remain competitive, effective and efficient and to improve the productivity and performance of the staff, the Saccos need to continuously upgrade the existing personnel skills. Commercial banks who are the main competitors of the SACCOS in Kenya have a long history of expertise, experience and excellence in the financial business and have used this combination of factors to access and win some customers from the SACCOS. Some SACCOS as well, has good caliber of workers; well trained and keen on executing their duties. On the other hand, some have a questionable team of workers with little experience and training in the financial sector. This hinders efficiency, effectiveness and more so productivity. The SACCOS have embarked on extensive staff training and career development as a way of upgrading the staff skills and development. The SACCOS apply the personnel development as a strategy for staff retention hence reducing the staff turnover rates. To ensure staff retention the SACCOS have improved the staff morale and motivation levels through creation of several incentives such as insurance schemes, medical covers, long-term loans, conducive working environment, education sponsorship and promotion on merit. This increases the staff loyalty and performance. In the initial phases of competition, mainstream banks who are the main competitors of Saccos seemed attractive and some SACCOS' shareholders and customers sought for financial alternatives from them. This affected the SACCOS adversely as the members shifted after acquiring loans from the SACCOS thus making SACCOS to experience high rates of default. Consequently, the members discovered the financial implications from the said commercial banks and hence sought refuge in their SACCOS by way of requesting the SACCOS to buy off their financial obligations to the banks. To that effect Saccos faced high default rates and a high loan portfolio is at risk because of product design. The Saccos have developed strategies to improve loan portfolio quality by modernizing their lending patterns as dictated by the seasonality of income flows. The SACCOS have put in place stringent measures for loan recoveries which include; engagement of the debt collectors and auctioneers to assist in the collection of bad debts, rescheduling of loans, issuances of loans pegged on ability to pay, strictly adherence to the lending policies, proper appraisals, character assessment, periodic training of credit personnel on credit management and introduction of long term development loans. The aforementioned measures have enabled the Saccos to improve the loan portfolio quality. Customer satisfaction is key in SACCOS as it contributes greatly to the retention of the existing customers as well as attracting new ones. The satisfaction level is attained through staff efficiency and effectiveness and paying good returns to the customers and members as investors. The SACCOS have well established customer care desks at the forefront, which are manned by qualified customer relationship managers. This is an indicator that SACCOS are now customer focused and are in a position to compete effectively. Customers/Shareholders prefer SACCOS to other competitors due to certain attributes of staffs; key among them being interactive, friendly and good communicators as a result of them being locally recruited.

## METHODOLOGY

The study applied descriptive research design to establish the relationship between the variables under study. Probability sampling method was used to select a reasonable number of subjects to represent the target population where every subject had an equal chance of being selected. In this study, the target population comprised of management staff and members drawn from the rural SACCOS in Central Province. Data was collected using questionnaires with structured and unstructured questions. The researcher to probe for more information also conducted interviews. After the ultimate data collection, the same data was analyzed using descriptive statistics such as percentages and frequencies and presented in form of frequency tables; charts and graphs. The researcher used the Ms-excel programme which facilitated in the data analysis.

## STUDY FINDINGS

### RESPONDENTS BACKGROUND

According to the respondents, the studied Saccos had been in operation for duration ranging from 6 to 34 years. Out of the sample size of four hundred (400) SACCO members/shareholders, two hundred ninety two (292) responded representing a 73% response rate. The targeted market or clientele at inception of the SACCOS was the Agri-based farming community mainly the tea farmers, coffee farmers and the dairy farmers, for all the SACCOS. As regards the current clientele



the respondents indicated the incorporation of the salaried employees, small and micro entrepreneurs, horticultural farmers, institutions and micro-finance groups among others. It is worth to note here that the incorporation of other sectors in their business focus, displays a survival approach designed to expand the market share and client base. Due to their nature and original traditional business of highly standardized shares, easy accessibility and sense of ownership, 80.13 % of the respondents prefer operating in the SACCOs due to low operating charges (tariffs) and low operating balances. A further 7.5% keenly prefer the SACCOs due to fast and efficient service delivery. There are those who prefer the SACCOs because of easy service accessibility especially the loans, which are easily accessed as compared to the loans from the competitors, which involve a complex processes. In this regard; the SACCOs have a competitive advantage ahead of the other competitors especially in the aspect of customer retention and market share sustainability.

### COMPETITIVE BUSINESS SUSTAINABILITY AND GROWTH STRATEGIES

The cardinal objective of the study was to investigate the competitive diversification strategies adopted by Rural SACCOs in Kenya. The study sought to answer the question of the survival strategies used by Sacco's for business sustainability in the competitive financial sector. The study as attested by 81.2% showed that the SACCOs are no longer operating from their traditional markets. Rather, they have established new markets, which have contributed greatly to the increase of their market share. The new markets as indicated previously include the opening of more branches; incorporation of the small and micro-entrepreneurs, micro-credit groups, women and youth enterprise and more mobile centres. The Saccos no longer operate within limited boundaries and under certain common bonds of membership. This makes it possible for them to extend services to several markets without limitations as well as branch networks as their competitors. The new markets increase the clientele base as well. The study revealed that the Saccos have access to the government support funds, which the Saccos use to advance the respective enterprises. The said funds have improved the Sacco's liquidity levels and profitability in terms of interest income as well as the corporate image. The Saccos have created other new markets in the rural areas where they take services closer to their members as reflected by the study. This service makes the Saccos retain their customers and be well positioned as compared to the competitors who are not in a position to provide the same. The Saccos have diversified their businesses and markets depending on the economic activity undertaken by their members. As a result there is an increase in market share and the customer base which translates to high productivity and profitability as well.

The study clearly manifested that the Saccos have developed new products and services to cater for the existing market and the newly ventured markets. This was confirmed by 62.9% of the respondents who indicated that Saccos have short-term advances recoverable in a short period mostly six to twelve months. The said products assist the members handle the emergency occurrences and pay schools comfortably. As well, the Saccos have long-term loans in place repayable in thirty six to sixty months. Previously, the Saccos loans were pegged to a repayment period of twenty-four months making it impossible for the members to undertake capital development projects. To date, the members are in a position to invest using the capital loans, which they service comfortably. The special savings according to the study is utilized for savings purposes where the users of the product are paid returns after the expiry of the investment period. The account is not subjected to any charges, which is a motivator to the investors. The Saccos mobilize more funds through this account hence boosting their liquidity levels. The SACCOs have been able to retain their customers through the established products and has drastically reduced the numbers of customers shifting to the competitors to seek for similar products. As pertaining to the new products, the Saccos have developed the business loan and Group accounts to cater for the business fraternity and the micro-credit groups. The study further indicated that the Saccos have repackaged some of the existing products to remain competitive as reflected by 70.1 % of the respondents. The repackaging of the products increases the useful life of the product as well as the competitiveness. The study revealed that some customers are not satisfied with the products offered by the Saccos. The customers' have diverse needs which are not static. To respond to the changing needs the Saccos have marketing departments which analyze the customers' needs and advice on the products that need to be repackaged or developed to suit the changing needs.

Poor loan administration by the Saccos as manifested in the study (69.5%) has led the Saccos to encounter high loan default rates. SACCOs according to the study avail credit facilities to their members who are expected to pay promptly. The study further revealed that some members encounter repayment hurdles and are therefore not in a position to repay the loans as expected. This culminates high loan default levels threatening the survival of the SACCOs in the market. To counter this problem, the SACCOs have put in place stringent measures for loan recoveries which include; engagement of the debt collectors and auctioneers to assist in the collection of bad debts, rescheduling of loans, issuances of loans pegged on ability to pay, strictly adherence to the lending policies, proper appraisals, character assessment, periodic training of credit personnel on credit management and introduction of long term development loans. The aforementioned measures improve the loan portfolio quality.

### CONTRIBUTION OF DIVERSIFICATION TO BUSINESS GROWTH

As reflected in the study, 34.8% of the respondents indicated that some of the SACCOs have already installed ATMs through co-op switch by co-operative bank of Kenya while others are offering modern technological E-banking services like M-pesa and inter-linking of their branches. This is an indication that the SACCOs are able to compete effectively with other competitors hence achieving a competitive advantage. Although the adoption process is slow due to hindrances of funds availability, the Saccos are in a position to offer similar services and products as the competitors. Commercial banks who are the main competitors of the rural SACCOs in Nyeri District have a long history of expertise, experience and excellence in the financial business and have used this combination of factors to access and win some customer from the SACCOs. From the study, 29.4% noted that some SACCOs have good caliber of workers; well trained and keen on executing their duties. On the other hand, 70.6% indicated having a questionable team of workers with little experience and training in the financial sector. This hinders efficiency, effectiveness and more so productivity. It was also a major threat to customer relations. The SACCOs according to the study have embarked on extensive staff training and career development as a way of curbing the cited problems. On the other hand, the SACCOs apply the personnel development as a strategy for staff retention hence reducing the staff turnover rates. To ensure staff retention the SACCOs have improved the staff morale and motivation levels through creation of several incentives such as insurance schemes, medical covers, long-term loans, conducive working environment, education sponsorship and promotion on merit. This increases the staff loyalty and performance.

### CONCLUSION AND WAY FORWARD

Business competition is not a new phenomenon in the Kenyan environment. In the recent past; SACCOs in Kenya have experienced business competition from other Competitors in the financial sector. The competitors include; mainstream banks such as Kenya Commercial Bank, Equity, Co-operative; Barclays; Family; Standard Chartered banks and the Micro –Finance Institutions Such as Kenya Women Finance Trust, Faulu Kenya; K-Rep bank among others. Due to their traditional way of doing business, SACCOs felt that the said competitors are infringing and coming to take away their business that has been for a long time a protected zone. However, to succeed in the competition game, the SACCOs have mobilized the human and physical resources, re-invented the business development strategies and processes by adding more products and services, Market diversification and segmentation, devised ways of reducing the high loan default rates, and focusing more on customer relations by way of paying more attention to its customers. This as a way of embracing diversification has made the Saccos increase their profitability, customer base as well as the market share. For example Wananchi Sacco through its branching network and mobile banking has managed to penetrate in the rural areas and hence has managed to gain a competitive edge as compared to the mainstream banks whose services are available in main towns only.

In the initial phases of competition, mainstream banks seemed attractive and some of SACCOs' shareholders and customers sought for financial alternatives from the competitors. This affected the SACCOs adversely as the members shifted after acquiring loans from the SACCOs thus making SACCOs to experience high rates of default cases. Consequently, the members discovered the financial implications from the said commercial banks and hence sought refuge in their SACCOs by way of requesting the SACCOs to buy off their financial obligations to the banks. This approach attests that commercial banks are no longer a major threat to the SACCOs business. The Saccos have established long-term loans, which are secured by collaterals and other securities enabling the Saccos to remain at par with the competitors. The SACCOs have adopted this as a strategy to retain the existing customers and members. SACCOs have experienced positive as well as negative growths that have facilitated them to re-invent and live with realities of the financial sector competition. To some, this new thinking has brought

in faster and quality services. In particular cases, SACCOs have gone ahead and partnered with the government through government support funds and other donors to improve on service delivery and liquidity levels. Others have developed and initiated new and improved technology like the ATMs, E-Banking, branch inter-linking while others have introduced management styles where delegation of duties have been put in place.

Competition is welcome so that the SACCOs can prove their real strengths and discover their weaknesses. The SACCOs need to strive for their own survival by utilizing their institutional nature, accumulated wealth of experience and proximity to their members. To some extent, Competition impacts negatively on Sacco's business by way of reduced membership, loss of income and market share. The members of the SACCOs prefer borrowing from the Saccos as they access the loans faster and speedily without much struggle thus causing high demand for credit facilities that is not fully fulfilled due to lack of sufficient funds. This leads to members seeking alternative services from mainstream banks and MFIs who are the main competitors of the SACCOs. Members are easily drawn to those financial institutions despite other underlying expensive financial costs for servicing the financial services obtained from the said institutions. The members have a lot of loyalty with their Saccos which is retained through diversification of the loan products especially the short-term advances and collateral based loans payable within one and five years respectively. In this regard, the Saccos have managed to control and minimized the chronic shifting of the members to the competitors. The Saccos income as a result has increased basically from the interest on loans and advances hence the profitability. Diversification has enabled many Saccos to change their corporate identity which was initially based on a given common bond. The Saccos were also operating within specific administrative boundaries such as districts. This was inhibitive to business expansion and customer base. In the recent past, many Saccos are neither identified with a common bond nor operate within a given boundary. They have acquired a national identity hence increasing the market share, Capital and customer base, improved liquidity and efficiency in service delivery through adoption to the modern technology.

Specifically the study recommends that;

**To improve the low liquidity levels the Saccos should:**

- Aggressively mobilize more funds both internally and externally through increasing the share contribution and borrowing from financial institutions at lower interest rates
- Consider effecting strategies that promote income generation. Some of which include re-financing members' loans at higher but affordable interest rates, introduce other charges other than interest on loan such as appraisal and application fee, account maintenance fee and ledger fees.
- Widen their products and services MENU by way of creating more savings products, aggressive recruitment of new members, segment the market and concentrate more on fast developing segments.
- Engage fully into micro-finance activities to capture the potential un-captured members of the community such as the small and micro-entrepreneurs.
- Seek for cheap donor funds repayable within a longer span of time
- Seek for the government support funds and utilize them optimally.

**To enhance competitiveness in the Financial Market Saccos should;**

- Strengthen their Marketing Departments by employing professional marketers and continuously training them to acquaint them with necessary marketing skills and knowledge.
- Develop clear marketing strategies and policies to give a clear direction to the marketing team to facilitate effective performance
- Engage in aggressive promotions of their products and services through the media, road shows, fliers, brochures, newsletters, organized education, and any other emerging marketing channels.
- Potential members
- Adoption of marketing strategies that are effective to enable them undertake marketing activities such as market research, proper pricing of their products and services, understanding the marketing segmentation and customer behavior and comfortably carry out the product life-cycle analysis. The strategies should also focus on enhancing synergy in the sales and marketing team as well strengthening the marketing departments

**To embrace customer satisfaction SACCOs need to:**

- Pay good returns to the customers and members as investors inform of dividends and interest.
- Enhance efficiency and effectiveness through staff motivation.
- Avoid nepotism, which is a major weakness in Saccos. Rather, they should recruit professionals who have requisite skills.
- Continuously engage in human resource planning, carry out staff training and development and performance management in order to have a pool of competent, motivated and committed staff.
- Ensure proper working machineries are in place to avoid delay ness in service delivery.
- Create awareness of the newly developed products in the market through launching of the product.

**The SACCOs should embrace innovativeness and inventiveness through:**

- Being involved in research and development in order to establish the changing customers' needs, preferences and tastes to remain competitive.
- Aiming at creating appealing products and services, repositioning old products in the market, repackaging the traditional products and further carry out proper analysis on the product life cycle.
- Conducting a thorough environmental analysis to obtain relevant information pertaining to the competitors.
- Modifying the products and services to match the ever-changing needs and tastes of the customers.
- Creating awareness of the newly developed products in the market through launching of the product.

**To adapt to the dynamic technological environment, the Saccos should:**

- Develop and implement IT policies and standards.
- Upgrade the current hardware and software to ensure compatibility with the customers' ever changing needs.
- Intensify understanding and application of IT for the provision of timely, accurate and relevant information for effective decision-making.
- Acquire and install the modern technology such as ATMs, M-pesa facilities, interlinking and E-banking. This enables the Saccos to compete effectively.
- Embark on continuous training of the IT officers to update their skills with the frequent changes in the environment.

**To remain competitive, effective and efficient and to improve the productivity and performance of the staff, the Saccos need to:**

- Continuously upgrade the existing personnel skills through training by attending job related workshops, seminars, external career courses and in-house training.
- Enhance teamwork, which is manageable through team building activities.
- Boost the staff morale and raising the motivation levels through incentive schemes such medical covers, paying good packages in terms of salary and allowances.
- Regularly reviewing the personnel policies.

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## THE IMPACT OF COMPLIANCE WITH INFORMATION DISCLOSURE IN FINANCIAL STATEMENTS ON TOTAL ASSETS, PROFITABILITY AND EARNINGS PER SHARES OF QUOTED COMPANIES IN NIGERIA

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### ABSTRACT

*The quality of information provided in financial reports determines their usefulness and reliance by users to make informed business and investment decisions. Based on this, the study seeks to determine the impact of compliance with information disclosure in financial statements on total assets, profitability and earnings per shares of Quoted firms in Nigeria. In line with the objective, two hypotheses were formulated. The population of the study is the two hundred and thirty – four (234) companies quoted on the floor of the Nigerian Stock Exchange and thirty (30) quoted companies selected as sample size. This work utilized data from secondary source. Data were obtained from the annual accounts and reports of the thirty (30) quoted companies that made up the sample of the study and the statement of Accounting Standards 2. The time frame for this work is ten years, covering the period of 2000 to 2009. The technique of analysis used in the study was the Multiple Regression Analysis. The study established that the ability of quoted firms to comply with Statement of Accounting Standards 2 has direct impact on their total asset, earnings per share and respective profitability. The study recommended an effective monitoring/supervision and enforcement of the provisions of the Statement of Accounting Standards 2, in addition to effective implementation of the penalties provided by the Act on non-compliers regardless of their status or origin. The study calls on the appropriate authorities such as the government, professional accountancy bodies on academics to commission research and activities geared towards developing not only accounting policies that would ensure swift compliance with Statement of Accounting Standards 2 (SAS 2), but strategies that would ensure optimum investments that enhance net worth and profitability of firms.*

### KEYWORDS

Level of Compliance, Financial Statements, Information Disclosure, Total Assets, Profits and Earning per shares.

### 1.1 INTRODUCTION

The quality of information provided in financial reports determines their usefulness and reliance by users to make informed business and investment decisions. The quality, usefulness and ability of financial reports are guaranteed by strict adherence to Accounting Standards in the preparation and formatting of presentation of such financial reports. Accounting has therefore been widely regarded as an information system through which financial and monetized information is generated for economic, social and political decisions (Izedonmi, 2008). Paragraph 10 of SAS 2 states that all accounting information that will assist users to assess the financial liquidity, profitability and viability of a reporting entity should be disclosed and presented in a logical, clear and understandable manner. Thus Part 4 of SAS 2 entails the information to be disclosed in financial statement. Thus, SAS 2 is one of the few Standards that has the overwhelming backing and support of Company Act 1968 (now CAMA 1990) (Kantudu, 2005).

In Nigeria, disclosure in financial statement reports started with the companies Ordinance of 1922 (as amended) and through to the Companies Act of 1968 and now the Companies and Allied Matters Act of 1990. The Nigerian Accounting Standards Board (NASB) is also involved in the efforts at evolving and promoting financial disclosure. The NASB was established in 1982 with the power to set and issue accounting Standards which have to be complied with while preparing financial statements. Before the promulgation of CAMA 1990 which has now become an Act under the civilian administration in Nigeria, compliance of financial statements with accounting Standards was persuasive but with the coming of CAMA of 1990, financial disclosure by companies is now a mandatory requirement.

Therefore, the assumption is that the objectives of financial statements tend to have a universal appeal and application. The financial statements are required to be audited and opinion expressed by the auditors as to whether or not the financial statements give "a true or fair view" of the financial affairs of the company. Along this line of thought, we can infer that one of the objectives of financial statements in Nigeria is to achieve compliance with the requirements of accounting standards. This position is spelt out in section 335(1) of CAMA 1990 which provides that the financial statements of a company prepared shall comply with requirements of Accounting Standards with respect to their form and content laid down in the Statements of Accounting Standards issued from time to time by the Nigerian Accounting Standards Board. The Act ushered in a new era of due diligence and conformity with Statements of Accounting Standards in the preparation of financial reports (Kantudu, 2005).

Similarly, corporate financial reporting entails the publication of accounting reports in respect of economic resources, obligations and performance of a reporting entity annually. For many years, published accounts consisted mainly of a Balance Sheet and Profit and Loss Account, until the mid seventies when a Statement of Source and Application of funds was also included. Furthermore, published accounts are also legally required to be prepared in such a way as to show the true and fair view of the profit or loss of the company for the period under review and its state of affairs as at the balance sheet date. The various accounting bodies also require that these financial accounts and reports should be prepared according to the Generally Accepted Accounting Principles (GAAP). However, because of the dynamic nature of the business environment which accounting is serving, these principles need to be well defined and reviewed from time to time to meet the demands of business. In addition, the financial statement should be made understandably enough so as not only to present a true picture of the present and past performance of the business enterprise but also to give an insight into the future. The information contained in such reports must also be relevant and reliable.

Consequently, in Nigeria with effect from 1st January, 1985 it became a standard practice for firms to comply with the requirements of the Statement of Accounting Standards (SAS) No. 2, information to be disclosed in financial statements. Given these facts about financial reports and reporting practices, one could simply ask how had companies quoted on the Nigerian Stock Exchange fared in disseminating financial information to the ultimate users that conforms to the Statement of Accounting Standards (SAS 2)? It is against this background that this study seeks to determine the impact of compliance with information disclosure in financial statements by quoted companies in Nigeria. To this end, the paper is structured into four major parts. Section one is the Introduction,

section two which follows this introduction present, the literature review, section three discusses the methodology, while section four presents the conclusion and some recommendations.

## 2.0 LITERATURE REVIEW

### 2.1 ACCOUNTING STANDARDS: AN OVERVIEW

Accounting Standards are guidelines which define how companies have to display transactions and events in their financial statements and are not purely technical rules but they are the outcome of highly political processes (Horngren, 1973; Watts and Zimmerman, 1978; and Fogarty, Hussein, and Ketz, 1994). This means that there are different actors who come into contact with or are influenced by accounting standards- e.g. preparers, managers, accounting firms, auditors, financial analysts, employees. All these actors might have differing opinions and interests about what an accurate and useful accounting Standard is and therefore might have different incentives in the production and diffusion of accounting standards (Zeff, 1978; Watts and Zimmerman, 1978, Giner, and Arce, 2004).

Although, academics and practitioners agree on the importance of compliance with the requirements of accounting Standards as an essential element of the financial reporting infrastructure, many scholars argue that the extent to which standards are enforced and violations prosecuted are as important as the standards themselves (Hossain and Adams, 1995; and Sunder 1997). Thus, the quality of financial information is a function of both the quality of accounting standards and the regulatory enforcement or corporate application of the standards (Kothari 2000; and Hope, 2001). Absent of adequate enforcement, therefore renders the best accounting standards inconsequential. This is because if nobody takes action when rules are breached, the rules remain requirements only on paper. However, in some environments, firms behave towards "mandatory" requirements as if they were voluntary (Marston and Shrivs 1996, Hodges, and Mellett, 2004); Giner, and Arce, 2004; and Cooper and Robson, 2005). Even though accounting policy disclosures are required in most countries as well as by International Accounting Standards (Saudagaran and Diga 1997), Frost and Ramin, (1997) document considerable variation in accounting policy disclosures within and across countries.

The importance of compliance with the requirements of accounting standards is that it enhances transparency, accountability, standardization, uniformity and comparability which in turn enriches the quality of decision of the users and helps in proper allocation of resources in an economy. However, studies in the area as well as on the determinants of application of accounting standards have been few and mixed. For instance, regarding studies on application or compliance, two divergent schools exist. The application's or rightist's school is advocated by scholars like Choi (1973); Barrett (1977); Klumpes (1997) and Hope (2003b). This school theorizes that firms apply or comply with accounting standards. The second school, with advocates, like Deaton and Weygandt (1975); Nobes (1990); Benjamin, Maurice, and Lawrence (1990) and Susilowati, Morris, and Gray (2005) theorize that firms do not apply or comply with accounting standards even under mandatory regimes.

### 2.2 THE CONCEPT OF INFORMATION DISCLOSURE SYSTEM

Information disclosure system means a series of behavioral regulations and activity standards for relevant parties in the securities market who publicize the information related with securities by certain way in the process of issuing stocks, listing on the market, and trading, according to laws, and rules of securities administrative agencies and Stock Exchanges. To ask companies that issue securities openly to execute the information disclosure system is the core content of modern securities market. It covers the whole process of securities' issues and circulation. Usually, before the issue of stocks, companies publicize stock-issuing introductions, listing announcements, interim reports, annual reports, and grave affair reports, mainly including companies operations and financial statements. Therefore, the concept of disclosure in financial reporting has been of primary significance in both accounting theory and practice. Its scope is in fact broad enough to encompass almost the entire area of financial reporting (Hendriksen and VanBreda, 1992). The significance of the concept is further established by the efforts being made by several groups such as International Accounting Standard Board (IASB) at international level, Financial Accounting Standard Board (FASB) in the USA and Nigerian Accounting Standard Board (NASB) in Nigeria and others, to enhance the scope of accounting disclosure. The issuance of various Statements of Accounting Standards (SASs) by the Nigerian Accounting Standard Board (NASB) in 1985 to date could be seen in this light ( Kantudu, 2005).

It should be stressed here that disclosure is one aspect of accounting practice where governments play key role. In Nigeria for instance, the companies and Allied Matters Act (CAMA 1990), the Bank and Other Financial Institutions Act (BOFIA), the Nigeria Accounting Standard Board (NASB) Act and the Stock Exchange Act specify the kind of financial statements and the type of information which companies should present at Annual General Meetings (AGMs) as well as the rights and obligations of the shareholders in relations to the company.

One of the major objectives of financial reporting is to supply information to the users for making economic decisions. It then requires not only a proper disclosure of financial data and other relevant information but how much of the information to be disclosed. Buzby, in Mccullers and Schroeder, (1982) argues that the specific inference to be drawn from the basic nature of adequate disclosure with respect to such things as target users, users' purposes, types of information to be disclosed, disclosure techniques, and disclosure timing are dependent upon complete and well defined set of objectives.

### 2.3 USERS OF FINANCIAL STATEMENTS AND THEIR INFORMATION NEED

In the present day, economic activities have increased so greatly in size and complexity, and the interested parties have increased so greatly in number and diversity, that the responsibility placed on the accountants seem to be the only vital and principal medium through which information about the economic activities of a given enterprise is disseminated to the interested parties for economic decisions. It then follows that, in order to provide the most useful and relevant information, the nature of users' needs, the decision process employed by the users and the information that best serves their needs must be considered. "In this regard researchers have developed three different viewpoints of the reporting functions": The stewardship concept; Decision making concept; and General user concept (Glaugier and Under down; 1986):

**The stewardship concept:** This concept is based on the traditional stewardship accounting view of financial reporting. Its characteristic features being the safeguarding of assets and their proper management as well as the accountability of the steward to the shareholders for the management of the resources entrusted to them. Hence, it has laid particular emphasis on the importance of feedback information that is, ex-post information.

**The decision making concept:** This view extend the stewardship function to include the recognition that shareholders and investors are decision-makers who require accounting information for that purpose. This school argued that since the predominant interest of shareholders in companies is the receipt of dividend income and capital appreciation, they are concerned with the ability of financial reports to predict future events, which may affect their decisions.

**The general user concept:** This view considers that parties having an interest in an organization have a right to information about the organization's activities. For instance, a study conducted by the Accounting Standard Steering Committee (ASSC) in 1975 identified the following seven groups as having a reasonable right to information, which should be recognized in corporate reports. These are the equity investor group, the loan creditor group, the employee group, the analyst adviser group, the business contact group, the government and the public. A number of researches conducted in recent times tend to support this concept which indicates a drastic departure from traditional stewardship approach of financial reporting to the general user approach (Kantudu, 2005).

Consequently, as part of its contribution, the Nigerian Accounting Standard Board (NASB) pronounces the SAS 2 (Information to be disclosed in financial statements), applicable to all listed firms in Nigeria in 1984. Part 1, paragraph 1, of SAS 2 states that accounting information about a business entity or enterprise is required by a variety of users. Therefore, this need dictates the fundamental objectives of accounting and the mode of reporting information. While paragraph 2 went further to add that firms, organizations or enterprises carry on business activities in a given economic, social and political environment and there is public interest in their operations. This paragraph identified the following groups as users of the financial statements and their information need. These users are:

**Individuals, financial institutions or group of investors** need accounting information to determine the liquidity, profitability and viability of the enterprise.

**Managers** in an enterprise need accounting information to measure performance, plan and control operations.

**Employees and customers** of an enterprise need accounting information in order to assess the ability of the enterprise to produce goods or to render services on continuous bases.



**Governments and regulatory bodies** need accounting information in order to be able to impose and collect taxes, to regulate certain business activities and to plan, execute and evaluate government projects.

**Quasi-government** establishments need accounting information in order to meet their statutory obligations.

Given the number of the users as well as their information need, one should expect the financial statements to be general purpose consisting of information that is in the nature of quantitative and qualitative in order to aid users in making informed economic decisions. Thus, in order to assist the users in making sound economic decisions, paragraphs 3 and 4 state that financial statements should be simple, clear and easy to understand by all users. This is because, financial statements are the vital means of communicating to interested parties information on the resources, obligations and performances of the reporting entity of enterprise (SAS 2, paragraph 4). Similarly, section 4 of SAS 2 counsels that even though, meaningful information can be gathered, collated and presented in different forms, the format recommended in Statement of Accounting Standards 2 can be gathered to be the best practice in Nigeria (Kantudu, 2005).

#### 2.4 FRAMEWORKS FOR STANDARDIZATION OF FINANCIAL REPORTING IN NIGERIA

The financial report is the major vehicle for communicating information about the operations and performance of a firm to its relevant publics. A financial report is generally documented i.e. written. It could however be delivered orally in some limited cases such as in informal organizations. Whatever the format or mode of delivery, the financial report remains a picturesque account of the financial transactions of a defined entity over a specified period. The primary objective of the report is to provide information that would enrich the understanding of the reader (user) about the activities and/or performance of the entity. Business organizations render two broad categories of financial reports – internal financial reports external financial reports (Okafor, 2009). The standardization of financial reporting in Nigeria is promoted through the imposition of specific reporting guidelines by various financial reporting regulators. They include Regulatory reporting provisions of CAMA, Statements of Accounting Standards (SASs) of Nigeria, International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs), Specific reporting requirements of industry regulators and Statutory Provisions under CAMA.

Responsibility for developing and issuing accounting Standards to guide the preparation and presentation of general purpose financial statements and ensuring transparency and comparability of such statements in Nigeria is vested in the Nigerian Accounting Standards Board (NASB). The Board has passed through an interesting evolutionary process as follows (Nnadi, 2009). It was established on September 9, 1982 through the initiative of the Institute of Chartered Accountants of Nigeria. It became a parastatal of the Federal Government under the then Federal Ministry of Trade and Tourism, now Federal Ministry of Commerce in May 1992. It was transformed into a legal entity through the enactment of the Nigerian Accounting Standards Board Act (NASB), No 22 of July 10, 2003.

The NASB Act not only gave full legal cover for all activities of the Board but also established an Inspectorate Unit for the Board (section 20) with full powers to monitor and enforce compliance with the Standards developed and reviewed by the Board and to impose sanctions for non compliance to such Standards.

To date, thirty (30) Statements of Accounting Standards ie SAS 1 to SAS 30 has been issued by the NASB. Each SAS begins with introductory remarks, definitions and explanatory notes. Then the accounting Standard for the particular item is presented, followed by note on legal requirements and finally attention is drawn to compliance of the Standard with the corresponding number of the International Accounting Standard.

#### 2.5 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The International Accounting Standards Committee had a number of problems and weaknesses. The most daunting problem was the unweilding and part-time nature of membership of the committee which made it a very slow out-fit for decision making. The ISAC was replaced, in 2001, by the International Accounting Standards Board (IASB), a 14 member of the IASC; the primary consideration for membership of the IASB was technical (professional) expertise.

The first major action of the IASB was to adopt all the 41 IASs issued by the IASC. There-after, the Board started to develop and issue new accounting Standards known as International Financial Reporting Standards (IFRSs). From inception in 2001 on August 2005, the IASB has developed and issued seven (7) IFRSs (Chukwu, 2006). By end of August 2008, more than 113 countries world-wide had adopted or permitted the use of IFRS reporting. As indicated earlier, most of the SASs are similar to related IFRSs. But there are some cases of significant differences between multinational companies operating in Nigeria to convince the National Assembly to legislate the wholesale adoption IFRS reporting in Nigeria. While some quoted firms in Nigeria have adopted the IFRS.

### 3.1 METHODOLOGY

The study is aimed at determining the impact of compliance with information disclosure in financial statements on total assets, profitability and earnings per shares of quoted firms in Nigeria. Therefore, this study employed Ex-post facto research designs. The study utilized data from secondary source. Data were obtained from the annual reports and accounts of the thirty (30) quoted firms that made up the sample for the study for the period 2000-2009 and the requirements from Statement of Accounting Standard 2 (SAS 2). The population of the study is the two hundred and thirty-four (234) quoted companies on the first-tier market of the Nigerian Stock Exchange. The sample was drawn randomly, thus thirty (30) quoted companies were selected for the study (Asika, 1991; Awokeni, 2004 and Onwumere, 2009). They include Julius Berger Nigeria Plc, First Bank of Nigeria Plc, Access Bank Nigeria Plc, UBA Plc, Guaranty Trust Bank Plc, Cadbury Nigeria Plc, Nigerian Breweries Plc, GlaxoSmithkline Plc, Royal Exchange Plc, Longman Nigeria Plc, May & Baker Nigeria Plc, A. G Leventis Nigeria Plc, Total Oil Nigeria Plc, Guinness Nigeria Plc, Cutix Nigeria Plc, Berger Paints Plc, Nestle Nigeria Plc, Beta Glass Nigeria Plc, Seven up Bottling Company Plc, Benue Cement Company Plc, Flour Mills of Nigeria Plc, Unilever Nigeria Plc, Paterson Zonkonis, Crusader Insurance Plc, Tripple Gee & Company Plc, Vitafoam Nigeria Plc, Briscoe Nigeria Plc, UAC of Nigeria Plc, Evans Medical Plc and Mobil Oil Nigeria Plc. They were selected on the premise that the companies have been complying with the requirements of information to be disclosed in financial statements (SAS 2) for over a decade. In this direction, a sample time frame of ten years was used for the study covering the period 2000-2009.

In this study, data generated through the secondary source were subjected to empirical test and statistical analysis. Using a Multivariate Linear Regression Model stated below:

$$(L) = F(A, P, E)$$

Where

L	=	Level of Compliance
A	=	Assets size
P	=	Profit
E	=	Earnings per Share

This model pointed out that the quality of disclosure is influenced by a variety of variables, and often there is interdependence between these variables. While the significance of the relationship between the quality of disclosure and the variables will be tested statistically. The above Ordinary Least Square (OLS) Regression Model were fitted to the data in order to assess the effect of each variable on the disclosure level. While, the proxies used for independent variables and the predicted direction of the relation with the degree of disclosure.

TABLE 3.1 REQUIREMENTS OF STATEMENT OF ACCOUNTING STANDARDS 2 (SAS 2)

Paragraph II	Requirements of SAS 8	Rep. by Variables
	The name of the enterprise	r1
	The period of time covered	r2
	A brief description of its activities	r3
	Its legal form	r4
	Its relationship with its significant local and oversea suppliers	r5
	Statement of Accounting Policies	r6
	Balance sheet	r7
	Profit and Loss Account or Income Statement	r8
	Notes on the Accounts	r9
	Cash Flow Statement	r10
	Five Years Financial Summary	r11
	Financial Implications of intercompany transfer and technical management agreement between the enterprise and significant local and oversea suppliers	r12
	Financial Statement should show corresponding figures for the preceding periods	r13

Source: *Statement of Accounting Standards 2 (SAS 2)*.

Table 3.1 Presents the requirements of the information disclosed in financial statements by quoted firms in Nigeria as contained in Statement of Accounting Standards 2 (SAS 2), which the thirty (30) sampled listed firms have been complying or expected to comply with. These requirements are thirteen (13) in number as could be seen from the table. But for clarity in the presentation and analysis, the requirements are given numbers. For instance r1, r2, r3, r4, r5, r6, r7, r8, r9, r10, r11, r12 and r13 represented the thirteen (13) requirements of the information to be disclosed in financial statements by quoted firms in Nigeria as specified by the Statement of Accounting Standard 2 of 1985, which enables the researcher to construct a compliance index. However, quoted companies in Nigeria are regarded to have performed their financial reporting obligations as far as SAS 2 is concerned, if disclosure is made in the financial statement. Thus, an attempt was made to contrast the level of compliance with information to be disclosed in financial statement by quoted firms in Nigeria for the period under study in a relation to total assets, profits and earnings per share of the sample firms for the same period.

The below Table presents the data used for regression

TABLE 3.2 REGRESSION DATA

#### Flour Mills of Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	3,546,624	623,689	1.14
2001	92.3	3,882,785	718,361	1.32
2002	92.3	4,548,456	1,075,171	1.97
2003	92.3	4,744,104	486,848	0.67
2004	92.3	5,261,612	1,027,108	0.88
2005	100	10,770,073	1,304,675	1.12
2006	100	13,785,283	3,015,210	2.59
2007	100	19,024,793	5,095,991	3.28
2008	100	21,951,793	4,324,760	2.78
2009	92.3	22,868,239	2,469,513	1.45

#### Unilever Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100	3,484,765	853,992	0.71
2001	100	4,109,065	2,164,114	0.72
2002	92.3	4,167,664	1,571,918	0.52
2003	92.3	3,905,550	1,870,258	0.62
2004	92.3	6,072,800	2,167,249	0.72
2005	100	5,570,611	1,616,457	0.53
2006	100	3,953,347	(1,374,363)	(0.43)
2007	100	5,030,844	1,296,533	0.28
2008	100	6,681,553	2,596,533	0.69
2009	84.6	8,202,734	4,093,822	1.08

#### Paterson Zochonis Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	9,585,715	932,288	0.64
2001	92.3	13,493,033	1,270,164	0.87
2002	92.3	14,303,535	1,685,918	1.16
2003	92.3	15,162,047	2,008,544	1.15
2004	92.3	18,623,640	2,049,335	1.19
2005	92.3	19,914,819	2,924,747	1.34
2006	92.3	27,801,688	2,618,684	1.03
2007	92.3	28,098,218	2,049,893	0.81
2008	92.3	29,036,715	2,742,682	0.86
2009	92.3	30,073,307	3,003,949	0.95



## Beta Glass Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100	2,923,839	663,464	1.61
2001	100	3,559,221	862,642	1.90
2002	100	4,046,146	714,185	1.57
2003	100	4,763,651	541,745	1.19
2004	100	4,926,248	162,597	0.36
2005	100	5,031,343	218,654	0.48
2006	100	5,366,979	381,088	0.84
2007	100	6,165,053	866,252	1.91
2008	100	7,289,566	1,192,690	2.29
2009	100	8,524,350	1,384,776	2.77

## Seven Up Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	69.2	1,231,554	375,820	1.15
2001	92.3	1,253,090	397,442	1.28
2002	92.3	2,158,497	1,151,394	2.81
2003	92.3	3,233,218	1,382,204	3.37
2004	92.3	3,967,235	1,143,995	2.79
2005	92.3	4,409,059	954,296	2.33
2006	92.3	5,063,799	1,167,213	2.85
2007	92.3	6,280,352	1,219,402	2.38
2008	92.3	7,223,047	1,608,910	3.14
2009	92.3	7,984,017	1,529,674	2.98

## Beune Cement Company Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	84.6	1,569,923	(528,154)	1.07
2001	92.3	227,089	(1,070,446)	2.16
2002	92.3	(1,920,318)	(2,147,407)	4.33
2003	92.3	(2,646,976)	(726,658)	1.46
2004	100	(3,559,436)	(912,460)	1.84
2005	100	(1,354,870)	2,243,940	4.53
2006	100	8,354,898	3,105,065	1.25
2007	100	9,607,128	1,252,230	0.45
2008	100	13,751,395	4,144,267	1.32
2009	100	24,208,908	10,457,512	3.67

## Nestle Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100	4,666,674	1,605,183	3.24
2001	100	6,764,401	2,526,238	4.78
2002	100	8,829,843	2,747,875	6.01
2003	100	11,910,016	3,170,625	7.20
2004	100	13,399,870	3,699,062	7.26
2005	100	16,875,084	3,699,062	10.04
2006	100	18,908,215	5,284,375	10.71
2007	100	21,252,320	5,441,899	8.79
2008	100	29,159,552	8,331,599	12.61
2009	100	44,250,372	9,783,578	14.81

## Berger Paints Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	397,021	19,947	10.54
2001	100	416,762	88,548	37.68
2002	100	440,430	85,941	39.50
2003	100	536,990	93,467	0.43
2004	100	557,527	82,331	37.88
2005	100	1,012,717	(506,147)	(18.37)
2006	100	1,090,292	69,338	31.90
2007	100	1,214,395	116,988	0.54
2008	100	1,355,422	204,376	0.94
2009	100	1,489,502	186,852	0.86

## Cutix Nigera Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	84.6	64,156	23,635	35.78
2001	92.3	72,616	18,367	27.81
2002	92.3	86,108	26,701	21.42
2003	92.3	100,154	27,256	20.63
2004	92.3	122,364	35,420	26.81
2005	92.3	152,779	43,624	33.02
2006	92.3	180,678	54,321	20.56
2007	92.3	270,666	121,691	46.06
2008	92.3	385,147	114,481	21.67
2009	92.3	400,015	78,312	14.82

## Guinness Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100	10,681,152	3,094,570	4.37
2001	100	12,663,140	4,105,879	5.80
2002	100	14,157,810	4,149,536	5.86
2003	100	15,189,428	6,636,335	9.37
2004	100	16,908,244	7,913,503	6.71
2005	100	21,767,263	4,859,019	4.12
2006	100	25,667,544	7,440,102	6.31
2007	100	31,638,842	10,691,060	7.84
2008	100	36,862,557	11,860,880	8.04
2009	100	31,524,701	13,541,189	9.18

## Total Oil Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100	2,857,184	1,395,472	4.70
2001	100	3,573,994	2,499,300	8.41
2002	100	4,008,510	2,514,087	8.46
2003	100	4,019,028	2,684,256	9.04
2004	100	3,742,235	2,778,904	8.18
2005	100	4,131,818	3,615,040	10.65
2006	100	5,765,754	2,516,693	7.41
2007	100	6,338,944	3,255,410	9.59
2008	100	7,268,984	4,393,162	12.94
2009	100	6,982,835	3,968,059	11.69

## A. G. Leventis Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	84.6	1,312,584	59,918	0.17
2001	84.6	1,775,020	34,310	0.04
2002	84.6	2,136,275	14,295	0.02
2003	84.6	2,554,678	93,663	0.09
2004	84.6	3,140,266	204,626	0.10
2005	84.6	3,305,861	271,043	0.12
2006	84.6	3,582,017	300,587	0.14
2007	84.6	5,802,391	541,990	0.25
2008	84.6	7,305,733	576,725	0.22
2009	84.6	7,798,435	874,973	0.33

## Access Bank Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	8,434,560	130,079	10.84
2001	92.3	8,027,957	77,743	6.40
2002	92.3	1,943,784	(55,245)	(0.02)
2003	92.3	2,365,357	556,573	0.21
2004	92.3	2,702,830	637,473	0.21
2005	92.3	14,071,924	501,515	0.12
2006	92.3	28,893,886	737,149	0.07
2007	92.3	28,384,891	6,083,439	0.87
2008	92.3	171,002,026	16,056,464	1.73
2009	92.3	357,981,780	22,005,042	1.36

## May &amp; Baker Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100	503,702	46,558	25.7
2001	100	573,450	114,994	63.5
2002	100	614,525	41,075	0.23
2003	100	639,397	79,167	0.44
2004	100	715,146	91,139	0.50
2005	100	816,905	101,759	0.47
2006	100	2,617,346	211,470	0.30
2007	100	2,615,664	208,318	0.30
2008	100	2,753,626	417,962	0.60
2009	100	2,705,707	232,081	0.33

## Chellarams Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	76.9	923,703	25,735	0.21
2001	76.9	1,009,867	23,845	0.20
2002	76.9	1,029,440	31,305	0.26
2003	76.9	1,559,440	36,375	0.28
2004	76.9	1,811,247	118,122	0.68
2005	76.9	1,521,247	111,162	0.62
2006	76.9	2,160,912	159,457	0.44
2007	76.9	2,420,980	260,068	0.72
2008	76.9	2,729,371	192,010	0.53
2009	76.9	2,336,225	(338,927)	(0.63)

## Longman Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	189,707	78,790	0.75
2001	92.3	229,319	65,862	0.63
2002	92.3	234,514	45,843	0.31
2003	92.3	249,476	32,602	0.22
2004	92.3	275,690	62,964	0.43
2005	92.3	351,433	119,843	0.82
2006	92.3	555,184	203,751	1.16
2007	92.3	761,417	276,793	1.57
2008	92.3	3,227,747	669,356	2.60
2009	92.3	3,551,508	709,486	0.92

## First Bank of Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	180,553	4,221	3.24
2001	92.3	212,901	4,676	1.96
2002	92.3	266,356	3,979	4.06
2003	92.3	320,578	10,323	3.81
2004	92.3	312,941	11,096	3.08
2005	92.3	377,496	12,184	2.69
2006	92.3	540,129	16,053	1.56
2007	92.3	762,881	18,355	2.23
2008	92.3	1,165,461	30,473	1.45
2009	92.3	1,667,422	35,074	2.88

## Uba Bank Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	119,987	3,013	3.01
2001	92.3	187,248	1,183	0.70
2002	92.3	198,680	1,361	0.80
2003	92.3	200,995	2,989	1.17
2004	92.3	208,806	4,185	1.64
2005	92.3	248,928	4,653	2.49
2006	92.3	851,241	11,468	1.86
2007	92.3	1,102,348	19,831	2.41
2008	92.3	1,520,091	40,002	3.05
2009	92.3	1,400,879	12,889	0.60

## Cadbury Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100		1,160,506	
2001	100	3,841,515	1,594,716	1.99
2002	100	7,453,529	2,292,442	3.05
2003	100	14,529,029	2,406,009	2.40
2004	100	19,529,085	2,497,890	2.50
2005	100	30,134,826	2,196,179	2.00
2006	100	27,853,027	(4,543,104)	(4.20)
2007	100	25,263,150	(464,231)	(0.42)
2008	100	(2,734,527)	(2,952,772)	(2.68)
2009	100	13,155,696	(1,023,699)	(0.69)

## Evans Medical Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100	936,483	48,064	0.44
2001	100	984,751	60,122	0.51
2002	100	1,067,886	97,953	0.83
2003	100	1,442,643	74,641	0.21
2004	100	1,635,688	46,652	0.11
2005	100	1,649,533	14,223	0.30
2006	100	1,640,901	132,204	0.30
2007	100	1,323,882	(317,019)	(0.72)
2008	100	1,667,886	93,953	0.83
2009	100	1,402,643	70,641	0.21

## Julius Berger Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	1,940,538	426,791	1.90
2001	92.3	2,303,523	486,735	2.16
2002	92.3	1,917,600	379,360	1.69
2003	92.3	2,249,837	365,987	1.63
2004	92.3	2,581,017	387,430	1.72
2005	92.3	2,997,882	626,865	2.09
2006	92.3	4,116,929	1,119,047	3.73
2007	92.3	5,610,635	1,763,706	5.88
2008	92.3	6,563,062	2,452,427	2.04
2009	92.3	7,722,184	3,259,122	2.72

## Briscoe Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	287,669	(22,112)	(0.22)
2001	92.3	429,025	190,798	1.59
2002	92.3	547,443	160,418	1.34
2003	92.3	905,450	419,054	2.79
2004	92.3	1,785,118	155,445	0.77
2005	92.3	1,857,730	199,687	0.55
2006	92.3	2,389,506	531,776	1.46
2007	92.3	2,817,913	609,943	1.34
2008	92.3	3,219,010	628,017	1.11
2009	92.3	3,280,372	288,282	0.42

## Vitafoam Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	84.6	418,868	151,081	34.59
2001	84.6	501,940	257,281	0.59
2002	84.6	585,905	258,401	0.59
2003	84.6	696,864	306,859	0.47
2004	84.6	772,069	272,234	0.41
2005	84.6	785,436	111,647	0.17
2006	84.6	962,274	275,118	0.34
2007	84.6	1,401,588	439,314	0.54
2008	84.6	1,895,134	698,296	0.85
2009	84.6	2,177,772	528,338	0.65

## Guaranty Trust Bank Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	84.6	3,037,354	1,018,329	0.68
2001	84.6	3,941,048	1,503,694	1.00
2002	84.6	7,949,982	2,140,355	1.54
2003	84.6	9,661,421	3,211,439	1.28
2004	84.6	11,617,978	4,056,557	1.35
2005	92.3	33,468,036	5,330,796	1.10
2006	92.3	36,445,542	7,905,506	1.45
2007	92.3	478,363,061	13,013,146	1.63
2008	92.3	918,278,756	28,073,252	1.88
2009	92.3	1,019,911,536	23,848,061	1.28

## Uac Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	5,786,300	105,800	11.64
2001	92.3	7,783,000	1,006,500	1.11
2002	92.3	8,916,900	1,166,200	1.28
2003	92.3	11,242,600	2,184,600	2.40
2004	92.3	14,684,000	1,570,100	1.37
2005	92.3	17,741,200	1,629,900	1.27
2006	92.3	19,890,000	3,203,600	2.49
2007	92.3	20,781,500	3,058,500	2.39
2008	92.3	12,572,468	2,585,465	2.02
2009	92.3	11,900,331	1,889,016	1.48

## Triple Gee &amp; Company Nigeria Plc

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	591,060	26,054	0.08
2001	92.3	438,904	33,635	12.85
2002	92.3	462,592	23,675	7.60
2003	92.3	481,024	18,432	0.06
2004	92.3	657,207	29,678	9.40
2005	92.3	700,726	43,524	13.80
2006	92.3	721,413	20,686	6.30
2007	92.3	730,598	52,081	15.80
2008	92.3	779,949	101,398	30.73
2009	92.3	862,776	143,272	28.94



**Crusader Insurance Nigeria Plc**

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	84.6	1,037,054	40,188	0.22
2001	92.3	1,434,791	40,956	0.20
2002	92.3	2,496,637	39,546	0.13
2003	92.3	3,634,431	88,810	0.17
2004	92.3	4,671,788	180,590	0.34
2005	92.3	7,177,688	277,783	0.28
2006	92.3	10,327,142	315,057	0.32
2007	92.3	13,015,675	1,446,931	0.36
2008	92.3	7,889,576	(14,169)	(0.34)
2009	92.3	9,332,004	33,729	0.44

**Nigerian Aviation Handling Company Plc**

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	100	-	-	-
2001	100	499,643	168,977	0.56
2002	100	541,129	165,947	0.55
2003	100	584,864	190,152	0.63
2004	100	537,841	74,488	0.25
2005	100	855,569	317,728	1.06
2006	100	1,199,686	434,117	1.45
2007	100	1,699,636	589,950	0.79
2008	100	4,216,984	802,910	0.82
2009	100	4,676,818	1,001,240	1.01

**Afprint Nigeria Plc**

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	92.3	3,510,685	(144,555)	(0.33)
2001	100	3,837,428	(71,984)	(0.13)
2002	100	4,041,943	65,633	0.12
2003	100	3,448,580	(96,222)	(0.17)
2004	100	3,387,380	(618,407)	(1.12)
2005	100	3,266,662	(318,239)	-
2006	100	1,928,683	11,974	0.02
2007	100	1,913,591	12,849	0.02
2008	100	1,443,257	17,520	0.03
2009	100	1,543,102	(130,579)	(0.02)

**Royal Exchange Assurance Plc**

YEAR	DEGREE OF COMPLIANCE	TOTAL ASSETS	PROFITS	EARNING PER SHARE
2000	84.6	2,227,411	123,253	0.36
2001	84.6	2,650,673	153,530	0.30
2002	84.6	2,963,646	194,109	0.38
2003	84.6	4,024,041	217,138	0.25
2004	84.6	5,321,341	258,722	0.24
2005	84.6	5,418,611	133,549	0.08
2006	84.6	6,041,542	178,712	0.11
2007	84.6	15,332,786	647,142	0.19
2008	84.6	12,493,738	(932,832)	(0.66)
2009	84.6	16,098,376	532,846	0.24

Source: Annual reports and accounts of Quoted firms 2000-2009& Appendix II

Table above, shows the full sample (30 firms) of the study, including the dependent variable (level of compliance) and the independent variables (total assets, profits and earnings per share) for the 10 year period of the study (2000 – 2009). These data were collected from the annual reports and accounts of the sampled quoted firms for the period 2000 – 2009.

**3.2 RESULTS AND DISCUSSIONS**

This section presents the results of the regression analysis carried out in order to determine the impact of total assets, profits and earnings per share on the degree of compliance to the requirements of SAS 2. The interest here was to find out what happened to degree of compliance of the firms under study when there was increase or decrease in the variables considered. In order to answer this questions the data collected on these variables shown in the tables in section 3.2 are pooled together to form a cross sectional data, which is suitable for the kind of analysis required. An alternative was to carry out a regression analysis using the variables for individual firm. The individual analysis has two major drawbacks. The results will be based on the individual firms and consequently it will be difficult to arrive at a general view on the impact of the variables considered on the degree of compliance of the firms. Another drawback was that the degrees of compliance for some firms were constant for all the years, as a result no meaningful interpretation can be given to results obtained for this kind of analysis. Now that the justification for using a cross sectional data that involves all the firms over all the years under study has being given, the results of the regression analysis is presented in the table below:

Dependent Variable: DOC				
Method: Least Squares				
Date: 08/29/12 Time: 05:51				
Sample(adjusted): 1101 1396				
Included observations: 296 after adjusting endpoints				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	92.66393	0.424342	218.3708	0.0000
TA	-2.03E-08	7.44E-09	-2.724833	0.0068
TA(-1)	2.61E-09	5.31E-09	0.491022	0.6238
PR	6.23E-07	1.65E-07	3.763920	0.0002
EPR	0.070964	0.042421	1.672850	0.0954
R-squared	0.059173	Mean dependent var		93.57466
Adjusted R-squared	0.046240	S.D. dependent var		6.193977
S.E. of regression	6.049076	Akaike info criterion		6.454436
Sum squared resid	10648.08	Schwarz criterion		6.516773
Log likelihood	-950.2565	F-statistic		4.575572
Durbin-Watson stat	0.477109	Prob(F-statistic)		0.001344

Source: Regression Analysis Result using E-Views

All the three independent variables affect compliance level significantly at the 5% level of significance. Total Assets, Profits and Earnings per Share affect Compliance Level positively. This implied that the firms tend to comply more with increase in Total assets, Profits and Earnings per Share. This result is consistent with the prior works of Cerf, (1961); Surendra and Singhvi, (1971); Kantudu, 2005 and Hossain, (2008) which proved that there was significant relationship between the degrees of compliance in the information disclosure in financial statements and total assets, profitability and earnings per share.

#### 4.1 CONCLUSION AND POLICY IMPLICATIONS

The overall empirical evidence generated from the findings showed that quoted companies do comply with the requirements of the standards at different levels. Variations have emerged in the compliance levels of companies, the myriad factors influencing disclosure, the overall fit of the model, the coefficient of determination, the t- statistics of each independent variable, the significance or non-significance of the model. In this study, the result of the traditional multivariate regression analysis suggests, that the listed companies with huge assets are the trendsetters in providing mandatory and voluntary disclosures while the big audit firms are the trailblazers in ensuring that the disclosures are in accordance with accounting standards and other relevant requirements. The study established that the ability of quoted firms to comply with Statement of Accounting Standards 2 has direct impact on their total asset, earnings per share and respective profitability. The study recommended an effective monitoring/supervision and enforcement of the provisions of the Statement of Accounting Standards 2, in addition to effective implementation of the penalties provided by the Act on non-compliers regardless of their status or origin. The study calls on the appropriate authorities such as the government, professional accountancy bodies on academics to commission research and activities geared towards developing not only accounting policies that would ensure swift compliance with Statement of Accounting Standards 2 (SAS 2), but strategies that would ensure optimum investments that enhance net worth and profitability of firms.

#### CONTRIBUTION TO KNOWLEDGE

This work makes theoretical and practical contributions to the field of accounting and finance. It will enhance the quality of literature on accounting information disclosures and the factors influencing them. This study throws more light and adds to understanding on the corporate disclosure practices of quoted companies in Nigeria. This investigation will facilitate the improvement of disclosure practices in Nigerian companies and also serves as bench mark for future researches on corporate disclosures.

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**APPENDIXES**

**APPENDIX I: CRITERIA FOR GRADING COMPLIANCE WITH THE REQUIREMENT OF SAS 2 BY QUOTED FIRMS IN NIGERIA**

S/N	Letter Grade	Points	Form	General Remarks
1	A	8-10	Strongly Complied	Excellent
2	B	6-7	Semi-strongly complied	Good
3	C	4-5	Weakly complied	Poor
4	D	0-3	Non-compliance	Extremely Poor

Source: Researcher's Design 2012

**APPENDIX II: AGGREGATE AVERAGE LEVEL OF COMPLIANCE WITH SAS 2**

S/N	SAS 2	FLOUR MILLS OF NIG	UNILEVER	SEVEN UP	BENUE CEMENT	NESTLE NIGERIA	BERGER PAINTS	CUTIX PLC	GUINNESS
1	r <sub>1</sub>	10	10	10	10	10	10	10	10
2	r <sub>2</sub>	10	10	10	10	10	10	10	10
3	r <sub>3</sub>	10	6	0	6	10	9	0	10
4	r <sub>4</sub>	4	10	9	4	10	10	10	10
5	r <sub>5</sub>	10	9	10	10	10	10	9	10
6	r <sub>6</sub>	10	10	10	10	10	10	10	10
7	r <sub>7</sub>	10	10	10	10	10	10	10	10
8	r <sub>8</sub>	10	10	10	10	10	10	10	10
9	r <sub>9</sub>	10	10	9	10	10	10	10	10
10	r <sub>10</sub>	10	10	10	10	10	10	10	10
11	r <sub>11</sub>	10	10	10	10	10	10	10	10
12	r <sub>12</sub>	10	10	9	9	10	10	10	10
13	r <sub>13</sub>	10	10	10	10	10	10	10	10
	<b>Total</b>	124	125	117	119	130	129	119	130
		95.4	96.2	90	91.5	100	99.2	91.5	100

S/N	SAS 2	AG LEVENTIS	ACCESS BANK	MAY & BAKER	CHELLARAMS	LONGMAN PLC	FIRST BANK	BRISCOE
1	r <sub>1</sub>	10	10	10	10	10	10	10
2	r <sub>2</sub>	10	10	10	10	10	10	10
3	r <sub>3</sub>	10	0	10	0	10	10	0
4	r <sub>4</sub>	0	10	10	0	10	10	10
5	r <sub>5</sub>	0	10	10	0	0	0	10
6	r <sub>6</sub>	10	10	10	10	10	10	10
7	r <sub>7</sub>	10	10	10	10	10	10	10
8	r <sub>8</sub>	10	10	10	10	10	10	10
9	r <sub>9</sub>	10	10	10	10	10	10	10
10	r <sub>10</sub>	10	10	10	10	10	10	10
11	r <sub>11</sub>	10	10	10	10	10	10	10
12	r <sub>12</sub>	10	10	10	10	10	10	10
13	r <sub>13</sub>	10	10	10	10	10	10	10
	<b>Total</b>	110	120	130	100	120	120	120
		84.6	92.3	100	100	92.3	92.3	92.3

S/N	SAS 2	GUARANTY TRUST BANK	UAC PLC	TRIPPLE GEE	TOTAL NIGERIA PLC	VITAFOAM	AFPRINT PLC	CRUSADER INSURANCE	NAHC
1	r <sub>1</sub>	10	10	10	10	10	10	10	10
2	r <sub>2</sub>	10	10	10	10	10	10	10	10
3	r <sub>3</sub>	5	10	10	10	10	10	0	10
4	r <sub>4</sub>	10	0	10	10	0	10	10	10
5	r <sub>5</sub>	0	10	0	10	0	0	0	10
6	r <sub>6</sub>	10	10	10	10	10	10	10	10
7	r <sub>7</sub>	10	10	10	10	10	10	10	10
8	r <sub>8</sub>	10	10	10	10	10	10	10	10
9	r <sub>9</sub>	10	10	10	10	10	10	10	10
10	r <sub>10</sub>	10	10	10	10	10	10	10	10
11	r <sub>11</sub>	10	10	10	10	10	10	10	10
12	r <sub>12</sub>	10	10	10	10	10	10	10	10
13	r <sub>13</sub>	10	10	10	10	10	10	10	10
	<b>Total</b>	115	120	120	130	110	120	110	130
		88.5	92.3	92.3	100	84.6	92.3	84.6	100

Source: Computed from Annual Reports & Accounts of Quoted Firms 2000-2009



## FERTILITY DECISIONS OF HOUSEHOLDS IN RESPONSE TO ENVIRONMENTAL GOODS SCARCITY: THE CASE OF SEKOTA DISTRICT, WAG HIMRA ADMINISTRATE ZONE OF THE AMHARA REGION, ETHIOPIA

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### ABSTRACT

*The current population boom unparalleled in human history is largely concentrated in developing countries. Population growth rate, particularly, high fertility rate in these countries is perhaps related to unacceptable risk of child death, extreme poverty related to the deterioration of natural resource base like potable water, fodder and fuel wood. In many empirical studies, population increase is considered as one of the most important factors contributing to environmental degradation. However, the reverse effect has not been well documented. Therefore, the general objective of this study is to analyze the relationship between the levels of environmental goods scarcity and fertility decisions of households. Both primary and secondary data sources were used for this purpose. The data were analyzed using the Tobit model. It was found that fuel wood and water scarcity, part of environmental good scarcity, affect fertility negatively. Another variable, which is also related to environmental good scarcity, was risk of child mortality rate that affect fertility positively. In addition to these factors other than environmental goods that affect fertility were household calorie intake per capita, women age category, and education of women. As far as the responsiveness of these factors concerned, it was found that fuel wood scarcity is the major determinant of fertility decisions of households in absolute value followed by household calorie intake per capita. Water scarcity, rate of child mortality risk, women age category, and women's education were the third, fourth, fifth and sixth determinants of the fertility decisions of households in absolute value, respectively.*

### KEYWORDS

Fertility, environmental good scarcity, child mortality, demand for children, tobit.

### 1. INTRODUCTION

The current population boom unparalleled in human history is largely concentrated in developing countries. These countries account for more than 95% of the total increment of world population. The key element behind the change in population of these countries where the growth is so rapid, is the level and patterns of fertility

Population growth rate, particularly, high fertility rate in these countries is perhaps related to unacceptable risk of child death, and extreme poverty related to the deterioration of natural resource base like potable water, fodder and fuel wood. That is, if the natural resources and customary ownership common property for the society are deteriorated, it calls for high fertility rates related to child labour.

Bromley and Cernea (1999) argued that even in a situation of common property ownership, increase in the demand for common property resources through population growth may lead to unrestricted access to these resources. The foregoing situation will result the deterioration or undermine the institutional arrangements. As a result, the traditional uncontrolled and free ridings of the natural resources results in sever degradation.

In addition, labor productivity is low in the region in general and in the study area in particular not only because capital is scarce, but also the environmental resources are scarce too. As a result, each household needs many hands, and the overall usefulness of each additional hand increases with declining resource availability. When environmental goods are scarce, households will have to spend more time collecting these products, which significantly increase the work burden of women and children.

The major concern for this framework is related to the importance of children as resource collectors and decisions related to the risk associated to high child and infant mortality. In poor countries children are useful as income earning assets. Poor countries are for most part biomass based subsistence economies. Households in environmental degraded areas, particularly in low-income countries and rural areas do not have access to the source of domestic energy and water on tap (Desgupta, 1992). This means that the relative prices of alternative sources of energy and water faced by rural households are often prohibitively expensive. This provides a link between high fertility and degradation of the environmental resource base of the rural community.

According to Aggarwal *et al* (2001), resource scarcity is likely to affect fertility on two pathways. The first pathway is through the effect of resource degradation on the production of child quality and the second is through its effect on the production of aggregate good. With the first effect alone, an increase in resource scarcity can be viewed as increasing the price of child quality, hence leading to a fall in demand for child quality. The fall in child quality would lead to an increase /or decrease/ in the demand for children depending on whether quantity and quality are perceived as substitutes (complements) in preferences. In the second effect, an increase in resource scarcity leads to a fall in the production of the aggregate food and a fall in marginal productivity of adults and children.

Nerlove (1993) also argues that environment is assumed to affect fertility decisions through its effect on survival probability of birth and/or the ability of surviving children to support their parents. If parents' utility depends only on the number of survival children and is concave function of that number, and there are no ex-ante costs of childbirth, the utility maximizing birth can be shown to be a decreasing function of the probability that a birth will survive.

Nerlove (1993) also suggested another interesting pathway through which resource degradation may affect fertility. He pointed out that those children in less developed countries have a comparative advantage, relative to adults, in animal husbandry as opposed to crop production. Since poorer quality environments have a large component of livestock production than crop production, this leads to a higher demand for children. Some form of resource degradation may also exert a significant positive influence on mortality risk (for instance, in the form of greater incidence of water born disease due to the supply of deteriorate quality of drinking water). Increasing mortality risk is, in turn, likely to affect fertility rates, though the sign of this effect is generally regarded as being ambiguous.

Given the multiple pathways, the effect of resource degradation on fertility is quite complex. Nerlove (1991) argues that positive relation between resource degradation and fertility rates is more likely to be observed at low level of resource degradation. According to Nerlove, with continued deterioration of the resource base, this relationship must eventually turn from positive to negative. This could be due to a number of reasons. In highly degraded environments, the perceived costs of raising children may exceed the benefits they provide as producer of goods. Also at high level of resource degradation death rates may raise sharply but fertility rate may not continue to rise as there is an upper limit on the number of children a woman can have. This suggests that the relationship between resource degradation and fertility is likely to differ across regions and also within the same region in its different stage of development. This makes it an interesting empirical issue.

Filmers and Prithet (1996) and Desgupta (1992) also argue that greater environmental degradation could lead to increase in population growth if increased scarcity of environment resources goods leads to a higher relative value of children. This is possible if the comparative advantage of having children, as household producers, in the acquisition of environment resources for the family does not incur the full cost (for example, collection of fuel wood, fetching water, or grazing of livestock from an open access land). This would be possible if the increase in relative value of children in face of increased scarcity of environmental goods could out weigh the increase in productivity effects from privately owned resources and lead to a higher demand for children.

According to Filmer and Prithet (1996) and Muller and Cohn (1977), it is possible that at stages of low population density initial increases in population density will lead to greater demand for children. This population demand in turn accelerates environmental degradation and raises the scarcity value of the open access resources. As long as the resources remain open access this will (or empirically may) lead to the increase in the demand for children. Once an environment is privatized, the negative externality disappears and is internalized by the household. From that point on, households respond to further deterioration in availability by reducing their demand for children.

Exploring part of the vicious circle, the link between population growth and the environment, has emerged as an important area of research in recent years (Aggarwal *et al.*, 2001). The focus of most of this research has been on the impact that an exogenously given increase in population would have on the environment. However, the situation could also be analyzed from the opposite angle, the impact of environmental degradation on the demand for children, in turn population growth. Therefore, the main aim of this study is to analyze the effect of environmental good scarcity on the demand for children by families.

As indicated by many empirical studies, population pressure is considered as one of the most important factors contributing to environmental degradation. However, whether environmental degradation has effect on population pressure has not well documented. Besides, the relationship between socioeconomic factors and fertility decisions of households are complex in developing countries. The results are not always consistent across populations in terms of the strength and the direction of the effects of these factors on fertility (Farooq and DeGraff, 1988). This underscores the importance of conducting a case study in line with available theoretical and empirical knowledge while taking account of the local situation. Consequently, this study is intended to analyze the socio economic factors and environmental resource scarcity on households' fertility decisions.

## OBJECTIVES OF THE STUDY

The general objective of this study is to analyze the relationship between the levels of environmental goods scarcity and demand for children by households. The specific objective is to determine the effect of environmental goods scarcity and other socio-economics factors on the fertility decisions of farm households.

## 2. METHODOLOGY OF THE STUDY

### 2.1 THE STUDY AREA

Sekota is located between  $12^{\circ}23'$  and  $13^{\circ}16'$  north longitudes and  $38^{\circ}44'$  and  $39^{\circ}21'$  east latitudes. It extends for about 98 km in the north south direction and 67 km in the east west direction. It has compact shape and an area of 3058 km<sup>2</sup> (SERA, 2001). The district is located in the eastern part of Wag Himra Administrative Zone (WHAZ) of the Amhara National Regional State (ANRS). WHAZ, which is one of the 11 administrative zones in ANRS, represents the Agew ethnic group and comprises of three districts: Sekota, Dehana & Zequala. Sekota shares borders with Ziquala district in the west, Dahna district in the south and southwest, Tigray National Regional State in the north and east, North Wello Zone in the south. Sekota town, the capital of the zone, is 795 km north of Addis Ababa and 540 km northeast of the regional state capital, Bahir Dar. The area is characterized by Sub moist major agro ecological zone with SM<sub>2</sub> (tepid to cool sub moist mid highland) and SM<sub>1</sub> (hot to warm sub moist lowland).

The results of the 1994 population and housing census also shows the total population of Sekota was 130,229 in the year 1994 and projected to reach 167,504 in the year 2005. As far as the rural population of the district is concerned it is projected to reach 153, 539 in the year 2005 (BOPaED, 2004). According to this projection it is expected that about 92 % of the population lives in rural areas. The density of the rural population is 50 people per km<sup>2</sup>.

It is expected that the rural national average as well as the regional average of population density is higher than the rural district of Sekota. But it does not mean the rural district has no population pressure relative to the national and the regional average. Because the land escape and soil in the area is not much suitable for agriculture, the already existing population is more than the caring capacity. When we see the topography, quarter of the district has a slope less than 2 % while 37 % of the district has a slope more than 30 %. Areas that lie on these groups are not suitable for agriculture (SERA, 2001).

The people in Sekota district are suffering from continuous food, fuel wood, water, and grazing land shortage. The topography of the district is characterized by rugged and a chain of mountain terrains most of which is covered by patchy grasses during the small rainy season. For the remaining season the terrain has been covered by bare rock. The forest and bush cover of the area is concentrated in specific areas most of which are communally owned or are the property of the church.

For all households, firewood is the most important source of energy for cooking followed by dung. The depletion of firewood has currently led to the extraction of former vegetation cover. The area has virtually been stripped of vegetation and shortage of grazing and fuel wood scarcity is ever increasing. In spite of the effort of extension program to popularize tree planting and encourage establishment and proper management of farm wood lots it has registered little success.

The study undertaken by SERA (2001) indicated that shortage of grazing is the widest spread as reported by 75% of the households in the study. All grazing areas belong to the PAs and all households are using it as communal grazing grounds. These unregulated communal grazing plots have a character of open access property regime, which resulted in over exploitation, and degradation of the pasture.

As far as the infrastructure of the area is concerned, road network and public transportation system is extremely under developed. The electric power and telecommunication network is concentrated only in the district capital, Sekota town. In the whole district, the scarcity of potable water is a common phenomenon including the capital town.

Crop production in the area is not a promising enterprise due to shortage of farmland, depletion of soil fertility, and moisture stress. However the area is known from its high small ruminant and poultry population even if one of the food insecure district in the region as well as in the nation.

### 2.2 TYPES OF DATA AND METHODS OF DATA COLLECTION

The study was conducted in three PAs in Sekota district of the ANRS. The sampling units were wives and husbands of the household members. A two-stage cluster sampling procedure was adopted to select three PAs, namely Zarota, Addis Alem and Maheber Selassie. In the first stage, the whole rural area was categorized in to three clusters based on the level of environmental goods scarcity and availability. This was done based on the information from key informants and secondary data. From the categorized three clusters one PA was randomly selected for each. A peasant association provided the sampling frame of households having wives in the age interval of 15-49 years old, while respondents were selected randomly. In Zarota, Addis Alem and Maheber Selassie PA's 32, 46 and 44 households were selected for formal survey, respectively.

In this study, households were selected on the condition that the men and women live under one roof and that the age of women is in the range of 15-49 years. The households having women in the specified ages should not to be windowed and/or remarried. So the sampling unit is men and women satisfying aforementioned criteria and the sampling frame are households satisfied the criteria. The data made available for this study in different clusters were aggregated and analyzed to the household levels. Some parameters were used to characterize the demographic features as well as the environmental goods scarcity level differences among the clusters.

The data used for this study were obtained both from primary and secondary sources. Primary data were collected through structured questionnaire. This was conducted in two stages. First, a preliminary survey was conducted to obtain general information about the PAs such as the level of environmental good availability and scarcity, population distribution pattern and agricultural system of the area. During the preliminary survey, lists of relevant guidelines were used and guided discussions were held with respondents. The result of this survey was used to develop workable hypothesis and structure questionnaire for the formal survey. Moreover, the result of the preliminary survey provides a general background of the study area regarding to environmental goods scarcity and fertility decisions of the households.

Following the preliminary survey, structured questionnaire was developed for the formal survey. The developed survey questionnaire was administered in pilot survey using trained enumerators. This helps to pre-test the survey instrument, identify any shortcoming and make modification in some question before the actual data collection. The second stage was the basic data collection, which includes demographic characteristics, income and assets, environmental goods scarcity, and the observed mortality and fertility of the households. Secondary data were obtained from reports and other official documents.

2.3 THEORETICAL FRAMEWORK

To develop a model for demand for children by households, it is assumed that children are demanded both for the consumption they provide as well as their contribution to household production (Schultz, 1981; Desgupta1993; Aggarwal *et al.*, 2000). That is, the household's demand for children can be categorized in to consumer demand and producer demand. So we can postulate that the household maximizes a long run concave utility (U) derived from the number of children (N), child quality (q), and final un-traded consumption good (z). Following Aggarwal *et al* (2001); and Schultz (1981), the mathematical model for demand for children is given as follows.

$$U=U(N, q, z) \quad U_i>0 \text{ for } i= 1, 2, 3 \quad (1)$$

Where  $U_i$  is the the marginal utility.

This utility function is maximized subject to the production function for number of children (N), child quality (q), final un-traded consumption commodities (z), time constraint for women (T), men (M) and children (t), and a full income constraint. For simplicity it is assumed that child bearing is a women's activity (which is a common phenomenon in Ethiopia); the non-separable households are subsistence farmers, and production of the number of children is a function of a fixed input technology of women's time ( $T_N$ ) and purchased good ( $x_N$ ) required in the bearing of each child.

The child quality model denotes the health and nutritional status of the child. Thus, higher levels of child quality also imply higher chance of survival. Households may take care about child quality because it gives higher consumer and producer demand for the households. It is assumed that quality per child is constant across siblings and it is a function of the inputs of women's time to keep the quality of the child ( $T_q$ ), purchased good to keep the quality of the child ( $x_q$ ), and measure of the state of resource scarcity (s).

$$q=q(T_q, x_q, s), \quad q_1>0, \quad q_2>0, \quad q_3<0 \quad (2)$$

Where  $q_1, q_2, q_3$  are marginal values for  $T_q, x_q$  and  $s$ , respectively.

Note that, in the above formulation, child quality is assumed to be a decreasing function of s. This is consistent with the growth evidence that, resource degradation exerts a negative influence on child health. Finally the production of the final un-traded consumption commodities, z, is given as

$$z=z(T_z, t_z, x_z, H_z, s) \quad z_1>0, \quad z_2>0, \quad z_3>0, \quad z_4>0 \quad z_5<0 \quad (3)$$

Where  $T_z$  is women's time input in the production of z,  $t_z$  is children time input in the production of z,  $x_z$  is purchased good in the production of z and  $M_z$  is men's time input in the production of z. z can be thought as final un-traded consumption commodities that are valued by the households. Among these consumption goods is cooked food, which requires raw food, fuel, water, labor as inputs. Given this interpretation, it seems reasonable to include s as inputs in the production of z. It is assumed that a more degraded environment leads to a lower z and lower marginal products of other inputs ( $z_{i5} < 0$ , for  $i= 1, 2, 3, 4$ ). Also note that children contribute to the production of this aggregate good. Therefore they are demanded not only as consumption good but also a productive asset.

Women's allocate their total time (T) between the following activities: Child bearing ( $T_N$ ), investing in child quality ( $T_q$ ), in the production of final un-traded consumption commodities ( $T_z$ ) and working in the labor market ( $T_L$ )

$$T = NT_N + NT_q + T_z + T_L \quad (4)$$

It is also assumed that children allocate their total time (t) to production of final un-traded consumption commodities. Note that the productivity of children depends on their quality. So, in the quality units children's time constraint is given as

$$t_z = Nqt \quad (5)$$

Men allocate their total time (M) in the production of final un-traded consumption commodities ( $M_z$ ) and working in the labor market ( $M_L$ ).

$$M = M_z + M_L \quad (6)$$

The full income budget constraint is given as

$$p(Nx_q + x_z + Nx_N) = w_w T_L + w_m M_L + V \quad (7)$$

Where p is price of purchased goods,  $w_w$ , and  $w_m$  are the wage rate for women's and mens; and V is non human wealth of the households.

Maximizing (1) subject to (3)-(7), or maximize (8), with respect to the decision variables, number of children the households desire to have (N), mothers time allocation for child quality ( $T_q$ ), and amount of goods purchased for child quality ( $x_q$ ) and decision of mother working in the labor market ( $T_L$ ), gives equation (9)-(12), respectively.

Equation 1 can be written as

$$U = U \left[ (N, q (T_q, x_q, s), z \left[ (T - N T_N - N T_q - T_L) \cdot Nqt \frac{W}{p} \cdot T_L + \frac{W}{p} \cdot M_L + \frac{V}{p} - N \cdot X_q - N X_N \cdot M - M_z, S \right] \right) \quad (8)$$

$$U_1 - U_3 z_1 (T_N + T_q) + U_3 z_2 qt - U_3 z_3 (x_q + x_N) = 0 \quad (9)$$

$$U_2 q_1 - U_3 z_1 N + U_3 z_2 N t q_1 = 0 \quad (10)$$

$$U_2 q_2 - U_3 z_3 N + U_3 z_2 N t q_2 = 0 \quad (11)$$

$$U_2 q_1 - U_3 z_3 w_w / p - U_3 z_1 = 0 \quad (12)$$

Manipulating equation (10)-(12) yields

$$z_1 / z_3 = q_1 / q_2 = w_w / p \quad (13)$$

This is the standard condition that the marginal rate of substitution between time and market inputs in the production of final un-traded consumption good, z, and the production of child quality, q, is equal to the ratio of their opportunity costs ( $w_w/p$ )

Equation (9) can be written as

$$U_1 + U_3 z_2 qt = U_3 z_1 (T_N + T_q) + U_3 z_3 (x_q + x_N) \quad (14)$$

The left hand side of this equation represents the marginal benefits from the dual function of children as pure consumption good and as producers' goods. The right hand side represents the marginal cost of children in terms of the foregone consumption of mother's time and market goods that are used up in the bearing of an additional child and investing in child quality.

The system of equation (9) – (12) can be solved to get the reduced form equation which express the various endogenous variables in the system (N, q, z,  $x_N, x_q, x_z, T_N, T_q, T_z, T_L, t_z, H_L, H_z$ , as a function of the exogenous variables (s,  $w_w, p, V$ ). The key equation of interest here is the reduced form equation for the demand for children given as

$$N^* = N^*(s, w_w, p, v) \quad (15)$$

Where-  $N^*$  is the derived number of children

2.4 ECONOMETRICS MODEL

Qualitative response models are numerous that are applied in different situations. What they have in common is that they are models in which the dependent variables have a discrete out comes, such as 'yes' or 'no' decision, so that conventional regression methods are inappropriate for analyzing this type of data. A conventional regression method also fails to account for the qualitative difference between limit (zero observation) and non-limit (continuous) observation (Maddala, 1997).

In addition, the discrete out comes may have also censoring of values in certain ranges. A very common problem in microeconomic data is censoring of the dependent variable. When the dependent variable is censored, values in a certain range are all transformed to (or reported as) a single value. A conventional regression method is biased towards the censored value, in our case is, zero. For many studies a dependent variable that has a significant fraction of zero or some constant values of observations have used Tobit model (Green, 2000).

The major reason to use the Tobit model in this study was due to 22.1% and 16.4% of the sample households have zero birth of child in the five years and ten years, respectively. The actual time for year's gap, five and ten were used as a dependent variable for comparison. The last analysis of the Tobit model was children ever born before ten years to estimate fertility.

When data are censored, the distribution that applied to the sample data is a mixture of discrete and continuous distributions. To analyze the distribution of observed variable,  $y$ , we can transform  $y$  to the latent variable,  $y^*$ , by

$$y_i^* = \beta' x_i + \varepsilon_i,$$

$$\text{Where } y = 0 \quad \text{if } y^* \leq 0 \\ y = y^* \quad \text{if } y^* > 0$$

Where,  $y$  is observed variable and  $y^*$  latent variable or unobserved.

The distribution of observed variable has two categories, that is, if  $\text{Prob}(y = 0) = \text{prob}(y^* \leq 0) = \Phi\left(\frac{-\mu}{\sigma}\right) = 1 - \Phi\left(\frac{\mu}{\sigma}\right)$ , if  $y^* > 0$  then  $y$  has

the density of  $y^*$ , and  $y^* \sim N(\mu, \sigma^2)$ . So the general formulation is given by

$$y_i^* = \beta' x_i + \varepsilon_i, \\ y_i = 0 \quad \text{if } y_i^* < 0 \\ y_i = y_i^* \quad \text{if } y_i^* > 0 \tag{16}$$

Where:  $y_i^*$  -  $K \times 1$  vector of latent dependent variable, in this case desire to give birth;

$\beta$  -  $K \times 1$  vector of unknown parameters;

$X_i$  -  $K \times 1$  vector of explanatory variables;

$y_i$  - the vector of observed dependent variable (observed fertility);

$\varepsilon_i$  - Residuals that are independently and normally distributed, with mean zero and common variance  $\sigma^2$ .

For an observation randomly drawn from a population which may or may not be censored the conditional mean of  $y_i$  is

$$E(y_i | x_i) = \Phi\left(\frac{\beta' x_i}{\sigma}\right) (\beta' x_i + \sigma \lambda_i) \tag{17}$$

Where  $\lambda_i = \frac{\phi(\beta' x_i / \sigma)}{\Phi(\beta' x_i / \sigma)}$  and  $\phi$  and  $\Phi$  are probability density function (PDF) and cumulative density function (CDF) of the standard normal, respectively.

To calculate the conditional mean of equation (17) there is a need to know the parameters  $\beta$  and  $\sigma^2$ . So the task here is to estimate  $\beta$  and  $\sigma^2$  on the basis of  $N$  observations on  $X_i$  and  $y_i$ . For their estimation the usual log likelihood was followed. The likelihood function of the Tobit model is

$$L = \prod_0 [1 - \Phi(\beta' x_i)] + \prod_1 \frac{1}{(2\pi\sigma^2)^{1/2}} e^{-\frac{1}{2\sigma^2}(y_i - \beta' x_i)^2} \tag{18}$$

Where the first product is over the  $N_0$  observations for which  $y_i = 0$  and the second product is over the  $N_1$  observations for which  $y_i > 0$

$$\text{Log}L = \sum_0 \left[ 1 - \Phi(\beta' x_i) \right] + \sum_1 \log \frac{1}{(2\pi\sigma^2)^{1/2}} - \sum_1 \frac{1}{2\sigma^2} (y_i - \beta' x_i)^2 \tag{19}$$

The summation  $\sum_0$  is over the  $N_0$  observations for which  $y_i = 0$  and the second summation is over the  $N_1$  observations for which  $y_i > 0$ . By

taking the first derivatives of log L with respect  $\beta$  and  $\sigma$ , we can estimate the parameters  $\beta$  and  $\sigma$ .

To determine the elasticity of the significant variables (determinants of fertility), the formula for derivatives was used. In this part of analysis the exogenous variables, which had only significant effect on the demand for children was considered. For marginal effect of the explanatory variables, the following equation was used.

In censoring regression model with latent regression  $y^* = \beta' x_i + \varepsilon$  and observed dependent variable  $y = a$  if  $y^* \leq a$ ,  $y = b$  if  $y^* \geq b$ , and  $y = y^*$  otherwise, where  $a$  and  $b$  are constants, let  $F(\varepsilon)$  and  $f(\varepsilon)$  denotes CDF and PDF of  $\varepsilon$ . Assuming that  $\varepsilon$  is a continuous random variable with mean 0 and variance  $\sigma^2$ , and  $f(\varepsilon|x) = f(\varepsilon) = 0$  then

$$\frac{\partial E(y|x)}{\partial x} = \beta \times \text{prob} \left[ a < y^* < b \right] \tag{20}$$

Note that this general result includes the censoring in either or both tails of the distribution and it does not assume that  $\varepsilon$  is normally distributed. For the standard case with censoring at zero and normally distributed disturbances, the result specifies to

$$\frac{\partial E(y_i|x_i)}{\partial x_i} = \beta \Phi \left( \frac{\beta' x_i}{\sigma} \right) \tag{21}$$



The above marginal effect of the change in  $x$  has the following decomposition

$$\frac{\partial E(y_i | x_i)}{\partial x_i} = \text{prob}(y_i > 0) \frac{\partial E(y_i | x_i, y_i > 0)}{\partial x_i} + E(y_i | x_i, y_i > 0) \frac{\text{prob}(y_i > 0)}{\partial x_i} \quad (22)$$

Thus a change in  $x_i$  has two effects; it affects the conditional mean of  $y_i^*$  in the positive part of the distribution and it affects the probability that the observation will fall in the part of the distribution.

## 2.5 HYPOTHESIS (VARIABLES EXPECTED TO AFFECT FERTILITY)

In the estimation of fertility we used the number of ever born children in the last ten years (NEBCTY) and the number of ever born children in last five years (NEBCFY) per women in the sample.

In theoretical part of this study (Equation 15), we have seen that the demand for children is a function of the women's wage rate, price of different commodities, households' nonhuman wealth and the state of the environment. The task here is to identify the proxy variables of the above factors from the survey data.

Education of women (EDWF): - Education of woman is a dummy variable that takes one if she is literate, and zero otherwise. Almost all the sample rural households do not participate in formal labor market and so wage rate data are not available for most women. It is a common practice to use complete years of schooling as a proxy for women's wages (Aggarwal *et al.*, 2001; Schultz, 1981). However, women's education may also have several independent effects on fertility other than as a proxy of wages. Female education often delays the age at marriage. It may also alter preferences. In particular, it may lead mothers to place higher value on the education of their children and thus induce a shift from quantity to quality of children. Female education is also commonly found to be associated with higher probabilities of child survival. This may reduce fertility in so far as fewer births are required to meet a desired family size. Education may also increase the ability to effectively use family planning services. All of these channels imply a negative relation between fertility and women's education. Therefore, it is expected that this variable is negatively related to the rate of fertility.

Price of fodder (PRCFOD): -This variable reflecting the status of availability of animal feed, and is used as a proxy for the scarcity of natural resource, natural pasture. Environmental good scarcities increase the value of children to parents and will result in higher rate of fertility. However, according to Farina *et al.* (2001); and Nerlove (1993) frequent drought and environmental resource degradation and food scarcity are often recognized as factors reducing impact of fertility in less developing countries. Price of fodder, as a proxy for pasture scarcity, is an alternative measures of others pasture scarcity. These are distance to pasture area, amount of bundle of fodder collected per pulses and cereals produced and amount of bundle of fodder used per livestock holding. Among the possible alternative measurements of scarcity of natural pasture, price of fodder is selected due to the exogenous nature of the variable. Where as, the other possible alternatives are functions of households' decisions; therefore, they are endogenous from the theoretical background. As a proxy for pasture scarcity, price of fodder is expected positively relate to fertility decisions.

Distance to drinking water sources (DISTWTR): -Distance to drinking water sources can be used as proxy for water resource scarcity. For the scarcity of environmental goods, which are under communal ownership, distance is not the only indicator of the scarcity of the good. Rather, it is the weighted sum of the distance traveled to the source and the time required to collect or fetch. The later factor is a function of population density and the concentration of the good per unit area. According to the results of the preliminary survey, however, the density of the population per unit of the resource and/ or the concentration of drinking water per unit area is homogeneous in the rural *Sekota*. Therefore, only distance of this resource is used as proxy for scarcity of the good. As a proxy for a natural resource scarcity, distance to drinking water sources is also expected positively relate to fertility rate or demand for children (Aggarwal *et al.* 2000).

Time required collecting a bundle of firewood (TMFRWOOD): - Scarcity of fuel wood can be proxied by time required to collect a bundle of firewood (Filmers and Prithet, 1996). As the scarcity of this fuel wood increase, the time required to collect per bundle increases. The time spent in collecting firewood is an indicator of resource scarcity and, therefore, is expected positively relate to fertility rate.

Mortality of children (PNCED): - The state of the environments also affects child quality, and hence, indirectly, the demand for children. To measure child quality, Aggarwal *et al.* (2000) believe the use of anthropometrical data on the height and weight of children or their nutritional intakes are most appropriate. Schultz (1981); Farooq, and DeGraff (1988) believe the use of athletics performance, school age and IQ standards are most appropriate. However, all these variables need sufficient time and resource to measure and collect; and it was difficult to do so in this study. Therefore, child mortality rate was used as a proxy for quality of children.

The effect of mortality risk on fertility depends, amongst other things, on the curvature of the utility function, the perceived risk of mortality and the cost of an additional child (Schultz, 1981; Aggarwal *et al.* 2000). It was hypothesized that the risk of child mortality rate is positively related to fertility rate, in which demand for children is price inelastic. On the other hand it is negatively related to fertility when demand for children is price elastic. The demand elasticity of children depends on the type of utility they provide to households. If children were sought by parents only as a household financial investment, for their supply of labor and as a future means of assuring parental old age support, the demand for children could be quite elastic with respect to the changes in cost of the survivor (Schultz, 1981). On the other hand, if households consider children only as consumption good, the demand for children could be inelastic with respect to changes in cost of survivor. Therefore, it is difficult to hypothesize the direction of risk of child mortality rate effects on demand for children.

Age of women (AGEWIFE): - As the age of women increase the demand for children may increase or decrease depending on different situations. First an increase of age may result in increase in demand for children for old age security, and at the same time decrease the demand for children presumably due to couples adopt one or another method of birth control toward end of their child bearing year. It is believed that at on set of marriage households will not respond to control their fertility. So it is difficult to hypothesize the effect of age of wife on the demand for children a priori.

Distance to health services (DISTHEAL): This variable is also expected to have impact on the demand for children through better access to modern contraceptive and family planning. So it is hypothesized that access to family planning/ health organization is negatively related to demand for children (Filmers and Prithet, 1996).

Household calorie intake per adult (CALPCAP): -Among the very poor, increase in income reduces malnutrition and disease, and thus improve the ability of women to bear children. After threshold level of income is reached, fairly early, any further increases in income are expected to lead to fertility decline (Farina *et al.*, 2001). It is hypothesized that as this ratio increases the households tend to increase demand for children. We expect that increase in income of households proxy by the household calorie intake per adult, is positively related to the demand for children (Schultz, 1981).

## 3. RESULTS AND DISCUSSION

### 3.1 ESTIMATION PROCEDURE

In the theoretical model, resource scarcity affects demand for children in two principal channels. It directly affects the productivity of children as resource collectors (equation 3). Resource scarcity also affects child quality (equation (2)), and hence, indirectly, the demand for children. To measure child quality, the use of anthropometrical data on the height and weight of children or their nutritional intake are most appropriate. It is also believed that the use of athletics performance, school age and IQ standards are most appropriate.

However data on the above are almost non-existence except school age. School age cannot appropriately measure the quality of children given highly subsidized on the education of children of the nation at large. In addition almost all of the schools of *Sekota* district are beneficiaries on school feeding program. So as an alternative, data on child mortality rate was used as proxy for child quality.

Under the assumption that households' preferences have rigid target of a minimum number of survivors at a certain age of their life cycle (as old age security or otherwise), parents seek only survivor child. So the mortality effect determines fertility by changing the potential biological supply of births to parents and by changing their behavioral demand for children. Factors operating on the supply side include primarily biological process and it is stochastic effects that are not associated with the preferences of a couple (Schultz, 1981). Where as factors affecting demand include couples preferences on the number of children given the probability of deaths of children in their life. That is hoarding, ex-ante response to expected mortality, and replacement, ex-post response to experienced mortality. It is useful to draw the distinction between the demand for surviving children and the demand for births. In this study we emphasized on the demand for births given a goal of surviving children. Households' preferred level of fertility responds to variation in experienced and expected child mortality. So the objective of the study is to identify determinants of fertility decisions of households (demand for births) given the expected and experienced child mortality rate; the availability and scarcity of environmental goods and other socio economic factors.

Given the potential endogenous of child mortality on household fertility decisions, the Haussian test of endogenous was checked. The result showed that the null hypothesis of probability limit of  $d(b_{IV} - b_{LS}) = 0$  (where  $b_{IV}$  is the estimates of the parameter coefficient using instrumental variable method and  $b_{LS}$  is the estimates of the parameter coefficient using least square method) was rejected using the Wald statistics. As a result, the instrumental variable method was used to estimate the fertility equation. A set of variables such as age of wife, education of women, livestock holding, private owned land area, distance of health center, cleanness of water dummy, calorie intake per adult equivalent and education of men have been identified to influence mortality. The predicted value of child mortality regressed on explanatory variables, which had no impact on fertility but had significant effect on mortality, has been used as one explanatory variable to estimate fertility. Hence, only the structural form of fertility estimation is presented.

In the theoretical model, it is also shown that number of children demanded (equation 15) is a function of non-human wealth. However, in our sampled household data it was not possible to accurately identify the different sources of nonhuman wealth. It can be proxy by household calorie intake per household calorie requirements, livestock holding and total area cultivated. These explanatory variables have some correlation in each other from theoretical background. Therefore, using these variables simultaneously as a proxy for non-human wealth may create multicollinearity. From these alternative proxies for non-human wealth, household calorie intake per capita requirement was used for its comprehensiveness. However, this variable is not exogenous to household fertility decisions from the theoretical background. Parents may decide to increase their consumption foregone of bearing child and vice versa. So it is necessary to test the exogenous of these variables in the Tobit model. It was found that the exogenous of household expenditure was rejected using the Haussian test of the Wald statistics.

Therefore, to get unbiased and consistent estimator, the predicted household calorie intake per requirement was used as an explanatory variable of the usual instrumental variable techniques. Therefore in the estimation of fertility the structural form of the regression was used.

TABLE 1: REGRESSION OF HOUSEHOLD CALORIE INTAKE IN PULSES AND CEREAL EQUIVALENTS PER HOUSEHOLD REQUIREMENTS

Variable	Coefficient	Standard Error	t-ratio	Mean of X
Constant	0.62***	0.20	3.098	
Age of husband	-0.76E-02*	0.41E-02	-1.84	40.62
Education of husband dummy=1 if literate	-0.11E-01	0.66E-01	-0.16	0.37
Private area cultivated in ha	0.21E-01	0.13E-01	1.570	5.00
Share crop in area cultivated in ha	0.23E-01**	0.81E-02	2.847	3.35
Adults per total household number	0.56***	0.19	2.917	0.44
Dummy of PA=1 if Zarota	0.39***	0.78E-01	5.06	0.26
Dummy of PA=1 if Maheber Selassie	-0.82E-01	0.74E-01	-1.108	0.36
Adjusted R-squared	0.28885***			
Number of Observations	122			

The predicted household calorie intake per requirement was highly significant and some explanatory variables used in the prediction of this variable were found significant. So the predicted value of the variable was well explained by the explanatory variables.

In this study, the observed fertility was used to measure the desired family size. Observed fertility is a result of the interaction between demand and supply of children. However, there is insufficient information to separately identify demand and supply factors. Hence the model of observed fertility that we estimated includes both demand and supply factors (Aggarwal *et al.* 2000). So it is important to regress the observed fertility of different woman's age groups separately to avoid the supply bias of the fertility decisions of households. However, due to the smallness of the sample households, dividing into different women's age groups will result in inefficient log likelihood estimates (Maddala, 1997; and Green, 2000). So, to avoid the supply side bias and to have large sample size, women's age group dummies were included as an explanatory variable rather than simply women's age.

In estimation of fertility decisions of households in response to environmental goods, different levels and criteria of environmental good scarcity measurements are hypothesized. These are distance travel to sources of water for drinking water scarcity, time required to collect a bundle of firewood for scarcity of fuel wood and price of a bundle of fodder for scarcity of natural pasture. A potential problem with the measurement of these resource scarcities was that do not capture the inter-seasonal variation in resource availability in a given community. This is due to, for example, water and wood for domestic use cannot generally be stored over an extended period. However, the collection of fodder has no problem on this regard. Therefore the measure of resource scarcity concerning fuel wood and drinking water in our data did not reflect seasonal variation of the goods that the community faces. The data collected for the specific period, amount of bundle of firewood collected within a week for example, does not take in to account the season's variation. However, it is plausible to assume that the scarcity of these resources vary within seasons uniformly among individuals within a cluster and/ or among clusters. So there is no significant difference in taking either the annual season averages or specific seasons or days of a year.

Another important problem with this measurement was an exogenously given level of stress posed by the local environment and the households' response to this stress. Thus, for instance, due to scarcity of the pasture for the specific season of the year, households may use different areas for the sources of this natural pasture, as a result they may respond different distance of pasture but facing the same level of scarcity of the good. Another example, it is possible for two households who face the same level of exogenous scarcity of water and firewood, to report different time requirement per trip to fetch water or to collect the same bundle of firewood.

The proxy for pasture scarcity, price of fodder, however has no problem regarding to endogenous to households decisions. As far as the scarcity of fuel wood and drinking water are concerned, which have proxy by time require to collect firewood and to fetch water respectively have an endogenous problem. A theoretical better alternative would be to eliminate the resource scarcity variable of the household level effect and isolate a cluster specific measure of scarcity by running cluster level regression (Aggarwal *et al.* 2000). To reduce the endogenous problem, it would be to look at cluster average of these variables which inturn implies the assumption that all households within a given cluster face the same exogenous level of scarcity. The two environmental good scarcity variables were regressed in the following fashion (see equation 23). The structural of these resource scarcity variables used for the estimation of fertility.

$$RS_{ij} = a_j + X_{ij} + u_{ij} \text{ where } j = 1,2,3 \tag{23}$$

Where  $RS_{ij}$  was resource scarcity in cluster  $j$  and household  $i$ ,  $X_{ij}$  was the explanatory variables that may affect the households respond to scarcity in specific cluster variables,  $a_j$  is the cluster specific fixed effect and  $u_{ij}$  is a random disturbance term with mean zero and constant variance  $\sigma^2$ . To predict water and fuel wood scarcity, women's education level, dependency ratio and predicted household consumption were used as an explanatory variable for the three clusters. For scarcity of pasture, price of fodder was taken as exogenously on the assumption that households' decision to purchasing and selling of fodder has no effect on the price of fodder.

There is also a potential problem with examining the impact of resource scarcity on fertility rates through the estimation procedure. The problem is that fertility rates in a given community are important components of its population level. Neither the population growth rate nor the intensity of environmental resource use is exogenously given. They are determined jointly by complex combination of history, opportunities, human motivation, ecological opportunities and chance factors (Boserup, 1990). So if population level affects resource use, or there are omitted variable that affect both, the estimated parameters will be biased. For example, it is often observed those social norms and other community factors play a very important role in determining fertility rates.

Often neglected institutional forms that arguably play major roles in agrarian economy and demographic outcomes are family and gender systems, village and community structures, government's administrative arrangements and legal systems (McNicol and Cain, 1990). Cultural factors also influence the use and management of common resources. However, as information on cultural factors is not available, the estimated coefficients on the resource scarcity variables may reflect either the impact of resource scarcity or different in cultural factors. To avoid such bias we used cluster/ PA as dummy variable, on the assumption that social norms and community natural resource managements are homogenous within the cluster/ PA level.

Before households' decision on fertility was estimated, multicollinearity check up was made on the explanatory variables. The multicollinearity test was undertaken using variance inflation factor (VIF) for continuous variables and contingency coefficients (CC) for the discrete variables. It was found that no multicollinearity problems for all the explanatory variables that we used.

### 3.2 DESCRIPTIVE ANALYSIS OF THE VARIABLES

The variables considered in the model are:

- NEBCTY= Number of Ever Born Children in the last Ten Years
- NEBCFY= Number of Ever Born Children in the last Five Years
- EDUWM= Education of women
- CALPERCA= Household calorie intake per adult
- PNCD = Mortality of children
- PRCFOD = Price of fodder
- DISTWTR= Distance to drinking water sources
- TMFRWOOD = Time required collecting a bundle of firewood
- DISTHEAL = DISTHEAL
- AGWSCOHO =Age of women second category (a dummy variable)
- AGWTHDCO = Age of women third category (a dummy variable)
- AGWFOR = Age of women fourth category (a dummy variable)
- AGEWIFIV = Age of women fifth category (a dummy variable)
- AGEWSIXC = Age of women sixth category (a dummy variable)
- ZAROT = *Zaraota* PA (a dummy variable)
- MAHEB = *Mahiber Selassie* PA (a dummy variable)

Table 2 summarizes mean value of the explanatory variables used in the estimation of Number of Ever Born Children in the last Ten Years (NEBCTY) and Number of Ever Born Children in the last Five Years (NEBCFY) period specifications. It summarizes the mean value of each explanatory variable in the three clusters and provides the general average value for the district. The dependent variables are NEBCTY and NEBCFY. NEBCTY was highest in PA1 (2.87 children per women), followed by PA2 (2.85 children per women) and the smallest in PA3 (2.77 children per women). The sample households' birth on average was 2.83 children per women in the last ten years. Likewise, the NEBCFY was highest in PA3 (1.52), followed by PA2 (1.5) and the smallest birth in PA1 (1.47). The sample households' birth per women on average was 1.5 children in the last five years. All the explanatory variables that are used in the estimation of fertility were presented in the table both the sample households and cluster mean level.

Education of women (EDWN): - Education of woman is a dummy variable that takes one if she is literate, and zero other wise. It was 0%, 9% and 4% in PA1, PA2 and PA3 respectively; and 5% for the district average

Price of fodder (PRCFOD): -This variable reflecting the status of availability of animal feed, and is used as a proxy for the scarcity of natural resource, natural pasture. Price of fodder, as a proxy for pasture scarcity, is an alternative measures of others pasture scarcity. These are distance to pasture area, amount of bundle of fodder collected per pulses and cereals produced and amount of bundle of fodder used per livestock holding. Among the possible alternative measurements of scarcity of natural pasture, price of fodder is selected due to the exogenous nature of the variable. Whereas, the other possible alternatives are functions of households' decisions; therefore, they are endogenous from the theoretical background. It was found that 8.08, 8.00 and 9.52 Birr/ bundle in PA1, PA2 and PA3, respectively. The district average was 8.57.

TABLE 2: MEAN VALUE OF EXPLANATORY VARIABLES USED IN THE ESTIMATION OF FERTILITY

Variables	Mean Values			
	PA1	PA2	PA3	Total
NEBCFY	1.4688	1.5000	1.5227	1.5000
NEBCTY	2.87	2.85	2.77	2.83
EDUWM	0.00	.09	.04	.05
CALPERCA	4.54	0.81	0.83	0.83
PNCD	0.81	0.58	0.65	0.63
PRCFOD	8.08	8.00	9.52	8.57
DISTWTR	0.29	0.44	0.39	0.38
DISTHEAL	2.76	1.81	2.29	2.23
TMFRWOOD	2.43	1.51	2.06	1.95
AGWSCOHO	0.22	0.15	0.27	0.21
AGWTHDCO	0.22	0.33	0.23	0.26
AGWFOR	0.25	0.26	0.18	0.23
AGEWIFIV	0.22	0.15	0.14	0.16
AGEWSIXC	0.06	0.07	0.09	0.07
ZAROT	1.00	0.00	0.00	0.26
MAHEB	0.00	0.00	1.00	0.36

Distance to drinking water sources (DISWT): -Distance to drinking water sources can be used as proxy for water resource scarcity. For the scarcity of environmental goods, which are under communal ownership, distance is not the only indicator of the scarcity of the good. Rather, it is the weighted sum of the distance traveled to the source and the time required to collect or fetch. The later factor is a function of population density and the concentration of the good per unit area. According to the results of the preliminary survey, however, the density of the population per unit of the resource and/ or the concentration of drinking water per unit area are homogeneous in the rural *Sekota*. Therefore, only distance of this resource is used as proxy for scarcity of the good. Distance of drinking water was 0.29, 0.44 and 0.39 hrs in one way walking in PA1, PA2 and PA3 respectively; 0.38 was the district average.



Time required collecting a bundle of firewood (TMRCFRWD): - Scarcity of fuel wood can be proxied by time required to collect a bundle of firewood (Filmers and Prithet, 1996). As the scarcity of this fuel wood increase, the time required to collect per bundle increases. The time spent in collecting firewood was 2.43, 1.51 and 2.06 hrs/ bundle in PA1, Pa2 and PA3 respectively; and the district average was 1.95 hrs/ bundle

Mortality of children (PNCED): - The state of the environments also affects child quality, and hence, indirectly, the demand for children. To measure child quality, Aggarwal *et al* (2000) believe the use of anthropometrical data on the height and weight of children or their nutritional intakes are most appropriate. Schultz (1981); Farooq, and DeGraff (1988) believe the use of athletics performance, school age and IQ standards are most appropriate. However, all these variables need sufficient time and resource to measure and collect; and it was difficult to do so in this study. Therefore, child mortality rate was used as a proxy for quality of children.

The effect of mortality risk on fertility depends, amongst other things, on the curvature of the utility function, the perceived risk of mortality and the cost of an additional child (Schultz, 1981; Aggarwal *et al*. 2000). It was hypothesized that the risk of child mortality rate is positively related to fertility rate, in which demand for children is price inelastic. On the other hand it is negatively related to fertility when demand for children is price elastic. The demand elasticity of children depends on the type of utility they provide to households. If children were sought by parents only as a household financial investment, for their supply of labor and as a future means of assuring parental old age support, the demand for children could be quite elastic with respect to the changes in cost of the survivor (Schultz, 1981). On the other hand, if households consider children only as consumption good, the demand for children could be inelastic with respect to changes in cost of survivor. Therefore, it is difficult to hypothesize the direction of risk of child mortality rate effects on demand for children.

Household calorie intake per adult (CALPCAP): - Household calorie intake per adult is used as a proxy for income of the households. Among the very poor, increase in income reduces malnutrition and disease, and thus improve the ability of women to bear children. After threshold level of income is reached, fairly early, any further increases in income are expected to lead to fertility decline (Farina *et al*, 2001). We expect that increase in income of households proxy by the household calorie intake per adult, is positively related to the demand for children (Schultz, 1981). Calorie per capita (CALPERCA) was highest in PA1, 4.5 kcal/ per person, followed by PA3, 0.83 kcal/ per person, and the lowest in PA2, 0.81; and the district average was 0.83 kcal/ per person.

Age of women (AGEWIFE): - As the age of wife increase the demand for children may increase or decrease depending on different situations. First an increase of age may result in increase in demand for children for old age security, and at the same time decrease the demand for children presumably due to couples adopt one or another method of birth control toward end of their child bearing year. It is believed that at on set of marriage households will not respond to control their fertility. So it is difficult to hypothesize the effect of age of wife on the demand for children a priori.

Distance to health services (DISTHEAL): This variable is also expected to have impact on the demand for children through better access to modern contraceptive and family planning. Distance of health was 2.76, 1.81 and 2.29 hours in PA1, PA2 and PA3 respectively; and it was 2.23 for the district average.

**3.3 RESULTS OF THE TOBIT ESTIMATES OF FERTILITY**

The result of the Tobit estimation of fertility is presented in Table 3. According to these results the coefficient of the predicted number of children ever died (PNCED) was found to be negative and significant to determine household’s decision on their fertility in both NEBCFY and NEBCTY specification.

Households’ react to child mortality can be categorized as hoarding and replacement. Hoarding is the ex-ante response to expected mortality of offspring while replacement is the ex-post response to experienced mortality. Households respond to a sequential decision to fertility taking in to account both types of responses. It is also true that these effects of mortality risk relate to fertility. When the time gap of replacement, experienced child mortality of households to respond to fertility, is minimal (or nil) , the effect of mortality risk may not be significant though households respond to hoarding. However, in the NEBCTY and NEBCFY specifications, both the replacement and hoarding have enough time to respond to the fertility of households. Hence predicted mortality has significant effect on fertility in NEBCTY. It is effect is significant at ( $\alpha < 10\%$ ).

The possible reason for the negative relationship between child mortality and fertility might be the demand for children is price inelastic and associated to a desired to offset experienced or anticipated child mortality. Parents seem to respond to the an increase in child mortality by having more births, perhaps to some extent because of biological effect of an infant’s death, which interrupts lactation and shortens the mother’s sterility following a birth.

**TABLE 3: TOBIT ESTIMATION OF HOUSEHOLD FERTILITY IN THE PAST TEN AND FIVE YEARS**

Explanatory variables	NEBCTY	NEBCFY	Mean of X
Constant	12.54*** (2.26)	9.45*** (2.04)	
EDWF (dummy)=1 if literate	-0.98*** (0.37)	0.22 (0.34)	0.49E-01
DISTHEAL	-0.17 (0.10)	-0.86E-01 (0.93E-01)	2.23
PRCFOD	0.14 (0.16)	0.11 (0.14)	8.36
TMFRWOOD	-4.44*** (0.70)	-3.23*** (0.64)	1.95
DISTWTR	-3.19** (1.30)	-3.50** (1.17)	0.38
PNCED	-0.73* (0.39)	-0.83* (0.35)	0.63
CALPCAP	-2.41*** (0.76)	-1.46* (0.68)	0.82
AGWSC (dummy)=1 if age is 21-26	1.38*** (0.40)	0.73* (0.35)	0.21
AGWTHD (dummy)=1 if age is 27-32	1.90*** (0.43)	0.59 (0.38)	0.26
AGWFOR (dummy)=1 if age is 33-38	1.29** (0.46)	0.33 (0.41)	0.23
AGEWIFIV (dummy)=1 if age is 39-44	1.22** (0.53)	0.27 (0.47)	0.16
AGEWSIXC (dummy)=1 if age is 45-49	0.52 (0.65)	-0.58 (0.60)	0.74E-01
ZAROT (dummy)=1 if PA1	2.87*** (0.44)	1.77*** (0.39)	0.26
MAHEB (dummy)=1 if PA3	-0.73*** (0.23)	-0.53** (0.21)	0.36
Log likelihood function	-152.06	-136.95	
Number of observation	122	122	

Note: \*\*\*Significant at 1% level, \*\*significant at 5 % level, \*significant at 10 % level  
The parentheses are the standard errors of the estimates.



The effect of calorie consumed per capita was also found to be highly significant ( $\alpha < 1\%$ ) on the demand for children in ten years period specification. In five years specification, it is significant at a significant level of ( $\alpha < 10\%$ ).

However, calorie intake per capita in both children ever born in the last ten years and in the last five year was negative related in this study. This might be related to the principal individual level strategy for coping with pasture shortage. In rural *Skota*, the coping strategy for pasture shortage is to move to other areas. This response to the pasture scarcity might have major consequences for the demographic behavior of the community. Livestock owners of the rural *Sekota* are more mobile in the season or years of pasture scarcity. Even though children's are the main herder of the livestock for the normal period, adult male are the main herder in seasons or years of pasture scarcity. The community arranges groups from adults, mostly household heads, to herd the livestock of the community in areas where there is ample pasture in that season. Households having large herd will be more responsible for migrate/ move the livestock in different areas. It is expected that the household that have more livestock will have a probability of high calorie intake per adult.

In prolonged pasture scarcity, adults, probably household heads temporarily move their livestock to neighboring PA or even go to other districts or administrative zones that have ample pasture for this season. This coping mechanism of the community to pasture scarcity results separation of husband and wife in longer period, as a result reducing fertility will occur. So the possible reasons for the negative relationship between household calorie intake per adult and fertility might be related to migration of husbands in pasture deficit season's intern long abstinence of the couples.

However non-holder of livestock or those who have less number of livestock will not move in pasture deficit season. It is true that they migrate in food deficit seasons. The separation of the couples and the whole family in non-livestock owners is minimal for food deficit seasons (SERA, 2001).

The time required to collect firewood per bundle (proxy measure of fuel wood scarcity) was found to affect fertility negatively and highly significant ( $\alpha < 1\%$ ) in both periods' specifications. This variable was found negatively related to the fertility of households within ten years and five years period specifications. The difference in the relative value of human time, particularly the opportunity costs of women's that commonly is thought to contribute a substantial share of the total cost of child rearing. This negative relation between fuel wood scarcity and fertility may be due to the division of labor in case of high scarcity. We have seen that as this resource become scarcer, adults' especially male adults were the main collectors of this good. We have also seen that the main collectors of fuel wood are female and male adults. High scarcity of this good is equivalent to say high shadow price of the good, increase the opportunity costs of women's time as long as women's are the main collectors of this good. Therefore, households have no incentive to have additional child on the assumption that children were not participate in the collection of fuel wood or the participation of children in fuel wood collection is minimal.

It is consistence with Nerlove (1991). He argues that a positive relation between resource degradation and fertility is more likely to be observed at low levels of resource degradation. According to him, with continued deterioration of the resource base, this relation ship must eventually turn from positive to negative. This would be due to highly degraded environments; the perceived costs of raising children may exceed the benefit they provide as producer goods. So demand for children will rise only if the increase in perceived benefits of children due to increase in resource scarcity is greater than the cost of additional child.

TABLE 4: PARTIAL DERIVATIVES OF THE EXPECTED VALUES OF THE DEPENDENT VARIABLES WITH RESPECT TO THE EXPLANATORY VARIABLES

Explanatory variables	NEBCTY	NEBCFY	Mean of X
EDWF (dummy)=1 if literate	-0.94*** (0.35)	NS	0.49E-01
DISTHEAL	NS	NS	2.23
PRCFOD	NS	NS	8.36
TMFRWOOD	-4.26*** (0.67)	-3.05*** (0.60)	1.95
DISTWTR	-3.02** (1.23)	-3.24** (1.08)	0.38
PNCED	-0.68* (0.36)	-0.75* (0.32)	0.63
CALPCAP	-2.31*** (0.73)	-1.32* (0.62)	0.82
AGWSC (dummy)=1 if age is 21-26	1.32*** (0.38)	0.66* (0.32)	0.21
AGWTHD (dummy)=1 if age is 27-32	1.82*** (0.41)	NS	0.26
AGWFOR (dummy)=1 if age is 33-38	1.22** (0.43)	NS	0.23
AGEWIFIV (dummy)=1 if age is 39-44	1.15** (0.50)	NS	0.16
AGEWSIXC (dummy)=1 if age is 45-49	NS	NS	0.74E-01
ZAROT (dummy)=1 if PA1	2.76*** (0.42)	1.67*** (0.37)	0.26
MAHEB (dummy)=1 if PA3	-0.70*** (0.22)	-0.49** (0.20)	0.36
Log likelihood function			
Number of observation			

Note: \*\*\*Significant at 1% level, \*\*significant at 5% level, \*significant at 10% level

The parentheses are the standard errors of the estimates.

Among environmental good variables, scarcity of water that has been proxy by distance to drinking water was also found significant at a significant level of  $\alpha < 5\%$  in both period specifications.

The sign of this variable was also negatively related to the fertility decisions of households This relation might be due to the same reason we have discussed in fuel wood scarcity.

As expected, education of women affects fertility negatively in NEBCTY specification and the relationship was significant at  $\alpha < 1\%$ . That is, certain level of women's education was found to decrease the observed fertility, other things held constant.

Age of women was also found significantly affect fertility for some age of women's category. Its effect was found positive and significant for the women's age category of 2, 3, 4 and 5 in the fertility of women in last ten years period specifications. It was significant for a significant level of  $\alpha < 1\%$ ,  $\alpha < 1\%$ ,  $\alpha < 5\%$  and  $\alpha < 5\%$ , respectively. While, it was not significant for the last women's age category and unobserved dummy /benchmark/ (women's age ranges between 15-20 years) in this specification. It was found that all of the women's age categories affect fertility positively, set unobserved dummy = 0 coefficients. As far as in NEBCFY specification is concerned, it was found significant only in the second women's age category (age =21-26) at a significant level of  $\alpha < 10\%$ .

The other explanatory variables that affect fertility were the clusters dummies, that is the specific fixed effect in the two PAs, those factors that are not identified and not included in the estimation of fertility, was highly significant ( $\alpha < 1\%$ ). In Table 4 the marginal value of the explanatory variables are presented.

TABLE 5: POINT ELASTICITY

Explanatory variables	NEBCTY	NEBCFY	Mean of X
EDWF (dummy)=1 if literate	-0.016***	NS	0.49E-01
DISTHEAL	NS	NS	2.23
PRCFOD	NS	NS	8.36
TMFRWOOD	-2.94***	-3.96***	1.95
DISTWTR	-0.43**	-0.82**	0.38
PNCED	-0.15*	-0.31*	0.63
CALPCAP	-0.67***	-0.72*	0.82
AGWSC (dummy)=1 if age is 21-26	0.1***	0.09*	0.21
AGWTHD (dummy)=1 if age is 27-32	0.17***	NS	0.26
AGWFOR (dummy)=1 if age is 33-38	0.1**	NS	0.23
AGEWIFIV (dummy)=1 if age is 39-44	0.06**	NS	0.16
AGEWSIXC (dummy)=1 if age is 45-49	NS	NS	0.74E-01
ZAROT (dummy)=1 if PA1	0.25***	0.29***	0.26
MAHEB (dummy)=1 if PA3	-0.09***	-0.12**	0.36

It is calculated on mean of the explanatory variables and mean of NEBCTY=2.83 and NEBCFY=1.5

Table 5 summarizes the point elasticity of fertility with respect to the resource scarcity variables and some other explanatory variables that significantly affect the fertility estimates. The purpose here is to get a better perspective on the magnitude of impact of resource scarcity and other variables. As shown in the table, the point elasticity of the time required to collect bundle of firewood was around -2.94 at the sample mean level in ten years period specification. As compared to this, elasticity of education of women was found to be -0.016. While the elasticity of calorie intake per capita was -0.67, this means a 1% increase of time required to collect fuel wood per bundle on the average results decreases of 2.94 percent on the prevailing average fertility. Comparing to the other environmental goods, drinking water, and a 1% increase distance of drinking water results a decrease of the prevailing rate of fertility by 0.43%. While a 1% increases of the education status of the women will result in a decreases of 0.016% of the existing fertility level, and the same percentage increases of calorie per adult equivalent will result a decreases of fertility by 0.67%. Likewise a 1% increase of child mortality will result 0.15 decrease of the prevailing fertility rate. It was found that the elasticity of fuel wood scarcity, TMFRWOOD, (2.94) is greater than almost four and half times the elasticity of predicted calorie intake per capita, CALPCAP (0.67). If we compare to water scarcity, the elasticity of TMFRWOOD is almost seven times greater than elasticity of water scarcity, DISTWTR, (0.43). It is also greater than almost twenty times the elasticity of predicted mortality, PNCED, (0.15). When we compare the elasticity of the women's age categories, it is highest in the third age category (27-32) of the women (0.17), followed by the second and fourth age category, each of which has an elasticity of 0.1. While the elasticity of the fifth women's age category has an elasticity of (0.06)

Look at another way; if the time taken to collect firewood decrease from the present level of around 1.95 hrs to 0.975 hrs, number of children ever born in the last ten years (NCEBTY) will increase from the present level of 2.83 children per women to 4.3 children per women. Similarly a 50% decrease of DISTWTRW, proxy for scarcity of drinking water, (that is from the present level of 0.38 hours to 0.19 hours), the present level of fertility increase from 2.83 to 3.045 children per woman. A decrease of predicted consumption from the present level of 0.82 to 0.41 (the same percentage decrease of firewood, 50%) will also result an increase of NCEBTY from the present level of 2.83 children per women to 3.165 children per women.

If the predicted number of children ever died (PNCED) decrease from the present level of 0.63 to 0.31, the expected fertility will decrease from the present level of 2.83 children per women to 2.755 children per women. The increase in women's education from the present level of 4.9% to 7.35% (50% changes in women's education) will result in the decrease of NEBCTY from the preset level of 2.83 children per women to only 2.807 children per women. This shows how the women's education is less responsible for the reduction of fertility for the rural *Sekota*.

If the existing proportion of women's age category increase or decrease, would result a change of the average total fertility rate per specific period. For example, if the existing proportion of the second women's age category, AGWSC, decreases from 21% to 10.5%, the level of fertility decreases from the present level of 2.83 to 2.69 children per woman. As compared to the other women's age category, the same percentage decrease of proportions women's age category, 23% to 11.5% for the fourth women's age category, AGWFOR, will result the same change to second age category. While the same proportional decrease of the third women's age category, AGWTHD, in the population (from 26% to 13%) will result a decrease of the present level 2.83 to 2.59 children per woman. Likewise, a 50% decrease of the proportion of the fifth women's age category, AGEWIFIV, from 16% to 8% will result a decrease of the existing women's fertility of 2.83 to 2.75 children per women.

#### 4. SUMMARY AND CONCLUSION

In this study, the impact of environmental good scarcity on demand for children was analyzed. Resource scarcity is likely to affect on the production of child quality. In this study, the impact of fuel wood, water and pasture scarcity on fertility rate was examined using household data from rural *Sekota*. An individual choice model of fertility was estimated in which resource scarcity effect on the demand for children through its effect on child mortality and productivity of children as resource collectors. It was found that part of environmental goods, drinking water scarcity and fuel wood scarcity variables, have a negative and significant effect on fertility. The other variable, which has also directly or indirectly related to environmental good scarcity and that affects fertility, was risk of child mortality rate. Other variables, which have also affect fertility other than environmental goods, were calorie intake per capita, education of women and age of women categories.

As far as the women education is concerned, the result from our estimate indicated that it was negatively related to in NEBCTY specification. Although this variable is highly significant, the fertility reduction or the success of family planning will not responsive on the improvements of women's education in the future. This is due to the fact that, from the total sample households only 4.9% of the women are literate. For instance by some program or project if the women's education increases by 100%, say 9.8% of the women's were literate, then the existing fertility will only decrease by only 0.05 children per women in the population, that is from 2.83 to 2.78 children per women in ten years period of women's fertility. So from different angles, it is difficult to conclude that improvements in fertility decisions of women can be achieved solely from an increase of women's education.

Another ambiguous and unexpected result regarding to the fertility decisions of households in rural *Sekota* was that household consumption level affect fertility negatively. Further decrease of household consumption level as well as long migration for adult male for copping the pasture shortage might have a negative effect on human fertility and may indeed adversely affect the growth and survival of small children. The indirect and long term demographic consequences of the drought on degraded areas, such as rural *Sekota*, are therefore, probably much more important than any direct effect linked to temporary increases or reduction in fertility.

Among the explanatory variables that affect fertility decisions of households, scarcity of fuel wood, TMRFWOD, was found to be the major determinants in absolute value, 2.94, followed by household calorie intake per requirements, CALPCAP, 0.67 and the third important determinant was drinking water scarcity, DISTWTR, 0.43.

Most of the family planning objective, whether it uses modern contraceptive or the natural infecundability, is to control or minimize the fertility potential (fecundability) of women's. The elasticity of different women's age group dummy indicates the probability responsiveness of each woman's age category to

fertility. So to achieve the objective efficiently, the family planning should emphasize on the middle age groups. But it doesn't mean that the first and last age group of women's left aside.

It is also true that, where family planning programs provided a service that few as yet wanted, they have expended resources to little effect. The NPP of Ethiopia has developed strategies and programs to get the objectives of the policy. The programs that launched in educational and health sectors has taken the participation of women in education and the health of the women as well as to expand reproductive health and family planning as the major strategies. However, from this case study, we have seen that distance to family planning, a proxy for access to health service, has no significant effect to fertility. It is also true that, the education level of women has significant effect on fertility; however, its responsiveness to fertility is minimal. So the NPP of Ethiopia has also taken in to alternative strategies to areas that have the same agro ecological and socio economic settings to rural *Sekota*. This does not mean that the program has no appropriate strategies at national level. This strategy might be suitable for other areas, though it is less appropriate for the study area. The following particular strategies should be taken in to account as components of the NPP of Ethiopia for areas like the rural *Sekota*.

1. Child health: - In this study, child mortality has a significant effect on the fertility of women in rural *Sekota*. It is not only significant but also the fourth important determinant of fertility.
2. Education of Child: - Environmental good scarcity, like scarcity of fuel wood and scarcity of drinking water, was found to be negatively related to fertility of households. These variables are the first and third most important determinants of fertility. The negative relation between resource degradation and fertility is more likely to be observed at highly deterioration of the resource base. This would be due to in highly degraded environments; the perceived costs of raising children may exceed the benefit they provide as producer goods. So demand for children will rise only if the increase in perceived benefits of children due to increase in resource scarcity is greater than the cost of additional child. So it is plausible to assume that households demand children in rural *Sekota* is for consumption only. Consumer demands for children have a diminishing tendency to reply parents' investments in terms of market goods and services. Thus the marginal (consumer) benefits to additional children might decline. Parents might want to school their children for more years, and achieving this goal might be viewed as a good substitute for having additional child. Parents will further decrease their demand for children in highly degraded areas provided that they have the opportunity and potential to teach their child.

In addition to the above policy options, the following research options should be considered as long as the fertility decisions of households in response to environmental good scarcity is concerned. These are: -

1. Use of panel data: - It is believed that the different specifications to control the endogenous effect may have some draw back on the results of the fertility estimation. Besides, the most series limitation to this study is the fact that the cross sectional data from a single year to examine what is essentially a dynamic response of households to the continually changing resource bases. A panel data set over a relatively longer period of time, say for ten years, or even longer, would be more appropriate for the purpose of the study.
2. Consider wider areas for the level of environmental good scarcity and socio economic settings: - It is also important to consider wider areas that cover a wide range of agro ecological zones to have different natural resource settings. This helps to have the resultant matrix of the explanatory variables, both socio economics and environmental good availability and scarcity levels, capture a wider range of values with respect to woman's fertility and child mortality rates.

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**INVESTMENT POLICY OF COMMERCIAL BANKS IN INDIA****DR. BHAVET****FACULTY****M M INSTITUTE OF MANAGEMENT****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****Email: bhavetgarg@gmail.com****Voice: +91-9896989571****PRIYA JINDAL****FACULTY****DEPARTMENT OF HUMANITIES & SOCIAL SCIENCES****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****DR. SAMBHAV GARG****FACULTY****M M INSTITUTE OF MANAGEMENT****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****Email: jaisyaramki@gmail.com****Voice: +91-9996009890****ABSTRACT**

*In the study of the financial institutions, the investment and investment problems will revolve around the concept of managing the surplus financial assets in such a way, that will lead to the wealth maximization and providing a significant further source of income. Thus the investment is the management of the surplus recourses in such a way that it works for providing benefits to the supplier of the funds by letting it managed by a third party. However, the investment needs to be a procedural task. It must follow a definite process, to ensure the formulation of proper investment policy. Banks are disbursing their money as investment in trade business and industry. Therefore, banks should be following the principle of investment for profit. An investment policy should ensure maximum profit and minimum Risk. A huge collection and investment policy plays vital role for the economic development of whole economy. The main focus of this study will be towards the investment practices of the banks. The study suggests the way to the policy makers to improve the management of investment policy and recommends suggestions to raise the profit.*

**KEYWORDS**

Wealth Maximization, Investment Policy, Risk.

**INTRODUCTION**

Investment in financial sense is putting the capital in the hands of an expert individual or expert group to maximize the profit. Investment by individuals, business and government involves a present sacrifice of income to get expected future benefits as a result investment raises economy of nations. According to William F. Shape, Gordon J. Alexander and Jeffery V. Baily "Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and its magnitude generally is certain" (Shape Alexander and Baily, 1998). Banks accept money as a deposit from public and invest it in form of loan and advances. Financial institutions act as an intermediary role between the persons who lend and who borrow. Bank pools the scattered funds and mobilizes them in productive sector. Banks came into existence mainly with the objective of collecting the idle Fund, mobilize them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest and deposited amount of depositors.

**STATEMENT OF PROBLEM**

In 1991 the policy of Liberalization, Privatization and Globalization was adopted by the government of India. Due to this policy, now a day's commercial bank, developments bank and financial companies are operating with high competition. The fast growth of such organizations has made pro-rata increment in collecting deposit and their investment. These institutions collected a huge amount from public but couldn't allocate it in new investment sectors. It impacted the faith of the investors and also impacted the market value of the shares negatively. Though several commercial banks have been established however, they failed to ensure satisfactory returns.

Generally after providing the loan there is no practice by the banks to find out if the debtor has utilized the loan for the same purpose or not. It is one of the unhealthiest practices in banking business and such practices have contributed to the piling of unrecovered bank loans. Thus it is necessary that the banks must formulate a very strong and organized investment policy.

**REVIEW OF LITERATURE**

Sharma, M.P. & Bhatt, M.P. (2002), in their article "Priority receiver sector" has present "The commercial banks should take care of board national interest & they showed not confine their lending activities only to commercial area providing quick interest if some proportion could be directed to the area conclusive to build economic infrastructures of the country it would create atmosphere conducive to their investment in future. In our society where ignorance & literacy is in wild scale, it is necessary that the banks search entrepreneurs instead of entrepreneurs searching book. So, they have opinioned that the priority sector program is a timely & opportunities there by increasing production & the general living standard or rural poor. Shrestha (2004) conducted a study on "Nepal Rastra Bank Guidelines on Investment policy of commercial banks in Nepal (A case study of Nepal Investment Bank)". The main findings of the study are: 1. Bank is in good position to meet the daily cash requirement as bank has maintained the average cash & bank balance in respect to total deposit. 2. The performance of



NIBL regarding deposit collection granting loan & advance & investment is quite satisfactory but doesn't seem to follow definite policy. NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of lack of sound investment policy for mobilization of its equity capital. **Chen Ping, Yang Hailiang, Yin George (11) (2008)** conducted study on "Markowitz's mean-variance asset-liability management with regime switching: A continuous-time model" This paper analyzed an asset-liability management (ALM) problem under a continuous-time Markov regime-switching model. By adopting the techniques of Zhou, X.Y., Yin, G. Markowitz's mean variance portfolio selection with regime switching: A continuous-time model. SIAM J., they investigated the feasibility, obtain the optimal strategy, delineate the efficient frontier, and establish the associated mutual fund theorem.

## OBJECTIVES OF THE STUDY

The main objective of the study is to assess the investment policy and strategy followed by the bank with reference to Corporation Bank and Oriental Bank of Commerce. The main objectives of this study are mentioned below:

1. To analyze the deposit utilization for five years of Corporation Bank and Oriental Bank of Commerce.
2. To analyze the financial position of Corporation Bank and Oriental Bank of Commerce in terms of deposit collection and investment procedure.
3. To suggest and recommend on the investment policy of sample banks.

## LIMITATION OF THE STUDY

1. This study is mainly concerned to only two banks i.e. Corporation Bank and Oriental Bank of Commerce.
2. The whole study is based on secondary data from the respective banks, internet, article and newspapers.
3. The study is based only on the latest five year data.
4. Lack of sufficient time and resources.
5. In this study only selected tools and techniques have been used.

## RESEARCH METHODOLOGY

### PERIOD OF STUDY

The Post-reform period of five years (2008-2012) has been taken for analyzing the trend in deposits, investment and loans & advances in banking sector.

### SAMPLE SIZE

In context of India, 28 Public Sector Banks are in operation. These twenty eight banks are regarded as population. But, it is not possible to study all data related with these twenty eight banks. Hence two banks have been taken as sample from the whole population i.e. twenty eight banks. The sample banks are as follows:-

- Corporation Bank
- Oriental Bank of Commerce

### SAMPLING PROCEDURE

The selection procedure of the sample is purposive it is not random. The banks are selected for study on the basis of business per employee as on March 2011. These banks have the highest business per employees among all other banks.

### SOURCES OF DATA

This study mainly depends on the use of secondary data that consists of annual reports of the concerned banks. However besides the annual reports various other sources of data have also been used for the purpose of study i.e. plan documents, newspaper, magazine, economic journals and RBI reports etc.

### DATA ANALYSIS PROCEDURE

To achieve the objectives of the study, trend analysis of deposit, loan & advances, and investments has been used.

## ANALYSIS AND DISCUSSION

### TREND ANALYSIS OF TOTAL DEPOSIT OF SELECTED BANK

The trend value of total deposit of Corporation Bank and Oriental Bank is calculated under this section. An effort has been made to forecast for next three years from 2013 to 2015 on the basis past data of total deposit of Corporation Bank and Oriental Bank of Commerce from March 2008 to March 2012.

**TABLE 1: ESTIMATION OF THE DEPOSIT FOR THE YEAR 2013 TO 2015**

Years	Deposits (Rs. In crore)	
	Corporation Bank	Oriental Bank of Commerce
2008	55424	77857
2009	73984	98369
2010	92734	120258
2011	116748	139054
2012	136142	155965
2013	156266	177370
2014	176686	197060
2015	197106	216750

(Source: Annual reports)

The above table shows the total deposit of the banks is in increasing trend. If other things remain constant the total deposit of Corporation Bank will be Rs.1,97,106 crore in the FY 2015 and that of Oriental Bank of Commerce will be Rs. 2,16,750 crore.

### TREND ANALYSIS OF LOAN AND ADVANCES OF SELECTED BANK

An effort has been made to forecast the amount of loan & advances of Corporation Bank and Oriental Bank of Commerce for the next 3 years from March 2013 to March 2015.

**TABLE 2: ESTIMATION OF THE LOAN AND ADVANCES FOR THE YEAR 2013 TO 2015**

Years	Loan and Advances (Rs. In crore )	
	Corporation Bank	Oriental Bank of Commerce
2008	39186	54566
2009	48512	68500
2010	63203	83489
2011	86851	95908
2012	100469	111978
2013	115916	125558
2014	132007	139781
2015	148097	154004

(Source: Annual reports)

The above table shows that both the banks have increasing trend of loan and advances. It is forecasted that both of banks will have increasing trend of loans and advances. The possible capacity of granting loan and advances of Oriental Bank of Commerce seems higher than that of Corporation Bank. Oriental Bank of Commerce seems to be more successful in the future to earn more profit than that of Corporation Bank because the expected future value of loan & advances of Oriental Bank of Commerce in the year 2015 is Rs. 1,54,004 crore and the same of Corporation Bank is only Rs. 1,48,097 crore.

#### TREND ANALYSIS OF TOTAL INVESTMENT OF SELECTED BANKS

Under This topic, the trend values of total investment for five years from March 2008 to March 2012 is calculated and forecasted for next three years from March 2013 to March 2015.

TABLE 3: ESTIMATION OF INVESTMENT FOR THE YEAR 2013 TO 2015

Years	Investments (Rs. In crore)	
	Corporation Bank	Oriental Bank of Commerce
2008	16512	23951
2009	24938	28489
2010	34523	35785
2011	43453	49545
2012	47475	52101
2013	80035.4	61181.9
2014	88079.4	68917.8
2015	96123.4	76653.7

(Source: Annual reports)

The above table shows that investment capacities of both the bank have increasing trend. It is also clear from the table that both the banks will have increasing trend of investment in the future. The investment of Corporation Bank during the years 2015 would be up to Rs.9,61,23.4 crore which is higher in comparison than Oriental Bank of Commerce i.e. up to Rs.7,66,53.7 crore in the year of 2015.

#### SUGGESTION FOR SOUND INVESTMENT POLICY

A sound lending & investment policy is not only prerequisite for a bank's profitability but also crucially significant for the promotion of commercial savings of a developing country like India. Therefore, the following principles or features of investment policy must be abided by the commercial banks in order to achieve the goals.

- **SAFETY AND SECURITY**

Commercial banks must pay a special attention to the principle of safety and security. In a developing country like India in case there is any kind of loss than it will lead to decrease in public faith towards banks and impacts the overall deposits of the banks. So, the banks must ensure investing the amount in safe and secure sectors. Investment in unsafe and insecure sectors with the hope of getting more returns is to compromise with the security of capital.

- **PROFITABILITY**

The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. It is a fact that a commercial bank can maximize its volume of wealth through maximization of return on their investment and lending so, they must invest their funds to gain maximum profit. Ambition of profit to commercial bank seems reasonable as the bank has to cover all the expenses and make payment in the forms dividend to the shareholders who contribute to building up of bank's capital and interest to the depositors. For this the bank calculates the cost of fund and likely return.

- **PURPOSE OF LOAN**

A very important question for every banker is that, why a customer is in need for loan. If borrower misused the loan granted by the bank, he can never repay. Therefore, in order to avoid this situation each and every bank should demand all the essential detailed information about the scheme of the project and all the activities should be examined before lending.

- **DIVERSIFICATION**

"A bank should not lay all its eggs in the same basket." This saying is very important to the bank and it should be always careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average; if the security of a company is divided off there may be an appreciation in the securities of other companies.

#### CONCLUSION

In the present research, study different financial and statistical tools have been used to measure the Investment policy of the selected banks. It is found that both selected banks have strong financial performance but comparatively Oriental Bank of Commerce is in better position. It is concluded that Oriental Bank of Commerce has adopted better investment policy than that of Corporation Bank. In conclusion, it can be said that RBI is required to direct the commercial banks. Commercial Bank should move as per the direction given by the central bank. Banks should have optimum policy to collect the deposit in various accounts. Higher the deposit higher will be the chances of mobilization of working fund and profit thereto. Banks should not invest their' fund haphazardly. It should be careful while advancing loan because loan is the life blood of the commercial bank for survival. If commercial banks do not apply sound investment policy they will face the challenges of recovery. Banks should invest their fund in various portfolios after a deep study of the project to be safe. Commercial Banks should not cross the boundary level set by RBI to make their investment policy.

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**TREND ANALYSIS OF TOTAL DEPOSIT**

**ANNEXURE 1.1: ESTIMATION OF DEPOSIT OF CORPORATION BANK FOR THE YEAR 2013 TO 2015 (Rs. in crore)**

Year	Deposit(Y)	Year (X)	XY	X <sup>2</sup>
2008	55424	1	55424	1
2009	73984	2	147968	4
2010	92734	3	278202	9
2011	116748	4	466992	16
2012	136142	5	680710	25
sum	475032	15	1629296	55

Here, the actual equation of linear trend is  $Y = a + bx$

Two normal equations are

$$\sum Y = na + b \sum x$$

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$475032 = 5a + 15b \dots\dots\dots (I)$$

$$1629296 = 15a + 55b \dots\dots\dots (II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$1629296 = 15a + 55b$$

$$1425096 = 15a + 45b$$

$$\underline{\hspace{1cm}}$$

$$204200 = 10b$$

$$b = 204200/10$$

$$b = 20420$$

Substituting the value of 'b' in equation (I), we get

$$475032 = 5a + 15 \times 20420$$

$$5a = 475032 - 306300$$

$$a = 168732/5$$

$$a = 33746.4$$

Thus, the required trend is

$$Y = 33746.4 + 20420 X$$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2013} = 33746.4 + 20420 \times 6 = 156266$$

$$Y_{2014} = 33746.4 + 20420 \times 7 = 176686$$

$$Y_{2015} = 33746.4 + 20420 \times 8 = 197106$$

**ANNEXURE 1.2: ESTIMATION OF DEPOSIT OF ORIENTAL BANK OF COMMERCE FOR THE YEAR 2013 TO 2015 (Rs. In crore)**

Year	Deposit(Y)	Year- (X)	XY	X <sup>2</sup>
2008	77857	1	77857	1
2009	98369	2	196738	4
2010	120258	3	360774	9
2011	139054	4	556216	16
2012	155965	5	779825	25
sum	591503	15	1971410	55

Here, the actual equation of linear trend is  $Y = a + bx$

Two normal equations are

$$\sum Y = na + b \sum x$$

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$591503 = 5a + 15b \dots\dots(I)$$

$$1971410 = 15a + 55b \dots\dots(II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$1971410 = 15a + 55b$$

$$1774509 = 15a + 45b$$

$$\underline{\hspace{1cm}}$$

$$196901 = 10b$$

$$b = 196901/10$$

$$b = 19690$$

Substituting the value of 'b' in equation (I), we get

$$591503 = 5a + 15 \times 19690$$

$$5a = 591503 - 295350$$

$$a = 296153/5$$

$$a = 59230$$

Thus, the required trend is

$$Y = 59230 + 19690 X$$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2013} = 59230 + 19690 \times 6 = 177370$$

$$Y_{2014} = 59230 + 19690 \times 7 = 197060$$

$$Y_{2015} = 59230 + 19690 \times 8 = 216750$$

**TREND ANALYSIS OF LOAN AND ADVANCES**

**ANNEXURE 1.3: ESTIMATION OF LOAN & ADVANCES OF CORPORATION BANK FOR THE YEAR 2013 TO 2015 (Rs. In crore)**

Years	Loan and Advances(Y)	Year(X)	XY	x <sup>2</sup>
2008	39186	1	39186	1
2009	48512	2	97024	4
2010	63203	3	189609	9
2011	86851	4	347404	16
2012	100469	5	502345	25
sum	338221	15	1175568	55

Here, the actual equation of linear trend is  $Y = a + bx$

Two normal equations are

$$\sum Y = na + b \sum x$$

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$338221 = 5a + 15b \dots\dots (I)$$

$$1175568 = 15a + 55b \dots\dots (II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$1175568 = 15a + 55b$$

$$1014663 = 15a + 45b$$

$$\underline{\quad\quad\quad - \quad\quad\quad}$$

$$160905 = 10b$$

$$b = 160905/10$$

$$b = 16090.5$$

Substituting the value of 'b' in equation (I), we get

$$338221 = 5a + 15 \times 16090.5$$

$$5a = 338221 - 241357.5$$

$$a = 96863.5/5$$

$$a = 19373$$

Thus, the required trend is  $Y = 19373 + 16090.5X$

Forecasting the loan & advances for the upcoming next 5 years

$$Y_{2013} = 19373 + 16090.5 \times 6 = 115916$$

$$Y_{2014} = 19373 + 16090.5 \times 7 = 132007$$

$$Y_{2015} = 19373 + 16090.5 \times 8 = 148097$$

**ANNEXURE 1.4: ESTIMATION OF LOAN & ADVANCE OF ORIENTAL BANK OF COMMERCE FOR THE YEAR 2013 TO 2015 (Rs. In crore)**

Years	Loan & Advances(Y)	Year(X)	XY	x <sup>2</sup>
2008	54566	1	54566	1
2009	68500	2	137000	4
2010	83489	3	250467	9
2011	95908	4	383632	16
2012	111978	5	559890	25
sum	414441	15	1385555	55

Here, the actual equation of lineal trend is  $Y = a + bx$

Two normal equations are

$$\sum Y = na + b \sum x$$

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$414441 = 5a + 15b \quad (I)$$

$$1385555 = 15a + 55b \quad (II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$1243323 = 15a + 55b$$

$$1385555 = 15a + 45b$$

$$\underline{\quad\quad\quad - \quad\quad\quad}$$

$$142232 = 10b$$

$$b = 142232/10$$

$$b = 14223$$

Substituting the value of 'b' in equation (I), we get

$$414441 = 5a + 15 \times 14223$$

$$5a = 414441 - 213345$$

$$a = 201096/5$$

$$a = 40220$$

Thus, the required trend is

$$Y = 40220 + 14223X$$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2013} = 40220 + 14223 \times 6 = 125558$$

$$Y_{2014} = 40220 + 14223 \times 7 = 139781$$

$$Y_{2015} = 40220 + 14223 \times 8 = 154004$$



**TREND ANALYSIS OF INVESTMENTS**

**ANNEXURE 1.5: ESTIMATION OF TOTAL INVESTMENTS OF CORPORATION BANK FOR THE YEAR 2013 TO 2015 (Rs. In crore)**

Years	Investment	Years (x)	XY	X <sup>2</sup>
2008	16512	1	16512	1
2009	24938	2	49876	4
2010	34523	3	103569	9
2011	43453	4	173812	16
2012	47475	5	237375	25
sum	166901	15	581144	55

Here, the actual equation of linear trend is  $Y = a + bx$

Two normal equations are

$$\sum Y = na + b \sum x$$

$$\sum XY = a \sum x + b \sum X^2$$

Putting the values on normal equations from the above table

$$166901 = 5a + 15b \dots (I)$$

$$581144 = 15a + 55b \dots (II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$581144 = 15a + 55b$$

$$500703 = 15a + 45b$$

$$\underline{\quad\quad\quad - \quad\quad\quad -}$$

$$80441 = 10b$$

$$b = 80441/10$$

$$b = 8044$$

Substituting the value of 'b' in equation (I), we get

$$166901 = 5a + 15 \times 8044$$

$$5a = 166901 - 8044$$

$$a = 158857/5$$

$$a = 31771.4$$

Thus, the required trend is  $Y = 31771.4 + 8044X$

Forecasting the deposit for the upcoming next 3 years

$$Y_{2013} = 31771.4 + 8044 \times 6 = 80035.4$$

$$Y_{2014} = 31771.4 + 8044 \times 7 = 88079.4$$

$$Y_{2015} = 31771.4 + 8044 \times 8 = 96123.4$$

**ANNEXURE 1.6: ESTIMATION OF INVESTMENTS OF ORIENTAL BANK OF COMMERCE FOR THE YEAR 2013 TO 2015 (Rs. In crore)**

Years	Investments (Y)	Year(X)	XY	x <sup>2</sup>
2008	23951	1	23954	1
2009	28489	2	56978	4
2010	35785	3	107355	9
2011	49545	4	198180	16
2012	52101	5	260505	25
sum	189871	15	646972	55

Here, the actual equation of linear trend is  $Y = a + bx$  Two normal equations are

$$\sum Y = na + b \sum x$$

$$\sum XY = a \sum x + b \sum X^2$$

Putting the values on normal equations from the above table

$$189871 = 5a + 15b \dots (I)$$

$$646972 = 15a + 55b \dots (II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$646972 = 15a + 55b$$

$$569613 = 15a + 45b$$

$$\underline{\quad\quad\quad - \quad\quad\quad -}$$

$$77359 = 10b$$

$$b = 77359/10$$

$$b = 7735.9$$

Substituting the value of 'b' in equation (I), we get

$$189871 = 5a + 15 \times 7735.9$$

$$5a = 189871 - 116038.5$$

$$a = 73832.5/5$$

$$a = 14766.5$$

Thus, the required trend is

$$Y = 14766.5 + 7735.9X$$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2013} = 14766.5 + 7735.9 \times 6 = 61181.9$$

$$Y_{2014} = 14766.5 + 7735.9 \times 7 = 68917.8$$

$$Y_{2015} = 14766.5 + 7735.9 \times 8 = 76653.7$$

**IS THERE A WAY OUT? (A CASE STUDY ON DEBT TRAP)**

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**ABSTRACT**

*The purpose of this case study is to create an insight into causes and consequences of debt trap in business. This case study outlines the journey of Mr. Surinder Agarwal\*\*, an entrepreneur who leaves the job to start on own and was forced to move back to job due to various circumstances. The desperation and hope at various stages of his journey were reflected through his actions. Mr. Agarwal acquired the ability to manage day-to-day operations but lacked the ability to manage funds and mitigate risks. Finance sense is very important for an entrepreneur and lack of understanding of the same results in sub optimal decisions. One such decision is to borrow more debt to meet the present financial obligations. This has lead the entrepreneur in to a debt trap. So, the challenge is to identify the ways in which entrepreneur may get released from this trap. Further research is needed to explore in detail the causes for this kind of behaviour in entrepreneurs.*

\* Real life case study of a client who sought advise from the author.

\*\*Name altered to protect the identity of the client.

**JEL CODE**

G32

**KEYWORDS**

debt trap, entrepreneur, finance sense, risk.

**CASE STUDY**

(\*This case study was developed for academic discussion only and not for criticizing effective or ineffective handling of a situation by an entrepreneur. The case study was developed through interview method using open ended questions)

Mr. Agarwal did his Diploma in Leather Working before joining a shoe factory in Agra. He enjoyed working in the first job. He was appreciated by his manager for his excellent communication and people skills. He took interest in whatever he did. He gained knowledge of the production process and quality aspects in his organization. In 1990, the managing director of the company where he worked decided to promote him to executive position in business development. He travelled to Maharashtra and Gujarat frequently to understand the markets and to promote products manufactured by his company. Here he understood the marketing aspect of the business very well. He felt a deep desire to be on his own. He understood the market demand and found an opportunity to establish his own business. So he quit the job in 1993 and with his savings did a fashion designing course for 6 months from Mumbai while staying with his uncle. After completion of this course, he opened a boutique in Mumbai. He ran this boutique very well in Mumbai for next 6 months.

As fate would have it, Mr. Agarwal's father met with an accident in Agra. He became paralyzed and Mr. Agarwal was forced to quit his boutique business in Mumbai. In 1994 he came to Agra and opened a boutique near home and also served his father for the next 7 years till his death. During this period, he also started driving a van for transporting school children and also started selling water filters on commission basis. His wife helped him in the evenings with the boutique business. Mr. Agarwal continued these activities till 2005. Then in 2005, the shop owner asked Mr. Agarwal to vacate the shop as he was trying to sell the property. On searching Mr. Agarwal found a shop in the main market. This was like a golden opportunity for realizing his dream of starting a big boutique and Mr. Agarwal immediately decided to shift to the new location.

Mr. Agarwal did not enter into any leasing agreement as he trusted the elderly new owner. The monthly rent of Rs. 3,000/- (\$60) is affordable and the location is perfect. He spent Rs. 30,000 (\$600) on the renovation and purchased Rs. 2,00,000 (\$4000) worth of material by taking a loan. His shop was briskly selling bags, kurtas, pajamas, quilts etc. He employed 3 helpers so that he could continue to drive the school van and also sell the water filters. The business was good for the next 6 months and then suddenly the shop owner asked Mr. Agarwal to increase the rent to Rs. 4,500/-(\$90) as the rentals have suddenly increased in that market. As Mr. Agarwal was earning well and making profits, he was able to pay the increased rent. Looking at the demand in the shop, he decided to focus more on shop so purchased a new van on loan and appointed a driver for running it. He started using old van for his business & personal needs. It appeared he will realize his dream of becoming one of the biggest boutiques in the area soon.

Looking at the success of Mr. Agarwal, another tailor also opened a boutique next to Mr. Agarwal's boutique. He was paying a monthly rent of Rs. 6,500/-. This resulted in Mr. Agarwal's shop owner increasing the rent again to Rs. 6,500/-. Due to competition, Mr. Agarwal's sale declined. Initially Mr. Agarwal met shop expenses with the income generated from the new van. But his new van met with a serious accident due to the negligence of the driver. He was forced to sell the van and clear the loan on the new van. As sales declined, unable to meet expenses, Mr. Agarwal was forced to borrow money to meet his expenses. At the peak festive season, in anticipation of better sales, he borrowed Rs. 50,000/- at an interest of Rs. 500/- per day (1% per day). Interest burden and increased debt led to Mr. Agarwal selling his old van. In 2008 Mr. Agarwal closed his business at Agra and took a job at Surat. He was earning Rs. 25,000/- with a garment exporter and decided to repay all his loans gradually by working there.

As fate would have it, in 2009 Mr. Agarwal's mother was diagnosed with cancer. So he was forced to comeback to Agra again and this time he took up a job in the local boutique. In the new job he was promised Rs. 10,000 per month. After working for few months he realized that the new owner was taking advantage of his situation. He was getting paid only Rs. 7,000/- far less than what he was promised. Failing health of mother coupled with long hours of employment (9am to 11pm) at the local boutique and also the low salary put tremendous pressure on Mr. Agarwal. After his mother's death in 2011, Mr. Agarwal left the job and started on his own again from home.

The present financial situation is as given below:

<b>i) Outstanding loans</b>		Rs.
	Private lender (5% per month)	69,000
	Rich friend (Interest free)	60,000
	NBFC (settlement amount)	65,000
	<b>Total loans outstanding</b>	<b>1,94,000</b>
<b>ii) Cash inflows:</b>		
	Income from boutique at home	
	after deducting expenses)	12,000
	Salary received by wife as a school teacher	4,000
	<b>Total earnings</b>	<b>16,000</b>
<b>iii) Cash outflows</b>		
	House rent	3,000
	other expenses	5,000
	<b>Total expenses</b>	<b>8,000</b>
<b>iv) Financial out flows</b>		
	Monthly interest on loan taken from private lender	3,450
	principal paid to the rich friend	4,000
	Principal paid to the NBFC	4,000
	<b>Total monthly outflows</b>	<b>11,450</b>
Net Cash Flows	Cash inflows - cash out flows - financial flows	16,000-8,000-11,450
		<b>= (3450)</b>

Interest is not being charged by the NBFC and Rich friend as Mr. Agarwal agreed to pay the principal regularly. He is planning to meet the short fall of Rs. 3,450 by borrowing from another lender at 2% per month. He feels that as and when the situation improves, he will be able to repay all the loans. Is this a wise decision?

## TEACHING NOTES

### 1. CASE SYNOPSIS

This case study highlights the importance of financial management in any business. Finance at micro level involves financing, investment, returns and financial flows. If excess debt is used in financing business operations, financial flows (interest and principal payments here) will exceed the returns. Continuously running business with negative cash flow situation leads to capital erosion and increased borrowing, which further increases outstanding debt. This is a negative spiral. Thus Mr. Agarwal is entering a debt trap.

### 2. PEDAGOGICAL OBJECTIVES

- Understand the concept of a debt trap
- Identify factors leading to a debt trap and
- Generate various options for dealing with a debt trap.

### 3. SUGGESTED QUESTIONS

- Identify various factors that impact the financial performance of a small business.
- Identify the risks faced by the entrepreneur and possible methods that could have been adapted to deal with the risk.
- How can we identify if a business is entering a debt trap ?
- Generate options for Mr. Agarwal so that he may come out of the debt trap.

### 4. OPPORTUNITIES FOR STUDENT ANALYSIS

- Students may be formed in to teams. Each team may first brainstorm. A team representative may present group views and other team representatives may join the discussion.
- Faculty can ask questions and lead the student interactions. Focus can be on identification of issues and generation of alternatives.

### 5. SUGGESTED ANSWERS FOR QUESTIONS

#### A. FACTORS THAT LED TO PRESENT FINANCIAL SITUATION

- Mr. Agarwal expanded the business without having sufficient funds. Every business should first focus on its sustainable growth rate. Sustainable growth rate is obtained by reinvesting the returns from the business and there is no external financing.
- The borrowed funds have high cost associated with them. In case a business has to borrow, first it should do a feasibility study to see whether it can payback the debts in time.
- In this case, the return from the business was not sufficient to cover the expenses. Also expenses like shop rent were increasing regularly. Increase in fixed expenses led to a higher operating leverage. The only way to meet expenses is to increase sale. Higher sales need higher inventory and again investment in current assets through borrowed funds. Thus it became a negative spiral. Finance sense is a must for any entrepreneur. Finance sense is the knowledge and ability to take correct financial decisions that add value to a business.
- A business has to enter into a regular contract with the stakeholders. Absence of stable contracts result in business failure when suddenly the cost of inputs go up.

#### B. RISKS FACED AND METHODS TO MITIGATE RISKS

Debt financing, Competition, rising cost of inputs, entrepreneurial mind set, are some of the risk factors faced by the business here. Mitigation of risks mentioned above could have been possible by taking the following steps:

Prior analysis of the move to shift from job to business. Entering in to a lease agreement after the first shop owner asked him to leave. Gradual expansion by reinvesting returns in to business. Replacing private loan by a bank loan or interest free loan to come out of debt trap. While keeping expenses low, strive for value addition and to differentiate services from the competitors.

#### C. OPTIONS FOR DEALING WITH THE PRESENT SITUATION

- May promote existing business. (But this is a long term option with uncertainty involved.)
- May request rich friend that the payment will be delayed by few months. (Need lot of persuasion as already he is not charging any interest)
- May do a part time job to increase earnings along with the business. (Need to find one and also need to ensure that he gets enough time to devote to his business also.)
- Reduce expenses. (bare minimum expenses to be incurred. Curtailing and convincing the family is important).
- May also look for a job with better salary. (Need to find one and looking at the gap in service, will prove to be a tougher option).
- May also try for financial restructuring i.e., replace high cost private loans with bank loans. (Need a collateral and guarantor for this purpose)

**D. PASSION OR NECESSITY DRIVING THE CAREER CHANGE OPTIONS**

Initially it was passion when he changed from job to business. But subsequently it was a necessity as family circumstances as well as exploitation of the employer forced him to start on his own again.

**6. SUGGESTED CLASSROOM TEACHING PLAN**

Q1	10 min
Q2	15 min
Q3	10 min
Q4	10 min
Summing up	5 minutes
<b>Total</b>	<b>50 minutes</b>





**ANALYSIS OF CAPITAL ADEQUACY OF PRIVATE SECTOR INDIAN BANKS**

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**ABSTRACT**

*In the present study, an attempt is made to analyze the present position of capital adequacy of selected private sector Indian banks. First section includes a brief review of some of the earlier studies. Second section covers the scope, objectives, hypothesis and research methodology. In third section, an attempt is made to analyze the capital adequacy of selected banks namely ICICI Banking Corporation Ltd (ICICI), Indusind Bank Ltd (Indusind), AXIS Bank Ltd (AXIS) and HDFC Bank Ltd (HDFC) in India by using CAMEL Model ratios for a period of 2000-01 to 2010-11. Fourth section covers the conclusion and limitations of the study. To achieve the objectives of the study, the use is made of secondary data collected mainly from Report on Trends and Progress of Banking in India, Performance Highlights of Private Banks in India, various journals such RBI Bulletin, IBA Bulletin, etc. To test the statistical significance of the results, one-way ANOVA technique has been used. The results of the study reveal that there is no significant difference in the capital adequacy ratio and the ratio of government securities to total investments in the selected banks; therefore, null hypothesis is accepted. On the other hand, a significant difference is found in the ratio of advances to total assets, government securities to total investments and debt-equity ratio in the selected banks; therefore, null hypothesis is rejected.*

**KEYWORDS**

Capital Adequacy, Net NPA to Net Advances, Investment to Total Assets, Net NPA as percentage to Total Assets.

**INTRODUCTION**

The face of banking in India is changing rapidly. The enhanced role of the banking sector in the Indian economy, the increasing levels of deregulation along with the increasing levels of competition have facilitated globalization of the Indian banking system and placed numerous demands on banks. Operating in this demanding environment has exposed the banks to various challenges and risks. In the process of providing financial services, they assume various kinds of financial risks. The quality, consistency and transparency of the capital base are one of the primary objectives of any banking institution. It is only through higher levels of loss absorbing capital that the banking sector will be in a stronger position to shield the economy from future shocks. The thrust of bank's work is to improve the level and proportion of the core elements of Tier 1 capital, namely common equity and retained earnings. Under the existing standard, banks could hold as little as 2 percent of risk-weighted assets as common equity. It is even less if you consider the need for additional regulatory adjustments. The Reserve Bank of India acts as a centralized body monitoring any discrepancies and shortcoming in the system. It is the foremost monitoring body in the Indian financial sector. It is generally accepted that greater financial system depth, stability and soundness contribute to economic growth. But beyond that, for growth to be truly inclusive requires broadening and deepening the reach of banking by improving earning quality of banking sector. A wider distribution and access of financial services helps both consumers and producers raise their welfare and productivity. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, avail credit, and more important, insure themselves against income shocks and emergencies. Though the Indian financial system has made impressive strides in resource mobilization, geographical and functional reach, financial viability, profitability and competitiveness, vast segments of the population, especially the underprivileged sections of the society, have still no access to formal banking services. The Reserve Bank is, therefore, considering the proposal for providing licenses to a limited number of new banks. A larger number of banks would foster greater competition, and thereby reduce costs and improve the quality of service. More importantly, it would promote financial inclusion and ultimately support inclusive economic growth, which is a key focus of public policy. The success in the global scenario can be attained only if banks maintain competitive edged in their higher levels of capital adequacy to empower them with loss absorbing capital that the banking sector will be in a stronger position to shield the economy from future shocks.

Induced by the forgoing revelations, an attempt is made to analyze the capital adequacy of selected private sector banks in India, which is divided into four sections. First section includes a brief review of some of the earlier studies. Second section covers the scope, objectives, hypotheses and research methodology of the study. In third section, an attempt is made to analyze the capital adequacy of private sector Indian banks. Fourth section covers the conclusion and limitations of the study.

**SECTION-I: LITERATURE REVIEW**

The articles published on different facets of Indian banking reforms are restrictive in nature and have been found wanting in terms of the assessment of the impact of the reforms on the banking sector. Reddy and Yuvaraja (2001) were of the view that the adoption of international capital adequacy standards, deregulation of interest rates and entry of private and foreign banks underlined that the speed and sequencing of the financial sector reforms should be as per the requirements of the Indian economy. Rao (2002) concluded that the international regulations are forcing the Indian banks to adopt better operational strategies and upgrade the skills. The system requires new technologies, well-guarded risk and credit appraisal system, treasury management, product diversification, internal control, external regulation as well as skilled human resources to achieve the international excellence and to face the global challenges. Muniappan (2003) focused on two areas - firstly, challenges faced by the Indian banks and secondly, the management of these challenges. Every aspect of the

banking industry, be it profitability, NPA management, customer service, risk management, HRD etc., has to undergo the process of transformation of aligning with the international best practices. He concluded that the future of Indian banking system needs a long-term strategy, which should cover areas like structural aspects, business strategies, prudential control systems, integration of markets, technology issues, credit delivery mechanism and information sharing, etc. Ghosh and Das (2005) highlighted the ways how market forces may motivate banks to select high capital adequacy ratios as a means of lowering their borrowing costs. If the effect of competition among banks is strong, then it may overcome the tendency for bank capitalization. If systemic effects are strong, regulation is required. Empirical tests for the Indian public sector banks during the 1990s demonstrated that better capitalized banks experienced lower borrowing costs. Sharma and Nikadio (2007) presented an analytical review of the capital adequacy regime of the banking sector in India and concluded that in the regime of Basel I, Indian banking system performed reasonably well, with an average CRAR of about 12 per cent, which was higher than the internationally accepted level of 8 per cent as well as India's own minimum regulatory requirement of 9 per cent. Ghosh and Ghosh (2011) emphasized on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the Reserve Bank of India and concluded that the reduction of non-performing assets is necessary for improving the profitability of banks and to comply with the capital adequacy norms as per the Basel Accord(s). Thiagarajan, Ayyappan and Ramachandran (2011) analyzed the role of market discipline on the behaviour of commercial banks with respect to their capital adequacy and concluded that the commercial banks are well capitalized and the ratio is well over the regulatory minimum requirement. The private sector banks show a higher percentage of Tier-I capital over the public sector banks. However the public sector banks show a higher level of Tier-II capital. The study also indicated that the Non-Performing Assets influenced the cost of deposits for both public and private sector banks in a significant manner. The return on equity had a significant positive influence on the cost of deposits for private sector banks. The public sector banks can reduce the cost of deposits by increasing their Tier-I capital.

## SECTION-II: SCOPE, OBJECTIVES, HYPOTHESES AND METHODOLOGY

### SCOPE OF THE STUDY

This study covers four private sector Indian banks namely ICICI Banking Corporation Ltd (ICICI), Indusind Bank Ltd (Indusind), AXIS Bank Ltd (AXIS) and HDFC Bank Ltd (HDFC).

### OBJECTIVES OF THE STUDY

The present study aims to analyze the present position of capital adequacy of selected private sector Indian banks.

### RESEARCH HYPOTHESIS

**H01:** There is no significant difference in the capital adequacy ratio of the selected private sector Indian banks.

**H02:** There is no significant difference in the debt-equity ratio of the selected private sector Indian banks..

**H03:** There is no significant difference in the advances to total assets of the selected private sector Indian banks.

**H04:** There is no significant difference in the government securities to total investments of the selected private sector Indian banks.

### RESEARCH METHODOLOGY

To achieve the objective of the study, the use is made of secondary data for a period of eleven years i.e. from 2000-01 to 2010-11, collected mainly from Report on Trends and Progress of Banking in India, Performance Highlights of Private Sector Banks in India, various journals such as RBI Bulletin, IBA Bulletin and ICFAI Journal of Bank Management. To test the statistical significance of the results, one-way ANOVA technique has been used to arrive at the conclusion.

## SECTION-III: ANALYSIS OF CAPITAL ADEQUACY

It is important for a bank to maintain depositors' confidence and preventing the bank from going bankrupt. Capital is seen as a cushion to protect the depositors and promote the stability and efficiency of financial system. Capital adequacy reflects the overall financial condition of the banks and also the ability of the management to meet the need for additional capital. It also indicates whether the bank has enough capital to absorb unexpected losses. Capital adequacy ratios act as indicators of bank leverage. The following ratios are used to measure the capital adequacy:

### 3.1 CAPITAL ADEQUACY RATIO

The banks are required to maintain the capital adequacy ratio as specified by RBI from time to time. As per the latest RBI norms, the banks in India should have a CAR of 9 per cent. It is arrived at by dividing the sum of Tier-I and Tier-II capital by aggregate of risk weighted assets (RWAs). The higher the CAR, the stronger is considered a bank as it ensures high safety against bankruptcy. Tier-I capital includes equity capital and free reserves. Tier-II capital comprises of subordinate debt of 5-7 years tenure, revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments and undisclosed reserves and cumulative perpetual preference shares.

TABLE 1: CAPITAL ADEQUACY RATIO

Years	ICICI	Indusind	AXIS	HDFC
2000-2001	11.57	15.00	09.00	11.09
2001-2002	11.44	12.51	10.65	13.93
2002-2003	11.10	12.13	10.09	11.12
2003-2004	10.36	12.75	11.21	11.66
2004-2005	11.78	11.62	12.66	12.16
2005-2006	13.35	10.54	11.08	11.41
2006-2007	11.69	12.54	11.57	13.08
2007-2008	14.92	11.91	13.73	13.60
2008-2009	15.92	12.33	N.A.	15.09
2009-2010	19.41	15.33	15.80	17.44
2010-2011	19.54	15.89	12.65	16.22
ANOVA Value	F- 2.24	P-value- 0.09		df-3

Source: Performance Highlights of Private Sector Banks, IBA, Mumbai.

Table -1 shows the capital adequacy ratio of the banks under study. It ranges from 10.36 to 19.54 in case of ICICI, from 10.54 to 15.89 in case of Indusind, from 9.00 to 13.73 in case of AXIS and from 11.09 to 17.44 in case of HDFC during the period under study. The results of one-way ANOVA reveal that there is no significant difference in the capital adequacy ratio in the selected banks; therefore, null hypothesis is accepted.

### 3.2 ADVANCES TO TOTAL ASSETS

The ratio of the advances to total assets indicates a bank's aggressiveness in lending, which ultimately results in better profitability. Higher ratio of advances to total assets is preferred to a lower one. The value of total assets is excluding the revaluation of all the assets.

TABLE 2: ADVANCES TO TOTAL ASSETS

Years	ICICI	Indusind	AXIS	HDFC
2000-2001	33.54	45.40	42.31	27.63
2001-2002	44.61	51.45	35.55	27.45
2002-2003	49.88	54.01	36.61	38.64
2003-2004	49.59	51.78	38.77	41.94
2004-2005	54.52	57.61	41.34	49.71
2005-2006	58.14	52.83	44.87	47.70
2006-2007	56.83	52.97	50.34	51.45
2007-2008	56.43	55.01	54.45	47.63
2008-2009	59.48	46.34	40.39	34.61
2009-2010	49.86	58.10	57.76	56.56
2010-2011	53.26	57.34	58.67	57.68
ANOVA Value	F-3.46	P-value-0.02		df-3

Source: Performance Highlights of Private Sector Banks, IBA, Mumbai.

As is evident from the Table-2, the ratio of the advances to total assets ranges from 33.54 to 59.48 in case of ICICI, from 45.40 to 58.10 in case of Indusind, from 35.55 to 58.67 in case of AXIS and from 27.45 to 57.68 in case of HDFC during the period under study. The results of one-way ANOVA reveal that there is a significant difference in the ratio of advances to total assets in the selected banks; therefore, null hypothesis is rejected.

### 3.3 GOVERNMENT SECURITIES TO TOTAL INVESTMENTS

The proportion of investment in government securities to total investments is a very important indicator, which shows the risk-taking ability of the bank. It indicates a bank's strategy as being high profit-high risk or low profits-low risk. It also gives a view as to the availability of alternative investment opportunities. Government securities are generally considered as the most safe debt instrument, which as a result, carries the lowest return. Since government securities are risk-free, therefore higher the government securities to investment ratio, the lower the risk involved in a bank's investments and vice versa.

TABLE 3: GOVERNMENT SECURITIES TO TOTAL INVESTMENTS

Years	ICICI	Indusind	AXIS	HDFC
2000-2001	49.72	73.24	57.89	47.76
2001-2002	63.31	78.65	55.04	44.11
2002-2003	72.04	79.68	59.28	47.48
2003-2004	69.96	94.93	64.88	59.88
2004-2005	68.31	83.68	52.81	58.02
2005-2006	71.66	84.72	54.77	69.14
2006-2007	74.15	82.31	61.09	73.76
2007-2008	67.76	81.99	59.87	64.11
2008-2009	61.59	77.87	59.85	88.68
2009-2010	56.71	81.92	61.09	87.10
2010-2011	48.27	73.96	61.39	75.64
ANOVA Value	F-11.23	P-value-1.76		df-3

Source: Performance Highlights of Private Sector Banks, IBA, Mumbai.

As is evident from the Table-3, the ratio of government securities to total investments ranges from 48.27 to 74.15 in case of ICICI, from 73.24 to 94.93 in case of Indusind, from 52.81 to 64.88 in case of AXIS and from 44.11 to 88.68 in case of HDFC during the period under study. The results of one-way ANOVA reveal that there is no significant difference in the ratio of government securities to total investments in the selected banks; therefore, null hypothesis is accepted.

### 3.4 DEBT- EQUITY RATIO

This ratio indicates the degree of leverage of a bank. It indicates how much of the bank business is financed through debt and how much through equity. This is calculated as the proportion of outside liabilities to net worth. Outside liabilities includes total borrowings, deposits and other liabilities. Net worth includes equity capital and reserves & surplus. Higher ratio indicates less protection for the creditors and depositors in the banking system and vice versa.

TABLE 4: DEBT-EQUITY RATIO

Year	ICICI	Indusind	AXIS	HDFC
2000-2001	14.04	14.89	34.71	16.09
2001-2002	14.78	17.16	22.38	11.24
2002-2003	13.67	15.44	20.36	12.46
2003-2004	13.98	17.85	20.25	14.72
2004-2005	12.00	17.84	14.67	10.27
2005-2006	8.61	19.35	16.23	12.55
2006-2007	12.97	18.80	20.59	13.18
2007-2008	7.54	16.24	11.50	10.58
2008-2009	6.60	15.60	13.46	11.49
2009-2010	6.04	13.77	10.26	9.34
2010-2011	6.37	10.29	11.78	9.93
ANOVA Value	F-7.00	P-value- 0.00		df-3

Source: Performance Highlights of Private Sector Banks, IBA, Mumbai.

As is evident from the Table-4, the debt-equity ratio ranges from 6.04 to 14.78 in case of ICICI, from 10.29 to 19.35 in case of Indusind, from 10.26 to 34.71 in case of AXIS, and from 9.34 to 16.09 in case of HDFC during the period under study. The results of One-Way ANOVA reveal that there is a significant difference in the debt-equity ratio in the selected banks; therefore, null hypothesis is rejected.

## SECTION-IV: CONCLUSION AND LIMITATIONS

To sum up, there is no significant difference in the capital adequacy ratio and the ratio of government securities to total investments in the selected banks; therefore, null hypothesis is accepted. On the other hand, a significant difference is found in the ratio of advances to total assets, government securities to total investments and debt-equity ratio in the selected banks; therefore, null hypothesis is rejected. The results obtained from the present study will be helpful to the policy makers, depositors, investors and other stakeholders to take decisions about the capital adequacy of the selected private sector banks in India. As the present study covers the analysis of four private sector banks for a period of eleven years only, therefore the results drawn cannot be applied to the banking sector as whole.

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**CHANGING PARADIGMS OF INSURANCE COMPANIES - A STUDY****P.MANIVANNAN****HEAD****DEPARTMENT OF CORPORATE SECRETARYSHIP****RKM VIVEKANANDA COLLEGE****CHENNAI****ABSTRACT**

*Insurance is of paramount importance for protecting human lives against accidents, causalities and other types of risks. Insurance has been dominated by public sector in India however, with the liberalization of Indian economy, private sector entry in insurance has got momentum. The public sector insurance companies, particularly, the dominance of LIC is not deliberate rather it is by virtue of the regulations that the market is deprived of the level playing field and market has an anti-competitive environment. This sector is highly lucrative and therefore increasing the FDI cap would be a step to enhance competition in this sector and also cover a large population. This highlights emerging trends and the varying strategy of the role players to strengthen their market.*

**KEYWORDS**

Insurance, Protecting human lives; LIC; FDI.

**INTRODUCTION**

The Insurance sector in India is one and a half centuries old. In the pre liberalization period this market was monopolies by LIC, GIC and to four subsidiaries. The opening up of the Insurance sector has been a surge not only in the number of foreign players entering the market but also in the variety of products being offered. The total Insurance premium in India is 2% of our GDP, which is far below the world average of 7.8%. The insurance penetration in India is only 1.95%.

Post Liberalization of Insurance sector has facing intense competition. In the second phase of liberalization we are posed for a paradigm shift. The following strategies would help insurance companies in India differentiate themselves.

- Products – stars of the future
- Distribution Strategy
- Pricing Strategy
- Customer Service
- IT as an enablers.

**PRODUCTS – STARS OF THE FUTURE**

The Insurance products in India can be categorized in to life Insurance and Non-Life Insurance.

**LIFE INSURANCE**

Life Insurance is a well established product in the country. People view life insurance policy as a secure, risk free investment. Instead of product innovation the need of the hour is to take it to the masses as estimates say 250-300 million Indians are still insurable.

**HEALTH CARE INSURANCE**

Worth over Rs.86000 crores and expected to grow by Rs.8000 crore each year. This is the position of the healthcare and health financing industry. But it has the following problems.

- i) Structural problems with the product including inflexible coverage terms.
- ii) Un-organized health sector in the country.
- iii) No standardized medical rates.
- iv) No domain knowledge with the Insurance industry.
- v) No reliable medical history system in the country.

**THE FUTURE STRATEGY**

- Recognize health care as a separate line of business.
- Reduce capital requirement from 100 crores to 30-50 crores.
- Introduce capital monitoring and product level norms for private health insurers.
- Insurance in urban areas and high public subsidies in rural areas should be promoted.
- Health care industry should create and adopt quality standards for health care delivery, develop the treatment protocols.
- Developing risk sharing models with insurers and making patient flow efficient by developing effective models to avoid overcrowding and over-treatment.

**TRAVEL RELATED HEALTH INSURANCE**

About 7 million Indians travel overseas, out of which 2% need medical assistance and 0.3% emergency medical treatment. But hardly one million out bound travelers go for medical Insurance. Hence this market could be harnessed. Flexible products for tech consultants and corporate travelers who travel for even 2-3 days can be introduced.

**CROP INSURANCE**

Crop Insurance enables farmers to insure themselves against income risks over which they have no control and allow them to invest in new, green revolution technology. New schemes should be introduced to protect farmers against price and yield fluctuations which would arise due to changes by adopted in different develop countries.

**NATURAL DISASTER INSURANCE**

It creates a financing mechanism for dealing with losses due to natural disasters like earthquakes and storms. The policy would look at disaster profiling, disaster planning and asset allocation in the case of disasters. The premiums for natural disaster insurance can be collected as part of municipal (property) tax, or as a surcharge at the time of transfer of property.

**TERRORIST RISK COVER**

Currently the territories risk is covered as a standard peril in fire Insurance policies following the September 11<sup>th</sup> issue in USA and the subsequent attack on Indian parliament, overseas re-insurers and refusing reinsurance of domestic general insurers' fire insurance portfolio. Separate terrorist attack insurance with the following features should be launched.

- Corpus fund to be created to reduce dependency.
- The corpus fund can be created out of the contributions from general insurance
- The contribution rate is pegged at around 3-5% of their total premium.
- The contribution may be made eligible for tax break

**DISTRIBUTION STRATEGY**

In India 1 billion people there is a vast untapped potential waiting to be mined. The key to reaching them is to develop sound distribution channels.

The traditional distribution model comprises:

- **Captive/Tied Agents:** These are agents who sell policies of only one Insurance company which employs them.
- **Independent Agent:** An individual agent who represents several companies and place insurance policies for their clients with the company that offers the best rate and coverage.
- **Corporate Agents:** Firms selling policies of several Insurance companies.

The various channels that can be used under the purview of the amendments are:

**BANKS**

Bank assurance in its simplest form is the distribution of Insurance products through a banks distribution channels. Banks can straightway leverage their existing capabilities in terms of database and face to face contacts to market Insurance products.

Rural areas and small towns offer huge potential to the insurance companies. This potentiality was largely untapped due to inadequate distribution. The following measures are suggested and these bodies can act as "Corporate Agents" to sell Insurance products most specific to the community needs.

- Cooperative societies
- Village Panchayats
- Post Offices

**NGO's**

This channel could be used to increase awareness about the Insurance Products. As many NGO's have strong presence and a positive reputation in rural areas they can prove to be an effective channel.

**GROUP CHANNELS**

**Worksite Group:** This type of marketing is the selling of voluntary Insurance and financial products at the worksite. The products may be on either an individual or group platform and are usually paid through periodic payroll deductions.

**Affinity Groups:** Affinity groups are homogenous groups. The major advantage of selling Insurance to affinity groups is that there is a greater likelihood of lasting.

Personal Advisors: Such as accountants, lawyers, doctors and tax planners.

**Mutual Funds:** Mutual funds could capitalize on their existing customer bases to sell policies.

**Hospitals:** A tie-up with hospital chains for selling health insurance can be an effective channel to reach a wide base of customers.

**PRICING STRATEGY**

Tariff is a schedule of premium rates, policies and conditions applicable to risks in a class of business. Historically rates of premium have been arbitrarily founded and progressively refined as experience was gained. Statistics on the frequency and intensity of claims were built over long periods and amorphous rate schedules constructed.

The Tariff market in India has been viewed to have a mixed bag of merits and demerits.

**PROS**

- Global perception of Indian Market as a stable market in terms of rates terms and conditions.
- Steady growth of the Insurance business with the tariffs providing benchmarks rates.

**CONS**

- Standardization has inhibited innovation and restricted customer choice.
- Tariffs have destroyed underwritings skills and have led to the proliferation of a bureaucratic attitude.
- Since Tariffs are not based on adequate data, rates are not scientific and realistic.
- Tariffs do not respond in a timely manner to changes in rates in International Markets.

De-tariffication is bound to happen as we have moved towards free market. In all probable chances the IRDA is working at detariffication in a phased manner.

The strategies that the Insurance companies should adopt so as to proliferate in the detariffed market should be:

**Collection of Data:** The biggest problem against detariffication is the absence of proper data to fix the premium rates. This data can be easily collected by the nationalized players that monopolized the industry for long.

**Scientific Pricing models:** Historically the rates of premium were arbitrarily founded and refined over a period of time. What is actually required is a systematic study of the risk profile of the individual/industry, economic condition etc., to arise at the premium rates. Various tools used are stochastic modeling, Financial modeling and reporting, Actuarial Sciences.

**Risk Management:** The risk for an individual can be determined by weighing the risk on various parameters such as his background, personal history etc. This would prevent the customer from being put in general class but would help in accurately the premiums, the customers needs to pay depending on the risk calculated.

Underwriters should be trained in the approach to rating making full use of statistical data and statistical techniques.

The marketing staff and front line staff should be trained to collect appropriate risk information at the time of rating and acceptance.

Factors needed to be considered by Insurance companies which arriving at the premium for a particular product.

**CUSTOMER SERVICE**

Products and prices in an Insurance industry can be easily duplicated. This service becomes the only differentiated which will provide the competitive advantage in the long run.

**THROUGH AGENTS**

The insurance agents are the interface between the customer and the Insurance Company. The agents should be able to accomplish the following the improve service.

- Assessing and analyzing the clients risk profile.
- Finding the best product or products available in the market
- Negotiating the best deal available in the market
- Continuity of service throughout the period of Insurance.
- Claims advisory service.

**PREMIUM COLLECTIONS**

The Insurance premium till data is paid by cash or cheques. With the internet technology revolutionizing the way business is done, a lot of time and money could be saved by premium payment through this mode.

**CUSTOMER MANAGEMENT CELL**

Insurance companies should have a cell for customer management which caters to the customer needs and complaints. They would do the following:

- Clear customers doubt and educate them about the products.
- Provide printed literature about products in English and regional languages
- Respond faster the customer's complaints like premium collection, renewal of policy etc.
- Educate the consumers about complaint redressal schemes like the ombudsman and the consumer courts. Insurance ombudsman and the consumer courts. Insurance ombudsman is a quasi judicial body established for speedy settlement of dispute in a fair, impartial and judicial manner.

**BUILDING BRAND AWARENESS**

Insurance companies build the awareness based on:

- Holding seminars and informal corner meetings.
- Distributing brochures/handout giving complete information of their products.
- Laying emphasis on the value of the product rather than on its price.
- Advertisements speaking of the utilities of the products instead of being loaded with slogans.

**CLAIMS PROCESSING**

- Responses time between the claim and the actual payment should be fast.
- In case of delayed payments, fine should be paid by the insurance company.
- In case of conflicting interests case should be referred to the ombudsman or courts as the case may be.

**IT – A STRATEGIC INVESTMENT**

Among the all, one factor that can, and is bringing sweeping changes in the industry, in the manner it will work henceforth, in information technology. Companies will need to redefine the way business was conducted so far. Innovations in technology will help the following areas.

**MARKETING AND SALES**

IT supports an Insurance enterprise in

- Measuring effectiveness of distribution channels.
- Developing front-end capability for collection of error-free data.
- Identifying profitable customers for cross selling
- Tracking and routine leads.
- Disseminating information's there by increasing efficiency in sales.
- CRM solutions which capture information generated by client encounters across all sales and service channels to present a single, unified picture of the customer in all transactions.

**CHANNEL MANAGEMENT**

Agency Management systems, call centers, computer telephony interface, point of sales systems, portals, knowledge management applications, wealth management, remote access and mobile computing support the distribution agencies by providing timely information on products, customers and market.

**INTERNET AND E-BUSINESS**

- Web based applications enable insurers to connect, inform and communicate with agents, partners, customers and end-users.
- Websites and portals are a low cost distribution channels to provide information about products and services.
- E-business enables and support business by facilitating online quotes, online policy issuance, online bill presentment and payment and claims submission.

**KNOWLEDGE MANAGEMENT**

Actual and risk assessment applications and rating solutions can be integrated with the underwriting and claim applications enabling the insurers to collect, collate, bring together, analyze the risk related data and calculate chances of loss and the average likelihood of an event happening.

**INSURANCE PROCESSING**

IT solutions can be used effectively to improve the efficiency of the business processes and maintaining accuracy, uniformity and consistency. Technology based transaction – centric solutions can be used for

- Workflow and document management.
- Electronic bill presentment and payment system.
- Content management.
- Sales force automation.
- Claims processing.
- Fraud detection.

**CONCLUSION**

Opening up of the sector certainly means more awareness amongst customers and highest expectations which can be satisfied by new products, better packaging and improved customer service. Potential buyers for more of this Insurance lie in the middle class. Both new and existing players will have to explore new distribution and marketing channels to reach them.

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## A STUDY ON THE IMPORTANCE OF SOFT SKILLS AND POSITIVE ATTITUDE AS PERCEIVED BY INDUSTRY WITH SPECIFIC REFERENCE TO FRESH ENGINEERS

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### ABSTRACT

*A study on the importance of Soft Skills and Positive Attitude as perceived by industry with specific reference to fresh engineers, right from the time of industrial revolution, the parameters sought by the employers in employees were generally the physical ability and the technical knowhow required to execute the specific job. As the times passed by, the needs of the community & society changed drastically, the demands rose with more specifics, technology grew by leaps and finally the products and services changed for the better. In the process, the boundaries of both the consumption & the market grew from local to global and thus the employment arena opened up the international borders. This is exemplified with products being designed in Japan, manufactured in China, marketed for the world, owned by Europe, supported by India, shares traded from Mumbai to New York, the list is endless. All these have transformed the whole world into a global village thus the demand for skills other than hard ones in terms of soft skills coupled with positive attitude are on the rise. This paper focuses on Human Resource Area in general and the importance of Soft Skills and Positive Attitude as perceived by industry with reference to fresh engineers, in specific. This paper is based on a diverse combination of conceptual structure and empirical study dealing with measure of soft skills and positive attitude as professed by the employers in fresh engineering recruits. The conceptual outline covers a vital review of the important literature and concludes at a more defined formulation of the theory. The empirical component is supported with responses received for semi-structured interviews with Human Resource and Technical heads of select companies. The outcome of the literature survey and the empirical study coherently put together has helped in identifying the skill sets sought after by the industry and this may guide the academia to attempt incorporating necessary measures.*

### KEYWORDS

Academia, Fresh engineering recruits, Industry, Positive Attitude and Soft Skills.

### INTRODUCTION

In the graduate employment market, a professional degree carries higher and better credence than a normal degree. A degree awarded by a reputed institute / a university still has a very high prevalence with the industry / employers. In spite of this being very true, there is significant and compelling evidence that degree or the certificate alone won't be enough in today's competitive market but employers have been increasingly looking for human resources with appropriate soft skills and right attitude.

The Confederation of British Industry (CBI) defines employability skills as: "a set of attributes, skills and knowledge that all labour market participants should possess to ensure that they have the capability of being effective in the workplace – to the benefit of themselves, their employer and the wider economy." Employability skills are not just for gaining an initial employment but to sustain and if required, getting a new employment too.

The competition among the fresh graduates is growing tougher and tougher with over 400,000 graduates passing out every year. They are bound to face questions as to what skill sets they learnt in the university and what experience they gained to complete the tasks more effectively and within a given time. In addition to one's degree certificate, it is simply needed today to be proactive and thorough with displayable employability skills to make one's CV look worthier. Today, in India, unemployability is more predominantly threatening the country rather than unemployment. Dr A P J Abdul Kalam, our former President of India has rightly said that India does not have the problem of unemployment but unemployability.

As per the results of the survey, jointly conducted by Federation of Indian Chambers of Commerce and Industry (FICCI) and the World Bank, 64 percent of surveyed employers are "somewhat", "not very", or "not at all" satisfied with the quality of the skills of engineering graduates. It is interesting to note that India has one of the world's largest qualified pools of technical manpower. But, the employability of the very resource is not truly encouraging compared with many other countries.

Integrity, reliability and teamwork are the three primary skills identified, whereas three most important specific skills are communication in English, entrepreneurship and use of modern technologies. Most of the employers were found satisfied with English Communication of the graduates while reliability was not fully convincing.

In simple words, employability is directly proportional to one's competency which in turn is a comprehensive combination of Knowledge, Skills and Attitude of persons. Competency is here viewed as both an absolute parameter and a relative terminology as one's competency is always compared with the other.

Further, in today's competitive world, an employee is always looked at in terms of one's current competency levels than at the one with which he entered into the organization. So, how well is he keeping himself updated and practical is very critical for one's own growth and sustenance.

The unpleasant observation in today's scenario is that quality of graduate engineers is compromised with total focus on producing more and more engineers quantitatively. This is evidently seen with mushrooming growth of engineering colleges throughout. Arguably, the educational system of the day is probably adding to the already existing melancholy.

It is widely reported that the recruiters are finding it tough to find the right skills and right attitude in almost all engineering disciplines. The widening gulf between what the industry expects and what the academia delivers is probably understood by referring to the industry stalwarts stating that only 15% to 25% of current engineers are employable.

Based on the industry in which an organization is operating, it looks for different sets of skill sets in potential hires or recruits. Multi skilled individuals are always in demand. Though every organization focuses on its own specific needs, certain common skills such as good communication skills, right attitude, interpersonal skills, integrity, decision making & problem solving ability and team comrade skills are always desired irrespective of the type of business or industry.

All employers irrespective of the type of their industry demand high degree of employability skills as that forms the very basis of their survival, sustenance and growth in today's tough global business environment. In fact, other resources being almost equal it is truly the Human Resource of high quality skills that differentiates between the market leaders and all others. Employers throughout the world have realized this factual aspect long ago and hence today physical international boundaries do not mean anything when it is the question of hiring the talent. Slowly but of late, even our Indian graduate youth have recognized this global truth and are in right path of keeping themselves abreast and updated with regard to both core and other employability skills.

Stringent hiring standards such as 65 to 70% consistent merit right from X standard to the final semester of B E, very good communication skills observed in Group Discussions and detailed technical and HR personal interviews in recent years have exposed the widening employability gap into spot light. Skills like creativity, innovativeness, thinking out of the box, adaptability, time consciousness, corporate etiquette and many more are being observed and valued.

Many of the aspiring young graduates despite having good academic records lack the critical skills which are cited above. Today's work environment puts a high premium on independent thinking, responsive and effective communication skills.



Most of the colleges and universities are just delivering today the old curricular contents without due regard to what is the current need of the industry. Even the syllabus is not being updated regularly in consultation with the industry. Pure textbook approach without practical exposure and knowledge takes the youth nowhere in terms of industry readiness. Further, the current examination system of giving choice like "Answer 5 out of 8" will not certainly help the cause as there is no choice once a graduate steps on the corporate ladder. It is further alarming to note that first class (60% -70%) students and even quite a few distinction (70% & above) students fail to clear the communication tests, group discussions and personal interviews.

Respondents from the industry revealed that unlike earlier, today, they do not have time to train the fresh recruits on all aspects and rather they expect the fresh hires to be job- ready from day one. With this in background, how can we resolve this issue? Probably and arguably the answer lie in our education system, wherein so far only the core/hard skills are being taught.

One of the key challenges faced by the Indian corporate world today is proper young human resource with right skill sets and competencies to take on global competition in quick time. With the industrial growth being rapid in general (except for the period of recession), rightly populating the entry level pipe line is highly essential. This is generally met with through campus recruitment. The immediate next challenge would be "up-skilling" of existing employees to take higher positions of team leaders and managers of higher order competencies. Over a span of time, it is very clearly realized by the industry that well experienced & highly skilled human resource is generally short in supply and if available, it is quite expensive. Hence, HR strategies, processes and practices which are upwardly scalable, innovative and cost effective are to be evolved and sustained.

This paper aims at exploring the specific skills required for obtaining and sustainable employability of engineering graduates in the eyes of the recruiters. In most of our engineering colleges, students do come from different backgrounds in terms of academic standards, urban & rural divide, varied native languages and multi cultural canvas. In order to gain and sustain an employment in today's challenging scenario, there is a strong need for a common link to make them competent. Communication in English may remove the lingual barriers in corporate world and give them a common medium to communicate. In addition, according to the author's findings the students with skills like positive attitude, problem solving, time management, team spirit, self-confidence, handling criticism, flexibility and a few others, also known as soft skills as a whole, have much better chances of not only survival but successful growth in the tough corporate world compared to others who lack these.

The necessary data for the study has been collected through questionnaire technique and personal interview method.

## REVIEW OF LITERATURE

1. Duyen Q. Nguyen in his study 'The Essential Skills and Attributes of an Engineer: A Comparative Study of Academics, Industry Personnel and Engineering Students' analyzed through survey data on the most essential generic skills and attributes of a modern engineer and concluded on the requirement of technical knowledge and skills and attitudes. His study revealed that the emphasis given to personal and professional attitudes by the industrial sector was interesting and indicates that engineers are not only expected to be technically proficient in the field but also to know how to behave and operate within an organisation. He even pointed out that other generic groups such as intellectual skills and standards of engineering practice were also highly regarded by industry

2. Meenakshi Sharma, in her paper 'How Important Are Soft Skills from the Recruiter's Perspective' has discussed about the role of soft skills in different managerial roles and weightage of soft skills in promotions. Her study results have shown that industry does prefer people with experience, but they also look for some other qualities in them. Along with technical skills, people who are adaptable and have the zeal to understand and learn new technologies as part of their growth process are sought. She quoted that the interpersonal skills, alignment with the corporate culture, the ability to work as an effective and contributing team member and the political savvy to know how to get things done in the organization" also determine a person's long-term success in an organization. The study revealed that in general, hiring managers are not happy with the new workforce coming out of the colleges and they do believe that they should be much better equipped with soft skills as well as hard skills.

3. In article 'English and Communication Skills for the Global Engineer', Marc J. Riemer, discussed about the communication skills and its importance for engineering graduates for the employability. He quoted in his article that, Language and communication skills are recognized as important elements in the education of the modern engineer, including English for specific purposes. Yet, there seems to be limited implementation of English courses globally, despite its current lingua franca status. Those institutions that have already implemented multilingual and communication elements will be at the forefront of providing the demands of industry and society. The incorporation of several components of the fundamentals of emotional intelligence in education will facilitate advanced communication skills.

4. In the article, 'Sustainable Employability Skills for Engineering Professionals, author V. Saravanan aimed at exploring the skills set required for sustainable employability of engineering graduates in India. His study revealed that as in most of the Indian engineering colleges, students are from different academic backgrounds coming from different places having different mother tongues, there is a need to provide them a common platform to make them competent enough to face the real challenges of today's corporate world. English is the language which can remove the lingual difference among them and give them a common medium to communicate. According to his findings that students with skills like positive attitude, effective communication, problem solving, time management, team spirit, self-confidence, handling criticism, flexibility, etc which are also known as soft skills as a whole, have much more better chances of survival in the tough corporate world compared to the students who are lacking in the soft skills. In the paper author tried to list the skills needed for the students to get employed in reputed companies and has shown how these skills are important for them to work in a performance oriented work environment.

5. In the article 'Enhancing the Employability Skills of Undergraduate Engineering Students' by MARGARET MORGAN<sup>1</sup> and PEARSE O'GORMAN<sup>2</sup>, says that methodology for developing engineering students at the University delivers the traditional scientific, technical, analytical and mathematical subjects that are fundamental to the area of mechanical and manufacturing engineering but with an emphasis on developing the students' commercial awareness and communication skills that employers, and beyond, have identified as being so important. Students finishing engineering programmes at the University which focuses on enhancing the employability skills of graduates there by giving them a competitive edge in securing suitable employment, have reported high levels of satisfaction with the extent to which their business awareness and soft-skills have been developed. Finally, employers are very satisfied in that a very high percentage of the graduates obtain suitable employment in graduate positions within a short time of completing their studies. GORMAN has taken ULSAR University for his study and implemented his new method of syllabus on mechanical engineering students and has proved the effect of employability training.

6. Divya Shukla in her article 'Employability Skill among Professionals – Chagrin of HR Executives in Indian Labor Market: A Study on Engineering Graduates of Bhopal City, has focused on attitude importance in employability. In her study she has discussed on the mushrooming of the technical and professional institutions in India and its resultant into the million of professionals and technocrats' contribution to the Indian labor market and employability among these pass out. The research paper is an effort to check the status of the employability among the engineering professional of Bhopal City. The objective of the research is to identify the level of employability skill among students, its differences based on the respondents' demography details and to facilitate suggestive measure to this regard. The data was collected through questionnaire from 291 engineering professionals who are in final year of their BE degree. She analysed the average and moderate level of employability skills among the professionals.

7. In response to the question "How can the Indian industry and academia collaborate to make engineering education better?" by EE Times-Asia\*, Jaswinder Ahuja, Vice President & Managing Director, Cadence Design Systems (I) Pvt. Ltd <sup>4</sup> stated as: There are several ways in which to bridge the gap, some of which are detailed below. Industry-academia-government partnership to provide students with valuable practical experience while in college by applying their theoretical knowledge to actual customer problems; The ecosystem needs to work together to constantly update the curriculum of educational institutes for it to be in line with the latest industry developments; Encouraging internship programmes. This imparts hands-on technical, business and soft skills to students in a professional environment and also gives access to a potential workforce to the company.

Responding to the same question, T.V. Prasad, HR Director, Cypress Semiconductor Technology India Pvt. Ltd suggested that some specific steps that can be taken are:

a) Universities/colleges need to constantly review their curriculum and adapt to the changing industry needs.

b) Universities/colleges need to focus much on research involving real technical problems that the industry is trying to solve.

- c) State level and district level industry-academia interface bodies need to be initiated  
 d) Many universities do not have enough faculty. Industry can bridge this gap by asking their employees to do part-time faculty assignments.  
 e) Industry and academia together can sponsor several innovative challenges / competitions that involve solving technical problems that are current and live in the industry.

The industry and analysts see a growing employability gap for graduating engineers. What is your opinion? In response to this query, Krishna Vedula, Professor of Chemical Engineering, Dean Emeritus of Francis College of Engineering at University of Massachusetts Lowell; former Executive Director of Indo-U.S. Collaboration for Engineering Education with inputs from M.P. Ravindra, Executive Director- IUCEE (India)\*; Advisor-E&R, Infosys Technologies Ltd expressed that:

The need to innovate new technologies in collaboration with the users of the technologies has changed the workforce needs of the business world, while the aptitude and talent of the future workforce have changed radically as a consequence of easy access to digital and communications technologies. Although engineering educational institutions in U.S. and India are responding to these changes, many of them are inhibited by traditional approaches to teaching and research. Engineering education needs to pay more attention to the development of innovation, entrepreneurship and the ability of its graduates to function in a constantly changing global environment. The future of the U.S. technical workforce is challenged by the lack of interest and preparation among its youth for science and engineering careers. At the same time, India has a large number of youth with strong math and science skills interested in engineering careers, but limited by inadequately trained faculty, poor facilities and limited research in a majority of its engineering colleges.

8. M.Vijayakumar & Dr S Ramalingam in their article 'A study on competency needs analysis and quality factors for fresh recruits' have attempted to study the methodology and processes involved and the strategies and challenges the companies face during the exercise. They discussed about big gap between what the employers expect and what the candidate show case in terms of employable competencies. They attempted to bring in to lights the factors that are commonly considered in job interview and how those factors fall in order of preference.

9. In the paper 'An Empirical Study on Expectations of Industry from Academia', Prof. Neeraj K. Dubey, Dr. Saurabh Goyal, Prof. Ravindra Pathak, Dr. Uday Singh Rajput tried to explore gap between industry expectations and quality of recent college graduates. They tried to create an active interface between industry and academia. In the study they have considered 12 determinants of employability namely-soft skills, leadership qualities, suitability, analytical power, ethical component, dressing sense, language, appearance, manageability, training needs, industry's view and professional commitment. The results indicated the importance of softskills and other criteria along with the basic theoretical knowledge.

10. The study done by FICCI on 'Industry – Academia Convergence "Bridging the Skill Gap"', talks about the need for effective intervention to understand employer needs, variable sector specific skills, training requirements that improve business performance, articulation of business expectations in education institutions and engagement of industry leaders with higher education institutions. Given its mandate, FICCI through the platform of Industry – Academia Convergence, endeavours to bring together higher education institutions and employers to evolve modalities for collaboration with the aim to meet India's medium and long – term skills and business needs for the 21st century.

11. In the article 'Engineering education in the context of labour market requirements and expectations - Polish experiences', Agata Pradela has studied on the process of engineering education. The most important issues, challenges and problems connected with higher education are described, such as educational trends, the low quality of education at schools (in the opinion of academics), demographic gaps and the lack of monitoring of labor market requirements. He highlights system solutions of engineering education and activities that support engineering education such as career service, technology transfer, co-operation between employers and universities, and research on matters relating to students' and graduates' careers. The author has come up with the determinants and perspectives of engineering education.

12. SUSAN M. KATZ in her article 'The Entry-Level Engineer: Problems in Transition from Student to Professional' has discussed on the issues of the students transformation problems from the stage of student to professionals. And suggests that many basic skills required in the workplace, including the ability to work on a team and to communicate with one's peers and supervisors, are missing or insufficiently developed in recent college graduates. She quotes that through many employers have programs to overcome these deficiencies, academicians also should consider what best can be done to prepare students for their future roles, and what students themselves can do to ease the transition.

13. Winblad (2004) in his article 'Requirement engineering: Closing the gap between academic supply & industry demand' has focused on the requirement engineering that involves capturing, structuring, and accurately representing the client's requirements in a manner that can be effectively implemented in a system that will conform to the client's specifications. He also suggested project based & collaborative learning to upgrade the students. He concluded that new graduates are ill equipped to enter and survive a market with recessions because they do not exhibit the qualities that the industry treasures.

14. Eileen M. Trauth in his study 'The IS Expectation Gap: Industry Expectations Versus Academic Preparation', focussed on recent changes in information systems technologies, applications, and industry requirement for tomorrow's IS professionals. He used data from four groups-IS managers, end-user managers, IS consultants, and IS professors-to identify the key skills and knowledge that will be required of future IS professionals. These requirements were then compared with current IS academic programs. The results reveal that despite a shared vision of the future IS professional, there is an "expectation gap" between industry needs and academic preparation. He quotes that Industry and universities must work together to close this gap. Universities need to place more emphasis on the Information Systems Curriculum integration of technologies, applications, data, and business functions and less on traditional and formal system development. Firms need to send consistent messages to universities about their expectations while recognizing that the mission of university business programs is career education, not job training.

15. Ghosh et al (2007) discovered that at present, there are several mechanisms operational in India, with 'Academia-Industry interaction,' as a fulcrum of technical education. He focussed that by involving the industries right from the stage of drafting syllabi to absorbing the trained students, they are allowed to shape the CORE into a highly productive Human Resource Centre. This also enables them to reduce the time required to orient a fresh graduate before s/he could be inducted into shop floor and to upgrade/ re-skill their existing employees at a very competitive cost. Zahid (2008) concluded that higher education and industry linkages should remain alive for constant updating of courses. By creating the partnership between universities and industry, both can benefit from resources of each other.

16. Modi (2009) concluded that fresh graduates, who join the industries, require six months to 2 years as gestation period to show their contribution and, many a time, they leave the organisation before they start showing results. This is due to the gap between theory and practice. The industry, R&D labs should become partners with the centres of higher learning.

17. Paliwal (2009) has focussed on coordination among the efforts of academia, industry and the government. He emphasized on instilling the traits which are expected by the prospective employers. Hannan (2003) recommended that faculty-student ratio should be close to 1:10, frequent revision of syllabus in consultation with the industry and institutions should create the professionals with global mind set so that they can adjust in different cultural & social settings.

## NEED FOR THE STUDY

We find a phenomenal growth of engineering institutions in India especially after the year 2000. Based on TNN-Times News Network of 28th Feb 2012, India is now home to 3,393 engineering colleges that have 14.86 lakh seats; Further, just 5 states: Maharashtra, Andhra Pradesh, Tamil Nadu, Karnataka and Uttar Pradesh have about 70% tech institutes. With this data on the input end, leading industrialists and NASCOM state that only 15% to 25% of technical graduates are employable.

Her graduates, why our corporate leaders and managers are not happy with the graduates of the day? Here rises a natural question that In spite of so many technical institutions producing large number of graduates, why our corporate leaders are not happy with the graduates of the day? Certainly the point is towards the holistic quality and not the quantity.

On one side the Knowledge commission moots for more number of engineering colleges and on the other side, lakhs of seats lie vacant after the admissions are completed. (When admissions closed in the year 2011-12, AICTE estimated that nearly three lakh seats were unfilled). Further, there are certain perennial problems associated with a large number of engineering colleges, few of which are as follows:

- Insufficient number of well qualified and passionate faculty.
- Lack of Infrastructure – Laboratory equipment, Workshops, etc.
- Lack of quality reference material in libraries
- Minimum Student Faculty Interaction
- More emphasis on Theoretical Lectures than Practical Applications
- High priority accorded to passing examinations than acquiring knowledge.
- Lack of Institute Industry Interaction
- Lack of or minimum live project works by engineering students
- Low self esteem, confidence, and fear of facing Interviews
- Lack of students’ competencies required for employment.

It may be mentioned here that this is a part of the doctoral study that is being done with the title “empirical study of Engineering Students’ competencies for matching Academia deliverables and Industry needs”. With the literature survey cited and opinions of industry heads studied, it is a clear picture that importance of Soft Skills and Positive Attitude as perceived by industry with specific reference to fresh engineers is really more focused now than ever before and hence the need for the study is prompted.

**STATEMENT OF THE PROBLEM**

Are soft skills and positive attitude important for fresh engineering graduates today to get employed?

**OBJECTIVES**

The study tries to answer the following questions:

1. Which skills do employers consider important while hiring new engineering graduates?
2. How satisfied are the employers with the skills of fresh engineering graduates?

**RESEARCH METHODOLOGY**

**PROCEDURE USED TO COLLECT DATA**

As a part of ‘Empirical Study of Engineering Students’ competencies to match Academia Deliverables with Industry Needs” - a doctoral thesis, this paper tries to list the skills needed for the students to get employed and show how these skills are important for them to work in a performance oriented work environment. To achieve the objective, data was collected from mainly primary sources while secondary source data has been utilized to conceptualize and substantiate the research work.

The primary data was collected through structured questionnaires framed for the Technical and HR heads of different organizations using the workforce to get their opinion & sensitivity on what their expectations are from the fresh recruits and what suggestions they have for improvement, as they are the basic demand creators and end users of the services. Technical & HR heads of over twenty organizations like BHEL Electronic Division, Cisco, Sasken Technologies, Nokia Siemens Networks, Mind Tree, IBM, Infosys, etc, have been considered as sample data for the study. To fulfill these aims, the researcher has considered Technical Skills, Soft skills along with Attitude as the criteria and framed a structured.

Technical Skills	Soft skills	Positive Attitude
Design, Logic Design, Circuit Analysis, Meticulous Assembly of components, Instrumentation skills, Testing skills, 'C' language, C++, Java, Troubleshooting, VLSI, DSP Programming, Board Designing, Network Analysis, Assembly language, Debugging	Communication Skills – Verbal & Non Verbal, Multi lingual skills, Decision making ability, Team Work, Leadership qualities, Art of Questioning, Diplomacy, Need for Multiple Tasking, Risk taking skills, Independent working, Wisdom to prioritize, Ability to say 'no', Knowledge of legal issues, Numerical aptitude, Strong memory, Planning skills, Managing Resources. Caring customers(CRM),	Time sense, Self initiative, Cost Consciousness, Quality Consciousness, Concern for Deadline, Creative thinking, Spiritually mindedness, Emotional stability, Self motivation, Working under pressure, Logical approach, Meeting etiquette, Competitive spirit, Winning attitude, Corporate etiquettes, Readiness to change, Accepting failure, Ego management. Sense of Humour , Valuing ethics.

**ANALYSIS AND FINDINGS**

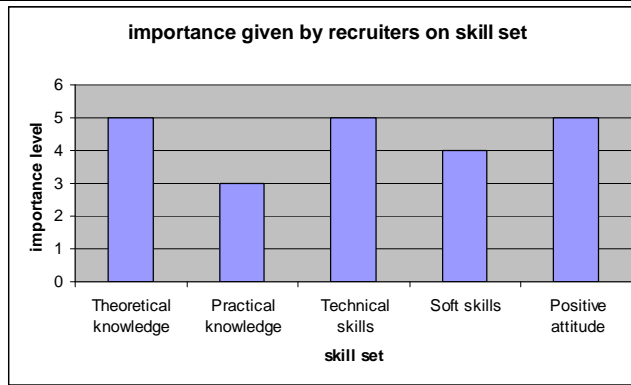
The employers of engineering graduates specifically seem to focus on Theoretical Knowledge, Technical Skills and Positive Attitude to learn and work in dynamic and challenging environment. From the study it appears that recruiters/HR experts are ready to give opportunities to fresh engineering graduates possessing positive attitude, core and soft skills and this inference is drawn as their priority indicated is so high with a rating of 5 on a scale of 1 to 5. Hence, in employers’ perspective, if engineering graduates possess the needed skills, they can be moulded to organizations’ requirements.

**OVERALL SKILLS SET**

Recruiters have ranked different parameters with rankings as follows:

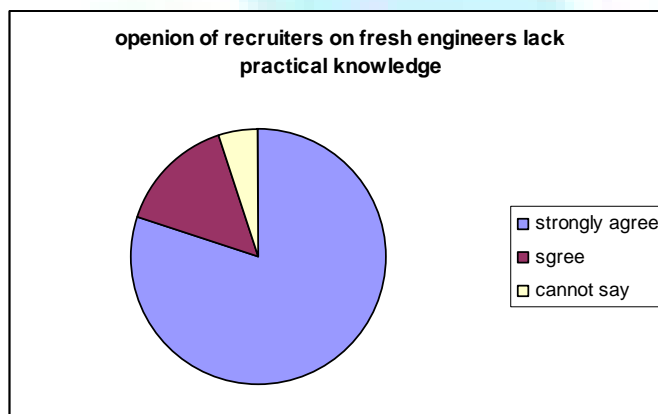
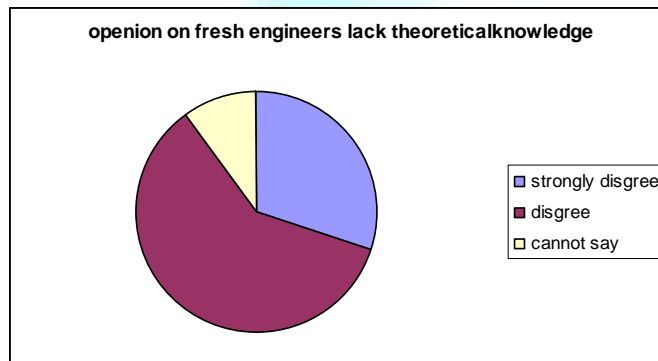
**GENERIC SKILLS & ATTRIBUTES**

SL. No	Generic Skills & Attributes	Industry Rank
1	Theoretical knowledge	5
2	Technical skills	5
3	Positive attitude	5
4	Soft skills	4
5	Practical knowledge	3



**THEORETICAL / CONCEPTUAL KNOWLEDGE & PRACTICAL KNOWLEDGE**

When the researcher attempted to find industry’s opinion on “lack of theoretical skills”, on an average 90% of the respondents strongly or moderately disagreed and they are of the opinion that students are “fair” in conceptual knowledge while they opine that practical skills are very less. Almost same percentage of the industry respondents say that the students do lacking practical knowledge.

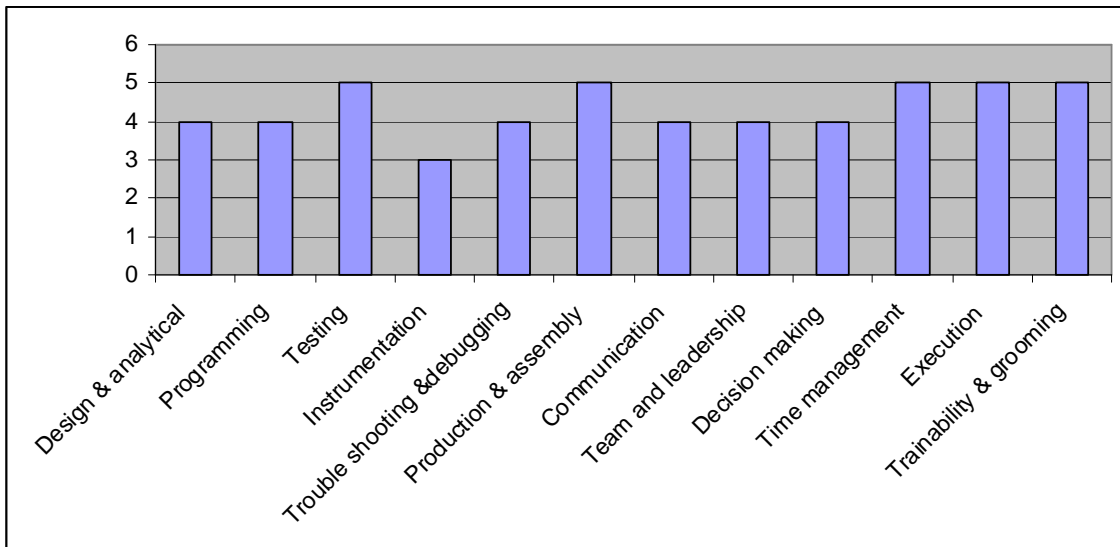


Researcher has grouped all the skills which he has considered for study into 12 heads for computational purpose with the help of factoring and tried to identify the ranks given by the recruiters and found the rankings as given below (please refer both the table and the chart).

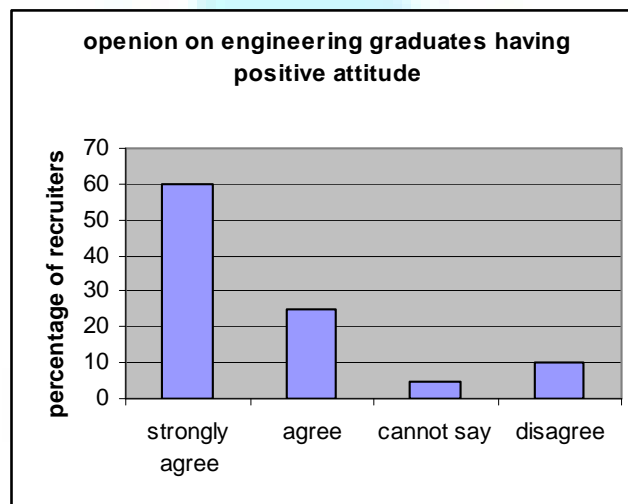
SL. No	Generic Skills & Attributes	Industry Rank
1	Design and analytical skills	4
2	Programming skills	4
3	Testing skills	5
4	Instrumentation skills	3
5	Trouble shooting and debugging skills	4
6	Production & assembly skills	5
7	Communication skills	4
8	Team and leadership skills	4
9	ion making skills	4
10	Time management skills	5
11	Execution skills	5
12	Trainability and grooming skills	5



BAR CHART SHOWING THE RANKS AS INDICATED BY THE INDUSTRY EXPERTS



When recruiters were asked about the importance of attitude and whether they feel the fresh engineers have the positive attitude, many are in agreement that graduates have the positive attitude.



**CONCLUSION**

Studies have shown that the recruiters expect a high degree of technical knowledge and conceptual clarity in the fresh recruits. Further, the results have shown that in addition to technical knowledge, skills and expertise certain specific skills and qualities are expected in the graduate engineers of the day. As technical skills without the motivation to keep growing and learning new ones, would soon become outdated, they specifically look for people who are adaptable and have the zeal to understand and learn new technologies as part of their growth process. The recruiters attach a very high weightage to soft skills and positive attitude on par with technical skills.

The results have pointed that in general, hiring managers are not satisfied with the new workforce coming out of the colleges with regard to long term approach and reliability. They do believe that graduate engineers should be much more job ready with necessary soft skills in addition to the hard skills. The employers expressed that in order to shoulder higher responsibilities in key positions, the need for soft skills and positive attitude are very essential as the company grows bigger with expanding domains and markets in current scenario.

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**APPENDIX**

**QUESTIONNAIRE FOR INDUSTRY HEADS - IJRCM 11.12.2012**

**QUESTIONNAIRE FOR INDUSTRIAL HEADS (HR & TECH FUNCTIONS)**

**1. Choose the kind of industry, your company belongs to:**

- a) Electronics                      b) Telecommunication                      c) Automobile                      d) Communication

**2. Choose the kind of function your company is associated with:**

- a) Design    e) Marketing  
 b) Production    f) Service  
 c) Testing    g) Others.....  
 d) R&D

**3. Your sources of HR Recruitment at entry level:**

- a) Campus Selection    e) Job Portal  
 b) Project Trainees / Apprentice    f) References  
 c) Consultants    g) others (Please specify) \_\_\_\_\_  
 d) Newspaper

**4. While recruiting Electronics & Communication Engineering / Telecommunication Engineering Graduates, what do you primarily look for?**

**(In the range of 1 to 10, (10 being the most sought and 1 being the least preferred)**

- a) Theoretical Knowledge(1.....10)    d) Soft Skills(1.....10)  
 b) Practical Knowledge(1.....10)    e) Positive Attitude(1.....10)  
 c) Technical Skills (1.....10)    f) others (Please specify).....

**5. a) Do you feel that the fresh engineering recruits lack in theoretical aspects of Technical knowledge?**

- Yes                      No                      Can't Say

**b) If yes, please suggest the areas / aspects of such theoretical knowledge which they lack?**

\_\_\_\_\_

**6. a) Do you feel that the fresh engineering recruits lack in practical aspects of Technical knowledge?**

- Yes                      No                      Can't Say

**b) If yes, please suggest the areas / aspects of such practical applications which they lack?**

\_\_\_\_\_

**7. In your considered opinion what technical skills are required for a fresh engineering recruit? Kindly specify the ranges on a scale of 1 to 10 (10 being the most sought and 1 being the least preferred)**

Technical Skills	Scale of (1.....10)	Scale of (1.....10)
a) Design		j) Troubleshooting
b) Logic Design		k) VLSI
c) Circuit Analysis		l) DSP Programming
d) Meticulous Assembly of components		m) Board Designing
e) Instrumentation skills		n) Verilog
f) Testing skills		o) Network Analysis
g) 'C' language		p) Assembly language
h) C++		q) .net
i) Java		r) Debugging
s) Other Programming languages (please specify).....		t) Any other technical skills

Please specify along with the range

.....  
 .....

**8. In your considered opinion what soft skills are required for a fresh engineering recruit? Kindly specify the ranges on a scale of 1 to 10 (10 being the most sought and 1 being the least preferred)**

Soft Skills	Scale of (1.....10)	Soft Skills
a) Communication Skills - Verbal		v) Independent working
b) Communication Skills – Non Verbal		w) Wisdom to prioritize
c) Multi lingual skills		x) Ability to say 'no'
d) Decision making ability		y) Knowledge of legal issues
e) Team Work		z) Working under pressure
f) Leadership qualities		aa) Numerical aptitude
g) Positive Attitude		ab) Logical approach
h) Time sense		ac) Meeting etiquette
i) Self initiative		ad) Competitive spirit
j) Cost Consciousness		ae) Strong memory

- k) Quality Consciousness
- l) Concern for Deadline
- m) Art of Questioning
- n) Diplomacy
- o) Need for Multiple Tasking
- p) Grooming
- q) Creative thinking
- r) Spiritually mindedness
- s) Emotional stability
- t) Self motivation
- u) Risk taking skills
- Aq) Other soft skills required
- af) Winning attitude
- ag) Corporate etiquettes
- ah) Readiness to change
- ai) Accepting failure
- aj) Caring customers(CRM)
- ak) Planning skills
- al) Ego management
- am) Managing Resources
- an) Sense of Humour
- ao) Valuing ethics
- ap) Accepting Challenges

Please specify along with the range

.....  
 .....

9. a) In your opinion, do the fresh engineering recruits suit your company in terms of attitude?

Yes                      No                      Can't Say

b) If no, what do you look for?

Positive Attitude                      Negative Attitude  
 Neutral Attitude                      Others (please specify).....

10. a) Do you suggest any training for developing positive attitude of engineering students during their college time?

Yes                      No                      Can't Say

b) If yes, what kind of training do you suggest?

\_\_\_\_\_  
 \_\_\_\_\_

11. During the Recruitment Process, Do you find that Engineering Graduates possess the required Competencies to meet the expectations of Industrial Needs?

Yes                      No                      Can't Say

12. If No, in your opinion, what are the Competencies they lack?

\_\_\_\_\_  
 \_\_\_\_\_

13. What additional efforts are required to bring the competencies of fresh recruits to your desired levels?

\_\_\_\_\_

14. What kind of Competency Development Programs do you have in your company?

\_\_\_\_\_

15. What is the amount of time and cost (optional) invested on this competency development programs?

\_\_\_\_\_

16. Instead, Do you prefer to have Fresh Engineers fully equipped with all the required competencies?

Yes                      No

17. What approach & criteria you adopt while recruiting fresh engineering candidates?

\_\_\_\_\_

18. With the above approach and criteria being in place, do you find competency gaps still existing among the fresh engineering recruits?

Yes                      No                      Can't Say

19. If Yes, to bridge the perceived competency gap, in your opinion, what changes / additional inputs do you expect from the institutions / Academics at large to make today's students more industry-ready / employable?

- a) Change in the curriculum in association with Industry experts
- b) More Industry – Institution interaction
- c) More laboratories and hands-on experience
- d) Guest lectures by industry experts
- e) More seminars and conferences
- f) Industry oriented skill training
- g) Live Project in an Industry
- h) All of the above
- i) Others.....

20. Any other suggestions (to Academicians and Students) to improve the competencies of Engineering students, so that they are employable while meeting the Industrial requirements.....

Signature

Date:

**PROSPECTS AND CHALLENGES OF WOMEN ENTREPRENEURSHIP WITH SPECIFIC REFERENCE TO DALITS**

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**ABSTRACT**

*A woman entrepreneur is an adult who owns and runs an enterprise, especially a commercial one, often at personal financial risk. In India women have made a comparatively late entry into business scenario mainly due to the orthodox and traditional socio-cultural environment. In India from the very beginning, women have been managers of the kitchen and have solely dominated the area of household activities. Today non – traditional enterprises are easily managed by women and are done so excellently with them as the decision – makers. Today, woman entrepreneurs represent a group of women who have broken away from the beaten track and are exploring new avenues of economic participation. Among the reasons for women to run organized enterprises are their skill and knowledge, their talents and abilities in business and a compelling desire of wanting to do something positive. In this content a research study was formulated with the objectives of identifying the socio economic profile of Dalit women entrepreneurs, to highlight the main motivational factors for Dalit women entrepreneurs and to study the major constraints faced by the Dalit women entrepreneurs. The study was related to 50 dalit women entrepreneurs in Tirupur district of Tamil Nadu. The required information relating to general background, motivational factors and problems faced by them were collected by administering an interview schedule to the respondents. The study used chi square analysis to find out whether there is significant association between education and the type of entrepreneurial activity and type of family and profit earned. The study revealed that dalit women were involved in tailoring, phenyl making, poultry and running grocery shops. The major motivational factors were earning money and need for self dependence. However they found the problem in getting finance and dominance of males.*

**KEYWORDS**

Dalit, Domination, Entrepreneur, Motivation, Problems.

**INTRODUCTION**

A woman entrepreneur is an adult who owns and runs an enterprise, especially a commercial one, often at personal financial risk. A recent ILO-Indian study of women entrepreneurs gave the definition of women's enterprise as "a small unit where one or more women entrepreneurs have not less than 50 per cent financial holdings". In India women have made a comparatively late entry into business scenario mainly due to the orthodox and traditional socio-cultural environment. In India from the very beginning, women have been managers of the kitchen and have solely dominated the area of household activities. So deep has been the impact of this, that the general attitude of the people about women entrepreneurs is that they are makers of pickles, papads, masalas, and other household goods. Today nontraditional enterprises are easily managed by women and are done so excellently with them as the decision makers. Today, woman entrepreneurs represent a group of women who have broken away from the beaten track and are exploring new avenues of economic participation. Among the reasons for women to run organized enterprises are their skill and knowledge, their talents and abilities in business and a compelling desire of wanting to do something positive.

**NEED AND IMPORTANCE OF WOMEN ENTREPRENEURS**

It is imperative to note the participation of women in economic activities as self-employed individuals. Many of the traditional occupations open to women were mainly based on caste, creed and the nature of self-employment based on the standard of living. Presently, women are generating employment for themselves in an unorganized sector and another category of women who provide employment for others. The economic status of the women is now accepted as an indicator of a society's stage of development and therefore it becomes imperative for the Government to frame policies for development of entrepreneurship among women. The concept of developing women entrepreneurship lays emphasis of the productive utilization of women labour force to generate income and output. The programme for developing women entrepreneur would make a dent to alleviate poverty.

**DEVELOPMENT OF DALIT WOMEN ENTREPRENEURS**

The dalit women entrepreneurs are mostly the ones who set up small enterprises to sustain themselves and their families. Although, becoming an entrepreneur did arouse a little dilemma in many dalit women, to earn quick money was the basic reason for dalit women to start entrepreneurship. They have a deep-seated need for a sense of independence along with a desire to do something meaningful with their time and to have their own identity instead of remaining closeted behind their husband's nameplate. The major factors influencing dalit women entrepreneurs are economic independence, establishing their identity, achievement of excellence, building confidence, developing risk-taking ability, motivation, equal status in society and greater freedom and mobility. Setting up an enterprise is not an easy job for women entrepreneurs in Tirupur. At the same time running the enterprise is a greater task. A challenge is always there for these women entrepreneurs to run their enterprise successfully, earning profit and ensuring the growth of the enterprises which will severely test their entrepreneurial skill and survival of the unit. Despite various odds against them, several women have started to run their own enterprise.

In India, researchers like Kiran Rai and Monica Srivastava (2011), Patil (2011), Bhaskara Bagchi and Gangotree ghosh (2011) have analyzed the motives and problems of women entrepreneurs. But there had been limited study relating to the prospects and challenges of dalit women entrepreneurs. As such, the current study on "Prospects and Challenges of Women Entrepreneurship with specific reference to Dalits" was formulated with the following objectives:

1. To identify the socio economic profile of Dalit women entrepreneurs,
2. To highlight the main motivational factors for Dalit women entrepreneurs and
3. To study the major constraints faced by the Dalit women entrepreneurs.

**METHODOLOGY**

The study was related to Tirupur district of Tamil Nadu due to easy accessibility. Tirupur is a textile hub and a vast generator of employment for unskilled temporary workers. Tirupur is the "knitwear capital" of India. It has spurred up the textile industry in India for the past three decades. Its economic boom boosts the morale of Indian industrialists. It contributes to a huge amount of foreign exchange in India. Tirupur has the largest and fastest growing urban agglomerations in Tamil Nadu. The knitwear industry which is the soul of Tirupur has created millions of jobs for all class of people. There are nearly about 3000



sewing units, 1326 knitting units and 730 dyeing units and. Tirupur consists of 13 blocks namely Uthukuli, Gudimangalam, Vellakovil, Madathukulam, Kundadam, Mulanur, Udumalpet, Avinashi, Palladam, Pongalur, Tirupur, Kangayam and Dharmapuri. The study was confined to Nallur Corporation of Tirupur block. In this area, there were 65 dalit women entrepreneurs involved in petty shop, grocery, and garment stitching and tailoring.

From these entrepreneurs, 50 were selected for the study based on their co-operation and willingness to respond. The required information relating to general background, motivational factors and problems faced by them were collected by administering an interview schedule to the respondents.

## HYPOTHESIS FRAMED

- (i) There is no significant association between education and the type of entrepreneurial activity of dalit women and  
(ii) There is no significant association between the type of family and profit earned by dalit women entrepreneurs.

## TOOLS USED

### CHI SQUARED TEST

The study used chi square analysis to find out whether there is significant association between education and the type of entrepreneurial activity and type of family and profit earned. The formula used was

$$\chi^2 = \sum \frac{(\text{observed} - \text{expected})^2}{\text{expected}}$$

## FINDINGS OF THE STUDY

### A. GENERAL INFORMATION

Table I represents the general information of the respondents.

TABLE I: GENERAL INFORMATION OF THE RESPONDENTS

a	Age	Number	Percentage
	25 – 35	15	30
	35 – 45	15	30
	45 – 55	12	24
	Above 55	8	16
b	Educational Level		
	Illiterate	17	34
	Primary	22	44
	Secondary	11	22
	Collegiate		
c	Monthly Family Income(in rupees)		
	Below 3000	15	30
	3000 – 5000	25	50
	5000 – 10000	10	20
d	Type of family		
	Joint	18	36
	Nuclear	32	64
e	Size of family		
	Small	20	40
	Medium	24	48
	Large	6	12
f	Caste		
	Harijans	34	68
	Pallars	10	20
	Parayars	6	12

Source: Survey Analysis

From Table I, it is evident that majority of the respondents (60 percent) were in the age group of 25 – 45 years. Only 16 percent were in the age group of above 55. Besides their entrepreneurial skills, for most of them, acquiring education has remained a significant facilitating factor. In the selected area 34 percent of the respondents were illiterates. 44 percent have obtained primary education and 22 percent of the respondents have obtained secondary level education. Fifty percent of the respondents were getting their monthly family income as Rs. 3000-5000.

In the selected area, 36 percent of the respondents were belonging to joint family and 64 percent were belonging to nuclear family. Majority of the respondents (48 percent) have medium size of family having only two children. Sixty eight percent of the respondents were Harijans, 20 percent were Pallars and 12 percent of the respondents were Parayars.

### B. ENTREPRENEURIAL ACTIVITIES OF DALIT WOMEN ENTREPRENEURS:

Table II represents the entrepreneurial activities undertaken by dalit women entrepreneurs

TABLE II: ACTIVITIES UNDERTAKEN BY DALIT WOMEN ENTREPRENEURS

Activities	Number of entrepreneurs	Percentage
Tailoring	25	50
Running grocery shops	8	16
Poultry	12	24
Phenyl making	5	10

Source: Survey analysis

In most of the cases, women entrepreneurs usually pursue economic activities which are linked to their household activities and in some cases indistinguishable. From Table II it has been evident that tailoring (50 percent) is the most popular activity amongst women entrepreneurs followed by poultry (24 percent). The traditional occupations of these people were sweeping/ scavenging. These people, by abandoning their traditional menial jobs, have taken to entrepreneurial activities, which require innovations, use of technology, leadership quality, decision-making ability and, by doing so, they have come out of the stigmatized social life which earlier had restricted their mobility. The calculation of chi squared indicated that there was no association between education and entrepreneurial activities undertaken by dalit women entrepreneurs, since the calculated  $\chi^2_{0.05}$  was 2.96 and it was less than  $\chi^2_{0.05} = 3.84$

**C. MOTIVATIONAL FACTORS OF DALIT WOMEN ENTREPRENEURS**

The present study tries to find out the motivational factors of dalit women entrepreneurs. Table III brings out the motivational factors of dalit women entrepreneurs.

**TABLE III: MOTIVATIONAL FACTORS OF DALIT WOMEN ENTREPRENEURS**

Source	Number of entrepreneurs	Percentage
Earning money	21	42
Economic survival	9	18
Self-realization/Awakening	5	10
Desire to be independent	5	10
Hereditary occupation	7	14
Govt policy/initiatives	3	6

Source: Survey analysis

It can be noted from Table III that earning money was one of the main reason for starting an enterprise. On the whole, profit making, economic survival, self realization and freedom were the main reasons for starting an enterprise.

**D. PROFIT EARNED BY DALIT WOMEN ENTREPRENEURS**

Table IV brings out the profit earned by Dalit women entrepreneurs.

**TABLE IV: PROFIT EARNED BY DALIT WOMEN ENTREPRENEURS**

Profit Earned	Number of entrepreneurs	Percentage
Below 3000	12	24
3000 – 5000	22	44
Above 5000	16	32

Source: Survey analysis

Majority of the respondents (44 percent) have earned a profit of Rs.3000-5000 per month and 32 percent of the respondents earned a profit of above Rs.5000 per month. The application of chi square indicated that there was no association between the type of family and profit earned by dalit women entrepreneurs, since the calculated  $\chi^2$  was 2.05 and it is less than  $\chi^2 = 3.84$

**E. PROBLEMS FACED BY DALIT WOMEN ENTREPRENEURS:**

The major problems encountered by women entrepreneurs are financial problems, getting support from family members and social constraints. Table V represents the constraints faced by dalit women entrepreneurs.

**TABLE V: CONSTRAINTS FACED BY DALIT WOMEN NETREPRENEURS**

Constraints	Number of entrepreneurs	Percentage
Dual role of women	35	70
Male domination	38	76
Lack of economic freedom	23	46
Lack of exposure	21	42
Lack of self confidence	37	74
Absence of family encouragement	29	58
Lack of knowledge of finance	24	48
Not having own money	35	70
Tight repayment schedule	26	52

Source: Survey analysis

From Table V it can be noted that the main constraint faced by the dalit women entrepreneurs was male domination (76 percent), dual role of women (70 percent), lack of self confidence (74 percent) and not having own money (70 percent). Dalit women entrepreneur in Tirupur not only struggle at the time of establishment of enterprises but at operation stage also, they have lots to overcome with different functional difficulties. Usually women faced two fold operational problems. One she has to overcome with problems of production process like, scarcity of raw material, lack of technical skills, lack of utilities and infrastructure facility.

**RECOMMENDATIONS**

For proper development of Dalit women enterprises in Tirupur there is need to evolve many strategies to suit various conditions in different communities and regions. Suggestive measures to solve the problems confronted by them and for running their enterprise smoothly are:

1. Provision of proper technical education to Dalit women;
2. Improvement of identification mechanism of new enterprise;
3. Assistance in project formulation;
4. Creating awareness of various credit facilities, financial incentive and subsidies;
5. Adequate follow-up and support to the women enterprises;
6. Women enterprises research and application from time to time have to be documented;
7. Entrepreneurship Development Programmes should be tailored to varying requirements of Dalit women entrepreneurs and
8. Efforts should be made by the Government to provide access to information.

From these suggestions it is quite visible that for development and promotion of women entrepreneurship, in the region, there is a need for multi dimensional approach from different sector, namely from the Government side, financial institutions, individual women entrepreneurs and many more, for a flexible integrated and coordinated specific approach.

**CONCLUSION**

The principal factor in developing entrepreneurship among women is not in terms of infrastructure or financial assistance or identifying an enterprise but it is a question of clearing the ground for their movement into entrepreneurship. For ages together they have been confined to a secondary role and confined to the homes though there are several factors contributing to the emergence of women as entrepreneurs. The sustained and coordinated effort from all dimensions would pave the way for the women moving into entrepreneurial activity thus contributing to the social and economic development of the members of the family and thereby gaining equality and equal importance for themselves.

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**PROBLEMS OF RURAL MSMEs: A STUDY IN THENI DISTRICT****DR. J.MARY SUGANTHI BAI****ASSOCIATE PROFESSOR****JAYARAJ ANNAPACKIAM COLLEGE FOR WOMEN (AUTONOMOUS)****THAMARIKULAM****DR. R.GUNASUNDRADEVI****ASSOCIATE PROFESSOR****JAYARAJ ANNAPACKIAM COLLEGE FOR WOMEN (AUTONOMOUS)****THAMARIKULAM****ABSTRACT**

*Micro Small Medium enterprises (MSMEs) occupy a pivotal position in India's process of development. Since independence, these industries have made an all-round effort to boost the economy. The importance of the micro, small and medium enterprises sector is certainly an established fact and the sector may well be considered the backbone of the modern day economy. A conducive environment is created through the policies and interest of the government in economic and industrial development of the country. However due to unorganised nature of the micro, small and medium enterprises sector of these industries are also plagued by the problems of raw materials, labour, finance, marketing, power, infrastructure facilities and under-utilisation of capacity. Hence the present study has been undertaken to evaluate the various problems encountered by the entrepreneurs. The research results indicate that finance and marketing are the two important problems that affect the MSMEs in the study area. The findings generate a suggestion that a different set of policies and the promotional measures are important to support the entrepreneurship development.*

**KEYWORDS**

Problems of rural entrepreneur, finance, infrastructure, marketing, training.

**INTRODUCTION**

Entrepreneurship in India has been through a very interesting journey. From the socialist days of the 'sixties, and 'seventies' and then subsequently through the days of liberalisation till today, India's entrepreneurs thrived and provided employment to millions. The need for broad based entrepreneurial class in India arises from the need to speed up the process of activating the factors of production leading to a higher rate of economic growth, dispersal of economic activities, development of backward and tribal areas, creation of employment opportunities, improvement in the standard of living of the weaker sections of the society and involvement of all sections of the society in the process of growth. The micro, small and medium enterprises accounts for more than 45% of the total manufacturing output; 33% of the total exports of the country and is estimated to employ about 60 million persons in over 26 million units throughout the length and breadth of the country. Of these there are 13 million small and medium enterprises dotting India's business landscape.

The direction and character of government subsidies, the facilities for term loans offered by government sponsored institutions, the infrastructure facilities and the general investment opportunities afforded by the government have a great bearing on entrepreneurship development. The central budgets have also had some promotional measures such as the reduction of excise duties on a wide range of articles, sizeable reduction in income taxation so as to enable entrepreneurs to finance their expansion from their own resources. The Industrial Development Bank of India funds the enterprises in some industries for replacement and modernisation. Investment allowance to industries is entitled to initial depreciation allowance and elimination of surcharge. Thus fiscal budgetary and monetary policies go a long way in promoting industries in our country.

**STATEMENT OF THE PROBLEM**

Recognising the important role that Micro Small Medium enterprises (MSMEs) play in the national economy, the central and state governments have taken active steps to promote and foster their growth. These measures have been particularly effective; but many of the problems of production, distribution and finance still continue to affect the MSMEs. While some of them are more or less common to a wide range of small industries, others have particular relevance to a group of industries situated in rural and backward areas. The problems of MSMEs are divided into external and internal. It is obvious, that the external problems arise from factors beyond the control of the entrepreneurs-the availability of power and other infrastructure facilities required for the smooth running of MSMEs. The internal problems affecting the micro small medium enterprises relate to organisation structure and production channel, technical knowhow, training, industrial relations and inadequacy of management. The problems of industries whether in the small scale sector or in the organised sector, are almost identical. The micro small medium enterprises, because of its weak financial structure and the limited resources, face the problems with difficulty. It is in this context the present paper intends to probe the problems faced by the rural entrepreneurs.

**REVIEW OF LITERATURE**

Ramakrishnan, P. (1975) in his study *New Entrepreneurship in Small-Scale Industries in Delhi* found that enterprises were prepared to pay back loans with high rate of interest to non banking sources to avoid bank formalities.

Mathur, S.P. (1979) in his study titled *Economics of Small-Scale Industries* reported that finding adequate finance and working capital was the greatest hurdle in the growth of small-scale industries.

Hrishikesh Bhattacharya (1984) in his article on *The Problems Faced by the Small-Scale Entrepreneurs located in Howrah and Calcutta of West Bengal* found that the need of proportionate increase in capital was inversely related to the size of the small firms. It was also observed that, smaller the firm, lesser was its chance to command finance from banks because it does not have any track record of past years' performance. The bank managers felt shaky in sanctioning the required amount of loan because they were unable to judge the capability of prospective borrowers on the basis of projections only.

Yoosuf Khan Y.S. (1988) studied the *Problems of Small-Scale Industry: A Study with Special Reference to Small-Scale Industrial Units in Tirunelveli* found that the paucity of fund caused the small-scale units to organise more and more concerns under partnership to pool together the resources of the partners. 55 per cent of the small units taken for study required a major portion of financial aid for their day to day expenses and only 7.5 per cent for expansion purposes. The nationalised banks in the region accounted for 40 per cent of the total assistance given to the small-scale units.

Nirmala, K. (1994) in her study entitled *Problems of Small-Scale Industries: A Study with Special Reference to Sattur Taluk* attempted to analyse problems, with regard to production, marketing and finance faced by small-scale industrial units. She has stated that the lack of adequate finance and the non availability of timely finance had seen the factors responsible for the problems of production and marketing by small-scale industrial units. Out of 100 sample units, only 5 units were not willing to borrow money from outside sources. The remaining 95 units in the study area borrowed money from commercial banks, other financial institutions, money lenders, relatives and friends.



Ranjan Kumar (1996) studied the Survival Strategies of Small-Scale Industries under Economic Liberalisation: Some Considerations expressed the lack of adequate timely finance as the foremost problem of small-scale industries. The sector was in due need of term capital to update and modernise. Further, inadequate working capital was an important reason for low capacity utilisation.

**OBJECTIVES**

To analyse the constraints encountered by MSMEs entrepreneurs

**SAMPLING DESIGN**

As per the data available with the District Industries Centre, Theni, the sample district in Tamilnadu, has around 5375 MSMEs in Theni District during the study period. On classifying the MSME units, it was found that there were 1392 manufacturing industries, 2121 trading industries and 1862 service industries in Theni District. According to the All India Survey of MSMEs, at least 40 per cent of MSMEs put down their shutters permanently on various reasons. On enquiry with the officials of DIC, Theni a similar trend was prevailing in Theni District also and hence a total number of active MSMEs in the district would be around 3,225. In social science research a sample size of 10 per cent is found adequate to obtain meaningful inferences and hence in the present study also 10 per cent of the active units were chosen. Tippet’s Random Sampling Numbers were used for selection of the respondents. Data were collected from all the 323 sample respondents through the interview schedules. Information collected from 23 respondents was found inadequate and hence effective sample size was fixed as 300. This includes 78 respondents from the manufacturing sector, 114 respondents from the trading sector and 108 respondents from the service sector.

**METHODOLOGY**

The present study is an empirical research based on survey method. The primary data were collected from the entrepreneurs with the help of a well - structured interview schedule. Before preparing the interview schedule, the researcher made a comprehensive review of the literature both directly and indirectly connected to the topic. The variables to be studied were identified by the researcher with the help of the officials of the Small Industries Development Corporation, District Industries Centre and the Tamil Nadu Industrial Investment Corporation. The secondary data were collected from journals, magazines, newspapers, books, documents, pamphlets and reports published by the commercial banks, Co-operative sector banks and the District Industries Centre.

**TOOLS OF ANALYSIS**

In order to bring out the most important problems faced by the respondents, data relating to the attitude of the respondents towards problems faced by them on the four factors, and the subsequent statements identified, were collected with the help of a pre determined and structured interview schedule. The respondents were asked to rate each statement on the basis of Likerts five-point scaling technique namely strongly agree, agree, no opinion, disagree and strongly disagree. The marks assigned to the scales are 5, 4, 3, 2 and 1 respectively. The mean score on each statement obtained from the respective variables among the three types of business namely manufacturing, trading and service were calculated separately.

In order to reveal the significant difference among the respondents of the three types of business regarding their attitude towards the problems faced by the entrepreneurs, a one way analysis of variance (ANOVA) was administered.

**FINANCIAL ASSISTANCE RELATED PROBLEMS**

Small units, as is well known, are not exclusively and not even mainly dependent on government assistance. Because the small units are not in a position to offer the guarantee required by the banking sector, even when small loans can be raised from government institutions. The procedure is so cumbersome that most of the entrepreneurs, who are either illiterate or semi illiterate, hesitate to make use of these facilities. This makes matters very difficult for the small industrialists, particularly when one who is new to this way of life. In this study five statements have been framed to measure the attitude of the entrepreneurs towards the financial problems. The mean score on each statement of the three types of business regarding the financial problems was calculated separately. The resulted mean score and the respective ‘F’statistics are presented in Table 1.

**TABLE 1: ATTITUDE OF RESPONDENTS TOWARDS FINANCIAL ASSISTANCE RELATED PROBLEMS**

Sl. No	Causes	Mean Scores			‘F’ statistics
		Manufacturing Industry	Trading Industry	Service Industry	
1.	Demand collateral security and third party guarantee	2.97	3.02	3.08	0.30 <sup>NS</sup>
2.	Low institutional commitment	1.82	1.74	2.13	12.04 <sup>**</sup>
3.	Tight repayment in the initial period	2.86	3.07	2.83	1.37 <sup>NS</sup>
4.	Requirement of margin money	3.32	3.35	3.38	0.31 <sup>NS</sup>
5.	Period of 2-6 months taken by institutions to clear a project	1.64	1.59	2.13	13.47 <sup>**</sup>

Source: Computed data

\*\* Significant at 1 per cent level

NS Not Significant

It is observed from Table 1 that the highly perceived factors among the respondents of all the three industries are ‘requirement of margin money’ since their mean scores are 3.32, 3.35 and 3.38 for manufacturing, trading and service industries respectively. Among the respondents of manufacturing trading and service industries, ‘period of 2-6 months taken by institutions to clear a project’ ranked lower since their mean scores are 1.64, 1.59 and 2.13 respectively. A significant difference among the respondents of the three industries is identified regarding the attitude of respondents towards financial assistance - related problems in its various aspects especially in ‘low institutional commitment’ and ‘period of 2-6 months taken by institutions to clear a project’ since their ‘F’statistics show significance at 1 per cent level.

**ATTITUDE TOWARDS FINANCIAL ASSISTANCE-RELATED PROBLEM INDEX (FARPI)**

The FARPI index was prepared for further analysis. The FARPI index is calculated by

$$FARPI = \frac{\sum_{i=1}^n SAFARPV_i}{\sum_{i=1}^n MSAFARPV_i} \times 100$$

- Where, FARPI = Financial Assistance-Related Problem Index
- SAFARPV = Score in the Attitude towards Financial Assistance- Related Problem Variable
- MSAFARPV = Maximum Score in the Attitude towards Financial Assistance-Related Problem Variable
- i = 1.....n = Number of Financial Assistance-Related Problem Variables included.

(the same formula is used for further index analysis with appropriate changes as required.)

In the present study, FARPI is confined to 25-50, 50-75 and 75-100 per cent. The distribution of the respondents according to FARPI is shown in Table 2.

**TABLE 2: FINANCIAL ASSISTANCE-RELATED PROBLEM INDEX AMONG THE RESPONDENTS**

Sl. No	FARP Index (%)	Number of respondents			Total
		Manufacturing Industry	Trading Industry	Service Industry	
1	25-50	37 (47.44)	45 (39.47)	43 (39.81)	125 (41.67)
2.	50-75	41 (52.56)	69 (60.53)	62 (57.41)	172 (57.33)
3.	75-100	0 (0)	0 (0)	3 (2.78)	3 (1.00)
	Total	78 (26)	114 (38)	108 (36)	300 (100)

Source: Computed data

Figures in parentheses denote percentages to total

It is evident from Table 2 that, in total, a maximum of 57.33 per cent of the respondents had FARPI of 50-75 per cent, 41.67 per cent of the respondents had FARPI of 25-50 per cent and 1 per cent of the respondents had FARPI of 75-100 per cent.

**INFRASTRUCTURE FACILITIES-RELATED PROBLEMS**

Lack of infrastructure facilities increases the cost of product of the units and their bargaining power reduces considerably. This results in low profitability which is a serious indicator of sickness. The most decried and one of the genuine problems faced by the entrepreneur is power shortage. Frequent power cut halts the production process and gives way to many other related problems. Creation of infrastructure facilities involves huge funds which the small entrepreneurs do lack. Hence it is necessary to direct the attitude of the entrepreneur towards problems in infrastructure facilities in business. In the present study four statements were framed by the researcher to measure the attitude of the respondents towards problem in infrastructure facilities. The mean score on each statement of the three types of business regarding the infrastructure facilities related problems was calculated separately. The resulted mean score and the respective 'F' statistics are presented in Table 3.

**TABLE 3: ATTITUDE OF RESPONDENTS TOWARDS INFRASTRUCTURE FACILITIES-RELATED PROBLEMS**

Sl. No	Causes	Mean Scores			'F' statistics
		Manufacturing Industry	Trading Industry	Service Industry	
1.	Interrupted power supply	3.37	3.34	3.31	0.66 <sup>NS</sup>
2.	Lack of storage and warehouse facilities	3.15	2.73	2.42	18.40 <sup>**</sup>
3.	Lack of transport facilities	3.34	3.21	3.30	0.55 <sup>NS</sup>
4.	Lack of communication and internet facilities	3.30	2.79	2.60	5.75 <sup>**</sup>

Source: Computed data

\*\*Significant at 1 per cent level

NS Not Significant

Table 3 shows that the highly perceived factors among the respondents of all the three industries are 'interrupted power supply' since their respective mean scores are 3.37, 3.34 and 3.31 for manufacturing, trading and service industries respectively. Among the respondents of all the three industries, 'lack of storage and warehouse facilities' ranked lower since their means scores are 3.15, 2.73 and 2.42 in manufacturing, trading and service industries respectively. A significant difference was found among the respondents of three industries regarding their attitudes towards infrastructure facilities related problems in its various aspects particularly in 'lack of storage and warehouse facilities' and 'lack of communication and internet facilities' since their 'F' statistics show significance at 1 per cent level. Interrupted power supply and 'lack of transport facilities' are found to be not significant.

**ATTITUDE TOWARDS INFRASTRUCTURE FACILITY-RELATED PROBLEMS INDEX (IFRPI)**

The IFRP index was prepared for further analysis. In the present study, IFRPI is confined to less than 25-50, 50-75 and 75-100 per cent. The distribution of the respondents according to the IFRPI is shown in Table 4.

**TABLE 4: INFRASTRUCTURE FACILITY-RELATED PROBLEM INDEX AMONG THE RESPONDENTS**

Sl. No.	IFRP Index (%)	Number of respondents			Total
		Manufacturing Industry	Trading Industry	Service Industry	
1.	25-50	8 (10.26)	20 (17.54)	27 (25.00)	55 (18.33)
2.	50-75	54 (69.23)	82 (71.93)	68 (62.96)	204 (68.00)
3.	75-100	16 (20.51)	12 (10.53)	13 (12.04)	41 (13.67)
	Total	78 (26)	114 (38)	108 (36)	300 (100)

Source: Computed data

Figures in parentheses denote percentages to total

Table 4 clearly shows that, in total, a maximum of 68 per cent of the respondents had IFRPI of 50-75 per cent, 18.33 per cent of the respondents had IFRPI of 25-50 per cent and 13.67 per cent of the respondents had of 75-100 per cent.

**MARKETING-RELATED PROBLEMS**

All industries whether small or large, face problems in marketing their products or services. But, micro, small and medium enterprises are more plagued by the marketing problems. Notwithstanding, there are two main reasons conditioning the marketing of products produced by small industries. First, small industries cannot withstand the cut-throat competition in respect of quality, cost and standardisation of the products with large scale industries. Second, the entrepreneur, in order to market their product, has to be at the mercy of middlemen who eat up a large amount of profit. Hence it is essential to bring out the attitude of the respondents towards marketing problems in general. In the present study five statements were framed by the researcher to measure the attitude of the respondents towards marketing-related problems. The mean score on each statement of the three types of business regarding the marketing problems was calculated separately. The resulted mean score and the respective 'F' statistics are presented in Table 5.

TABLE 5: ATTITUDE OF RESPONDENTS TOWARDS MARKETING-RELATED PROBLEMS

Sl. No	Causes	Mean Scores			'F' statistics
		Manufacturing Industry	Trading Industry	Service Industry	
1.	Stiff competition from large scale units	3.65	3.27	3.93	21.22**
2.	Absence of intelligence and good information system	2.53	2.70	2.82	1.75 <sup>NS</sup>
3.	Inflexibility to adopt according to the changing situations	2.78	2.60	2.60	1.21 <sup>NS</sup>
4.	Absence of market centers	3.15	2.73	3.13	5.70**
5.	Too many middlemen	3.65	3.25	3.60	9.40**

Source: Computed data

\*\*Significant at 1 per cent level  
NS Not Significant

Table 5 reveals that the 'Stiff competition from large scale units' and 'too many middlemen' are highly perceived factors among the respondents of manufacturing industries since their mean scores are 3.65 respectively. The highly perceived factor among the respondents of trading and service industries are 'stiff competition from large scale units' since their mean scores are 3.65, 3.27 and 3.93 respectively. 'Inflexibility to adapt according to the changing situations' was the least affecting factor in all the industries with the mean scores are 2.78 and 2.60 and 2.60 respectively. A significant difference was found among the respondents of three industries in its various aspects especially in 'stiff competition from large scale units', 'absence of market centers' and 'too many middlemen' since their 'F' statistics show significant at 1 per cent level. 'Absence of intelligence and good information system' and 'inflexibility to adapt according to the changing situations' are found to be not significant.

**ATTITUDE TOWARDS MARKETING-RELATED PROBLEMS INDEX (MRP)**

The MRP index was prepared for further analysis. In the present study, MRPI is confined to 25-50, 50-75 and 75-100 per cent. The distribution of the respondents according to MRPI is shown in Table 6.

TABLE 6: MARKETING-RELATED PROBLEM INDEX AMONG THE RESPONDENTS

Sl. No	MRP Index (%)	Number of respondents			Total
		Manufacturing Industry	Trading Industry	Service Industry	
1.	25-50	15 (19.23)	25 (21.93)	20 (18.52)	60 (20.00)
2.	50-75	55 (70.51)	86 (75.44)	81 (75.00)	222 (74.00)
3.	75-100	8 (10.26)	3 (2.63)	7 (6.48)	18 (6.00)
	Total	78 (26)	114 (38)	108 (36)	300 (100)

Source: Computed data

Figures in parentheses denote percentages to total

It is evident from Table 6 that, in total, a maximum of 74 per cent of the respondents had MRPI of 50-75 per cent; 20 per cent of the respondents had MRPI of 25-50 per cent and 6 per cent of the respondents had MRPI of 75-100 per cent.

**ENTREPRENEURIAL TRAINING - RELATED PROBLEMS**

More importantly, the government and the financial and non financial institutions are in the forefront in entrepreneurial development; however experience shows that the various training programmes of these institutions aim at training people to take up self-employment. Thus the very purpose of developing entrepreneurial talent among the youth is defeated. This calls for a critical evaluation of entrepreneurial training to develop personnel with conviction and commitment to undertake the task of planning, designing and implementing programmes for entrepreneurship development. Hence, it seems necessary to see whether the objective of entrepreneurial development training is fulfilled or not; in simple words, there is a need to have a retrospective look into how many participants have actually started their own industries after completing the training. In the present study five statements were identified by the researcher to measure the attitude of the respondents towards the entrepreneurial training related problems. The mean score on each statement of the three types of business regarding the entrepreneurial training related problems was calculated separately. The resulted mean score and the respective 'F' statistics are presented in Table 7.

TABLE 7: ATTITUDE OF RESPONDENTS TOWARDS ENTREPRENEURIAL TRAINING-RELATED PROBLEMS

Sl. No	Causes	Number of respondents			'F' statistics
		Manufacturing Industry	Trading Industry	Service Industry	
1.	Ill-planned training methodology	3.65	3.27	3.60	9.40**
2.	Inconsistency in the programmed design	3.18	2.73	3.15	6.01**
3.	Absence of standard curriculum	3.50	2.79	3.55	17.77**
4.	Lack of understanding	3.04	2.82	2.75	1.41 <sup>NS</sup>
5.	Inadequate facilities	1.64	1.58	1.57	15.68**

Source: Computed data

\*\*Significant at 1 per cent level  
NS Not Significant

It is observed from Table 7 that the perception of respondents of manufacturing industry was higher in all the aspects of entrepreneurial training-related problems except 'absence of standard curriculum' than that of the respondents in trading and service industries as revealed by the respective mean scores in the selected factors. The highly perceived factors among the respondents of all the three industries are 'ill-planned training methodology', since their mean scores are 3.65, 3.27 and 3.60 respectively. Among the respondents of all the three industries 'inadequate facilities' ranked lower since their mean scores are 1.64 and 1.58 and 1.57 respectively. A significant difference among the respondents of three industries is identified particularly in 'ill-planned training methodology', 'inconsistency in the programmed design', 'absence of standard curriculum' and 'inadequate facilities' since their 'F' statistics show significant at 1 per cent 'Lack of understanding' is found to be not significant.

**ATTITUDE TOWARDS ENTREPRENEURIAL TRAINING-RELATED PROBLEMS INDEX (ETRPI)**

The ETRP index was prepared for further analysis. In the present study, ETRPI is confined to less than 25-50, 50-75 and 75-100 per cent. The distribution of the respondents according to ETRPI is shown in Table 8.

TABLE 8: ENTREPRENEURIAL TRAINING-RELATED PROBLEM INDEX AMONG THE RESPONDENTS

Sl. No	ETRP Index (%)	Number of respondents			Total
		Manufacturing Industry	Trading Industry	Service Industry	
1.	25-50	26 (33.33)	71 (62.28)	32 (29.63)	129 (43.00)
2.	50-75	52 (66.67)	43 (37.72)	68 (62.96)	163 (54.33)
3.	75-100	0 (0)	0 (0)	8 (7.41)	8 (2.67)
	Total	78 (26)	114 (38)	108 (36)	300 (100)

Source: Computed data

Figures in parentheses denote percentages to total

It is evident from Table 8 that, in total, a maximum of 54.33 per cent of the respondents had ETRPI of 50-75 per cent; 43 per cent of the respondents had ETRPI of 25-50 per cent and 2.67 per cent of the respondents had ETRPI of 75-100 per cent.

## FINDINGS

1. The major problem with MSMEs entrepreneurs is their lack of understanding of the procedural problems regarding applying for loans and availing of funds from the financial institutions.
2. Requirement of margin money restricts the young graduates to enter into the business.
3. Lack of rail transport facilities in rural areas increase the transport cost of raw material and marketing of finished goods.
4. Stiff competition from the large scale undertaking affects the marketing of rural enterprises.
5. The entrepreneurs depend upon the middlemen for marketing their products in order to avoid packing, transportation, advertisement, and sales promotion.
6. There seems to be ill planned training methodology and inconsistency in programme designing. These affect the result of entrepreneurial training.
7. Training content, sequence and theme and focus of the training is not developed according to the rural areas.

## SUGGESTIONS

1. Procedures for applying bank loan must be simple and easy to understand by the micro, small and medium enterprises entrepreneur and unreasonable delay in sanctioning loans by financial institutions to be avoided by taking corrective measures.
2. In the case of first generation entrepreneurs, the financial institutions and banks may also consider feasibility of waiving collateral security, because engineers and graduates who come from poor family do not possess any land or other property.
3. Entrepreneurial development training covers the provision of motivational and managerial training.
4. Entrepreneur development programme will make an arrangement to support for establishment of the unit and would include provision of finance, infrastructure, raw materials, and machinery.
5. Adequate follow-up and counseling of the entrepreneur is also essential both during the implementation stage and when the unit starts commercial production. Re-orientation in the attitude of supporting organisations is called for.
6. Government should come forward to help the MSMEs in the form of direct purchase and sub contracting; setting up of permanent exhibition centers on the lines of head quarter of the district or in the form of such measures as will protect market for micro, small and medium enterprises.
7. The existing marketing set up should be strengthened with more retail outlets or affiliated outlets and market research on the customer preferences (like design, colour) so that the micro, small and medium enterprises know the market demand and produce accordingly.
8. With a view to rendering assistance in the field of exploring market potential and export promotion the government should simplify export procedures from time to time so as to support and promote export from micro small medium enterprises.
9. Exporters are encouraged to increase their competitive strength and take a long term view about international marketing.

## CONCLUSION

Micro, small and medium enterprises have been an effective instrument of progress and development in terms of industrialisation of rural areas and a strong measure of tackling the problem of unemployment plaguing the masses and the country. Its role cannot be underestimated in a country like India. The Government will take necessary steps to achieve excellence in the formulation and implementation of industrial policies that aim at providing prompt and efficient services to the entrepreneurs for smooth implementation and successful operation of industrial projects. This will enhance the standard of living of the people through creating more employment and investment opportunities. Government will continuously strive further to simplify the procedures for industrial approval and impose only such minimum controls as are considered essential.

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**THE DEFINING MOMENTS OF SOCIAL ENTREPRENEURSHIP****L. JIBON KUMAR SHARMA****ASSOCIATE PROFESSOR****MANIPUR INSTITUTE OF MANAGEMENT STUDIES****MANIPUR UNIVERSITY (A CENTRAL UNIVERSITY)****CANCHIPUR****MEMCHA LOITONGBAM****FULBRIGHT SCHOLAR, UMKC, UNIVERSITY OF MISSOURI; &****ASSOCIATE PROFESSOR****MANIPUR INSTITUTE OF MANAGEMENT STUDIES****MANIPUR UNIVERSITY (A CENTRAL UNIVERSITY)****CANCHIPUR****ABSTRACT**

*The article highlights the emergence of entrepreneurship in general and social entrepreneurship in particular. In addition it discusses concept, the importance and socio-economic developmental roles of social entrepreneurship. The purpose of the article is to reason that social entrepreneurship is the need of the hour. Furthermore, the study focuses on the social mission as the driving force for the emergence of social entrepreneurship, and it highlight through the Institute for OneWorld Health that social entrepreneurship fill in the gaps of for profit organizations in the socio-economic sector.*

**KEYWORDS**

Social Entrepreneurship, Mission, innovation.

**INTRODUCTION**

For decades lot of attention has been paid on entrepreneurship in the economic sector. Practitioners, academicians and the stakeholders are well aware of the impact of entrepreneurship in the economic sector. According to Oxford Advanced Learner's Dictionary, 8<sup>th</sup> edition an entrepreneur is a person who makes money by starting or running businesses, especially when this involves taking financial risks. So entrepreneur is commonly associated with business, finance and risks. This is the age of entrepreneurship as entrepreneurs like Bill Gates, the founder of Microsoft and Anita Roddick, founder of the Body Shop, seems to be better known than many head of states. Globalization, as a phenomenon, helps the cause of entrepreneurship. However the benefits of globalization are not reaching many people. Entrepreneurship, in common parlance, is associated with starting a business, but that is oversimplified use of a term that has rich history and having much more significant meanings.

**THE ENTREPRENEURSHIP JOURNEY**

Marco Polo's attempt to establish trade route to the Far East is an early definition of an entrepreneur (Hisrich, Peters & Shepherd, 2001). He would sign a contract with a money person to sell his goods. A Money person then is an early venture capitalist. In the Middle Ages entrepreneur were those who managed large production projects using the resources usually provided by the government of the country (Hisrich, Peters & Shepherd, 2007). The person in charge of great architectural work, such as castles and fortifications, public buildings, abbeys and cathedrals would be in the category of an entrepreneur then. In the 17<sup>th</sup> century the concept of risk emerged in the domain of entrepreneurship; and Richard Cantillon's theory on entrepreneurs that viewed the entrepreneur as a risk taker observing that merchants, farmers, craftsmen and other sole proprietors "buy at a certain price and sell at uncertain price, therefore operating at a risk" is regarded as the foundation of the term entrepreneur (Herbert & Link, 1982).

In the 18<sup>th</sup> century the entrepreneurs was distinguished from the capital provider who, in the present day, is the venture capitalist. Entrepreneurship came to be used to stimulate economic progress by finding new and better ways of doing things. Jean Baptiste Say, the French economist, is most commonly credited with giving the meaning to the term (Dees, 2001). His writings by the turn of the 19<sup>th</sup> century had profound influence on the value creation dimension of entrepreneurship. Say subscribes, "The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." In the late 19<sup>th</sup> and early 20<sup>th</sup> centuries entrepreneurs were frequently not distinguished from managers. In the middle of 20<sup>th</sup> century, entrepreneurs as an innovator was established (Hisrich, Peters & Shepherd, 2001). The concept of newness became an integral part of entrepreneurship and so encouraged creative thinking and breakthrough ideas. However, the ability to innovate can be observed throughout the history – right from the Egyptians who built the Pyramid to the Mughals who built the Taj Mahal.

In the 20<sup>th</sup> Century an economist who was the most closely associated with entrepreneurship is Joseph Schumpeter. Schumpeter did pioneering work on entrepreneurship. According to Schumpeter (1934) entrepreneurship is a creative activity that results in innovation. So basically an entrepreneur introduces something new to the economy. Other scholars added further dimensions to the then emerging field of entrepreneurship. Stevenson (1983) added the element of resourcefulness that pursues opportunity not limited by resources currently controlled. So, innovation is not necessarily a function of resource at hand, and history is testimony to the fact that many a sources of innovation were lack of resources as it became the compelling reason to innovate. Being resourceful even with lack of resources so that the lack of it does not become the limiting factor has been the way out.

Drucker (1985) attempts to highlight the ways of entrepreneurship and according to him the entrepreneur focuses on the process: "entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity." He foresaw social innovation as an opportunity of entrepreneurship because according to him systematic analysis of the opportunities that change brings about would be economic or social innovation. So Drucker makes it clear that entrepreneurship does not require a profit motive. Thus, social innovation besides economic innovation is a dimension of entrepreneurship. As the key to innovation is knowledge base, theory building is the basis for the practice of social dimension of entrepreneurship or social entrepreneurship. However entrepreneurial activity aimed at economic progress received great amount of scholarly attention but entrepreneurial phenomenon aimed at social progress has only recently attracted scholarly attention (Alvord, Brown, & Letts, 2004; Dees & Elias, 1998).

**THE PURPOSE OF THE ARTICLE**

The purpose of the article is to reason that social entrepreneurship is not an option but the need of the hour. The study focuses on the social mission as the driving force for the emergence of social entrepreneurship, highlight through the Institute for OneWorld Health that social entrepreneurship fill in the gaps of for profit organizations in the socio-economic sector.

## SOCIAL ENTREPRENEURSHIP AND CREATIVE CAPITALISM

Social entrepreneurship concept should build on entrepreneurship theory, and so the ideas of Schumpeter, Say, Drucker and Stevenson can be applied to the social aspect of entrepreneurship (Dees, 2001). For a long time the need for a form of organization oriented towards welfare of the state has been felt because the purpose of the corporate is greatly confined to wealth maximization. The current financial crises have caused many to re-question the basic premises of the current business system (Pirson, 2010).

In September 2000 survey conducted in the USA revealed that over 70 per cent of the American surveyed opined that business had too much of power such that it control too many aspects of their life and has great potential influences (Paine, 2003). But the irony is the public's decreasing trust on big corporation on one side and the increasing influence and power of the corporation on the other have made the public uncomfortable. In 2006, the trust of the public in multinational and global companies reached its all time low. The current business system is insufficiently set up to fulfil authentic human needs. According to Greider (2003) the changing purposes of capitalism are blamed for personal and professional security, corroded communities and depleted natural environment. So the business organizations are facing a situation aptly described by Jackson and Nelson (2004) as a "perfect storm" such that organizations can weather the "perfect storm" by learning from a newly emerging field called social entrepreneurship (Pirson, 2010).

Change was arguably the most used and referred word in the year 2008 because of the U.S. presidential election; yet change is believable when it is sustainable and social entrepreneurs are such innovators who are delivering change at the root of the problem – "change that transform unfair equilibria into better, sustainable balances" (Martin & Osberg, 2007). Today the world is plagued by the problems of conflicts, climate change, and environmental degradations, but the core roots of the issues manifest human greed, mostly the economic kind. The ongoing conflicts are characterized by socio-economic domination by one at the cost of other – not a win-win scenario. Social entrepreneurship is critical to creative capitalism (Leadbeater, 2007), and progress of societies (Martin & Osberg, 2007). The rise of social entrepreneurship holds great promise as the venture add to the efforts of the private, public and organizations and the government in their socio-economic developmental roles.

### THE RISE OF SOCIAL ENTREPRENEURSHIP

Social entrepreneurship is a emerging field and growing rapidly. Anticipating that the private and public sector form of organization would not sufficiently address the entire sector, Etzioni (1973) subscribed a new form of organization to provide the necessary innovation and this third alternative would combine the efficiency of the market and welfare orientation of the state. Since the late 1980s, in the USA alone, the third sector grew faster than any other sector providing upto more than 10 per cent (Pirson, 2010).

Leadbeater (1997) observes that the skill of the social entrepreneurs are such that they often create innovative forms of active welfare, healthcare, and housing which are both cheaper and more effective than the traditional services provided by the government. As such social entrepreneurs usually integrate the approaches from business charity, and social movements so that represents new force in the social and environmental factors that would solve social problems in order to deliver sustainable social value (Pirson, 2010). Today, the social sector needs attention – immediate attention.

The root of social entrepreneurship is in the need for the solutions in crises situations. Organization that operates in the social sector is popularly known as social enterprise in USA and Europe. The rise of such organization to prominence trace back to the 70s. However, in the USA, social enterprise existed since 1902 and the best known social enterprise then being Goodwill Industries.<sup>9</sup> Similar organizations existed throughout the 19<sup>th</sup> and 20<sup>th</sup> century though in a smaller scale (Dellinger, 2007). The economic downturn in the 1970s brought the role of social enterprise to the forefront in the US and Europe but ways adopted by the social enterprises in the two regions were different. In the US, the economic downturn resulted in major cutbacks in government spending on one hand while the need for funding had been on the rise due to steep rise in unemployment on the other (Urquhart & Hewson, 1983; Kerlin, 2006). So, to sustain their operations the organizations turned to commercial activities which resulted in the rise to income receive from commercial activities by 20 per cent.<sup>10</sup> However, unlike in the US, the impact on Europe was much greater as the unemployment rate was 40 percent as compared to 12 per cent in the US; and the government reacted as similar to the US by cutting government spending but the charities reacted differently by focusing on fighting structural unemployment (Spear et al. eds., 2001).

Today there has been tremendous growth in the field of social entrepreneurship. There has been significant growth in the number of books and articles written, and online networks and centres supporting and celebrating social entrepreneurship; and the government and institutions giving emphasis on social entrepreneurship for solutions towards socio-economic equilibrium are also on the rise. This has occurred alongside the approach to look for solutions beyond the previews of the government and the corporations. There has been explosion in the non-government organizations (NGO) worldwide that are seeking solutions to the world's inherited age old problems. Russia have gone from virtually no NGO in the beginning of the decade to more than 400,000, in China more than 280,000 are registered and twice the number not registered, in USA more than one million and half a million in India (Osberg, 2009).

### THE LIMITS OF SOCIAL ENTREPRENEURSHIP

There exists general consensus that the time has come for the rise of social entrepreneurship. Social entrepreneurship is a nascent field and like any emerging field there exists contesting definitions that blur the boundary of social entrepreneurship. However, social entrepreneurship is not a new phenomenon even though the field is termed nascent. Whether they are termed social entrepreneurs or not, they have remained from time immemorial. The term is important considering the significant role it needs to put on and also for the growth and prominence of the field. Like any nascent field social entrepreneurship is limited by the contesting definitions and blurring of boundaries. A consensus emerging from the various approaches is that social entrepreneurship pursue social mission. Martin and Osberg (2007) has succinctly highlighted the main differentiating point is the social characteristic: "Social entrepreneurship signals the imperative to drive social change, and it is that potential payoff, with its lasting, transformational benefit to society, that set the field and its practitioners apart." A highly referred definition is Dees (2001): "Social entrepreneurs play the role of change agent in the social sector by:

- Adopting a mission to create and sustain social values (not just private value).
- Recognizing and relentlessly pursuing new opportunities to serve that mission.
- Engaging in a process of continuous innovation, adaptation and learning.
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting heightened accountability to the constituencies served and for the outcome created."

Social entrepreneurs are entrepreneurs with a social mission (Dees, 2001) and so it is a paradigm shift. According to Schumpeter entrepreneurs are innovators who derive the creative destructive process of capitalism, and by the same token, social entrepreneurs are innovators who drive the "creative destructive" process of social value creation. However scholarly attention in the field has only recently attracted the interest of researchers (Alvord, Brown, & Letts, 2004; Dees & Elias, 1998), and it has taken variety of meanings (Dees, 2001). The concept of social entrepreneurship still lacks a unified definition and defined boundary so that it offers unique opportunity for researches to challenge and rethink concepts, and define boundaries.

### THE INSTITTE OF ONEWORLD HEALTH

Victoria Hale is a pharmaceutical scientist who became increasingly frustrated by the profit motives of actors operating in her industry. She was saddened by the paradox in the pharmaceutical industry: Big pharmaceutical companies held patents for curing many incurable diseases as the drugs were not developed

<sup>9</sup> Goodwill Industries, Our History, <http://www.goodwill.org/page/guest/about/whatwedo/ourhistory> (last visited Nov 29, 2010)

<sup>10</sup> These figures are based on a 2002 study of nonprofits with annual revenue of over \$25,000. Commercial activity, defined as income from special events, sales of goods, and dues and payments where members received comparable benefits, grew as percentage of income for these groups from 48.1% in 1982 to 57.6% in 2002. Kerlin, *supra* note 11, at 252.

because the population mostly in need was unable to afford them. The big companies were focussing on developing drugs for the well off and they happen to live mostly in the developed world. She found the motives unjustifiable. It was this compelling reason that made Victoria Hale write the strategic plan for nonprofit pharmaceutical company in 1998, invested seed money in 2000 and evolved into an entrepreneur with a social mission. By the year 2000 Institute for OneWorld Health was founded in the US and became the first nonprofit pharmaceutical company in the US in 2001.

Creative individuals can come up with brilliant ideas but such ideas could be lost amongst the maze of great ideas which did not implement for want of organized institutional efforts. It takes more than one to bring about big change. Creative partnerships can transform brilliant ideas into reality and factor in change in a large scale. Right from the initial years of its formation OneWorld Health started collaborative efforts. In 2002, it collaborated with The National Institute of Allergy and Infectious Diseases (NIAID) to develop Chagas disease drug lead and subsequently in 2003 signed collective licensing agreement with the Special Programme for Research and Training in Tropical Disease (TDR) of the World Health Organization (WHO) to develop a new cure for visceral leishmaniasis. The partnership facilitated skill sharing to develop new products.

Further, OneWorld Health collaborated with UC Berkeley and Amyris Biotechnologies to achieve the goal of providing unlimited, affordable supplies of first-line antimalarial ingredient using synthetic biology. It is a promising partnership and they believe that when the ingredients are developed the cost factor of the drug would be dramatically lowered to 60 cents a dose and so saving an estimated 30 million lives a year (Osberg, 2009). Financial gains and commercial interest are not the reasons for UC Berkeley and Amyris to enter into partnership with OneWorld Health, it is the social value creation and social impact of saving so many lives. Social mission provides the noble reason to form partnerships. In 2006, it entered into collaboration with BioFocus DPI who will use their expertise to identify new drugs for the Diarrheal Disease program. The partnership would expedite new product development.

Social mission and nonprofit endeavours have the advantage of goodwill that garners support from diverse sources. In 2002 OneWorld received first in-licensing of promising new drug lead for Chagas disease from Celera Genomics, new compounds to treat Chagas infections from Yale University and the University of Washington in 2003, and in 2004, it received a patent to control the schistosomiasis parasite from the University of California Santa Barbara. Many foundations are funding the operations and the Bill & Melinda Gates Foundation being the major contributor. It was the fund from Bill & Melinda Gates Foundation that nurtured the first two drug development projects in 2002 – visceral leishmaniasis and Chagas disease. Apart from the Bill & Melinda Gates Foundation the grants from Chiron Foundation to further studies in visceral leishmaniasis treatment in 2004, the Lehman Brothers Foundation's grant to accelerate identification of drug compounds for pediatric diarrheal disease in 2005 and the Sapling Foundation's to study the feasibility of engaging pharmaceutical scientists in drug development programs in 2005 are in the line with achieving its social mission. The nonprofit form is mission critical as the needs to win the trust of the foundations and funding agencies emerge and so the entrepreneur exhibit persistence and willingness to make adjustments to make things work.

In recognition of the mission to advance systemic change benefiting communities around the world, the OneWorld Health received a Skoll Award for social entrepreneurship in 2005. So in a way the social intention of the Institute for OneWorld Health has been acknowledged and Victoria Hale was named a 2006 MacArthur Fellow for creating a nonprofit model of drug development driven by the neglected health needs of people in the developing world. Paromomycin IM Injection has received approval from the Drug Controller General of India (DCGI) for the treatment of Visceral Leishmaniasis for which Gland Pharma will make the medicine available at-cost, or approximately \$10 per treatment course. It is a significantly lower price than currently approved VL therapies and this would make the product more affordable and accessible to more people. In 2007 the injection was designated by the World Health Organization (WHO) for addition in its Model List for Essential Medicines which is a model for countries to select medicines addressing public health priorities and the Program of Paromomycin IM Injection in India was launched. The Paromomycin IM Injection was voted "Product of the Year" by BayBio, Northern California's Life Sciences Association.

Social mission is the reason for the Institute for OneWorld Health. The advantage of social mission is the goodwill that capacitates the organization earning support. The organization use earned income strategies across the value chain right from the development of the products to its delivery. Wherever necessary it used collaboration and partnerships with many organizations and institutions. The social mission orientation capacitates the Institute for OneWorld detecting the problem that for profit pharmaceutical companies were not developing drugs for the masses in the developing world. Victoria Hale recognized this problem in the industry and took it as an opportunity to satisfy the less-served needs. She founded the Institute for OneWorld Health with the social mission and became a social entrepreneur. Though OneWorld is a NPO, use earned income strategies to fulfil its social mission and demonstrated that organizations with social orientation should fill in to serve unmet needs in the socio-economic sector.

## CONCLUSION

Entrepreneurship has rich history and having much more significant meanings. Entrepreneurship not necessarily requires a profit motive as there is social dimension to it but entrepreneurial phenomenon aimed at social progress has only recently attracted scholarly attention. Social entrepreneurship concept builds on entrepreneurship theory, and so the ideas of Schumpeter, Say, Drucker and Stevenson are applied to the social aspect of entrepreneurship.

Social entrepreneurship is critical to creative capitalism. It adds to the efforts of the private, public and the government in their socio-economic developmental roles. The world has witnessed tremendous growth in the field of social entrepreneurship and it is a growing phenomenon. However, the concept of social entrepreneurship still lacks a unified definition and defined boundary so that it offers unique opportunity for researches to challenge and rethink concepts, and define boundaries.

Social mission is the driving reason for the Institute for OneWorld Health. The organization use earned income strategies across the value chain right from the development of the products to its delivery. The activities of OneWorld demonstrate that organizations with social orientation should fill in to serve unmet needs in the socio-economic sector.

The article highlight the need for social entrepreneurship and the case on the Institute for OneWorld Health illustrates that social entrepreneurship fill in the gaps of for profit organizations in the socio-economic sector.

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**DEVELOPMENT AND VALIDATION OF FINANCIAL LITERACY SCALE****S.SUGANYA****ASST. PROFESSOR****DEPARTMENT OF BUSINESS ADMINISTRATION****KALASALINGAM UNIVERSITY****KRISHNANKOIL****DR. S. SAKTHIVELRANI****ASSOCIATE PROFESSOR****DEPARTMENT OF BUSINESS ADMINISTRATION****KALASALINGAM UNIVERSITY****KRISHNANKOIL****K.DURAI****ASST. PROFESSOR****DEPARTMENT OF BUSINESS ADMINISTRATION****KALASALINGAM UNIVERSITY****KRISHNANKOIL****ABSTRACT**

*Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. President's Advisory Council on Financial Literacy (PACFL 2008). The academic literature has given little attention to measure financial literacy. (Sandra J. Huston 2009) This study intends to develop a valid and reliable instrument in measuring financial literacy of self help group (SHG) beneficiaries. Financial literacy were measured by constructing an index using four indicators namely Financial knowledge, Saving skills, Borrowing skills, and Investment skills. Data were collected from 400 self help group members in Virudhunagar District of Tamilnadu by Area sampling. Confirmatory factor analysis was used as the primary method of analysis to test the validity of the instrument by using Analysis of Moment structure (AMOS). This study intends to infer conclusions regarding the sample of items used in the instrument. Correlations among the constructs were tested to assess the nomological validity. There exist composite, construct, and concurrent validity in this instrument.*

**KEYWORDS**

Financial Literacy, Financial knowledge, Self help group, Investment skill, Borrowing skill.

**INTRODUCTION**

Micro credit projects are a fundamental source of providing financial assistance to Self Help Group (SHG) beneficiaries. Lending to women has become an important principle in micro credit to empower the women. Reddy CS, (2005) reported that the linking of SHGs with the financial sector was good for both sides. The banks were able to tap into a large market, namely the low-income households, transactions costs were low and repayment rates were high. The SHGs were able to scale up their operations with more financing and access to more credit products. Financial literacy should make SHG to take better decisions for their families, increasing their economic security and well being. The concept of Financial Literacy, evolved by Self Employed Women's Association (SEWA) Bank for its members, is essentially spreading the knowledge of good money management practices. It encompasses all monetary transactions that a person enters into such as earning, spending, saving, borrowing and investing. Thus financial literacy is the ability to know, monitor and effectively use financial resources to enhance the well being and economic security of oneself, one's family and business, and also for improving the understanding of the financial service providers. Marcolin, et.al (2006) expressed the need for research on measurement of financial literacy. The purpose of this article is to identify and develop a most standardized model to measure financial literacy among self help group beneficiaries in Virudhunagar District.

**REVIEW OF LITERATURE**

The purpose of this literature review is to identify, evaluate, and interpret the existing body of work on the financial literacy of different population such as college students, young adults, women, consumers and gender differences in various countries to identify the parameters for measurement of financial literacy among SHG beneficiaries. Hilgert et.al., (2003) found that financial knowledge can be statistically linked to financial practices related to credit as well as the cash-flow management, saving, and investing behaviors. Annamaria Lusardi et.al, (2010) found that financial literacy is strongly related to sociodemographic characteristics and family financial sophistication. Hung.A, et.al, (2012) examined that women have less financially literate than men. Joo (2008) found that financial behaviour is the main determinant of financial well being, and it is influenced by four major factor namely financial attitude, financial socialization, financial socialization agents and financial knowledge. Sandra J. Huston(2010) pointed out that financial literacy assessment instrument consist of four broad area of personal finance like basic concepts, borrowing concepts, saving/investing concepts and protection concepts.. Lusardi.A, (2007) found that households are unfamiliar with basic economic concepts needed to make saving and investment decisions. Personal Finance Research Centre,(2006),financial literacy framework includes four key areas i.e., money management, planning ahead, choosing products and staying informed According to Mike Dixon (2006), financial literacy is highly subjective and reaching optimum scale for individual focused programs are costly and impractical. Based on the above reviews that were found to cover specific group of women such as elder women, young women and female entrepreneur. There were no studies to measure the financial literacy of self help group women. This study will examine the financial literacy of Self help group women by designing a comprehensive scale.

**NEED FOR THE STUDY**

Financial literacy is important for self help groups to managing their financial portfolios. Lower levels of financial literacy leads to reduce the active participation of SHG's activities. They are facing many challenges to access the finance and make it difficult for them to be financially prepared for the future. Therefore an assessment of financial literacy among self help group must be taken in to account to develop the financial literacy education programs by policy makers such as NABARD, World Bank, NGOs etc.

**OBJECTIVES OF THE STUDY**

This study had two major objectives:

- To identify the components of financial literacy using input from both literature and SHG beneficiaries.
- To design a comprehensive scale that can capture these components of financial literacy in a large scale survey.

From the above objectives and reviews the following hypotheses are formulated:

Hypotheses 1 : Measurement of financial literacy is a four factor construct namely Financial knowledge, Saving skills, Borrowing skills, and Investment skills.

Hypotheses 2: The subscales taken for measurement have acceptable internal consistency.

**RESEARCH METHODOLOGY**

This study is based on the female population who has been involved in self help group. The respondents for this study were 400 SHG beneficiaries in the Virdhunagar District of Tamil nadu. In this section discussion is made on the data sources and statistical analysis. A survey is based on Area sampling technique with a structured questionnaire. The Questionnaire was used to measure Financial Literacy by Likert items (ranging from 1 as strongly disagree to 5 as strongly agree).

**TABLE 1- COMPONENTS OF FINANCIAL LITERACY SCALE**

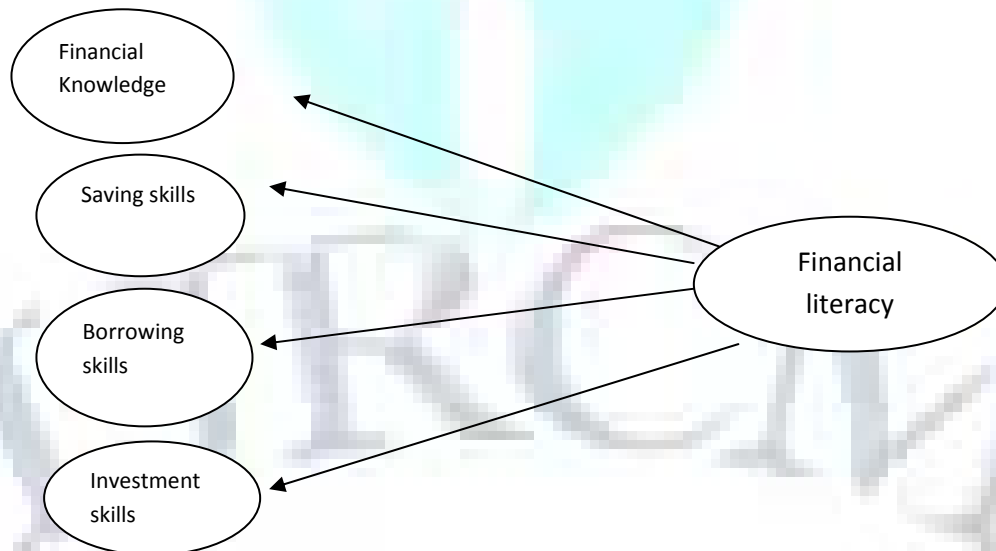
Construct	Items
Financial knowledge	10
Saving skill	15
Borrowing skill	10
Investment skill	10

A series of interviews was conducted with several experts to confirm the content and face validity of questionnaire. A pre test was done to measure the reliability of questionnaire. The Cronbach Alpha Coefficient was found to be .943 which is higher than the figure 0.80 Bryman (2004) as a rule of thumb to denote of reliability of instrument.

**CONCEPTUAL FRAMEWORK**

This section has outlined the conceptual framework for financial literacy. The concepts in the framework were represented into questions to collect the data to assess the financial literacy among SHG beneficiaries. It lays out major variables that are addressed in the assessment instrument. Literacy is an expanding set of knowledge, skills and strategies which individual build on throughout the life. It has been expanded to the study of particular skill sets, for example Wecker, et.al, (2007) assessed Computer Literacy, Callingham and Watson (2005) measured Statistical Literacy, Baker (2006) found Health Literacy. Each type of literacy measures how well an individual can understand and use information. Likewise financial literacy is concerned with how individuals understand, manage and plan their own and families financial affairs. Existing empirical evidence Lusardi (2009) suggest an improved level of financial literacy can lead to positive behaviour change. Sandra J. Huston (2010) found that financial literacy instrument consist of both knowledge and applicaton of human capital specific to personal finance. It consists of personal finance basics, borrowing, saving/ investing and protection. Lusardi and Mitchell,(2011) design the financial literacy instrument consists of three dimension on interest, inflation, and risk diversification and found that greater financial knowledge are more likely to accumulate higher amount of wealth. Schuchardt, et al., (2009) found that there is lack of consistency among researchers in how to design and measure financial literacy program success. Program for International Student Assessment (PISA 2012) found that assessment of financial literacy draws on a range of knowledge and skills associated to deal with the financial demands of every day life. Mason and Wilson (2000) developed a framework based on three dimensions such as financial knowledge, financial skill and financial responsibility. The training programmes offered to SHG beneficiaries through Non Governmental Organization (NGO) helps in developing their skills on savings, borrowings and investment. Taking this into account, the four constructs are identified to measure financial literacy. Financial Knowledge component is taken from Mason and Wilson (2000) on Conceptualizing Financial Literacy and other components of Savings, Borrowings and Investment skills are taken from Sandra J. Huston’s financial literacy instrument (2010).

**FIGURE 1- CONCEPTUAL MODEL**



**FINANCIAL LITERACY SCALE (FLS) CONSTRUCTION**

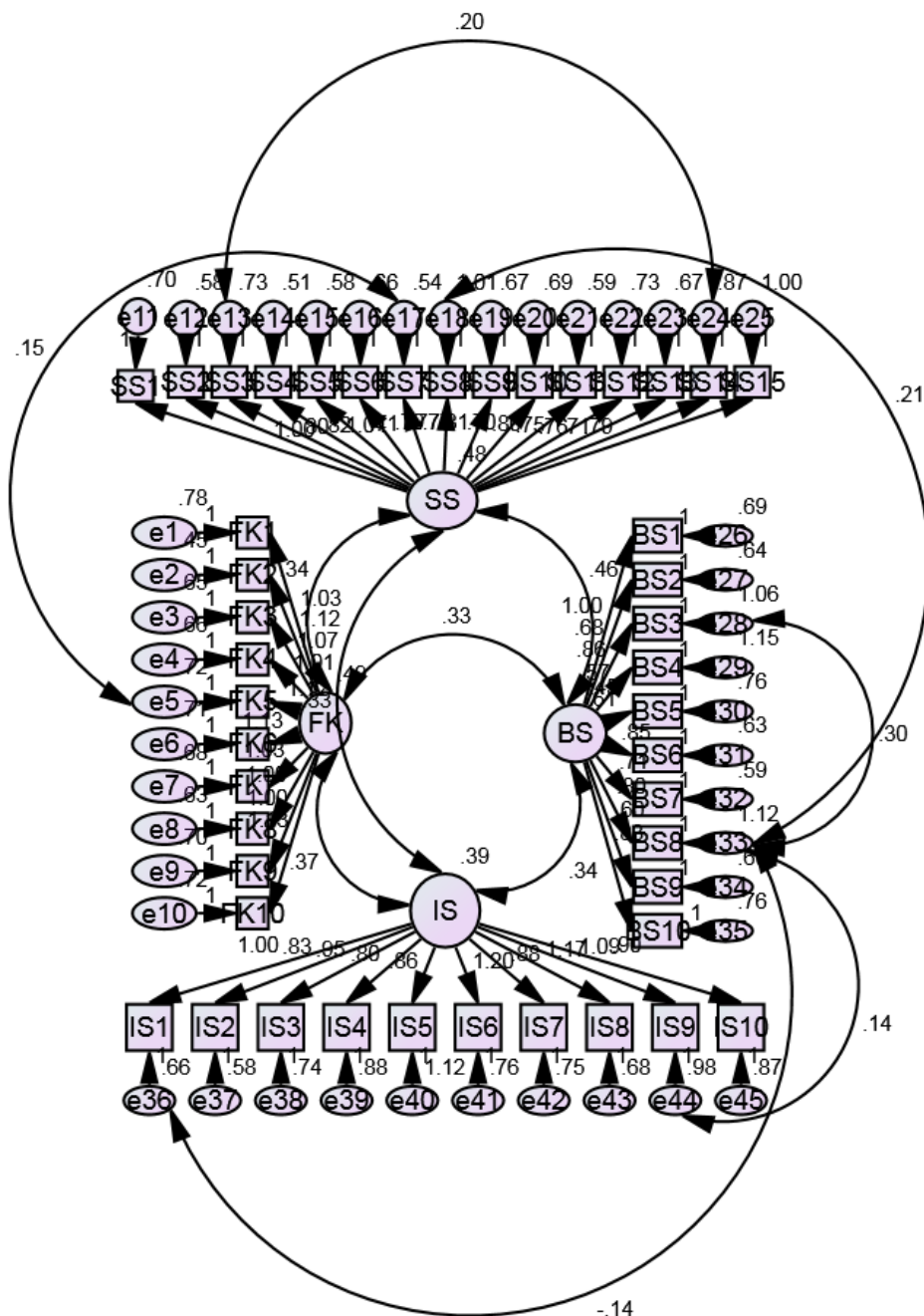
The first step in constructing the FLS was to examine the articles and reports that used to develop the financial literacy assessment. We identified the domains of financial literacy and also noted the domains that were not included in the scales. For example, Sandra J. Huston’s (2010) focused on financial literacy measures the saving and investment skills were frequently measured, whereas Mason and Wilson (2000) reported that awareness of financial schemes, and financial knowledge was less frequently measured. Following the review of previous measures four constructs were selected that were important areas of financial literacy scale. The first construct relates to knowledge and understanding of financial concepts such as training programmes, financial grants and subsidies etc. to perform a particular task. The second construct relates to cognitive process as accessing information, comparing, evaluating and applied skill in a financial context. It includes basic skills in financial literacy such as ability to save, borrow and investment that influence financial decision making. These constructs are used to ensure coverage and validity of the financial literacy assessment scale. The Financial Literacy Scale appears in Appendix A. The FLS included 45 items was measured by Likert items.

RESULT AND DISCUSSION

DEMOGRAPHIC PROFILE OF THE SAMPLE

Descriptive information of the sample is given in Table 2. The majority of the respondents are in the age between 33 and 42 (41%). The respondents belong up to 32 years are (31%) and those between 43 and above (28%) of the sample. Respondent with age of the group up to 5 years represent 62% and 5 and above years of the age group 38%. Respondent with primary qualification 34%, secondary qualification 44% and higher secondary 22%. Respondents with occupation category belong to self employed 20% and employee 62% and housewife 18% of the sample.

FIGURE 2 - MEASUREMENT MODEL FOR FINANCIAL LITERACY



MODEL FIT

The measurement model was assessed to confirm the scales used to measure financial literacy among self help groups in viradhunagar district. The Measurement model indicates an acceptable model fit to the values of fit indices shows a reasonable model fit (Byrne, 2001). This confirms the four – factor structure of financial literacy model used in this study. The model fit indices are df = 933; P < .001; CFI = .861; CMIN/DF = 1.948; GFI = .834; AGFI = .816; PCFI = .811; RMSEA = .049.

**ASSESSING THE MEASUREMENT MODEL**

Reliability is the extent to which an instrument is consistent in its measurement over time and across situations (Crocker & Algina, 1986). The reliability analysis was conducted on the four constructs and its contributing variables. Cronbach's Alpha is considered as tool to test the overall reliability of the scale. The reliability for the financial knowledge, Saving skills, Borrowing skills and Investment skills are in acceptable levels which are shown in table no: 2. The Overall Cronbach's Alpha Coefficient was found to be .943 which is higher than the figure 0.80 Bryman (2004) as a rule of thumb to denote of reliability of instrument. Further evidence of the reliability of the scale shows the composite reliability and average variance extracted scores of the different factors obtained. Composite reliability (CR) of all the latent variables is greater than the acceptable limit of 0.70 (Carmines and Zeller, 1982). The average variance extracted for all the factors is greater than or equal to 0.5 which is acceptable (Fornell and Larcker, 1981).

The result is shown in Table -2

**TABLE 2 - RELIABILITY**

Factor	Cronbach Alpha	No of itmes
Financial Knowledge	.892	10
Saving Skill	.869	15
Borrowing Skill	.747	10
Investment Skill	.822	10
Over All	.943	45

**COMPOSITE RELIABILITY**

It is a measure of scale reliability, that assesses the internal consistency of a measure (Fornell & Larcker 1981) i.e., overall reliability of a set of items loaded on a latent construct.

**TABLE 3 – COMPOSITE RELIABILITY**

Construct	CR Value
Financial Knowledge	0.97
Saving skill	0.97
Borrowing Skill	0.95
Investment Skill	0.97

Since the composite reliability values of all the constructs are greater than .07, it is considered to be good.

**CONSTRUCT VALIDITY**

Construct Validity is the extent to which a set of measured variables actually reflects the latent construct. (Hair et al., 2006). It is established in this study by establishing the face validity, content validity, convergent validity, discriminate validity and nomological validity.

**FACE AND CONTENT VALIDITY**

Face validity and content validity was established by adopting the measurement items used in this study from the existing literature and through the use of an expert panel. They also agreed that the FLS measured important financial literacy instrument and adapting the same to the present research context.

**CONVERGENT VALIDITY**

Convergent Validity was assessed by examining the factor loading and average variance extracted of the constructs as suggested by Fornell & Larcker (1981). It reflects the extent to which indicators of a specific construct 'converge' or share a high proportion of variance in common.

**TABLE 4 - CONVERGENT VALIDITY**

Construct	CV Value
Financial Knowledge	0.77
Saving skill	0.68
Borrowing Skill	0.69
Investment Skill	0.79

From the above table 5, it can be inferred that average variance extracted (AVE) for each construct is greater than or equal to 0.50, which further supports the convergent validity of the constructs.

**DISCRIMINATE VALIDITY**

Fornell & Larcker (1981) states that discriminate validity can be assessed by comparing the average variance extracted (AVE) with the corresponding inter-construct squared correlation estimates. It measures whether each variable is correlated to one factor or with any other factor.

**TABLE 5 - CORRELATION BETWEEN CONSTRUCT**

Construct	Interconstruct Correlation(IC)
Financial Knowledge - Saving Skills	.697
Borrowing Skills - Saving Skills	.966
Investment Skills - Borrowing Skills	.814
Financial Knowledge- Investment Skills	.852
Financial Knowledge - Borrowing Skills	.705
Investment Skills - Saving Skills	.769

**TABLE 6 - COMPARISON BETWEEN AVE AND SIC**

Construct	AVE	SIC	Comparison
FK	.77	0.49, 0.725, .50	AVE > SIC (for all constructs)
SS	.68	0.49, .933, 0.59	
BS	.69	.933, .66, .50	
IS	.79	0.66, .73, .59	

Table 5 and table 6, indicates the average variance extracted (AVE) values of all the financial literacy construct are greater than the squared inter construct correlation estimates (SIC) which supports the discriminate Validity of the constructs.

**NOMOLOGICAL VALIDITY**

Nomological validity is tested by examining whether the correlations between the constructs are positive. (Hair et al., 2007).



TABLE 7 - COVARIANCES: (GROUP NUMBER 1 - DEFAULT MODEL)

	Estimate	S.E.	C.R.	P	Label
Financial Knowledge <--> Saving Skills	.336	.043	7.745	***	par_42
Borrowing Skills <--> Saving Skills	.456	.053	8.570	***	par_43
Investment Skills <--> Borrowing Skills	.339	.043	7.867	***	par_44
Financial Knowledge <--> Investment Skills	.370	.046	8.066	***	par_45
Financial Knowledge <--> Borrowing Skills	.327	.043	7.590	***	par_46
Investment Skills <--> Saving Skills	.332	.043	7.797	***	par_47

TABLE 8 - CORRELATIONS: (GROUP NUMBER 1 - DEFAULT MODEL)

	Estimate
FK <--> SS	.696
BS <--> SS	.982
IS <--> BS	.813
FK <--> IS	.852
FK <--> BS	.700
IS <--> SS	.769

Table 7 and table 8, infers that the FLS four construct model indicates that correlations and interconstruct correlations are positive and significant and hence nomological validity is proved.

## SUMMARY AND CONCLUSION

Based on the result and previous research literature evidence that financial literacy is an important basis for effective financial decision making. Hung, A, et al., (2012) examined that more research on the design and effectiveness of financial education programme is needed. INFE/OECD, (2011) found that financial literacy instrument includes the role of financial education for financial inclusion on savings, investments, and pensions. Moore, Danna, (2003), found that financially literate individuals do better at budgeting, saving and spending decision making. Johnson and Staten, (2010) identified financial literacy includes non-cognitive factors such as motivation, confidence have influence on money management behavior. Calvet et al., (2007) found that households with lower financial literacy and cognitive abilities are less likely to participate in risky asset markets to avoid investment mistake. From the results and the discussions of the present study, it is concluded that the study could serve as standard for measurement for financial literacy. The four factor structure of financial literacy was confirmed as well as the internal consistencies of the sub scales. Hence this can be regarded as a potential instrument to measure financial literacy among SHG beneficiaries. This scale offers researchers and practitioners a reliable and valid tool to measure financial literacy though some work to be done to ensure that it is reliable and valid among different sub groups.

## SCOPE FOR THE FUTURE RESEARCH

Concerning the effect of financial literacy, it is recommended that further research be conducted to measure the financial literacy influence the economic empowerment. Measurement model alone will not serve the purpose and hence the cause and effect relationship is to be identified by developing structural model by identifying and testing the constructs of economic empowerment of self help groups.

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## APPENDIX

### APPENDIX A: FINANCIAL LITERACY SCALE

Please rate the extent to which you agree with each statement:

1= strongly disagree, 2= Disagree, 3= Undecided, 4= Agree, 5= Strongly agree

#### FINANCIAL KNOWLEDGE

This domain focuses on a broad spectrum of knowledge and understanding of financial concepts such as government schemes, training programmes, business activities and information sharing behavior.

- Understand financial knowledge through training programmes;
- Developed financial skills to make right choices;
- Developed social participation;
- Knowledge about government schemes;
- Equipped information seeking behavior;
- Knowledge about information sharing behaviour;
- Improved economic status;
- Training programme give self confidence;
- Attitude to start business;
- Educationally beneficial.

#### SAVING SKILLS

This content area includes how they plan for short term to avoid the financial crisis.

- Identify saver and spender;
- Effective way to manage money;
- Alternative measure of income;
- Understand the saving schemes;
- Knowledge about withdrawal ;
- Secured feeling;
- Satisfaction on savings;
- Meet out short term need;
- Plan for future well being;
- Promote high standard of living;
- Curtail entertainment expenses;
- Channel into investment outlets;
- Improve confidence;
- Reduce dependence on money lenders;
- Transparent in accounting system

#### BORROWING SKILLS

This content area involves ability to manage the credit facilities, rate of interest and bank procedures.

- Knowledge about the risk;
- Understand the loan covenants;
- Legal action for default on payment of loan;
- Access the loan amount;
- Repayment of loan out of income;
- Rate of interest on loan;
- Knowledge about credit policy;
- Conflict between members and bank officials;
- Understand the bank procedures;
- Utilize the loan for productive purpose;

#### INVESTMENT SKILLS

This content area relates to plan for investment and to manage the risk and return.

- Commitment of money;
- Achieve long term goals;
- Expect high return and risk;
- Protect against future loss;
- Failure to consider risk;
- Expected return on investment;
- Deviation between actual and expected return;
- Easy access the marketing of investment;
- Marketing strategies not feasible;
- Relationship between risk and return.

## THE ROLE OF MICROFINANCE IN THE DEVELOPMENT OF COTTAGE & SMALL SCALE INDUSTRIES IN NORTH EASTERN REGION OF INDIA

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### ABSTRACT

*The various stake holders of microfinance have served the poor and helped them to come out from the menace of poverty through establishing the small scale businesses among them but at the same time to reach out with financial services including subsidy schemes is not possible by mere few agencies it should involve the role of different financial agencies. In order to conduct the study we collected the data from both secondary and primary sources, proper statistical procedures were conducted to process and analyse the information. From the information that we have it is realised that there are formal, semiformal and informal sources of finance available with services ranging from Government subsidy schemes through banks and NGOs to high interest rate loans of community based indigenous financial institutions and commercial banks, about 25 percent of small business holders use their own finance. It was observed that all these sources have put the positive impact on the income level of clients. There is also some unfortunate section of people in North East India which do not have access to financial services and they have become the victims of militancy and human trafficking.*

### KEYWORDS

Banks and NGOs, Financial-services, Microfinance, North East India, Poor and Small scale businesses.

### INTRODUCTION

Microfinance covers financial assistance to the needy people with family background ranging between below poverty line to middle class. In real sense it is the financial support to the persons which do not have enough liquidity to set up their own business units and the small scale enterprises which are entangled in liquidity shortage to keep going on their current business in spite of having some fixed assets valuing within the limits to meet the eligibility criteria of the government schemes through which they get the finance. The type of finance and choice of scheme depends upon the time period of cash needed to be invested (either short term or long term) in the business by the small enterprise and the type of business to be set up by an individual as an income generating unit.

North East States constitutes about 5 percent (4crs) of the total country's population. With 19 percent People living below the poverty line, so the 19% ÷ 40000,000 = 7600,000 number of people here requires a small financial help/microfinance for setting up their own small cottage units to come out from the menace of poverty.

Besides this, there are thousands of entrepreneurs which run small business units and they consume about 70 percent composition of the total micro-financial structure involving; security loans, subsidy funds, their own retained earnings, equity & partnership funds and other semiformal & informal sources etc. It was observed that their standard of living is much better than those which are running small cottage units. Therefore, total demand of microfinance is not restricted up to BPL population and it covers the financial need in whole cottage & small business sector of the region.

### REVIEW OF LITERATURE

The role of microfinance in the development of small scale industries were addressed by researches and some important studies are reviewed below.

The small scale industrial sector is an integral part of not only the industrial sector, but also of the country's economic structure as a whole. If small scale industries are properly developed, they can provide a large volume of employment, can raise income and standard of living of the people in lower income group and can bring about more prosperity and balanced economic development (PRASAD 1983). Despite numerous policy measures during the past 4 decades, Indian small scale units have remained mostly tiny, technologically backward and tacking in competitive strength. Not with standing their lack of competitive strength, SSI units in India could survive due to product and geographical market segmentation and policy protection (TENDULKAR et. al. 1997). Commercial banks continue to play a dominant role in financing small scale industrial sector however the growth rate of bank credit has been low as compared to the growth rate of production in the SSI sector. Therefore, he concluded that the banking sector has failed to meet the increasing credit requirements of the SSI sector (RAMESHA 1999). The financial institutions in India are managing the activities Such as, assistance finance, promotional finance & miscellaneous finance which made diversified funds and services available to small business holders for the growth and expansion of business (Dr. SAWALIGA BIHARI VERMA 2010). Microfinance in Assam, although started late, has been growing at a very faster pace in recent years. Many new local and national level microfinance providers have emerged. Informal microfinance providers and practices are equally strong in rural areas. This is perhaps because of the gap between the demand and supply side of the micro credit and uneven outreach of microfinance. It seems that many local informal microfinance providers had emerged as a new form of moneylenders. It also observed that unhealthy competition amongst the MFIs was leading to multiple borrowing. Suitable legal provisions are needed for enabling the MFIs especially the small ones to work for the poor (Dr. DEBABRATA DAS & Ms. PINKY DUTTA 2011).

### STATEMENT OF THE PROBLEM

The Research topic is selected from the issues and gaps in the previous researches related to the microfinance in North Eastern Region. The business of NER is largely based on the small scale industries and cottage units because the region has merely few large industries. There is also the vast economic disparity among different areas of the region due to its topography where large number of areas does not have well connectivity and the income of the most people in these areas depend on the cottage activities. Their financial needs are fulfilled by the local lenders where the access of the formal financial institutions is almost absent. Many NGOs along with the other MFIs are frequently operational in the region. So the role of microfinance in the NER is an important issue where along with formal financing the other sources such as; informal and semiformal financial services also play an important role in financing the cottage business.

**RESEARCH METHODOLOGY****SOURCE OF DATA**

The study is undertaken both in rural and urban areas of North East Region of India. Both the primary and secondary data's are used. Primary data is enumerated from a field survey of the study area. Secondary data is collected from the reports of financial institutions, Government notifications, NGOs, research papers, books, TV news, websites and internet search for various questions.

**SELECTION OF THE REGION**

There are eight states in the North Eastern Region of India with population over 39 million and cover an area of 262,179 sq. km. distributed among connected and non-connected areas. The whole region is industrially backward area but there are large number of small scale industries & cottage units across the region. The total annual microcredit demand is estimated between Rs 22.9 billion to Rs 38.0 billion and apart from the Government supply there are also other financial sources operating in the region. Therefore, this study will help the policy makers in identifying various ways of reaching out the finance to poor as well as to small scale entrepreneurs existing both in connected and non connected areas of the region.

**PILOT STUDY**

Questionnaire was prepared based on the issues and gaps in the studies carried out by the earlier researchers in India relating to the role of microfinance in the development of cottage industries. Pilot study was conducted to ensure the reliability and validity of the research instruments. The following studies were useful to frame the questionnaire:

1. Microfinance in North East: Identifying Issues by Dr. GYANENDRA MANI, Faculty Member, BIRD
2. Status and performance of Self-Help Groups in Assam: Evidences from Field Study by Ms. DIMPI CHAKRAVORTY.
3. "SHG-Bank Linkage Program & Rural Credit: An Impact Assessment" by Ms. SAKIYA KHAN & Ms. ANAMIKA DEKA, GAWAHATI UNIVERSITY.
4. Microfinance in Tripura" Observations of R.O. SHRI R. SUNDAR.
5. Savings behavior of Poor People in the North East of India (MADHURANTIKA MOULICK).
6. Microfinance in Assam: An Overview by Dr. DEBABRATA DAS & Ms. PINKY DUTTA, TEZPUR UNIVERSITY.
7. Self help group and micro-enterprise development towards savings habits with special reference to Manipur" by Dr. S. DILAN SINGH, Institute of Coop Management, IMPHAL.
8. Traditional microfinance institutions in North East Region with special reference to Manipur state by KH. SOMORENDRO SINGH.
9. Population poverty and environment in North East India by B. DATTA RAY, H. K. MAZHARI, P. M. PASSAH and M. C. PANDEY, 2000.
10. Informality and Poverty: Urban Landscape of India's North East by B. DATTA RAY and GURUDAS DAS, 2006.
11. Guidelines of the small industries cluster development program (SICDP) (NOTM/UND/2005): JAWAHAR SIRCAR.
12. Micro-save India Focus Note 9, Reaching Remote Areas – A case for North East India (ABHIJIT SHARMA).

**SAMPLING DESIGN**

The cluster sampling and area sampling is followed. All the eight states of North East Region were selected the data was randomly collected from both rural and urban areas because of the ethical, topographical & developmental variations prevailing across the region which reflects an mixed image of patterns for microfinance and the cottage industry. In particular those districts were preferred which are having the maximum variations in ethical population and topography.

**SAMPLE SIZE**

The respondents were selected on the basis of population and number of small scale Industries in the respective states of North Eastern Region on the basis of number of SHGs developed under various Government sponsored programs. In total about 8,001 respondents were selected for the study from whole North Eastern Region with an average of 10 percent from every type of small scale business distributed across the eight states. Members of the every group were interviewed with the pre tested and well structured questionnaire/schedule.

**STATISTICAL TOOLS USED**

Average, mean, simple correlations, graphs, pie diagrams, cross tabulation and percentage analysis etc. were used to analyze and interpret the data.

**METHOD OF DATA COLLECTION**

A structured interview schedule was prepared by the researcher and used for collecting data from the members of SSIs and SHGs located in both the urban and rural areas of the NER.

**ANALYSIS AND INTERPRETATION OF DATA****MICROCREDIT DEMAND**

The total annual microcredit demand is estimated between Rs 22.9 billion to Rs 38.0 billion. The total demand for credit has been estimated by taking average demand per household at Rs 5,000 in rural areas and Rs 8,000 in urban areas. Between Rs. 5-6 billion is current supplied - just 14 percent of total demand. The projected demand for microfinance in Northeast is around Rs 38,000 millions; to manage this portfolio at least 35,000 to 40,000 staff will be required. So, this is clear, 7.6 million poor in North East India requires around Rs 38 billion per year or 50,000 per person where only 14 percent (Rs 5 billion) is current supply, satisfying 1.1 million people and the 6.1 million poor remain un-served by government.

**EFFORTS OF THE GOVERNMENT TO SATISFY THE DEMAND**

During the 9<sup>th</sup> five year plan the fund available for NER was Rs 19.36 billion as against the approved outlay of Rs 24.50 billion and the Rs 25.00 billion against the approved outlay of Rs 35.00 billion during the 10<sup>th</sup> plan. During the 11<sup>th</sup> plan too, this trend continued, adding the actual allocation was Rs 25.49 billion in the first four years while the approved outlay was Rs 73.94 billion. If this trend continues in the 12<sup>th</sup> five year plan, it would be impossible to achieve the goals. Out of this financial setup, about 20 percent quota goes to microfinance, includes the investment for social services; Education and Economic services. Where funds are being provided to poor for various purposes which includes; Employment opportunity, Social welfare, subsidy, Loan weaving, Incentive packages /rehabilitation packages etc. etc.

It shows the actual supply for various developmental purposes during 2007-11 was about 35 percent of the approved plan of Rs 7.5 billion or the supply was Rs 2.6 billion out of which, 34 percent (Rs 892.5 cr.) went for social services & 35 percent (Rs 918.75 cr.) went for economic services both of these serve the microfinance\* for poor by about 20 percent so, out of Rs 2.6 billion supply about Rs 520 cr. gone in the services of poor during the last four years in North East Region.

Besides this, there are thousands of entrepreneurs which run small business units and they consume about 70 percent composition of the total micro-financial structure involving; security loans, subsidy funds, their own retained earnings, equity & partnership funds and other semiformal & informal sources etc. It was observed that their standard of living is much better than those which are running small cottage units. Therefore, total demand of microfinance is not restricted up to BPL population it covers the financial need in whole cottage & small business sector of the region.



TABLE 1: MAJOR SMALL SCALE INDUSTRIES IN NORTH EAST REGION OF INDIA

State	Major SSIs
Arunachal Pradesh	Handloom & Handicrafts, Cane & Bamboo, Painting and Carpet making
Assam	Tea, Jute, Silk, Paper, Cement, polyester yarn, food processing and handloom & handicrafts.
Manipur	Food products, hosiery, garments & other textiles, wood, paper & printing, leather, rubber & plastic, non-metallic mineral, electrical machinery & parts, transport equipments & parts.
Meghalaya	Wooden furniture & fixtures, cement, leather, stone, tailoring, lime making, bakery, printing, cane & bamboo, and handloom & handicrafts.
Mizoram	Bamboo, food processing and handloom & handicrafts.
Nagaland	Silk and fabrics.
Sikkim	Silk-reeling, weaving & processing, printing, handloom & handicrafts, food processing and tea.
Tripura	Tea, food processing, handloom & handicrafts, rubber and bamboo.

TABLE 2: TRENDS IN THE GROWTH OF SMALL SCALE INDUSTRY IN NORTH EAST REGION (Number with percentage)

State	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Arunachal Pradesh	6032 (5)	6153 (2.01)	6354 (3.26)	6430 (1.19)	6494 (1.00)	6799 (4.7)
Assam	47200 (6)	50263 (6.49)	52771 (4.99)	55684 (5.52)	59315 (6.52)	62417 (5.23)
Manipur	6020 (1.90)	6161 (2.35)	6319 (2.57)	6535 (3.42)	6636 (1.54)	6757 (1.82)
Meghalaya	4530 (4.50)	4932 (8.87)	5324 (7.94)	5739 (7.79)	6143 (7.04)	6400 (4.18)
Mizoram	7293 (6.50)	8051 (10.39)	8381 (4.10)	8605 (2.67)	9288 (7.94)	9891 (6.49)
Nagaland	3000 (28)	4138 (37.92)	5377 (29.93)	6742 (25.39)	8297 (23.06)	10589 (27.63)
Sikkim	370 (2.92)	385 (4.06)	406 (5.53)	419 (3.08)	429 (2.39)	442 (2.92)
Tripura	2049 (1.33)	2127 (3.83)	2197 (3.31)	2238 (1.86)	2275 (1.67)	2298 (1.00)

## STAKE HOLDERS OF MICROFINANCE

The various stake holders which are supporting the Microfinance in the North East Region are; Centre for Micro-financing & livelihood (CML), RASHTRIYA GRAMEEN VIKAS NIDHI (RGVN), SIDBI, NEDFI, Friends of women world banking India (FWWB-I) commercial banks, Consultants, Academic Institutions, Donors and Government. ACCESS Development Services is a national resource agency set up through DFID (Govt. of UK) and CARE (a large international NGO) facilitation to support organized growth of the microfinance in underserved state / region and attempts to bring together all stakeholders to help a vision for that particular state / region. The unreached small borrowers can be helped by NEDFI through the provision of small loan through intermediaries. It will lead to creation of informal savings and help in inculcating the habit of borrowing and repaying. However, Self-Help Groups (SHGs), usually at the behest of certain development oriented non-government organizations (NGOs), have quietly mushroomed in most districts of Eastern India. North East Region Finance services Limited (NEREFS) disbursed microfinance loans to 217 clients belonging to the North Eastern states NEREFS is providing microfinance services to the North Eastern states. It has an outstanding loan portfolio of about INR 1.03 billion (\$20.6 million) and 25,124 borrowers. It has 72 branches in 50 districts of Assam, Arunachal Pradesh, Manipur, Meghalaya, and Mizoram in the North East and Uttaranchal in North India. NCUI-WCEP, IMPAL East has delivered essential services of microfinance delivery to the needy rural women (7470 through 526 SHGs) during the last 10 years.

## SELF HELP GROUPS

The Self Help Groups have been formed and RRBs are most active and finances the maximum number of SHGs (56 percent), followed by the commercial banks (38 percent), the involvement of cooperatives has been very minimal in the region, with only 4 percent of SHGs financed by this source. It was observed that a major (71.75 percent) chunk of the linkage is account by Model I due to the limited involvement of NGOs, Model II and III account for only 10.76 percent and 17.47 percent respectively.

Out of 223 SHGs, 60 percent of the sample SHGs had joined SGSY scheme in view of the subsidies being offered under the programme. The various projects that are going on in Tripura which are SGSY, SHG-Bank Linkage Programme, Tripura State Support Project on SHGs, IGD Project, JICA Project, Bamboo Mission, Fisheries Department's project and Bee Keeping project (Proposed). All these programmes have taken place due to the active initiatives of the Government of Tripura with the support from NABARD. SHG-Bank linkage did have a significant impact on the income levels of the members of SHG even without subsidies. The subsidies under the SWARNAJAYANTI GRAM SWAROZGAR YOJANA (SGSY) are distorting the healthy growth of the micro-finance movement in India. Banks generally not disbursing the full bank loan sanctioned to the SHGs formed under SGSY.

It was observed that;

- ✓ The average annual increase in income stood at Rs. 2529.27 (the per capita annual income being Rs. 6098.01 which was Rs. 3568.74 before joining the SHGs).
- ✓ The SC/ST and Backward class constituted 78.67 percent of the sample.
- ✓ About 82.6 percent of the SHG members borrow from SHGs and about 10.4 percent from friends and relatives during post SHG situation.
- ✓ SHG-Bank linkage did have a significant impact on the income levels of the members of SHG even without subsidies.

## FINANCIAL PROBLEMS

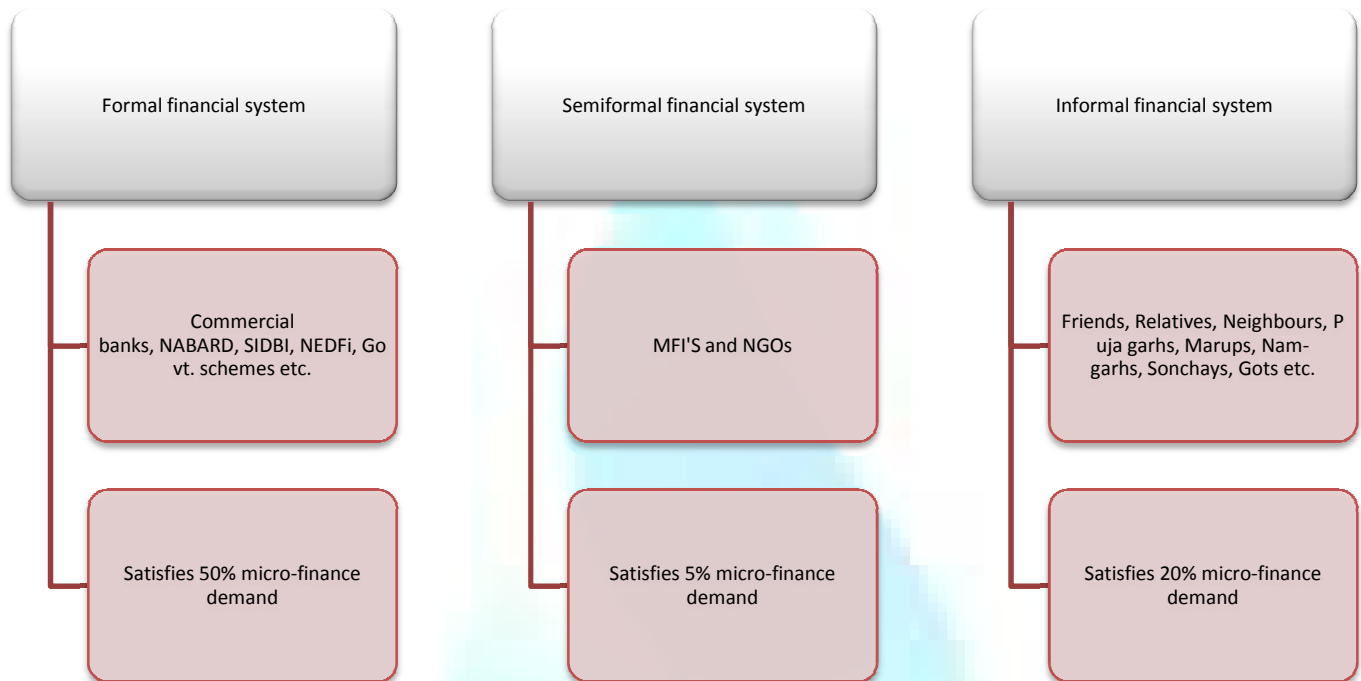
The spread of bank branches is much below the national average. Banks are proving to be risk-shy in practice on account of unwarranted perceptions of credit unworthiness and high transaction cost in processing financial services with too many small borrowers. The products offered often do not meet clients' needs effectively, and they are delivered by staff members who are not sensitive to the needs and expectations of low income people. Government led initiatives, like the 'no frills' account, are not promoted aggressively because of the cost implications for the banks.

The way the microfinance sector has grown, a huge regional skew has been created, with almost two thirds of the sector being concentrated in the three southern states; large parts of the north and the north east remaining highly underserved. The thirteen priority states, which account for 67 percent of the poor, remain fairly underserved in microfinance. The eastern region also reported the lowest credit per SHG at rupees 23721, while for NER it was rupees 26505 which is almost half of the all India average.

**SOME KIND OF SOLUTION**

In the absence of formal financial institutions, many indigenous community based institutions operate successfully within the region. SONCHAYS in Assam, MARUPS, GOT, NAM GHARS, PUJA GHARS are examples of such community based institutions. The emergence of these institutions indicates the demand for financial services, but also a possible strategy for efficient delivery. These indigenous institutions are primarily in existence for many years and play significant roles in providing financial services. Semi-formal institutions such as Self Help Groups (SHGs) and Micro Finance Institutions (MFIs) cater more to the poor and reach out to the lower segment of not-so-poor category. The interest rate charged by informal microfinance providers is very high. It ranges from 36 percent to 48 percent per annum whereas in case of formal MFIs it ranges 7.5 percent to 30 percent per annum. Availability of credit is given preference over the cost of credit by the borrowers.

**STRUCTURE OF THE MICROFINANCE**



Source: Primary data.

**THE IMPACT OF MICROFINANCE ON THE ECONOMIC LIFE OF THE PEOPLE OF NORTH EASTERN REGION, 2011-12**

**TABLE 3: NUMBER OF THE RESPONDENTS TAKEN FROM EIGHT NER STATES**

State	No. of respondents				Total no. of respondents	percentage
	Rural		Urban			
	Male	Female	Male	Female		
Assam	1520	600	1220	900	4240	53
Meghalaya	166	90	138	119	513	6.5
Nagaland	350	150	300	200	1000	12.5
Arunachal Pradesh	240	99	200	139	678	8.5
Manipur	200	95	168	127	590	7
Mizoram	240	125	220	145	730	9
Tripura	80	25	65	40	210	3
Sikkim	15	5	13	7	40	0.5
<b>NER</b>	<b>2,811</b>	<b>1,189</b>	<b>2,324</b>	<b>1,677</b>	<b>8001</b>	<b>100</b>

Source: Primary data

TABLE 4: FINANCIAL STRUCTURE IN VARIOUS SMALL BUSINESSES OF SELECTED RESPONDENTS FROM NORTH EAST INDIA, 2011-12 (AMOUNT IN RUPEES)

S. No.	Type of Business	Number of respondents with percentage to overall total	Financial structure (Amount & percentage)			
			Micro-credit by Govt.	Mort-gage loans	Inform-al finance	Own finance
1	Handloom & Handicrafts	2,050 (26)	57,40,000	1,68,10,000	82,00,000	1,02,50,000
2	Cane & Bamboo	1,320 (16)	9,24,000	27,06,000	13,20,000	16,50,000
3	Silk reeling & weaving	1,209 (15)	16,92,600	49,56,900	24,18,000	30,22,500
4	Garments & other textiles	850 (11)	1,19,00,000	3,48,50,000	1,70,00,000	2,12,50,000
5	Wooden furniture & fixtures	600 (7)	42,00,000	1,23,00,000	60,00,000	75,00,000
6	Food processing	530 (7)	7,42,000	21,73,000	10,60,000	13,25,000
7	Tea	292 (4)	40,88,000	1,19,72,000	58,40,000	73,00,000
8	Small Retail outlets	1,150 (14)	16,10,000	47,15,000	23,00,000	28,75,000
<b>Total</b>		<b>8001 (100)</b>	<b>3,08,96,600 (14)</b>	<b>9,04,82,900 (41)</b>	<b>4,41,38,000 (20)</b>	<b>55172500 (25%)</b>

Source: Primary data.

TABLE 5: TYPE OF FINANCE AVAILABLE WITH DIFFERENT RESPONDENTS BELONGING TO DIFFERENT HABITATS IN NER, 2011-12

Type of Finance	Number of Respondents	Habitat	Village/City
Informal	534	Remote Forest	Village
Informal & Semiformal	680	Remote Plains	Village
Semiformal, Informal & Formal	1,766	Connected Plains	Village
Formal & Own	1,021	Towns	Village
Formal & Own	2,326	Old cities	City
Formal & Own	1,674	New Cities	City

Source: Primary data.

TABLE 6: TYPE OF FINANCE TAKEN BY VARIOUS RESPONDENTS TO SETUP THEIR OWN INCOME GENERATING UNITS

S. NO.	Type of finance	No. of respondents				Total no. of respondents	Total percentage
		Rural		Urban			
		Male	Female	Male	Female		
1	Microfinance under various Government schemes	394	166	325	235	1,120	14
2	Mortgaged loans	1,152	488	953	688	3,281	41
3	Informal sources	562	238	465	335	1,600	20
4	Own finance	703	297	581	419	2,000	25
<b>Total</b>		<b>2,811</b>	<b>1,189</b>	<b>2,324</b>	<b>1,677</b>	<b>8,001</b>	<b>100</b>

Source: Primary data.

## A SECTION OF HELP LESS PEOPLE

A good section of people in North East India do not have access to financial services, some of them has been declared doubtful voters which are considered not being the nationals of either NER or India. Most of them have become the victim of social evils like human trafficking & militancy. Recent years has seen the rise of other militant groups from smaller tribes who accuse the larger tribes of exploiting their limited resources. Most of these militant groups are luring the poor by providing them financial support to fulfil their daily life needs, for example the ULFA in Assam has been reported to provide the microfinance support to poor for establishing their own income generating units.

## FINDINGS OF THE STUDY

- It was observed that there are 7.6 million poor people in the North East India where only 14 percent of the microcredit demand is fulfilled by the Govt. policies and schemes leaving 6.1 million poor people un-served.
- It was observed that the estimates of planning commission for the microfinance are supplied less than half in actual terms.
- It was observed that the various stake holders involved in microfinance supply are; CML, RGVN, SIDBI, NEDFI, NGOs, FWWB-I, CBs, Donors, Consultants, Academics, Institutions, NERFERS, NCUI-WCEP, Government etc.
- It was observed that the SHGs have been formed which are mainly financed by banks due to limited involvement of NGOs, about 60 percent of the SHGs had joined SGSY scheme in view of subsidies being offered under the program.
- It was observed that SHGs have put the positive impact on the economy of the poor.
- It was observed that the spread of banks is lower than the country's average, client's needs are not addressed and about 67 percent of poor in North Eastern Region remain underserved.
- It was observed that there are fortunately many indigenous community based institutions operating successfully and people prefer the availability of finance over the cost of credit.
- It was observed that in the structure of microfinance of the selected respondents the formal and semiformal together fulfill 55 percent of the demand while informal sources fulfill about 20 percent and about 25 percent people arrange their own.
- It was observed that a good section of poor people are totally deprived of the financial supply and most of them have fallen the victim of many social evils such as; prostitution, human trafficking and militancy etc.

**CONCLUSION**

North Eastern Region has about 7.6 million poor people where all are not financially served by the Government. The total microfinance demand emanates from whole cottage & small business sector along with these poor of the region. Although various NGOs with government schemes are in operation which has formed many SHGs but due to the topographical reasons, the spread of bank branches & access of NGOs to remote hilly areas is rare and the credit per existing SHG is almost less than the half of all India average, therefore, large number of the people get finance from the Informal sources and the mortgage loans from commercial banks but they do not address needs of client, thereafter, the availability of finance is given preference over the cost of finance. Some people set up business by their own finance but a good section of people is totally devoid of financial access which has forced them to indulge in human trafficking & militancy like activities.

**SUGGESTIONS FOR THE POLICY MAKERS**

In North Eastern Region the structure of microfinance is composed of four components, Government cannot achieve hundred percent of target through subsidy scheme which is the smallest component of structure. The weak points in the other three components need to be addressed they should be supplemented with the innovative techniques and ideas to make them more advanced, profitable, popular and favourable. The techniques like Venture capitalism, Incubation, Equity concepts, financial analysis, Project appraising & financing etc. should be inculcated in the members of various semiformal and informal entities through various awareness and training programs and their activities should be brought under different package schemes such as income tax exemption to shift their working concept & behaviour from Monarchic-capitalist to positive business investment.

**FUTHER RESREACH DIRECTION**

This research paves way for further researches on the role of microfinance and its management which are listed below:

1. Role of microfinance in bridging the gap between rural and urban economy.
2. Role of the pattern of microfinance schemes in the development of concerned pattern of cottage and small business types in the specific area.
3. The impact of formal bank financial services on the microfinance operation of various other formal, semiformal and informal entities in the field.
4. The impact of challenges posed by informal financial elements on micro-financial services of semiformal MFIs and NGOs.

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25. Status and performance of Self-Help Groups in Assam: Evidences from Field Study by Ms. DIMPI CHAKRAVORTY
26. The impact of MF accessibility through group initiative to Rural Women in Manipur – A case study, by Dr K I MEETEI, Faculty Member, VAMNICOM, PUNE
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FIGURE 1: COMPOSITION OF MICROFINANCE IN THE RESPONDENTS FROM NORTH EAST INDIA, 2011-12



FIGURE 2: NUMBER OF RESPONDENTS ASSOCIATED WITH VARIOUS SMALL BUSINESSES IN NER, 2011-12

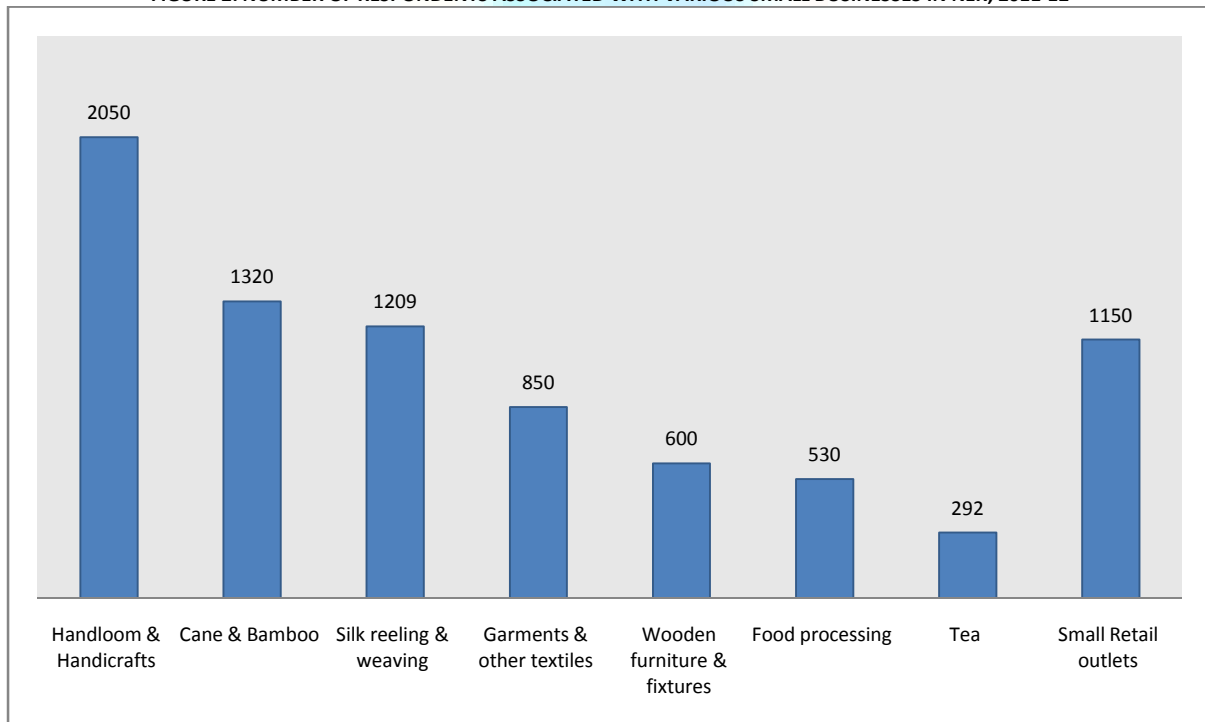


FIGURE 3: PERCENTAGE OF THE RESPONDENTS ASSOCIATED WITH VARIOUS SMALL BUSINESSES IN NER

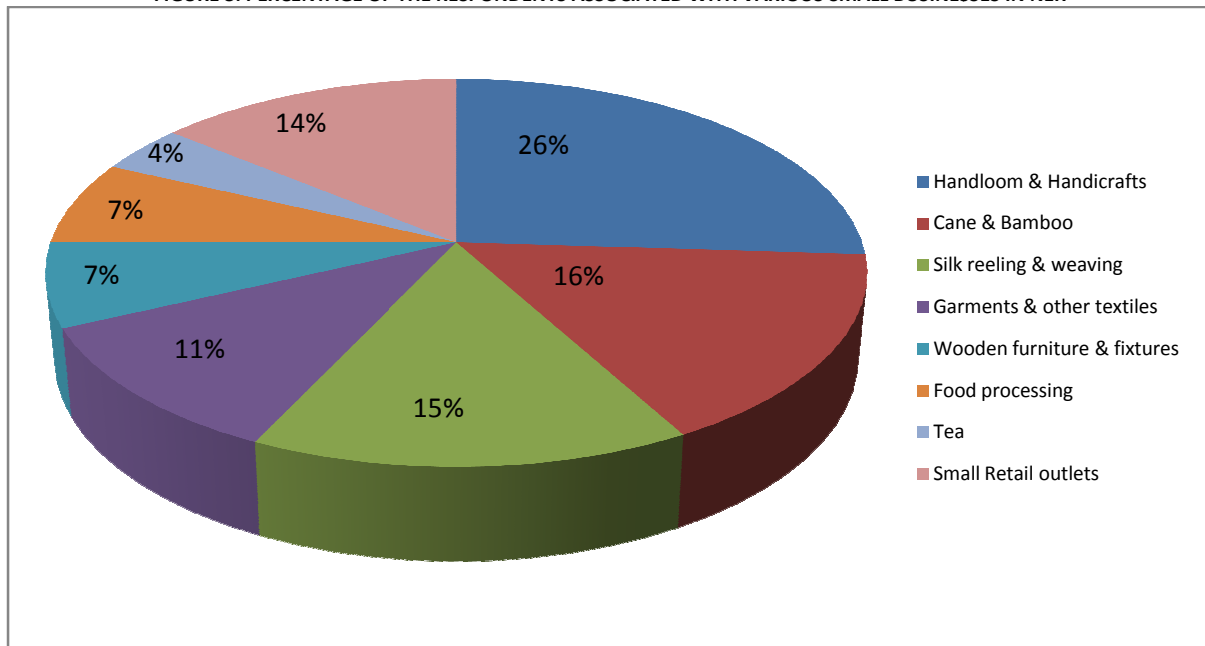
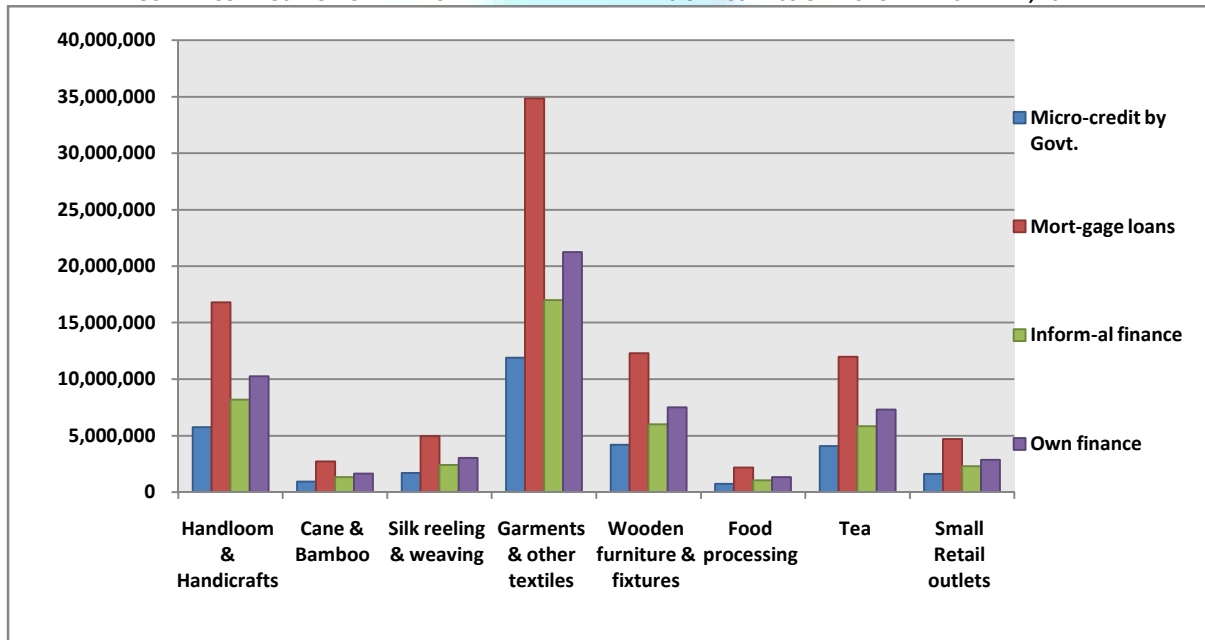


FIGURE 4: COMPOSITION OF FINANCE IN THE DIFFERENT TYPES OF BUSINESS OF RESPONDENTS IN NER, 2011-1



## EXCELLENT PRACTICES OF EXPATRIATE RELATIONSHIP MANAGEMENT (ERM) IN INFORMATION TECHNOLOGY ENABLED SERVICE SECTOR

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### ABSTRACT

*The purpose of this paper is to investigate to what extent the excellent practices of expatriate relationship management are found in the organisations and to explore how organizations can better utilize these practices for achieving efficiency and effectiveness. A research study was conducted on 20 respondents from 5 Information Technology Enabled Services companies including Business Processing Organisations and Knowledge Processing Organisations. The opinion of the respondents on six variables and 15 questions relating to the expatriate relationship management was undertaken during a six week period. The results showed that the expatriates were satisfied with six variables on expatriate relationship management implementation with minor deviations in very few aspects (sharing of problems with seniors and updating of latest technology) of the expatriate relationship management practices. The study was conducted in only Information Technology Enabled Service sector (5 Companies), which may limit the broad-spectrum of the findings. The study suggested how organizations can nurture the various practices on expatriate relationship management for the betterment of the expatriates. In addition to this, organizations can also identify the appropriate social structure for their knowledge management purposes. The study also empirically verified the acceptance of various practices of expatriate relationship management and demonstrated that the concept can be used to guide top managers on how to improve their support to expatriates in their organization for successful accomplishment of the objectives.*

### KEYWORDS

Accenture, China, cross-cultural, international borders, stakeholders.

### INTRODUCTION

One of the foundation stones of companies which attract, retain and motivate high performing expatriates is a positive and valuing attitude toward them. Successful organizations nurture ideas of employees and understand that employees are their assets. Technological advancement and innovation in the global business setting is resulting in significant challenges and opportunities for the IT industry. Driven by these challenges and opportunities, organizations are moving across national borders by establishing foreign-owned subsidiaries, entering into joint ventures and strategic alliances to align the organisation to the ever changing business needs and survive in the competitive market place (Duppada and Aryasri, 2011). The international movement of labour that has been concomitant with such expansion of international business has meant that issues associated with the management of human resources across international borders are increasingly important to international human resource managers. International businesses have increasingly turned their attention to issues such as expatriate management (employees being transferred by organizations to work outside their country of origin/permanent residence), managing in other cultures and managing diversity in multicultural domestic workforces.

Deployment of expatriates in international subsidiaries can be a complex issue for multinational enterprises (MNEs). The global environment is increasingly integrated across national borders, and yet there remain critical differences among national environments. Consequently, expatriate employees can be an important resource as MNEs try to make sense of, and enact, their environments across the globe. (Riaz and Suhai, 2009). As companies continue to face challenges to succeeding in a globally integrated world, they look to the workforce to help differentiate themselves from their competition. To do so, they must find ways of identifying, developing and connecting talent and expertise from around the globe. Major business publications and conferences are now placing issues such as talent management and employee engagement at the forefront of the corporate agenda. (Eric Lesser, 2005)

Organizations are now leveraging advanced technologies to enhance their HR efforts for competitive advantage. Such systems implementations free HR managers from mundane personnel administration activities, permitting a focus on strategic value-added personnel support and satisfaction activities (Yang et al., cited in DeSanctis 1986). Since people are the pre-eminent organizational resource, this is a critical focus (Yang et al., cited in Delaney & Huselid, 1996).

In a continuously changing global marketplace, companies need stream-lined human resources departments that can create innovative methods for linking business strategies to people strategies. As a result, companies periodically need to tap into highly specialised HR expertise to handle large, demanding, or urgent projects that cannot be effectively completed by their existing personnel infrastructure (Lingham, 2011).

Successful Expatriate assignments drive revenue, value and growth to the organization and have always been a driving and determining factor for the success of the organization's overseas operations. The expatriate managers become the cornerstones on which the international operations are built as they help in informal control mechanism, for knowledge transfer, and for international team development. Hence, an emerging view of foreign assignments is that it may create a unique competitive advantage which is difficult to imitate by competitors (Duppada and Aryasri, 2011).

The present paper critically examines the growing importance of managing the expatriates in the international assignments, as recent research suggests that long-term assignments may become less dominant as new patterns of global staffing emerge.

### LITERATURE REVIEW

According to Clegg & Gray, 2002, more and more countries engage in global competition, the imperatives of globally competent human capital indicate that the market for expatriates is changing and becoming more demanding. As such the need for understanding the dynamics of expatriate related issues are ever increasing. While the research focus of those investigating the IHRM field has expanded significantly in recent years, expatriate management issues remain a critical concern (Lazarova, 2006).

In their article on "Cross-Cultural Challenges and Adjustments of Expatriates: A Case Study in Malaysia", Tahir and Ismail, 2007 define 'expatriate' as an individual who is not a citizen of the country of which he or she is assigned to work in. Richardson and McKenna (2002) referred to expatriates as professionals who are living in an overseas country on a temporary basis, but normally for more than one year. In general, besides monitoring and controlling the financial distribution and profit gain of the company, an expatriate is expected to extend their knowledge and skills in technology transfer (Shephard, 1996).

In the opinion of Schuler et al., 1991, the three most common dimensions for evaluating expatriate success have been cross-cultural adjustment, completion of the global assignment and performance on the global assignment. Hence it is imperative that the cross-cultural challenges need to be addressed by the Multinational enterprises to have a better productivity.

Ward and Rana-Deuba, 2000, allege that living in a new cultural environment, expatriates are bound to face challenges and make adjustments in their lifestyles in order to make their assignment effective.

According to Tahvanainen, et al, 2005, research on short-term international assignments suggests that attention should be paid to staff selection, pre-departure cross-cultural training, compensation, performance management, repatriation and family issues. This would be a starting point for the researchers on IHRM for global integration. They further suggested that as HR staffs are required to broaden their focus to develop policies and practices for non-standard assignments, this may necessitate a redefinition of the international HR role.

A survey of literature on expatriation shows that individuals from different cultures may encounter difficulties in comprehending each other's values and behaviour towards another that may lead to cultural clash. Due to the "cultural baggage" that has been nurtured based on the individual's own cultural orientation and reward or punishment systems, differences of beliefs in a multicultural setting becomes inevitable. The paper contributes to our understanding of international assignments by critically exploring the excellent practices of expatriate relationship management for international assignments in MNCs.

**METHODOLOGY**

**RESEARCH SITE**

In 2012 April, the research on Excellent Practices of Expatriate Relationship Management had begun. The objective of the research is to explore the practices of ERM and the satisfaction level of the expatriates in ITES Organisations with respect to the same. The sample size selected for the study was 20 respondents working in the higher, middle and lower levels of management from 5 Information Technology Enabled Services (ITES) companies of Bangalore. The companies chosen for the study included three Business Process Outsourcing (BPO) Companies namely Accenture Services, Capgemini and IBM from which 12 questionnaires were filled by the respondents. The two Knowledge Process Outsourcing (KPO) Companies from which 8 questionnaires filled were JP Morgan Chase and Society General SG. The study was conducted for six weeks between April and May 2012.

**DATA COLLECTION AND ANALYSES**

The data was collected through two sources – Primary and secondary.

The primary data was collected from the various professionals of all the three levels of Management by structured questionnaire method specifically designed for the purpose of study after pretesting. A 5-point (1 = Strongly Agree, 5 = Strongly Disagree) Likert's Scale format designed is used to indicate subject's responses to the questionnaire. Secondary data collection was from previous research reports, magazines, articles, websites, journals and related books.

**RESULTS**

Data analysis from 20 respondents of 5 different ITES companies revealed the following results.

**TABLE 1: SUBJECT'S BACKGROUND**

Gender	Education	Years on Job	Monthly Income(Rs.)
Male	14	Graduation	7
Female	6	Post Graduation	13
		Below 1 Year	2
		1 - 3 Years	4
		3 - 5 Years	8
		5 - 10 Years	6
		Above 10 years	Nil
Total		20	

The data collected from respondents (Subjects) regarding the personal details are shown in table 1. Due to some constraints this project has no ability to develop a well psychological and behavioural factors evaluation questionnaire for exploring the excellent practices of expatriate relationship management on subjects and the case firms.

However, based on subject's responses and above mentioned references, this paper designs and proposes an expatriate relationship questionnaire including six variables and 15 questions (table 2). By doing so, it is expected that the proposed method can contribute the efforts, experience, and findings on the research issue of expatriate relationship management.

**TABLE 2: QUESTIONNAIRE DESIGN**

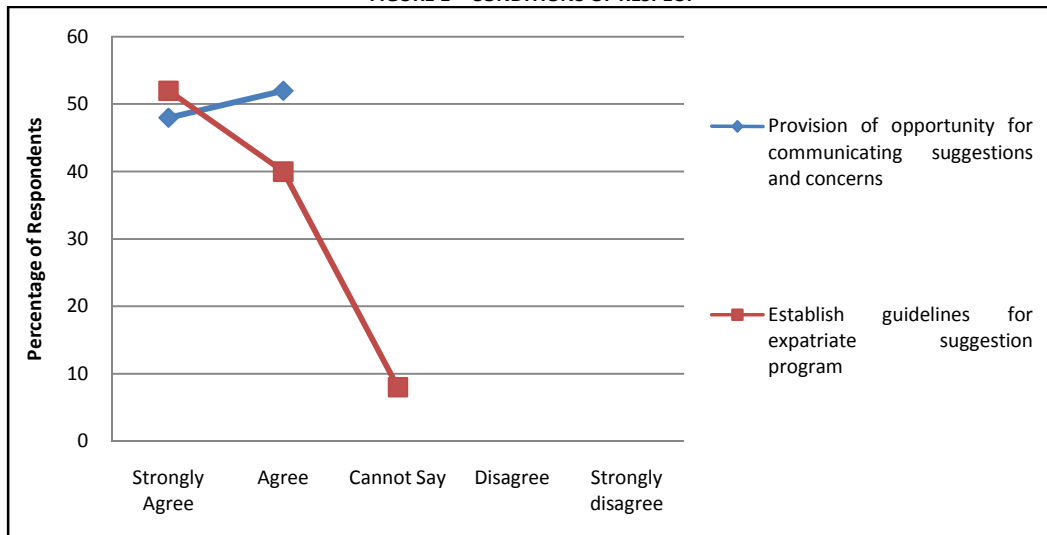
Variable	No. Questions/content
Conditions of respect	1. My Organization Provide a well-designed outlet for expatriates to communicate suggestions and concerns to management 2. Establish guidelines for the expatriate suggestion program.
Conditions of support	3. Key Result Areas are clearly defined in the beginning of the job or the financial year 4. I have necessary resources to do my job efficiently
Relationships with Superiors	5. Organization provides ample opportunities to work in various projects 6. Management makes decision on consultative basis and gives expatriates sufficient liberty in performing their role 7. Expatriates feel comfortable in sharing the problem with seniors
Learning Opportunities	8. My manager/supervisor encourages high achievement by reducing the fear of failure 9. My department gets support and teamwork from other areas within the organization 10. There is personal growth along with the organizational growth
Recognition	11. Provides required level of up gradation with the latest technology 12. My organisation has leadership interaction with expatriates at all levels
Self-satisfaction	13. My organisation arranges for Social outings, Expatriate forums and focus groups, Personal recognition 14. My manager/supervisor provides me with continuous feedback to help me achieve the target 15. Overall I am very satisfied with my job

**CONDITIONS OF RESPECT**

Data analysis revealed that 48 percent of respondents strongly agree whereas 52 percent agree with provision of a well-designed outlet for them to communicate suggestions and concerns to management. With regard to the guidelines for expatriate suggestion program, 52 percent respondents strongly agree with it, 40 percent respondents agree whereas 8 percent of them are neutral in their opinion on the expatriate suggestion program. No respondent is dissatisfied with the above mentioned variable.



FIGURE 1 – CONDITIONS OF RESPECT

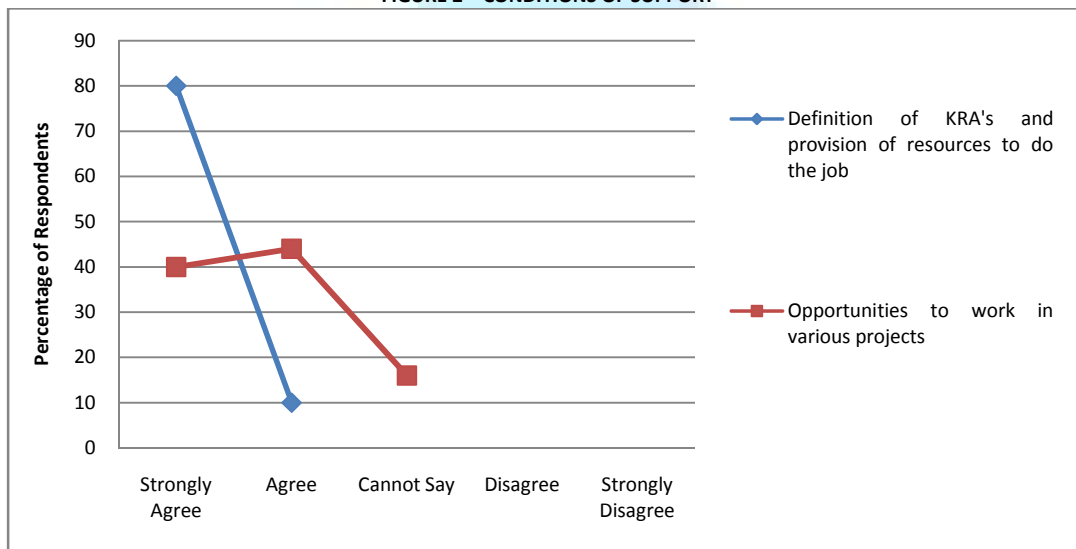


Source: Survey Data

**CONDITIONS OF SUPPORT**

With respect to definition of Key Result Areas and provision of resources for doing the job effectively, 80 percent of the respondents strongly agree and only 20 percent of them agree with it. When it comes to the opportunities to work in various projects, 40 percent strongly agree and 44 percent agree with the question whereas 16 percent are of neutral opinion. In this case also no respondent is having a negative opinion.

FIGURE 2 – CONDITIONS OF SUPPORT



Source: Survey Data

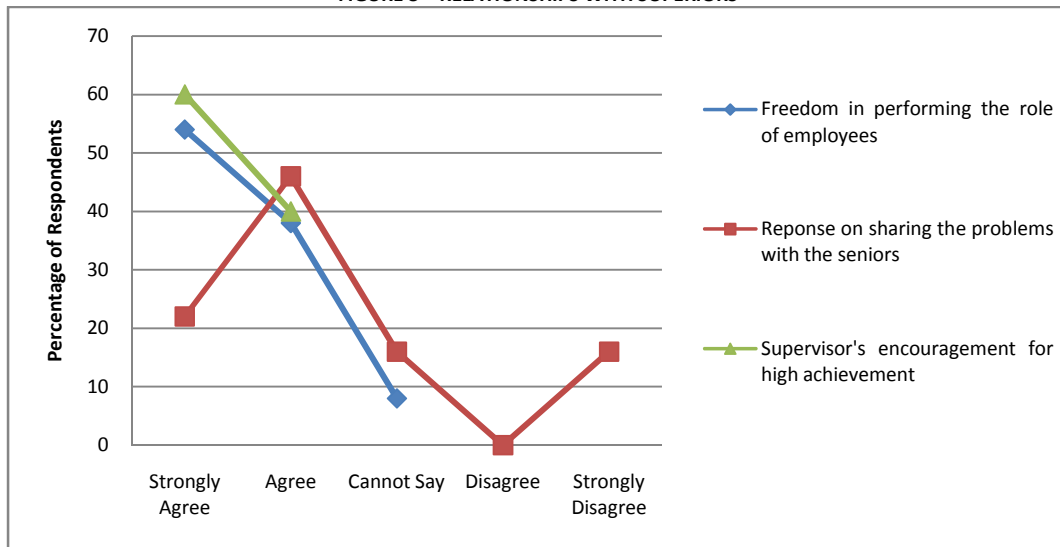
**RELATIONSHIPS WITH SUPERIORS**

ERM is designed to treat expatriates as important stakeholders of the firm, rather than simply track their activities, collect information and profile them for differential treatment as CRM systems do with customers. The collected data shows that 54 percent expatriates strongly agree that they had freedom in performing their role, 38 percent agreed about their freedom and 8 percent of them were neutral in their opinion on the expatriate involvement in decision making.

Conversely, 22 percent expatriates strongly agree and 46 percent expatriates agree about their response on sharing the problems with the seniors comfortably. In this case 16 percent of expatriates were neutral as well strongly disagree with fact that they are comfortable in sharing the problem with seniors.

With regard to the supervisor's encouragement for high achievement, 60 percent respondents strongly agree and 40 percent agree with the fact.

FIGURE 3 – RELATIONSHIPS WITH SUPERIORS



Source: Survey Data

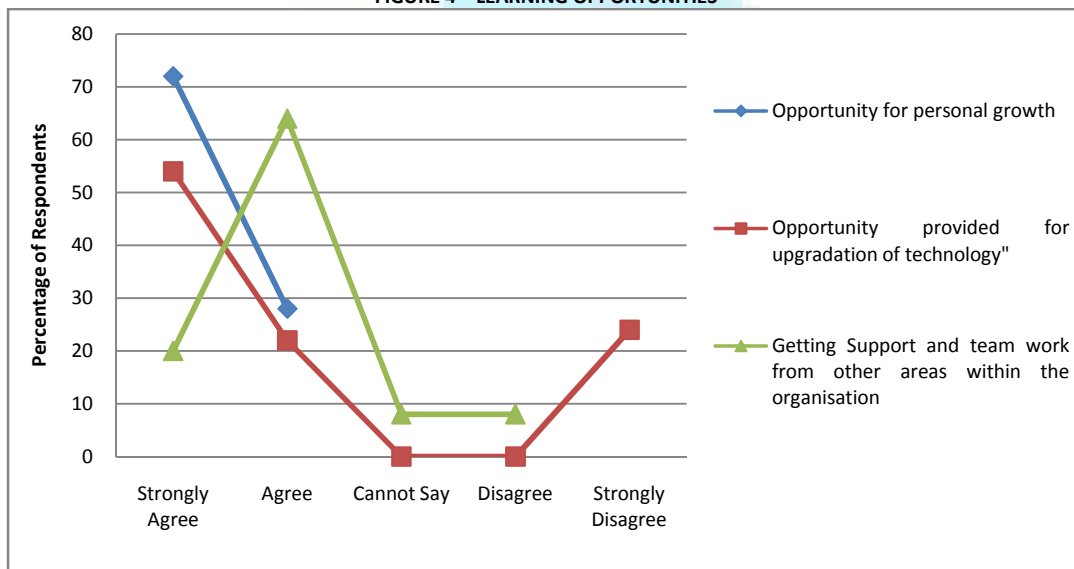
**LEARNING OPPORTUNITIES**

Most expatriates (72%) reported that they strongly agree about the personal growth opportunities whereas 28 percent agreed with the same and no one expressed any kind of negative opinion in this regard.

But when asked about the opportunity provided for up gradation of technology, 24 percent of them expressed strong dissatisfaction regarding the same while 54 percent of them strongly agreed with the fact that technology up gradation is provided from time to time.

20 percent expatriates strongly agree and 64 percent agree with the aspect of getting support and teamwork from other areas within the organisation. Only 8 percent of them were neutral and 8 percent disagreed with the fact.

FIGURE 4 – LEARNING OPPORTUNITIES



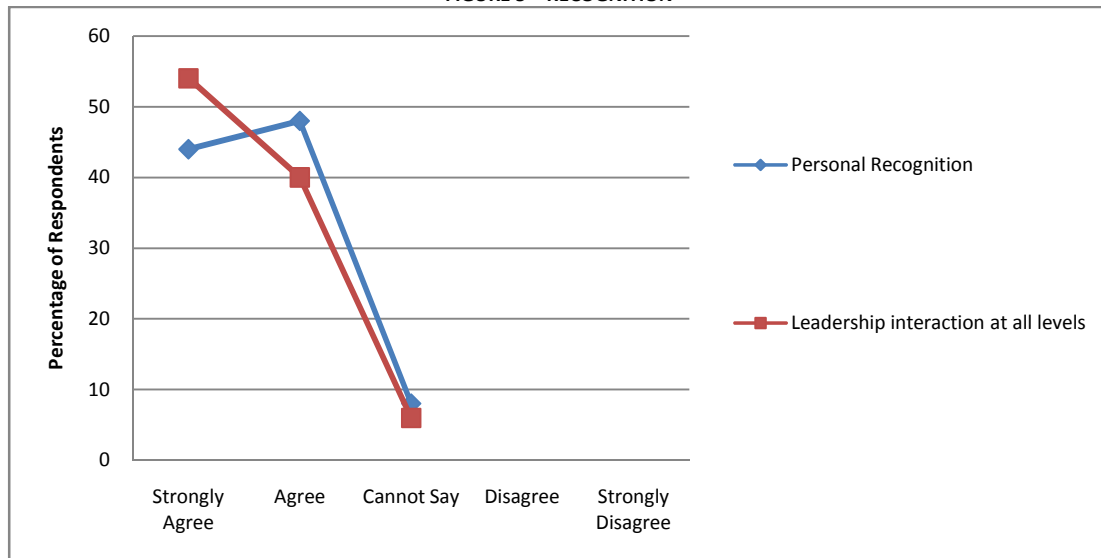
Source: Survey Data

**RECOGNITION**

Employee recognition is one of the important factors in determining the expatriate relationship management. Majority of the respondents (44%) strongly agree and (48%) agree with the recognition programs provided by the companies while few of them (around 8%) had a neutral opinion in this regard.

When asked about the leadership interaction at all levels, 54 percent strongly agreed while 40 percent agreed with it. Only 6 percent were of neutral opinion.

FIGURE 5 – RECOGNITION

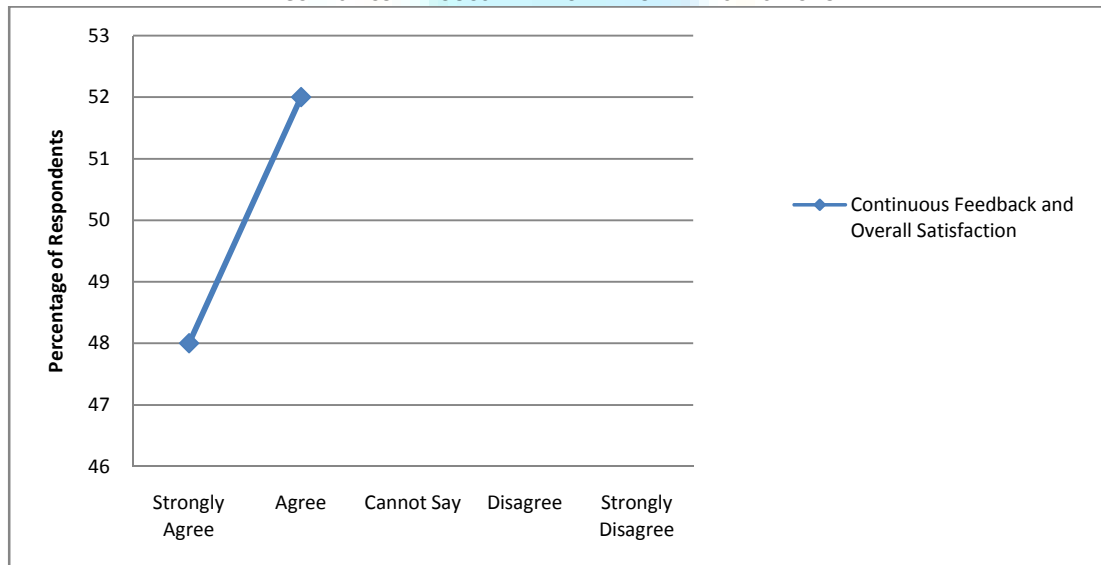


Source: Survey Data

**SELF – SATISFACTION**

In an attempt made to find out the overall satisfaction of the expatriates in their job, majority of the expatriates (48%) strongly agreed and 52 percent agreed about the aspect, which shows that the expatriates are self-satisfied irrespective of some minor obstacles at their workplace.

FIGURE 6 – CONTINUOUS FEEDBACK AND OVERALL SATISFACTION



Source: Survey Data

**DISCUSSION**

**FINDINGS AND IMPLICATION**

Research findings indicate that the expatriates across five information technology enabled services organisations are satisfied with the six variables mentioned in the analysis. They agree that the variables serve as some of the excellent practices in expatriate relationship management. For expatriates to be truly vibrant there should be active participation in knowledge-exchanging activities: engaging in live-chats, Question & Answer sessions, providing asynchronous feedback on previous postings, etc. (Hayes and Walsham, 2000). In the present research study, some of the expatriates have showed their discontent towards the comfort zone of sharing problems with the seniors. They feel that the superiors' co-operation and willingness in listening to the problems of the juniors and arriving at an amicable solution is the need of the hour.

Defining the Key Result Areas of work and providing necessary resources to carry out the job is one of the main criteria for successful accomplishment of objectives in an enterprise. These systems are designed to serve expatriates, and to the extent that they provide benefits and information prized by the expatriate, the organizational outcomes will be beneficial. This will require some dedication on the part of managers to discerning what benefits and information expatriates desire to have self-service and access to various resources (Yang et al., 2011).

The social structure – comprising occupational roles – has, to a large extent, been created and institutionalised by the operation of the technological system (Trist & Bamforth, 1951, p.5). In terms of envisioning expatriate satisfaction in the workplace, Smith (1992) made the intuitive analogy of a river with small tributaries (satisfaction with specific aspects of work life) that converged into ever-larger branches (satisfaction with general 'facets' of work life), eventually converging into a sea (general satisfaction with life). Adapting the analogy to the Information Age for developing a systems satisfaction measure, computers and interactions with computers have become a central aspect of work. To that end, Smith's (1992) 'river and tributaries' conceptualization can be construed in the context of user satisfaction with workplace technology in the tributary role and the subsequent impact of technology on overall expatriate satisfaction as the analogy of the confluence to a river. Identifying opportunities for up gradation of the latest technology in the organisation will help the top management in reducing the disappointment often experienced with investments. A chunk of respondents of the current research indicate a kind of negative opinion in this regard.

"I think the power and role of a leader is to release the potential of an organisation," explains Richard O. Brajer, CEO of Lioscience, Inc. "This means not to take my brain and replicate it in the brains of the people around me, but to release their potential to work toward an agreed-upon direction." The leadership obviously has the potential to profoundly influence the individual-organisation interface. The leadership typically sets direction, defines boundaries, shapes

values and sets priorities. 94 percent of the respondents of the research study agree that their organisations have leadership interactions at all levels. Successful ERM implementation hence needs leadership interaction.

Glasscock and Gram noted in *National Productivity Review* that effective recognition methods should be sincere; fair and consistent; timely and frequent; flexible; appropriate; and specific. They go on to explain that it is important that every action which supports a company's goals is recognized, whether through informal feedback or formal company-wide recognition. Likewise, every expatriate should have the same opportunity to receive recognition for their work. Recognition also needs to occur in a timely fashion and on a frequent basis so that an expatriate's action does not go overlooked and so that it is reinforced to spur additional high performance (Encyclopaedia of Business, accessed 4<sup>th</sup> April 2012). Expatriates of the ITES Companies selected for the study do express the same opinion. Businesses in their usual highly price-sensitive nature have been swift to respond to this need and have been responsible for pioneering some of the leading new developments in this area (Lee, 2005).

When asked about the overall satisfaction on the job, majority of the expatriates stated that they are satisfied to a greater extent with their jobs. Expatriate satisfaction mapping can be the key to a better motivated and loyal workforce that leads to better organizational output in the form of better products and services and results in the overall improvement of an organization (DIR Journal Web Directory, accessed 4<sup>th</sup> April 2012).

## FUTURE RESEARCH

As a single-site (Information Technology Enabled Services Sector) case study, the reported study is limited in its generalizability. Other Services and Manufacturing sectors should be identified before it can be concluded that ITES companies are not entirely atypical. It is also limited in its temporal frame, as it does not address ways that practice and identity emerge over time. However, before these issues can be investigated, research must show that, in fact, what constitutes the best practices of expatriate relationship management, as what have been reported in this paper.

Having done so, researchers can move forward and establish new research streams. The foremost one can be in the nature of the relationships between various cultures of different nations. In particular, Chinese culture is considered one of collectivism that values achieving collective goals more than pursuing personal interests and that motivates people to contribute to group accomplishments (Earley, 1989; Wagner, 1995). Research has suggested that Chinese culture has a positive influence on both offline (Michailova and Hutchings, 2006) and online (Ardichvili et al., 2006) knowledge sharing with the employee community. More studies should be conducted to investigate the extent to which Chinese culture has made this particular group so engaged in its practice and how Chinese culture may limit the generalizability of the findings to other work cultures.

## CONCLUSION

Expatriate Relationship Management systems in the firm provide attractive opportunities for managers to increase organizational efficiencies and organizational effectiveness by way of improving expatriate job satisfaction. This is accomplished through the study of important HR practices of ERM on 20 expatriates of 5 different BPO and KPO companies. Expatriates were investigated with regard to their judgments and perceptions of six variables in ERM implementation, and it was determined that the degree to which the system provided important services and benefits to expatriates and the quality with which such services were provided strongly impacted expatriate satisfaction, with subsequent implications for organizational performance.

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**THE ROLE OF MEDIA AGENCY IN ADVERTISING INDUSTRY**

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**ABSTRACT**

*Media is an upcoming and ever-growing sector. Entertainment industry is on its full beam now-a-days. Thus there is a lot to know about this field. Media has been branched out in Television, Print, Radio, Internet, Mobile etc. In Media industry, planning and the effective implementation of the plan is the cardinal function. This study is undertaken keeping in mind the current media scenario which is experiencing a major bang from all aspects. Media Agencies are much in demand to effectively deliver value to the clients and establish a cost-benefit relation with them.. This paper is expected to answer the importance of the correct way of promoting a brand through the right medium.*

**KEYWORDS**

Media, Media agencies, media planning, promoting a brand.

**INTRODUCTION**

When media agencies were first launched, their main focus was on their ability to buy media space cheaper and more efficiently than the mainstream advertising agencies, which had previously managed the process of media buying. Their first clients were often direct response advertisers, marketers who had to make sure each ad paid for itself in consumer orders. As the sector developed, media agencies added planning skills and an understanding of consumer behaviour to their skill set. By understanding what motivates a target group of consumers as well as the media they watch, read or hear, media agencies became a vital source of communications advice for all types of advertisers Howard Jarvis et al. (2008). Media planner, also known as brand strategists or brand planners, is a job title in media planning and buying agency or an advertising agency. They are responsible for selecting media for advertisement placement on behalf of their clients. They work with the radio, televisions, press and new media, in particular the Internet. They also do brand promotions. The job of media planning entails many areas of expertise, which media planner uses to determine what the best combination of media is to achieve the given marketing campaign objectives. Over the past years, media planning and buying have come through many changes. Communication groups have turned their media departments into specialized companies and independent media buying shops have strengthened their skills and strategic capabilities. Today, advertisers face a highly concentrated and sophisticated media agency market, whose players have a high degree of professionalism. Selecting a business partner in this area is therefore a critical step for both the advertiser and the agency, and from both a strategic and financial perspective. Media Planning is a complex process. The client demands reach and frequency during the campaign and a media agency is supposed to deliver that by way of sound planning and implementation.

**OBJECTIVES OF THE STUDY**

1. To study the functions and role that media agencies play in the current market scenario.
2. To understand the effectiveness of media type used.
3. To study the factors behind the success of media plan.
4. To understand the importance of assured viewership in the television media.

**SCOPE OF THE STUDY**

The scope of this study is defined to include media activities which were existing in the past for which media planners role was limited and the new role that came into being to understand the need of the consumer who want results in terms of rupee value invested and also to cope with ever changing and challenging business environment.

**REVIEW OF LITERATURE**

The Indian Media & Entertainment Industry grew by US\$ 12.9 billion in 2009 to US\$ 14.4 billion in 2010, a growth of 11 per cent, according to a report by the Federation of Indian Chambers of Commerce and Industry (FICCI) and research firm KPMG. As the industry braces for exciting times ahead, the sector is projected to grow at a CAGR of 14 percent to reach US\$ 28.1 billion by 2015. Ironically enough, an old crack at the advertising industry which from time of inception, has been based on creativity, is equally applicable to media planning, but it focuses more on hardcore facts and figures. In fact it, is the growing complexity of the media, people are exposed to. So while, just a decade ago, all the 'media planning' one had to do was book a spot in Doordarshan for a Sunday afternoon Hindi feature film, a radio jingle in AIR, an insert in one of the few regional newspapers or the Times of India, depending upon the type of audience media planner wished to target, and he could be assured of a reach of at least 90% of the target audience. In those days, an ad agency (now creative agency) was the expert of all corporate communication plans. It took care of the creative, planning, buying and client servicing, which made the business profitable. The agencies would get a 12-15 per cent discount on the ad rates from publications as their commission on their client's media billing. The agencies had to plan and buy for the two television channels, Doordarshan and Doordarshan Metro, and few popular national dailies and magazines. Media options were limited. Planners were the kings and buying was a back office work. In those days, Mahabharata would have a phenomenal 80 per cent viewership. Media planning and determining the right levels of reach and frequency was easy and less complicated.

Today there are more than 100 channels and dozens of newspapers (national and regional) and magazines. The same money would probably buy you only a little non-descript insert in a tabloid. So while the budgets have multiplied a thousand times over, with the multitude of media one is exposed to, it is almost impossible to predict if all the funds invested into the advertising exercise has resulted in any gains or not. Radio took a new avatar as FM and created image of fast medium communication. Outdoor advertising has acquired a new meaning. Advertisers have realized that movie theatres, hoardings, banners are an effective medium to reach large audiences. The internet has emerged a popular medium amongst advertisers William F. Arens et al. (2005). With audience fragmentation and media options, no longer it remained a simple exercise of how many spots an advertiser wanted to buy on Chitrahaar, Mahabharat or Ramayan. Media planning and buying became multifaceted, requiring access to research and support of software tools. The process, uncontrollable for the generalists, moved to specialists, with required skills.

**CURRENT SCENARIO**

Today, media agencies play a major role in deciding the communication strategy of their clients. They don't just buy media for them. Now, they contribute from building a strategy to executing it. The crux lies in their expertise and "in stretching the ad rupee to yield maximum value to the client" Howard Jarvis et al. (2008). At some point in the marketing process, the work has to change from research and strategizing to actually going out and promoting a product or service to potential customers.

The media planner works closely with the marketing and advertising team to devise a media strategy Solomon Dutka et al. (1995).

The media strategy is a roadmap to ensure that an advertisement reaches the right audience at the right time. The three big questions in any media plan are

- What is the right media mix?
- What specific media offer access to the target market?
- When should advertisements air, and how often?

When the marketing, advertising and media team arrive at satisfactory answers to those three questions, it leads to effective media plan Jack Z. Sissors and Roger B. Baron et al. (2002).

**A. THE 180° TURNAROUND**

Advertisers now place media agencies upstream from creative agencies as they find them better qualified to determine their communication budget allocation. Media agencies have specialized units to identify and quantify factors driving sales and brand awareness. They work on the ROI return on investment for each campaign and account.

Media agencies are the new specialists. They strategize, negotiate for clients and act as regulators for media vendors. Typically, these agencies use quantitative studies - syndicated and proprietary - and specialized tools to gain consumer insights (figure.1). These insights are not just demographic but behavioural and attitudinal as well. Based on the analysis the agencies work on a communication and creative strategy, decide on the media to use, give inputs to the creative team and decide on the creative executions along with vehicles and schedules Larry D.Kelly and Donald W.Jugenheimer et al. (2008).

**FIGURE 1 : 180° TURNAROUND SCENARIO**

Then comes the tactical implementation, placing, for instance, the 100cc colour print ad or a 20 second commercial or a 10 second jingle, where they were planned. This calls for negotiating skills so that each ad rupee yields maximum return on investment.

Media buying agencies do not buy in bulk first and then sell retail to their clients. They decide what they need for their clients and then buy it so that their holding something doesn't go into influencing their decisions in what the client should buy.

What the agencies do, however, is to bundle together their buying for various clients to reap economies of scale. The clients don't mind. They understand it is not about buying media at the cheapest values or rates but about the value being provided.

Media planning supports message dissemination. Media planning helps you determine which media to use – be it television programs, newspapers, bus-stop posters, in-store displays, banner ads on the Web, or a flyer on Face book. It also tells you when and where to use media in order to reach your desired audience. To sum it up, media planning is a four-step process which consists of

- 1) Setting media objectives in light of marketing and advertising objectives.
- 2) Developing a media strategy for implementing media objectives.
- 3) Designing media tactics for realizing media strategy.
- 4) Proposing procedures for evaluating the effectiveness of the media plan.

Reach and frequency are important aspects of an advertising plan and are used to analyze alternative advertising schedules to determine which produce the best results relative to the media plan's objectives.

The media objectives of a media plan often call for some combination of reach and frequency. Thus, reach indicates the media dispersion while frequency shows the media repetition. John R.Rossiter, Pter J.Danaher et al. (2008).

**B.SELECTING SPECIFIC MEDIA VEHICLES**

The media planner must search for the most cost-effective vehicles within each chosen media type. In making choices the planner has to rely on measurement services that provide estimates of audience size composition and media cost. Audience size has several possible measures which are circulation, audience, effective audience and effective ad-exposed audience.

**C. EFFECTIVENESS OF MEDIA PLAN**

Media planners typically measure the effectiveness of delivery of a message to an audience to help them create future media plans. Often this effectiveness is quantified as the number of people that saw a particular advertisement in a given media. While this information can be useful, the ultimate measure of success for a media plan is the sales and profit that the plan generates William F. Arens et al. (2005).

Conventional methodologies for measuring sales and profits generated by advertisement, however, are extremely expensive and time consuming, and thus are nearly impossible to widely implement. Accordingly, what is needed is a quick, affordable, and accurate way to measure of the effectiveness and efficiency of an advertising media on sales and profits.

Pursuant to the present application, shortcomings of the existing art are overcome and additional advantages are provided through the provision of a system and method for determining the effectiveness and efficiency of advertising media. William F. Arens et al. (2005).

A method is provided for determining the effect of an advertisement on profits generated by sales of a product advertised in a given market area over a particular period of time. A total of the number of impressions an advertisement makes on a plurality of potential customers through at least one specific form of advertising is compiled. At least one reduction rate is established for each of the total number of impressions for the at least one specific form of advertising.

The at least one reduction rate variable for the at least one specific form of advertising is correlated with product sales. At least one correlation variable for the at least one specific form of advertising is determined. At least one saturation curve variable for the at least one specific form of advertising is calculated. The at least one saturation curve variable is correlated with product sales. A first regression coefficient is determined for the at least one specific form of advertising. A second regression coefficient is determined for the at least one specific form of advertising. The first and second regression coefficients are averaged for the at least one specific form of advertising to obtain an average coefficient for the at least one specific form of advertising. The product sales per impression are then calculated using the average coefficient for the at least one specific form of advertising. In another example, a data processing system is provided for determining the effect of an advertisement on profits generated by sales of a product advertised in a given market area over a particular period of time. The data processing system includes computer code having an effectiveness and efficiency calculation component for calculating a total number of product sales resulting from an advertising impression. Thus, it can be concluded that a proper cost-benefit analysis can lead to an effective advertising strategy which maximizes benefits for an organization.

**RESEARCH METHODOLOGY**

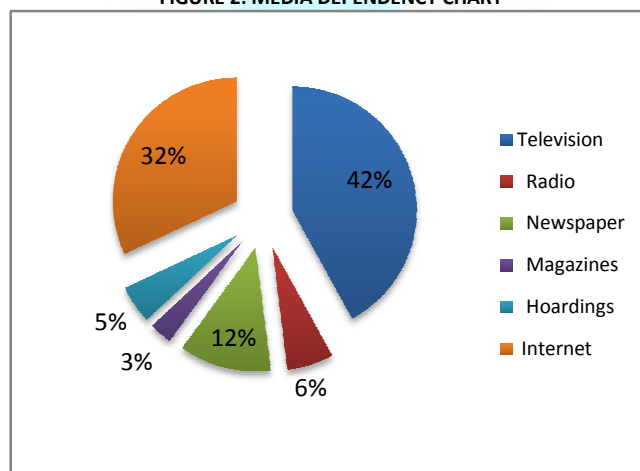
A sample of 50 people at all levels in the media agency is taken to conduct the study. Primary data is gathered through interviewing people from the agency and questionnaires .A questionnaire consisting of 10 closed end questions is designed to gather the data (Madison communications pvt ltd, New Delhi). Secondary data is collected from company’s website, journals, media magazines, case studies and company’s reports.

**ANALYSIS AND INTERPRETATION**

The analysis has been done based on the following parameters:

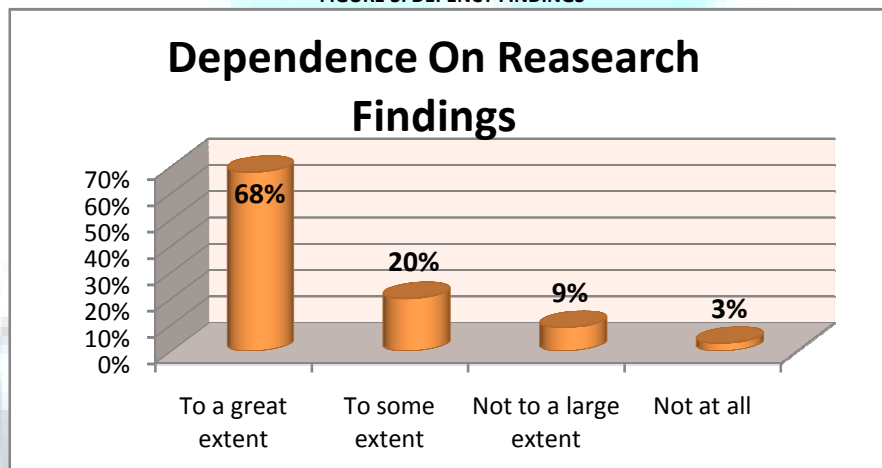
Most influential media, Dependency on the media types when making a media plan, Dependency of media plans on research findings, Factors behind the success of media plan, Effectiveness of different formats for assured viewership on television Avery M. Abernethy et al.(1990).

**FIGURE 2: MEDIA DEPENDENCY CHART**



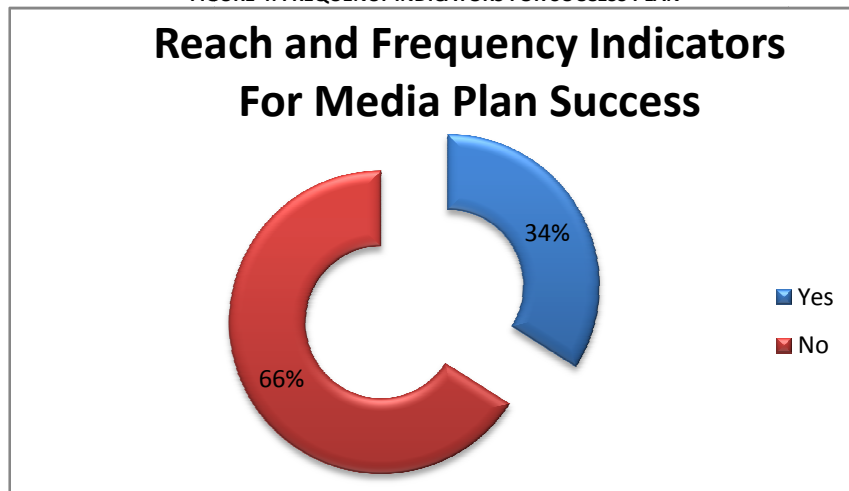
Most media planners believe that television is the most influential media. Naturally enough, most media plans are heavily dependent on this medium, internet media being the second most dependent medium (figure.2).

**FIGURE 3: DEPENDENCY FINDINGS**



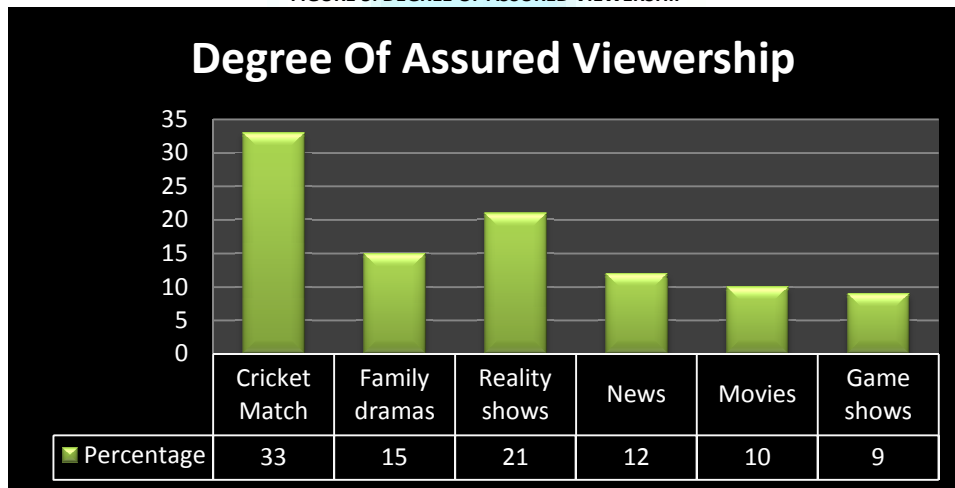
It is found that most media plans continue to be heavily dependent on the research findings of a certain agency. However, not many believe that these findings are a true indicator of media consumption (figure.3).

FIGURE 4: FREQUENCY INDICATORS FOR SUCCESS PLAN



Most Planners concede that achieving the requisite reach and frequency is not the true indicator of a successful media plan (figure.4). Actual consumption of the brand, retention of the campaign aired and brand awareness among the desired target group they believe, are the factors for success in the long term. Cricket matches, unsurprisingly, deliver the maximum assured viewership, followed by reality shows and family soaps (figure.5).

FIGURE 5: DEGREE OF ASSURED VIEWERSHIP



**CONCLUSION**

The media planner in the process of planning balances the reach, frequency and costs of media options to deliver a comprehensive media plan that maximizes advertising exposure and impact. From the study it can be concluded that media planning can no longer be confined itself within the realms of CPRPs (Cost per Rating Point) but must be ready to bear the burden of being accountable for every penny spent by the client. Media habits have not just evolved but they have been transformed. The market is ruled by complexity, fragmentation, higher short-term goals and reduced ad spends.

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## LIQUIDITY, SOLVENCY AND PROFITABILITY ANALYSIS OF MANUFACTURING INDUSTRIES: A STUDY WITH REFERENCE SELECTED MANUFACTURING INDUSTRIES IN INDIA

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### ABSTRACT

*Manufacturing industries came into being with the occurrence of technological and socio-economic transformations in the western countries in the 18<sup>th</sup> – 19<sup>th</sup> century. Manufacturing industries are the chief wealth producing sectors of an economy. India has become one of the fastest growing economies in the world over the last two decades, undoubtedly aided in this performance by economic reforms. The liberalization of the economy has opened new windows of opportunity for manufacturing sector. Over the past few years, a manufacturing revolution has been underway in the Indian economy, driven by the increasing presence of multinational companies, increased operations by domestic companies and an expanding domestic market. The present study deals with the analysis of liquidity, solvency and profitability position of the selected manufacturing industries in India. The main objective of the study is to compare the liquidity, profitability and solvency position of companies under each industry and between various industries under study.*

### KEYWORDS

Manufacturing Industry, liquidity, solvency, profitability, leverage.

### INRODUCTION

**M**anufacturing industries came into being with the occurrence of technological and socio-economic transformations in the western countries in the 18<sup>th</sup> – 19<sup>th</sup> century. Manufacturing industries are important for an economy as they employ a huge share of the labor force and produce materials required by sectors of strategic importance such as national infrastructure and defense. Manufacturing industries are the chief wealth producing sectors of an economy.

India has become one of the fastest growing economies in the world over the last two decades, undoubtedly aided in this performance by economic reforms. The liberalization of the economy has opened new windows of opportunity for manufacturing sector. Over the past few years, a manufacturing revolution has been underway in the Indian economy, driven by the increasing presence of multinational companies, increased operations by domestic companies & an expanding domestic market. The present study deals with the analysis of liquidity, solvency and profitability position of the selected manufacturing industries in India.

The liquidity characterise the financial situation of the company, its ability to convert assets into cash or to obtain cash to meet short-term obligations. Lack of liquidity may affect seriously the continuity of the company activities. Computation and analysis of the liquidity are made by a system of ratios based on the data within the financial statements. Liquidity measures Computation and analysis of the liquidity are made by a system of ratios. These liquidity ratios characterise the financial situation of the company, its capacity to generate adequate cash for payments. The fundamental source of the bankruptcy risk consists in the insolvency of the company. Solvency is represented by the capacity of the company to cover all its obligations that result either from previous contracts or from current operations. The financial leverage or debt equity ratios focus on a firm's ability to meet its long-term debt obligations. Profitability is an index of efficiency; and is regarded as a measure of efficiency and management guide to greater efficiency. The profitability ratios are just what the name implies. They focus on the firm's ability to generate a profit and an adequate return on assets and equity. They measure how efficiently the firm uses its assets and how effectively it manages its operations.

### OBJECTIVES OF THE STUDY

The core objective of this study is to evaluate the liquidity, solvency and profitability position of manufacturing industries in India. In order to achieve the main objectives, the following subsidiary objectives have been framed by the researchers:

- To find out liquidity, profitability and solvency position of selected companies under each industry
- To study the liquidity, profitability and solvency position of each manufacturing industry under study
- To compare the liquidity, profitability and solvency position of selected companies under each industry
- To compare the liquidity, profitability and solvency position of between various manufacturing industries under study

### HYPOTHESES

#### FIRST SET OF HYPOTHESES

H<sub>0</sub>: There is no significant difference in the liquidity position among different manufacturing industries.

H<sub>1</sub>: There is significant difference in the liquidity position among different manufacturing industries.

#### SECOND SET OF HYPOTHESES

H<sub>0</sub>: There is no significant difference in the solvency position among different manufacturing industries.

H<sub>1</sub>: There is significant difference in the solvency position among different manufacturing industries.

#### THIRD SET OF HYPOTHESES

H<sub>0</sub>: There is no significant difference in the profitability position among different manufacturing industries.

H<sub>1</sub>: There is significant difference in the profitability position among different manufacturing industries.

#### SCOPE OF THE STUDY

The study deals with liquidity, solvency and profitability analysis of Indian manufacturing industries. Study covers five manufacturing industries. They are; Cement Industry, FMCG Industry, Oil and Gas Industry, Automobile Industry and Pharmaceutical Industry. Under each industry five companies have been taken for the purpose of analyzing liquidity, solvency and profitability position of each industry. Since the study covers only five manufacturing industries, the scope of the study is limited to five manufacturing industries.

**ANALYSIS AND INTREPREATION**

It is understood from Table 1 that among the companies of Oil & Gas industry Cairn has highest average current ratio (5.45) and Bharath Petroleum has least (0.69) current ratio. Among the companies of automobile industry Maurti has highest average current ratio (1.16) Hero motors has lowest current ratio (0.44). Among the companies of FMCG industry ITC has highest average current ratio (1.17) and Hindustan Uniliver has lowest (0.83). Among the companies of Cement industry India Cement has highest average current ratio (1.25) and Madras Cement has lowest current ratio (0.59). Among the companies of pharmaceuticals industry Sun Pharmaceuticals has highest average current ratio (2.67) and Aurobindo has lowest average current ratio (1.1). Among the sample manufacturing companies, Oil and Gas Industry has highest current ratio and automobile industry has the lowest current ratio.

It is understood from Table 2 that under Oil and Gas Industry, ONGC has highest average return on capital employed (21.14) and Cairn has the least (-0.168). Among the companies of Automobile Industry, Bajaj has highest average return on capital employed (52.48) and Tata has lowest return on capital employed ratio (12.94). Among the companies of FMCG Industry Hindustan Uniliver has highest average return on capital employed (98.75) and ITC has lowest (28.61). Among the companies of Cement Industry, Madras Cement has highest return on capital employed (25.26) and India Cement has return on capital employed (11.72). Among the companies of Pharmaceuticals Industry, Lupin has highest average return on capital employed (27.34) and Dr.Reddy laboratories has lowest average return on capital employed (12.65). Among the sample manufacturing companies, FMCG Industry has highest return on capital employed ratio and lowest with Oil and Gas Industry.

It is understood from Table 3 that among the companies of Oil and Gas Industry, Bharath Petroleum has highest average Debt Equity ratio (1.5) and Cairn has least (0.04) Debt Equity ratio. Among the companies of Automobile Industry Tata Motors has highest average Debt Equity ratio (0.87) and Maruthi has lowest Debt Equity ratio (0.07). Among the companies of FMCG Industry Britannia has highest average Debt Equity ratio (0.45) and ITC has the lowest (0.013). Among the companies of Cement Industry Madras Cement has highest average DE ratio (1.59) and Grasim has lowest DE ratio (0.21). Among the companies of Pharmaceuticals Industry, Aurobindo has highest average DE Ratio (1.19) and Sun Pharmaceutical has lowest Debt Equity ratio (0.013). Among the sample manufacturing companies, Cement Industry has highest Debt Equity FMCG Industry has the lowest Debt Equity ratio.

**TESTING OF HYPOTHESES**

The results of the hypotheses tested are shown as follows:

**FIRST SET OF HYPOTHESES**

H<sub>0</sub>: There is no significant difference in the liquidity position among different manufacturing industries

H<sub>1</sub>: There is significant difference in the liquidity position among different manufacturing industries

As per Table 4 it is fact that the calculated F values are less than critical value of 2.87, the null hypothesis is being **accepted**.

**SECOND SET OF HYPOTHESES**

H<sub>0</sub>: There is no significant difference in the solvency position among different manufacturing industries

H<sub>1</sub>: There is significant difference in the solvency position among different manufacturing industries

It is clear from Table 5 that all the calculated F values are less than critical value, i.e., 2.87; the null hypothesis has to be **accepted**.

**THIRD SET OF HYPOTHESES**

H<sub>0</sub>: There is no significant difference in the profitability position among different manufacturing industries

H<sub>1</sub>: There is significant difference in the profitability position among different manufacturing industries

It is understood from Table 6 that the calculated F values are less than critical value of 2.87, the null hypothesis is being accepted.

**FINDINGS AND CONCLUSION**

It is found in the study that under Oil & Gas Industry, Cairn has highest average current ratio (5.45) and Bharath Petroleum has least (0.69) current ratio. Therefore Cairn has strong liquidity and Bharath Petroleum has weak liquidity position. Among the companies of Automobile Industry, Maurti is more liquid company (1.16) and Hero Motocorp is the least liquid company (0.44). Among the companies of FMCG Industry, ITC is the more liquid (1.17) and Hindustan Uniliver least liquid company (0.83). Under Cement industry, India Cement has highest average current ratio (1.25) and Madras Cement has lowest current ratio (0.59). Among the companies of Pharmaceuticals Industry, Sun Pharmaceuticals has strong liquidity (2.67) and Aurobindo has least liquidity position (1.1).

Among the sample manufacturing companies, Oil and Gas Industry has highest current ratio and Automobile Industry has the lowest current ratio and therefore Oil and Gas Industry is the most liquid industry.

The study reveals the fact that ONGC (21.14), Bajaj (52.48), HUL (98.75), Madras Cement (25.26), Lupin (27.34) have highest return on capital employed, in their respective industry.

Among the sample manufacturing companies, FMCG Industry has highest return on capital employed ratio and Oil and Gas Industry has the least and therefore FMCG Industry is the most profitable industry.

It is understood from the study that the most solvent companies under Oil and Gas Industry, Automobile Industry, FMCG Industry, Cement Industry, Pharmaceutical Industry and Cement Industry are; Cairn (0.04), Maruthi (0.07), ITC (0.013), Grasim (0.21), Sun Pharmaceutical (0.013). Among the sample manufacturing companies Cement Industry has highest Debt Equity FMCG Industry has the lowest Debt Equity ratio therefore FMCG industry is the most solvent industry

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TABLE 1: CURRENT RATIOS OF THE MANUFACTURING COMPANIES UNDER STUDY

COMP/YEAR	2012	2011	2010	2009	2008	AV	SD	CV
<b>OIL AND GAS INDUSTRY</b>								
RIL	1.44	1.16	1.04	1.06	0.98	1.136	0.181879	16.01048
ONGC	0.99	1.36	1.39	1.45	1.56	1.35	0.215291	15.94744
GAIL	0.95	1.11	1.16	1.29	1.4	1.182	0.17225	14.57274
CAIRN	0.4	4.38	1.85	20.48	0.16	5.454	8.565809	157.0555
BHARATH PETROL	0.76	0.72	0.72	0.5	0.74	0.688	0.106395	15.46446
<b>AVERAGE</b>	<b>0.908</b>	<b>1.746</b>	<b>1.232</b>	<b>4.956</b>	<b>0.968</b>	<b>1.962</b>	<b>1.706059</b>	<b>86.95508</b>
<b>AUTOMOBILE INDUSTRY</b>								
TATA	0.51	0.53	0.44	0.44	0.64	0.512	0.08228	16.07031
MAHINDRA&M	0.95	0.86	1.11	0.9	0.86	0.936	0.104067	11.1183
MARUTHI	1.02	1.47	0.91	1.51	0.91	1.164	0.301297	25.88464
HERO MOTARS	0.42	0.24	0.58	0.46	0.48	0.436	0.124419	28.53639
BAJAJ	0.88	0.8	0.69	0.84	0.88	0.818	0.078867	0.000964
<b>AVERAGE</b>	<b>0.756</b>	<b>0.78</b>	<b>0.746</b>	<b>0.83</b>	<b>0.754</b>	<b>0.7732</b>	<b>0.034194</b>	<b>4.422344</b>
<b>FMCG INDUSTRY</b>								
ASIAN PAINTS	1.07	0.93	0.89	1.13	0.99	1.002	0.09859	9.839327
BRITANIA	0.7	1.04	1.08	1.27	1.22	1.062	0.223652	21.05946
DABUR	1.15	0.99	0.93	1.19	0.91	1.034	0.128374	12.41532
HINDUSTAN UNILIVER	0.83	0.86	0.84	0.92	0.68	0.826	0.08876936	10.7468964
ITC	1.08	1.08	0.92	1.42	1.36	1.172	0.21052316	17.9627268
<b>AVERAGE</b>	<b>0.966</b>	<b>0.98</b>	<b>0.932</b>	<b>1.186</b>	<b>1.032</b>	<b>1.0192</b>	<b>0.099946</b>	<b>9.806317</b>
<b>CEMENT INDUSTRY</b>								
GRASIM	1.19	1.1	0.57	0.79	0.74	0.878	0.258979	29.49644
INDIA CEMENT	0.95	1.28	1.46	1.13	1.43	1.25	0.21319	17.0552
J.K.CEMENT	1.03	1.17	0.96	1.69	1.28	1.226	0.287454	23.44652
MADRAS CEMENT	0.38	0.69	0.7	0.6	0.56	0.586	0.129538	22.1054
ULTRA CEMENT	0.67	0.67	0.67	0.59	0.58	0.636	0.0466905	7.34126889
<b>AVERAGE</b>	<b>0.844</b>	<b>0.982</b>	<b>0.872</b>	<b>0.96</b>	<b>0.918</b>	<b>0.9152</b>	<b>0.057907</b>	<b>6.327231</b>
<b>PHARMASUTICALS INDUSTRY</b>								
AUROBINDO	0.76	1.21	1.05	1.12	1.35	1.098	0.21970435	20.0095034
CIPLA	3.12	1.94	2.17	1.81	2.62	2.332	0.5376523	23.0554161
LUPIN	1.17	1.09	0.96	0.83	0.97	1.004	0.13069047	13.0169795
DR REDDYS LABORATORIES	1.7	1.66	1.49	1.85	1.82	1.704	0.14363147	8.42907705
SUN PHARMACEUTICAL	3.12	3.04	2.14	2.53	2.52	2.67	0.4069398	15.241191
<b>AVERAGE</b>	<b>1.974</b>	<b>1.788</b>	<b>1.562</b>	<b>1.628</b>	<b>1.856</b>	<b>1.7616</b>	<b>0.167639</b>	<b>9.516286</b>

Source: Annual Reports of the companies under study.

TABLE 2: RETURN ON CAPITAL EMPLOYED OF THE MANUFACTURING COMPANIES UNDER STUDY

COMP/YEAR	2012	2011	2010	2009	2008	AV	SD	CV
<b>OIL AND GAS</b>								
RIL	12.18	12.6	11.35	10.96	15.68	12.554	1.864425	14.85124
ONGC	28.54	33.97	34.54	34.29	36.3	33.528	2.931053	8.742104
GAIL	21.17	24.96	25.55	27.29	27.6	25.314	2.573136	10.16487
CAIRN	0.03	-0.07	-0.05	-0.03	-0.16	-0.056	0.069138	-123.46
BHARATH PETROL	10.18	9.84	11.11	14.88	11.37	11.476	2.005525	17.47582
<b>AVERAGE</b>	<b>14.42</b>	<b>16.26</b>	<b>16.5</b>	<b>17.478</b>	<b>18.158</b>	<b>16.5632</b>	<b>1.42034123</b>	<b>8.575283</b>
<b>AUTOMOBILE</b>								
TATA	10.36	10.19	10.37	6.41	18.96	11.258	4.624918	41.08117
MAHINDRA&M	23.58	26.96	27.7	13.99	18.52	22.15	5.825504	26.30025
MARUTHI	13.52	21.69	27.89	17.37	26.18	21.33	5.986723	28.06715
HERO MOTARS	49.83	52.13	75.07	43.33	41.57	52.386	13.41789	25.61351
BAJAJ	64.24	67.57	59.01	32.8	39.71	52.666	15.48264	0.00294
<b>AVERAGE</b>	<b>32.306</b>	<b>35.708</b>	<b>40.008</b>	<b>22.78</b>	<b>28.988</b>	<b>31.958</b>	<b>6.55825221</b>	<b>20.52147</b>
<b>FMCG</b>								
ASIAN PAINTS	52.24	55.73	62.94	49.35	57.32	55.516	5.176092	9.323604
BRITANIA	51.66	24.06	24.67	25.29	26.37	30.41	11.90975	39.16393
DABUR	40.51	44.16	61.62	47.98	67.51	52.356	11.6417	22.23566
HINDUSTAN UNILIVER	93.08	102.47	106.78	118.59	138.72	111.928	17.559871	15.6885418
ITC	40.51	44.16	61.62	47.98	67.51	52.356	11.6417	22.23566
<b>AVERAGE</b>	<b>55.6</b>	<b>54.116</b>	<b>63.526</b>	<b>57.838</b>	<b>71.486</b>	<b>60.5132</b>	<b>7.10105099</b>	<b>0.117347140667404100</b>
<b>CEMENT</b>								
GRASIM	14.48	17.64	31.79	18.04	26.01	21.592	7.112199	32.93905
INDIA CEMENT	10.59	3.37	10.9	16.95	22.57	12.876	7.246819	56.2816
J.K.CEMENT	18.59	7.25	17.86	19.95	32.11	19.152	8.834439	46.12803
MADRAS CEMENT	17.44	9.6	16.53	17.64	25.8	17.402	5.749263	33.03794
ULTRA CEMENT	19.94	13.77	27.22	26.45	35.55	24.586	8.2035498	33.3667528
<b>AVERAGE</b>	<b>16.208</b>	<b>10.326</b>	<b>20.86</b>	<b>19.806</b>	<b>28.408</b>	<b>19.1216</b>	<b>6.62531711</b>	<b>34.64834</b>
<b>PHARMASUTICALS</b>								
AUROBINDO	10.04	17.48	17.54	13.53	11.76	14.07	3.37407765	23.9806514
CIPLA	18.74	16.22	22.16	22.39	18.17	19.536	2.67049246	13.669597
LUPIN	22.94	21.51	22.49	22.04	27.58	23.312	2.4441297	10.4844273
DR REDDYS LABORATORIES	19.22	14.2	15.87	13.46	10.55	14.66	3.19379868	21.7858027
SUN PHARMACEUTICAL	--	21	17.05	24.57	24.21	21.7075	3.49520028	16.1013488
<b>AVERAGE</b>	<b>17.735</b>	<b>18.082</b>	<b>19.022</b>	<b>19.198</b>	<b>18.454</b>	<b>18.6571</b>	<b>0.61679348</b>	<b>3.305945</b>

Source: Annual Reports of the companies under study



TABLE 3: DEBT EQUITY RATIOS OF MANUFACTURING COMPANIES UNDER STUDY

COMP/YEAR	2012	2011	2010	2009	2008	AV	SD	CV
<b>OIL AND GAS</b>								
RIL	0.36	0.46	0.49	0.65	0.46	0.484	0.105024	21.69913
ONGC	0.04	0.18	0.19	0.2	0.18	0.158	0.066483	42.0779
GAIL	0.25	0.12	0.09	0.08	0.1	0.128	0.069785	54.51983
CAIRN	--	0.04	0.04	--	--	0.04	0	0
BHARATH PETROL	1.42	1.35	1.7	1.75	1.29	1.502	0.209452	13.94485
<b>AVERAGE</b>	<b>0.5175</b>	<b>0.43</b>	<b>0.502</b>	<b>0.67</b>	<b>0.5075</b>	<b>0.4624</b>	<b>0.08795</b>	<b>19.02029</b>
<b>AUTOMOBILE</b>								
TATA	0.57	0.8	1.12	1.06	0.8	0.87	0.222711	25.59892
MAHINDRA&M	0.26	0.23	0.37	0.77	0.6	0.446	0.232228	52.06913
MARUTHI	0.07	0.02	0.07	0.07	0.11	0.068	0.031937	46.96682
HERO MOTARS	0.23	0.5	0.02	0.02	0.04	0.162	0.208614	128.7744
BAJAJ	0.02	0.07	0.46	0.84	0.84	0.446	0.39797	0.008923
<b>AVERAGE</b>	<b>0.23</b>	<b>0.324</b>	<b>0.408</b>	<b>0.552</b>	<b>0.478</b>	<b>0.3984</b>	<b>0.126407</b>	<b>31.72873</b>
<b>FMCG</b>								
ASIAN PAINTS	0.07	0.03	0.04	0.06	0.08	0.056	0.020736	37.02936
BRITANIA	0.05	0.96	1.08	0.03	0.14	0.452	0.521891	115.4626
DABUR	0.21	0.23	0.14	0.19	0.03	0.16	0.08	50
HINDUSTAN UNILIVER	0.21	0.23	0.14	0.19	0.03	0.16	0.08	50
ITC	--	0.01	0.01	0.01	0.02	0.0125	0.005	40
<b>AVERAGE</b>	<b>0.135</b>	<b>0.292</b>	<b>0.282</b>	<b>0.096</b>	<b>0.06</b>	<b>0.1681</b>	<b>0.107452</b>	<b>63.92166</b>
<b>CEMENT</b>								
GRASIM	0.07	0.1	0.15	0.36	0.39	0.214	0.1501	70.14017
INDIA CEMENT	0.56	0.69	0.6	0.67	0.7	0.644	0.061074	9.483498
J.K.CEMENT	0.84	1.15	0.94	0.58	0.63	0.828	0.232959	28.13517
MADRAS CEMENT	1.03	1.61	1.65	1.95	1.71	1.59	0.339706	21.36514
ULTRA CEMENT	0.3	0.39	0.35	0.59	0.65	0.456	0.1545316	33.8884978
<b>AVERAGE</b>	<b>0.56</b>	<b>0.788</b>	<b>0.738</b>	<b>0.83</b>	<b>0.816</b>	<b>0.7464</b>	<b>0.109976</b>	<b>14.73424</b>
<b>PHARMASUTICALS</b>								
AUROBINDO	0.98	0.9	1.02	1.6	1.44	1.188	0.31131977	26.205368
CIPLA	--	0.07	--	0.22	0.15	0.146667	0.07505553	51.1742284
LUPIN	0.27	0.31	0.36	0.69	0.73	0.472	0.22004545	46.6197987
DR REDDYS LABORATORIES	0.23	0.24	0.1	0.12	0.1	0.158	0.07085196	44.8430116
SUN PHARMACEUTICAL	--	0.01	0.01	--	0.02	0.013333	0.0057735	43.3012702
<b>AVERAGE</b>	<b>0.493333</b>	<b>0.306</b>	<b>0.3725</b>	<b>0.6575</b>	<b>0.488</b>	<b>0.3956</b>	<b>0.134363</b>	<b>33.96432</b>

Source: Annual Reports of the companies under study

TABLE 4: ONE WAY ANALYSIS OF VARIANCE BETWEEN SELECTED INDUSTRIES (DATA OF 5 YEARS FROM 2008 TO 2012) AND (CRITICAL VALUE OF F=2.87)

Ratio	Sources of variation	SS	df	MS	F
CURRENT RATIO	Between Sample	4.55	4	1.14	1.87
	Within Sample	12.19	20	0.61	
QUICK RATIO	Between Sample	4.61	4	1.15	1.68
	Within Sample	13.70	20	0.68	

TABLE 5: ONE WAY ANALYSIS OF VARIANCE BETWEEN SELECTED INDUSTRIES (DATA OF 5 YEARS FROM 2008 TO 2012) AND (CRITICAL VALUE OF F=2.87)

Ratio	Sources of variation	SS	df	MS	F
DEBT EQUITY RATIO	Between Sample	0.09	4	0.02	0.38
	Within Sample	1.23	20	0.06	
LTDE RATIO	Between Sample	0.0499	4	0.012	0.26
	Within Sample	0.9517	20	0.048	

TABLE 6: ONE WAY ANALYSIS OF VARIANCE BETWEEN SELECTED INDUSTRIES (DATA OF 5 YEARS FROM 2008 TO 2012) AND (CRITICAL VALUE OF F=2.87)

Ratio	Sources of variation	SS	df	MS	F
OPM RATIO	Between Sample	219219.1	4	54804.76	0.34
	Within Sample	3186008	20	159300.4	
NPM RATIO	Between Sample	871	4	219.75	1.09
	Within Sample	4019.37	20	200.97	
ROCE RATIO	Between Sample	183.48	4	45.87	0.16
	Within Sample	5754.26	20	287.71	
RONW RATIO	Between Sample	262.91	4	65.73	0.32
	Within Sample	4162.17	20	208.11	

**A STUDY ON NPA MANAGEMENT IN INDIAN BANKING INDUSTRY****DR. SAMBHAV GARG****FACULTY****M M INSTITUTE OF MANAGEMENT****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****EMAIL: JAISIYARAMKI@GMAIL.COM****VOICE: +91-9996009890****PRIYA JINDAL****FACULTY****DEPARTMENT OF HUMANITIES & SOCIAL SCIENCES****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****DR. BHAVET****FACULTY****M M INSTITUTE OF MANAGEMENT****MAHARISHI MARKANDESHWAR UNIVERSITY****MULLANA****EMAIL: BHAVETGARG@GMAIL.COM****VOICE: +91-9896989571****ABSTRACT**

*In the era of Globalization, banking and financial sector generally get a very high priority. Any flourishing economy needs the existence of strong banking sector. Non- Performing Assets (NPAs) form one of the basic concerns for the Indian banks. The growth of NPAs in Indian banks has been a matter of serious concern. NPAs reflect the overall performance of the banks. Indian banks are continuously under pressure to trim down the NPAs and to work on the efficiency for a better financial health and for this purpose several prudential and provisioning norms have been established. In this paper an attempt has been made to compare different bank groups as well as bank-wise data relating to Gross NPAs to Gross Advances. The paper also shows Priority and Non- Priority Sector Advances of Scheduled Commercial Banks. The present study highlighted that all the Indian banks are facing the challenge of NPAs and intensity of NPAs is much higher in Public Sector Banks. It shows that earlier Public Sector's NPAs was more as compared to Public Sector Banks. However, now it has been managed at lower end.*

**KEYWORDS**

Prudential &amp; provisioning norms, Priority sector, Non-priority Sector

**INTRODUCTION**

Providing credit for economic activities is the basic function of banks. Other than creating resources from fresh deposits and borrowings, the basic function of the banks is to provide funds as advance to priority and non-priority sectors such as agriculture, industry, housing loans and personal loans etc. The banks are crediting money to generate revenue through margin between interest and the principal. A loan which does not meet the stated norms and interest payments are known as Non-Performing Assets. Any Commercial loan which is overdue for more than 90 days is classified as NPA. However, any consumer loan is categorized as NPA when it is overdue for more than 180 days. Narasimham Committee's recommendations were mentioned in RBI guidelines and reduction of NPA was to be treated as a national priority. Due to Non performance of the fund the financial institutions become bankrupt and fail in providing complete and crystal clear information to the investors and introduce a risk. Therefore, NPA account reduces profitability, provisioning in the profit & loss account. It also increases carrying cost and results in unavoidable and excess management attention due to the provisioning in the profit and loss account. Though it is not possible to eliminate such losses but it can be maintained at lower levels

**STATEMENT OF THE PROBLEM**

The management of Non-Performing Assets presents a big challenge for the financial companies and institutions as it may be a major setback for the economy growth. Globally stock market has fluctuated badly and business is going tough day by day. The banks are working hard to maintain the NPAs at lower levels so that a significant improvement can be seen.

**REVIEW OF LITERATURE**

**Bakshi (1998)** in his article, "NPAs Management in Banks" discussed that there was a health code system which classify the assets in 1998 but the norm was not so effective. RBI introduced prudential norms to regulate NPAs which involves asset classification, recognition of income and provisioning norm. After introduction of the norm NPAs are in decreasing mood both net NPAs and gross NPAs. **Misra (2003)** in his article, "Managing Non-Performing Assets: A Professional Approach", highlighted that the profitability of the financial institutions largely depended upon the level of income generated through optimum use of the assets after paying the cost of fund for acquiring them and other administrative costs involved therein. Redefined objective of managing NPAs through profit maximization approach and risk management approach were suggested. Author further concluded that the high rise in gross and net NPAs of the banking sector in the recent past was at an exponential rate giving an indication that present ongoing recession was taking a heavy toll on corporate credit discipline. **Kumar (2005)** in his article, "Non-Performing Assets in Indian Banks" studied that the Indian banking sector faced a serious problem of NPAs. The extent of NPAs has comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks can try competing with foreign banks to maintain international standard.

**OBJECTIVE OF THE STUDY**

1. To understand the meaning & nature of non-performing assets.
2. To study the trends in Gross Advances and Gross NPAs by various bank groups during the study period.
3. To analyze the trends of NPAs in Priority and Non priority sector credit by various bank groups.

**RESEARCH METHODOLOGY****PERIOD OF THE STUDY**

The post-reforms period of seven years has been taken for measuring the impact of NPAs on Indian Banking Sector. The years selected for analysis are 2005-2011. Bank-wise analysis has been done on the basis of 2010-11.

**SAMPLE SIZE**

The study based on Indian Banking Industry which includes Public, Private as well as Foreign banks.

**DATA COLLECTION**

To achieve the objectives of the study, Secondary data is collected. Secondary data is also a valuable source for research. It includes all those data which had been collected for some earlier research work and applicable in the study, researcher has presently undertaken. A major part of the database has been drawn from the published secondary sources, primarily the reports of Indian Bankers Association (IBA) and the Reserve Bank of India (RBI). The data relating to financial performance of the selected public sector banks have been obtained from various sources like "Financial Analysis of Banks" brought by Indian Banker's Association, "Statistical Tables Relating to Banks of India". "Reserve Bank of India Monthly Bulletin", "Reserve Bank of India Monthly Bulletin", "Report on currency and Finance" and other publications of Reserve Bank of India.

**DATA ANALYSIS**

The processing of collecting data has been done manually as well as with the help of SPSS software. Tools like Ratio Analysis, Percentage, Averages and Comparative Statement Analysis have been used to analyze the data.

**ANALYSIS AND DISCUSSION****GROSS NPAs TO GROSS ADVANCES**

Gross NPAs are the sum total of all loan assets classified as NPAs as per RBI guidelines. Gross NPA shows the nature of the loans made by banks. It includes all the Non-Standard assets like Sub-Standard, Doubtful and Loss assets. It can be understood with the help of the following ratio.

Gross NPAs ratio = Gross NPAs/ Gross Advances. Table 1 shows the Scheduled Commercial Banks' Gross Advances and Gross NPAs during the study period.

**TABLE 1: SCHEDULED COMMERCIAL BANK'S GROSS NPAs TO GROSS ADVANCES (Rs. in crore)**

Year	Public Sector Banks			Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	Gross Adv.	Gross NPAs		Gross Adv.	Gross NPAs		Gross Adv.	Gross NPAs		Gross Adv.	Gross NPAs	
		Amt.	% to Gross Adv.		Amt.	% to Gross Adv.		Amt.	% to Gross Adv.		Amt.	% to Gross Adv.
2004-05	8,77,825	48,399	5.5	1,97,832	8,782	4.44	77,026	2,192	2.8	11,52,682	59,373	5.2
2005-06	11,34,724	41,358	3.6	3,17,690	7,811	2.46	98,965	1,928	1.9	15,51,378	51,097	3.3
2006-07	14,64,493	38,968	2.7	4,20,145	9,256	2.2	1,27,872	2,262	1.8	20,12,510	50,486	2.5
2007-08	18,19,074	40,595	2.2	5,25,845	12,983	2.47	1,62,966	2,857	1.8	25,07,885	56,435	2.3
2008-09	22,83,473	45,156	2.0	5,85,065	16,983	2.9	1,69,716	6,833	4.0	30,38,254	68,973	2.3
2009-10	27,36,347	59,926	2.19	6,44,517	17,639	2.74	1,67,365	7,180	4.29	35,45,899	84,747	2.39
2010-11	33,45,919	74,614	2.23	8,11,843	18,240	2.25	1,99,527	5,068	2.54	43,52,088	97,922	2.25

Source: Report on Trend Progress of Banking in India 2002-11, Reserve Bank of India, India

Table-1 reveals that Gross advance of Scheduled Commercial Banks was Rs. 11, 52,682 crore during 2004-05, which was increase to Rs. 43, 52,088 crore during 2010-11. The Gross NPAs of Scheduled Commercial Banks have also been increasing year after year. Gross Non Performing Assets of the Scheduled Commercial Banks have increased from Rs. 59,373 crore to Rs. 97,922 crore during the study period. The Gross NPAs to Gross Advances ratio of SCBs declined from 5.2 % to 2.25% during the study period. In case of public sector banks this ratio decreased from 5.5 % at the end of March, 2005 to 2.23% at the end of March, 2011, in private sector banks the ratio decreased from 4.44 % to 2.25% and in case of foreign banks the ratio decelerated from 2.8 % to 2.54%. It clearly indicates that Gross NPAs to Gross Advances ratio were higher in the public sector banks while the least in foreign banks during the beginning of the study period. But the trend has changed at the end of the study period that Gross NPAs ratio were higher in the foreign banks i.e. 2.54 percent in 2010-11 while the least in the public sector banks. It shows that Scheduled Commercial Banks have taken effective steps to curb the NPAs.

**SCHEDULED COMMERCIAL BANKS PRIORITY AND NON-PRIORITY SECTOR NPAs**

Before the nationalization of banks, there was no target on the priority sector. After nationalization it was just emphasized that commercial banks should increase their involvement in financing of priority sector. The directed lending policy of the Government under social banking motto led Scheduled Commercial Banks to increase in the level of NPAs. To proof this issue the research has compared priority and non-priority sector NPAs of various bank's group during the study period in table -2.

**TABLE 2: SCBS PRIORITY AND NON-PRIORITY SECTOR NPAs (Rs. in crore)**

Year	Public Sector Banks			Private Sector Banks			Foreign Banks			Total NPAs
	Priority Sector	Non-Priority Sector	Total	Priority Sector	Non-Priority Sector	Total	Priority Sector	Non-Priority Sector	Total	
2004-05	23,397.38 (49.05%)	24,299.10 (50.95%)	47,696.48 (100%)	2,188.46 (24.87%)	6,611.37 (75.13%)	8,799.83 (100%)	DNA	DNA	DNA	56,496.31*
2005-06	22,373.74 (54.07%)	19,004.49 (45.93%)	41,378.23 (100%)	2,284.03 (29.17%)	5,545.39 (70.83%)	7,829.42 (100%)	DNA	DNA	DNA	49,207.65*
2006-07	22,953.62 (59.46%)	15,648.17 (40.54%)	38,601.80 (100%)	2,884.18 (31.22%)	6,355.30 (68.78%)	9,239.48 (100%)	DNA	DNA	DNA	47,841.28*
2007-08	25,286.67 (63.62%)	14,461.83 (36.38%)	39,748.51 (100%)	3,418.53 (26.34%)	9,557.53 (73.66%)	12,976.06 (100%)	402.00 (12.90%)	2,712 (87.10%)	3,114 (100%)	55,838.57
2008-09	24,318 (55.20%)	19,725 (44.80%)	44,042 (100%)	3,640 (21.60%)	13,172 (78.40%)	16,887 (100%)	649 (9.1%)	6506 (90.90%)	7,155 (100%)	68,084.00
2009-10	30,848 (53.8%)	26,453 (46.2%)	57,301 (100%)	4,792 (27.60%)	12,592 (72.40%)	17,384 (100%)	1,170 (16.40%)	5956 (83.6%)	7,125 (100%)	81,810.00
2010-11	41,245 (58.1%)	29,803 (41.9%)	71,047 (100%)	4,823 (26.8%)	13,147 (73.2%)	17,971 (100%)	1,141 (22.5%)	3,924 (77.5%)	5,065 (100%)	94,083.00

Source: Report on Trend and Progress of Banking in India 2002-11, Reserve Bank of India, India.

Table-2 shows the NPAs in priority and Non-priority sector by three major bank groups. It clearly indicates that NPAs in priority sector were more in public sector banks when compared to private and foreign banks. This is because advances by public sector banks to the priority sector were high. In the case of public sector banks, first year of the study period NPAs in non-priority sector were more than priority sector. From the year 2005-06 onwards NPAs in priority sector were more than non-priority sector. This is due to poor recovery of agricultural loans, which comprises the major portion of priority sector advances. It is also noticed that 68 percent NPAs of private sector banks were out of advances to non-priority sector than priority sector. This is because private sector banks preferred to lend the non-priority sector than the priority sector. More than 78 percent of NPAs of foreign banks was out of advances to non-priority sector. It is clear from the table that priority sector NPAs have significant impact on total NPAs in Public sector banks, whereas in Private sector banks, priority sector NPAs have no significant impact on total NPAs.

#### PRIORITY SECTOR NPAs OF PUBLIC SECTOR BANKS

The broad categories of priority sector for all scheduled commercial are as under:

1. Finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities.
2. The micro and small enterprises shall include small road and water transport operators, small business, professional & self-employed persons.
3. Micro Credit and other financial services and products of amounts not exceeding Rs.50, 000 per borrower.
4. Education Loans and advances granted to only individuals up to Rs.10 lakh for studies in India and Rs.20 lakh for studies abroad.
5. Housing Loans up to Rs.25 lakh to individuals for purchase/ construction.
6. Loans to Self Help Groups & Joint Liability Groups up to Rs. 50,000.

**TABLE 3: PRIORITY SECTOR NPAs OF PUBLIC SECTOR BANKS IN INDIA** (Rs. in crore)

Year	Agriculture	Micro & Small Enterprises	Weaker sections	Others	Total Priority Sector NPAs	Total Priority Sector Advances	Priority Sector NPA Ratio	Gross NPA Ratio
2004-05	7,254.05 (31.00%)	7,834.96 (33.49%)	5,752.04 (24.58%)	2,556.33 (10.93%)	23,397.38 (100%)	3,07,046	7.62	5.5
2005-06	6,202.92 (27.72%)	6,917.40 (30.92%)	5,023.22 (22.45%)	4,230.20 (18.91%)	22,373.74 (100%)	4,09,748	5.46	3.6
2006-07	6,506.34 (28.35%)	5,843.28 (25.46%)	5,181.15 (22.57%)	5,422.85 (23.62%)	22,953.62 (100%)	5,21,376	4.40	2.7
2007-08	8,268.03 (32.70%)	5,804.75 (22.96%)	5,388.00 (21.31%)	5,825.89 (23.03%)	25,286.67 (100%)	6,10,450	4.14	2.2
2008-09	5,708.09 (23.47%)	6,984.00 (28.72%)	5,074.00 (20.86%)	6,552.00 (26.95%)	24,318.00 (100%)	7,20,083	3.38	2.0
2009-10	8,330.00 (27.00%)	11,537.00 (37.40%)	5,053.00 (16.38%)	5,928.00 (19.22%)	30,848.00 (100%)	8,64,564	3.57	2.19
2010-11	14,487.00 (35.12%)	14,340.00 (34.77%)	7,929.00 (19.23%)	4,488.00 (10.88%)	41,245.00 (100%)	10,22,925	4.03	2.23

Source: Report on Trend and Progress of Banking in India 2002-11, Reserve Bank of India, India

Table 3 exhibits the priority sector advances and NPAs in priority sector by public sector banks during the period under study. The total priority sector credit of public sector banks have raised from Rs. 3,07,046 crore to Rs. 10, 22,925 crore. The priority sector NPAs of public sector banks have raised from Rs. 23,397.38 crore at the end of March, 2005 to Rs. 41,245 crore at the end of March, 2011. It is clear from the table that NPAs of the Public sector banks by agriculture credit were around 30% during the study period except during the years 2008-09 and 2009-10. The NPAs incurred by public sector banks out of lending to Micro & Small Enterprises ranges between 25% and 42%, weaker sections between 16% and 28%. Only 10% of NPAs came from lending to remaining categories of priority sector. It is observed that in terms of Priority Sector NPA ratio to Priority Sector Advances there is a decline during the study period i.e., from 7.62 to 4.03. It is understood from the above observation that the public sector banks have recovered the priority sector credit in time and they managed the priority sector credit effectively to safeguard themselves from the evils of NPAs.

#### PRIORITY SECTOR NPAs OF PRIVATE SECTOR BANKS

**TABLE 4: PRIORITY SECTOR NPAs OF PRIVATE SECTOR BANKS IN INDIA** (Rs. in crore)

Year	Agriculture	Micro & Small Enterprises	Weaker sections	Others	Total Priority Sector NPAs	Total Priority Sector Advances	Priority Sector NPA Ratio	Gross NPA Ratio
2004-05	465.40 (21.27%)	964.31 (44.06%)	207.98 (9.5%)	550.77 (25.17%)	2,188.46 (100%)	69,886	3.13	4.44
2005-06	514.60 (22.53%)	807.44 (35.35%)	276.19 (12.09%)	685.80 (30.03%)	2,284.03 (100%)	1,06,586	2.05	2.46
2006-07	860.51 (29.84%)	644.59 (22.35%)	149.31 (5.18%)	1,229.77 (42.63%)	2,884.18 (100%)	1,44,549	2.00	2.2
2007-08	1,467.31 (42.92%)	651.11 (19.05%)	117.04 (3.42%)	1,183.07 (34.61%)	3,418.53 (100%)	1,64,068	2.08	2.47
2008-09	1,441.00 (39.92%)	670.00 (18.56%)	91.00 (2.52%)	1,438.00 (39.83%)	3,640.00 (100%)	1,90,207	1.91	2.9
2009-10	2,023.00 (42.22%)	1,139.00 (23.77%)	130.00 (2.71%)	1,500.00 (31.30%)	4,792.00 (100%)	2,15,552	2.22	2.74
2010-11	2,172.00 (45.03%)	1,298.00 (26.91%)	283.00 (5.87%)	1,070.00 (22.19%)	4,823.00 (100%)	2,49,139	1.94	2.25

Sources: Report on Trend and Progress of Banking in India 2002-11, Reserve Bank of India, India.

The priority sector advances and its NPAs by Private sector banks can be seen in Table 4. The total priority sector credit of private sector banks have accelerated from Rs. 69,886 crore to Rs. 2,49,139 crore. The priority sector NPAs of private sector banks have raised from Rs. 2,188.46 crore at the end of March, 2005 to Rs. 4,823 crore at the end of March, 2011 i.e., raised 2 times. It is observed from the table that NPAs of the Private sector banks by agriculture credit were increased year after year. It is around 22% of total NPAs at the end of March, 2005, but rose to 45% at the end of March, 2011. There is an increase in NPAs due to non recovery from weaker & other sections. It is observed that in terms of Priority Sector NPA ratio to Priority Sector Advances there is a decline during the study period. It is observed that the private sector banks also recovered the priority sector credit in time.



## PRESENT STATUS OF NPA IN SCHEDULED COMMERCIAL BANKS

TABLE 5: BANK- WISE AND BANK GROUP-WISE GROSS NON-PERFORMING ASSETS, GROSS ADVANCES AND GROSS NPA RATIO OF SCHEDULED COMMERCIAL BANKS-2011

Bank/ Bank Groups	(Amount in Rs. lakh)		
	As on March 31, 2011		
	Gross NPAs (1)	Gross Advances (2)	Gross NPAs to Gross Advances Ratio (%) (3)
<b>Public sector Banks</b>			
State Bank of India	2307352	66244406	3.5
State Bank of Bikaner & Jaipur	83540	4174391	2.0
State Bank of Hyderabad	115045	6542267	1.8
State Bank of Mysore	86374	3442569	2.5
State Bank of Patiala	138168	5233061	2.6
State Bank of Travancore	83523	4647055	1.8
<b>State Bank of India &amp; its Associates</b>	<b>2814002</b>	<b>90283749</b>	<b>3.12</b>
Allahabad Bank	164698	9158545	1.80
Andhra Bank	99564	7215445	1.38
Bank of Baroda	278623	17180148	1.62
Bank of India	435660	16514716	2.64
Bank of Maharashtra	117370	4748742	2.47
Canara Bank	298178	20272402	1.47
Central Bank of India	239453	13139002	1.82
Corporation Bank	79023	8721345	0.91
Dena Bank	84224	4516337	1.86
Indian Bank	72002	7258733	0.99
Indian Overseas Bank	279342	10308747	2.71
Oriental Bank of Commerce	192054	9683891	1.98
Punjab & Sind Bank	42428	4283262	0.99
Punjab National Bank	437939	24399878	1.79
Syndicate Bank	258912	9753461	2.65
UCO Bank	309017	9324624	3.31
Union Bank of India	362282	15302246	2.37
United Bank of India	135578	5393373	2.51
Vijaya Bank	125919	4922224	2.56
IDBI Bank Limited	278473	15599550	1.79
<b>Nationalized Banks \$</b>	<b>4290739</b>	<b>217696671</b>	<b>1.97</b>
<b>Public Sector Banks</b>	<b>7104741</b>	<b>307980420</b>	<b>2.31</b>
<b>Private Sector Banks</b>			
Catholic Syrian Bank Ltd.	19245	630255	3.05
City Union Bank Ltd.	11248	932896	1.21
Dhanlaxmi Bank Ltd.	6709	910425	0.74
Federal Bank Ltd.	114833	3289557	3.49
ING Vysya Bank Ltd.	15156	2366192	0.64
Jammu & Kashmir Bank Ltd.	51883	2665922	1.95
Karnataka Bank Ltd.	70217	1769603	3.97
Karur Vysya Bank Ltd.	22815	1805241	1.26
Lakshmi Vilas Bank Ltd.	15779	818755	1.93
Nainital Bank Ltd.	2144	168591	1.27
Ratnakar Bank Ltd.	2151	191982	1.12
SBI Commercial & International Bank Ltd	203	27143	0.75
South Indian Bank Ltd.	23034	2065879	1.11
Tamilnad Mercantile Bank Ltd.	14113	1087135	1.30
<b>Old Private Sector Banks</b>	<b>369530</b>	<b>18729576</b>	<b>1.97</b>
Axis Bank Ltd.	158699	12411981	1.28
Development Credit Bank Ltd.	26357	449467	5.86
HDFC Bank Ltd.	166032	15670526	1.06
ICICI Bank Ltd.	981596	16918176	5.80
Indusland Bank Ltd.	26586	2635869	1.01
Kotak Mahindra Bank Ltd.	60349	2971873	2.03
Yes Bank Ltd.	8053	3443501	0.23
<b>New Private Sector Banks</b>	<b>14271672</b>	<b>54501393</b>	<b>2.62</b>
<b>Private Sector Banks</b>	<b>1797202</b>	<b>73230969</b>	<b>2.45</b>

TABLE 5: BANK-WISE AND BANK GROUP-WISE GROSS NON-PERFORMING ASSETS, GROSS ADVANCES AND GROSS NPA RATIO OF SCHEDULED COMMERCIAL BANKS- 2011 (CONTD.)

Banks/ Bank Groups	(Amount in Rs. lakh)		
	As on March 31, 2011		
	Gross NPAs (1)	Gross Advances (2)	Gross NPAs to Gross Advances Ratio (%) (3)
<b>Foreign Banks</b>			
AB Bank Ltd.	-	7327	-
Abu Dhabi Commercial Bank Ltd.	1275	18785	6.79
American Express Banking Corp.	2026	108216	1.87
Antwerp Diamond Bank	9963	68110	14.63
BNP Paribas	1128	546199	0.21
Bank of America	70	585984	1.01
Bank of Bahrain & Kuwait	1380	39315	3.51
Bank of Ceylon	183	6851	2.68
Bank of Nova Scotia	963	630868	1.15
Barclays Bank	78118	897086	8.71
China Trust Commercial Bank	290	23495	1.24
Citibank N.A.	83867	4094288	2.05
Commonwealth Bank of Australia	-	2631	-
Credit Agricole Bank	19885	347402	5.72
Credit Suisse	-	-	-
DBS Bank Ltd.	8345	761230	1.10
Deutsche Bank	17852	1443916	1.24
First Rand Bank	-	14139	-
Hongkong & Shanghai Banking Corporation Ltd.	99553	2814741	3.54
JP Morgan Chase Bank	2721	348994	0.78
JSC VTB Bank	-	5402	-
Krung Thai Bank	-	1319	-
Mashreq Bank	-	4132	-
Mizuho Corporation Bank Ltd.	634	252209	0.25
Oman International Bank	-	218	-
Shinhan Bank	-	61919	-
Societe Generale	118	70070	0.17
Sonali Bank Ltd.	79	943	8.36
Standard Chartered Bank	114779	5021736	2.29
State Bank of Mauritius Ltd.	1803	60211	2.99
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	526730	-
The Royal Bank of Scotland	61448	1099162	5.59
UBS AG	-	68505	-
United Overseas Bank Limited	-	-	-
<b>Foreign Banks</b>	<b>506480</b>	<b>19932133</b>	<b>2.54</b>
<b>All Scheduled Commercial Banks</b>	<b>9408423</b>	<b>401143522</b>	<b>2.35</b>

Source: Department of Banking Supervision, RBI

Table 5 shows percentage of Gross NPAs to Gross Advances Ratio of Scheduled Commercial Banks as on March, 2011. It indicates that Private Sector Banks have highest Gross NPAs to Gross Advance ratio i.e. 2.45 percentage followed by Foreign Banks i.e. 2.35 percent. The table further draws attention that Public Sector Banks have only 2.31 percent of Gross NPAs to Gross Advance Ratio on March, 2011.

## CONCLUSION

Non –Performing Assets is important parameters in the analysis of financial performance of banks. Reduction of NPAs is necessary to improve profitability of the banks and comply with capital adequacy norms. To solve the problem of existing NPA quality of appraisal, supervision and follow-up should be improved. The improvement in the financial health of the banking system is also reflected in the declining share of NPAs in the total advances of banks. During the past two decades the NPAs of the Public Sector Banks have come down from 14 percent in the early 1990s to 2.5 percent in 2011. Private and Foreign Banks also have shown a comparable progress in this concern. This is mainly attributed to various committees like Tandon Study Group, Basel Group I and II, Narasimham Committee I, Narasimham Committee II and M.S. Verma Committee which suggest measures to overcome NPA problem.

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**A HUMAN RESOURCE DOWNGRADING - JOB HOPPING**

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**ABSTRACT**

*In the free market economy of today, there are a lot of changes taking place in the industrial sector. The changes mainly are on the capital human resources side of the company. While concentrating on the human resources factor in the company, it has undergone a lot of changes. The attitudes among the professionals have changed dramatically, where a lot of young blood & enthusiastic professionals are playing major role in the companies. These Efficient Young bloods have developed a tendency to hop from company to company once they find a better prospects or if they find a better place where their dream come true. That never thinks of the disadvantages in job hopping. The researcher in this study aims to explore different aspects related to job hopping. In some cases, job hopping can result in enhancement of professional skills and knowledge base of an individual. However, a job hopper should also understand the consequences of changing jobs too frequently. It is advisable to spend a minimum of 2-3 years in an organization before considering a job change. A company prefers to invest money in an employee who shows commitment and loyalty towards his/her work and achievement of organizational objectives.*

**KEYWORDS**

Job hopping, consequences of changing jobs, tendency to hop from company to company, enhancement of professional skills and knowledge base of an individual

**INTRODUCTION**

As it is commonly said that human needs are never ending, an individual may prefer to change his/her job in order to command a higher compensation package/higher designation. This strategy can be termed as Job Hopping. Though this strategy may work in some instances, it is important to note that an individual adopting this strategy is putting his/her long term career at risk. Organizations prefer to hire employees who have been loyal to their previous organizations. Many interviewers prefer to verify the reason for job change. In such situations, it may become difficult for a job hopper to offer a reasonable explanation for quick job changes. At the same it is important for organizations to understand the reason for job hopping. In many cases, a deserving candidate may be switching jobs on account of low salary in comparison to his/her qualifications and work experience. Job hopping can be reduced to a significant level, if deserving employees are adequately compensated and promoted on a timely basis. Job hopping can sometimes result from exploitative and manipulative employee management strategies used by organizations.

**OBJECTIVES OF THE STUDY**

1. To study the financial benefits provided to the employee by their company and its impact on job hopping.
2. To study the nature of work of the employees in the company and its impact on job hopping.
3. To study the training and development programs conduct to these employees by their company and its impact on job hopping.
4. To study and find out the other benefits and compensations provided to the employees by their company and its impact on job hopping.
5. To study the career plans and progression done by their company and to come out with some retention policies.

**SIGNIFICANCE OF THE STUDY**

- Now a day's job hopping is consider as a normal habit between the employees in the world. This study helps the corporate to overcome with adopt the newcomers in the generously, get the experience and trained manpower.
- Time and resource is being saved by the corporate for the new recruits
- Corporate mingle out the diffusion between the middle and line staff
- Corporate vision is being nurtured and saves time, money and so on.
- The surfacing of skill domination and supremacy of the chair power stops.
- To know the effectiveness of the current system exists in the organization.

**SCOPE OF THE STUDY**

- The project throws light on important on job hopping of employees and this study facilitates the management for further improvement.
- This study will give a brief picture of human side of the employees to know the level of impact on job hopping and also helpful to improve the organization environment to attracted employees and other people who connected with the organization.
- This study will be useful when similar kind of research is undertaken.

**LIMITATIONS**

- The study will be limited due to the changes taking place in the technology and HR practices in component industry
- Opinions of employees may be biased at time.
- The sample size consists of 200 respondents. Finding of the study has its own limitations.

**RESEARCH METHODOLOGY****PROCEDURES USED**

In statistics, a simple random sample is a subset of individuals (a sample) chosen from a larger set (a population). Each individual is chosen randomly and entirely by chance, such that each individual has the same probability of being chosen at any stage during the sampling process, and each subset of  $k$  individuals has the same probability of being chosen for the sample as any other subset of  $k$  individuals. This process and technique is known as simple random sampling, and should not be confused with Random Sampling.

**SOURCES OF DATA**

The two sources of data collection are namely primary data.

**PRIMARY DATA**

Primary data are fresh data collected through survey from the employees using questionnaire.

**TOOL FOR DATA COLLECTION**

Questionnaire was used as the tool for data collection. The questions are closed ended.

**SAMPLE DESIGN**

- Sample Element : Employees of organisations
- Sample Size : 200 samples
- Sample Media : Questionnaire
- Sampling Method : Simple Random Sampling

**STATISTICAL TOOL FOR DATA ANALYSIS**

Simple percentage analysis and tabulation is used to analysis the data. Bar diagram is used to give pictorial representation to the analysis. The following test was used for the study.

- ❖ Weighted average
- ❖ Chi – square.

**ANALYSIS**

**WEIGHTED AVERAGE METHOD**

**REASON FOR JOB HOPPING**

TABLE - 1

S. No	Factors	Highly satisfied	Satisfied	Not satisfied	Total	ΣFX/F	Rank
	Mark	3	2	1			
1	Incentives Schemes(F) F(X)	60 180	80 160	60 60	200 400	2	2
2	Career & Progression Policies(F) F(X)	44 132	36 72	120 120	200 324	1.62	7
3	Annual Increments(F) F(X)	24 72	100 200	76 76	200 348	1.74	6
4	Performance Bonus(F) F(X)	43 129	89 178	68 68	200 375	1.875	3
5	Conveyance Provided(F) F(X)	47 141	54 108	99 99	200 348	1.74	6
6	Flexitime Policies(F) F(X)	40 120	72 144	88 88	200 352	1.76	4
7	Performance appraisal system(F) F(X)	50 150	50 100	100 100	200 350	1.75	5
8	Spacious and Friendly Interiors(F) F(X)	106 318	34 68	60 60	200 446	2.23	1
9	Library Facilities(F) F(X)	40 120	72 144	88 88	200 352	1.76	4

**INFERENCE**

From the above table that indicates that the main reason for hopped the job by the employees are mainly for the lack of spacious and friendly interiors. Some of the employees are hopped their job in previous company due to lack of proper incentives, performance bonus, flexitime policies, and also performance appraisal system. That the proper career and progression policies got last rank in the table, that it's not that much reason for the hopping of the job in the company.

TABLE – 2: RESPONDENT EXPECTATION IN THE NEW COMPANY

S. No	Factors	More important	Important	Less Important	Total	ΣFX/F	Rank
	Marks (X)	3	2	1			
1	Higher Pay Package(F) F(X)	155 465	30 60	15 15	200 540	2.7	1
2	Performance Incentives (F) F (X)	125 375	45 90	30 30	200 495	2.475	2
3	Better Career and Development Plans(F) F(X)	74 222	56 112	70 70	200 404	2.02	5
4	Better Training Facilities (F) F(X)	70 210	94 188	36 36	200 434	2.17	3
5	Recreation Facility (F) F(X)	80 240	48 96	72 72	200 408	2.04	4
6	Flexitime Policies (F) F(X)	40 120	72 144	88 88	200 352	1.76	7
7	Proper Performance Appraisal (F) F(X)	48 144	52 104	100 100	200 348	1.74	8
8	Clear Leadership and Vision (F) F(X)	56 168	74 148	70 70	200 386	1.93	6

**INFERENCE**

From the above table it is inferred that most of the employee are expect higher pay package in new company. It holds 1<sup>st</sup> Rank in the table among the eight options. After higher pay package only employee prefers the performance Incentives so that the Performance incentives hold 2<sup>nd</sup> rank in the table. The company should provide a higher pay package and the performances incentives to avoid the employee to jumping from one to another company. After this the employee expects better training facilities in the company so, it hold 3<sup>rd</sup> place in the table. After this three things only the employee expect the other facility like recreation facility, better career and development plan, clear leadership and vision, flexitime policies and finally proper performance appraisal, these holds 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup> rank respectively.



**CHI SQUARE TESTS**

**FINANCIAL BENEFITS AND JOB HOPPING**

H<sub>0</sub>: There is no significant relation between the Financial Benefits and Job Hopping.

H<sub>1</sub>: There is significant relation between the Financial Benefits and Job Hopping.

**TABLE - 3**

	Yes	No	Total
Highly satisfied	102	18	120
Satisfied	28	22	50
Not satisfied	6	24	30
<b>Total</b>	<b>136</b>	<b>64</b>	<b>200</b>

**APPLYING  $\chi^2$  TEST**

Observed frequency(O)	Expected frequency (E)	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
102	81.6	20.4	416.16	5.1
18	38.4	-20.4	416.16	10.8375
28	34	-6	36	1.058824
22	16	6	36	2.25
6	20.4	-14.4	207.36	10.16471
24	9.6	14.4	207.36	21.6
				<b>51.01103</b>

$\gamma = (r-1)(c-1)$

$= (2-1)(3-1)$

$= 1*2$

$= 2$

Calculated value is higher than the Tabulated value.

$\therefore$  Calculated  $\chi^2 \geq$  Tabulated  $\chi^2$

$51.01103 \geq 5.991$

$\therefore$  H<sub>1</sub> is accepted (i.e.) there is significant relation between the Financial Benefits and Job Hopping in Organization.

**NON - FINANCIAL BENEFITS AND JOB HOPPING**

H<sub>0</sub>: There is no significant relation between the Non- Financial Benefits and Job Hopping.

H<sub>1</sub>: There is significant relation between the Non- Financial Benefits and Job Hopping.

**TABLE - 4**

	Yes	No	Total
Highly satisfied	45	35	80
Satisfied	47	18	65
Not satisfied	44	11	55
<b>Total</b>	<b>136</b>	<b>64</b>	<b>200</b>

**APPLYING  $\chi^2$  TEST**

Observed frequency(O)	Expected frequency (E)	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
45	54.4	-9.4	88.36	1.624265
35	25.6	9.4	88.36	3.451563
47	44.2	2.8	7.84	0.177376
18	20.8	-2.8	7.84	0.376923
44	37.4	6.6	43.56	1.164706
11	17.6	-6.6	43.56	2.475
				<b>9.269832</b>

$\gamma = (r-1)(c-1)$

$= (2-1)(3-1)$

$= 1*2$

$= 2$

Calculated value is higher than the Tabulated value.

$\therefore$  Calculated  $\chi^2 \geq$  Tabulated  $\chi^2$

$9.269832 \geq 5.991$

$\therefore$  H<sub>1</sub> is accepted (i.e.) there is significant relation between the Non- Financial Benefits and Job Hopping in Organization.

**TRAINING & DEVELOPMENT PROGRAMS AND JOB HOPPING**

H<sub>0</sub>: There is no significant relation between the Training & Development Programs and Job Hopping.

H<sub>1</sub>: There is significant relation between the Training & Development Programs and Job Hopping.

**TABLE - 5**

	Yes	No	Total
Highly satisfied	101	49	150
Satisfied	29	6	35
Not satisfied	6	9	15
<b>Total</b>	<b>136</b>	<b>64</b>	<b>200</b>

APPLYING  $\chi^2$  TEST

Observed frequency(O)	Expected frequency (E)	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
101	102	-1	1	0.009804
49	48	1	1	0.020833
29	23.8	5.2	27.04	1.136134
6	11.2	-5.2	27.04	2.414286
6	10.2	-4.2	17.64	1.729412
9	4.8	4.2	17.64	3.675
				<b>8.985469</b>

$\gamma = (r-1)(c-1)$   
 $= (2-1)(3-1)$   
 $= 1*2$   
 $= 2$

Calculated value is higher than the Tabulated value.

$\therefore$  Calculated  $\chi^2 \geq$  Tabulated  $\chi^2$

$8.985469 \geq 5.991$

$\therefore$  H<sub>1</sub> is accepted (i.e.) there is significant relation between the Training & Development Programs and Job Hopping in Organization.

**CAREER & DEVELOPMENT PROGRAMS AND JOB HOPPING**

H<sub>0</sub>: There is no significant relation between the Career & Development Programs and Job Hopping.

H<sub>1</sub>: There is significant relation between the Career & Development Programs and Job Hopping.

TABLE - 6

	Yes	No	Total
Highly satisfied	70	45	115
Satisfied	60	10	70
Not satisfied	6	9	15
Total	136	64	200

APPLYING  $\chi^2$  TEST

Observed frequency(O)	Expected frequency (E)	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
70	78.2	-8.2	67.24	0.859847
45	36.8	8.2	67.24	1.827174
60	47.6	12.4	153.76	3.230252
10	22.4	-12.4	153.76	6.864286
6	10.2	-4.2	17.64	1.729412
9	4.8	4.2	17.64	3.675
				<b>18.18597</b>

$\gamma = (r-1)(c-1)$   
 $= (2-1)(3-1)$   
 $= 1*2$   
 $= 2$

Calculated value is higher than the Tabulated value.

$\therefore$  Calculated  $\chi^2 \geq$  Tabulated  $\chi^2$

$18.18597 \geq 5.991$

$\therefore$  H<sub>1</sub> is accepted (i.e.) there is significant relation between the Career & Development Programs and Job Hopping in Organization.

**FINDINGS**

**1. JOB HOPPING**

The employees have previously hopped their job more than once.

**2. REASON FOR JOB HOPPING**

That most of the employees have hopped their job because of lack in spacious and friendly interiors. Most of the employees expect friendly relation in the company. Some others need proper incentives schemes and performance bonus. Some respondents hop their job due to flextime policies and some of employees are expect proper performance appraisal system, conveyance provided and proper career and progression policies.

**3. EMPLOYEE STAND IN THE COMPANY**

Employees expect proper & regular training so as to cope up with the technological advancements. Employees feel that, job should match their qualification should be assigned to them. Other than the above said aspects, employees give importance to career progression policies and financial benefits. Employees give less importance to physical & work environment and also the non-financial benefits provide by the company. Employees decide to hop only on the basis of training and job assigned.

**4. REGRET FOR THE JOB HOPPED**

Few employees regret for hopping the job become they lose contact with old colleagues and also they have less free time in the current company. Except some, others doesn't regret for changing their job.

**5. EXPECT IN THE NEW COMPANY**

Employees hop their job for higher pay package and better performance incentives. If the package is good they less prefer training & recreation facilities. Career development plan, flex time policies and performance appraisal gets less preference & seldom hop for these reasons.

**6. PLAN TO GO ABROAD**

Most of the employees wish to go abroad. Out of which, most prefer U.S.A and some other prefer Singapore. Other than this employee prefer Japan, France etc.

**SUGGESTIONS**

1. Training on health and safety measures should be provided.
2. A few measures can be taken to revise the pay and improve other benefits.
3. Team performance must be highly encouraged and recognized.
4. Policies have to be reframed so as to serve the dual purpose of attracting potential employees and keeping the current ones passionate and committed.
5. HR Policy, specifically financial policy can be revised for every two years. This would ensure regular revision of the per diems automatically. Effective manpower planning should be there to ensure optimum utilization of human resources.

6. The superiors must guide their team members in order to accomplish their goals. The performance appraisal system may be used effectively to motivate the employees to attain the departmental and organization targets.
7. In the category of General Programs, emphasis should be given for Health and Environment, Personality Development, which may enable the employee's self-development.
8. Create a total reward structure that includes more than compensation.
9. Give feedback on employee performance on a regular basis.
10. Be flexible in terms of work-life balance. Flexi-time policies today are mostly invited by women workers and professionals.
11. The HR policies in the company should undergo some changes with regard to improvement in career and development planning.
12. The company should provide non – financial benefits should be provided to all class of employees so that it helps to retain them.

### CONCLUSION

Automobile industry is one of the booming industries in the world. A field with full of competition, organisation expect to retain their trained professional. The Human Resources of these firms are highly fragile and sensitive so that they should be handed with lot of care and concern. Job - hopping will cause a serious effect on these companies. Through this study the researcher has found that the factors which led to job-hopping. As opportunity is high for employees, unsatisfied employees hop a lot and even without taking the disadvantage of job hopping. The company should satisfy the employee to retain them in the company. The organisation considers the suggestion provided by the researcher so as to reduce employee turnover.

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**WORK LIFE BALANCE: AN OVERVIEW OF INDIAN COMPANIES****DR. KARAMVIR SINGH SHEOKAND****ASST. PROFESSOR****IMSAR****M. D. UNIVERSITY****ROHTAK****PRIYANKA****ASST. PROFESSOR****G.V.M. INSTITUTE OF TECHNOLOGY & MANAGEMENT****SONEPAT****ABSTRACT**

*Work-life balance has become a subject of concern for both research scholars and business leaders in view of the contemporary demographic, technological, market, and organisational changes associated with it. However, there has been little academic attempt to provide a holistic picture of work-life balance benefits and programmes (WLBPs) offered by various organisations in India. Work-life balance is the proper prioritizing between "work" (career and ambition) on one hand and "life" (pleasure, leisure, family and spiritual development) on the other. The present paper covers the concepts of work life balance and work life balance practices. The paper has discussed the conceptual paradigm of work life balance. This paper includes various survey reports on work life balance policies and practices stimulating employees. The purpose of the paper is to describe the prevalent work life balance practices in India. The present study is descriptive in nature. The paper gives the details of work life balance practices adopted by the companies in India. These practices are more prominent in new economy organisations. The range of these practices varies across organisations and there is still a long way to go when work life balance practices become strategic HR initiatives in most organisations.*

**KEYWORDS**

Work life balance, Work life balance policies and practices, Retaining, Motivation.

**INTRODUCTION**

Organisations today increasingly recognise the potential of their employees as a source of competitive advantage. With intensified global competition, improved employee mobility, changing family and work models and many other demographical changes has made organisations think of new strategies in attracting, engaging and retaining employees. Work life initiatives have been identified to be a predictor of attracting and retaining employees (Equal employment opportunities trust, 2007; Konrad & Mangel, 2000). Research further reports, reduction in absenteeism, increase in self reported productivity and improvement in job satisfaction (equal employment opportunities trust, 2007) as a result of organizational work life initiatives, supporting employee work life balance.

Studies on work life balance often concentrate only on the two domains work and family. At the same time work and family have been often considered as two sides of the same coin having a zero sum game (Eiknof, Warhurst & Haunschild, 2007). It has been often neglected that both work and family can contribute significantly on the overall life satisfaction. Bird (2003) argues that work life balance should essentially concentrated on the four aspects work, family, self and social, due to the fact that an individual's life satisfaction goes beyond family and work.

**WORK LIFE BALANCE**

Work life balance refers to harmonious or satisfying arrangement between an individual's work obligations and his/her personal life (sverko, et. al 2002). Work life balance, its broadest sense, is defined as a satisfactory level of involvement or 'fit' between the multiple roles in a person's life. Although definitions and explanations vary, work life balance is generally associated with equilibrium, or maintaining an overall sense of harmony in life.

The concept of work life balance is based on the notion that paid work and personal life should be seen as less competing priorities than as complementary elements of a full life. The way to achieve this is to adopt an approach that is "conceptualised as a two way process involving a consideration of the needs of employees as well as those of employers" (Lewis, 2000: p.105). In order to engage employers in this process it is important to demonstrate the benefits that can be derived from employment policies and practices that support work life balance.

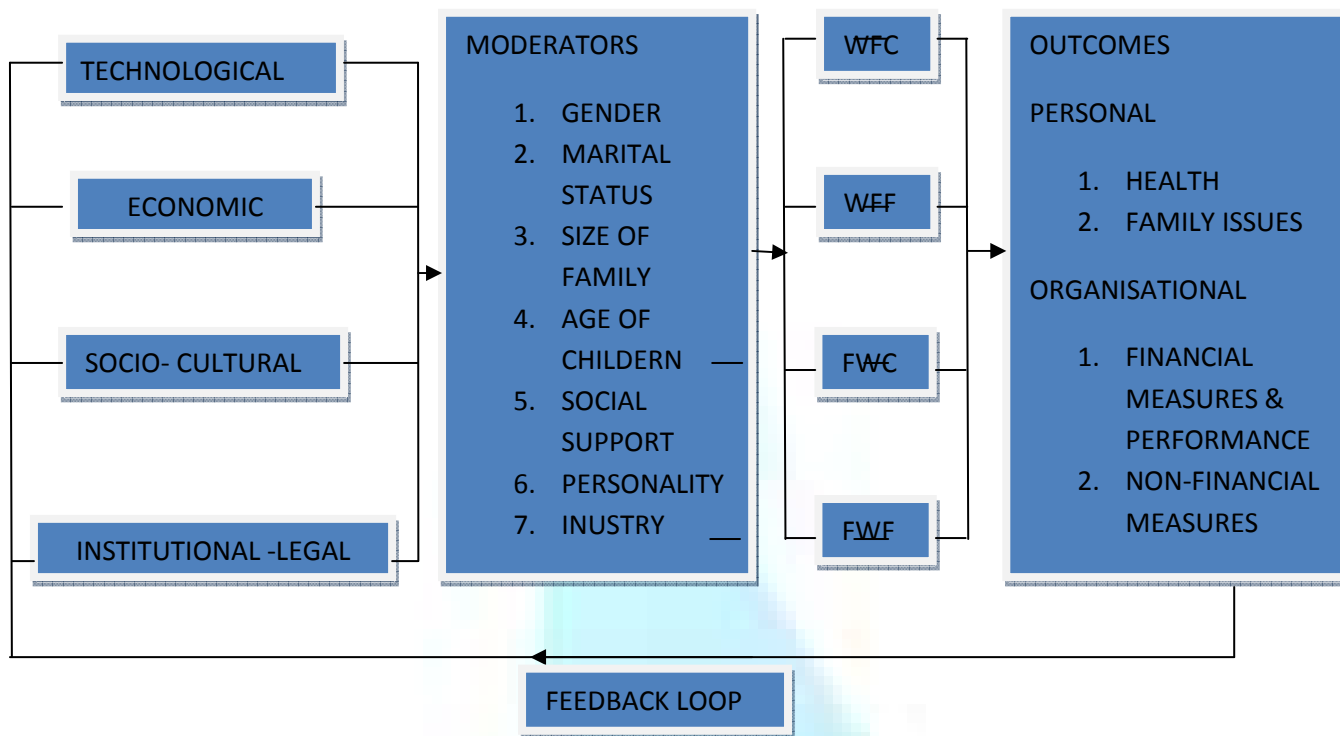
Although work life balance has traditionally been assumed to involve the devotion of equal amounts of time to paid work and non-work roles, more recently the concept has been recognised as more complex and has been developed to incorporate additional components.

1. Time balance, which concerns the amount of time given to work and non-work roles.
2. Involvement balance, meaning the level of psychological involvement in, or commitment to, work and non work roles.
3. Satisfaction balance or the level of satisfaction with work and non-work roles.



A CONCEPTUAL PARADIGM OF WORK- LIFE BALANCE

FIG.1- A CONCEPTUAL PARADIGM OF WORK-LIFE BALANCE



Source- NHRD Network Journal, July 2009

1. THE ENVIRONMENTAL FACTORS

- A. **Technological Environment:-** Technological progress has contributed to labour and time- saving devices in many of the activities associated with shouldering family and household responsibilities, ranging from cooking to washing and housekeeping to name a few. Moreover, it has also contributed to emergence of virtual workplaces and flexi work patterns which to some extent help cope with work- life demands better than before. Telework and telecommunicating are becoming increasingly common. While this development can enhance work- life balance, it could have a differential impact that lowers work family conflict but increases family work conflict.
- B. **Economic Environment:-** Global competition and global production networks through outsourcing have created relocation of jobs across international boundaries and contributed to new ways of overcoming the human talent deficit. One of the major fallouts of outsourcing is the increase in dual income families in developing countries, especially the emerging economies.
- C. **Socio- cultural Environment:-** Research has shown that the attitude towards work, as defined in terms of hours worked per annum, varies across countries. According to the 1998 far east economic review, in general, urban Asians worked an average of 2150 hours per annum vis-a-vis 2068 hours for South Americans, 1898 hours for north Americans and 1773 hours in Europe. Berlin, Germany reported the lowest number of work hours at 1667, with the average worker getting 30 days off every year. Research in Anglo countries has also found a stronger positive relationship between the number of work hours and work- family stressors (Spector, Cooper, Poelmans 2004). Overall the work-Life Balance issues confronting workers in the industrialised countries differ from that in the developing economies. To a certain extent the problems may be a function of the ageing work force in the industrialized west with higher demands on the care of the elderly, whereas in the case of countries like India, it is the younger population that requires greater family care and attention.
- D. **Institutional and Legal Environment:-** The International Labour Organization (ILO) has been a pioneer in championing the cause of workers with family responsibilities and has established several international labour standards and recommendations on the subject. The ILO Convention of 156 on Workers with family responsibilities covers all branches of economic activity and all categories of workers. Maternity Protection Convention (adopted in 1919 and revised in 2000) and recommendation No.191 on the subject provide for maternity leave extended from 12 to 14 weeks including paternity leave up to 18 weeks and provides for protection against dismissal of pregnant women and provision for breastfeeding during working hours.

2. **Moderating Variables:-** Work-Life Balance are moderated by several variables including gender, marital status, size of the family, age of children, social support, personality traits and industry/ sector. With regard to gender, Research shows that women tend to derive less benefit from social support from their supervisors/colleagues in comparison to their male counterparts (Van Daalen, Willemsen, Sanders, 2006). In terms of marital status and family size, those who are single and those with smaller families and / or with grown children generally experience less work-family life tensions than those who are married, have larger families and young children (Tung 1999).

As far as social support is concerned it is usually of two types: **Instrumental support** comes from society and employers in terms of the provision of family care facilities, long maternity/paternity leave, work women hostels and home for the aged to care for the ageing population. **Emotional support** comes from ones family, managers or colleagues. Personality traits can also moderate the relationship between environmental variables and Work- Life Balance.

2. **Outcomes of the Above Factors of Work – Life Balance:-** work family and family work conflicts could adversely affect the employees’ career (Hewlett and Luce, 2006). Family issues including increased incidence of divorce are common where work-family conflicts escalate. Work-Family conflict can have disastrous consequences on the organization, both financial and non financial wise. Research shows that firms with better Work – Life Balance practices enjoyed significantly higher productivity. As far as non financial aspects of organizational performance is concerned, research shows that firms that adopt more enlightened Work – Life Balance policies can improve the level of job satisfaction and increase organizational commitment among their employees (Pratt, 2006).

WORK LIFE BALANCE POLICIES & PRACTICES

Work life balance policies and practices enhance the autonomy of worker in coordinating and integrating the work and non-work aspects of their lives. Three broad types of types of work life strategies have been created to help employees balance their work and non-work lives: flexible work options specialize leave policies and dependant- care benefits. These include a range of policies and practices like, compressed work week, flexitime, job sharing, home telecommunicating, work-at-home programs, part-time work, shorter work days for parents, bereavement leave, paid maternity leave, paid leave to care sick

family members, paternity leave, on site/near site company childcare, company referral system for childcare, programs for emergency care of ill dependents, childcare programs during school vacations, re-entry scheme, phased retirement, sabbatical leave, professional counselling, life skills programs, subsidised exercise for fitness centre, relocation assistance, work and family resources kit or library.

Work-life balance policies can assist employees achieving a balance between their work and personal commitments that is right for them. The policies need to be supported by the workplace culture, which reflects the beliefs, values and norms of the whole of the organisation from the CEO to staff members. Other important factors in the success of work life balance policies include proper communication of commitment to the policies to existing and future employees, raising awareness of the policies, education of managers about the importance of policies, and training of managers on 'how to' implement these policies.

## WORK – LIFE BALANCE - AN IMPERATIVE FOR BUSINESS

### 1. SKILL SHORTAGES

In the past, the provision of flexible work options was often viewed by the organizations as an optional 'fringe benefit'. However in the present demographic and economic climate, policies and strategies promoting work/life have become crucial. Many developed countries are facing serious shortages of skilled workers across industries. This is due to the ageing workforce that will grow proportionally over the next 20 years. Research conducted by Australian Government Productivity Commission (2005) shows one-quarter of Australians will be aged 65 years or more by 2044–45, giving rise to economic and fiscal impacts that pose significant challenges for organizations of all types and sizes. Drop in fertility levels in women also contribute to this 'structural ageing'. From an organizational perspective, the adoption of work/life balance practices can help ease the problem of skill shortages by attracting and retaining previously 'untapped' pools of talent – including mothers returning to the labour market, mature workers and certain minority groups – by creating work environments that would have been previously untenable.

### 2. EXPENSIVE EMPTY DESKS

Work/life balance policies and practices can improve the 'employee experience' and hence help organizations to retain their staff. Turnover is a major issue for many businesses because of the costs of hiring and training new personnel, as well as the costs of not having departed employees working toward organizational goals. The established link between the provision of flexible work options and reduction in turnover means that work/life balance is now a strategic human resource issue. Research suggests that where employees preferences for cultures and values are consistent with actual organizational cultures and values, turnover is decreased. This is known as person/organization fit. However, when priorities and goals are incompatible, employees are more likely to seek consistent cultures elsewhere.

### 3. WHY WORK HERE?

In addition to staff turnover issues, organizations genuinely promoting and supporting work/life balance policies often receive community recognition as 'good' corporate citizens, or 'employers of choice'. Where skill shortages are evident, or where skilled applicants have a number of job offers, the willingness or otherwise of an organization to accommodate employees' work/life balance may well be a deciding factor in accepting a job offer. In this war for talent it becomes very crucial for employers to come up with attractive work – life policies and programs in order to hire and retain their best talent. Environments that support employee's work/life balance have been found to improve organizational commitment, higher job satisfaction, less absenteeism and less inclination to leave the organization directly affecting the bottom line – defined as a belief and acceptance of organizational goals and values, a willingness to put forth efforts toward these goals and a desire to maintain organisational membership.

### WORK LIFE BALANCE POLICIES & PRACTICES STIMULATING EMPLOYEE

Although the labour market deteriorated during the economic down turn, there has been an improvement in labour market conditions in recent months. It is anticipated that the growth in employment will continue.

The decline in the number of young people available for employment and the increasing number of employees nearing retirement age will continue to pose significant challenges to obtaining and maintaining sufficient numbers of quality employees. It is important for organisations to have enough employees to deliver on its goals and objectives, hence the importance of attraction and retention. Staff turnover pose a major cost to organisations, which is estimated at between 90 and 200 percent of an employees' annual salary. Thus, measures that improve attraction and retention and reduce staff turnover costs are important for business. Part of being an attractive, competitive employer involves the provision of work life balance policies, which can help retain older workers, as well as attract parents who have been out of the workforce due to caring responsibilities and young workers who want to combine work and study. For example, a recent survey by the Australian Human Resource Institute (non Queensland government link) amongst 1822 of its members, who are primarily HR managers and professionals, found that 80 percent believed that paid parental leave is significant in attracting good staff and 82 percent believed that offering paid parental leave contributes to employee retention.

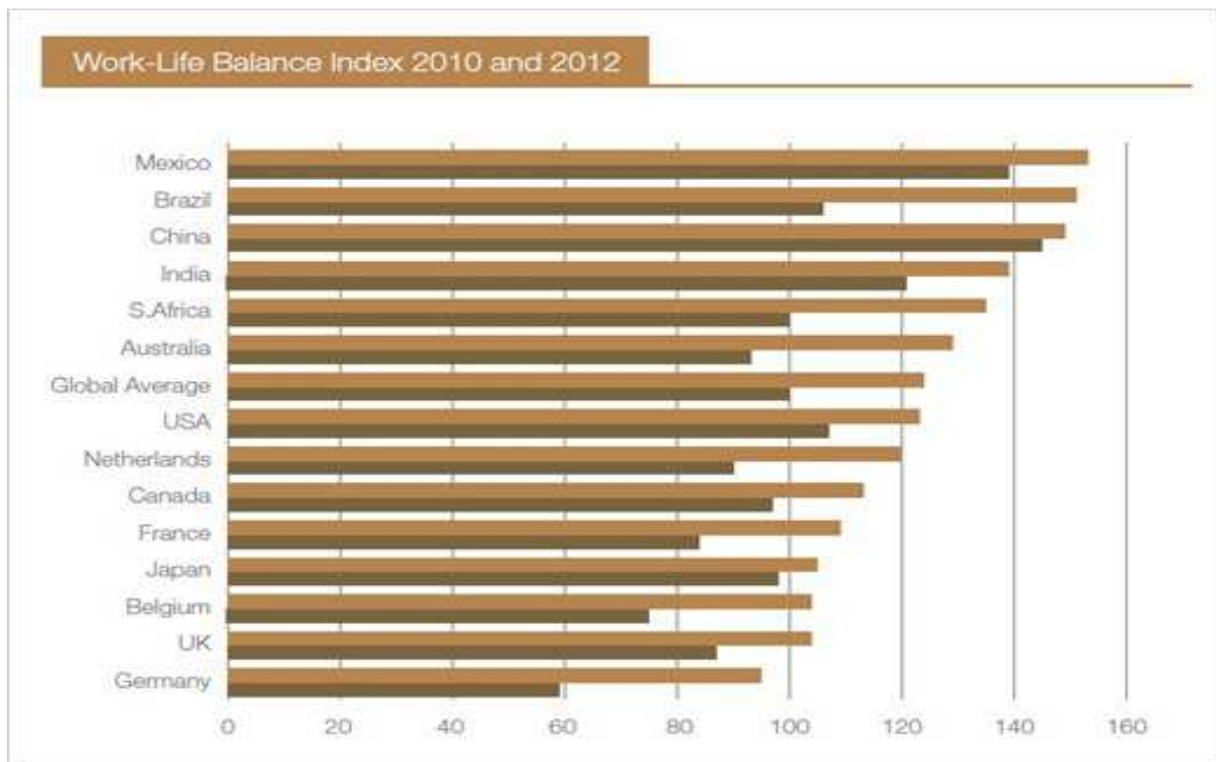
The UK Equal Opportunities Commission (EOC) outlined in their report, that 6.5 million people in Britain are not using their education, skills or management experience in their labour market. It was suggested that these people could be using their skills more fully if more flexible working were available, either by working or working at a level at which they used to work. The EOC argues that inflexibility in workplaces is creating a massive waste of talent and potential. The EOC found in their investigation that trading down and working under potential can be the outcome of the failure of high level work to offer flexibility and new ways of working. Furthermore, a third of unemployed people could be encouraged back into the workforce if flexible working was available according to the report.

The McCrindle Research Study of 3000 Australians shows that work life balance is the number one factor of job attraction and retention. Employers seeking scarce staff are increasingly touting their commitment to work life balance in recruitment advertising. But apart from attracting someone into a job, do initiatives to encourage work life balance also stimulate employee engagement.

**Baral (2009)** In a study of 730 managerial employees from various organizations in India, it was found that family contributes extensively to work in terms of enhancing performance and positive emotions at workplace. One of the key findings was availability of work-life balance practices. When an organization offers its employees policies, practices, benefits and services to help them integrate their work and family responsibilities, employees feel committed to the organization and indulge themselves in organizational citizenship behaviors.

A Regus Work-Life Balance Index Survey carried out in May 2012 noted that Indian employees were much happier with their work-life Balance as compared to 2010. In addition to India, nations like Mexico, Japan and Brazil too had a high number of respondents showing increased satisfaction in their jobs and an improvement in their work-life balance than before. The Regus survey collected responses from 16,000 businesses professional in 80 countries. The elements taken into consideration were working hours, commuting time to the workplace, satisfaction in the quality of family time obtained and a comparison to employees' work-life balance in the past. A similar survey was carried out by Regus in 2010.

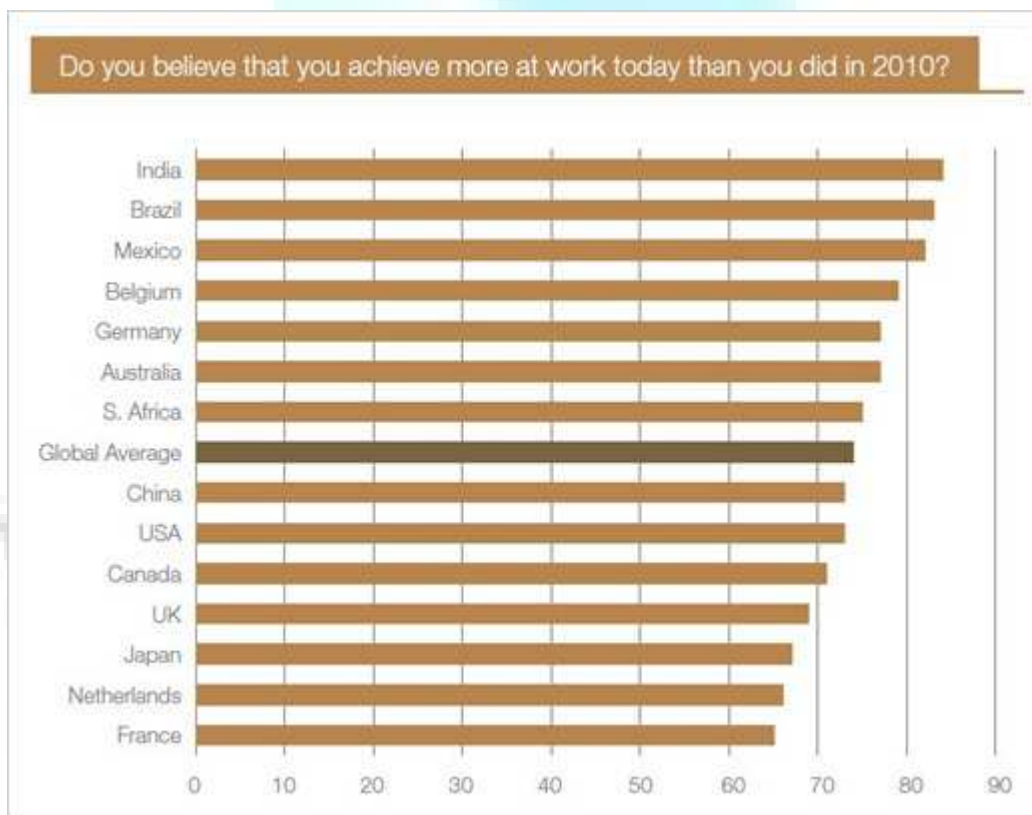
The results from the 2012 survey have been benchmarked against a base score of 100 from 2010. A clear 15% positive rise was seen in the 2012 results as compared to 2010.



**80% employees in India enjoyed their work more in 2012 than what they did in 2010.** After Brazil, India stood at the second position in the category that measured how much effort companies were putting to help employees decrease their travel time to work. At 57%, India was well above global average which stood at 42%.

India also ranked fairly well in the category which measured employee satisfaction in the quality of time they spent with their family. India matched the Global Average of 59%. Netherlands topped this category with a whopping 69%.

India topped the charts when it came to work life enjoyment and achievement – 84% Indians believed they achieved more at work today than they did in 2010.



The Ma Foi Randstad Workmonitor Survey 2012 conducted in April 2012 brought forth a unique observation. The survey stated that Indian employees considered technological advancements to be the culprit in eating into their work-life Balance. Reporting on the survey, TOI quoted respondents saying that on one hand technology made their work more efficient but on the other hand it was intruding deeper and deeper into their personal lives.



**INDIAN COMPANIES RESPONSE TO WORK-LIFE ISSUES IN INDIA**

In general, the response of Indian organisations to work life issues has been limited. The reason for this are, a culture that does not empower women, an assumption and expectation that the joint family is in a better position to provide support than non-family institutions and demographic factors. In India, the most progressive work family programs come from the public sector. Family friendly measure offered include reduced hours, career break leave, responsibility leave and parental leave. In Private sector, most of the companies offering well defined work life programs are multinational and in the IT and ITES sector. The motivation for multinational companies to offer family friendly measure to their Indian subsidiaries is partly to maintain HR practices globally, partly in response to the demands placed on them by younger men and women employees, and partly as a tool to retain talent.

**Merck Sharp and Dohme** openly advertises on its website the autonomy that can be enjoyed in their managerial and sales jobs as a way of attracting and retaining talent. The company offers liberal health and hospitalization benefits, sometimes picking up the balance of an employee's health expenses when the amount exceeds the insurance coverage. In keeping with the government's family planning philosophy, the company cover expenses for only up to the second child of the employee.

**Procter & Gamble** India has been offering work from home for its employees, and reduced work schedules, both of which have been a great enabler in maximizing productivity and helping manage work life balance.

**PricewaterhouseCoopers Pvt Ltd.** Offer support for commuting and have programs covering fun at work, health, and stress reduction. Gymnasium facilities are provided at major office locations. The company encourages employees to participate in community sport events such as cricket matches, marathons etc. As a part of corporate Social Responsibility, PWC has recently taken initiatives in the area of education and sustainability. NGOs at each of the locations have been identified. PWC has also put in place a women's network for senior women. This is aimed at empowering them to manage work life balance better. One of the programs, titled "My Mentor", aimed at self motivation and taking charge of one's work and life, has been well received by participating women employees. Real pressure to offer unique and relevant family friendly measures is being faced by local Indian companies in the IT and Business Process Outsourcing sectors. The rapid growth of these sector during the last decade has resulted in the employment of young women in large numbers with long working hours.

one local BPO firm near New Delhi acted on an employee's suggestion that mothers would like to see their children being cared for in on-site day care centres by building glass walls for the day care centre and providing electric outlets on the other side of the wall, where women can work while feeling close to their children. Two examples of well known Indian companies offering wellness initiatives to their employees to help manage stress are **Infosys Technologies** and **Wipro**.

**Infosys Technologies**, a leading IT service provider, has a wellness initiative called Health Assessment Lifestyle Enrichment (HALE). The initiative consists of a portal for online dissemination of information on various stress-related issues and a hotline whereby employees can directly receive counselling and expert opinions. The data from the portal and the hotline help the HR department to track key indicators like absenteeism rates and link them with causes and resultant billing losses. These data also help to measure the effectiveness of the initiative in terms of improvement in productivity. Based on these inputs, HR takes suitable actions to deal with the prevalent wellness issues in the organization.

**Wipro**, a leading player in both the IT & BPO sectors, encouraging employee wellness is an integral part of the corporate culture. This is reflected in Wipro's numerous health and safety initiatives which supplement health-related benefits. Some of these are nutrition consulting, health centres, medical camps, and regular well-being events like the annual Wipro marathon. The most successful Wipro project is one called Mitr which means 'friend' in Hindi. In this program, 28 employees, all volunteers, were trained to counsel fellow employees to manage stress. Mitr signifies to employees that they do have a friend in Wipro and that they should be able to share their problems with a safe ally in the company.

**Zensar Technologies** provides child care arrangements such as crèche facility to its employees. It arranges "Pizza and Coke" an informal meeting where associates can meet their seniors and discuss anything and everything. It has a facility called "Madat Online" a 24/7 service which is available for employees to take care of some of their personal day-to-day activities like dropping cheques, drawing cash, pay telephone bills and school fees of employees children. It organises stress management programs, arrange social event such as family day and fun days at work regularly.

**The Tata Group** has culture of investing in several community development programs that have the theme of women's empowerment. In the Tata Motors plant at Pune there are several cooperatives managed and run by the wives of company employees. These cooperatives, called Grihini Udyogs, provide the company with a variety of products ranging from cables for vehicles to chapattis for their cafeteria. The cooperatives provide extra income for employees and their families. Most of the cooperative's products are sold to Tata Motors, like pickles, condiments and bags are also sold in the open market.

**Cisco** set up the Women's Action Network (WAN) in 2004. WAN India has more than 350 members, who strategize and execute activities with the guidance of executive sponsors and thought leaders. Some of the activities organized by Cisco's WAN are the Role Model Leadership Series (RMLS) workshops, community initiatives such as Girls in Technology, adopting charities focused on education, networking events, and 'bring your child to work' day.

**Shell** being one of the multinational companies believes and practices employee diversity and work life balance. Employees are given options such as flexitime and work from home. Employees' perception about work life balance is assessed every year in their Annual Global People Survey to see where the company stands and what should do to help employees achieve a healthy work life balance. It advocates video or teleconferences to reduce business related travel. It also organises midweek meetings to avoid weekend travel. It discourages overtime work and taking work home on weekends. Personal leaves cannot be carried over to next year and are not encashable so that employees will use personal leaves for self and family. These practices show the organisation's concern for employee work life balance.

**IBM** India undertakes measures for the advancement of women and for promoting workplace flexibility as part of its global diversity initiatives that are based on the three pillars of equal opportunity, affirmative action and work-life programs. These measures are focused on mentoring and coaching for women, attending internal and external conferences and symposia, participating in steering committees, emphasizing executive and technical resources programs, regularly carrying out work-life employee surveys, and developing diversity-specific hiring programs.

**Johnson & Johnson**, India established the Women's Leadership Initiative (WLI) in 2002 with the support of top management. WLI is aimed at removing barriers to the advancement of women within the company and at attracting and developing women leaders in the company. The organization is committed to fostering a culture of inclusion by building the much needed sensitivity around the topic of gender inclusion in the workplace. WLI has taskforces created to work on areas of work-life integration, policy development, learning and career development, and networking. J&J India also undertakes several community initiatives focused on improving awareness of health is-sues surrounding diabetes and AIDS, providing support to street children, orphans and tribal girls, and providing maternity and gynaecological care to women in need.

RESTART is a program initiated at **General Electric's** Technology Centre in Bangalore oriented at hiring women technologists who are on a career break. RESTART contains a detailed flex program and manager training, access to a day care facility through collaboration with another GE business, and special pre- and post-maternity programs such as a 'Mom to be' relaxation room, 'Mom to be' car park, and a lactation room. RESTART hires are provided with mentors to guide them in "re-learning" the organization. After launching the RESTART campaign, GE has had 1.3 million web site hits, received over 1500 applications, and to date has already hired four RESTART technologists. In 2008, GE won the Smart Workplace Award, which is a national award provided to organizations with effective environments.

**CONCLUSION**

The socio demographic and economic changes have pressurized employers to look beyond welfare practices and provide more humane and family friendly concerns so that employees can accommodate both their family and work needs. Organisations are becoming conscious about these issues and applying work life balance practices. The paper described the WLB policies and practices. One survey in this paper shows that 80% employees in India enjoyed their work more in 2012 than what they did in 2010. The paper concludes that work life balance practices and policies and employee engagement have positive relation. The various surveys report included in this paper shows that WLB practices motivate, retain and engage employees. This paper also highlighted the companies such as Merck Sharp and Dohme, Procter & Gamble, PricewaterhouseCoopers Pvt Ltd., Infosys Technologies, Wipro, Tata Group, Cisco, IBM, Johnson & Johnson and



General Electric's Technology. Work life balance practices have their roots in the statutory and voluntary welfare practices offered by many employers during and post industrialization era.

Multinational organisations are found to be more responsive towards work life balance issues and are found to have provided more WLB practices. Government's intervention to protect employees from exploitative workplace terms and conditions made by employers and in some cases employers' pragmatic concerns for their employees' health, safety and welfare can be considered as the major reasons behind introduction of such policies like canteen facilities, and employee friendly office interiors and programs for family and children of employees. Yoga classes and stress management workshops are conducted on a regular basis as a part of employee well-being programs and providing recreation facility or conducting social events at work place might relieve the stresses of long working hours.

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**ORGANIZED RETAIL SECTOR IN INDIA – OPPORTUNITIES AND CHALLENGES IN PRESENT ASPECTS**

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**ABSTRACT**

The Retail bazaar in India is booming beyond everyone's expectation. The Indian Retail sector has caught the world's imagination in the last few years. India's retail growth was largely driven by increasing disposable incomes, favorable demographics, changing lifestyles, growth of the middle class segment and a high potential for penetration into urban and rural markets. The organized retail sector accounts for 5 % which is expected to grow to 10 % by the end of 2011. A number of large corporate houses like Aditya , Bharti , Reliance ,Pantaloon ,Vishal ,Tata's , RPG, Raheja's and Piramals's have diversified to add retail to their sector portfolio. This study revolves around the opportunities and challenges faced by organized retail players in India. It was found that organized retailers see competition from the unorganized sector as their biggest challenge, followed by competition between organized retailers and the inefficiency of distribution channels, internal logistical problem and retail shrinkage.

**KEYWORDS**

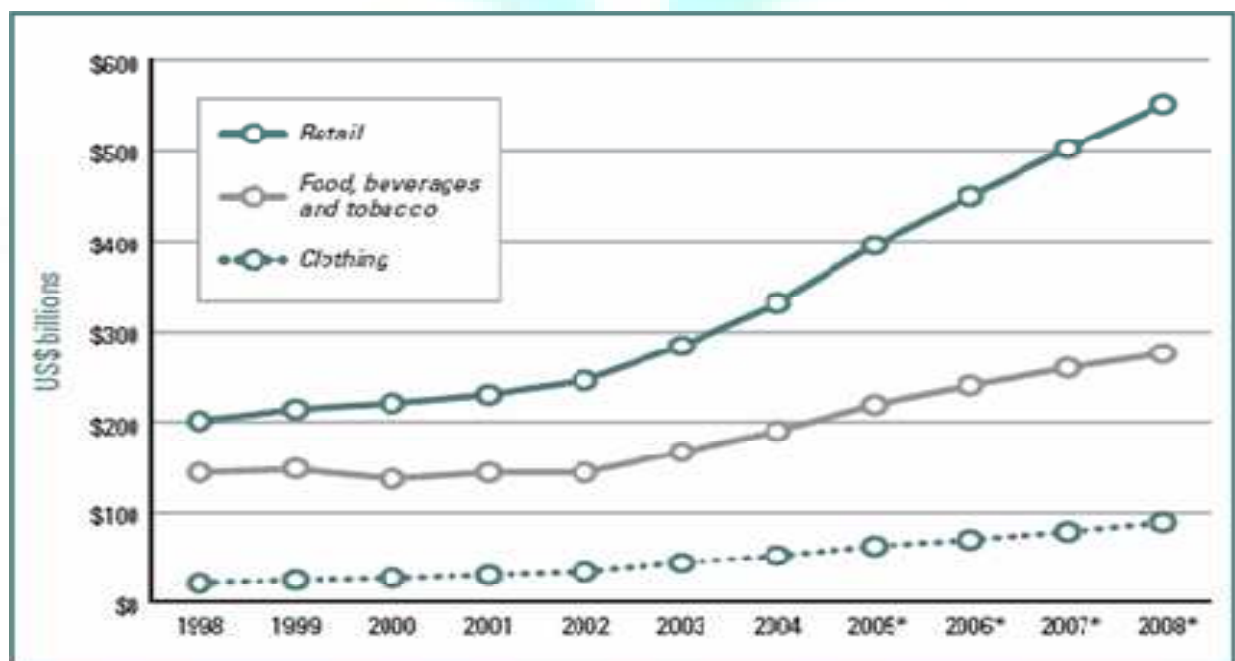
Retailers, Growth, Organized, Economies, Corporate Houses.

**OVERVIEW OF INDIAN RETAIL INDUSTRY**

India is one of the largest emerging markets, with a population of over one billion. It is one of the largest economies in the world in terms of purchasing power. Retailing in India is at a nascent stage of its evolution, but within a small period of time certain trends are clearly emerging which are in line with the global experiences.

Organized retailing has become more popular in big cities in India and most of the metropolitan cities and other big cities are flooded by modern organized retail stores. Many semi rural areas have also witnessed entry of such organized retail outlets. India's retail sector is estimated to touch US\$ 833 billion by 2013 and US\$ 1.3 trillion by 2018, with a compound annual growth rate (CAGR) of 10%, which is quite lucrative. Retailing as a whole contributes almost 10% of India's GDP, and employs almost 8% of India's employable population.

The organized sector accounts for a mere 5 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Organized retailing is witnessing a wave of players entering the industry. These players are experimenting with various retail formats. A number of large corporate houses like Aditya , Bharti, Reliance, Pantaloon, Vishal, Tata's, RPG, Raheja's and Piramals's have already made their foray into this arena, with beauty and health stores, supermarkets, self-service music stores, new age book stores, everyday low price stores, computers and peripherals stores, office equipment stores and home/building construction stores. Today organized players have attacked every retail category.

**RETAIL SALES GROWTH IN INDIA**

Sources: Economist Intelligence Unit and A.T. Kearney analysis

\*Data for 2005-2008 is based on estimates

**OPPORTUNITIES FOR THE ORGANIZED RETAIL SECTOR IN INDIA**

1. India's booming economy is a major source of opportunity. It is the third largest in the world in terms of purchasing power. India is the second fastest growing major economy in the world.
2. India's huge population has a per capita income of Rs 44,345.
3. The proportionate increase in spending with earnings is another source of opportunity.
4. With the Indian economy now expected to grow at over 8% and with average salary hikes of about 15%, manufacturers and retailers of consumer goods and services can expect a major boost in consumption.
5. Increasing use of plastic money for categories relating to Apparel, Consumer Durable Goods, Food and Grocery etc.
6. Increased urbanization has led to higher customer density areas thus enabling retailers to use lesser number of stores to target the same number of customers.

**ORGANIZED RETAIL MARKET IN INDIA (Rs. crore)**



**RETAILING FORMATS IN INDIA**

1. Malls
2. Specialty Stores
3. Discount Stores
4. Department Stores
5. Hyper markets / Supermarkets
6. Convenience Store
7. MBO's

**Malls:** Mall is largest form of organized retailing today. Located mainly in metro cities, in proximity to urban outskirts they range from 60,000 sq ft to 7, 00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, and Pantaloon.

**Specialty Stores:** Focusing on specific market segments and have established themselves strongly in their sectors. Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M are a couple of examples.

**Discount Stores:** As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non perishable goods. Discount Circuit is one such example.

**Department Stores:** Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further they are classified into localized departments such as clothing, toys, home, groceries, etc.

**Hyper markets/ Supermarkets:** Large self service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified into mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from of 3,500 sq ft to 5,000 sq

**Convenience Stores:** These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

**MBO's:** Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros.

**MAJOR RETAILERS IN INDIA**

The major retailers occupied in the organized retail sector in India are :

**ADITYA BIRLA RETAIL LIMITED:** Aditya Birla Retail Limited is the retail arm of Aditya Birla Group, a USD 28 billion Corporation. The Company ventured into food and grocery retail sector in 2007 with the acquisition of a south based supermarket chain "Trinethra". Subsequently Aditya Birla Retail Ltd. expanded its presence across the country under the brand "**More**" with 2 formats Supermarket & Hypermarket. Supermarket **More for you** - Conveniently located in neighborhoods, **more** supermarkets cater to the daily, weekly and monthly shopping needs of consumers. The product offerings include a wide range of fresh fruits & vegetables, groceries, personal care, home care, general merchandise & a basic range of apparels. Currently, there are over 640 **More** supermarkets across the country.

**Bharti Retail Ltd.:** Bharti Retail Ltd. is a wholly owned subsidiary of Bharti Enterprises. Bharti Retail operates a chain of multiple format stores. The company's neighborhood format stores operate under the "Easy day" brand and the compact hypermarket format under the "Easy day market" brand. Recently the company has become more involved in the food economic sectors, with a joint partnership in the agriculture company Field Fresh. Field Fresh Foods Pvt. Ltd. is a joint venture between Bharti Enterprises and DMPL India Ltd. (a subsidiary of Del Monte Pacific Ltd.). The JV launched its first B2B Best Price Modern Wholesale cash-and-carry store in Amritsar.

**Reliance Retail Limited:** Reliance Retail Limited (RRL), is a subsidiary of RIL. Since its inception in 2006, Reliance Retail Limited (RRL) has grown into an organization that caters to millions of customers, thousands of farmers and vendors. Based on its core growth strategy of backward integration, RRL has made rapid progress towards building an entire value chain starting from the farmers to the end consumers. More than 3 years into operation, RRL has now expanded its presence in more than 85 cities across 14 states in India. RRL forged ahead with its expansion plans and rolled out stores across the country. RRL's footprint now spans a network of more than 1,000 stores. RRL operates several 'value' & 'specialty' formats. The 'value' formats that RRL operates are: 'Reliance Fresh', a neighborhood concept, 'Reliance Mart', an all under one roof supermarket concept & 'Reliance Super', a mini-mart concept.

**Pantaloon Retail:** Pantaloon Retail is the flagship company of Future Group. Pantaloon Retail (India) Limited, is India's leading retailer that operates multiple retail formats in both the value and lifestyle segment of the Indian consumer market. Headquartered in Mumbai, the company operates over 16 million square feet of retail space, has over 1000 stores across 73 cities and 65 rural locations across India and employs over 30,000 people. The company's leading retail formats are:

- Food & Grocery: Big Bazaar, Food Bazaar
- Consumer Electronics: e-zone
- Rural Retail chain : Aadhaar
- Books, Music & Gifts: Depot
- Health & Beauty Care: Star, Sitara
- E-tailing: Futurebazaar.com

**Vishal Retail Ltd.:** Vishal Retail Ltd. is flagship company of Vishal Group which is engaged in Hyper market stores with an average area of 25,000 to 30,000 sq. ft. through an impressive chain of 172 fully integrated stores spread over the area of more than 24,00,000 sq. ft. in around 110 cities across India in 24 states. Vishal is one of the fastest growing retailing groups in India. Its outlets cater to almost all price ranges. The showrooms have over 7000 products range which fulfills all household needs, and can be catered under one roof. Maintaining the highest standards in quality and design, these stores have come to offer the finest fashion garments at down-to-earth price structure. A fact that is better visible in the constant flow of shoppers all through the year.

**Spencer's Retail Limited:** Spencer's Retail Limited is a Flagship Company of RPG Enterprises. Spencer's Retail Limited is one of India's largest and fastest growing multi-format retailers with footage of approximately 1 million square feet, 220 stores, including 30 large format stores across 35 cities in India. Spencer's focuses on verticals like fresh fruit and vegetables, food and grocery, personal care, garments and fashion accessories, home and office essentials, electrical and electronics. Established in 1996, Spencer's has become a popular destination for shoppers in India with Hyper markets and convenient stores catering to various shopping needs of its large consumer base. The Spencer's hyper stores are destination stores, of more than 15,000 sq. ft in size. They offer everything under one roof.

**K Raheja Group:** Shoppers' Stop, promoted by the real estate group K Raheja, was one of the first movers to have set up a large retail outlet in New Delhi with international ambience. Shopper's Stop Ltd now has a considerable presence all over the country with over 7 lakh square feet of retail space and stocks over 200 brands of garments and accessories. The stores are spread all over India with presence in Mumbai, Delhi, Bangalore, Hyderabad, Jaipur, Pune, Kolkata, Gurgaon, Chennai & Ghaziabad.

**SWOT ANALYSIS OF RETAIL INDUSTRY OF INDIA****STRENGTHS**

- 1) Organized retailing at US\$ 3.31 billion, growing at 8%.
- 2) 2nd largest contributor to GDP after agriculture at 20%.
- 3) Pattern of consumption changing along with shopping trends.
- 4) Consumer spending increasing at 11% annually.
- 5) Almost 25 million sq. ft. retail space available.
- 6) Paradigm shift in shopping experience for consumers pulling in more people.

**WEAKNESSES**

- 1) Shortage of quality retail spaces at affordable rates.
- 2) Government regulations on development of real estate (Urban Land Ceiling Act)
- 3) Need to provide Value for Money-squeezing margins
- 4) Lack of industry status.
- 5) Retail revolution restricted to 250 million people due to monolithic urban-rural divide.
- 6) Lack of huge investments for expansion

**OPPORTUNITIES**

- 1) Increasing urban population-more participants in retail revolution.
- 2) Increase in consuming middle class population.
- 3) Social factors, like dual household income has enhanced spending power.
- 4) Spends moving towards lifestyle products and esteem enhancing products.
- 5) Average grocery spends at 42% of monthly spends-presents a huge opportunity

**THREATS**

- 1) Rising lease/rental costs affecting project viability.
- 2) Poor monsoons and low GDP Growth could affect consumer spending drastically.
- 3) Archaic labor laws are a hindrance to providing 24/7 shopping experience.
- 4) Personalized service offered by Kirana stores.
- 5) Unavailability of qualified personnel to support exponential growth in retail.
- 6) Differentiate taxation laws hindering
- 7) Increase in use of credit cards. Expansion



**CHALLENGES FACED BY ORGANIZED RETAIL SECTOR IN INDIA**

Although the Organized Retail market does offer a vast untapped potential, it should also be recognized that it is not that easy to operate in Retail market because of several problems. Retailers need to address the challenges to become successful on long term.

1. The organized retail sector in India is still at a developmental stage, characterized by a very small number of players trying to create a new paradigm. To become a flourishing industry, the Indian retail sector has to attract leading Indian and foreign players to make substantial investments.
2. Technology is one of the major challenges faced by organized retailers for efficient management.
3. Shortage of skilled workforce in retail sector.
4. Retail shrinkage is also one of the major challenges. Retail shrinkage is the difference in the value of stock as per the books and the actual stock available in the shop. The causes of retail shrinkage are mainly employee theft, shoplifting, administrative errors and vendor fraud.
5. Understanding customers in terms of customer behavior and loyalty is a difficult job. Retailers need to implement effective customer relation management and loyalty program.
6. Distribution is an integral part of any retail organization. Delivering the right goods to the right place at the right time is main task of distribution. Retail majors are under serious pressure to improve their supply chain systems and distribution channels and reach the levels of quality and service desired by customers.
7. Organized retail outlets use very large volumes of electricity for a variety of applications from lighting, air conditioning, escalators, cold storing, billing systems, lifts etc. As a result of insufficient and inefficient power supply, a huge amount of private investment goes into ensuring power backups. This makes it very difficult for organized retail to grow.
8. The retailers in India are paying very high cost for real estate. This increases the maintenance cost and reduces profit margins.
9. Competition from unorganized sector is another challenge facing the organized retail industry in India.

**CONCLUSION**

India is being seen as a potential goldmine. It has been ranked 2nd in Global Retail Development Index of 30 developing countries drawn up by A.T. Kearney. Government of India has also opened the door for the retailing giants to enter into the markets. Many foreign investors are also showing keen interest to enter into the Indian market. If FDI in retail sector sees the light of the day it will see many changes in the coming years. As more and more organized retail outlets are dotting the Indian topography, competition is no more restricted between organized and unorganized retailing, it is now quite evident between organized retailers as well.

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**AN EMPIRICAL EXAMINATION OF PERFORMANCE MANAGEMENT ON EMPLOYEE RETENTION**

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**ABSTRACT**

Performance management has become an integral part of an organization's strategic initiative to align employee goals with its Vision and Mission. Performance management is imperative to ensure the sustenance and competitiveness of an organization in the modern day global knowledge economies. Effective management of employee performance coupled with a robust reward and recognition structure leads to higher employee productivity, engagement and consequentially higher levels of employee retention. Engagement and enablement are both important determinants of employee performance. Retention of key employees is highly critical in ensuring the long-term sustenance and success of a business enterprise. The key performers ensure a ready pipeline for effective succession planning, continuance of business plans while fostering a culture of organizational learning, knowledge dissemination and elimination of recruitment and learning costs. This study is based on the administration of a structured, non standard research instrument to a target group of 129 employees of a leading telecom player in India. The objective of this study is to establish the linkage of performance review, rewards and recognition with employee retention. The data garnered was subjected to partition analysis to identify the causal factors of employee retention and its linkages with organizational performance management systems. The research reinforces the importance of a robust performance management system in aligning employees with the organization's goals, resulting in superior business performance.

**KEYWORDS**

PMS, Career Planning and Development, Succession Planning, Employee Retention.

**INTRODUCTION**

The efforts of employees can determine the success and survival of an organization (Drucker, 1994; Barney, 1995), and appraisal is potentially one way in which those efforts can be aligned with the aims of an organization, employees can be motivated and their performance is managed (Orpen, 1997; Martin and Bartol, 1998; Cook and Crossman, 2004). Performance appraisal is among the most important human resource (HR) practices (Boswell and Boudreau, 2002; Judge and Ferris, 1993; Yehuda Baruch, 1996) and one of the more heavily researched topics in work psychology (Fletcher, 2002), a subject of research for over 70 years (Landy and Farr, 1980). Still, many organizations express dissatisfaction with their appraisal schemes (Fletcher, 1997). According to Fletcher (2001), this may signal a lack of success of performance appraisal as a mechanism for developing and motivating people.

Performance appraisal has increasingly become part of a strategic approach to integrating HR activities and business policies and may now be seen as a generic term covering a variety of activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards (Fletcher, 2001). Thus, both practice and research have moved away from a narrow focus on psychometric and evaluation issues to developmental performance appraisal (Fletcher, 2001; Lefkowitz, 2000; Levy and Williams, 2004; Waal, 2003), which may be defined as any effort concerned with enriching attitudes, experiences, and skills that improves the effectiveness of employees (Boswell and Boudreau, 2002).

**PERFORMANCE MANAGEMENT**

Performance management refers to the entire gamut of activities ranging from goal setting, defining employee productivity and performance measures, conducting periodic performance appraisals, providing constructive performance feedback to employees, implement suitable learning interventions, reward and recognition scheme, leadership development and succession planning. Figure 1 illustrates this concept pictorially.

**FIGURE 1 – PERFORMANCE MANAGEMENT – KEY CONSTITUENTS**

The results of performance appraisal can be assessed to identify areas of strong performance across all employees, by department or by demographics. Standardized performance assessments allow organizations to aggregate, calculate and analyze results to show where performance is strong. These areas of strength then can serve as benchmarks and opportunities for sharing of best practices for other areas of the organization. Evaluating the results of performance appraisals can also provide departments and organizations with an indication of where additional training and development may be necessary. Performance appraisals can also provide an indication of employees with leadership potential or development needs. Identified employees can be developed through appropriate learning interventions to exercise their competencies. It can also serve as an input to succession planning to ensure continuity of business plans. It is important to ensure that the appraisals be standardized and the results are reviewed, assessed and analyzed to identify competencies and development needs across all functions. Performance appraisals serve as a means to identify, nurture and motivate employees with right behavior, values and attitude while providing suitable interventions to mitigate poor performance. Performance management provides a tool to ensure the retention and growth of employees with demonstrable levels of competence, while providing specific feedback to ensure improvement of non-performing employees.

## LITERATURE SURVEY

### THE EFFECT OF PERFORMANCE APPRAISALS ON EMPLOYEE RETENTION (MAYHEW, 2012)

Employee performance appraisals and the managers who conduct performance appraisals can affect whether an employee stays with the organization or looks for opportunities elsewhere. In many cases, the reason employees give for resigning from their jobs is based on the quality of their working relationship with management. Training managers to conduct performance appraisals in as candid and objective a manner as possible will help your company improve employee retention.

- **Constructive Feedback**

Performance appraisals are designed to provide employees with constructive feedback. Providing constructive feedback means suggesting ways to improve employee skills and performance. Leadership training that focuses on delivering feedback on a consistent basis supports an employer's philosophy on coaching for excellence. However, feedback should occur more regularly than an annual performance appraisal to improve employee retention. Managers who are reluctant to give continuous feedback and instead wait until the end of an evaluation period are doing a disservice to the employer and employee.

- **Professional Goals**

Performance appraisals give employees an opportunity to discuss with their managers short-term and long-range professional goals. Using the SMART method to identify specific, measurable, attainable, realistic and time-measured goals should be an exercise manager's support during the performance appraisal meeting. Performance appraisals that fail to address employee goals and professional development lead to disengagement among employees. Disengagement fosters lack of interest and motivation, which leads employees to search for challenging opportunities where they can develop their skills and abilities.

- **Succession Planning**

For large organizations, in particular, succession planning is an organized method of identifying future leadership. In small companies, succession planning can be an informal way of developing employee skills for future leadership roles. However, regardless of the organization's size and type, performance appraisals for career-oriented employees should contain plans for training, professional development and other means by which the company intends to mentor promising leaders. Employees who feel they have the requisite skills and ambition for future roles within the company can become disillusioned if performance appraisals focus solely on their current skills without regard to promotional opportunities.

- **Performance Standards**

Performance standards are an essential part of employee appraisals. Performance standards identify the effort necessary for an employee to meet or exceed the company's job expectations. For managers to conduct fair and comprehensive performance appraisals, there must be a mutual agreement about the employee's performance standards. Disconnects between an employee's understanding and the manager's interpretation of performance standards result in ineffective appraisals. When there's lack of communication about performance standards, it can lead to employees who are unhappy or dissatisfied with their current employment.

### HOW CAN PERFORMANCE MANAGEMENT AID EMPLOYEE RETENTION? (ANDERSON, 2012)

Retaining employees is a way that companies protect their investment in personnel because it costs money to recruit and train employees. When experienced employees are lost, production suffers first from the loss of the employee and then from the time it takes to get a new employee up to speed. Part of retaining employees is enacting a policy of performance management. Understanding the benefits of performance management can help justify any expense.

- **Career Development**

A component of performance management is using the annual performance appraisal to create a development plan for each employee. The manager and employee take an active role in working on a program that will lead the professional development and career advancement of the employee. When the company takes the time to work with the employee on his career, it creates a sense of dependency and loyalty from the employee. Employees tend to remain at companies that show a vested interest in employee success.

- **Skill Set**

One of the company's responsibilities in an employee performance management program is to provide continuous training for staff members on the newest methods or equipment. When a company invests in continuously upgrading the skill set of its staff, the employees are able to approach their jobs with confidence. Employees know that the company is taking the time and using the resources necessary to make sure everyone has the newest information and equipment to work with, and that helps employees to approach their jobs with a high level of satisfaction.

- **Interactive**

There is an interactive element in performance management that puts the employee and manager together to help keep the employee productive. A successful performance management program teaches your managers to be career coaches as much as they are managers. It opens up the relationship between employee and manager to be very interactive. The employee begins to feel responsible for the path his/her career takes and creates an emotional investment in his/her future. Strong feelings of responsibility and a sense that the employee is just as involved in the development of the company help to increase retention.

- **Challenge**

A performance management program is designed to find ways to develop the employee and improve productivity. Along with the feeling of a structured development plan, employees also are given the challenge to improve themselves. If an employee indicates that he wants to take on more responsibility, then a performance management plan is put in place to develop the ability to take on more. The feeling of being challenged in the pursuit of career development is a way in which performance management aids in employee retention.

### EMPLOYEE RETENTION – REDUCING RECRUITMENT BY INCREASING RETENTION (DRAKE, 2012)

Retention starts at the top. Sourcing, hiring and retaining motivated employees are the responsibility of an organization's governing board and Leadership Team. Acquiring and retaining good staff demands focused formal and informal policies and procedures that make retention a prime management outcome. Managers need to appreciate employees on a regular basis and constantly work to keep them on board. The HR department alone cannot reduce turnover. For significant, positive change, company leaders must establish distinct retention processes and programs within all levels of an organization. After finding the right people, it is the primary role of the management to take responsibility for the success of the employees including leading people towards performance goals and targets.

#### The High Cost of Employee Turnover

The costs of high staff turnover can be very high. Some of the substantial costs that occur when an employee leave and organization include the following:

- **Recruitment costs:** Includes advertising costs and costs associated with the time spent by staff on interviewing and sourcing
- **Training costs:** Trainer and training costs, infrastructural and administrative costs, opportunity costs
- **Lost Productivity Costs:** New employees operates between 25%-50% of productivity levels for the first three months, not including the time spent by existing employees for orientation and on-the-job training

- **Lost Sales Costs:** The loss of business when the role is vacant. According to William G. Bliss, advisor to entrepreneurial companies, figures can easily reach 150% of an employee's annual salary. The cost will be significantly higher (200% to 250% of salary) for managerial and sales positions

The problem is not just the direct financial costs of replacing staff but includes other repercussions such as the loss of skills, knowledge and experience, disruption to operations and the negative effect on workforce morale. In addition, high turnover represents a considerable burden both on HR representatives and managers who are constantly recruiting and training new staff.

#### **The Impact on Business**

Replacing staff is not only expensive but also impacts the reputation of an organization. An organization with a high turnover finds it difficult to attract new talent. No one feels confident dealing with an organization which cannot hold onto their employees. It suggests instability, poor management and a lack of good planning. In addition to the bitterness of the employee during their exit (voluntary or involuntary), the organization is drained of key knowledge and skills learnt by the employee on-the-job. Reactively losing talented individuals can damage an organization's reputation for years to come. Lastly, constant high turnover creates unrest in present employees. Positions which are made vacant create increased workloads for other staff members – often outside their position profiles. The sense of instability and frustration can cause work backlogs and slow productivity. Yet, perhaps more fundamentally, the employee's lack of faith in the organization when they see their co-workers departing will affect productivity work levels in unbelievably negative ways.

#### **What are you doing about the problem?**

Most firms have by now long forgotten the lessons they learned about retention during the economic slowdown in the nineties. Many managers have grown arrogant because the last few years of high unemployment guaranteed that most employees would have to take whatever they dished out. Over 75% of firms have no distinct retention strategies and those with plans have let them fall into neglect.

#### **The Basic Elements of Retention Strategies**

As the economy improves and firms look to build their talent strength, it is only logical that senior leaders, managers and HR professionals will increasingly look at retention as a major business imperative. Dr. Sullivan, an HR advisor to Fortune 500 and Silicon Valley firms, states in his article "Expanding the Scope of Your Retention Efforts" that most newly enacted retention efforts will not only fail — they do so miserably. As someone who has been designing retention solutions for corporations for well over a decade, Dr. Sullivan says the reason for this is that many firms define the goals of the retention program too narrowly. For example, if the goal is defined as merely to "keep good people," you are automatically dooming the effort by failing to identify specifics that can be measured. Rather, a broad set of carefully planned criteria is essential when building a strong retention program. The solutions addressed in the following section were recognized and created by industry professionals whose experience proves invaluable to any company, of any size. They have helped organizations realize their productivity goals through the retention of top performers and the reduction of recruiting. Organizations need to give careful consideration to the retention of top performers. This will reduce the need for recruitment and save time and money. Organizations can realize their productivity goals through the following activities:

- Top Performer Profiling
- Orientation and On Boarding
- Performance Reviews
- Career Profiling and The Two-Way Value Proposition
- Communication and Employee Engagement
- Morale Boosting
- Competitive Compensation
- Non-monetary Reward and Recognition
- Employee Surveys
- Exit Interviews
- The Boomerang Effect

Positive feedback on a regular basis does more to propel success in an individual than any other performance related activity. Performance reviews are a chance to formally communicate an employee's contribution to the organization. A properly administered performance review provides employee's and their manager's an opportunity to step back, look at the bigger picture of the employee's performance and to discuss in broad strokes whether the performance is below or above expectations. Performance Reviews increase the chance of an underperforming employee improving their performance. The modern day workplace mandates that employee criticism must be supported by a concrete action plan to assist the employees in achieving and attaining success. Employee encouragement through constructive open reviews is a proven step that will help even the most average of employees to raise their performance and quality standards in line with organizational requirements.

#### **GOOD PERFORMANCE MANAGEMENT AIDS RETENTION AND PRODUCTIVITY (U.S. OFFICE OF PERSONNEL MANAGEMENT, 1999)**

Performance management processes are a key to creating a productive work climate and retaining good employees. The performance management processes of planning, monitoring, developing, and rewarding performance surface time and again as critical factors for success. For example, in the 1998-1999 Hay Employee Attitudes Study, "Competing for Talent: Creating A Work Climate to Attract, Motivate and Retain High Performing Employees," the Hay Group compares two groups of employees — those committed to the organization and those planning to leave. Many of the critical factors affecting employee retention relate to the quality of performance management. These include:

- Type of work (planning)
- Coaching/feedback from boss (monitoring)
- Opportunity to learn new skills (developing)
- Training (developing)
- Recognition for a job well done (rewarding)

In another study of 100,000 employees of 2,500 organizations, the Gallup Organization pinpointed employee attitudes that are present in highly productive work groups and that relate directly to the rate of employee turnover, customer satisfaction, and productivity. Many of these attitudes reflect effective performance management practices. Employees in such work groups report high levels of agreement with the following statements:

- I know what is expected of me at work (planning)
- At work, I have the opportunity to do what I do best every day (planning)
- In the last 6 months, someone at work has talked to me about my progress (monitoring)
- There is someone at work who encourages my development (developing)
- I have the materials and equipment I need to do my work right (developing)
- This last year, I have had opportunities at work to learn and grow (developing)
- In the last 7 days, I have received recognition or praise for doing good work (rewarding)

These findings highlight performance management as a critical process for organizational success. Additional supporting data comes from the nationwide survey "Attracting and Retaining High-Technology Talent," co-sponsored by William M. Mercer, Inc. and the Pittsburgh High Technology Council. This report highlights best tactics for retaining experienced employees. Several of these tactics relate to effective performance management, including:

- Allocating challenging work assignments (planning)
- Offering career development opportunities (developing)



- Providing incentives under variable pay arrangements (rewarding)

The results of these surveys show that effective performance management is critical to retaining good employees and achieving a productive work environment. The following are some essential activities that are precursor to ensuring effective organizational performance management:

- Set goals and plan work routinely
- Measure progress toward those goals
- Provide feedback to employees
- Develop employees' skills so they can reach their goals
- Use formal and informal rewards to recognize the behavior and results that accomplish organizational mission

**A CRITICAL RESEARCH AGENDA FOR ORGANIZATIONAL PERFORMANCE MEASUREMENT (HOLLOWAY, 2000)**

Managers are continually under pressure to measure the performance of their organization, but there is little empirical evidence about the impact of measurement on performance. Furthermore, many measurement tools and techniques lack clear theoretical foundations. Holloway (2000) has investigated neglected aspects of organizational performance measurement, reflecting the concern of managers and illustrating the potential impact of theoretical developments on practice. Issues about theory, epistemology and methodologies that accompany such a research agenda are also raised. In practice, while managers are bombarded with literature about 'successful' applications of such approaches, gaining the promised benefits is not guaranteed simply by following their promoters' prescriptions. Choosing appropriate approaches to performance measurement for the needs of the organization, implementing them systematically, and evaluating their impacts internally and externally, are three complex sets of processes which managers have to grapple with while being under increasing pressure to actually deliver 'optimum performance' now. One of the major problems with conventional performance measurement is the ease, with which organizational wholes are carved up, and their interactions with their environments cease to be of interest as management functions or academic disciplines devise measures (and associated targets) for their own territory. Improving our understanding of performance measurement by applying (for example) accounting, marketing or human resource theories more rigorously and actively may well have some merits, but risks substituting 'reductionism by theory' for reductionist practice.

**INFERENCES FROM LITERATURE SURVEY**

This review of turnover literature identifies a range of factors that have been shown to be consistently linked to turnover. These include organizational commitment, job satisfaction, alternative opportunities and reward and recognition. Evidence on the role of employee remuneration is still somewhat inconclusive, although keeping remunerations in line with market rates is certainly critical to retaining critical employees. Apart from age and tenure, personal characteristics of employees appear to have little relationship to turnover. It is however evident that a strong performance management system with an integrated reward and recognition structure helps in high level of employee engagement and increased employee retention.

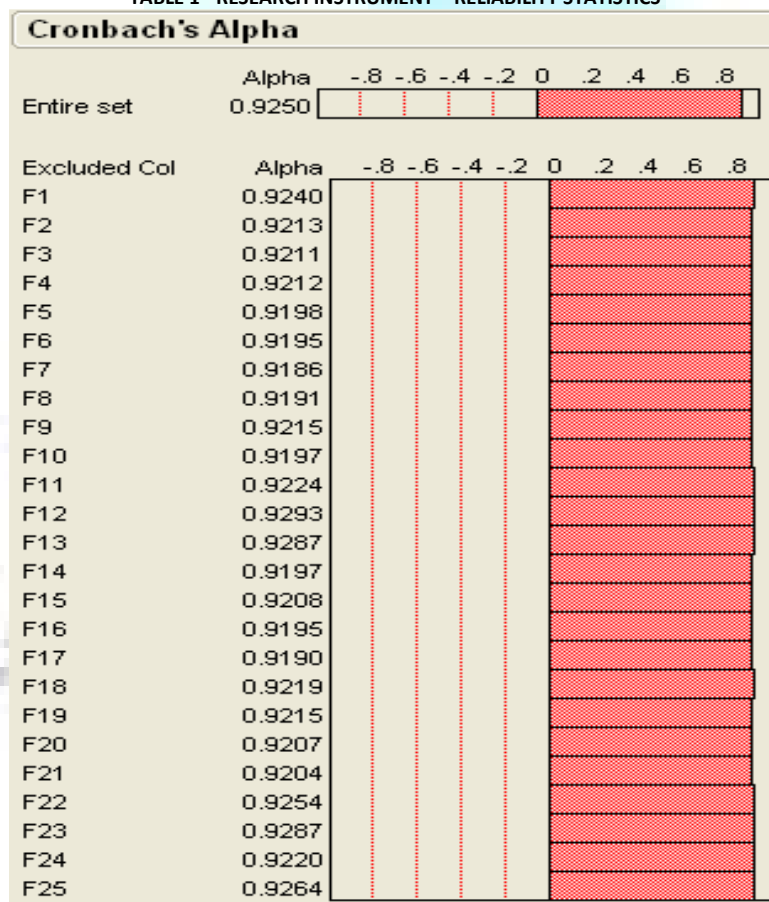
**SAMPLING AND DATA COLLECTION**

A structured, non-standardized research instrument to collect primary data was administered on a sample of 129 employees of a leading Telecom organization in Navi Mumbai, India. A total of 25 construct items were included in the instrument. The construct items and the responses are presented in appendix A1 and A2. The demographic details of the participants are given in appendix A4.

**RELIABILITY**

The reliability of the research instrument was established using Cronbach's Alpha. The analysis was done using JMP Ver. 5.0. The results are presented in table 1. It can be seen that the overall reliability of the research instrument is 0.92, which is excellent. Further the reliability of the individual construct items are also greater than 0.9.

**TABLE 1 - RESEARCH INSTRUMENT – RELIABILITY STATISTICS**



CO-RELATIONAL ANALYSIS

The significant co-relations are presented in table 2. The primary inferences are noted below:

TABLE 2 – SIGNIFICANT CO-RELATIONS

S.N	Significant Co-relations
1	F2 & F3
2	F5 & F6, F7, F8, F17
3	F6 & F8, F14, F17
4	F7 & F8, F10, F14, F17
5	F8 & F10, F14, F17
6	F9 & F10
7	F10 & F14
8	F14 & F16, F17
9	F15 & F16, F17
10	F17 & F21
11	F8 & F19, F20

- 68% respondents believe that promotions are based on competencies and hence the PMS process supports career growth and development
- Only 34% of the respondents indicate that the factors facilitating individual performance are the primary drivers during performance appraisals- while the balance 66% consider individual, team and organization performance as the key drivers
- 43% of the respondents believe that sufficient career development and growth opportunities are provided based on performance. The opinion of 20% of the respondents was neutral and the rest 37% did not agree
- Only 39% of the respondents feel that they could effectively communicate their disagreement regarding the appraisal ratings with their manager’s and the rest had no disagreement
- Nearly 59% of the respondents felt their skills and work experience is aligned to their roles and responsibilities
- 58% of the respondents agree that their manager assists them in meeting their personal and professional goals and the rest felt there could have been better coordination by the Manager
- The key indicators have provided a clear linkage between PMS process, reward and recognition and employee motivation and willingness to stay. It also highlights the strong connection between organization’s recognition of employee performance and employee’s ability to seek long term career based on rewards, development and career progression

The co-relational analysis of the key construct items is presented in table 3. The significant co-relations have been highlighted in orange and green. The figures highlighted in orange have an extremely high co-relation while those highlighted in green have significant co-relation.

TABLE 3 – CO-RELATIONAL ANALYSIS

	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22
F1	1.00	0.44	0.41	0.40	0.35	0.33	0.37	0.24	0.31	0.28	0.16	0.04	-0.02	0.22	0.39	0.35	0.28	0.29	0.28	0.35	0.28	0.20
F2	0.44	1.00	0.75	0.55	0.54	0.45	0.46	0.47	0.32	0.40	0.30	-0.07	0.02	0.39	0.40	0.39	0.42	0.41	0.57	0.45	0.28	0.17
F3	0.41	0.75	1.00	0.55	0.54	0.43	0.47	0.49	0.35	0.44	0.32	0.06	0.02	0.37	0.40	0.37	0.41	0.38	0.57	0.43	0.28	0.24
F4	0.40	0.55	0.55	1.00	0.51	0.50	0.48	0.47	0.37	0.49	0.41	0.17	0.17	0.38	0.37	0.47	0.46	0.37	0.31	0.44	0.37	0.18
F5	0.35	0.54	0.54	0.51	1.00	0.77	0.72	0.63	0.49	0.56	0.43	0.06	0.08	0.54	0.43	0.52	0.62	0.33	0.40	0.42	0.10	0.10
F6	0.33	0.45	0.43	0.50	0.77	1.00	0.82	0.67	0.50	0.59	0.45	0.03	0.12	0.46	0.46	0.57	0.64	0.34	0.36	0.34	0.14	0.14
F7	0.37	0.46	0.47	0.48	0.72	0.82	1.00	0.74	0.58	0.63	0.49	0.11	0.13	0.47	0.50	0.60	0.65	0.37	0.38	0.38	0.19	0.19
F8	0.24	0.47	0.49	0.47	0.63	0.67	0.74	1.00	1.00	0.66	0.57	-0.01	0.05	0.66	0.48	0.56	0.61	0.37	0.36	0.36	0.41	0.41
F9	0.31	0.32	0.35	0.37	0.49	0.50	0.58	0.59	1.00	0.63	0.47	0.10	0.07	0.44	0.38	0.40	0.44	1.00	0.30	0.33	0.40	0.37
F10	0.28	0.40	0.44	0.49	0.56	0.59	0.66	0.66	0.63	1.00	0.58	0.12	0.21	0.45	0.50	0.51	0.49	0.35	0.35	0.41	0.50	0.50
F11	0.16	0.30	0.32	0.41	0.43	0.45	0.49	0.57	0.47	0.58	1.00	0.22	0.07	0.32	0.43	0.40	0.40	0.23	0.24	0.31	0.45	0.45
F12	0.04	-0.07	-0.06	0.04	0.06	0.03	0.11	-0.01	0.10	0.12	0.22	1.00	0.19	0.04	-0.10	-0.03	-0.03	-0.07	-0.17	-0.04	0.01	0.06
F13	-0.02	0.02	0.02	0.17	0.08	0.12	0.13	0.05	0.07	0.21	0.07	0.19	1.00	0.21	0.03	0.08	0.06	0.14	-0.01	0.10	0.06	0.06
F14	0.22	0.39	0.37	0.38	0.54	0.63	0.68	0.66	0.44	0.60	0.43	0.04	0.21	1.00	0.57	0.61	0.63	0.34	0.38	0.36	0.50	0.50
F15	0.39	0.40	0.40	0.37	0.43	0.46	0.50	0.48	0.38	0.45	0.32	-0.10	0.03	0.57	1.00	0.65	0.63	0.56	0.50	0.48	0.50	0.50
F16	0.35	0.39	0.37	0.47	0.52	0.57	0.60	0.56	0.40	0.50	0.43	-0.03	0.08	0.61	0.65	1.00	0.76	0.46	0.43	0.47	0.64	0.64
F17	0.28	0.42	0.41	0.46	0.62	0.64	0.65	0.61	0.44	0.51	0.40	-0.03	0.06	0.63	0.63	0.76	1.00	0.49	0.53	0.53	0.62	0.62
F18	0.29	0.41	0.38	0.37	0.33	0.34	0.37	0.37	0.30	0.35	0.23	-0.07	0.14	0.34	0.56	0.46	0.49	1.00	0.64	0.63	0.40	0.40
F19	0.28	0.57	0.57	0.31	0.40	0.36	0.37	0.36	0.33	0.35	0.24	-0.17	-0.01	0.38	0.50	0.43	0.53	0.64	1.00	0.67	0.44	0.44
F20	0.35	0.45	0.43	0.44	0.42	0.34	0.38	0.41	0.40	0.41	0.31	-0.04	0.10	0.36	0.48	0.47	0.53	0.63	0.67	1.00	0.49	0.49
F21	0.28	0.44	0.41	0.40	0.35	0.33	0.37	0.24	0.31	0.28	0.16	0.04	-0.02	0.22	0.39	0.35	0.28	0.29	0.28	0.35	0.28	0.33
F22	0.20	0.17	0.24	0.18	0.10	0.14	0.19	0.19	0.17	0.14	0.05	0.05	0.08	0.26	0.25	0.22	0.17	0.27	0.27	0.32	0.32	0.33

**PARTITION ANALYSIS**

The collected data was subjected to partition analysis to identify the key contributors to the retention of employees within an organization. JMP's partition platform enables the systematic analysis of large data sets to discover unsuspected or unknown relationships. JMP uses visualization to create a successive tree of partitions according to a relationship between the contributing and the output variables. It finds a set of groupings of contributors that best predict an output by exhaustively searching all possible groupings, recursively forming a tree of decision rules until the desired fit is reached. The key contributors and are presented in table 4. The significance column is indicative of the importance of the parameter and is derived from the employee responses. The value in percentage is provided in the contribution column.

**TABLE 4 - PARTITION ANALYSIS – COLUMN CONTRIBUTIONS**

Column Contributions – Factors Impacting Employee Retention			
Variable	Parameter	Significance	Contribution
F6	Goal setting through PMS	36.79	52%
F17	Alignment with organizational mission and vision through PMS feedback	9.70	14%
F3	Understanding of KRA's prior to commencement of appraisal cycle	8.63	12%
F7	Facilitating a collaborative working environment through effective performance management systems	3.86	5%
F21	PMS based promotions	3.06	4%
F14	Holistic performance appraisals	2.71	4%
F24	Performance based career development and growth opportunities	2.65	4%

- The results of the partition analysis are summarized in table 4 (Leaf report is highlighted in Appendix A3). The primary factor impacting retention is the setting of clear cut goals for employees. It is imperative that an organization provides a value proposition to its employees by integrating their professional and personal goals while jointly mapping plans for the future. This is possible through a well established performance appraisal process and a holistic performance management system (PMS). This study has established that goal setting through PMS is the primary factor (52%) that positively impacts employee retention
- Positive feedback on a regular basis does more to propel success in an individual than any other performance related tactic. Performance reviews are a chance to formally communicate an employee's contribution to the organization. A properly conducted performance review provides the employee and their manager an opportunity to analyze employee performance in relation to organizational goals and provide constructive feedback in case of non performance. This study has reinforced that fact that performance feedback is the second most important factor that impacts retention (14%)
- Assigning key performance areas, setting up of performance targets for each employee in the organization and linking it to performance based appraisals results in the creation of a vibrant result oriented work culture. The key result area (KRA) is a formal communication of the tasks expected to be handled by an employee during an appraisal period. A clear undercut understanding of the KRA's including their measurement and scoring system prior to the commencement of an appraisal cycle helps an employee focus on key performance indicators resulting in enhanced employee and organizational performance. This is the third factor that impacts retention significantly (12%)
- In addition to the three primary factors mentioned above, the study has established that an effective performance management system facilitates a collaborative work environment and a transparent appraisal system resulting in performance based promotions, career development and growth opportunities for employees. These combined factors also have an impact on employee retention (12%)
- The study has also highlighted the role of automation in the performance management process in an organization. An automated PMS facilitates timely and periodic performance appraisals, reduces human error, better performance analysis and communication with employees. Timely completion of the appraisal process followed by realization of rewards (monetary or otherwise) helps sustain employee morale and motivation resulting in superior performance

**CONCLUSION**

A good PMS process fosters team work, fuels superior performance and perpetuates a sense of belongingness and pride. It inculcates discipline and rewards superior contributions. Performance appraisals provide employees with constructive feedback resulting in improved skills and performance. It provides employees with an opportunity to discuss with their managers short-term and long-range professional goals that are specific, measurable, attainable, realistic and time-measured. The success and failure of any organization depends on the performance of the employees and the consequent rewards and recognition process which ensures employee retention. Appraisals are important in demonstrating and aligning employee's contributions with the organization's objectives. Disengagement fosters lack of interest and motivation, which leads to employee exits. Performance measurement and consequence management is essential and integral to enhance employee productivity, engagement and reduced employee turnover. This research has validated the importance of a robust PMS in the Indian service industry and its impact on employee retention.

**ACKNOWLEDGEMENT**

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**APPENDIX**

**A1 – CONSTRUCT DESCRIPTIONS**

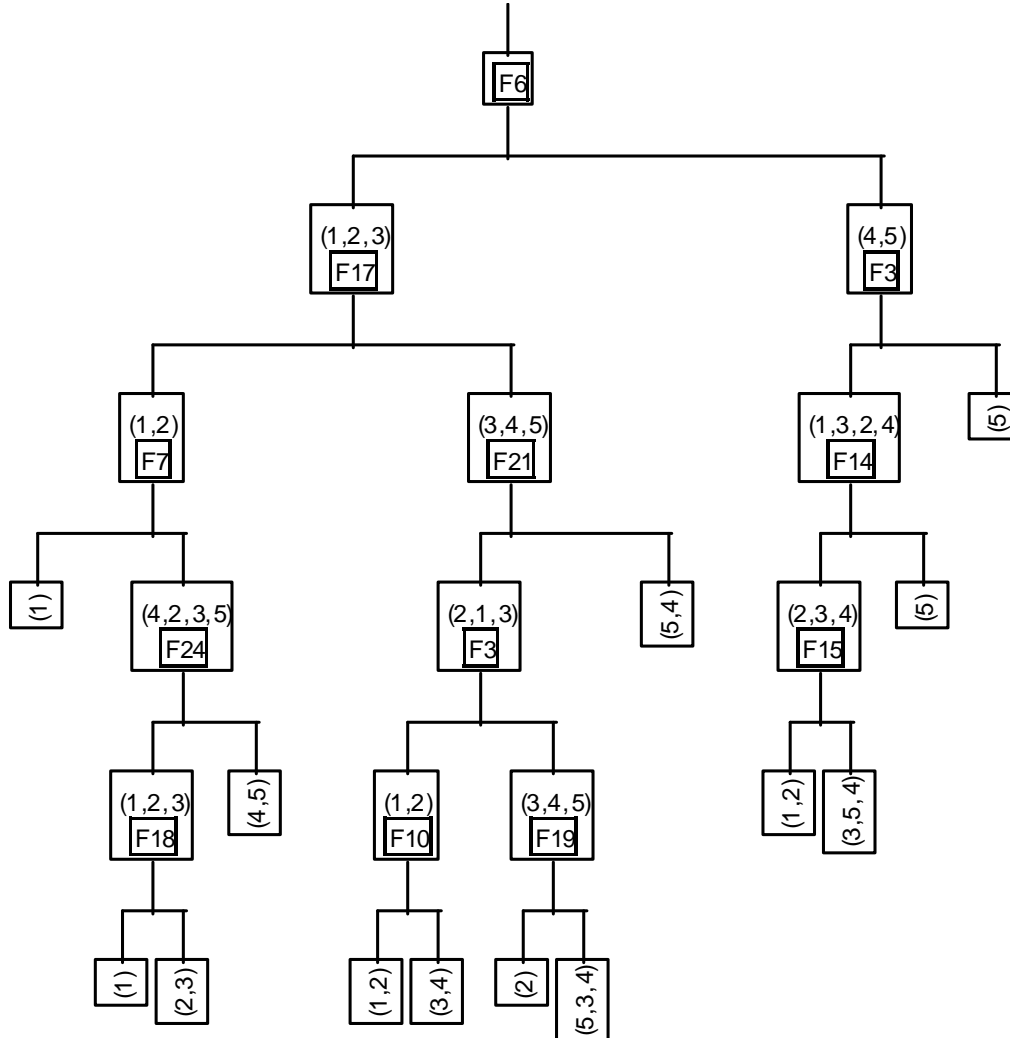
Construct	Description
F1	Induction Training
F2	Goal Setting
F3	Appraisal Deliverables
F4	Job Expectations
F5	Well Defined PMS Policy
F6	Effective goal setting through PMS
F7	Collaborative Work Environment
F8	Fair and Equitable PMS
F9	PMS Automation
F10	Periodic PMS Review
F11	Grievances handling through PMS process
F12	Gender Discrimination in the PMS rating process
F13	Effective Salary Structure
F14	Holistic Appraisals
F15	Effective PMS Communication
F16	Job Enrichment through PMS feedback
F17	Alignment with Organizational Mission and Vision
F18	Competency Mapping
F19	Effective Leadership
F20	Effective Team Building
F21	Promotions based on PMS
F22	Reward and Recognition Structure
F23	PMS Alignment with Reward and Recognition
F24	Career Development and Growth
F25	Infective PMS - High Attrition

**A2 – SUMMARY OF QUESTIONNAIRE RESPONSES**

Rating	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
<b>Strongly Agree</b>	15%	15%	12%	8%	8%	9%	9%	6%	9%	5%	5%	5%	12%	5%	6%	7%	9%	14%	16%	18%	10%	24%	24%	12%	15%
<b>Agree</b>	47%	53%	46%	47%	40%	32%	25%	26%	52%	47%	26%	22%	22%	30%	33%	30%	30%	45%	43%	48%	22%	22%	20%	32%	28%
<b>Neutral</b>	22%	17%	24%	25%	22%	29%	37%	33%	21%	19%	40%	26%	33%	27%	26%	26%	31%	22%	26%	17%	37%	29%	33%	21%	37%
<b>Disagree</b>	10%	9%	10%	14%	16%	16%	13%	17%	8%	15%	18%	34%	24%	23%	22%	22%	16%	10%	11%	10%	16%	17%	12%	20%	9%
<b>Strongly Disagree</b>	7%	7%	8%	6%	14%	13%	16%	17%	11%	14%	11%	12%	9%	15%	13%	15%	14%	9%	5%	7%	15%	7%	11%	16%	12%



A3 – PARTITION ANALYSIS – LEAF REPORT



A4 – DEMOGRAPHIC ANALYSIS

AGE PROFILE OF RESPONDENTS

Age Group	Count	%
21 to 25 yrs	5	4%
26 to 30yrs	51	40%
31 to 35 yrs	34	26%
36 to 40 yrs	22	17%
41 to 45 yrs	13	10%
46 to 50 yrs	3	2%
50 yrs & above	1	1%
<b>Grand Total</b>	<b>129</b>	<b>100%</b>

ACADEMIC PROFILE OF RESPONDENTS

Qualification	Count	%
B.E./B. TECH.	92	71%
MBA	3	2%
BE+MBA	6	5%
OTHERS	28	22%
<b>Grand Total</b>	<b>129</b>	<b>100%</b>

WORK EXPERIENCE PROFILE OF RESPONDENTS

Experience	Count	%
>3 to 7 yrs.	53	41%
>7 to 10 yrs.	29	22%
>10 to 15 yrs.	23	18%
15 yrs. & above	24	19%
<b>Grand Total</b>	<b>129</b>	<b>100%</b>

## FAMILY PROFILE OF RESPONDENTS

Marital Status	Count	%
Married	96	74%
Single	33	26%
<b>Grand Total</b>	<b>129</b>	<b>100%</b>

## RESPONDENTS GENDER PROFILE

Gender	Count	%
Male	114	88%
Female	15	12%
<b>Grand Total</b>	<b>129</b>	<b>100%</b>



**AN EMPIRICAL STUDY OF EFFECTIVENESS OF SALES PROMOTION ACTIVITIES IN A BANK**

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**ABSTRACT**

*The study analyzes sales promotion activities of a bank with the help of 115 respondents consisting of employees and existing customers of a private bank. Literature suggests that sales promotion is based on implementation of various consumer and trade sales promotion methods. Chi-square test revealed that the effectiveness of sales promotion activities is independent of demographic variables. Factor analysis indicated that there are four factors namely value offers, communication, attention and competition that determine effectiveness of sales promotion activities which are found to be significant in regression analysis. One sample t-test indicated that all sales promotion activities are statistically significant.*

**KEYWORDS**

Effectiveness, Sales Promotion, Bank, Perspectives, Customers, Employees.

**INTRODUCTION**

There was a lot of hue and cry all over the world regarding the financial meltdown of 2007. Everywhere its negative impact can be seen. Simultaneously, we know that a sale is the fuel to any organization. It is the source of income for the companies, so, they have to be very focused on this point. But, we also know that sales don't come in a day. A lot of effort has to be done and thus comes into the picture the promotional part. Basically, sales promotion is something done to improve the sales of any organization. The sector chosen is financial sector as it requires a lot of consideration because it is completely based on borrowing and lending of money. This recession has a major contribution to the cash crunch. It is on both the parts either it may be a company or a consumer. When people have less money, then their investment pattern also changes. They are not ready to invest in the long term financial instruments. They want their benefits as soon as possible. So, these financial institutions have to keep these factors in mind before chalking out their marketing more specifically promotional plans as they have to maintain the ethics also. The other factor which has to be considered by the financial companies is that they don't have much profit margin as their returns are uncertain. So, they can't promise the things beyond their limitations.

**LITERATURE REVIEW**

It is said in the Consumer promotion overview (Mc Ansh 2005) in global context that promotions focused on two aspects as transactional in which customers pay less for more product or get more than they pay for (value added). Other one is 'Relationship' in which marketers try to develop a friendship or a sort of relationship in order to get future loyalty in terms of sales or at times sponsorship etc. It has been observed (Spethmann 2001) that sales promotion is increasingly getting integrated with other elements of marketing in the article 'Sales Promotion as Strategy'. It also brings out that trade and consumer promotions garner 49% and 27% of the marketing budgets respectively, for packaged goods. The findings of the study reveal that consumers believe reinforcing brand message promotion can build long term brand equity and also that promotion is more effective than advertising. The paper named Sales Promotion, a Powerful Marketing Tool (Mohanty 2003) in reference to India indicates that to combat downtrends in sale, more and more firms are resorting to sales promotion. According to the market leaders tremendous competition and growth of value conscious customers are the reason why sales promotions are on the rise.

Promotion has emerged as one of the ways to differentiate the brands with increase in competition (Kaushik 2003). It is true to some extent as there are so many banks and financial institutions that a customer gets confused. When people differentiate then, it helps to identify the company. This is a combination of primary and secondary data whose purpose is to determine the promotional activities taken by financial organizations which include Banks (private), Insurance companies, Financial institutions, Mutual fund companies in order to increase their sale.

Sales Promotion is an activity taken up to boost the sales of a product.

The importance of sales promotion activities like personal selling, advertising, sales promotions, publicity, and public relations in any organization in the article named the promotional mix was highlighted (Ginyard 2000). It also tells about how to use the promotional activities in order to achieve maximum benefit. The article deals with the effective use of sales promotion activities. Promotion is a component of the marketing mix (product, price, place and promotion) and it informs and persuades the consumer about the particular bank's offerings. Qualitative study has been done by the writer and he has precisely given his views on the promotional activities. The study brings out various promotional mix and their implications and helps the managers to decide the budget for promotional activity as well as which activity is more appropriate for their organization.

It has been enquired (Sue 1994; Ken 1994) that why the sales promotion activities are not very common in banking industry. It also tells that though some tools are inappropriate for financial services, there are others that offer considerable opportunities for effective marketing communications. The authors gathered details on 2,646 different UK sales promotion competitions over a three-year period by using a nationwide network of fellow "compers" as information gatherers. The sample consisted only of competitions which were available on a national or regional basis (local ones were not considered) and which were associated with a product or service, as opposed to being all or part of the product or service itself (so the numerous competitions which are regular features of magazines were not included). The study suggests that despite their suitability as a promotional tool for financial services, competitions are still in the early stages of the innovation diffusion process. There is considerable room for improvement among the competitions currently run by financial service providers in terms of breaking away from a very conservative, formula-based approach to competition design and in terms of creating better integration between the competitions developed and the service being promoted. Sales promotions tend to go wrong because of one of the two reasons. Either, they do not receive the sort of thorough planning that is reserved for advertising campaigns, or the planning and evaluation is delegated too far down the marketing organization (Strang 1976), like any form of sales promotion, are only effective if not overused. Overall, competitions are a highly flexible and cost effective means of marketing communications which, if properly managed, can add value and distinctiveness into the offerings of financial services providers.

A study (Ndubisi 2005; Moi 2005) aimed at evaluating the impact of sales promotional tools, namely coupon, price discount, free sample, bonus pack, and in-store display, on product trial and repurchases behaviors of consumers. In addition, the moderation role of fear of losing face on the relationship between the sales promotional tools and product trial was tested. The studies provide important insights into the effects of sales promotions, the usefulness of most in

predicting the effects of sales promotions on product trial and repurchase behavior of consumers is limited as they place too much emphasis on coupons at the expense of other equally important promotional tools.

In other words, more work needs to be done to investigate the effects of other sales promotional tools such as free sample, bonus pack, price discount, and in-store display on product trial and repurchase behavior this study has especially been done among Malaysian customers, whose behavioral responses to promotional strategies are less understood due to lack of research on them. In this study, five consumer promotion tools- coupons, discount, samples, bonus packs, and in-store display were investigated for their impact on consumer purchase behavior. Trial and repurchase behavior of consumers were measured with items adapted (Gilbert 2002; Jackaria 2002). The sample points for the research were supermarkets in Kota Kinabalu, Malaysia. A total of 420 randomly selected customers were surveyed using, out of which, 312 usable responses were received. Cronbach's alpha test was used to ensure the reliability of the variables. The results show that coupon, price discount, free sample, bonus pack, and in-store display contribute significantly and predict approximately 30% of the variations in product trial. Bonus pack is moderately associated with product trial. The results indicate that in-store display is the strongest predictor of product trial followed by free sample, price discount and bonus packs and there is not much significant relationship between coupon and product trial.

A study on sales promotion (Krishna 1991; Currim 1991; Shoemaker 1991) had three objectives. The first one is to build a conceptual model in order to describe the interactions between consumers and retailers or manufacturers as retail price promotions are implemented. The second objective of the study is to conduct an empirical analysis of certain key constructs in the model and know the understanding of consumers about deal activities. The third objective is to test the hypotheses about the association between the characteristics of household and their perceptions of deal activities. Many of the models and studies on the consumer response to promotion has suggested that the purchase decision of consumers on what and how much (quantity) to purchase depends largely on expected time of next price reduction and the size of the reduction. The two major constructs of the conceptual model that has been examined in the article are deal frequency and deal prices. Deal frequency here means that if a brand size is promoted frequently then consumers might not feel to need to stockpile the brand at the time of its promotions. It conforms to the findings on stockpiling (Gupta 1988) and on purchase timing. (Neslin 1985; Henderson 1985; Quelch 1985). By deal price the writer meant the price which consumers wish to be the price of the product. If a consumer has an accurate perception of the deal price for a product, they may not react as desired if the price discount is very less than the regular discounts and just opposite may occur if the consumer has inaccurate perception. So, information on deal price perception helps producers and retailers in amount of discount for a price promotion. A 7 page questionnaire was distributed to 1180 people but only 400 responded back. Data on actual deal frequency, regular prices and sales prices were collected for a set of brand sizes for a period of 12 weeks at Grand Union Supermarket in Manhattan. Then mail survey was done to know the consumer perception on same variables. A gap of 12 weeks was chosen between the two surveys so that people may forget previous promotions. Regression analysis has been used and to preserve independence of observations the models are estimated separately for each brand size. The results of the study show that many consumers are reasonably accurate about deal frequency and sales price. It also reveals that recall on deal frequency & sales price is higher for consumers with larger family sizes.

A study (Sunoo 1986; Lin 1986) aims to assess the relationship between advertising and consumer promotion and to determine the optimal (short term) advertising spending level for the product. This paper is based on some of the key findings of a research program conducted for a major manufacturer's product. The product is a nationally distributed commodity-type product with a mature life cycle and has a leading market share in declining market for the product category, competing against several major premium and price brands. The study has been done by using field experiment method and a dual system CATV has been utilized to determine the optimal advertising spending level for a consumer packaged product. Based on consumer purchase data (n=2000 households) research was able to determine ceiling effect of daytime advertising and a threshold effect of nighttime advertising. The two panels of 1000 homes each were matched on demographics TV viewing habits and buying habits of product category were selected and asked to maintain a weekly diary for food, drug and some other purchases which became the major source of data for the analysis of sales and market share. A standard multiple regression analysis has been applied to the collected data, using sales volume as dependent variable. Then marginal purchase equation analysis has been used for analysis part. The important findings of the paper is that the relationship between the advertising and consumer promotion was a complex matter as the daytime advertising was effective when the consumer promotion activities were light and the nighttime advertising was effective when promotions were heavy. The other finding is that a ceiling effect exists in daytime advertising beyond which it was not generating additional sales and a threshold effect is seen in nighttime advertising. Below which this advertising was not effective.

Another study (Vecchio 2005; Henard 2005; Freling 2005; Richard 2005) provides insight on the effect of sales promotion on brand preference by integrating results from various studies on the subject. Sales promotions are viewed as temporary incentives that encourage the trial of a product or service. Most of the studies on their use explore the effect of promotions at the time in which they are offered. Despite the fact that sales promotions have long been employed in marketing practice and researched academically, a clear understanding of the impact of sales promotion on post-promotion brand preference continues to evade brand managers and marketing scholars alike. The meta-analysis suggests that, on average, sales promotions do not affect post-promotion brand preference. However, depending upon characteristic of the sales promotion and the promoted product, promotions can either increase or decrease preference for a brand. To identify the population of studies for this analysis they conducted key word searches of electronic database using terms such as promotions, brand choice. The reference section of those studies was seen and then finally 51 suitable empirical studies through the database development process were identified. Though many variables were studied under this study but the important findings are that there was no effect of promotion on price elasticity for the two brands in the study and more frequent promotion increases consumer sensitivity to promotions.

One more study (Papatla 1996; Purushottam 1996; Krishnamurthi 1996; Lakshman. 1996) estimated a random effects heteroskedastic covariance probit time-varying parameter model on household scanner panel data from the liquid detergent category. In addition, the authors have found the effect of features and displays on brand choice. Promotions are being used with increasing frequency by manufacturers facing highly competitive markets, which are causing concern among some marketers who feel that frequent promotions can hurt a brand. There is little empirical evidence to either support or dispel such fears. To fill this gap in the literature, the authors propose a brand choice model that provides an estimate of the dynamic effects of promotions on loyalty to the brand and customers' sensitivity to the price of the brand, and measures whether promotional purchases reinforce or reduce subsequent response to similar promotions. Sales promotions constitute a larger expenditure for packaged goods manufacturers than advertising does. Currently, the ratio of sales promotions and advertising is approximately two to one. They track the effect of promotions on brand choice price sensitivity and brand loyalty over time and they also investigate the effect of all prior feature and display purchases on current response to features and displays, respectively.

They have tested the model using A. C. Nielsen Company's academic scanner database for the period of 1986 to 1988 on the liquid detergent category. Then, they provide a review of previous research on the effect of promotional purchases on subsequent purchases; next they present the model and describe the data. Subsequently the result of the study, as well as a validation of the model is presented. The estimates of the model's parameters indicate that, in this category (detergent), promotional purchases erode brand loyalty and increase price sensitivity. It also brings out that, the effect of features and displays on brand choice is reinforced by prior feature and display purchases, respectively, as well as feature and display purchases associated with price cuts.

## OBJECTIVES

1. To study whether the demographic characteristics of the customers of the bank influence their perspectives on sales promotion activities.
2. To find out a set of variables that can be represented as factors of sales promotion activity.
3. To measure the strength of association between factors of sales promotion activity and sales promotion activities.
4. To find out the statistical significance of all the components of sales promotion activities.

## METHODOLOGY

### SAMPLING DESIGN

A private sector bank was chosen for conducting the research. The study has taken into consideration the sales promotion strategies for its existing customers and the employees' view on the same. The decision to select this particular bank was taken because the senior authorities of this bank allowed conducting this



study and it is one of the biggest scheduled banks in the country. The bank has been implementing different kinds of sales promotion activities for its customers. The target population of this study is the existing customers of the bank and the employees of the bank. The sampling frame comprises of all the branches of the particular bank in the city of Dehradun. The sample unit is the existing customers and employees of the bank. Convenience sampling was used to select the sample units. 120 questionnaires were administered in 6 branches of the bank out of which 115 valid responses were recorded and the analysis is based on these 115 responses. Out of 115 responses, 74 responses were from the employees and 41 responses were from the customers. The responses were taken from customers to understand their perspective on the sales promotion activities undertaken by the bank whereas the responses were taken from the employees to take their view on effectiveness of the sales promotion methods adopted by the bank. The time period in which this study is conducted is 2011.

**QUESTIONNAIRE DESIGN**

The questionnaire was designed on the basis of customer retention strategies mentioned in the chapter of sales promotion of Marketing Management (Kotler 2001). There were 13 attributes which are given below: price promotion, coupons, free gifts, money refund, frequent user, point of purchase, installment offers, customer contest, sweepstakes, tradeshows, consumer contest, business communication and advertising.

**MEASUREMENT SCALE**

The questionnaire consisted of a series of statements, where the customers and the employees were requested to provide answers in the form of agreement or disagreement to express their attitude towards the sales promotion activities of the bank. A Likert scale was used so that the respondent can select a numerical score ranging from 1 to 5 for each statement to indicate the degree of agreement or otherwise, where 1, 2, 3, 4, and 5 denote "Strongly Disagree", "Disagree", "Neither Agree nor Disagree (Neutral)", "Agree", and "Strongly Agree", respectively

**RELIABILITY ANALYSIS**

An analysis was conducted for checking the reliability of the questionnaire and the results were obtained. The Cronbach's alpha (a measure of reliability) was calculated for the questionnaire. This coefficient (0.955) indicates reliability as it meets the minimum acceptable level of 0.7 (Hair 2007; Black 2007)

**CHI-SQUARE ANALYSIS**

The first objective of the study was to check the relevance of the sales promotion activity with age, gender, and education of the customers. The 14<sup>th</sup> attribute of the questionnaire was about the overall effectiveness of sales promotion activities. Since the objective was to measure the effectiveness and impact of sales promotion activities, it was necessary to check whether there is any relationship between demographic characteristics of the customers like age or gender or education and sales promotion activities. The entire population was classified into several categories with respect to three attributes such as age, gender and education.

A chi-square test was used to determine whether membership in categories of one (demographic) variable is different as a function of membership in the categories of a second (sales promotion activity) variable.

This test of independence was carried separately for all the combinations like age and overall effectiveness of sales promotion activities; gender and overall effectiveness of sales promotion activities and education and overall effectiveness of sales promotion activities. A contingency table was constructed having rows and columns where each row corresponded to a level of a demographic variable and each column to a level of sales promotion variable. The entries in the body of the table were the frequencies with which each variable combination occurred. Thus, a chi square analysis has been carried out to study the relationship between demographic variables and the sales promotion methods.

*Age and Sales Promotion* .H0: Sales Promotion and age are independent

H1: Sales Promotion and age are dependent (Alternate hypothesis)

*Gender and Sales Promotion* .H0: Sales Promotion and gender are independent

H1: Sales Promotion and gender are dependent

*Education and Sales Promotion* .H0: Sales Promotion and education are independent

H1: Sales Promotion and education are dependent

The values of chi-square statistics obtained from the calculation for all the combinations of age, gender and income with sales promotion are insignificant. Thus, the null hypothesis is not rejected and it can be concluded that sales promotion is independent of age, gender and education. Insert TABLE 1 about here.

**TABLE 1: RESULTS FOR CHI-SQUARE ANALYSIS**

S. N	Demographic variable	Chi-Square Statistic
1	Age	53.3 (Insignificant)
2	Gender	14.75 (Insignificant)
3	Education	45.97 (Insignificant)

**FACTOR ANALYSIS**

The scores of the existing customers and employees for each attribute of sales promotion provided a clear picture on their view on the effectiveness of the sales promotion activities. Since their responses on a set of variables had to be represented as functions of major groups of customer retention strategies, an exploratory factor analysis was applied for grouping the variables into factors based on this data. The factors were extracted using Principal Component Analysis as it explained more variance than could be obtained from any other method of factoring. Varimax rotation was used to maximize the variance of the loadings within each factor to simplify the columns in the factor analysis. It helped in developing clearer factor loading patterns with some variables having high loadings on a particular factor and other variables having a loading nearer to zero. Insert TABLE 2, TABLE 3, TABLE 4, TABLE 5 and FIGURE 1 about here.

**TABLE 2: ROTATED COMPONENT MATRIX**

	Component			
	1	2	3	4
Price promotion	0.75	0.21	0.36	0.21
Coupons	0.8	0.27	0.26	0.08
Free gifts	0.8	0.24	0.28	0.20
Money refund	0.84	0.20	0.23	0.12
Frequent user	0.76	0.24	0.13	0.48
POP	0.8	0.25	0.12	0.33
Installment offers	0.61	0.18	0.37	0.52
Consumer contest	0.32	0.26	0.30	0.8
Sweepstakes	0.38	0.32	0.71	0.33
Tradeshows	0.46	0.27	0.7	0.22
Consumer communication	0.15	0.82	0.18	0.32
Business communication	0.27	0.86	0.25	0.04
Advertising	0.28	0.86	0.09	0.12

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 5 iterations.

TABLE 3: TOTAL VARIANCE EXPLAINED

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.44	64.98	64.98	8.44	64.98	64.98	4.82	37.13	37.13
2	1.39	10.73	75.72	1.39	10.73	75.72	2.79	21.5	58.63
3	0.68	5.28	81	0.68	5.28	81	1.71	13.17	71.81
4	0.46	3.57	84.57	0.46	3.57	84.57	1.65	12.76	84.57
5	0.39	3.06	87.64						
6	0.31	2.44	90.08						
7	0.28	2.17	92.26						
8	0.21	1.69	93.96						
9	0.21	1.61	95.58						
10	0.18	1.40	96.98						
11	0.15	1.18	98.17						
12	0.13	1.03	99.21						
13	0.1	0.78	100						

TABLE 4: COMMUNALITIES

	Initial	Extraction
Price promotion	1	0.79
Coupons	1	0.8
Free gifts	1	0.82
Money refund	1	0.82
Frequent user	1	0.89
POP	1	0.83
Installment offers	1	0.82
Consumer contest	1	0.9
Sweepstakes	1	0.86
Trade shows	1	0.83
Consumer communication	1	0.84
Business communication	1	0.88
Advertising	1	0.84

FIGURE 1

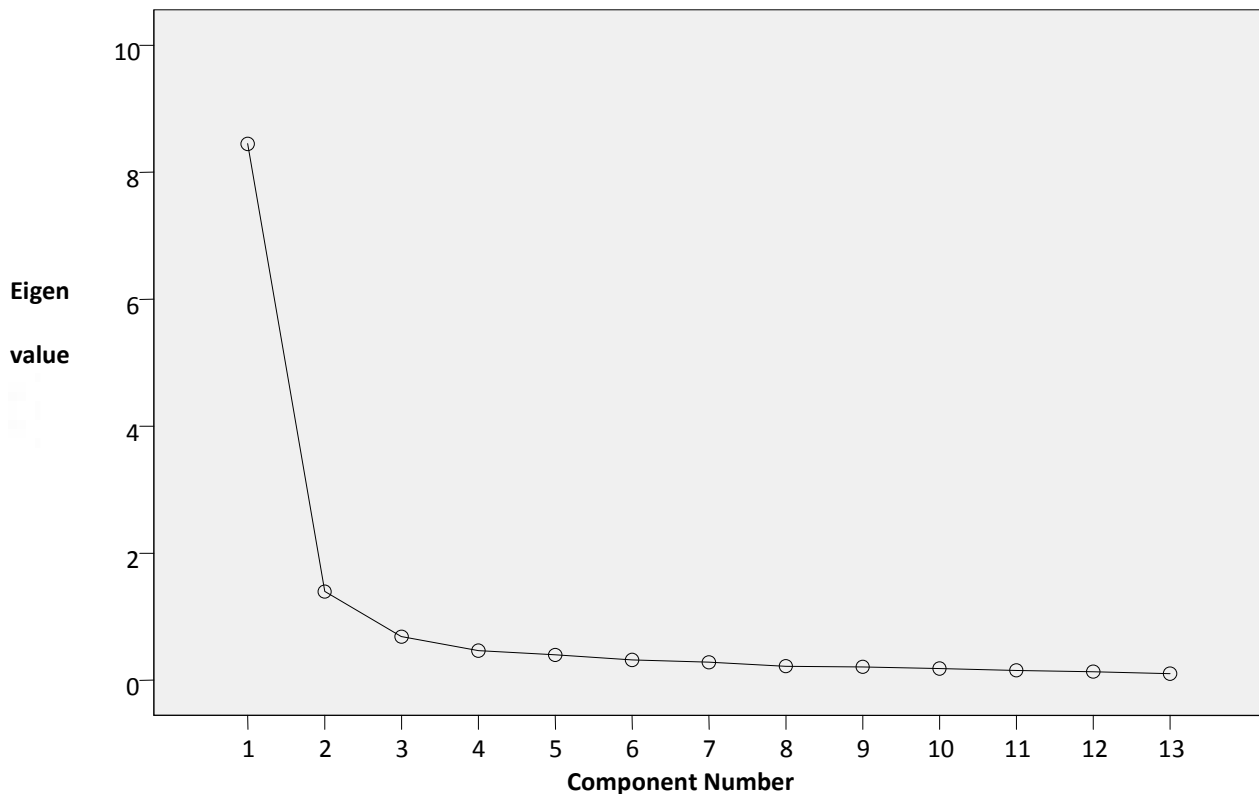


TABLE 5: SUMMARY OF FACTORS EXTRACTED AFTER ANALYSIS

Items in Component/Factor 1 (Value offers)	Items in Component/Factor 2 (Communication)	Items in Component/Factor 3 (Attention)	Items in Component/Factor 4 (Competition)
Price Promotions	Consumer Communication	Consumer Sweepstakes	Consumer Contest
Coupons	Business Communication	Trade shows	
Free gifts	Advertising		
Money Refunds			
Frequent user incentives			
Point of Purchase displays			
Installment offers			

Here, the component 1 consists of those activities which provide value to their investment. So it has been newly named as value offers. The second factor consists of the activities which involves presentation of the services to the customers and thus named as Communication. The third factor comprises of activities which catch the customer’s attention either directly or indirectly and hence named as Attention. The fourth factor deals with activity which involves customers taking part in a contest and thus it has been named as Competition.

**MULTIPLE REGRESSION ANALYSIS**

The results of the factor analysis were carried forward by which the four independent variables (Factor 1 and Factor 2, Factor 3 and Factor 4) were used to predict the dependent variable namely effectiveness of sales promotion activities by multiple regression.

The Regression equation is as follows:

$$Y = \alpha + \beta_1F_1 + \beta_2F_2 + \beta_3F_3 + \beta_4F_4$$

where Y = Effectiveness of customer retention strategies

$\alpha$  = Intercept ;

F1= Value offers;

F2= Communication;

F3= Attention;

F4= Competition

$\beta_1, \beta_2, \beta_3$  and  $\beta_4$  = Slopes associated with F1, F2, F3 and F4

The factors included in the multiple regression model are capable of explaining 84.578% variation in the effectiveness of sales promotion activities. Thus, one can conclude that regression model is statistically significant in explaining the effectiveness of sales promotion activities. Insert TABLE 6, TABLE 7 and TABLE 8 here.

TABLE 6: MODEL SUMMARY

Model				
	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.85	0.71	0.7	0.5

TABLE 7: ANOVA

Model 1	Sum of Squares	Df	Mean Square	F	Sig.
Regression	59.85	4	14.96	614278.4	0.00
Residual	0.003	102	0		
Total	59.85	114			

TABLE 8: REGRESSION RESULTS

Model1		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
	(Constant)	4.1	0.00		8635.59	0.00
	REGR factor score 1 for analysis 2	0.53	0.00	0.71	1115.48	0.00
	REGR factor score 2 for analysis 2	0.34	0.00	0.46	730.279	0.00
	REGR factor score 3 for analysis 2	0.28	0.00	0.37	592.48	0.00
	REGR factor score 4 for analysis 2	0.27	0.00	0.36	573.1	0.00

**ONE SAMPLE T-TEST**

A t-test was conducted on each variable to find out the statistical significance of the sales promotion activities. Insert TABLE 9 and TABLE 10 here.

TABLE 9: ONE SAMPLE t-TEST

	t	Df	Sig. (2-tailed)		Mean Difference	95% Confidence Interval of the Difference	
			Lower	Upper		Lower	Upper
			Lower	Upper		Lower	Upper
Price promotion	45.07	114	0.00	4.15	3.97	4.34	
Coupons	43.97	114	0.00	4.12	3.93	4.3	
Free gifts	44.79	114	0.00	4.22	4.03	4.4	
Money refund	43.38	114	0.00	4.14	3.95	4.33	
Frequent user	43.55	114	0.00	4.12	3.93	4.3	
POP	44.18	114	0.00	4.15	3.97	4.34	
Installment offers	40.23	114	0.00	4.11	3.9	4.31	
Consumer contest	50.53	114	0.00	4.22	4.05	4.38	
Sweepstakes	51.84	114	0.00	4.15	3.99	4.31	
Trade shows	52.55	114	0.00	4.15	4	4.31	
Consumer communication	45.58	114	0.00	3.86	3.69	4.02	
Business communication	46.65	114	0.00	3.9	3.74	4.07	
Advertising	48.68	114	0.00	3.97	3.81	4.13	
Sales promotion	69.48	114	0.00	4.22	4.1	4.34	

TABLE 10: t-TEST STATISTICS

	N	Mean	Std. Deviation	Std. Error Mean
Price promotion	115	4.15	0.95	0.09
Coupons	115	4.12	0.97	0.09
Free gifts	115	4.22	0.97	0.09
Money refund	115	4.14	0.99	0.09
Frequent user	115	4.12	0.98	0.09
POP	115	4.15	0.97	0.09
Installment offers	115	4.11	1.06	0.1
Consumer contest	115	4.22	0.86	0.08
Sweepstakes	115	4.15	0.83	0.08
Trade shows	115	4.15	0.82	0.07
Consumer communication	115	3.86	0.88	0.08
Business communication	115	3.9	0.87	0.08
Advertising	115	3.97	0.84	0.08
Sales promotion	115	4.22	0.63	0.06

It is observed from the table that all the sales promotion activities are statistically significant.

## CONCLUSIONS

The results of chi-square analysis indicate that demographic characteristics of existing customers of banks like age, gender and education are not statistically significant when it comes to determining the effectiveness of sales promotion activities.

The results of factor analysis suggests that there are four factors namely value offers, communication, attention and competition under which the sales promotion activities of a bank can be categorised.

The results of multiple regression analysis indicate that the four factors, namely value offers, communication, attention and competition derived in factor analysis are statistically significant in explaining the effectiveness of retention strategies.

The results of one sample t-test indicate that all the sales promotion activities are statistically significant.

## LIMITATIONS

1. The study is restricted only to a bank and to one city only.
2. The customer satisfaction level is very complicated to measure in exact quantity /absolute terms through sales promotion methods.

## SCOPE FOR FURTHER RESEARCH

The study emphasizes that more integral conception and a structural framework is needed to implement subsequent research on sales promotion in banks. A research may be carried out to strengthen the effort of ensuring that the sales promotion activities should not only conducted correctly but also well perceived by customers.

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## A STUDY ON OCCUPATIONAL HEALTH HAZARDS AMONG WOMEN BEEDI-WORKERS OF MURSHIDABAD DISTRICT IN WEST BENGAL

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### ABSTRACT

*Poverty, house hold food security and women's contribution to food and economic security have received attention for the last two decades. The contribution of the Muslim married women beedi-workers in Murshidabad district of West Bengal to the monthly total family income is significant. But, the beedi industry is unorganized in nature and the wage rate is very low. Therefore, the women beedi-workers have to sacrifice their lives to ensure the economic security for their families. They work harder as active beedi-workers as well as house makers. As a result, they fall in the category of high risk groups of tobacco related occupational health hazards. The present study depicts the picture of severity of occupational health hazards faced by the women beedi-workers of the district.*

### KEYWORDS

Beedi, Beedi-Workers, Minimum Wage Rate, Occupational Health Hazards.

### INTRODUCTION

Beedi rolling is a traditional agro-forest based industry, spread over almost all major states in India. A beedi is a thin Indian indigenous cigarette made of 0.2 – 0.3 gram of tobacco flake wrapped in a tendu leaf and secured with coloured thread at lower end. Over 800 million beedies are sold in India every year, outselling cigarettes by 8 to 1. About 19% of tobacco consumption in India is in the form of cigarettes, while 53% is smoked as beedies. It is cheap form of tobacco smoking especially for rural people. Murshidabad district in West Bengal is famous for beedi industry. The economy of the district is based on beedi industry, after agriculture. The home based beedi-workers are provided with 250-300 grams of tobacco flakes and 500-600 grams of tendu leaves to roll 1000 beedies by the contractors appointed through the beedi merchants. The industry is purely unorganized. It is extremely labour intensive task. The task of beedi rolling is mainly done by the women and children. In Murshidabad, efficiency in beedi rolling is considered as major criteria for marriage of rural women. The workers are exploited by the contractors. As the wage rate is very low and it takes about 10 hours to roll 1000 beedies, the fertility rate among the women beedi workers is very high because they consider their children as extra helping hands. Besides, it is also responsible for higher rate of drop-outs from schools, higher number of child labour and higher incidents of under-aged marriages in the rural area. Continuous beedi rolling by sitting at a same body posture and fumes and dust of tobacco cause Sevier occupational health hazards to the active beedi-workers.

### REVIEW OF LITERATURE

Plenty of research work has been executed to enumerate the overall condition of the women beedi workers in Murshidabad district. The author has tried to review those as mentioned here: Mitra (2010) highlighted the magnitude of delivery of child at home and the barriers to utilization of institutional delivery in rural community of Murshidabad district with special reference to women beedi-workers. In his article Sarkar (2004) depicted the typical daily routine of women beedi workers in Coochbehar district of West Bengal. Chattopadhyay, Kundu, Mahata and SK (2006) examined the severity of respiratory problems among the male active beedi workers of Aurangabad town in Murshidabad. Yashmin, Afroz, Hyat and D'Souza (2012) had clinically examined the type and causes of different health hazards faced by female beedi workers of Patna city in Bihar State. Kundu and Chakraborty (2012) have empirically tried to find out the status of Muslim women of Murshidabad district. Senthil and Bharathi (2010) in their article evaluated the applicability of various labour laws for beedi workers with reference of Tamilnadu. Muninarayanappa and Kumari (2012) highlighted the causes of child labour with reference to the child workers of Kurnool city.

### IMPORTANCE OF THE STUDY

The study critically examined how the deprived and weaker sections of the Muslim women beedi workers of Murshidabad district sacrifice their lives to secure the food security of their families through beedi rolling and how they suffered from various tobacco related occupational health hazards.

### STUDY AREA

Two villages and two municipal wards in Jangipur Sub-division of Murshidabad district have been selected for the study. The study areas are situated at Raghunathganj-1 and Raghunathganj-2 Blocks. Jangipur Sub-division has been selected for the study because concentration of beedi-workers is maximum in this Sub-division (see table-2). All the study areas are adjacent to the Sub-divisional Headquarters. Therefore, all the infrastructural facilities are easily available. Job opportunities are also high in the study area. Besides, villages as well as municipal wards are included in this study to secure greater variability. Only the Muslim beedi-workers are considered because the Muslim community is the most deprived section and their concentration is maximum than any other groups in this Sub-division. The agrarian based economy of the Sub-division has no heavy industry. Beedi rolling is the most important house hold industry in this area.

### OBJECTIVES

1. Find out the present socio-economic status of the Muslim married women beedi-workers.
2. Analyze patterns types of tobacco related occupational health hazards faced by the beedi-workers.
3. Examine the relationship in between length of work, work load and severity of tobacco related occupational health hazards faced by the women beedi-workers.

### HYPOTHESIS

Due to higher fertility rate, higher dependency ratio, low wage rate, labour intensive processes of beedi rolling – the women beedi workers of Murshidabad district of West Bengal have to suffer from various tobacco related occupational health hazards.

### METHODOLOGY

Ninety two women beedi-workers without tobacco smoking and chewing habits were contracted from different areas of Jangipur sub-division in Murshidabad district to examine the occupation related exposure to tobacco flakes and dust and elated health hazards. All the women beedi-workers are belong to Muslim community and all of them are married. Relevant information was collected by visiting the house of each beedi-worker during the month of November, 2012. The study subjects were interviewed and a questionnaire was followed for each subject; that included details about their age, education, length of service,

amount of beedi production, monthly family income, and health hazards faced by them. Dichotomous scaling technique had been incorporated for this study. Simple tabulation and regression methods have been applied to depict the real pictures.

TABLE - 1: SELECTION OF THE SAMPLE

Name	Nature	Block	Distance from Sub-divisional Headquarter	No. of Sampled House Holds
Kanupur	Village of Kanupur Gram Panchayat	Raghunathganj-1	5Kms.	26
Khidirpur	Village of Kanupur Gram Panchayat	Raghunathganj-1	4Kms.	30
Rahamanpur	Municipal Ward-3 of Jangipur Municipality	Raghunathganj-2	4Kms.	22
Balighata	Municipal Ward-13 of Jangipur Municipality	Raghunathganj-1	1Km.	14

Source: House hold survey, 2012.

**BEEDI INDUSTRY IN MURSHIDABAD**

The organization of production process of beedi in Murshidabad district could be of two types. In Factory System there is a direct relationship in between the beedi merchants and the workers who roll beedi at the factory shed. In Contractor System there is no direct relationship in between the workers and the beedi merchants. The contractors act as middleman in between them. The beedi merchants appoint some contractors who provide raw materials to the home based beedi workers who roll beedi at their home and return it to the merchants' factory via the contractors. Maximum concentration of beedi-workers in Murshidabad district can be found in Jangipur sub-division. The daily average production of beedi sticks in Jangipur sub-division is about fifty crores, produced through eighty two beedi factories (the Anandabazar Patrika, 01/12/2010). Most of the beedi-workers are women and children who can roll beedi very effectively due to flexible and slender structure of fingers. Auangabad, Dhuliyani, Omarpur are the major beedi producing centers in the sub-division.

TABLE-2: SUB-DIVISION WISE REGISTERED BEEDI-WORKERS IN MURSHIDABAD UP TO 2008

Sub-Divisions	Total Number of Registered Beedi-Workers by the State Labour Department	
	Total Number	% of total
Jangipur	241295	65
Berhampur	66412	18
Lalbag	25778	7
Domkol	21649	6
Kandi	15631	4
All Total	370765	100

Source: Deputy Labour Commissioner, Berhampur, Murshidabad.

**RESULT, DISCUSSION AND FINDINGS**

TABLE-3: SALIENT SOCIAL AND DEMOGRAPHIC FEATURES OF THE WOMEN BEEDI-WORKERS (N=92)

Category	Current Age(Year)		Age at Marriage (Year)		Educational Qualification			No. of Children				Incident of Institutional Delivery	
	<30	>30	<18	>18	Illiterate	Literate	≤2	3-4	5-6	>6	Yes	NO	
Number of Respondent	46	46	62	30	60	32	32	38	20	2	24	68	

Source: House Hold Survey-2012.

From the Table-3 it is vivid that the social and demographic scenario of the sampled women beedi-workers is very pathetic. Mass illiteracy, under aged marriage, low rate of institutional delivery, higher fertility rate are highly pertinent to the society. As they work in unorganized sector, they are unskilled and deprived from the Govt. sanctioned minimum wage rate. On the other hand their fertility rate is high. They work harder, but the per capita income of the family remains low. Therefore, they and all of their family members are being kneaded by poverty trap. The Table-4 depicts the present economic status of the women beedi-workers.

TABLE-4: SALIENT ECONOMIC FEATURES OF THE WOMEN BEEDI-WORKERS (N =92)

Category	Avg. Daily Beedi Production (Sticks)			Duration of Rolling (Years)			Worker's Contribution(%) to Family's Total Monthly Income		
	≤300	300-600	>600	≤10	10-20	>20	≤20	20-30	>30
No. of Respondents	24	62	6	20	58	14	40	34	18

Source: House Hold Survey-2012.

Women beedi-workers' individual contribution to the total monthly income of the family is calculated considering the following three factors –

- For every 1000 rolled beedies the contractor rejects 100-125 beedies as excuse of poor quality of rolling and for the rejected beedies, the workers are not paid any wages.
- Due to sub-standard and under-weighted raw materials, the workers have to buy a significant amount of raw materials from the contractors.
- The contractor does not maintain the workers' Log Book properly and the workers are illiterate simultaneously. So, there are definite chances of shrewdness about the calculation.

For the workers, the job of beedi rolling is multitasking. They roll beedies and at the same time do the houses hold works also. In spite of having all these unfavorable tasks, they sacrifice their lives to flourish their family as much as possible. Here raises the question of higher risk of tobacco related occupational health hazards. It takes near about ten hours to roll thousand beedies. Due to excessive work pressure, the women beedi-workers cannot take food timely, sleep and rest properly. The occupational health hazards related to beedi rolling can be categorized into six broad groups –

- Musculo Skeletal Problems:** pain and cramps in shoulder, neck, head, back and lower abdomen; rheumatic complaints; swelling of legs and fingers; indurations of hands etc.
- Respiratory Problems:** breathlessness; recurring cold and cough; chest pain; nasal inhalation.
- Stomach Problems:** gas and acid formation; stomach ache; loss of appetite etc.
- Eye Problems:** burning and watering of eyes.
- Gynecological Problems:**
- Giddiness or Dizziness or Unrest feeling of the brain:** It is an arduous labour intensive task because each beedi is rolled individually. Beedi-workers are exposed to unburnt tobacco, mainly through the cutaneous and nasal routes. The absorbed nicotine excites the sensory nerves of the alimentary tract leading to increased gastrointestinal secretion. The tobacco dust enters the respiratory system of beedi-workers through inhalation, causing damage to respiratory system. As beedi rolling is done in the same posture, generally cross-legged, for prolonged period; the workers are suffered by musculo skeletal problems. Toxic effects of nicotine on nerve systems can be realized through the problem of dizziness or eye burning.

**TABLE-5: OCCUPATIONAL HEALTH HAZARDS AND THE WOMEN BEEDI-WORKERS**

Types Of Health Hazards	Musculo-Skeletal	Respiratory	Eye	Dizziness	Stomach	Gynecological
Respondents (In Number)	92	46	40	30	26	6
Respondents (% of Total)	100	50	43	33	28	7

Source: House Hold Survey-2012.

**TABLE-6: NUMBER OF DIFFERENT TYPES OF HEALTH HAZARDS FACED BY THE WOMEN BEEDI-WORKERS**

Types of Health Hazards Faced by the Workers	Only One Type	Two Types	Three Types	Four Types	Five Types	Six Types	Total
Respondents(In Number)	12	42	22	14	2	Nil	92
Respondents (In %)	13	45.50	24	15	2.50	Nil	100

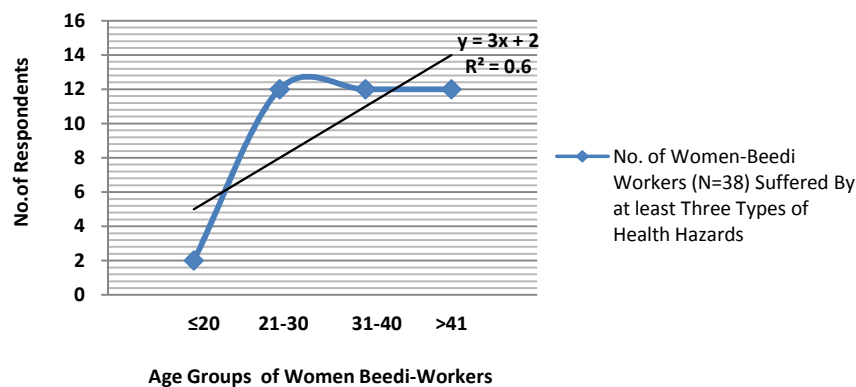
Source: House Hold Survey-2012.

**TABLE-7: AGE GROUPS WISE PATTERNS OF HEALTH HAZARDS FACED BY THE WOMEN BEEDI-WORKERS**

Types of Health Hazards Faced by the Workers	Age Groups of the Women Beedi-Workers				Total Respondents
	≤20	21-30	31-40	>41	
Only One Type	2	4	6	Nil	12
Two Types	8	20	14	Nil	42
Three Types	2	10	4	6	22
Four Types	Nil	2	8	4	14
Five Types	Nil	Nil	Nil	2	2
Total Respondents	12	36	32	12	92

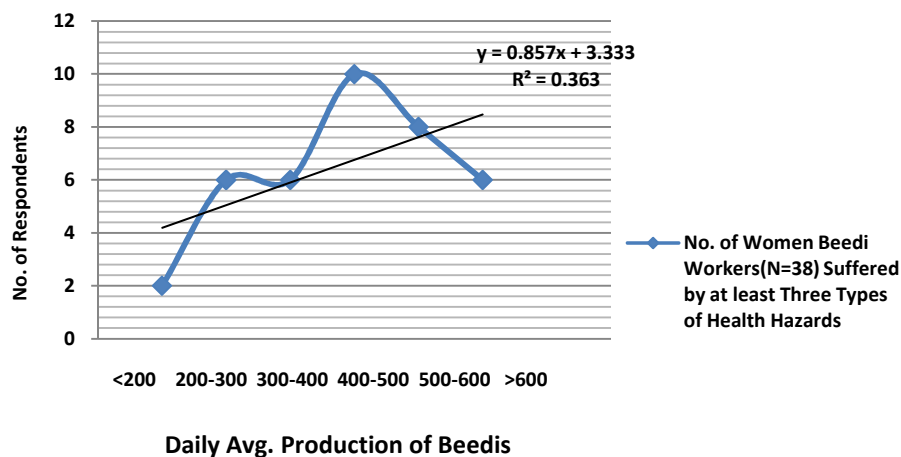
Source: House Hold Survey-2012.

**Fig. 1: Relationship in Between Age and Severity of Occupational Health Hazards of Women Beedi-Workers**

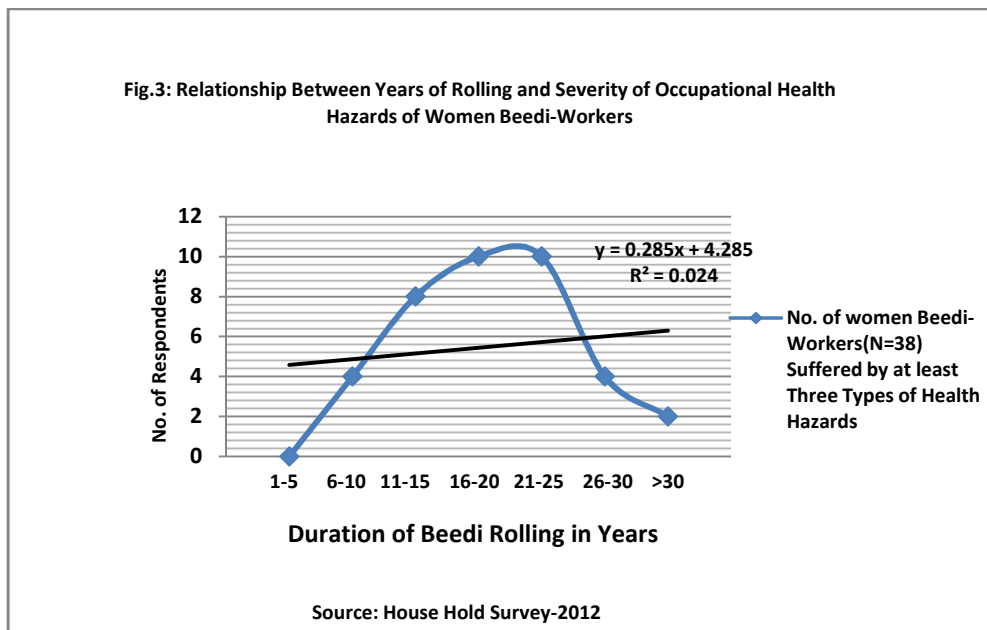


Source: House Hold Survey-2012

**Fig.2: Relationship Between Work Load and Severity of Occupational Health Hazards of Women Beedi-Workers**



Source: House Hold Survey-2012



The most common form of the health hazards is musculo-skeletal problems. All the above mentioned relationships are positive in nature. The severity of health hazards or at least three types of health hazards is higher in the case of higher age, work load and length of service and vice versa. More the number of sampled women beedi-workers, vivid will be the picture.

## RECOMMENDATIONS

1. The beedi-workers now get only Rs. 75 for 1000 rolled beedies. But, the state government has sanctioned Rs. 165 for 1000 beedies as the minimum wage. Therefore, the state Labour Department, Trade unions and Beedi Merchant Association should jointly take necessary actions to implement the minimum wage rate. If the present wage rate gets a hike, the work pressure of the workers will be reduced automatically.
2. The beedi merchants should introduce compensation scheme for the health hazards at a fixed ratio of the worker's total monthly production.
3. About 40% of the total sampled beedi-workers can not possess the Identity Cards for which they cannot achieve the welfare schemes under Beedi Workers' Welfare Fund Act, 1976. The central Labour Welfare Organization as well as the State Labour Department should take necessary steps so that all the beedi-workers can possess the ID cards as soon as possible.
4. Arrangement of regular treatment and health check up for the beedi-workers through static cum mobile medical units should be done. There are only two such medical units and one T.B. hospital in the whole Murshidabad district. More such medical units should be established to cover all the workers.
5. The rollers should given protective clothing, gloves and masks. They should aware about harmful effects of tobacco. Proper hand wash after each and every schedule of rolling, breaking up off the total work schedule into several small time spans, rather to roll beedi for continuous prolonged hours, rolling in the open space – may be fruitful in this regard. MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) can be an immediate alternative solution of job for beedi-workers.

## CONCLUSION

Permissive poverty of people along with traditional beliefs and orthodoxy for women folk is solely responsible for the deplorable condition of the Muslim women community in Murshidabad district. In the male dominated social structure, all the married Muslim women beedi-workers play a vital role regarding food security for their families. They perform as home makers as well as active beedi-workers. In spite of having all the barriers related to unorganized nature of beedi industry and tobacco related occupational health hazards, their efforts to survive their families, are really palatable.

## ACKNOWLEDGMENT

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**A PERCEPTUAL STUDY ON BUYING BEHAVIOR OF CUSTOMERS TOWARDS READYMADE GARMENTS**

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**ABSTRACT**

*Within the current marketing environment, the competition between products and services is becoming increasingly tough. Each producer of goods and services attempts to obtain a potential market share by making consumers believe that they have the answer to all their personal needs and desires. Analyzing and understanding the consumer and his behaviour is the cornerstone of success in marketing. It includes all the physical, mental and emotional processes and concerned behaviour which are observable before, during and after each and every purchase of goods and services. This make us compelling to understand, observe, record and react to such behaviour in case we want to have win-win strategy that matter for marketer and the customer both. The research report presented is based on the "Consumer Perception towards Garments". Through this study an attempt has been made to practically understand those emotional or rational appeals, which drive the purchase decision towards the readymade garments. Due to psychological nature of purchasing, which is increasingly becoming a part of consumer behaviour; it is crucial that manufacturers in the clothing industry become familiar with the perceptions and attitudes of the consumer. Clothing is likely to form an integral part in the enactment of social encounters and it is also seen as a very important channel of non-verbal communication. Within the context of this study, perceptions regarding branded clothing were tested. The need for information about the symbolic nature of clothing is crucial to demonstrating how perceptions are formed and interpreted in society. Some behaviour is not voluntary and is affected largely by environmental factors.*

**KEYWORDS**

Consumer Behaviour, Competition, goods and services, purchasing Decision, perception, Readymade Garments.

**INTRODUCTION**

This study is an effort to understand the consumer behaviour on Readymade Garments. Consumers are individuals who purchase for the purpose of individual or household consumption. Consumer buys a product looking for certain specific qualities from that product. He must get what he desires, for which he pays. The study opens the various factors which have a direct impact on the buying decision of customers to the large extent. The study will enable us to understand the perception of customers about readymade garments. The study provides "frame of mind" of people, what are the expectations and desires of consumers and up to how much level this expectation is met. The studies also assist the mauls owner and companies so that they can understand the consumer behaviour and can satisfy their consumers by the moral conduct. The study also shows the opportunities and challenges for readymade garment business in respect of both internal and external environment. It discloses the main competitors in the field of garments and also suggests the suitable measures to overcome these hindrances. The research provides guideline to further extension of said business and made visible all the obstacles by conducting a survey. The study shows future scenario of Ready Made Garment Business in current perspective. The research is important to identify Market size, growth and Market Potential of Ready-Made Garment Business. The research shows future Scenario of consumer perception regarding Ready Made Garments in current perspective. The study shows Opportunities and challenges for Ready-Made Garment Business in respect of internal & external environment. Research says about main competitors in the field of Ready-Made Garment Business. The study provides guideline to further extension of Ready-Made Garment Business in Ujjain City. The study provides help to know the customers satisfaction with concerned parties. The study will enable us to understand the perception of customers about readymade garments. It discloses the main competitors in the field of garments and also suggests the suitable measures to overcome these hindrances. The research provides guideline to further extension of said business and made visible all the obstacles by conducting a survey. The study shows future scenario of Readymade Garment Business in current perspective.

**AIMS AND OBJECTIVES OF THE STUDY**

Understanding buying behaviour pattern is not enough without understanding the composition and origin of the customer. Today most of the Indian customers are attracted by the imported goods because of their high quality. So, that most of the Indian company Product loses their credibility and loyalty in domestic customers. Hence, the present paper was planned with the following aims and objectives.

1. To examine customer loyalty in a highly competitive market where consumers have free choice.
2. To study the satisfaction level of customers in different attributes of Ready-Made Garments.
3. To study the impact of various factors on the consumption pattern.
4. To examine various promotional strategies and their relevance and convenience.
5. To determine the future desires needs and expectations of customers.

**LIMITATIONS OF THE STUDY**

The present paper has following limitations:

The paper was conducted in Ujjain only.

The sample size was limited to 100 respondents only.

Only ten shopkeepers dealing with readymade apparels were taken as sample

**LITERATURE REVIEW**

An attempt has been made to present the review of various studies carried out with regard to see the buying behaviour of customers. A brief overview is presented below:

- Customer satisfaction may be considered as a base line standard of performance and a possible standard of excellence for any business organization (Gerson, 1993). Customer satisfaction is a complex construct. It has been defined in various ways (Besterfield, 1994; Barsky, 1995; Kanji and Moura, 2002; Fecikova, 2004). Recently, researchers have argued that there is a distinction between customer satisfaction as related to tangible products and as related to service experiences. This distinction is due to the inherent intangibility and perishes ability of services, as well as the inability to separate production and consumption. Hence, customer satisfaction with services and with goods may derive from, and may be influenced by, different factors and therefore should be treated as separate and distinct (Veloutsou et al., 2005).
- According to Hasemark and Albinsson (2004) cited in Singh (2006:1) "satisfaction is an overall attitude towards a product provider or an emotional reaction to the difference between what customers expect and what they actually receive regarding the fulfillment of a need". Kotler (2000); Hoyer & MacInnis (2001) also define satisfaction as a person's feelings of pleasure, excitement, delight or disappointment which results from comparing a products perceived performance to his or her expectations. Satisfaction means the contentment one feels when one has fulfilled a desire, need or expectation. Furthermore,

Customer satisfaction can be a measure of how happy customers are with the services and products of a supermarket. Keeping customers happy is of tremendous benefit to companies. Satisfied customers are more likely to stay loyal, consume more and are more likely to recommend their friends to the business.

- Ciavolino & Dahlgaard (2007) suggest that "customer satisfaction can be defined as the overall evaluation of the service performances or utilization. Customer satisfaction can be achieved by improving service quality. Ciavolino & Dahlgaard (2007) contend that service quality is the measure of service levels based on the attributes of the core product. Such attributes include; Facility layout- display of products, clean environment, clear labelling. Other attributes can be Location, Process - queue management, waiting time. According to Hoyer & MacInnis (2001) satisfaction can be associated with feelings of acceptance, relief, excitement and delight. Martínéz-Ruiz et al (2010) assert that customers always look for convenience benefit in the modern environment. Additional services are essentially important in the retail business and play a role in determining customer satisfaction through creation of convenience.
- Customer satisfaction is a key and valued outcome of good marketing practice. According to Drucker (1954), the principle purpose of a business is to create satisfied customers. Increasing customer satisfaction has been found to lead to higher future profitability (Anderson, Fornell, and Lehmann 1994), lower costs related to defective goods and services (Anderson, Fornell, and Rust 1997), increased buyer willingness to pay price premiums, provide referrals, and use more of the product (Reichheld 1996; Anderson and Mittal 2000), and higher levels of customer retention and loyalty (Fornell 1992; Anderson and Sullivan 1993; Bolton 1998). Increasing loyalty, in turn, has been found to lead to increases in future revenue (Fornell 1992; Anderson, Fornell, and Lehmann 1994) and reductions in the cost of future transactions (Reichheld 1996; Srivastava, Shervani, and Fahey 1998). All of this empirical evidence suggests that customer satisfaction is valuable from both a customer goodwill perspective and an organization's financial perspective.
- Empirical studies have found evidence that improved customer satisfaction need not entail higher costs, in fact, improved customer satisfaction may lower costs due to a reduction in defective goods, product re-work, etc. (Fornell 1992; Anderson, Fornell, and Rust 1997). However, the key to building long-term customer satisfaction and retention and reaping the benefits these efforts can offer is to focus on the development of high quality products and services. A firm's future profitability depends on satisfying customers in the present – retained customers should be viewed as revenue producing assets for the firm (Anderson and Sullivan 1993; Reichheld 1996; Anderson and Mittal 2000). DeWulf, Odekerken-Schröder, and Iacobucci (2001). Customers may explain their satisfaction with a product or service in terms of specific aspects such as the product attributes, price, customer service, or a combination of other features.

## METHODOLOGY

Research is of Descriptive conclusive type and has sample size consisting of 100 Present and potential customers. Data is collected by using detailed questionnaire with open and close ended questions, where as survey of customers was conducted and respondents were categorized according to gender, occupation, monthly income and No. of dependents.

## LIST OF HYPOTHESIS

1. There is no significant relation between Brand Name and Occupation of customers.
2. There is no significant relation between Location, and Past Experience of customers.
3. There is no significant relation between Service Quality and Income Provider of customers.

## DATA ANALYSIS AND INTERPRETATION

### HYPOTHESIS-1

There is no significant relation between Brand Name and Occupation of customers.

**Null Hypothesis (H<sub>0</sub>):** there is no relation between Occupation and Brand Name.

**Alternate Hypothesis (H<sub>1</sub>):** there is relation between Occupation and Brand Name.

TABLE SHOWS ANNOVA BETWEEN OCCUPATION AND BRAND NAME

DIMENSION	OCCUPATION	N	MEAN	STD.DEV	F	SIG.
Brand Name	Business men	48	2.93	1.375	5.359	.002
	Employee	24	3.75	.495		
	Students	28	3.97	.468		
	Total	100				

**FINDINGS:** It is clear from the table that the Brand Name having F test value 6.94 at significance level of .000, are significant. Hence, the Alternate Hypothesis is accepted and Null Hypothesis is rejected. The higher mean value of 3.97 for students indicates that this group of customers is highly influenced by the Brand Name.

**Interpretation:** From the obtained data I interpret that majority of customers are in full support that branded clothes are status symbol. Therefore we can say that Brand Name had a large impact on customer satisfaction level. Therefore producers should try to develop sound image of their products.

### HYPOTHESIS-2

There is no significant relation between Location and Past Experience of customers.

**Null Hypothesis (H<sub>0</sub>):** there is no relation between Location and Past Experience.

**Alternate Hypothesis (H<sub>1</sub>):** there is relation between Location and Past Experience.

TABLE SHOWS ANNOVA BETWEEN location and Past Experience.

DIMENSION	AREA	N	MEAN	STD.DEV	F	SIG.
Past Experience	Rural	38	4.93	.657	14.149	.000
	Urban	62	2.75	1.495		
	Total	100				

**FINDINGS:** it is clear from the table that the Past Experience having F test value 6.94 at significance level of .000, are significant. Hence, the Alternate Hypothesis is accepted and Null Hypothesis is rejected. The higher mean value of 4.93 for Rural Customers indicates that this group of customers is highly influenced by the Past Experience.

**Interpretation:** From this analysis I interpret that majority of customers are agreed that past experience with the cloth influence the purchasing power of customers. This report will be helpful for meals owner and companies, so that they can understand the customer behaviour and can satisfy their customer on better manner, to whether they recommend to other or not.

### HYPOTHESIS-3

There is no significant relation between Service Quality and Income Provider of customers.

**Null Hypothesis (H<sub>0</sub>):** there is no relation between Income and Service Quality.

**Alternate Hypothesis (H<sub>1</sub>):** there is relation between Income and Service Quality.

TABLE SHOWS ANNOVA BETWEEN INCOME AND SERVICE QUALITY

DIMENSION	INCOME	N	MEAN	STD.DEV	F	SIG.
Service Quality	Higher Income	15	4.50	.475	.757	.520
	Middle Income	53	1.73	1.495		
	Lower Income	32	3.01	.853		
	Total	100				

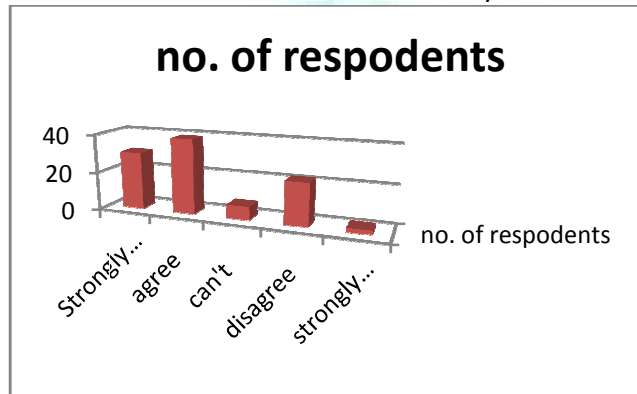
**FINDINGS:** it is clear from the table that Service Quality having F test value 6.94 at significance level of .000, are significant. Hence, the Alternate Hypothesis is accepted and Null Hypothesis is rejected. The higher mean value of 4.50 for Higher Income Group indicates that this group of customers is highly influenced by the Service Quality.

**Interpretation:** From this I interpret that overall 97% customers mostly prefer quality of product which purchasing garments. Customers like best quality product any price so, company should add latest technology to their products as customers can get more satisfaction. False representation that goods are of specific standard quality or grade should be avoided.

**Data Representation**

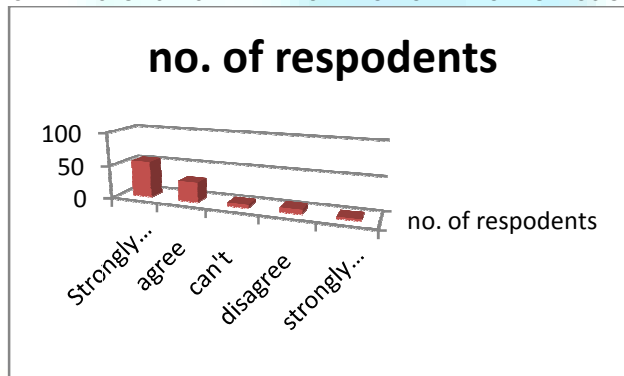
The investigators visited shops offering sales and questionnaires were filled by the respondents. Then the responses were tabulated and percentage was calculated. These are as follow:

CHART 1: SHOWS CUSTOMER PERCEPTION ABOUT SALESMEN /SHOPKEEPERS INFLUENCE



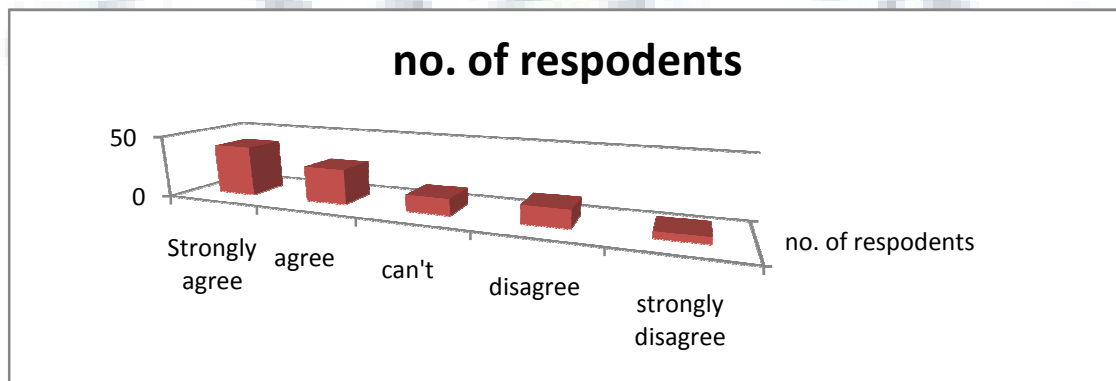
**Interpretation:** Analyzing the above data I interpret that, customers are satisfied with the fact that shopkeeper/salesman generally influence the selection criteria of customers. Therefore dealers must avoid unfair trade practices such as adulteration, black marketing, false advertng etc and they should supply then useful information about new products and new uses of existing products.

CHART 2: SHOWS PAST EXPERIENCE INFLUENCE THE BUYING DECISION



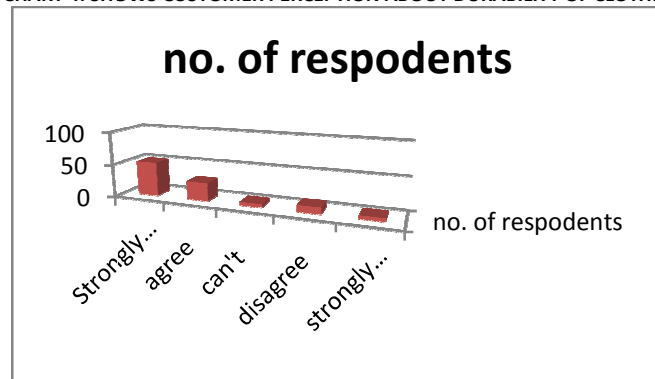
**Interpretation:** from this analysis I interpret that majority of customers are agreed that past experience with the cloth influence the purchasing power of customers. This report will be helpful for meals owner and companies, so that they can understand the customer behaviour and can satisfy their customer on better manner, to whether they recommend to other or not.

CHART 3: SHOWS SEASON/CLIMATE CONDITIONS INFLUENCE BUYING DECISION



**Interpretation:** From the obtained data I interpret that majority influence the buying decision. The climate of Ujjain city is moderate i.e., neither too hot in summer nor too cold in winter. In summer people prefer to wear cotton clothes whereas in winter they prefer to wear warm clothes. The effect of climate on customers is somewhat miserable.

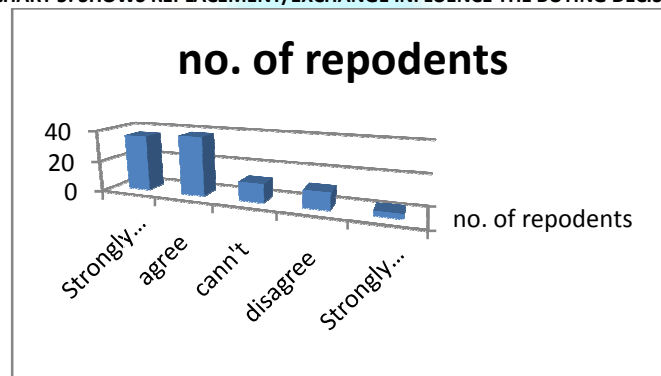
CHART 4: SHOWS CUSTOMER PERCEPTION ABOUT DURABILITY OF CLOTHES



**Analysis:** The above graph shows out of 100 respondents 52 respondents are strongly agree that durability of clothes influence the buying decision and 28 respondents out of 100 respondents are also agree on the fact that durability of clothes influence the buying decision whereas, overall 15 respondents out of 100 respondents are disagree on the fact that durability of clothes influence the buying decision and remaining 5 respondents can't say anything with this regard.

**Interpretation:** The above analyses indicate that customers can be better satisfied by providing them those products which are highly durable. It means that the producer has no right to intervene in the purchasing habits of consumers. They should study the requirements regarding the product. Management should also adopt fair trade practices regarding price, quality, durability and service to the product. The selection criteria of customers get largely affected by their products that are highly durable.

CHART 5: SHOWS REPLACEMENT/EXCHANGE INFLUENCE THE BUYING DECISION



**Analysis:** From the above graph it is clear that out of 100 respondents 36 respondents are strongly agree that replacement/exchange of product influence the buying decision, and 38 respondents out of 100 respondents also agreed with the same statement. Whereas, 11 respondents are disagree on the fact that replacement /exchange of products influence the buying decision and 3 respondents out of 100 respondents are strongly disagree with the said statements, remaining 12 respondents can't say anything.

**Interpretation:** From the obtained data I interpret that better protection of the interests of consumers and redress of consumer disputes will enhance the goodwill of business. Thoroughly assessing the consumer behaviour will help the increase the sale of the firm. From obtained data majority of consumers made selection of those firms who provide them safety measures.

## CONCLUSION

The study reveals that, Consumer sovereignty is considered a modern marketing principle. It means that the producer has no right to intervene in the purchasing habits of consumers. They are free to spend their money in any manner they like. Therefore, it is essential to understand the consumer behaviour to meet their requirements by providing suitable products and services. Thoroughly accessing the consumer behaviour will help to increase the sales volume of firm. The planning and policy of marketing can also so decide accordingly. Therefore sound marketing programmers should start with a careful analysis of the habits attitudes, motives and needs of consumers. A marketer should find answers regarding what products and services which consumer prefers to buy and when they buy them. The selection criteria of consumers get largely affected by those products that are highly durable. Therefore, it is necessary to undertake those practices which will improve the quality standard of products and their durability. Finally, consumer is the principal a prior of business. The efficiency with which a free market system of enterprise operates, in the last analysis, depends upon the extent of consumer understanding possessed by the business community. A business community that is ignorant of consumer preferences can't possibly fulfil its obligations in a meaningful and responsive manner.

- Consumers mostly select their dresses according to their economic stability.
- 70% customers are brand cautious; hence we can say brand name had a large impact on customer's satisfaction level.
- Consumers like best quality products at any prices. They should provide goods and services of standard quality and satisfy consumer wants.
- Past experience with a particular brand influence the buying decision of consumers.
- Season/climate conditions also effect the buying decision of consumers. in summer people prefer to wear the cotton clothes whereas, in winter they prefer to wear woollen garments.
- The selection criteria of consumers depend to the large extent upon the salesmen's influence. Therefore, customers are agreeing that they get both psychological and economic satisfaction from affectionate salespersons.
- While purchasing garments the thickness of Fabre is a symbol of durability for customers.

## RECOMMENDATION

Finally, consumer is the principal a prior of business. The efficiency with which a free market system of enterprise operates, in the last analysis, depends upon the extent of consumer understanding possessed by the business community. A business community that is ignorant of consumer preferences can't possibly fulfil its obligations in a meaningful and responsive manner.

- For better satisfaction of consumers business firm should handle consumer complaints of grievances quickly and to avoid monopolistic and unfair trade practices such as adulteration, black marketing, false advertising etc.
- A business community that is ignorant of consumer preferences can't possibly fulfil its obligations in a meaningful and responsive.
- Sound marketing programmers should start with a careful analysis of the habits, attitudes, motives and needs of consumers.



- Repetitive use of the same promotional schemes for a prolonged period may have negative effect on the loyal customers. So, retailers must view to developing more promotional strategy in line with the company's objectives.
- The shopkeepers should be aware of the effective use of sales promotions.

### IMPLICATIONS

For the present study efforts are made not only to collect the viewpoints of consumers and shopkeepers but, at the same platform suitable measures are suggested to overcome the uncertain events. The study provides "frame of mind" of people, what are the expectations and desires of consumers and up to how much level this expectation is met. It discloses the main competitors in the field of garments and also shows future scenario of said business in current perspective.

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