# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

*Indexed & Listed at:*

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A., Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)], Index Copernicus Publishers Panel, Polandwith IC Value of 5.09 &number of libraries all around the world.

Circulated all over the world & Google has verified that scholars of more than 2840 Cities in 164 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

# CONTENTS

# CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** ***anytime*** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (***FOR ONLINE SUBMISSION, CLICK HERE***).

# GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

**DATED: _____________**

***THE EDITOR***
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF** .

**(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)**

**DEAR SIR/MADAM**

Please find my submission of manuscript entitled '___________________________________________' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

**NAME OF CORRESPONDING AUTHOR**:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

**NOTES**:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mentionthe following in the **SUBJECT COLUMN** of the mail:
**New Manuscript for Review in the area of** (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/ Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS**: The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS**: Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT**: Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS**: All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS**: All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT**: The main text should follow the following sequence:

INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

ACKNOWLEDGMENTS

REFERENCES

APPENDIX/ANNEXURE

It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES &TABLES**: These should be simple, crystal clear, centered, separately numbered &self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS**:These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES**: The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- 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.

JOURNAL AND OTHER ARTICLES

- 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.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

# A STUDY ON FORECASTING BSE SENSEX BY USING HOLT-WINTER METHOD

*DR. M. SHEIK MOHAMED*
*PROFESSOR*
*JAMAL INSTITUTE OF MANAGEMENT*
*JAMAL MOHAMED COLLEGE (AUTONOMOUS)*
*TIRUCHIRAPALLI*

*DR. M.A.SHAKILA BANU*
*ASST. PROFESSOR*
*JAMAL INSTITUTE OF MANAGEMENT*
*JAMAL MOHAMED COLLEGE (AUTONOMOUS)*
*TIRUCHIRAPALLI*

*B.DEEPA LAKSHMI*
*ALUMNI*
*JAMAL INSTITUTE OF MANAGEMENT*
*JAMAL MOHAMED COLLEGE (AUTONOMOUS)*
*TIRUCHIRAPALLI*

**ABSTRACT**

*This Project evaluates the out-of-sample forecasting accuracy of winter models for 5 month period from April 2013 to August 2013 Sensex in BSE. Sensex is defined as within-month as alpha & beta of Sensex on the BSE for the 12month period April 2012 to march 2013.*

**KEYWORDS**

forcasting, BSE Sensex, holt-winter method.

**INTRODUCTION OF THE STUDY**

The Holt-Winters method is a pop¬u¬lar and effec¬tive approach to fore¬cast¬ing sea¬sonal time series. But dif¬fer¬ent imple¬men¬ta¬tions will give dif¬fer¬ent fore¬casts, depend¬ing on how the method is ini¬tial¬ized and how the smooth¬ing para¬me¬ters are selected. In this post I will dis¬cuss var¬i¬ous ini¬tial-iza¬tion methods.

Suppose the time series is denoted by $y_1, \dots, y_n$ and the seasonal period is $m$ (e.g., $m = 12$ for monthly data). Let $\hat{y}_{t+h|t}$ be the $h$–step forecast made using data to time $t$. Then the additive formulation of Holt-Winters' method is given by the following equations

$$\ell_t = \alpha(y_t - s_{t-m}) - (1-\alpha)(\ell_{t-1} - b_{t-1})$$

$$b_t = \beta(\ell_t - \ell_{t-1}) - (1-\beta)b_{t-1}$$

$$s_t = \gamma(y_t - \ell_{t-1} - b_{t-1}) - (1-\gamma)s_{t-m}$$

$$\hat{y}_{t+h|t} = \ell_t - b_t h - s_{t+h-m}.$$

and the multiplicative version is given by

$$\ell_t = \alpha(y_t/s_{t-m}) - (1-\alpha)(\ell_{t-1} - b_{t-1})$$

$$b_t = \beta(\ell_t - \ell_{t-1}) - (1-\beta)b_{t-1}$$

$$s_t = \gamma(y_t/(\ell_{t-1} - b_{t-1})) - (1-\gamma)s_{t-m}$$

$$\hat{y}_{t+h|t} = (\ell_t - b_t h)s_{t+h-m}.$$

In many books, the seasonal equation (with $s_t$ on the LHS) is slightly different from these, but I prefer the version above because it makes it easier to write the system in state space form. In practice, the modified form makes very little difference to the forecasts.

In my 1998 textbook, the following initialization was proposed. Set

$$\ell_m = (y_1 - \cdots - y_m)/m$$

$$b_m = \left[(y_{m+1} - y_{m+2} - \cdots - y_{m+m}) - (y_1 - y_2 - \cdots - y_m)\right]/m^2.$$

The level is obviously the average of the first year of data. The slope is set to be the average of the slopes for each period in the first two years:

$$(y_{m+1} - y_1)/m, \quad (y_{m+2} - y_2)/m, \quad \dots, \quad (y_{m+m} - y_m)/m.$$

Then, for additive seasonality set $s_i = y_i - \ell_m$ and for multiplicative seasonality set $s_i = y_i/\ell_m$, where $i = 1, \dots, m$. This works pretty well, and is easy to implement, but for short and noisy series it can give occasional dodgy results. It also has the disadvantage of providing state estimates for period $m$, so that the first forecast is for period $m - 1$ rather than period1.

In some books (e.g., Bowerman, O'Connell and Koehler, 2005), a regression-based procedure is used instead. They suggest fitting a regression with linear trend to the first few years of data (usually 3 or 4 years are used). Then the initial level $\ell_0$ is set to the intercept, and the initial slope $b_0$ is set to the regression slope. The initial seasonal values $s_{-m+1}, \dots, s_0$ are computed from the detrended data. This is a very poor method that should not be used as the trend will be biased by the seasonal pattern. Imagine a seasonal pattern, for example, where the last period of the year is always the largest value for the year. Then the trend will be biased upwards. Unfortunately, Bowerman, O'Connell and Koehler (2005) are not alone in recommending bad methods. I've seen similar, and worse, procedures recommended in other books.

**INFLATION RATE**

The percentage increase in the price of goods and services, usually annually,Inflation is the increase in the price of goods and services, measured by calculating how much the same goods would cost over time. Each year the cost is compared and is reported as a percentage increase per year.

**The formula for calculating the Inflation Rate looks like this:**

((B - A)/A)*100

**BETA NEGATIVE**

The volatility measurement of a stock which reduces the volatility of a portfolio once that stock has been added. The beta coefficient of a stock or portfolio is a comparison of its risk to that of the stock market, stocks which are added that reduce the risk can be said to have a negative beta.

If Beta is negative; that means stock moves less than the market and is less volatile

**Beta= formula.**

$$\frac{N*\sum XY-(\sum X)(\sum Y)}{N*\sum (X)^2-(\sum X)^2}$$

**ALPHA**

Alpha = Y- beta(X)

Where : Y- Average return to NAV return X- Average return to market index.

Alpha indicates that the stock return is independent of the market return. A positive value of alpha is a healthy sign. Positive alpha values would yield profitable return.

## REVIEW OF SOME SELECTED STUDIES

**"Climate change and tourism – scenario analysis for the Bernese Oberland in 2030" by Author(s): Hansruedi Müller, Fabian Weber Volume: 63 Issue: 3 2008** says that Findings – The ecological consequences of climate change are shown for the different destinations in the Bernese Oberland. The economic effects on tourism under changed conditions are estimated. The changes in tourism revenue, including adaptation measures, would result in annual losses of approximately 70 million CHF, or about -4 per cent.

**"Strategic positioning and performance of winter destinations" by Author(s): RuggeroSainaghi Volume: 63 Issue: 4 2008** says that .Findings – Two dimensions are of decisive importance: the commercial mix of customers attracted to the destination (distinguishing between day-trippers and longer-stay customers), and the structural mix of plant capacity and high turnover tourist accommodation facilities.

**"Make it memorable: customer experiences in winter amusement parks" by Author(s): TerjeSlåtten, Christian Krogh, Steven Connolley Research Volume: 5 Issue: 1 2011**says that Findings – One interesting discovery with practical implications for management is that both ambience factors – light, sound, and smells – and interaction among customers have significance for customers' positive emotions.

## RESEARCH OBJECTIVES

- To study volatility in Indian stock market while taking SENSEX of Bombay stock exchange as a source of secondary data which broadly represent Indian stock market.
- To study the factors which are making Indian stock market.
- To furnish institutional material relevant for understanding the environment in which stock market fluctuation are occurring.
- To study on Bombay stock exchange profile.
- To review market forecast provided by the organization about fluctuation in the market.
- To provide necessary finding & suggestion and conclusion.

## RESEARCH METHODOLOGY

**NATURE OF DATA**

Data used in this study is of secondary in nature. Sensex is taken as a source of information which widely describes Indian stock market. Here monthly prices of BSE Sensex, Inflation are taken for the study purpose.

**VARIBLE STUDIED**

bsesensex and inflation rate of these two variable were taken for the purpose of the study.

**METHOD OF DATA COLLECTION**

There are two methods of collecting data, Primary and Secondary data. In this study, major reliance is on secondary data. All the data are collected from the Bsesensex reports, for the one years i.e. from April 2012- March2013. Also includes data collected through websites and from books, magazines and technical and trade journals.

**REFRENCE PERIOD**

One year (2012-2013) were for the purpose of the study

**LIMITATIONS OF THE STUDY**

As the time available is limited and the subject is very vast.The study is general.It is mainly based on the data available in various websites &other secondary sources. The inferences made is purely from the past year's performance. There is no particular format for the study. Sufficient time is not available to conduct an in-depth study.

## DATA ANALYSIS AND INTERPRETATION

**TABLE 1: INFLATION RATE**

| Month | Inflation rate |
|---|---|
| Apr-12 | 2.3 |
| May-12 | 1.7 |
| Jun-12 | 1.66 |
| Jul-12 | 1.41 |
| Aug-12 | 1.69 |
| Sep-12 | 1.99 |
| Oct-12 | 2.16 |
| Nov-12 | 1.76 |
| Dec-12 | 1.74 |
| Jan-13 | 1.59 |
| Feb-13 | 1.98 |
| Mar-13 | 1.47 |

**INFLATION RATE**

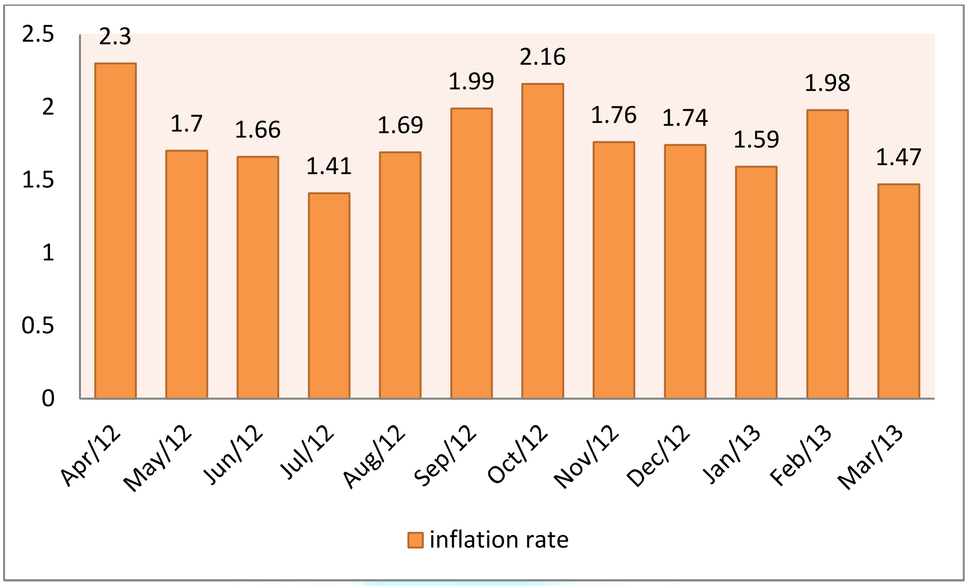



**TABLE 2: CALCULATION OF BETA**

| Month | X | y | Xy |
|---|---|---|---|
| Apr-12 | 0 | 0 | 0 |
| May-12 | 0.0731707 | -6.35309 | -0.464860419 |
| Jun-12 | 0.0755545 | 7.469543 | 0.564357346 |
| Jul-12 | 0.073062 | -1.11188 | -0.081236016 |
| Aug-12 | 0.0754423 | 1.121942 | 0.084641922 |
| Sep-12 | 0.0753854 | 7.64896 | 0.576620172 |
| Oct-12 | 0.0728987 | -1.37165 | -0.099991836 |
| Nov-12 | 0.0752738 | 4.509607 | 0.339455192 |
| Dec-12 | 0.0727908 | 0.448865 | 0.032673226 |
| Jan-13 | 0.0751624 | 2.410444 | 0.181174885 |
| Feb-13 | 0.075106 | -5.19448 | -0.39013631 |
| Mar-13 | 0.0677868 | -0.13663 | -0.009261518 |
| | **0.8116335** | **9.441633** | **0.733436645** |

**Beta= formula.**

N*∑XY-(∑X)(∑Y)

N*∑(X)^2-(∑X)^2

Beta as=0.03723

**From the above the table it is noted that beta has a negative value as -0.03723**

**BETA NEGATIVE**

The volatility measurement of a stock which reduces the volatility of a portfolio once that stock has been added. The beta coefficient of a stock or portfolio is a comparison of its risk to that of the stock market, stocks which are added that reduce the risk can be said to have a negative beta.

If Beta is negative; that means stock moves less than the market and is less volatile

**CALCULATION OF ALPHA**

Alpha:

Y-BETA(X)

**Alpha as=9.4718**

From the above the table it is noted that alpha has a positive value as 9.4718.

A positive alpha of 1.0 means the fund has out performed its benchmark index by 1%. Correspondingly,a similar negative alpha would indicate an underperformance of 1%.

**TABLE 3: FORCASTING OF INFLATION RATE ALPHA & BETA**

| Month | Inflation rate | LT(ALPHA) | BT(BETA) |
|---|---|---|---|
| Apr-13 | 1.06 | 1 | 44980562 |
| May-13 | 1.36 | 197144740.8 | 376408635 |
| Jun-13 | 197144740.8 | 4.384 | 449805603 |
| jul 1013 | 4.384 | 1.48 | 449805603 |
| Aug-13 | 1.48 | 2518911385 | 356026532 |

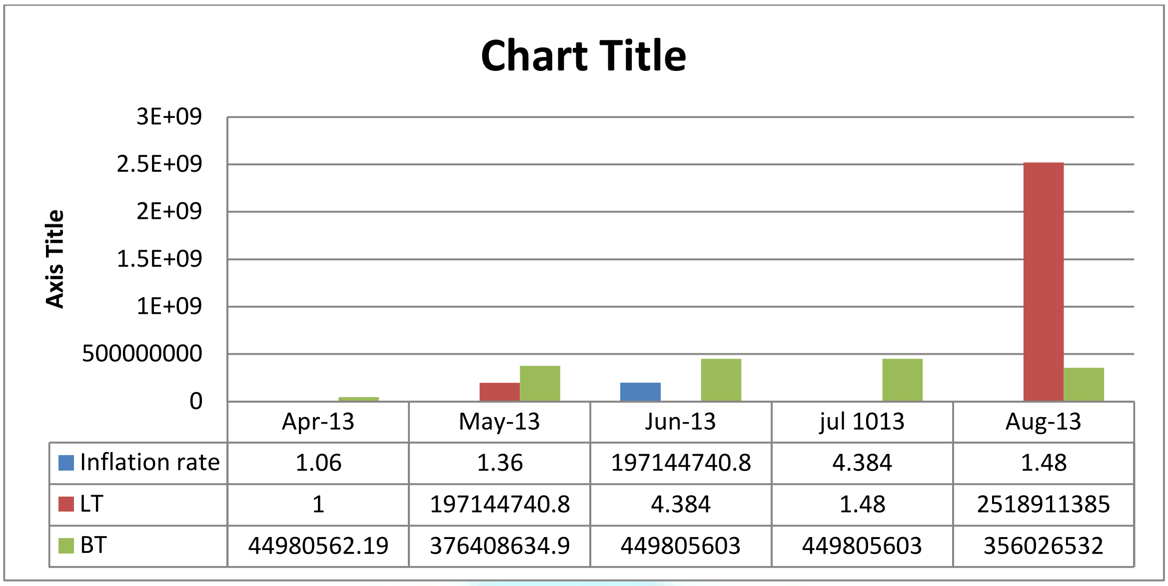



**TABLE NO 4: BSE SENSEX**

| Month | bsesensex |
|---|---|
| Apr-12 | 17,318.81 |
| May-12 | 16,218.53 |
| Jun-12 | 17,429.98 |
| Jul-12 | 17,236.18 |
| Aug-12 | 17,429.56 |
| Sep-12 | 18,762.74 |
| Oct-12 | 18,505.38 |
| Nov-12 | 19,339.90 |
| Dec-12 | 19,426.71 |
| Jan-13 | 19,894.98 |
| Feb-13 | 18,861.54 |
| Mar-13 | 18,835.77 |

**BSE SENSEX**

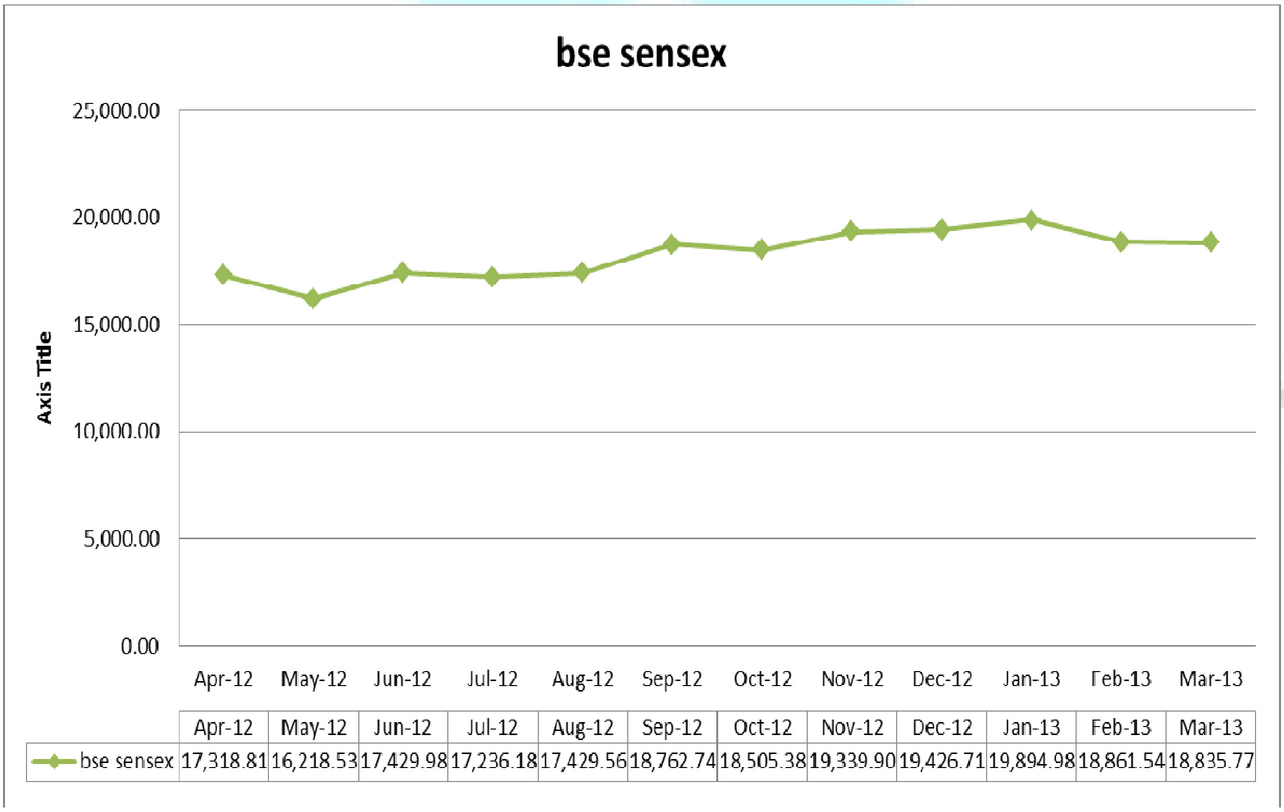
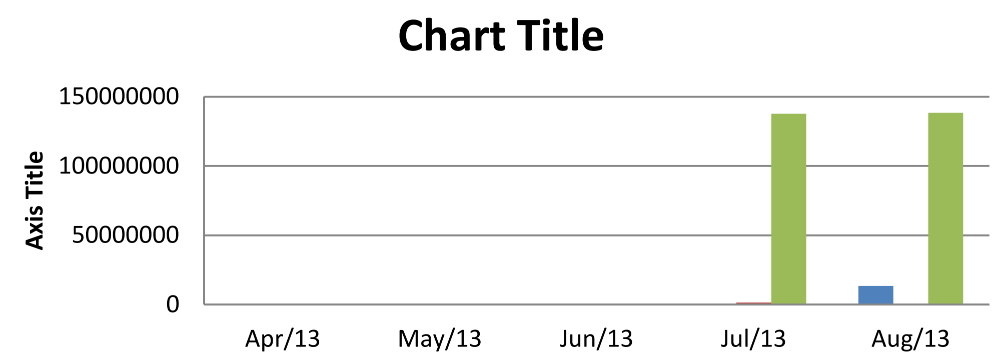


TABLE NO 5: FORCASTING OF BSE SENSEX ALPHA & BETA

| Month | bsesensex | LT(ALPHA) | BT(BETA) |
|---|---|---|---|
| Apr-13 | 19504.18 | 5.6 | 303508.5 |
| May-13 | 19760.3 | 5.68 | 303508.58 |
| Jun-13 | 19395.81 | 5.5 | 303515 |
| Jul-13 | 5.575 | 1347631 | 137789197 |
| Aug-13 | 13476310.2 | 1.93 | 138290919 |

FORECASTING BSESENSEX OF ALPHA & BETA




| | Apr/13 | May/13 | Jun/13 | Jul/13 | Aug/13 |
|---|---|---|---|---|---|
| bse sensex | 19504.18 | 19760.3 | 19395.81 | 5.575 | 13476310.2 |
| LT | 5.6 | 5.68 | 5.5 | 1347631.2 | 1.93 |
| BT | 303508.5 | 303508.58 | 303515 | 137789197 | 138290919 |

## CONCLUSION

In this study I tried to find out the impact of inflation rate and bsesensex on holt-winter method. The important result of this study is that the forecasting is determined by stock holt –winter method. Forecasting is major factor for the stock market boom in India the inflation rate and bsesensex are increasingly dominant in the holt –winter method

## REFERENCES

**BOOKS**

1. 'Security analysis & portfolio management' by punithavathypandian Inventory management v.kbhalla

**NEWSPAPERS**

2. Business line
3. Business standard
4. Economics times
5. The financial express

**WEBSITES**

6. www.bse.co.in
7. www.bse.india.com
8. www.centrum.co.in
9. www.en.wikipedia.org.wiki/stock_market
10. www.financialexpress.com/news
11. www.indianinfoline.com
12. www.mastercapitalindia.com
13. www.moneycontrol.com
14. www.sebi.co.in

# GLOBAL MARKET & GLOBALIZATION DRIVE – THE STRATEGIC NEED FOR BRANDS & PRODUCTS: A BUSINESS PERSPECTIVE ANALYSIS

*DR. S. P. RATH*
*PROFESSOR*
*INSTITUTE OF HOTEL MANAGEMENT*
*TAJ HOTELS, RESORTS & PALACES (IHCL) – A TATA ENTERPRISE*
*UNIVERSITY OF HUDDERSFIELD, UK*
*AURANGABD*

**ABSTRACT**

*Twentieth century experienced two world wars; it is obvious that the "Third World War" will happen in the 21st Century. The Third World War will be for water. To avoid any such apprehension the global people are careful in preserving the water through the concern and investments in preserving the nature and environment in any territory. Global fraternity is possible through globalization of business and social interactions. Every solution which is global demands, "Globalization". The world is moving towards a "Global Village". Governments have understood the need of other nations in the holistic development of their own and people of other nations in the balancing of the development pace. Globalization is a drive. Either business or industry, no one is spared from this drive. The corporate world moves to further enhance this process of the drive. Markets, products, brands and consumers are global. Global village and global customers is the business language of this century. There are strategies and needs of globalization in the business for survival, existence and success which are governed by commonsense and simple logic of understanding. Saying no to globalization is saying no to business.*

**KEYWORDS**

Global Strategy, Global Marketing, Market Participation, Products – Brands – Services, Regional Strategy, Competitive moves.

## 1. GLOBAL STRATEGY: SUCCESS, BENEFITS & CHALLENGES

The prominently dominating philosophy of business is "Think Local, Do Local & Go Global". Globalization is no longer an option for companies to consider. The principal reason for this is that most companies compete in a global marketplace. Companies compete in a global marketplace because of the spread of e-Business, Internet tools & Web networks. An industry is global to the extent that there are inter-country connections. For example, the U.S.-based company Tropicana (a unit of PepsiCo) sources oranges from Brazil and so has made significant investments in that country. The beverage industry, thus, is global. Multinational Corporations to Trans-National Corporations is a strategic migration of the industry in the globalization process (Hawkins, 2009). A strategy is global to the extent that it is integrated across countries. For example, Bausch and Lomb, which competes in the eyecare industry, use the Renu brand name for its contact lens solutions across the world. In a multi-local strategy, each country is treated as a more or less discrete unit for managing and there is limited integration across the worldwide portfolio of country-businesses. A multi-local strategy misses out on convergence of tastes, reduction of tariff and non-tariff barriers, the ability to amortize large investments across several markets, and the nature of competition shifting from country-by-country basis to a globalized one. "Carlsberg's Global Strategy," addresses many of these issues emphatically. The Carlsberg Group focuses on positioning its core products as premium brands in emerging markets in Eastern Europe as well as in Asia. This is in contrast to its rival SABMiller's approach to creating a large number of local brands. Carlsberg's approach takes advantage of falling trade barriers in North America and the continuing integration of Europe. "Magna International's Diversified Global Strategy." Magna succeeds as an OEM supplier in the automotive components industry through their integrated approach. The three components of a greater global strategy are: Developing the core strategy, internationalizing the core strategy & Globalizing the international strategy (Clark, 2000). To develop a core strategy, a company has to look at each business in its portfolio and address seven critical areas: selection of products/services to be offered, selection of the types of customers served, identifying the geographic markets, Isolating the principal sources of sustainable competitive advantage, developing the functional strategy for various activities, developing a competitive posture & deciding on an investment strategy. Once a core strategy is developed, the next step is to formulate an international strategy. This becomes imperative as the business expands outside its home market and begins to compete in one or more international markets. A truly global company is one that does business in all four hemispheres – eastern, western, northern, and southern. Such a company has the ability to go anywhere, deploy any assets, and access any resources. In short, such a company maximizes profits on a global basis. International means any market outside the home market. The two contrasting strategic approaches are multi-local (preferable to "multinational") and global. Regional, country, and worldwide are geographic units of analysis.

Financial risk reduction is the key benefit of internationalization. Research has indicated that internationalization increases financial returns and reduces risks. In addition, product life cycles can be extended, competitive advantage can be gained when international companies compete against purely domestic ones, and political and environmental risks reduced by competing in a portfolio of international markets. "Amazon's Market Participation". "Japanese Global Competitive Moves", "Salomon's Retaliation in Skis," and "European Hotels Strike Back," describes how a global strategy impacts specific dimensions. Increased economies of scale, lower factor costs, focused production (fewer global models), flexibility (moving production to a different location to capitalize on lower costs), and enhanced bargaining power help in cost reductions. Concentrating on a smaller number of products helps improve product and program quality (Toyota and Honda are good examples). Global availability, global serviceability, and global recognition (Coca-Cola) help enhance customer preference. Finally, a global strategy provides more points to attack and counterattack competitors (Kraft's 2010 acquisition of Cadbury's may have been motivated by the desire to counter Nestlé's global presence). "Whirlpool's Global Expansion in Appliances", may be a good way to start the discussion on the downside of global strategy. Whirlpool discounted the fragmentation of European cultures and mistakenly assumed homogenization such as in the U.S. Globalization can increase costs and reduce management effectiveness in individual countries. In fact, the downside may be felt in each global strategy lever (Collinger, 2003). India had long prohibited foreign retailers from competing in what is called the "multi-brand" retail segment. For example, a foreign retailer such as Wal-Mart is prevented from operating in India because a Wal-Mart store carries multiple brands of products (as opposed to a Nike store that sells only Nike brand products). In July 2011, the Indian government took important legislative steps to remove this ban. This means that soon foreign retailers such as Wal-Mart and Carrefour can operate in India. Protectionism is a force that works against globalization. Protectionism favors local companies by preventing foreign companies from competing in such markets (Bureau, 2010). The rise of nationalism (and the consequent interest in ethnic goods) can also work against globalization.

For a real life example, these well known brands are such success stories, Coca-Cola (that used World War II to start its internationalization process), PepsiCo (that started late and had to play catch-up to Coca-Cola in the international markets), Wal-Mart (that started out with a joint venture with a Mexican retailer in the 1990s) & Kraft (that is using its acquisition of Cadbury's to push its global strategy).

## 2. RESEARCH OBJECTIVES

a. To examine the product, brand and market trends influence on the industry in the context of globalization.
b. To evaluate the multinational companies strategic drive in the context of globalization trends and competitive moves.
c. To study the corporate policies, positioning and product strategies of the industry in the context of global market participation, global activities and competitive moves.

d. To analyze the corporate regional strategies, organizational factors & regional focus & global strategy.
e. To recommend strategic guidelines for the industry to stay global in globalization move.

## 3. RESEARCH METHODOLOGY

The methodology used in the research are qualitative analysis of global corporations strategy, product development, marketing move, brand and product positioning, supply chain dynamics and market competition. Multinational and Transnational companies' dynamic movements and actions in the market competitions, through regional strategies & global management of successful operations and profitability to stay as leaders were evaluated. Depth interviews were conducted of corporate professionals and operational heads for the analysis of the existing and future global strategic moves. Leading global brands and products were examined from the secondary sources in their strategic moves and meeting market competitions of the last two decades from North America, Western Europe, South East Asia, China, India and other developed economies. Conceptual and theoretical analysis was made to arrive at clear understanding of global marketing strategies and corporate moves in the business and operations contexts. Literatures of different sources of publications, reports, surveys, research documents, consortium reports and several symposium and conferences proceedings were examined to arrive at appropriate research findings and concluding remarks.

## 4. DRIVERS OF GLOBALIZATION – MARKET, SERVICE, COST, GOVERNMENT & COMPETITION

Divers of globalization are development. The principal market globalization drivers are: common customer needs and tastes, global customers, global channels, transferable marketing & lead countries. Common customer needs and tastes represent the extent to which customers in different countries want the same things in the product or service category that defines an industry. Japanese companies such as Toyota, Nissan, and Honda contended that car customer's world over look for reliability and economy and used these common needs to build successful global businesses. "Nestlé's Localized Innovation Strategy", looks at how Nestle innovates on a global scale using 28 strategically located R&D centers. Common customer needs around the world impact industry structural factors. They make it difficult for new entrants by giving an advantage to global players, while increasing the intensity of rivalry by making it difficult for incumbents to successfully differentiate their products or services (Carven, 2002). "DuPont Avoids the Race to the Bottom", which shows how DuPont avoids commoditization.

Service businesses provide a challenge in this respect because it may be difficult to standardize services and still meet the needs of a broad cross section of customers around the world. The rule of thumb here is: the less the involvement of the customer (for example, fast food versus education), whether physical or psychological, the better the opportunity for a global approach. The Internet has increased global commonality in customer needs and tastes by exposing customers to global offerings and other lifestyles. It has reinforced the appeal of globally recognized brands and has provided an opportunity for contender brands to compete effectively. The increase of global customers is a second market globalization driver. Global customers buy on a centralized or coordinated basis for decentralized use, or at least they select vendors centrally. Thus, Wal-Mart is a global customer for a vendor such as Procter and Gamble. There are two types of global customers. A national global customer searches the world for suppliers but uses the purchased product or service in one country. In contrast, a multinational global customer uses the purchased product or service in many countries. Having global customers drives a business toward developing globally centralized products (Raju, 1995). The presence of global customers and channels also impact service industries. As large corporate customers become global, they seek to do business with providers of standardized service worldwide. Accounting is a good example, which explains the growth of the "Big Four" (Deloitte Touche Tohmatsu, Ernst & Young, KPMG, and PriceWaterhouseCoopers) in the industry. Likewise, the Internet has enabled companies to become global customers.

The next market globalization driver is transferable marketing. It is likely that the marketing elements – such as brand names and advertising – require little local adaptation. Transferable marketing makes it easier to expand participation in geographical markets. Transferability here means the ability to use uniform marketing strategies. Transferable marketing can create entry barriers (it is difficult for a newcomer to counter Coca-Cola's global marketing), but also allow entrants to enter new markets with transferable marketing. Transferable marketing also ups the "ante" in rivalry because competitors must ensure that their marketing can be leveraged across multiple markets. Transferable marketing may be difficult in service industries which may require local staff to perform the service in each location and hence the marketing should feature locals. Even here, the marketing message can be the same and only peripheral items need be changed. The Internet has both enabled and demanded global transferable marketing. Internet-based marketing has inherent global reach – a website can be accessed from anywhere. In addition, the Internet mandates that vendors use globally standard brand names.

The final market globalization driver is the concept of "lead" countries. Lead countries are those in which the most important product or process innovations occur. Thus, Japan is regarded as the lead country for consumer electronics, Germany for industrial control equipment, and the U.S.A. for technology and services (Reid, 1999). In such cases, it becomes critical for global competitors to participate in these "lead countries" so that they can have access to the sources of innovation. The existence of lead countries can increase threat of entry (lead countries become prized targets for entry) and increase competitive rivalry because of importance of financial and strategic success in such locations. The lead country concept also applies to service businesses. This because typically global service businesses depend less on technology or skilled labor and more on having a strong business concept (for example, the 10-minute oil change) that is systematically applied globally.

Service businesses have characteristics that are distinct from product businesses. There are eight such characteristics: nature of the output (performance rather than an object), customer involvement in production, people as part of the service experience, greater likelihood of quality control problems, harder for customers to evaluate, lack of inventories for services, greater importance of the time factor & availability of electronic channel of distribution.

There are three broad types of service businesses. People-processing services (airliner, hotel, etc.) involve tangible actions to customers in person. Possession-processing services (laundry, car repair, etc.) involve tangible actions to physical objects to improve their value to customers. Information-based services (accounting, banking, etc.) depend on collecting, manipulating, interpreting, and transmitting data to create value. In addition to these three types of service businesses, service production and delivery systems can be divided into "back office" (what the customer does not see) and "front office" (that part that interacts with the customer). Global drivers affect service industries differently than they do product industries. Managers in service industries should be aware of the drivers that push their industry toward globalization.

Global scale or scope economies apply when single-country markets are not large enough to allow competitors to achieve optimum scale. Scale in any specific location can be increased when the firm decides to participate in multiple markets. When coupled with product standardization and concentration of selected value activities, this offers an effective way to compete. As the example of the global electronics industry (the case of Thomson and Audiovox) points out, the downside of this approach is rigidity and vulnerability to disruption. Economies of scope (the cost reductions from spreading activities across multiple product lines or businesses, such as using a common brand name) may be more of a motivator to internationalize than economies of scale. Companies such as Unilever and Colgate-Palmolive benefit from economies of scope in consumer research, product development, and marketing programs by operating in several countries. Global scale economies create entry barriers, particularly from national competitors who seek to enter other markets. In the disposable syringe industry, the fact that the minimum economic size in production amounts to 60 percent of the combined markets of the U.S. and Japan means that multinational players such as Becton Dickinson and Terumo have an insurmountable advantage. Global scale economies are harder to get in service businesses because factors such as lack of inventories work against them. Service companies gain scale economies by standardizing production processes and in concentrating on upstream value chain activities. The case of Yum brands is described as, "The Multi-brand Strategy of Yum!" Since scale economies are derived from investment in fixed costs, in particular, people-intensive service businesses face lesser scale economies than asset-based (such as McDonald's business systems) ones.

Technology has had an adverse effect on economies of scale. Technology generally reduces the minimum efficient scale for a given industry and has often led to the "deconstruction" of value chains. While technology may take away economies of scale as a motivation to globalize, the ability to replicate successful business models across markets may lead companies to globalize. Expanded market participation, product standardization, and activity concentration (all features of globalization) may help firms benefit from experience and learning curve benefits. The steeper the learning and experience slopes, the greater the potential benefit. The caveat here, though, is that these benefits should not be obtained by overaggressive pricing that may destroy competition and markets

(Sawhney, 2001). Centralized purchasing can lead to global sourcing efficiencies, although there are risks associated with this because of market volatility. This trade-off has to be managed carefully. Global sourcing can be an important aspect in service businesses too, as the McDonald's in Russia example points out. The Internet has allowed companies to source globally in an efficient way. Instead of laborious paper-and phone-based coordination of geographically dispersed suppliers and subsidiaries, technology-based networks enable efficient centralized sourcing. For example, General Motors, Ford, and Chrysler formed the Automotive Exchange Network to streamline global sourcing.
The need to concentrate production can also be driven by logistics benefits. Factors such as the ratio of sales value to transportation costs, nonperishability, the absence of time urgency, and the lack of a need to locate in close proximity to customers may drive this. On the other hand, favorable logistics increases the threat of entry because the low costs make it easier for foreign firms to export. In addition, favorable logistics also increases rivalry by expanding the geographic scope of competition. While service businesses typically do not benefit from favorable logistics, the exception may be in possession-processing services. The Internet speeds up global logistics and facilitates the operation of global production and supply networks (such as the Boeing Partner Network).
Arbitrage – taking advantage of the differences in country costs can provide a strong spur to globalization. This is because factor costs generally vary across countries, and more so for particular industries. Differences in country costs can increase the threat of entry as well as rivalry among existing competitors. Japan (as also the "four tigers" of Asia – South Korea, Taiwan, Hong Kong and Singapore) has successfully leveraged low factor costs in entering many international markets (BT, 2009). Rivalry among incumbents is increased because country costs differences create differential sources of competitive advantage. In service businesses, country costs differences favor possession-processing businesses more than people-processing businesses. While the Internet does not create country costs differences, it facilitates shifting activities to lower cost countries. Internet has favorably impact the growth in "offshoring" of activities. High product development costs relative to the size of national markets act as a driver to globalization. As the examples in telecommunications (the case of Philips) and pharmaceuticals point out, product development costs have increased over time. This necessitates developing regional or global products rather than national ones. The Internet reduces product development costs to varying degrees.
Government exercise of these trade barriers makes it difficult for companies to use the other global levers. The examples of media and oil industries reinforce this. Favorable trade policies, on the other hand, increase rivalry among international competitors by making it easier for them to compete in each other's markets. Government drivers are often favorable for both people-processing and possession-processing services that require a significant local presence, since they create local employment opportunities. The exception, as pointed out in the example of mobile services, may be when host governments want to protect their key home industries. The Internet weakens many government barriers to globalization, often sidestepping trade policies. Differences in technical standards among countries (as the Motorola situation in Japan points out) affect the extent to which products can be standardized. Government restrictions in terms of technical standards can make or break efforts at product standardization. The Internet spurred global technical standards. As the example it is pointed out, Japan lobbied other G8 nations for unified global rules on electronic financial trading.
The marketing environment of individual countries affects the extent to which uniform global marketing approaches can be used. However, common marketing regulations increase rivalry among existing international competitors by making it easier for them to invade each other's markets. The Internet allows companies to confront diverse marketing regulations effectively. The presence of government-owned competitors can increase the globalization potential of an industry. They can also increase the threat of rivalry (Schneider, 1991). While government-owned competitors can increase globalization, the presence of government-owned customers provides a barrier to globalization. This is because such customers usually favor national suppliers. The final global government driver is host government concerns. These concerns deal with the ability of global companies to relocate key activities to different countries, to reduce tax liability, to keep key value chain competencies outside their countries, and to make it difficult for host governments to control them by moving the decision making capability overseas. The most basic competitive driver is the level of exports and imports of both final and intermediate products and services. This is because the more trade there is between countries; the more competitors in different countries interact with each other, thereby necessitating a global strategy. When major competitors come from different countries or continents (such as P&G from the U.S. and Unilever from Europe in the detergents and personal care industry), the drive toward globalization is greater. A competitor may create competitive interdependence among countries by pursuing a global strategy. This comes from sharing activities (for example a production plant in Mexico producing for both the U.S. and Japan). Interdependence among countries benefits incumbents and make entry difficult. Interdependence also increases rivalry because it requires competitors to worry about their market share in multiple countries simultaneously (Clarke, 1999).
When a business's competitors use global strategy to exploit industry globalization potential, the business needs to respond by matching or preempting these competitors. Responses may include market expansion, being first to market or having a uniform marketing policy. Globalized existing competitors reduce the threat of entry from potential new entrants. They also increase rivalry by increasing the geographic scope of competition as illustrated by the Citicorp versus HSBC example. Globalization is driven by the global transferability of competitive advantage. In particular, technology-based competitive advantages are easily transferable. While competitive globalization drivers are present in service businesses, their effect is felt less strongly because most services yet cannot be centrally produced. The Internet increases the intensity of global competition in many ways, such as increasing the need for speed in response, enabling global signaling, allowing competitive comparisons among companies by customers, allowing easy transferability of competitive advantage, and by enabling companies to go global early. The starting point in developing an effective total global strategy is in understanding the globalization potential of the industry. Managers should use a prescribed set of guidelines to do this.

## 5. GLOBAL MARKET TREND – PRODUCTS & SERVICES

A business model is the way in which a company transforms inputs to add value for particular customer groups and the way the company is managed for this purpose. A strategy, on the other hand, is the way in which the company changes it business model. Not all business models transfer well. As observed, "Nokia Utilizes a Transferable Business Concept" Nokia's business model transferred very well. Those that seek to impose the company's logic on the market do better than those that adapt to customer needs. McDonald's is an example of the former, while Marks and Spencer is an example of the latter. Benetton, Zara, Wal-Mart, IKEA – reinforce this point quite well. Customer market advantage refers to the advantage gained by being the first mover. This means the company is the first to create a new market or first to serve a group of customers. Xerox in photocopiers is a great example.
The just-in-time (JIT) approach is an example of better coordination leading to a competitive advantage. Coca-Cola's brand name is an intangible asset that provides the company a competitive advantage (Carter, 2001). They can combine this with their physical (tangible) assets (distribution system) to succeed in their markets. The right partners can provide a company a competitive advantage. Microsoft's partnership with IBM and Rover with Honda are cases in point. A strategic country-market is one which accounts for a large source of revenues or profits, or is the home market of global customers or competitors (Japan in the air-conditioning industry), or is a significant market of global competitors (the U.S. for Hertz and Avis), or is a major source of industry innovation. Globally unimportant markets need not be entered into as part of a global strategy, or, if entered, do not have to be integrated globally. In other words, such markets can be managed on a stand-alone basis. Expanding market participation helps reduce costs by increasing volume for economies of scale. In addition, presence in lead countries, and exposure to their demanding customers and innovative competitors, can help a business improve the quality of its products. The key here, though, is a company's willingness to learn from these countries. Global market presence can enhance customer preference through global availability, global serviceability, and global recognition. An example is the advertising agency, McCann-Erickson serving Coca-Cola globally. Finally, a global strategy approach to market participation can increase competitive leverage in the various ways described above. International joint ventures represent a special case in market participation. Just because an industry is dominated by multinational companies does not necessarily mean that the industry needs a global approach. The consumer packaged goods industry is dominated by multinationals such as P&G and Unilever and yet is generally managed as a set of stand-alone businesses. The BRIC countries (Brazil, India, and China) are regarded as strategically important markets because of their current size and growth prospects. It is possible that in five or ten years' time, the newly industrialized countries of today would become strategically important.
"Honda's Adjustable-width Platform" and "Toyota's Flexible Manufacturing" illustrate how automotive companies are approaching global standardization of their products. As a case in contrast, "Volkswagen's Overcustomization" points out the perils of extreme customization for a specific market, in this case the

United States. Businesses can standardize the worldwide mix of products as well as the content of a product. For example, "Fiat's third-world Global Car" points out; Fiat used Brazil to develop a car for poorer countries. "Tata Nano" is a good illustration of cost savings from product standardization (BT, 2010). Product standardization can also improve product quality. This is because often reducing the worldwide number of products, through standardization, allows financial and management resources to be focused on a smaller number of products. Globally standardized products can increase competitive leverage by providing low-cost products that can be the basis for invading markets. Japanese companies used this approach to successfully enter many markets even when they were resource constrained. The principal drawback of global product standardization is that some aspects of national needs may have to be sacrificed. Examples such as American appliances that was too large for Japanese kitchens or Japanese calculator pads being too small for American fingers helps bring home this drawback. Trade barriers can greatly restrict a company's ability to offer a globally standardized product line. American and European manufacturers in the automobile and consumer electronics industries have tended to follow their Japanese competitors in offering globally standardized products. The Tata Nano can become a global product if it is adapted to meet the needs of multiple markets and is sold as a standardized product in these markets.

## 6. GLOBAL ACTIVITIES & MARKETING

An export-based strategy means that the firm has chosen to locate as much of the value chain as possible back home, while locating downstream activities close to the customer. Not much coordination is required here as there are few assets overseas and little international variation in product offerings. The theory of "comparative advantage" is often used in economic theory to address the location choices of multinational companies. According to this theory, multinational companies should locate activities in countries where the costs of raw materials, labor, and other factor costs are lowest for a given level of productivity. Additionally, factors such as tax benefits and other forms of governmental aid are relevant considerations as illustrated by Japanese auto companies in the U.S. Other considerations include broader issues of productivity and quality, convenience for shipping to other countries, reliability of the workforce, the cost of capital, the economic infrastructure, and the extent of political risk. The country of origin effect on customers is also an important consideration. As an example of locating the R&D activity in a country with highly demanding customers, in recent times China and India are two emerging markets that fit this characteristic well. China seems to be favored in electronics, while India is the preferred choice in pharmaceuticals. For manufacturing, globally strategic countries are those that offer an attractive investment climate as well as factors and conditions on which to build comparative and strategic advantage. Currency exchange rates have a direct effect on relative country costs and, therefore, on the competitive positions of companies. As the Caterpillar and Komatsu example points out, adverse exchange rates can make a company uncompetitive. Companies need to recognize the strategic as well as financial risk posed by currency changes. Companies have to realize that an unfavorable currency movement may not just be unfavorable; it could be favorable to the competition. Given the difficulty of forecasting exchange rates, global managers can choose among speculation, hedging, or being flexible with respect to shifting production with exchange rate shifts. Apple is a good case in point. Its strategic advantage comes from its design capability and strong name recognition. However, in order to compete with global competitors, Apple had to add comparative advantage to its strategic advantage by locating its production to low labor cost countries. The best global strategies combine strategic and comparative advantage to yield global competitive advantage. Unilever went from 13 factories in Europe in 1973 to just 4 by 1989. Such an approach can also exploit economies of scale by pooling production or other value-adding activities. In general, people-processing businesses have to locate the processing activity where customers live, work, or shop. This means that typical people-processing services (such as a restaurant) need to maintain facilities around the world. Location needs for possession-processing activities depend on the ratio of service value to transportation cost. Thus airlines go in for centralized maintenance centers rather than have multiple centers around the world. Most information-based services are easy to locate globally. In many cases, no local presence is needed at all. In the future, we shall see a greater distinction between services that require an on-site "factory" (typically people-processing type of services) in each country and those that require only a delivery system. "Sony Ericsson Joint Venture's Reverse Supply Chain System" describes how a service provider, UPS, works with the telecom company to save costs on reverse logistics.

Global marketing is the fourth global strategy lever that companies can use to globalize their strategy. It is important for the instructor to emphasize the following point early on to avoid confusion: global marketing is not about standardizing the marketing process. Instead, it means striving for the appropriate balance of global uniformity and local adaptation in all elements of the marketing mix, but with a probable bias in favor of uniformity and local adaptation unless a good case can be made for local exceptions (Berry, 1991). Every element of the marketing mix (product design, product and brand positioning, brand name, packaging, pricing, advertising strategy, advertising execution, promotion, and distribution) is a candidate for globalization. Global marketing helps build global recognition that can enhance customer preference through reinforcement. The Coca-Cola in China example underscores this point. Improved program effectiveness is often the greatest benefit of global marketing. Global marketing goes against the conventional wisdom of adapting to local markets. But, as the Pepsi example in the text points out, global marketing is not about forcing a domestic program onto the international subsidiaries. Instead, a global marketing program should be designed from the start with the needs of major target companies in mind. "Nike as a Preeminent Brand in Global Sports". "Qantas as an Australian Icon". Being too strongly positioned as a global company now invites attention from anti-globalization protesters (the McDonald's example). "Muji as a Brandless Brand". The ability to use global packaging depends on factors such as the amount of information that needs to be communicated, the need for differentiation from competitors, the similarity of usage patterns and measurement systems, and the acceptability of multi-language labeling. Companies have to realize that while physical packages do not travel through the Internet, pictures of them are often displayed on Web sites. Companies need to think out a deliberate policy as to whether they wish to facilitate or discourage cross-border recognition or comparison.

Global pricing can bring the benefits of consistency with global customers and distribution channels and the avoidance of "gray market" parallel importation or "transshipment." This is more so in the case of manufacturing companies (Ganesh, 1998). In contrast, the lack of inventories in many service businesses means that such firms need worry less about using global pricing. It is relatively difficult to buy a service in one country and to resell it in another. The "McDonald's Big Mac Price Index" example will be of interest to students. The Internet makes prices transparent and so companies should be aware that customers can make price comparisons. The tactical and short-term nature of sales promotion makes it probably the least likely candidate for globalization. Globalizing promotion probably makes sense on an opportunistic basis only – encouraging other countries to adopt a campaign or device successful elsewhere. The extent to which headquarters should be involved in local promotion strategies depend in part on whether local, regional, or global brands are involved. Global selling can involve using a uniform selling approach, global account or customer management, or a centralized sales force. Using a uniform selling approach can bring the usual multinational benefits of ensuring best practice and high standards of behavior. In particular, the use of global account management (GAM) can be a highly effective way of serving global customers. Global marketing presents a special difficulty in market research. Companies may end up doing too much research (the Marlboro example) or doing the wrong kind of research. If there are good strategic reasons for global marketing, market research should be used to discover how to make a global program work better rather than pit it against each possible local program. Using global marketing allows managers to compare market research results from different countries. The Unilever extended example provides a good illustration of using global marketing for a consumer (business to consumer) product, while the Hewlett-Packard example does the same for a business-to-business product.

## 7. INTERNATIONAL COMPETITIVE MOVES

Making globally integrated competitive moves comprises the fifth and last global strategy lever. Apple and Microsoft, the history of competitive rivalry between the two computing behemoths goes back to the 1970s. The 1980s and 1990s saw the ascendance of Microsoft, while the introduction of the popular "i" products (iPod and iPad) brought Apple back to dominance. The competition between these companies is played out on the global stage. Counterparry is a special case of cross-subsidization in which an attack by a competitor in one country or region is countered by a response in another. Such a counterparry has the intention of retaliating where the competitor can be hurt most. For example, a business attacked in its home country retaliates in the home country of the attacker. Coca-Cola and Pepsi have used this global strategy lever in their worldwide competition. "Dell's Competitive Position," and "PwC's Global Flexibility and Adaptability," attest to the benefits of globally integrated competitive moves. The key benefit of globally integrated competitive moves lies in magnifying the resources available in a single country or region for competitive actions by leveraging the global resources of a business. Successful global companies transfer their competitive advantages quickly and effectively around the world (Ries, 2003). Timely global transfer of critical capabilities and advantages is probably the single biggest factor in the success of overseas subsidiaries and hence the overall global strategy. Wal-Mart versus Carrefour in the retail industry, Ford versus General Motors in automobiles, and Dell versus Hewlett-Packard are good examples. All these competitive battles take place on a global stage and can illustrate the need for well coordinated moves.

## 8. GLOBAL ORGANIZATIONS DEVELOPMENT

Organizational factors complete the globalization triangle, along with industry globalization drivers and global strategy. Organization structure comprises the reporting relationships in a business. Management processes comprise the activities such as planning and budgeting that make the business run. People comprise the human resources of the worldwide business and include both managerial and non-managerial employees. Finally, culture comprises the values and rules that guide behavior in a corporation. One of the most effective ways to develop and implement a global strategy is to integrate or centralize authority so that all units of the same business around the world report to a common global sector head (Reischauer, 1997). This is not easy to do as most companies are tied to a strong country-based organization structure. In some cases, an alternate approach is to appoint global business directors who operate across the functional and geographic organizations. Finally, another option is to have global heads of individual functions or value-adding activities. These heads can have either direct line authority over the function or a staff-like coordination responsibility. A common structural barrier to global strategy is the presence of an organization split between a domestic and an international division (such as the one that Wal-Mart has). In such a case, a global strategy can be fully coordinated only at the level of the CEO's office. When MNCs operate multiple businesses, the need to manage across both countries and businesses adds to the complexity of the challenge. Most MNCs have addressed this issue by becoming "transnational" companies. "Coca-Cola's Balance of Global and Local Strategies," and "IBM's Globally Integrated Enterprise," instead of changing the organization structure, an alternative would be to assign to a specific country the lead role in developing a product and to see that product's spread into other countries and to its adoption. That is, the country in question acts as the strategic leader for the product. Because of the small size of their home markets, European MNC's typically give more autonomy to their foreign subsidiaries than have their American and Japanese competitors. American MNCs, on the other hand, have generally favored a domestic/ international division type of structure, which offers tremendous challenges in integration. Japanese companies have tended to favor greater integration and reduced autonomy to their subsidiaries.

Creating cross-country coordination mechanisms provides a way to make up for the lack of direct reporting structure. The lack of coordination can bring drastic consequences. Cross-country coordination mechanisms range from information sharing (considered the least coercive) to setting direct requirements (considered the most coercive). In general, informing, negotiating, clearing, and directing represent critical functions in cross-country coordination, although they need to go beyond paper shuffling. Global teams have become popular to facilitate cross-country coordination. Additionally, some companies use global product managers or global account managers for the same purpose. While most MNCs are good at developing corporate and national strategic plans, they are not proficient in developing global strategic plans that integrate the strategies of the same business in different countries, let alone integrating strategies across multiple worldwide businesses. Lack of a global strategic plan impedes offering integrated strategic responses on a worldwide basis. Global strategies and programs need global budgets to implement them. While this is easier said than done, not all companies do this well. In some cases, their accounting systems prevent them from having a global strategy. In other cases, the challenge is to have global budgeting processes that provide for geographically neutral costs as the base point. Finally, in some cases, companies do not have global budgets that are available only for global programs. Managing customers on a global basis has become increasingly necessary. High-potential foreign nationals need to gain experience not just in their home country but at headquarters and in other countries. Such a practice broadens the pool of talent available for executive positions, it visibly shows the commitment of top management to internationalization, and it gives talented individuals an irreplaceable development opportunity. Making work experience in different countries a necessity for progression, rather than a hindrance, is another important step that helps a company become truly global. Such a step has an important additional benefit of gradually creating a group of subsidiary managers who are likely to be more sympathetic to global strategy.

A strong national identity can hinder the willingness and ability to design global products and programs. It can also create a "them or us" split among employees. A truly global culture would transcend the nationality of the home and other countries (Woomack, 1990). The P&G example is a good way to illustrate this point. Many companies view their domestic employees as somehow more important than their foreign employees and are much more committed to preserving domestic employment than to developing employment regardless of location. Such a cultural bias hinders globalization. A culture of local business autonomy, when carried too far, can be a barrier to globalization. The culture needs to balance the celebration of autonomy with the recognition of interdependence. Companies pursuing a global strategy need to develop cultural characteristics that match their specific strategies. Globalization can incur organizational as well as strategic drawbacks. Increased costs and reduced management effectiveness are chief among them. But the goal should be to minimize these drawbacks.

## 9. DEFINED STRATEGY – REGIONAL STRATEGY

Regional strategies should be developed in the context of an overall global strategy. A company first needs to have a clear global strategy. Next, the company needs to decide on the overall role of the region within the global strategy. The next level is that of a country where decisions such as entry mode, partner selection, and business strategy have to be decided. Finally, the issue of implementing the strategy at the operational level must be considered. An increasing number of regional organizations now provide some degree of macroeconomic and/or political integration for many countries. Today, we have customs unions, border unions, monetary unions, and political unions. Some countries belong to multiple regional entities, and many regions offer multiple organizations. The task of the MNC is to make the best use of these formal similarities and integrating forces as well as others (such as culture and contiguity) to develop effective regional strategies analogous to the global strategies discussed in the earlier chapters. Regions can be identified by using various factors (culture, physical environment, history, language, etc.) to address the issue of similarity. For MNCs, the European Union (EU) provides the most clear-cut region in the world. With the adoption of the Euro as its currency, this region has become even more integrated. Most MNCs treat countries such as Poland, Hungary, and Romania as members of the Central and Eastern Europe region. Countries of the former Soviet Union (Russia being the principal one) form a region. So do countries of the Middle East (the Islamic countries). The advent of the North American free Trade Agreement (NAFTA) formed a regional union of the U.S., Canada, and Mexico. Members of Latin American countries form a region, although attempts at economic and trade liberalization in this region have met only with limited success. Most MNCs treat Africa as a region, although some make the distinction between sub-Saharan Africa and the Arab countries of North Africa. Asia-Pacific is the largest, most populous, and most diverse of the regions commonly used by MNCs.

Each market globalization driver can act as a market regionalization driver. Potential regional commonalities (culture, history, etc.) can be strong drivers to create regionally common needs and tastes. Products and services that have strong cultural roots in their use can be candidates for cultural commonality. In many industries it is easier for regional rather than global customers and channels to emerge. Transportation, trade, or other barriers can prevent many customers and channels from going fully global. Most industries should offer more opportunities for regionally, rather than globally, transferable marketing. Finally, lead countries can emerge, or be created, more easily on a regional rather than global basis. For example, Japan has become a fashion leader for younger consumers in much of Asia, but much less so in the rest of the world. "LG Develops European Test Market for Global Strategy," and "Acceptance of Lexus in United States Leads to Global Trend". Companies operating regional production sites can usually benefit by sourcing regionally. Transportation costs limit many industries to regional rather than global movement of products. Products with logistic costs that are high relative to price and margin (steel, wood panels, etc.) impose a regional restriction on manufacturing. Differences among regions in production or activity costs may become so great that some regions become prohibitively expensive and other regions possess a formidable advantage. Regional groupings can create strong competitive effects within them and usually more quickly than effects from global competitors coming from outside a region (Viswanath, 1997). Since the main purpose of regional trade policies is to increase intra-region trade relative to inter-region trade, MNCs face significant competition from within their own region. As regional groupings spur the creation of regional activity networks, industries rapidly become regional, at least on the supply side. Competitive advantages can be regionally based or extended to a regional level as a consequence of regional integration.

The EU can be used as a case in point to show how industry globalization drivers can be analyzed for an entire region across all its industries. Various governmental globalization drivers – favorable trade policies, outlawing of subsidies, and compatible technical standards – have helped these nations to coalesce, although other factors such as lack of common marketing regulations, the presence of governmental competitors and customers are still present. Europe 1992 increased the strength of each of the competitive globalization drivers. Exports and imports within the EU increased. The number of competitors from different European countries in each country increased, the large market size attracted competitors from outside the region, and the competitive interdependence of companies has increased as companies have built manufacturing and distribution networks that are continental, rather than national in scope. Companies are increasingly adopting pan-European strategies. Market drivers for Europeanization have increased. Customer needs and tastes are converging, Euro-wide customers and channels are increasing in importance, transferable marketing is becoming the norm, and lead countries (for example, London for pens and watches) now play greater role.

Global strategy levers can be used at the regional level in addition to or instead of at the worldwide level. In fact, researchers have pointed out that this easier than implementing it at the global level. As far as market participation is concerned, regional integration can call for the need to expand rapidly to all major markets in a region for both offensive and defensive reasons. Nokia expanded regionally in Europe and from this consolidated position it expanded globally. Designing regional rather than global products and services requires fewer complexities and is more appropriate when there are strong interregional differences in customer needs and tastes (as the example of cars – size and features – illustrates). Many companies now build region-wide activity networks that are easier than global networks to operate because of limited time zones, limited geographic distance, and minimal or zero regional tariffs. Convergence of regional needs and tastes, growth of regional media and channels of distribution and harmonization of regional marketing regulations all can make regional marketing feasible relative to multi-local marketing and much easier than global marketing. Strengthening competitive regionalization drivers spur companies to pay attention to regional competitive moves. The examples of Nokia, DHL, and Ikea all attest to this. In many cases, the use of regional as opposed to global strategies should be viewed as partial or temporary solutions. This is because studies have found mixed results in terms of performance of regional versus global strategies. In addition, industry drivers that had initially favored regionalization may now favor globalization. An interesting example would be the automotive industry and the regionalization of the Asian market. It is possible that this industry had to be approached on a nation-by-nation basis in the past, but the rise of the Indian middle class (for example) and the spread of the supplier base has caused carmakers to look for a pan-Asian approach.

## 10. GLOBAL STRATEGIC FOCUS

Measures can be made at both global and regional levels. It depends on which measure is more useful. If customer needs are more common in a region (e.g., the EU) than across regions, then the relevant unit of analysis is the region itself and also countries within the region. In measuring, it is important to receive input from representatives of the major regions or countries in a business. Involving a broad array of managers from different geographies and functions helps in getting the right perspective. Measuring market globalization drivers requires making some qualitative judgments in addition to quantitative estimates. Common customer needs and tastes is perhaps the most difficult driver to measure, because customer need in a product or service category is actually a bundle of different needs.

Industries that sell to organizations, the extent to which there are national global customers can be measured by the share of worldwide market sales to customers who search the world for vendors. The extent to which there are multinational global customers can be measured by the extent to which these customers buy or select centrally for global use. The extent to which there are global channels can be measured by the share of worldwide sales through channels of distribution that buy or select centrally and an analogous measure can be used for regional channels. Marketing transferability can be measured by analyzing the extent to which customers around the world accept or would accept a foreign element of the marketing mix. Lead countries can be easily identified as those in which the most important product or process innovations occur (TNN, 2010). Whirlpool's Global Supply Chain Optimization". Differences in country costs can be measured in two ways. One measure is to compare fully loaded hourly cost of the most common form of production labor in the industry. The second is to compare the total unit cost of production between the highest and lowest cost countries. Product development costs can be measured by the total cost of developing a major new product or service as a percentage of the expected lifetime sales of the product or service. Finally, the rate of change of technology can be measured by the market life of typical new products. Tariffs are measured by their charge as a percentage of the pre-tariff selling price. The level of government subsidies is measured by their effect as a percentage of the selling price. The strength of quotas and other nontariff barriers is measured by the share of a country's market that is blocked by imports. Technical standards compatibility is measured by the percentage, in cost, of the typical product that is in technically compatible components worldwide. While challenging, common marketing regulations can be measured by estimating the proportion of the industry's worldwide marketing expenditures that are in activities allowed in every country. The extent of government-owned competitors or customers can be measured by their combined global market share. Exports and imports are measured by their share of the world market size. By counting the number of continents that are the home of global competitors, one can gauge the extent of competition from different continents. Whether countries are competitively interdependent can be measured by the degree to which individual competitors share activities within a global network. Globalization of competitors can be measured by determining each competitor's extent of globalization and calculating an average for the industry. Transferability of competitive advantage can be measured by determining how long it would take for companies in the industry to recreate advantages in new countries and how much it would cost to make the transfer. While there are several ways to measure global share balance, the simplest is to compare the percentage split of the worldwide business's revenues accounted for in each country with the percentage split of the world market accounted for in each country. The extent of market presence can be measured by the number of selling countries and by global coverage. "The Smartphone as a Global Product Offering". In terms of global location of activities, each activity should be analyzed in terms of how the geographic share of expenditure on that activity compares with the geographic share of the worldwide business's revenues. The concentration of the entire value-adding chain can be measured by using the weighted average of the concentration indices of individual value activities. In terms of measuring global competitive moves, two – the use of counterparries (measured by how often a business responds to a competitive attack in one country with a move in a different country) and the use of a globally coordinated sequence of moves (the number of countries involved in each sequence of moves) – can be measured more easily than the others. The adage here is "executives manage what is measured." Since globalization factors are dynamic rather than static, they should be measured periodically and particularly when factors such as technology and government regulations change. While one manager (or team) should be given the task of measurement, input from managers in different geographic locations and functional areas should be solicited.

## 11. GLOBAL STRATEGY ANALYSIS

Business definition is an important issue, because a global strategy analysis is often more effective by starting out with a piece of the business rather than with the entire business. Classical definitions of a business focus on three dimensions: product (or service) function, technology employed, and customer groups served. In the global context, the geographic dimension must be added. Given the constraints of time and other resources, the approach to identifying key markets is to split it into two levels, first by region and then by country within each region (KIIMS, 2010). Such a split reduces the number of geographic entities that need to be considered at one time. More importantly, this enables the team to view all key markets spread across one exhibit as a comparative chart. This way they can generate new understanding and insight by comparing and contrasting across regions and countries. Important information about each country-market, such as market size, stage of product life cycle, etc. allows the team to compare countries and identify key markets. It is important to convert all currencies into the currency of the headquarters country at historical exchange rates. The global team should identify all countries or regions in which the business already participates or might do so. Then, it should develop its own list of sub-factors (such as market size, market growth rate, barriers to entry, etc.) to assess each of the three factors identified above. The team should then assign a weighting to each sub-factor such that the total for all sub-factors sums to 100 points. The team should then rate each country or region on each individual sub-factor on a scale of 0 to 10. To arrive at a total rating for each country, the weights and ratings should be multiplied together and summed. Finally, the total country ratings should be adjusted for country risks such as political instability, the risk of expropriation, and the risk of currency devaluation. The resultant ratings should be used as one input to the decision on country selection and not use it in a mechanistic way. Instead, the team should solicit the input of managers familiar with the individual countries as well as use their own individual judgment. Various analytical and display techniques can help diagnose the individual global strategy levers. A key aspect of a global approach to market participation is the extent to which the business's revenues are in geographic balance with those of the market as a whole. The key analysis needed for product standardization decisions is the calculation of potential cost savings.

Counter globalization philosophy has also started taking the stronghold in some business organizations which feels and operates in the national domain- "Think Local, Do Local & Let the Globe Come to You". Such strategy in business and marketing are also global. As per the world demographic trends the demographic dividend countries will be sending almost 300 million young manpower to the developed world to manage the business and industry in the developed world between 2020 to 2050 (Rath, 2012). This new development will make India a global player in strategic globalization. Global trends in the next decade will be more adaptive to Indian value chains. China in this context will be lagging from 2020 onward due to its aging population and it will need 10 million manpower to manage business.

## REFERENCES


1. Abbegglen, J. C. & George S. Jr. Kaisha. 1985. The Japanese Corporation. New York, Basic Books Inc.
2. Berry, L.L. & Parsuraman A.,1991, Marketing Services, Competing through quality, Free Press, Maxwell Macmillan, Canada
3. Braithwaite, J. "Transnational regulation of the Pharmaceutical Industry". Annalsof American Academy of Political and Social Science, 525 (January 1993): PP. 12-30.
4. Bureau, (2010), The Business Standard, 14 Feb. 2010, p.6.
5. Business today, 2009, 2nd FN, Jan. 2010.
6. Calder, B.J., 2001, Understanding Consumers, Edited book, Kellogg on Marketing, John Wiley, USA, pp 151-163
7. Carter, D.E., (Editor), 2001, Blue is hot Red is cool, HBI & David E., Harper Collins, NY, USA
8. Carven, R., 2002, Customer is king, How to exceed their expectations, Virgin Books, U.K.
9. Clark, S., 2000, The Co-Marketing solution, AMA, NTC business books, USA
10. Clarke, Irvine III. "The Harmonization of Product Country Marking Statues: Strategic Implications for International Marketers". Journal of International Marketing, Issue – 7, No. 2, (1999): PP. 81-103.
11. Collinger, T., 2003, The Tao of customer loyalty: getting to "My brand, My way", Edited book, Kellogg on integrated marketing, John Wiley, N.J., USA, pp 16-37
12. Ganesh, J. 1998. Converging trends within the European Union: Insights from an analysis of diffusion patterns", Journal of International Marketing, Issue -6, No.-4, PP. 32-49.
13. Gutara, Prabhu. "Multicultural aspects of Managing Multinationals". Management Japan, 26 (Spring 1993): PP. 7-14.
14. Hamel, G. & C.K. Prahalad, "Strategy as Stretch and Leverage". Harvard Business Review, Issue – 71, No. -2 (March/ April 1993): PP 75-85.
15. Hawkins, D.I., Best, R.J., Coney, K.A. & Mookerjee, A., 2009, Consumer Behaviour, Building Marketing Strtegy, Tata McGraw –Hill, New Delhi
16. Jain, D., Managing new product development for strategic competitive advantage, edited book, Kellogg on marketing, John Wiley, USA, pp 130-137
17. Kakkar, P. (2009), Brand Equity, The Economic Times, 9 Aug. p.2.
18. Kapferer, Jean- Noel, Strategic Brand Management, Global Business Press, New Delhi.
19. Kapoor, J. 2004, Brand Switch, Jaico Publishing, Mumbai, India, pp 91-104
20. Khandekar S. (1995), Study by Advertising and Marketing, Oct. 15, 42-50.
21. KIIMS International Management Conclave (2010), Conference on Sustainable Development, Feb. 19-20, Bhubaneswar, India.
22. Lindstrom, M. & Seybold, P.B., 2003, Brand, Kogan Page, U.K., pp 111-136
23. Lynn, G.S. & Reilly, R.R., 2002, Block Buster, Harper Business, NY, USA
24. Magrath, A.J., 1993, How to achieve zero defect marketing, Amacom, American Management Association, NY, USA
25. Marketing White book, 2012, Business World
26. McNeal, J.U., 1992, Kids as customers, Leington books, NY, USA
27. Mikunda, C., 2004, Brand Lands, Hot spot & cool spaces, Kogan page, U.K., pp 35-56
28. Moorthy, YLR., Brand Management – The Indian context, Vikas Publishing House, New Delhi, 2007, p.80. 99.
29. National TV Ad Recall survey, (2006), IMRB, New Delhi, India.
30. Pizam, A. "Life & Tourism in the year 2050". International Journal of Hospitality, Issue – 18, No. 4. (1992): PP. 5-17.
31. Pringle, H. & Thompson, M., 1999, Brand Spirit – how cause related marketing builds brands, John Wiley, U.K., pp 51-87
32. Raju. P.S. "Consumer Behaviour in Global Markets: The A-B-C-D Paradigm and its Application to Eastern Europe & Third World". Journal of Consumer Marketing, Issue – 12, No. – 5, (1995): PP. 37-56.
33. Rath, S. P., (2012), 1st Edition, Social Marketing & Tobacco Consumption Control, Lambert, U.K.
34. Rath, S. P., (2013), 1st Edition, Demography of India – Challenges & Dynamics of India's Population & Census, Lambert, Germany
35. Rath, S.P., (2012, November), Demographic Dividend of India: The Route to Future Economic Super Power by 2050: A National Strategic Management Need, International Journal of Business & Management Tomorrow,Vol.2, No. 11, ISSN – 2249 - 9962
36. Rath, S.P., Das, B., Mishra, S. & Jayaram, S., (2012, April), Challenges of HRM in U.K. Companies: Future Focus for the Next Decade, International Journal of Business & Management Tomorrow, Vol. 2, No. 4, ISSN – 2249 – 9962
37. Reid, D. M. H. "Changes in Japans Post-Bubble Environment: Implementations for foreign – affiliated companies". Journal of International Marketing. Issue – 7, No. – 3 (1999): PP. 38-64.
38. Reischauer, Edwin O. The Japanese, Cambridge, MA: The Bleknap Press of Harvard University Press, 1977.
39. Ries, A. & Trout, J., 2003, Positioning : The battle for your mind, McGraw Hill, USA
40. Robert, M. Strategy Pure and Simple: How Winning CEOs outthink their Competition, New York: McGraw-Hill, 1993.
41. Sawhney, M. & Kotler, P., 2001, Marketing in the age of Information democracy, edited book, Kellogg on Marketing, John Wiley, USA, pp 386-404
42. Schneider, S. C. & Arnoud De Meyer. "Interpreting and responding to strategic issues: The impact of national culture". Strategic Management Journal, Issue – 12, (May 1991): PP. 307-320.
43. Sutherland, A. & Thomson, B. 2003, Kidfluence, McGraw Hill, NY, USA
44. Taylor, D., 2006, The brandgym, John Wiley & sons, U.K., pp 46-68, pp139-156
45. TNN, (2010), The Economic Times, 4 Feb. 2010, p.5.
46. Tybout, A.M., Sternthal, B., 2001, Brand Positioning, Edited book, Kellogg on Marketing, 2001, John Wiley, USA, pp 31-51
47. Vernon, Reymond. " The World Trade Organisation: A New Stage in International Trade and Development". Harvard International law Journal, issue -36, (Spring 1995): PP. 329 – 340.
48. Viswanath, Vijay and Jonathan Mark (1997), " Your Brands Best Strategy", Harvard Business Review, May – June, 123 -129.
49. Womack, J.P., Daniel, T.J. & Daniel, R. The Machine that Changed the World. New York: Harper Collins, 1990.

# MEASUREMENT OF FRANCHISEE SATISFACTION BASED ON THEIR PERCEPTION ABOUT THE PERFORMANCE OF THE FRANCHISERS

*DR. MANISH SIDHPURIA*
*PROFESSOR*
*DEPARTMENT OF BUSINESS & INDUSTRIAL MANAGEMENT*
*V. N. SOUTH GUJARAT UNIVERSITY*
*SURAT*

## ABSTRACT

*Since its beginning in early 90s, the franchise industry has grown in leaps and bounds in the Indian sub-continent and there is still much to explore, based on the successful growth of many franchise brands in India. The review of literature suggests the lack of research on franchise implementation with majority of currently available research focusing on the power relationship between franchiser and franchisee. The present study follows a descriptive research design and attempts to measure franchisee satisfaction (dependent variable) with the help of variables such as perception of the franchisees related to training and promotional support extended by the franchiser, quality of product / services offered, competence level of the management of the franchiser, and the quality of communication and relationship between them (independent variables - IV). A Likert-like scale has been used to measure perception of the franchisees (sampling unit). It is a cross-sectional, ex-post facto, field research based on responses collected through a questionnaire using a survey method from 25 franchisees selected using a convenience sampling technique. The findings reflect that the franchisees still have a very low confidence in the management competences of the franchisers (mean variable score 3.69). The overall satisfaction of the franchisees based on training and promotional support, quality of products/ services, management competence, and communication and relationship, seems to be fairly good (overall mean score of 3.83). The present study opens up new directions for further research. Research may be taken up with a focus on a specific area of organised retail sector. Moreover, one may also think of replicating the research using more extensive criteria for measuring satisfaction.*

## JEL CODE
M310

## KEYWORDS
Franchisee-Franchiser Relations, Franchisee Perception, Franchisee Satisfaction.

## ORGANISED RETAILING AND FRANCHISING

The Indian retail market, which is the fifth largest retail destination globally, was ranked second after Vietnam as the most attractive emerging market for investment in the retail sector. The share of retail trade in the country's gross domestic product (GDP) was between 8–10 per cent in 2007. It is currently around 12 per cent, and is likely to reach 22 per cent by 2010.

India's retail market is currently valued at US$ 511 billion, and is poised to grow to US$ 833 billion by 2013. Organized retail currently accounts for less than 5 per cent of the total retail market is expected to register a compound annual growth rate (CAGR) of 40 per cent and swell to US$ 107 billion by 2013.

The consumer spending in India has increased by an impressive 75 per cent in the last four years and will quadruple in the next 20 years. India's overall retail sector is likely to grow to US$ 450 billion by 2015. 'The rise of Indian Consumer Market', estimates that the Indian consumer market is likely to grow four times by 2025.

- The total retail market size in India in 2008 was estimated at US$ 353 billion.
- The annual growth of the retail market in India is expected to be around 8 per cent.
- The total retail market size in India is likely to touch US$ 416 billion by 2010.
- The present share of organised retail sector is estimated at 7 per cent.
- The estimated annual growth of organised retail sector is 40 per cent.
- The size of organised retail sector by 2010 is estimated to reach US$ 51 billion.
- The estimated share of organised retail in total retail by 2010 is 12 per cent.
- The investment into modern retailing formats over the coming 4-5 years is expected to be around US$ 25-30 billion.

## INDIAN FRANCHISE STATISTICS AND INFORMATION

From the traditional business acumen Indian business community has made a shift towards understanding and adopting business as a science. And when it comes to science and systems of business, franchising is a sector that is ever evolving and thriving. Indian business environment is slowly witnessing the changes and now the concept and essence of franchising is permeating into the Indian businessmen's mind.

In the past one decade International franchise brands like Pizza Hut, Dominos, KFC, Mc Donald's, Gold's Gym, Kodak, Subway, Holiday Inn and many others started a positive trend by leveraging the potential of the Indian market. Due to these players' entry, international franchising in India is one of the most exciting areas in the franchise industry. Many Indian companies also offer profitable franchising options. MRF, NIIT, Apollo Hospitals, Reliance, Tata, Bharati, VLCC and Talwalker among others, are some of the well-known franchisers in India.

The vast geographical expanse, diverse culture, powerful and growing economy and acceptance of western concepts by Indian masses, provide excellent franchise and business opportunities in India. Especially sectors like Retail, Food and Beverage, Education, Health, Beauty, Tourism, and many other services are booming in the Indian franchise market. It is also predicted that introduction and penetration of new technologies will create new opportunities for franchises. All these market conditions combined with the low rate of franchise failure and significant return on investment has made franchising a major strength in current Indian economy.

Also many Indian brands are taking the franchising pathway to success and have been able to create a global success story in areas such as Specialty Cuisine, Ayurveda, Education and Beauty Care. To many entrepreneurs becoming a national or International franchise seems much easier, safer and profitable than struggling for brand identity while running a small enterprise of their own.

Since its beginning in early 90s, the franchise industry has grown in leaps and bounds in the Indian sub-continent and there is still much to explore, based on the successful growth of many franchise brands in India, the future of franchising in India is highly promising.

This promising future of the Indian franchising industry is backed up by an equally powerful market report that shows statistics of this thriving sector.

According to the reports, for the past five years Indian franchise market has recorded a steady growth of 30 to 35 % per annum. Also the annual turn over of the Indian franchise industry soared to 3.3 billion USD and it is projected to soar higher in the coming years.

Employing around 3,00,000 people the Indian Franchise industry has much more to offer than it is presumed to be. There are four fastest growing sectors in Indian Franchising namely Telecom, Retail, Food and Education. And there are good reasons for this to be, Indian Telecom sector recently celebrated a record of 100 million users and this brought a wave of expansion in every Indian telecom company to the farthest and remotest possible market Telecom franchises have come up in India and they are projected to thrive well with the reports of user numbers touching 250 million by the end of 2007 and 500 million by the end of the year 2010.

## FRANCHISEE SATISFACTION: A LITERATURE REVIEW
The performance of a franchise depends largely on how effectively the franchiser and franchisees are able to achieve their marketing goals. It may be noted that the ability of the franchisee to achieve the goals of the franchiser and the satisfaction of the franchisee are not the same thing. But, if the franchisees are not satisfied with the franchiser, it may lead to poor performance of a franchise over a period of time.

## FRANCHSHING AS AN ORGANIZATIONAL FORM
Franchising is an organizational form in which a company grants an individual or another company the right to do business in a prescribed manner over a certain period of time in a specified place in return for royalties or the payment of other fees. The company granting the right is termed the "franchiser," the receiver of the right is the "franchisee," and the right is the "franchise" (U.S. Department of Commerce 1988; Hisrich and Peters 1989). The outlet or the operational establishment where the franchising operation is conducted is called the "franchised unit." A franchiser, usually, has a number of franchised units. Units that are owned by the franchiser and operated by its employees are referred to as "company-owned units." The word "franchising system" refers to the franchiser and all units (both franchised and company-owned).

## TYPES OF FRANCHISING
Franchising systems can be broadly divided into two types. "Product/Trade Name" franchising is a relationship between the supplier and the dealer in which the dealer agrees to acquire some of the identity of the supplier in order to become the preferred source of the supplier's goods. "Business Format" franchising is an ongoing relationship between the franchiser/franchisee that not only includes product, service, and trademark, but also the entire concept of the business (U.S. Department of Commerce 1988).

## PROS AND CONS OF FRANCHISING
Franchising provides established brand recognition and thus provides a valuable support to a small business (franchisee) to move forward on its path to success. Thus, a small business circumvents all the start up hindrances with the help of the franchiser. However, this comes at the cost of the indulgence of a franchiser in to the franchisee’s business. Any decision to be made by the franchisee is to be consulted and approved by the franchisers.

## FRANCHISEE-FRANCHISER RELATIONSHIP
The research conducted by Scherer and Ross (1990) focus on the social benefits of franchising vis-à-vis the costs society has to incur. While it is recognized that many aspects of franchising may have a beneficial impact on society by improving economic efficiency, there is concern that some aspects of the franchising relationship may serve as restraints on trade – such as resale price maintenance (the franchiser sets the price the franchisee can charge), exclusive territories (only one franchisee can do business in a geographic area), exclusive dealings (the franchisee can only do business with the franchiser), and contracts requirements (the franchisee is required to purchase certain supplies from the franchiser). They have also explored the dyadic relationship between a franchiser and a franchisee. While the franchisee provides the capital for the franchising unit, the franchiser has decision-making power over many items quite important to the success of the unit. Castrogiovanni, Justis, and Julian (1993) and Stadfeild (1992) have explored the area related to the amount of information a franchiser should disclose to a potential franchisee when soliciting an investment. Hadfield (1990) and Brickley, Dark, and Weisbach (1991) have explored the ability of the franchiser to terminate the relationship after the franchisee has made a significant investment. Thus, the relationship puts the franchiser in a higher bargaining position vis-à-vis its franchisees.

## OPERATING A FRANCHISE
Research in the area of operating a franchise revolves around exploration of the basic research question: “*What is the best way to operate the franchising system*?” Here, franchising is treated as one of the options available in designing a marketing channel using the concept of partially integrated vertical marketing system. This approach characterizes a broad stream of research from the field of retailing. The franchisee is viewed as a facilitator to make the franchisers’ goals operational. The franchiser considers control over the franchisee as a primary goal in order to successfully achieve its marketing goals. As Carman and Klein (1986) point out, the modelling of power is central to many of the works in this area and to identify ways that the franchiser can increase its power over the franchisee. However, in their quest for increasing power to gain more control in order to successfully achieve marketing goals, the franchisers are often urged to maximize franchisee satisfaction. By this, the franchiser provides an incentive for the franchisee to meet the franchiser’s goals. Performance is measured by the level of franchisee satisfaction or by the franchisee's achievement of goals set by the franchiser. Hunt and Nevin (1974) have attempted to discover how a franchisee is satisfied. According to Schul, Little, and Pride (1985), franchisee satisfaction is found to be related to **the franchisee's perceptions of the quality of interactions with the franchiser, the quality of operational support offered by the franchiser, the attractiveness of the reward structure, and the autonomy and fairness of the relationship**. Lewis and Lambert (1991) reported that franchisees were satisfied if they felt the success of the unit was due to the franchiser.

## THE IMPORTANCE OF COMMUNICATION
The differences between franchisers and their franchisees can lead to relationship dissatisfaction and, in absence of reconciliation, divorce. Steady, consistent communication is one of the ways to lessen the likelihood of a dispute.
Finally, the franchise relationship requires a degree of understanding. Franchisers and the individual franchisees that comprise the system are not one and the same. Franchisers need to be able to pursue system goals of improved operational performance, improved customer service and improved financial performance for the entire franchise system.
The review of literature pinpoints at the lack of research on implementation with a major emphasis on the power relationship between franchiser and franchisee. The manner in which franchising systems actually work to create value has been given less attention. Operation of the franchising system involves important issues like training, allocation of production activities, control systems, cooperative advertising, and communication.
It is with these considerations that the present study has been conducted. It is an attempt to measure satisfaction of the franchisee with respect to criteria such as *Training & Promotional Support, Quality of Product / Services, Management Competence, Communication and Relationship.*

## RESEARCH METHODS AND DESIGN
The present study follows a descriptive research design and attempts to measure franchisee satisfaction (dependent variable) with the help of variables such as perception of the franchisees related to training and promotional support extended by the franchiser, quality of product / services offered, competence level of the management of the franchiser, and the quality of communication and relationship between them (independent variables - IV). A 5 point Likert-like scale has been used to measure perception of the franchisees (sampling unit) pertaining to the independent variable as mentioned (5 being ‘strongly agree’ and 1 being ‘strongly disagree’). It is a cross-sectional, ex-post facto, field research based on responses collected through a questionnaire using a survey method from 25 franchisees selected using a convenience sampling technique, with following research objective in mind:
To measure the franchisee satisfaction based on their perception about the performance of the franchisers.
This objective led to formulation of following sub-objectives:
To measure franchisee perception related to franchisers’ performance on promised support;

To measure franchisee perception about the quality of products/services offered
To measure franchisee perception about he quality communication and relationship; and
To measure franchisee perception about franchisers competence to manage the franchise successfully.
Though enough care has been taken, one cannot ignore following limitations of this study:
The size of the sample is small; hence the findings of the study may have less scope for generalization.
The perceptual bias of the respondents may have crept in.

## DATA COLLECTION AND ANALYSIS

**IV-1: TRAINING & PROMOTIONAL SUPPORT (VARIABLE SCORE 3.94)**

- The Initial Training provided by your franchiser is excellent (**mean score 4.28**)
  52% respondents said they "strongly agree" to the fact that the initial training provided by franchiser was excellent, while 28% said "agree", 16% respondents were neutral and 4% were "disagree".
- Opening support provided by your franchiser is excellent (**mean score 3.96**)
  40% respondents said "strongly agree", while 32% said "agree", 16% respondents were neutral , 8% are disagree and 4% respondents were "strongly disagree".
- The Ongoing Training provided by your franchiser is excellent (**mean score 3.80**)
  36% respondents were "strongly agree" to the fact that the ongoing support provided by franchiser was excellent, while 28% said "agree", 20% respondents were neutral , 12% said "disagree" and 4% respondents were "strongly disagree".
- The Field support provided by your franchiser is excellent (**mean score 4.04**)
  44% respondents said they "strongly agree" to the fact that the field support provided by franchiser is excellent, while 28% said "agree", 20% respondents were neutral , 4% said "disagree" and 4% respondents said they "strongly disagree".
- Your franchiser's Advertising, Marketing and Promotional Programs are excellent (**mean score 3.64**)
  32% respondents said they "strongly agree" to the fact that the franchiser's advertising, marketing and promotional programs were excellent, while 32% said "agree", 20% respondents were neutral , and 16% said they "strongly disagree".

**IV-2: QUALITY OF PRODUCT / SERVICES (VARIABLE SCORE 3.83)**

- Your franchise compare to the Competition in your local market is excellent (**mean score 3.72**)
  28% respondents said they "strongly agree" to the fact that their franchise compare to the competition in local market is excellent, while 36% said "agree", 24% respondents were neutral, 4% said "disagree" and remaining 8% respondents said they "strongly disagree".
- The quality of the Products and/or Services provided by your franchiser is excellent (**mean score 4.44**)
  56% respondents said they "strongly agree" to the quality of the product and services provided by their Franchiser is excellent, while 32% respondents said "agree" and 12% respondents remained neutral.
- The Creativity of your franchiser to experiment with new ideas or improvements to current products/services/operations is excellent (**mean score 3.44**)
  36% respondents said they "strongly agree" that creativity of franchiser to experiment with new ideas or improvements to current products/services/operation is excellent, 28% said "agree", 8% were neutral with their opinion while 8% respondents said "disagree" and 12% said they "strongly disagree".
- My Franchiser encourages high standards of quality performance throughout the organization (**mean score 3.72**)
  32% respondents said they "strongly agree" to the fact that their franchiser encourages high standards of quality performance throughout the organizations, while 28% said "agree", 24% respondents were neutral, 12% said "disagree" and remaining 4% respondents said they "strongly disagree".

**IV-3: MANAGEMENT COMPETENCE (VARIABLE SCORE 3.69)**

- My franchiser is very Knowledgeable of my business and is very Supportive of all of my needs (**mean score 3.64**)

32% respondents said they "strongly agree" that the franchiser was very knowledgeable and supportive, while 24% said "agree', 28% were neutral, 8% respondents said "disagree" and 8% said they "strongly disagree".

- When I have a question or a problem, senior management and support staff are easily Accessible and Responsive (**mean score 3.68**)

24% respondents said they "strongly agree" that senior management and support staff were easily accessible and responsive when they had a question or a problem, while 36% said they "agree", 28% respondents were neutral, 8% said "disagree" and remaining 4% respondents said they "strongly disagree".

- My Franchiser encourages honesty and a high standard of business ethics throughout the organization (**mean score 3.76**)

32% respondents said they "strongly agree" that their franchiser encouraged honesty and a high standard of business ethics throughout the organization, while 36% said "agree", 16% respondents were neutral, 8% said "disagree" and remaining 8% respondents said they "strongly disagree".

**IV-4: COMMUNICATION AND RELATIONSHIP (VARIABLE SCORE 3.92)**

- System-wide Communication between corporate staff and Franchisees is excellent (**mean score 3.48**)
  24% respondents said they "strongly agree" that there was a system wide communication between corporate staff and franchisees, while 24% said "agree", 32% respondents were neutral, 16% said "disagree" and remaining 4% respondents said they "strongly disagree".
- My Franchiser and I are committed to a positive, long term Relationship (**mean score 4.04**)
  40% respondents said they "strongly agree" that they were committed to a long term relationship, while 32% said " agree", 20% respondents were neutral, 4% said they "disagree" and remaining 4% respondents said they "strongly disagree".
- The overall communication between home office personnel and franchisees is excellent (**mean score 3.80**):
  32% respondents said they "strongly agree" that the overall communication between home office personnel and franchise was excellent, while 32% said they "agree", 24% respondents were neutral, 8% said "disagree" and remaining 4% respondents said they "strongly disagree".
- My Franchiser responds in a timely way to my questions and minor problems (**mean score 3.92**)
  36% respondents said they "strongly agree" that the franchiser responds in a timely way to their question and minor problems, while 28% said "agree", 28% respondents were neutral and remaining 8% said they "disagree".
- I am able to communicate directly and effectively with senior management (**mean score 4.12**)
  40% respondents said they "strongly agree" that they were able to communicate directly and effectively with senior management, while 28% said "agree", 28% respondents were neutral and remaining 8% said they "disagree".
- Overall, my relationship with my franchiser is excellent and I have a high level of Respect for the entire organization (**mean score 4.20**)
  48% respondents said they "strongly agree" that their overall relationship with franchiser was excellent and had a high level of respect for the entire organization, while 28% said "agree", 20% respondents were neutral, and remaining 4% said they "disagree".

The overall score summary is as under:

| | |
|---|---|
| **IV-1: Training & Promotional Support** | **3.94** |
| **IV-2: Quality of Product / Services** | **3.83** |
| **IV-3: Management Competence** | **3.69** |
| **IV-4: Communication And Relationship** | **3.92** |
| **Overall Score** | **3.83** |

## CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

The findings reflect that the franchisees still have a very low confidence in the management competences of the franchisers (mean variable score 3.69). Though the mean variable scores are close to 4 (suggesting 'agree'), it seems that the overall satisfaction level is not up to the mark.

The franchisees seem to be more satisfied with the training and promotional support that the franchisers extended to them (mean variable score of 3.94). This was followed by the quality of communication and relationship they enjoy with their franchisers (mean variable score 3.92).

The mean score for quality of product / services offered by them turned out to be 3.83, exactly equal to overall satisfaction score leaves behind many repercussions. The statements that were asked under this category were pertaining to basic quality of products/services offered as well as franchisers' willingness to try out newer ideas. The basic statement related to quality of products / services was rated at 4.44 mean score, but the franchisers' willingness to experiment with newer ideas and creativity shown in managing the franchise was rated at 3.44, indicative of very poor performance on their being perceived as innovative.

It was also observed form the findings that satisfaction pertaining to initial training programme was good (mean score 4.28). However, the franchisee satisfaction was very low for ongoing training support (mean score 3.80).

For promotional support extended by the franchiser, the data analysis suggests similar findings. They reveal that franchisee satisfaction with opening support was higher than the ongoing support.

Understanding franchisee satisfaction is one of the most important aspects of decision-making for every potential franchisee and a must to be considered before making any investment. Out of many opportunities available for a new franchise, many turn out to be worthless in the long run, and hence knowing existing franchise owners are the key to understanding the health of any franchise system.

It comes out from the study that a majority of franchise owners compare their businesses at par with local business and feels satisfied that they are better equipped to take competition with the local players.

The overall satisfaction of the franchisees based on training and promotional support, quality of products/ services, management competence, and communication and relationship, seems to be fairly good (overall mean score of 3.83).

The present study opens up new directions for further research. Research may be taken up with a focus on a specific area of organised retail sector. Moreover, one may also think of replicating the research using more extensive criteria for measuring satisfaction.

## REFERENCES

**ARTICLES / RESEARCH PAPERS**

1. Anand, P. (1987). "Inducing Franchisees to Relinquish Control: An Attribution Analysis," Journal of Marketing Research Vol. 24 No. 2, pp.215-221.
2. Anand, P., and L. Stern (1985). "A Socio-psychological Explanation for Why Marketing Channel Members Relinquish Control," Journal of Marketing Research, Vol. 22, pp. 365-376.
3. Brickley, J., and F. Dark (1987). "The Choice of Organizational Form: The Case of Franchising," Journal of Financial Economics, Vol . 18, pp. 401-420.
4. Brickley, J.A., F. Dark, and M. S. Welsbach (1991). "The Economics Effects of Franchise Termination Laws," Journal of Law and Economics, Vol. 34 No. 1, pp. 101-132.
5. Carman, J.M., and T.A. Klein (1986). "Power, Property, and Performance in Franchising: A Review and Integration of Theory," Research in Marketing, Vol. 8, pp. 71-130.
6. Castrogiovanni, G.J., R.T. Justis, and S.D. Julian (1993). "Franchise Failure Rates: An Assessment of Magnitude and Influencing Factors," Journal of Small Business Management (April), pp. 105-114.
7. Guiltinan, J.P., I.B. Rejab, and W.C. Rodgers (1980). "Factors Influencing Coordination in a Franchise Channel," Journal of Retailing, Vol. 56 No. 3, Fall, pp. 41-58.
8. Hadfield, G.K. (1990). "Problematic Relations: Franchising and the Law of Incomplete Contracts," Stanford Law Review, No. 42, pp. 927-992.
9. Hisrich, R.D., and M.P. Peters (1989). Entrepreneurship: Starting, Developing, and Managing a New Enterprise. Homewood, Ill.: BPI-Irwin.
10. Hunt, S.D., and J.R. Nevin (1974). "Power in a Channel of Distribution: Sources and Consequences," Journal of Marketing Research, Vol. XI, pp. 186-193.
11. Lewis, M.C., and D.M. Lambert (1991). "A Model of Channel Member Performance, Dependence, and Satisfaction," Journal of Retailing, Vol. 67 No. 2, Summer, pp. 205-225.
12. Scherer, F.M., and D. Ross (1990). "Industrial Market Structure and Economic Performance", 3rd edition, Boston, Mass.: Houghton Mifflin Company.
13. Schul, P.L., T.E. Little, and W.M. Pride (1985). "Channel Climate: Its Impact on Channel Members' Satisfaction," Journal of Retailing, Vol. 61 No. 2, pp. 9-38.
14. Stadfeild, L. S. (1992). "Comment on Proposed U.S. Franchise Legislation: A Search for Balances," Commercial Law Journal, Vol. 97 No. 4, pp. 540-566.
15. U.S. Department of Census (1994). Statistical Abstract of the United States: 1994, 114th edition, Washington, DC.: U.S. Government Printing Office.
16. U.S. Department of Commerce (1988). Franchising in the Economy 1986-1988. Washington, DC.: U.S. Government Printing Office.

**WEBSITES**

17. http://ezinearticles.com/?2007-Franchise-Review---Understanding-the-Franchise-Business-Model&id=384895, accessed May 1, 2012.
18. http://www.entrepreneur.com/franchises/franchisingyourbusinesscolumnistmarksiebert/article79000.html, accessed December 21, 2012.
19. http://www.franchise.org/IndustrySecondary.aspx?id=10152, accessed October 21, 2012.
20. http://www.franchise.org/IndustrySecondary.aspx?id=31610, accessed November 7, 2012.
21. http://www.franchisebusiness.co.nz/articles/Working-Pattern-of-the-Apparel-Master-Franchise_z47293.htm, accessed October 12, 2012.
22. http://www.franchise-chat.com/resources/franchise_forms.htm, accessed October 16, 2012.
23. http://www.franchiseek.com/India/Franchise_Articles_India.asp, accessed November 28, 2012.
24. http://www.scribd.com/word/full/293607?access_key=abdpslxinh0bx, accessed November 16, 2012.
25. http://www.whichfranchise.com/feature_template.cfm?featureId=18, accessed November 15, 2012.

# IMPACT OF GAAR ON INDIAN EQUITY MARKET: AN EMPIRICAL STUDY

*DR. SANJIV MITTAL*
*PROFESSOR*
*UNIVERSITY SCHOOL OF MANAGEMENT STUDIES*
*GURU GOBIND SINGH I. P. UNIVERSITY*
*NEW DELHI*

*DR. SUNIL KUMAR*
*FACULTY*
*SCHOOL OF MANAGEMENT STUDIES*
*INDIRA GANDHI NATIONAL OPEN UNIVERSITY*
*NEW DELHI*

*DR. PRADEEP AGARWAL*
*PROFESSOR*
*DEPARTMENT OF MANAGEMENT STUDIES*
*SHARDA UNIVERSITY*
*GREATER NOIDA*

*DR. MOHINDER KUMAR*
*ASSOCIATE PROFESSOR*
*DEPARTMENT OF COMMERCE*
*PT. J. L. N. GOVERNMENT (P.G.) COLLEGE*
*FARIDABAD*

## ABSTRACT

*In India, the proposed Direct Tax Code 2010 (DTC 2010 or Code) seeks to address the issues relating to tax avoidance and evasion by bringing in General Anti-Avoidance Rules (GAAR) in addition to various transaction-specific Special Anti-Avoidance provisions. The Discussion paper issued along with the proposed new tax code states that tax avoidance arrangements adopted by taxpayers span across several tax jurisdictions, and it is desirable to introduce GAAR that would serve as a deterrent to the use of increasingly sophisticated forms of tax avoidance by taxpayers. The paper also states that the appellate authorities and Courts have cast a heavy onus on the revenue authorities for dealing with matters of tax avoidance, especially when the relevant facts are in the exclusive knowledge of the taxpayer who chooses not to reveal them. Indian Government is trying to do some amendments to the Income Tax Act by introducing the General Anti-Avoidance Rules or GAAR. Most of the foreign investors investing in India by means of avoidance of tax rather than to do genuine business. So GAAR gives tax authorities a power to disregard such transactions and include the earning in the assesses income. The proposal of GAAR reintroduced uncertainty into Indian economic decision making, which frightened investors into believing that the economy had returned to the pre-liberalization period.*

## KEYWORDS

GAAR, equity market.

## INTRODUCTION

The GAAR (General Anti-Avoidance Rule) was introduced in March 2012 by the then Finance Minister Pranab Mukherjee, as a measure to limit the scope of transactions that are undertaken primarily to evade taxes. The main targets of this rule were enterprises and investors who had set up shell companies in Mauritius to route investments into India. A tax-friendly treaty between India and Mauritius encouraged both Indian and multinational firms to set up subsidiaries in Mauritius, solely for the purpose of investing in India, without having any core business interest in Mauritius. According to data from the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, total FDI equity inflows from Mauritius to India between April 2000 and April 2011 amounted to USD 55 billion, or 42 percent of total FDI equity flows. In fiscal year 2010-11, FDI equity flows from Mauritius were close to USD 7 billion, or 36 percent of the total flows. There was a strong outcry against these measures by both domestic and foreign investors. Since the GAAR announcement followed closely on the heels of a proposal to review and retrospectively tax all acquisitions with a substantial transfer of Indian assets, the general economic mood took a dip downwards. Coupled with the perception of general policy drift of the current government, this measure was seen as a signal that the government was not interested in foreign investment flows. Other criticisms of the GAAR have centered on the following points:

1. It becomes a tool in the hands of the Income Tax Department to harass investors
2. Lack of training for officials to implement GAAR enhances the scope for faulty implementation
3. The 'sudden' introduction of the proposal, without prior consultations, was perceived as arrogant and unnecessary

To make it easier to understand GAAR; we can say that suppose a person or a company is setting up business in Gulf Country and its clear intention is to claim exemption from capital gains tax, in such a scenario Indian govt has the right to deny the legitimate claim for exemption provided under Double Taxation Avoidance Agreements as it falls under tax avoidance and Indian govt is trying to plug the loopholes.

## PRE GAAR CONCEPT INDIA EXPERIENCE

The Hon'ble Supreme Court (SC) in A Raman's case observed that:

*"...the law does not oblige a trader to make the maximum profit that he can get out of his trading transactions. Income which accrues to a trader is taxable in his hands. Income which he could have, but has not earned, is not made taxable as income accrued to him. Avoidance of tax liability by so arranging commercial affairs that charge of tax is distributed is not prohibited. A taxpayer may resort to a device to divert the income before it accrues or arises to him. Effectiveness of the device depends not upon considerations of morality, but on the operation of the Income-tax Act. Legislative injunction in tax statutes may not, except on peril of penalty, be violated, but may lawfully be circumvented...."*

## GAAR GENESIS

The General Anti Avoidance Rule (GAAR) which was first proposed in the Direct Taxes Code DTC and was soundly criticized at that time and was again sought to be reintroduced with some changes with effect from 1st April 2014 in the Finance Bill 2012, when the DTC was placed in cold storage. There was a hue and cry once more on GAAR introduction, forcing the government to appoint an expert committee to look into its aspects

The GAAR had its origins from the South African Tax law, where GAAR was to be imposed in the rarest of rare cases, by the (South African Commissioner of Taxes, a position roughly equivalent to our CBDT Chairman). However, the word 'Commissioner' from the South African legislation seems to have been mechanically "cut-paste" into Indian legislation, losing sight of the fact that in India, there are around 700 Commissioners whose rank is certainly not equivalent to the South African Tax Commissioner. These Commissioners were conferred the power to impose GAAR on unsuspecting assesses, almost at will. Further, the safeguards built in against its misuse were very cosmetic and liable to be mis-used as a tool to settle political scores.

In an attempt to placate the strong hue and cry raised by the introduction of GAAR in all its draconian force and without any safeguards in the Finance Act 2012 (albeit with a year's deferral) prompted the Government to appoint an Expert Committee to issue its recommendations.

## KEY ISSUES

The key issues / implications under the proposed GAAR are:

- Tax avoidance has been widely defined with the objective to encompass a number of circumstances and instances of tax avoidance, leading to uncertainty and extensive litigation.
- GAAR can be invoked where obtaining a tax benefit is the 'main purpose', and it is not clear as to what is meant by 'main purpose'; the courts would be left to decide whether in the given facts the main purpose of the transaction/arrangement was to obtain tax benefit.
- Where an adjustment is made (invoking GAAR), it is not clear whether the full effect of the same would be given to ensure that there is no double taxation.
- The onus of proving that an arrangement has not been carried out for the main purpose of obtaining a tax benefit is with the taxpayer, while the tax authorities may not have any evidence of tax avoidance.
- There is no cut-off date for applicability of GAAR provisions to any arrangement and, therefore, where the impact of past arrangements continues in Direct Tax Code regime; the same may still be covered by GAAR irrespective of the fact that the arrangement has been approved by the tax officer or subjected to judicial review.

## THE SHADOW OF BLACK MONEY

The introduction of GAAR needs to also be seen in the context of the public debate surrounding "black money" (unaccounted cash) in India. Global Financial Integrity (GFI), a US-based non-profit research organization, estimates that USD 462 billion has left India between 1948 and 2008. This amount is equivalent to 40 percent of India's GDP. Some of these funds are allegedly routed via Mauritius, back into the Indian economy, giving rise to the allegation of 'round tripping', where purported FDI inflows into India are actually India domestic funds being converted from 'black' into 'white' money.

## GAAR AND THE INDIAN GOVERNMENT – A SYMBOL OF DRIFT?

The Indian economy is currently facing significant challenges, including high inflation, a rising fiscal deficit, falling industrial production and lower GDP growth. While the government took some steps last week to correct the situation, with steps such as a diesel price hike, reduction in subsidies of gas cylinders, approval of 51 percent FDI in multi-brand retail trading and 49 percent in civil aviation, these may not be enough to lift investor sentiments. The proposal of GAAR also reintroduced uncertainty into Indian economic decision making, which frightened investors into believing that the economy had returned to the pre-liberalization period before 1991, where the 'License Raj' [a licensing regime] was used by the government to harass entrepreneurs and industrialists. Given the distance that the Indian economy has traversed since then, such a step was retrograde and unnecessary. It appears to suggest that that the government has run out of ideas. There are several areas in the economy that require more government attention, including power, infrastructure, agriculture, land reforms and employment generation. While the previous finance minister and current President, Pranab Mukherjee, was seen as emblematic of an earlier era of government 'guidance' of the economy, the current Finance Minister, P Chidambaram, is expected to develop a more investor-friendly environment.

## INDIA: VODAFONE TAX RULING - A LEGAL ANALYSIS OF THE TRIUMPH

Hutchison Essar is an Indian Company, the controlling interest of Hutchison Essar is held by a SPV of Cayman Island (CGP Investments Holding Ltd.). CGP is owned by Hutchison Telecommunications International Ltd (HTIL), Hongkong. In this manner the controlling interest of Hutchison Essar is held by HTIL, Hongkong through an intermediary Cayman Island company (CGP). Vodafone International Holdings, Netherland entered into an agreement with HTIL, Hongkong to buy the shares of CGP (Cayman Island). Since CGP is holding directly and indirectly 67% shares of Hutchison Essar (India), the above transaction results in transfer of shares and controlling interest of Hutchison Essar(India) from HTIL, Hongkong to Vodafone International Holding, Netherland. The consideration for transfer is stated to be USD 11.1 Billion.

The Income-tax Department issued a notice to Vodafone to show cause as to why it should not be treated as assessee in default for not withholding the Indian Capital Gain Tax on the payment made by it to HTIL for the transaction of sale of share of CGP (which in turn holds controlling interest of HTIL). Vodafone challenged the show cause notice by way of writ. The Hon'ble Bombay High Court dismissed the writ.

The High Court held that "the very purpose of entering into agreements between the two foreigners is to acquire the controlling interest which one foreign company held in the Indian Company, by other foreign company. This being the dominant purpose of the transaction, the transaction would certainly be subject to municipal law of India, including the Indian Income-tax Act". The Indian Law does not permit use of any "colourable" device by any tax payer for perpetuating tax evasion in India. The High Court remarked that "the present is a case of tax evasion and not tax avoidance".

Thereafter Vodafone approached the Supreme Court for stay of Mumbai High Court's decision. The Supreme Court on 27/09/2010 ordered that Vodafone has to deposit a part of the amount in dispute before its case is heard by the Court. Finally, the Supreme Court gave its verdict on 20.01.2012 and has decided the issue in favour of Vodafone. The Hon'ble Apex Court has held as under:

"Applying the look at test in order to ascertain the true nature and character of the transaction, we hold, that the Offshore Transaction herein is a bonafide structured FDI investment into India which fell outside India's territorial tax jurisdiction, hence not taxable. The said Offshore Transaction evidences participative investment and not a sham or tax avoidant preordained transaction. The said Offshore Transaction was between HTIL (a Cayman Islands company) and VIH (a company incorporated in Netherlands). The subject matter of the Transaction was the transfer of the CGP (a company incorporated in Cayman Islands). Consequently, the Indian Tax Authority had no territorial tax jurisdiction to tax the said Offshore Transaction."

A careful legal analysis of the aforesaid judgment will show that the following important issues were considered by the Hon'ble Apex Court in deciding the case in favour of Vodafone.

Whether the situs of shares of a foreign company holding controlling interest in Indian company can be said to be in India?

In the instant case of Vodafone, the Cayman Island company, CGP, was owning controlling interest in the Indian HEL. Therefore, it was revenue's contention that the situs of shares of CGP shall be deemed to be in India and accordingly the transaction of sale of CGP shares will be liable for tax in India. In this regard, the Hon'ble Supreme Court at para 82 and para 127 has held that situs of shares situates at the place where the company is incorporated and / or the place where the shares can be dealt with by way of transfers. In the instant case, the transfer took place in respect of shares of CGP. CGP is a company incorporated in Cayman Island and the transfer also took place outside India. Therefore, the situs of shares of CGP is not in India.

What principles should be applied to treat a transaction as sham and bogus?

The Hon'ble Apex Court has dealt with this issue in detail and has held that every foreign direct investment coming to India, as an investment destination, should be seen in a holistic manner. In this regard, the following factors should be kept in mind on the facts of the instant case:

- the concept of participation in investment
- the duration of time during which the Holding Structure exists
- the period of business operations in India
- the generation of taxable revenues in India
- the timing of the exit
- the continuity of business on such exit.

The Hon'ble Court examined the above facts. After a detailed analysis, the Hon'ble Court found that the aforesaid factors are in favour of Vodafone and therefore, held the entire transaction as not a sham and bogus transaction." Whether even an indirect transfer of property located in India will be covered under section 9(1)(i) of the Income-tax Act so as to render the same as liable for tax?

In the instant case, CGP held shares of an India company. It was the contention of the revenue that the transfer of shares of CGP outside India resulted into indirect transfer of shares of Indian company. Therefore, the transfer is liable for tax in India.

The Hon'ble Apex Court has dealt with this issue at para 71 and 165 of the order. It has been held that Section 9 covers only income arising from a transfer of a capital asset situated in India; it does not purport to cover income arising from the indirect transfer of capital asset in India. If the word indirect is read into Section 9(1)(i), it would render the express statutory requirement of the 4th sub-clause in Section 9(1)(i) nugatory. Therefore, Vodafone's transaction cannot be covered under section 9(1)(i) of the Income-tax Act. Whether section 195 which casts obligation to deduct tax at source is applicable to non-residents also?

The Hon'ble Apex Court has dealt with this issue at para 178 to 187 of its order. It has been held that section 195 would apply only for payments made from a resident to a non-resident, and not between two non-residents situated outside India.

In the instant case, the Hon'ble Court observed that the transaction was between two non-resident entities through a contract executed outside India. Consideration also passed outside India. The transaction has no nexus with the underlying assets in India. In order to establish a nexus, the legal nature of the transaction has to be examined and not the indirect transfer of rights and entitlements in India. Therefore, the provisions of section 195 relating to deduction of tax at source will not apply. Whether the McDowell case [154 ITR 148] in relation to permissible and impermissible tax planning is watered down by Azadi Bachao Andolan [263 ITR 706] case?

The Hon'ble Apex Court held that the observations made in the case of Mcdowell are clearly in the context of artificial and colourable devices. In cases of treaty shopping and / or tax avoidance, there is no conflict between the Mcdowell (supra) and Azadi Bachao (supra). Further, it has been held that revenue's stand that the ratio laid down in Mcdowell is contrary to what has been laid down in Azadi Bachao Andolan (supra) is unsustainable and therefore, calls for no reconsideration by a larger bench.

## THE IMPACT OF GENERAL ANTI-AVOIDANCE RULES OR GAAR IN INDIAN EQUITY MARKET

There has been a lot of Uncertainty over General Anti-Avoidance Rules or GAAR from last few months after it was proposed by Finance Minister in Union Budget on 16th March 2012.With this post I am trying to address how GAAR will impact the FII (Foreign Institutional Investors) inflows in Indian Equity market.

Under the Double Taxation Avoidance Agreement between India and Mauritius FIIs coming from Mauritius are required to pay tax only in Mauritius, But there is no capital gains tax in Switzerland they don't pay tax anywhere. Investors worry that they had not taken this tax liability into consideration while invested through Mauritius because it is uncertain that the rule will be applied to those who have invested before 1st April 2012 also. There is lots of volatility noticed in Indian market after the announcement of GAAR by Finance Minister on Union budge 2012.FIIs making a cautious approach for new investment in Indian Equity Market. Initial three months of the year 2012 was very positive for Indian market as there were lots of buying interest seen by FII, but after post union budget 2012, there was continuously selling pressure seen in the Indian market by FIIs.

Here is the statistics of FII Activity for the Year 2012 so far:

| MONTH | GROSS PURCHASE (CR) | GROSS SALE (CR) | NET INVESTMENT (CR) | CUMULATIVE INVESTMENT ($MN) |
|---|---|---|---|---|
| January 2012 | 50,467.40 | 40,109.90 | 10,357.70 | 2,037.22 |
| February 2012 | 79,898.60 | 54,686.60 | 25,212.10 | 5,127.67 |
| March 2012 | 63,795.10 | 55,413.80 | 8,381.10 | 1,684.82 |
| April 2012 | 41,091.90 | 42,200.50 | -1,109.10 | -205.53 |
| May 2012 | 6,716.50 | 5,840.40 | 876.10 | 166.21 |

Statistics Source: http://www.indiainfoline.com

FIIs hold the majority stake in Indian companies in stock market which directs the market moment. From last couple of month these companies are suffering from the selling pressure by the news of introducing GAAR .The market will remain volatile till the finance minister clarify about the GAAR provision which is suppose to present as finance bill on 7th may 2012. So this is my first post towards the Indian equity market and will keep you updating with the latest and some more important aspect of share market topics soon. Let me know with your valuable feedback how this post is helpful.

## GAAR IMPLICATIONS IN INDIA

- Indian Government is trying to give powers to income tax authorities as implementation of GAAR provides tremendous powers to deny tax benefit to an entity if a transaction has been carried with the sole intention of tax avoidance. Due to powers in the hand of taxmen, now innocents may be harassed by them.
- FII & FDI money coming to India through Mauritius route will now become taxable.
- Increased litigations.
- GAAR aimed at boosting investor confidence said Parthasarthi Shome

Marketing of tax avoidance products and schemes may have been constrained in recent years, but avoidance activity is by its nature opportunistic and ad hoc. Simply raising the price of avoidance (through successful containment, increased regulation and constrained supply) will not choke off demand. Indeed, no single response or approach – whether administrative, legislative or judicial – can adequately or effectively contain avoidance activity. Such containment only begins to occur where strategies drawn from all three spheres complement each other by operating in combination. As Sir Ivor Richardson astutely pointed out some years ago, current requirements for a comprehensive and integrated approach go beyond a more traditional analysis where "the legislature … exerts control of tax avoidance through special and general anti-avoidance provisions; the revenue administration contributes in administering those provisions and exercising discretions; and the judiciary is expected to strike the right balance between acceptable and unacceptable tax planning through its interpretation and application of tax legislation.

Ultimately, however, corporate and personal taxpayers themselves have to take responsibility for the level of avoidance and the degree of acceptance of such behaviour that exists at any time in any society. The revenue authority, the legislature and the judiciary can play a role in shaping the demand for, and supply of, tax avoidance activity, but such issues belong, in the final analysis, in the realms of moral and ethical behaviour of the taxpayers themselves. Corporate and personal social responsibility – and the reputational damage that excessive and egregious avoidance activity can attract – remains the ultimate deterrent, notwithstanding the impressive arsenal that can be available to those who seek to counter avoidance.

Beyond that we should also perhaps be mindful that two of the traditional goals of public finance simplicity and equity – have critical roles to play in determining social responses to avoidance activity.

In recent years, these two goals may have been less prominent in tax reform than the efficiency goal that lends itself to easier economic measurement and evaluation.

It is paradoxical that the more complex that the tax regime becomes (often in attempts to contain avoidance activity), the more likely it will be that opportunities for avoidance will arise. Avoidance activity thrives in complexity and uncertainty. And where that complexity exacerbates the natural interaction (sometimes mediated by intermediaries) between the taxpayer and the revenue authority such that it becomes frictional rather than cooperative, there will almost inevitably be a higher probability of avoidance activity. It may be relevant for taxpayers to examine the transactions/arrangements entered into, so that the same do not fall within the boundary of being considered as impermissible avoidable transactions entered into with the object of obtaining a tax benefit.

The GAAR provisions are like a double-edged sword and would need to be judicially invoked by the revenue authorities. As discussed earlier, the Courts in India have examined the issue of tax avoidance and laid down the principles as to what constitutes tax avoidance. In light of the various judicial precedents, the tax authorities in India tend to raise the issue of tax avoidance and deny relief to the taxpayer. Given the uncertainties involved in such application, it is imperative for the proposed GAAR to be successful; it should not impact genuine business transactions or promote uncertainty. One of the key objectives for introducing the Direct Tax Code is to simplify the language to enable better comprehension and remove ambiguity to foster voluntary compliance, thus reducing litigation. However, the scope of GAAR provisions in the present draft could cause massive uncertainty and lead to extensive litigation as potential legitimate tax planning could also become the target of GAAR. In this connection, it would be imperative that the guidance note to be formulated should be sensitive to the issue of addressing avoidance from the prospect of upholding the rule of law, the object and purpose of the legislation, rather than be construed as law in itself and giving a free rein to administrative or judicial discretion. Some suggestions on reframing/modeling the provisions on the basis of international experience may be adopted:

## LEGISLATION

- Our model could be based on the Canada model - the principles laid down by Canada Supreme Court to be adhered.
- The tax benefit on the transaction should not be the only criterion. If the transaction is done where tax benefit and commercial benefit are present, the transaction should not be covered by GAAR.
- The provisions could be made applicable in respect of transaction where entering into the transaction and the cause and effect of the transaction occur after the date of implementation.
- Detailed guidelines to be provided on the lines of the Canadian law with relevant examples illustrating the reasons and analogy in applying GAAR provisions.
- GAAR should not be judged on the basis of a single transaction, but on a series of transactions. Further, where no 'tax benefit' arises under the whole series of transactions, the same should not be subject to GAAR evaluation, even though a part of the series may result in 'tax benefit'.
- Corresponding adjustments to be provided in the hands of the parties to the transaction.

## CASE 1

- A corporation transfers property used in its business to a related corporation to permit the deduction of non-capital losses of the related corporation. All of the shares of the two corporations have been owned by the same taxpayer during the period in which the losses were incurred.
- Where the transaction could be considered as consistent with the scheme of the Act, it may be argued that the GAAR provisions would not be infringed. However, if a transfer of a property or other transaction is undertaken to avoid a specific rule, such as a rule designed to preclude the deduction of losses after the acquisition of control of a corporation by an arm's length person, such a transfer would be a misuse of the provisions of the Act and be subject to provisions of the Act.
- Thus, genuine corporate reorganization should not be affected.

## CASE 2

- A company has property with an unrealized capital gain that it wishes to sell to a third party. A related corporation, a wholly owned subsidiary has a net capital loss. Instead of selling the property directly to the third party and realizing a capital gain, the person transfers the property to the related corporation. The related corporation sells the property to the third party and reduces the resulting taxable capital gain by the amount of its net capital loss.
- Where the provisions of the Act provide that the sale to a related corporation should be at arm's length, it could be argued that the transaction may not infringe the provisions as in determining the cost in the hands of the related corporation, the cost to the company would be considered.
- Thus, the transfer of property by holding company to subsidiary company or vice versa under Indian regulations should not be impacted.

## CASE 3

- An individual provides services to a corporation with which he or she does not deal at arm's length. The company does not pay salary to the individual because payment of salary would increase the amount of loss that the company will incur in the year.
- There may be a provision in the Act requiring salary to be paid in these or any circumstances; the failure to pay salary is, therefore, not contrary to the scheme of the Act read as a whole.
- In the circumstances, in the Indian context, the taxpayer may choose to determine the terms of transactions which are not expressly prohibited under the terms of the Act.

## CASE 4

- A taxable company has agreed to purchase all of the shares of an operating company, which is also a taxable Indian company The purchaser incorporates a holding company which borrows the purchase price and pays the vendor for the shares. The holding company and the operating corporation amalgamate so that the interest payable on the monies borrowed to acquire the shares can be deducted in computing the income from the business of the amalgamated corporation.
- Generally, leverage of debt by Indian companies and subsequent amalgamation should not be considered as abusive under GAAR. However, the implication of provisions of Section 14A could be considered to bring the same under a 'tax benefit' and hence under GAAR provisions.

### CASE 5

- A taxable Indian company merges with another taxable Indian company that is a shell company. Upon merger, the shareholders who controlled the predecessor receive common shares of the merged company and the minority shareholders of the predecessor receive redeemable preferred shares that are immediately redeemed. The sole reason that the minority shareholders receive shares instead of cash is to cause the merger to comply with the requirements of the Act.
- Structuring of company reorganization through redeemable preference shares should not be covered by GAAR.

### CASE 6

- A taxable Indian company has a subsidiary that is sustaining losses and needs capital to carry on its business. The subsidiary would not be able to obtain any tax savings in the year. The holding company borrows the money from a bank and subscribes to the shares of the subsidiary and claims a deduction for the interest.
- Generally, based on judicial precedents, the interest would be deductible for the holding company. However, the implication of provisions of Section 14A could be considered to bring the same under a 'tax benefit' and hence under GAAR provisions.

### CASE 7

- A non-resident company has an Indian subsidiary. The subsidiary has substantial reserves and the non-resident company desires to cash out by selling to an unrelated party. The gains on sale would be substantial and subject to higher rate of tax. The subsidiary distributes the reserves as dividend, which reduces the valuation of the company. The non-resident then sells the subsidiary.
- The payment of the dividend and the consequent DDT on such dividend should not be construed as covered under GAAR.

### CRITICISM AGAINST GAAR

a. It is feared that once GAAR is introduced, FIIs who invest through countries like Mauritius to exploit bilateral tax treaties will have to pay capital gains tax for their investments in Indian equities.
b. The onus of proof for proving no tax avoidance will be on the tax payer and not the tax department.
c. GAAR provides wide discretion to the tax authorities which at times can be misused.

### CONCLUSION

The final report of the Shome Committee is due towards the end of September and will provide more clarity on the government's final thoughts on GAAR. It is expected to continue allowing investments via Mauritius and not trouble foreign investors. While this may be attractive to FII inflows, there is little that the government appears to be doing to attract FDI inflows, which will have a longer-term, structural impact on the economy. It will not be like 'hot money', which is more closely associated with FII inflows. It remains to be seen if the UPA 2 government, which is lurching from one crisis to the other, is able to assemble a set of cogent policies for implementation in the weeks and months ahead.

### REFERENCES

**CASES REFERRED**

1. Australia in Commissioner of Taxation v. Lamesa Holdings, (1997) 785 FCA
2. Bank of Chettinad Ltd v. CIT, (1940) 8 ITR 522 PC
3. Barber-Greene Americas, Inc. v. Commissioner of Internal Revenue (1960) 35 T.C. 365
4. CIT v. A. Raman & Co., (1968) 67 ITR 11
5. Commissioner of Wealth Tax, Gujarat-II, Ahmedabad v. Arvind Narottam, AIR 1988
6. Copthorne Holdings Ltd. v. Canada, 2011 SCC 63
7. Ensign Tankers (Leasing) Ltd. v. Stokes (1992) 1 AC 655
8. Helvering v. Gregory, 69 F.2d. 809 (2d Cir. 1934).
9. McDowell and Ors v .Commercial Tax Officer, AIR 1986 SC 649
10. Ramanathan Chettiar v. CIT, Madras, 1973 88 ITR 169 (SC)
11. Union of India v. Azadi Bachao Andolan, (2004) 1 CompLJ 50 SC
12. Vodafone International Holdings B.V. v. Union of India, (2012) 341 ITR 1 (SC)
13. W T Ramsay v. Inland Revenue Commissioners, (1982) AC 300

**ARTICLES REFERRED**

14. 'Canada GAAR: trap set for unwary', 10 Int'l Tax Rev. 41 1999.
15. 'Consultative document of General Anti-Avoidance rule for Direct Taxes', 51 Tax Executive 79 1999.
16. Elinore Richardson & Hillel Frankel, 'Canada's GAAR: the emperor has new clothes',
17. Graeme S. Cooper, 'International experience with General Anti-Avoidance Rules', 54
18. Int'l Tax Rev. 35 1989-1990.
19. Irving Aw, 'Revisiting the General Anti-Avoidance rule in Singapore', 2009 Sing. J. Legal Stud. 545 2009.
20. Mathews P. George & Pankhuri Agarwal, 'The Vodafone Case and Direct Taxes Code',
21. NUJS L. Rev. 201 2010.
22. S.M.U. L. Rev. 83 2001.
23. 'Supreme Court re-enters anti-avoidance arena', 21 Int'l Tax Rev. 10 2010-201.
24. T.P Ostwal and Vikram Vijayaraghavan, 'Anti-Avoidance Measures', 22 Nat'l L. Sch. India Rev. 59 2010.

**WEBSITES REFERRED**

25. "Discussion paper on DTC, 2009" http://india.gov.in/allimpfrms/alldocs/12780.pdf last visited on 19thAugust, 2012
26. "GAAR: Parthasarathi Shome panel to make final recommendations on FDI, overseas deals by September-end", http://articles.economictimes.indiatimes.com/2012-09-03/news/33563373_1_capital-gains-tax-parthasarathi-shome-indirect-transfers last visited on 8th September, 2012
27. "General Anti Avoidance Rules: Indian and International Prospective", www.deolitte.in, last visited on 18th August, 2012
28. "Introduction to GAAR" http://www.taxmann.com/taxmannflashes/whatsnew.aspx?stype=1&sid=9682, last visited on 7th September, 2012
29. "Meaning of round tripping", http://www.investopedia.com/terms/r/round-triptrades.asp#axzz25nvYA65e, Last visited on, 25th August, 2012
30. "Shome Committee on GAAR", http://www.nishithdesai.com, last visited on 7th September, 2012

# CHANGING FACE OF INDIAN RETAIL INDUSTRY

*DR. ANIL CHANDHOK*
*PROFESSOR*
*M M INSTITUTE OF MANAGEMENT*
*M M UNIVERSITY*
*MULLANA*

**ABSTRACT**

*The study focuses on the rapid changes in the Indian retail industry. Traditionally, India has been known to be a country with huge number of 'Kiryana' stores . But, during the last decade, lots of shopping malls, supermarkets and hypermarkets besides other departmental stores have come into existence. This has greatly influenced the survival of such traditional stores into 'Question Mark' in times to come. The researcher has made an attempt to understand the changing face of Indian retail by interacting with proprietors of such stores. It has been observed that the influence of emerging new formats viz., supermarkets and hypermarkets may not influence the small, independent 'Kiryana' stores at present but may affect their survival in long run, in case, such stores, do not put in efforts to upgrade themselves with the changing needs of buyers . They are giving an due importance to ambience besides quality, variety and convenience.*

## KEYWORDS

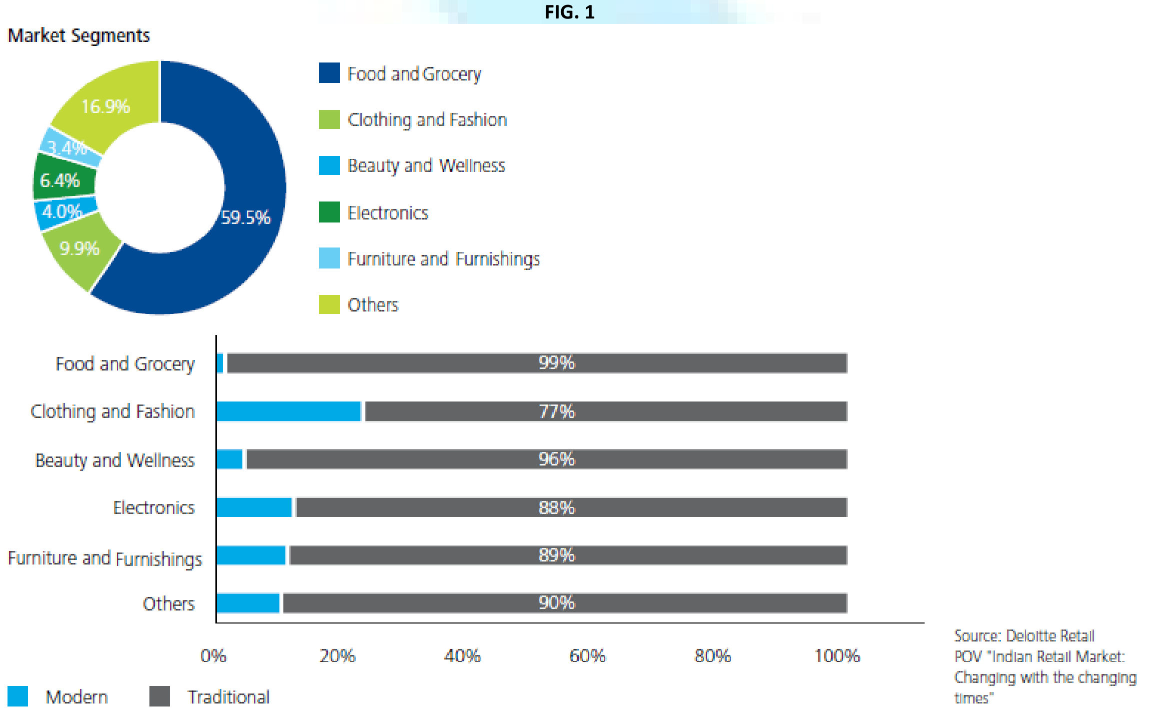
Retail sector, hypermarkets, supermarkets and departmental stores.

## INTRODUCTION

The changing face of Retail Sector in India during the last few years has gained attention of major retail players all over the world. A country being dominated by 'Kiryana' stores since long is now welcoming organized global retail players. A study from Deloitte Touche Tohmatsu India (2011) revealed current trends in the Retail industry as Emergence of organized retail, Spending capacity of youth of India, Raising incomes and purchasing power, Changing mindset of customers, Easy customer credit and Higher brand consciousness.

The market segments are shown below:

**FIG. 1**




Source: Deloitte Touche Tohmatsu India (2011)

## FDI INTO RETAIL

The major role transforming India from a closed economy into one of the favored destinations for foreign investments has been played by immense liberalization of the FDI policy in the past decade.

The current FDI cap across various sectors in retail is as follows:

**TABLE 1**

| FDI policy in retail (August 2011) | | |
|---|---|---|
| **Sector/Activity** | **FDI Cap** | **Entry Route** |
| Wholesale cash and carry trading | 100%* | Automatic |
| Single brand product retailing | 51%* | Foreign Investment Promotion Board (FIPB) |
| Multi-brand, front end retail | Currently Not Allowed | |

*Subject to fulfillment of certain conditions

Source: Deloitte Touche Tohmatsu India (2011)

## MARKET OPPORTUNITIES

**The Top contributors across the segments include t**he food and grocery segment as the highest contributor to the retail sector (60%) with minimum penetration of organized retailing. Penetration of modern retail is maximum (23%) in the clothing and fashion segment, which is 10% of the total retail sector. Besides, organized retail in beauty, wellness and electronics through specialty stores is growing at a rapid pace.

The opportunities available under Food and Grocery Segment is as under:

**FIG. 2**

| | |
|---|---|
| Food and Grocery Retail | • Indian household spending on food is one of the highest in the world with 48% of income spent on food and grocery<br>• With growing urbanization and consumerism and acceptance to modern retail this sector exhibit huge untapped potential |

*Source: Deloitte Touche Tohmatsu India (2011)*

**SECTOR ANALYSIS**

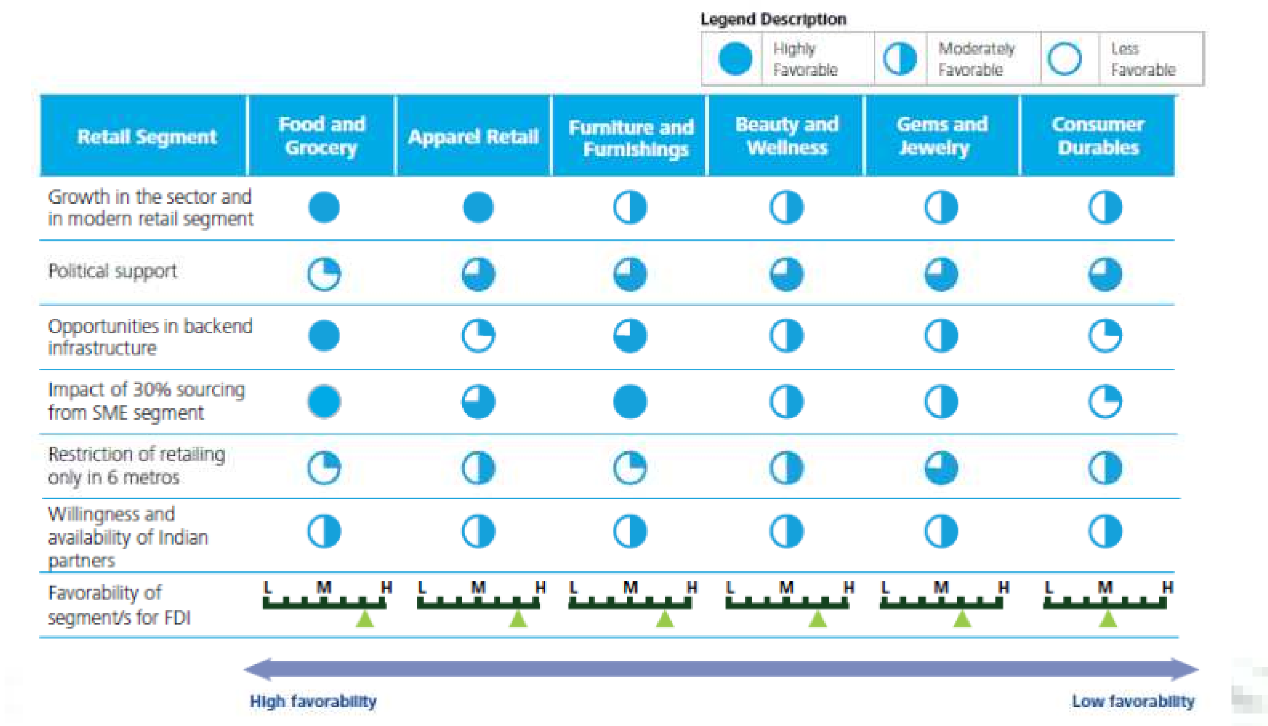
**FIG. 3**

| | |
|---|---|
| Food and Grocery Retail | • Business Monitor International (BMI) forecast that sales through Mass Grocery Retail outlets to reach to USD 27.67 billion by 2015<br>• According to industry estimates, lack of supply chain infrastructure results in 40% loss of farm produce; investment in back-end infrastructure should help reducing this<br>• Sourcing of processed food from SMEs could result in higher margins<br>• Political support for FDI in food and grocery may face challenges and many state may not allow FDI or else allow with more restriction<br>• Hypermarkets and supermarkets are the best suited retail structure for this segment |

*Source: Deloitte Touche Tohmatsu India (2011)*

Although all the retail segments offer growth opportunities for foreign retailers, the largest opportunity in terms of potential market size and scalability is in grocery retailing, particularly for the supermarket and hypermarket formats. However, the large population of 'mom-n-pop'/ 'kirana' grocery stores is likely to be a force to reckon with for new foreign entrants.

**FIG. 4**




*Source: Deloitte Touche Tohmatsu India (2011)*

A **retail format** is defined as a type of retail mix used by a set of retailers. It is a place, physical or virtual where the vendor interacts with its customer".

An attempt has been made to assess the potential impact of such formats on existing unorganized retail outlets 'Kiryana' stores India. The study also raised several recommendations for the existing small retailers to employ in order to stay competitive.

## OBJECTIVES OF THE STUDY

The study has been undertaken to find out the perspective of retailers toward the new emerging retail formats and their impact on business practices.

Specifically, the main objectives of the study are:

1. To study the perceptions of retailers towards upcoming modern retail formats.
2. To determine the best practices adopted by traditional 'kiryana' stores .
3. To analyse the changing scenes of the Indian Retail business.

## REVIEW OF LITERATURE

**Kalyanasundaram** (2012) captured the existing retail scenario in India with regard to organized and un-organized retail and presents the limitations of the current set-up along with the experiences of domestic players. The paper discussed about opening up of the retail sector to foreign direct investment by the government and tracks the efforts taken by the government with regard to foreign direct investment in retail sector. The paper also discussed the rationale for permitting foreign direct investment in retail and concerns of the stakeholders with regard to foreign direct investment in retail and discusses the experiences of other counterparts. The rationale for retail reforms and challenges to be addressed by the retail sector were discussed. The paper concluded with the opportunities and the latest developments in the Indian retail sector.

***Jhamb and Kiran (2011)*** strategically analyzed the Indian retail Industry. The present paper identified the drivers which affect the growth of the Indian retail market, looks at the major factors affecting the retail business and to carry out the SWOT analysis of organized retail in India. The results of the study depicted that infrastructure, economic growth and changing demographics of consumers are the major driver of organized retail in India. The location of the retail store, management style and adequate salaries to personnel enhance the effectiveness of retail business are important factors for retailers' success.

**Rajaguru and Matanda** (2006) observed that except product price, other store and product attributes have positive effects on customer loyalty. Further research is needed to identify retail manager's focus on product quality, store convenience as well as assure quality and availability of new products in order to enhance customer loyalty and also to compare consumers using various retail formats and consumers' perception of product and store attributes on retail formats keeping in view demographic correlates.

**Dennis** (2005) found that people are attracted to different centres for different reasons as shoppers have different expectations. The attributes, though, which were significantly different between centres, did not appear to be significantly influenced by income or socio-economic group. Specifically, shoppers spend more at centres which more closely match their requirements. Further research is needed to carry out studies consumers' choices of more shopping centres and more respondents.

**Sinha** (2003) analyzed that the Indian shoppers show an orientation based more on the entertainment value than on the functional value. The other distinct aspects of the Indian shoppers include post-purchase information management, bargaining and convenience. The orientation is also found to be affected by the type of store, frequency of buying and socio-economic classification. Further research is required to identify the retailers need to experiment with a format that attracts both types of shoppers and also to find out the relationship of orientation with store variables such as store format, merchandising, pricing, location, communication, and customer retention.

**Kaul** (2006) reviewed existing retail literature to identify the dimensions of store loyalty with specific focus on its antecedents such as store image. She concluded that consumer characteristics interact with situational variables to impact how information about the retail mix elements is processed resulting in store choice and trip patterns. Further research is required to analyze further store loyalty as the most initial variable of interest to retailers.

According to **Sinha** and **Kar (2007)**, the retailers need to formulate their innovative strategies and tactics to deliver desired value proposition to consumers via a suitable vehicle such as retail format facilitating positioning of the store. Further research is needed to recognize and match consumer requirements, to understand whether it is all about deciding the format or about serving the consumer better, faster and at less cost and to understand the importance of credibility and trustworthiness of the supplier as well as current customer base for the success of new format.

## RESEARCH METHODOLOGY

Both primary and secondary data have been collected for undertaking this study.

### SCOPE OF THE STUDY

The research work was limited to selected cities in the State of Haryana only. Further, the focus of the study was on 'Changing face of Indian Retail Industry'. The retailers were selected on the basis of products offered and retail formats i.e. those dealing in Food & Grocery. The responses of proprietors of 'Kiryana' Stores were focused.

### RESEARCH DESIGN

Descriptive Research Design was used for the purpose of achieving the objectives of the study.

### PRIMARY DATA

The researcher approached the proprietors of 'Kiryana' stores for the purpose of collecting the data through a structured questionnaire.

### SECONDARY DATA

The secondary data was collected from various online and offline publications and published and non published sources, in the form of annual reports of the firms, newsletters, business and research publications.

### SAMPLE SIZE

Initially, 105 retailers were targeted and interviewed from the different cities of Haryana but only eighty responses were found valid for carrying out further analysis.

### INSTRUMENT DEVELOPMENT

This study has considered shopping in the context of Food & Grocery retail segment. The instrument was designed using scales and store attributes/ store dimensions from previous related research. Five elements of retail stores were taken into consideration to evaluate grocery store attribute salience.

For data collection, the respondents were asked to rate the importance of the store attributes for choosing a storeoutlet. The attributes were measured on a 5-point Likert scale of importance with 1 being extremely unimportant and 5 being extremely important.

### SAMPLING DESIGN

The Universe of the study comprised of the sampled retailers in the state of Haryana. The Survey (Target) Population included sampled retailers from traditional Kiryana stores as well as major grocery retailers in the region viz. Food Bazaar (Big Bazaar) and Reliance Fresh in Haryana who could be contacted inside identified retail outlet(s) on the days when the schedule was administered. The Sampling design comprising non-probability purposive sampling has been employed and only retailers who sell grocery products were contacted. 105 respondents comprised the final sample.

## ANALYSIS AND DISCUSSIONS

To know the perceptions of small grocery independents towards organized retail players, thirteen statements were given to retailers from traditional 'Kiryana' stores as well as major grocery retailers in the region viz. Food Bazaar (Big Bazaar), Reliance Fresh, Easy Day, Spencer & more. They were asked to what degree they agreed with the statements in order to know the underlying perceptions of small grocery independents towards organized retail players and also to assess the potential impact of such formats on existing small grocery independents. For this, respondents were asked to indicate the extent to which each statement characterises their preferred store on 5-point scale by indicating their level of agreement/ disagreement (1=Strongly Disagree to 5=Strongly Agree).

To reach to a conclusion, Paired Samples T-Test was carried to compare means based on responses given by retailers from Kiryana stores as well as major Organised Retail Formats on same attributes using SPSS Software. The summarized form of analysis is shown in the table below:

**TABLE 2: ANALYSIS**

| Store Attribute | Kiryana Stores | Organised Retail Formats | t value | p value |
|---|---|---|---|---|
| | Mean (SD) | Mean (SD) | | |
| Advertising | 4.3 (.98) | 3.6 (1.3) | 2.812 | .007* |
| Store Design | 3.4 (1.2) | 2.1 (1.7) | 4.204 | .000* |
| Cleanliness | 3.4 (1.3) | 2.0 (2.0) | 3.964 | .000* |
| Convenience | 3.1 (1.7) | 3.0 (1.7) | .317 | .753 |
| Service | 2.4 (1.7) | 3.0 (1.5) | -1.795 | .079 |

****indicates that there is a significant difference between Kiryana Stores and Organised Retail Formats***

**INTERPRETATIONS**

The table given above clearly shows Means and Standard Deviations and t-value as per the responses given by Traditional Kirana Store Retailers' and Organised Grocery Retailers, indicating their perceptions on 5 Store Attributes based on 5-Point Scale. In the last column of the table indicating p-value, it is clear that there is a significant difference between Kiryana Stores and Organised Retail Formats on the store attributes viz. Advertising, Store Design and Cleanliness in Haryana whereas the difference between Kiryana Stores and Organised Retail Formats are not much significant on the Store Attributes such as Convenience and Service.

The top three individual retailing mix elements identified in this study (as per ranking), drawn from the store attributes for perceptions towards organized grocery retail players, are discussed next.

## IMPORTANT STORE ATTRIBUTES

**Dimensions for perceptions towards organized grocery retail players:**

1. **Advertising:** Advertisements could be the major influencers in drawing customers towards the specific outlets.
2. **Store Design**: One of the major pullers in today's changing scenario.
3. **Cleanliness**: something that draws the attention of the buyers in selected the outlet to a great extent.

## DISCUSSIONS AND CONCLUSION

It has been observed that the 'Kiryana' stores are still surviving and will continue to survive in times to come because of 'Credit Facility', 'Customer Relationship Building' and 'Proximity to Home' and 'Low Costs' to name a few in comparison to organized retail players. Further, support from government and upgrading in the form of 'Advertising', 'Store Design' and 'Cleanliness' will boost and elongate their survival in time to come.

## CONCLUSION

Updating themselves with changing times is the key to success.

## REFERENCES

**BOOKS**

1. Berman & Evans, Retail Management- A Strategic Approach, Pearson Education
2. Charles Dennis, Objects of Desire: Consumer Behaviour in Shopping Centre Choices, Palgrave, 2005, Chapter 3 Why do People Shop Where They do? The Attributes of Shopping Centres that Determine Where Consumers Choose to Shop, pgs 41-60
3. Gilbert,David, Retail Marketing Management, Pearson Education
4. Kotler, Phillip, Marketing Management: Analysis, Planning and Control, Prentice Hall, New Delhi.
5. Levy, Weitz & Pandit, Retailing Management, 6th edition, Tata McGraw Hill
6. Lindquist & Sirgy, Shopper, Buyer, and Consumer Behavior, Biztantra-Dreamtech
7. Pradhan, Swapna, Retailing Management, 3rd edition, Tata McGraw Hill
8. Schiffman and Kanuk, Consumer Behaviour, PHI, New Delhi.
9. Sinha, Uniyal, Managing Retailing, Oxford University Press, N. Delhi

**JOURNALS & ONLINE RESEARCH PUBLICATIONS**

10. Asian Journal of Management Research ISSN 2229 – 3795, Volume 2 Issue 1, 2011, pp. 264-273
11. http://www.iimahd.ernet.in/publications/data/2006-10-06_skaul.pdf
12. http://www.iimahd.ernet.in/publications/data/2007-03-04_PKSinha.pdf
13. http://www.integraluniversity.ac.in/net/journalsAndPublications.aspx
14. Jhamb and Kiran (2011), Organized retail in India - Drivers facilitator and SWOT analysis
15. Kalyanasundaram (2012), The Changing Face of Indian Retailing, Integral Review - A Journal of Management, ISSN :2278-6120, Vol.5 No.1, June-2012, pp 42-51
16. Kaul, A Conceptual Note on Influencing Store Loyalty: Implications for Indian Retailers, 2006,
17. Sinha and Kar, An Insight into the Growth of New Retail Formats in India, 2007
18. Sinha, Shopping Orientation in the Evolving Indian Market, Vikalpa, Vol 28, No. 2, Apr-Jun 2003

# ENGLISH LANGUAGE TEACHING IN INDIA: REVIEWING THE RELEVANCE OF THEORY

*DR. PAWAN KUMAR SHARMA*
*ASSOCIATE PROFESSOR*
*DEPARTMENT OF ENGLISH*
*M N COLLEGE*
*SHAHBAD MARKANDA*

**ABSTRACT**

*It is now a widely acknowledged fact that, with the advent of globalisation impelled by the tremendous advances in Information technology, English as a language has gained a new currency in India. The realisation that the adequate knowledge of English can open the doors of many possibilities in economic arena has focussed the attention on the art of possibility of teaching-learning processes and practices, and their effective orientations. However a cursory look makes it quite evident that the situation is quite chaotic. Even after attempting (or trying to attempt) to learn the language for about 15 years in schools and colleges, our graduates and post graduates are not equipped enough to write or speak simple correct sentences fin their communication. There seems to be something wrong somewhere. The present paper is my humble attempt to relook at the various methods and practices adopted by the teachers of English at different levels, consciously or unconsciously, and their usefulness in the real situations. I have also tried to find out and suggest the right kind of method to be adopted and right kind of environment to be evolved for a better result.*

## KEYWORDS
globalisation, communication, methodology, environment, acquisition, skill.

## INTRODUCTION

In independent India English began its onward journey as a deeply detested and despised object due to its colonial roots. Since then it has travelled a long way to assert its primacy and acquire a position of relevance and importance in the patterns of Indian life. From being viewed as an instrument of oppression to its present position as a second language, English is today widely accepted and hailed as a global passport for good career, commerce, knowledge and engagement for the globalised world. Today there is a vast section of the elitist demeanour which rightfully can claim English to be their first and natural tool of communication. Though this section of English speaking Indians is very small, yet it is visible in all forms of life as it "controls domains that have professional prestige (Kachru, 8)". With the momentous advances in information technology, English is expanding its area of influence and reach in every dimension and direction. As a consequence the functional use of English today extends "far beyond those normally associated with an outside language, including the instrumental, the regulative, the interpersonal and the innovative, self-expressive function (Kachru, 37).

In 1991 when India deregulated its economy to integrate it with the globalised world, it created all the right reasons for the learning of English for the purpose of global communication. A new brave world opened up for all those with adequate skills in English with the advent of this market economy. Multinational companies with global reach in marketing, tourism, advertising, call centres, I T industry, this all created conditions which gave impetus to the practices and processes of English learning in India. With this new zeal and desire to equip adequately with this tool of empowerment so to face the competitive global reality, the status of English language teaching also underwent a complete modification and reinvention. From Gurukul system of imparting education under the shades of trees to the present system of smart class room, the entire gamut of education has gone through a complete metamorphosis. However one thing has remained a constant. It is the role of teacher. It is still the sincerity and the skills of the teachers which inspires the process of learning among the students.

## DISCUSSIONS

When we look at the various practices and the methods that influence the process of English learning in the class room, there are certain variables that play a considerable role in the acquisition of the language. These variables include: learning styles and strategies, use of audio-visual aids, weakness of the students in linguistic skills at school level, faulty system of examination, teaching English through literature, use of methodology and the lack or otherwise of motivation.

### THE USE OF AUDIO-VISUAL AIDS

Today it has become quite fashionable to make use of the audio-visual aids to support teaching. These aids can be useful for the purpose of guiding the students through the material and help them understand important points. There is no denying the fact that the right use of the audio-visual aid does make the teaching a bit more interesting, a bit more dynamic. These aids can also reduce the teacher's effort, economise teacher's time and help a teacher in accessing the relevant material from different sources.

Though the use of these technological tools that create a huge interest and attraction as they appear appealing to the eyes and ears of the learners, yet these cannot be the ideal substitutes for what the teacher says or does in the class room during the process of his interaction with the students. It is the teacher and his or her competency that matters more than these fancy aids. The audio-visual aids can definitely be useful but even in the absence of these aids the process of learning language can be easily carried forward. A smart and resourceful teacher can do with whatever resources he or she has got in hand. Even the class room can be used as a language laboratory. A strong visual effect can easily be created by using the human body, black board, flashcards, pictures in the books or black board, chalks and charts. The black board still continues to be used as the most important teaching aid throughout the world. Chalks and talks still continue to be used as the most effective method of teaching throughout the world. In addition to all this an efficient teacher can always use theatrics like gestures, expressions and actions to put across the meaning of the words and explain the situations. The use of flashcards can be quite useful in practicing new structures and sentences. For an elaborate presentation the use of large sheets as charts, with diagrams and pictures, can effectively be used to drive home the point. However all such aids should be used judiciously. An excessive use of these practices can hamper the real process of learning by creating an unnecessary distraction. Ultimately it is the knowledge, skill and the right aptitude of the teacher that carries the day and creates the real impact on the students.

### FAULTY SYSTEM OF EXAMINATION

There is urgent need for reforms in our examination system as the present system is no test of the real knowledge or skill acquired by the student. The present practice of judging a student on the basis of attempted (crammed) answers in writing at the end of the session or semester is not suited to the process of English learning. The entire focus of the student is to get a good score at the examination, not on the acquisition of the adequate skills in the language. Our examination system is more achievement oriented rather than performance oriented which leads to an unnecessary emphasis on marks and grades instead of skill and fluency in the language. In such a scenario the role of the teacher becomes even more important. While keeping in view the performance of the students in the examination at the end of the year, he must also slowly but surely concentrate on imparting and improving the communicative proficiency of the students along the way. This kind of modulation in the teaching methods can somehow offset the adverse impact of the faulty ways of evaluation in practice.

### TEACHING THROUGH LITERATURE

Literature has always been an integral part of language teaching. Though recently the focus has shifted to the genre of specialisation which has wrongly separated literature from language, and announced the advent of a new school called E L T. But this separation is based on a wrong hypothesis because literature is nothing but language dancing. One of the main reasons of the popularity of English is the vast reservoir of literature written in the language and the rich and varied experience it provides. It is through literature that the students remain captivated and indulge, consciously or unconsciously, in the usages and practices of the language. Reading a short story, a play, a novel or a poem not only enlivens the interests of the students, but helps the students in understanding the different nuances and aesthetics of the language. The students get to know the use of familiar words in different contexts with newer layers of meanings. This also enriches the students with the knowledge of the entire evolutionary changes that any language undergoes over a period of time.

However there has to be a careful selection of literary texts or pieces keeping in view the comprehension level of the learners. What is strongly suggested is the distinction made between the study of literature per se and the study of literature as a source of language teaching. The primary aim of imparting linguistic skills to the students should not be lost sight of at any cost. The famous linguist Lazar recommends certain factors to be kept in mind while selecting the text. These factors are the students' cultural background, linguistic proficiency, literary background, availability of texts (kinds and ease with which these are available), length of text (Do you have enough time available to work on the text in class? How much time do students have to work on the text at home), exploitability (What kind of tasks and activities can you devise to exploit the text . . .), fit for syllabus (How do the texts link with the rest of the syllabus? Thematically? In terms of vocabulary, grammar or discourse? Can you devise tasks and activities for exploiting the text which link with the methodology you have used elsewhere in the syllabus?) (Lazar, 35). The Unioversity Boards of Studies which take upon themselves the onerous task of framing the syllabi must bear in mind these relevant and useful inputs illustrated by Lazar.

**GRAMMAR-TRANSLATION**

For the purpose of proper comprehension and correct usages of the language the rules of grammar are of utmost importance. This method has always been an essential component of language skills. The proper learning of the parts of speech, proper use of verb or adverb enables the students to translate his sentences and thoughts into target language and vice-versa. On the basis of the data or set of rules learnt, the student acquires the skill of translating in writing from mother tongue to the foreign language and from foreign language to his own mother tongue. Language in this method of learning is treated merely a deductive process or a transfer technique. O'Grady explains it further: "This method emphasises reading, writing, translation and the conscious learning of grammatical rules. Its primary goal is to develop literary mastery of the second language. Memorisation is the main learning strategy and students spend their class time talking about the language instead of talking in the language. The curriculum requires the memorization of paradigms, patterns and vocabulary; with translation being used to test the acquired knowledge. Consequently the role of L1 (that is, mother tongue or native language) is quite important" (O'Grady, et al. 21). However this model of learning faces a lot of criticism from the contemporary theorists.

**THE DIRECT METHOD**

The advocates of this model of language learning strongly argue against the grammar-translation method and oppose it by saying that the language learning is more than the learning of rules and the acquisition of translation skills. Of course, the rules are important here too, but these rules of grammar are to be learnt or acquired inductively by simply inducing the rules of how the language behaves from the actual language itself. The proponents of this school of thought argue that Adult L2 (second language) can learn a second language in essentially the same manner as a child. Therefore, if possible, the teacher should try to create a natural learning environment within the class room. Instead of explicit grammar instruction, the major emphasis is on communicating. Classes are carried out totally in the second language with absolutely no reliance on the first language or on any form of translation. The expectation is that through question and answer dialogues, the second language will gradually be acquired. However critics do not quite agree with this idea and argue that "problems have arisen with such an approach because adults do not in fact learn exactly like children, and they express the need for explicit instruction in grammar and other aspects of the second language (O'Grady et al. 25).

However the discipline of direct method takes it to the extremes and refused to speak a single word of English as word meanings. In order to avoid translating new words, they look for an association between new words and the idea it stands for. Thus explanations become cumbersome and time-consuming. Further the proponents of this methodology fail to grade and structure their materials adequately. No selection, grading or controlled presentation of vocabulary and structures tend to plunge people into flood of living language – quite bewildering for people.

**BILINGUAL METHOD**

This theory of teaching language emerged as a reconciliation of both the extremes. These theorists believe that it is a waste of time to recreate the situation while teaching a foreign language. They argue that the teaching-learning process is facilitated if only the mother tongue equivalents are given to the learner without duplicating the situation. This method, therefore, makes use of the mother tongue in this restricted manner. The teacher is thus saved the botheration of manoeuvring situations in order to convey the meanings in English. Instead the meanings are explained in the mother tongue of the students. The time thus saved is utilised in giving practice to the learner. Bilingual method, in this way, promotes both fluency and accuracy. It promotes theory as it lays emphasis on speech and pattern practice. It promotes accuracy as the meanings of new words are given in the mother tongue of the learner. It does not require any teaching aids and is suited to all kinds of students – rural or urban. Unlike the Direct Method which ignores the linguistic habits already acquired by the learner in the process of learning the first language, the Bilingual Method tries to make the best use of them.

**COMMUNICATIVE LANGUAGE TEACHING**

This theory makes use of real life situations that necessitate communication. The teacher in the class room sets up a situation before the students that they are likely to encounter in their real life. Unlike the audio-lingual method of language teaching, which relies on repetition and drill, the communicative approach can have students in suspense as to the outcome of the class exercise, which varies according to their reaction and responses. The motivation of the students comes from their desire to communicate in meaningful ways and about meaningful contexts or topics. Margie S. Berns, an expert in the field of communicative language teaching, explains this view that "language is interaction; it is interpersonal activity and has a clear relationship with society. In this light, language study has to look at the use (function) of language in context, both its linguistic context (what is uttered before and after a given piece of discourse) and its social, or situational context (who is speaking, what their social roles are, why they have come together to speak) (Bern, 5).

At present teachers of English around the world prefer some form of communicative teaching and learning, rather than any other method or its derivatives. However we must remember that a successful teacher is not necessarily biased in favour of one method or the other. He or she has to be, first of all, an individual of competence in and comfortable with the methods he or she wants to use. A good teacher of English must try to blend all these strategies and methodologies to suit the requirements of the students and the teaching material.

**MOTIVATION TO LEARN**

All the methods turn into pure madness if the learners lack adequate desire and drive to learn the language. Motivation can best be defined as the learner's orientation with regard to the goal of learning a second language. Motivation can be categorised in two types: instrumental and Integrative. Instrumental motivation comes from a specific purpose. It underlines the goal to gain some social or economic reward with the acquisition of the second language, whereas integrative motivation is purely attained for the purpose of enhancing learning or knowledge. Integrative motivation is characterised by the learner's positive attitude towards the target language group and tries to completely integrate or merge into the cultural milieu as a global citizen. Since we all have turned into global citizenry, what is required is the integrative motivation for the purpose of learning English so as to establish an integrated and assimilated kind of consciousness.

## CONCLUSION

In conclusion it can be summed up that despite the fact that there are a number of theories and methods for language teaching, the teacher's presence in the class room cannot be underestimated. The best audio-visual aid is still the teacher. It is the teacher whose knowledgeable speech in the class room enthrals and motivates the students. The students learn to speak by listening to the teacher. If the model they listen to is not good, their own speech cannot be good. The most effective and most tried & tested method of teaching English language in our country has been through traditional grammar and writing practice in the class room. The best way to achieve desired result has been to give daily class room assignments. Students can learn the language only if they use the rules of grammar, learnt in the process, in actual composition in language. What is needed is the realization among the students about the importance of English for a good career and the quest to realize that dream. On the part of the policy makers, it is quite pertinent to reduce the size of the class so as to enable the teacher to individual attention to the students; frame and update the syllabi to the goal of effective learning; and reform the examination system, especially for the language subjects, giving enough space to the oral communications.

## REFERENCES


1. Berns, M. S. “Functional Approaches to Language and Language Teaching: Another Look” In S. Savignon & M. S. Berns. Eds. Initiatives in Communicative Language Teaching: A Book of Readings. MA:Addison-Wesley. 1984.
2. Kachru, Braj B. *The Alchemy of English. The Spread, Functions and Models of Non-Native Englishers.* Oxford: Pergamon Press Ltd. 1986.
3. Lazar, Gullian. *Literature and Language Teaching: A Guide for Teachers and Trainers.* Cambridge: Cambridge University Press: 1993.
4. O’Grady, William, Michael Dabrovolsky and Mark Aronoff. *Contemporary Linguistics: An Introduction*. New York: St. Martin’s Press. 1993.

# A REVIEW OF THE LITERATURE: WOMEN EMPOWERMENT THROUGH SELF HELP GROUPS (SHGs)

*U.DHANALAKSHMI*
*ASST. PROFESSOR*
*SURYA ENGINEERING COLLEGE*
*ERODE*

*DR. K. RAJINI*
*ASSOCIATE PROFESSOR*
*SRI VASAVI COLLEGE*
*ERODE*

## ABSTRACT
*This paper looks at the literature around the self help groups (SHGs) movement in India. It is hoped that it will be useful to fellow researchers who are undertaking studies in this area. It exposes the historical background of self help groups in Indian context. This paper reviews literature on the subject's empowerment process in relation to a self-help group as well as related literature. It is important to note that most literature has been focusing on empowerment as the outcome not as the process. There have been limited studies that explore the relationship between a self-help group and the process of empowerment.*

## KEYWORDS
self help groups, process women empowerment, literature review.

## INTRODUCTION
Self-help groups (SHGs) were piloted by NGOs, notably MYRADA in India in the mid-1980s, in order to provide financial services to poor people. What started as a pilot programme has now become a movement for social empowerment – particularly for rural poor women. The number of SHGs linked to banks has increased from about 500 in the early 1990s to more than 1.6 million in 2006. This paper documents the beginnings and progress of the self-help group movement in India and the roles played by NGOs, banks, IFAD and central and state governments in promoting SHGs and the review of literature on Self Help Groups (SHGs).

## A BRIEF HISTORY
- The first people in history to demonstrate the power of self-help groups were alcoholics. Alcoholics Anonymous was started in 1935 to help "hopeless alcoholics" recover from alcoholism, something the medical profession had been unable to do. The power of self-help groups to help people suffering from other problems was not widely recognized until after World War II.
- In the 1960s, civil right movements began to evolve in many developed countries, as people became aware of their collective power. These power-to-the-people movements provided avenues for the development of the self-help group movement (Vattano, 1972). In Japan, people who had come to enjoy a free society welcomed "the peak of circle movements" in 1955 (Ôsawa, 1976), and, influenced by Western civil right movements, they promoted the establishment of similar movements.
- In the 1970s, the emphasis moved from mass movements to small group movements in some countries. In Germany, people began to be more interested in their ordinary lives than in political abstractions (Moeller, 1978) while in Japan, people with disabilities and chronic illnesses started to spend more energy on activities within their local communities rather than on political actions against the central government (Osa, 1991, pp. 43-45; Tsuda, Kida, Yamada, & Saitô, 1977, pp. 62-67). Moreover, by mid-1970s welfare states were being challenged by criticism of their rising public expenditure and inefficiency, while international economic growth rates were declining due to rising oil prices (George & Page, 1995, pp. 8-10).
- Then in 1976 a strange coincidence occurred. In North America, two edited books (Caplan & Killilea, 1976; Katz & Bender, 1976) and two journal issues (Borman & Lieberman, 1976; Riessman, 1976) written by social scientists appeared which featured self-help groups. In Japan that same year, a voluminous edited book on "small grassroots groups" was published with detailed reports on various groups, including self-help groups for people with disabilities (Shisô no Kagaku Kenkyûkai, 1976). In 1977, in the UK, and in 1978, in Germany and Belgium, research books on self-help groups were published that were clearly influenced by the studies in North America (Brankaerts, 1983; Moeller, 1978; Robinson & Henry, 1977) and in 1979, Japanese psychologists published a book on self-help groups, and introduced the studies of North America to Japanese readers (Murayama & Agari, 1979).
- In the 1980s, self-help support systems such as self-help clearinghouses, which provided information and referral services linking the public with the groups and assisted groups to develop, were established in North America and Germany (Matzat & Estorff, 1989; Oka, 1992; Wollert, 1987). In our opinion, it was at this point that these countries and Japan went their different ways. Although Japan had as many self-help groups as North America and Germany, it has never established any self-help clearinghouses with paid staff. Even today, Japan has only a few volunteer-based self-help clearinghouses and paid-staff-based clearinghouses catering to a limited client base, such as a women's clearinghouse (Oka, 1994a).
- Another characteristic trend of the 1980s was the development of international networks of self-help supporters. In 1980, the Regional Office for Europe of the World Health Organization established a Copenhagen-based working group on self-help and health. This resulted in an international report on self-help (Hatch & Kicbusch, 1983). In 1983, another international report was published which covered self-help groups in countries, including the UK, Germany, the US, Canada, and New Zealand (Pancoast, Parker, & Froland, 1983). As a result of this internationalization and other factors, in 1992 an international conference in Ottawa, Canada, attracted people not only from North America but also from Europe and East Asia. Two years later, the conference research committee (a Canadian, American, and an Israeli) edited a book published with papers from the conference including ones from Eastern Europe, Japan, Israel, and Hong Kong (Lavoie, Borkman, & Gidron, 1994).
- In the 1990s, a new trend appeared: online self-help groups (Madara & White, 1997). Going on-line has contributed to the self-help group movement in the following ways: first, the Internet has made it much easier for people to communicate with each other especially those who are separated by great distances. International interactions have increased (our co-authorship, for example, would be impossible if we were unable to use the Internet), and people with very rare and special needs, who naturally live great distance from each other, can now easily form groups. Second, by using searching engines, people can easily find out if groups they would like to participate in exist as long as they have web pages.

## SHG
· SHG is a development group for the poor and marginalized
· It is recognised by the government and does not require any formal registration
· The purpose of the SHG is to build the functional capacity of the poor and the marginalized in the field of employment and income generating activities
· People are responsible for their own future by organising themselves into SHGs

## GUIDING PRINCIPLES FOR FORMTION OF SHGs

The strong belief by the individual to bring about change through collective efforts

· Effort is built on mutual trust and mutual support
· Every individual is equal and responsible
· Every individual is committed to the cause of the group
· Decision is based on the principles of consensus
· The belief and commitment by an individual that through the group their standard of living will improve
· Savings is the foundation on which to build the group for collective action.

## MEMBERSHIP

· An SHG shall have a membership of not less than 10 persons or more than 20.
· Members should reside in the same village
· Membership should be based on affinity
· The groups could be mixed /male or female
· The members of the groups should preferable be from the low- income group.

## THE FORMATION OF SHG

Persons interested in forming SHGs should meet and discuss the following before they form

· The meaning of SHG
· The guiding principles of SHGs
· Membership in SHGs
· Management of SHGs
· Types of economic activities they would like to take up individually or as a group
· Amount of savings to be made by the members

## NUMBERS OF SHGS IN A VILLAGE

There can be as many as possible SHGs in a village. In order to identify them each SHG may give themselves a name or a number e.g.

o Mawlieh village SHG- I
o Mawlieh village SHG- II and so on

## MANAGEMENT OF THE SHGs

· SHG elect a member as a chairman and Secretary of the group for a period of one year.
The chairman acts as the representative of the groups and chairs group meeting while the secretary maintain records
· Every decision of the group must be shares consulted and agreed by everyone
· The group frames rules and regulations
· The group must open an account with a bank
· They must meet at least once a month
· Maintenance of records. The following books are maintained by SHG
- Register of Minutes
- Register of accounts (Cash Book/ ledger/ vouchers/ receipts etc)
- Admission register
- Attendance register
· SHGs will close the annual account on the 31$^{st}$ march every year and the secretary will present the annual reports related to savings loans activities etc.
· The agenda of each group meeting shall consist of the following
- Monthly savings accounts reports and bank account reports
- Monthly savings
- Other matters

## INCOME GENERATING ACTIVITIES AND LOAN SYSTEM

· SHGs must save for at least 6 months before they can be linked to a bank credit or provide loans to its members
· The rate of interest in lending among members from the groups fund will be decided by the group as well as the amount to be given and the rate of interest to be charged.
· Loans may be given to members for either productive or consumption purposes subject to the groups decision
· All types of Income generating activities of SHGs must be supported by a brief market survey
· All income - generating activities require functional skills. SHGs must promote its members to be trained in their selected activity to enhance their capability for sustainable surplus production

## THE EARLY YEARS

Self-help groups (SHGs) first emerged in MYRADA (Mysore Resettlement and Development Agency) in 1985. In 1986/87 there were some 300 SHGs in MYRADA's projects. Many had emerged from the breakdown of the large cooperatives organized by MYRADA. In these areas, a number of members asked MYRADA to revive the credit system. They usually came in groups of 15-20. When reminded of the loans they had taken out from the cooperative, they offered to return them to MYRADA, but not to the cooperative, which in their experience was dominated by a few individuals. MYRADA staff suggested that they return the money to themselves – in other words to the members who had come in a group to present their case to MYRADA. After some hesitation, they decided to continue meeting in these smaller groups. MYRADA staff realized that they would need training: how to organize a meeting, set an agenda, keep minutes, etc. Efforts were made to train the members systematically. On analysis it emerged that the members were linked together by a degree of affinity based on relationships of trust and support; they were also often homogeneous in terms of income or of occupation (for example, agricultural labourers), but not always.
Caste and creed played a role, but in several groups affinity relationships and economic homogeneity were stronger; as a result, several groups included different castes and creeds. From the time that the first SHGs emerged in 1985 to the inclusion of the SHG strategy in the annual plan for 2000/01 (Government of India, 2000), several important steps were taken by the National Bank for Agriculture and Rural Development (NABARD), the Reserve Bank of India (RBI) and leading NGOs, as well as by multilateral agencies, particularly IFAD.
The SHG strategy is an important component of the Government's overall thrust to mitigate poverty and has been included in every annual plan since 2000. This period of 20years can be divided broadly into two phases.

### PHASE I: FROM 1987 TO 1992

During this phase – largely omitted in recent studies – NABARD focused on supporting NGO initiatives to promote SHGs and on analysing their potential and performance. In 1987 NABARD first put funds into the SHG/SAG (SELF HELP AFFINITY GROUPS) movement (in response to a proposal from MYRADA submitted in 1986). In 1987 it provided MYRADA with a grant of 1 million Indian rupees (Rs) to enable it to invest resources to identify affinity groups, build their capacity and match their savings after a period of 3-6 months. The grant was based on MYRADA's experience in promoting SHGs since 1985 and the initiative of the NABARD chairperson at that time, Shri P.R. Nayak.

### PHASE II: FROM 1992 ONWARDS – THE SHG-BANK LINKAGE PROGRAMME

The programme began in 1992 with a two-year pilot project to link 500 SHGs. It was indeed the pilot of the SHG-Bank Linkage Programme, although not of the SHG movement, with which NABARD had already been involved since 1987. Without that 1987 investment, the SHG movement would not have had official recognition and ownership. The SHG-Bank Linkage Programme was slow to take off, but has been speeding along since 1999. It has received unstinting support from RBI, the central and several state governments of India – notably Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka – and thousands of NGOs and the banking sector, as well as multilateral agencies, notably IFAD.
The process of SHG formation requires activities that can be divided into three broad groups:

1. identification of an affinity group – this requires experienced NGO staff and does not pay for itself;
2. Institutional capacity-building – this requires numerous training models over 14 sessions. The training must be subsidized and costs Rs 5 000-10 000 per group. This investment in capacity-building (management and livelihood skills, basic numeracy) must be initially made as grants by various institutions. Non-formal education must go beyond just literacy if it is to provide a basis for livelihoods. IFAD has included this investment in all its projects in India since 1995 (and in some other countries, for example Indonesia); and
3. 'loaning activity', which includes visits to the SHG, assessment, etc. The cost of this activity can be covered by the MFI/FI within three to four years. In the case of the MFI Sanghamithra, it took three years. The first two sets of activities must be handled by an NGO or a good promoting institution; the third by the MFI/FI. After breaking even, Sanghamithra invests its surpluses in the first and second set of activities. A not-for-profit MFI is more easily able to make this investment.

With this support from the MFI/FI and the apex institutions that the SHGs promote, the groups have survived long after a particular project ended.

### CURRENT STATUS

**TABLE 1: CUMULATIVE ACHIEVEMENT UPTO 31.03.2012**

| | | |
|---|---|---|
| 1 | **No. of SHGs** | **5,56,311** |
| | **No. of SHG Members** | **85.70 lakhs** |
| 2 | No. of Rural SHGs 3,72,092 | 3,72,092 |
| | No. of Members in Rural SHGs | 57.37 lakhs |
| 3 | No. of Urban SHGs | 1,84,219 |
| | No. of Members in Urban SHGs | 28.32 lakhs |
| 4 | **Total Savings of SHGs** | **Rs. 3,374.60 crores** |
| 5 | Revolving Fund to SHGs | 4,85,822 |
| 6 | No. of SHGs credit linked so far | 4,85,822 |
| | **Total credit availed** | **Rs.15,633.83 crores** |
| 7 | **Economic Assistance to SHGs** | **61,934** |
| | **Amount released for EA** | **584.39 Crores** |
| 8 | No. of PLFs Restructured | 10,494 |
| | No. of PLFs Registered | 8,986 |
| | No. of PLFs got Incentives | 5,850 |
| 9 | Bulk loan provided to PLFs | 419 |
| | Bulk loan Amount sanctioned | Rs. 100.54 Crores |
| 10 | No. of SLFs Formed | 399 |
| | No. of SLFs Registered | 290 |
| 11 | **Youth Skill Training** | **1,08,496** |
| 12 | **EDT Programme** | **17,323** |

*Source: TN Corporation for Development of Women.*

**WB Assisted TNEPRP Project – "PudhuVaazhvu"**

• A key Project of World Bank in Tamil Nadu to address inequity and to promote inclusive growth.
• Community Driven Development (CDD) approach through pro poor community organizations.
• Focused intervention in backward Blocks aimed at empowerment of the poor, marginalised and differently abled.
• Increase in household income through promotion of sustainable livelihoods.
• Implemented in 70 blocks(2509 VPs) in Phase-I and 50 blocks ( 1661 VPs) in Phase –II since 2005.
• Total families Targeted – 9.63 lakhs.

### REVIEW OF LITERATURE

A review of literature was added to this study by referring to different journal and studies conducted by different individuals to show relevance to the study.The review of impact assessment studies provides valuable insights into the benefits and drawbacks associated with SHG programme. Some important studies which are relevant to the present study have been discussed below:
**Gurumoorthy (2000)** explained the Self Help Group (SHG) as a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programmes. It was an organised set up to provide micro-credit to the rural women on the strength of the group savings without insisting on any collateral security for the purpose of encouraging them to enter into entrepreneurial activities and for making them enterprising women.
**Rekha Goankar(2001)** in her study concluded that the movement of SHGs can significantly contribute towards the reduction of poverty and unemployment in the rural sector of the economy and the SHGs can lead to social transformation in terms of economic development and the social change.
**Manimekalai and Rajeswari (2001)** studied the socio-economic background of self-help group women in rural micro-enterprises in Tamil Nadu and examined the factors which had motivated the women to become SHG members and eventually as entrepreneurs. The researchers analysed the nature of economic activities and the Performance in terms of growth indicators such as investment turnover, employment, sources of finance, product marketing and other related aspects and identified the problems faced by SHG women in running the enterprises. For the purpose of the study, a sample of 150 SHG members was selected who were studied according to the nature of their activities from 5 blocks of Tiruchirapalli district of Tamil Nadu. These groups were formed and promoted by an NGO. The nature of micro-enterprises run by the groups included trade, agriculture, animal husbandry, processing of food, tailoring, gem cutting, catering, petty

shop, bamboo based units and agro-based units etc. The primary data pertained to the year 1999-2000. The SHG women were employed both in agricultural and non-agricultural activities. The study found that women SHGs earned the highest profit from agriculture, followed by trade related activities and catering services. A majority of sample units did not market their products outside the districts but sold these directly to the customers. The income of the SHG women almost doubled after taking up micro-enterprises. Majority of the respondents faced serious problems like non-availability of raw materials, lack of infrastructure facilities including marketing, lack of support from family members in running the enterprises etc. The provision of microfinance by the NGO to the women SHGs had helped the groups to achieve a measure of economic and social empowerment. It had developed a sense of leadership, organisational skill, management of various activities of a business, identifying raw materials, market and suitable diversification and modernization.

**Singh (2001)** conducted a study on the socio-economic impact of microfinance programme in Uttar Pradesh. In order to study the impact, rural areas of Kanpur district were selected on account of highest number of credit linked SHGs as compared to other districts in the state. For the purpose of the study, out of 11 SHGs linked with RRB, one group in Beridayria village was selected. It was found that in pre-SHG situation most of the members were dependent on income from labour but in the post-SHG situation their main source of income was dairy. The survey showed that simple and quick credit delivery with lower interest rates in SHGs replaced the money-lenders. During pre-SHG some of the loans were taken for consumption purpose but in the post-SHG situation the loans were mainly taken for income generating purposes. The study showed that the average value of assets increased by 46 per cent and the annual income per household increased by 28 per cent in post-SHG periods. The most interesting feature of SHGs was compulsory savings even by cutting the necessary expenditures. Recovery rate was quite high which ranged from 95 to 100 per cent. The study also revealed that the commercial banks were not prompt in linking SHGs for loans.

**Mishra et al. (2001)** studied the impact of rural SHGs on generation of income and employment among the beneficiaries, identified the major constraints and problems faced by the groups, and suggested measures for overcoming these problems in Faizabad district of eastern Uttar Pradesh. For the purpose of the study, five SHGs in Amaniganj block of the district were selected randomly. It was observed that SHG members were mainly from OBC community whose main occupations were agriculture, small businesses, labour etc. Ninety-three per cent of the SHG members were male and only 7 per cent were female. Majority of the members lived below the poverty line. The average monthly savings ranged from Rs. 15 to Rs. 50. Repayment performance was good. The results of the survey showed that SHGs have helped to increase the income of the participants by 10 to 15 per cent. The major problems that the members faced were lack of training, credit and marketing facilities, entrepreneurship and high interest rate. It was suggested to involve Commercial Banks, RRBs and Primary agricultural co-operative societies to provide liberal credit at cheaper interest rate to the poor through SHGs.

**Puhazhendhi and Badatya (2002)** in a study commissioned by NABARD surveyed 115 SHG members from 60 SHGs in eastern India. They concluded that institutional credit had deepened and widened among the rural poor, while there had been substantial reduction of loans from money-lenders and other informal sources. The findings of this study showed that 52 per cent of sample households registered 23 per cent rise in annual income and 30 per cent increase in asset ownership in post-SHG situation. About 72 per cent of the bank loan was used for income generating purpose and the remaining 28 per cent was for consumption and other social functions and contingency purposes. The estimated employment days per household worked out to 405 person days during post-SHG situation that had registered an increase of 34 per cent between pre- and post-SHG situations. Activity-wise, per cent increase was higher for non-farm activities (121 per cent) followed by off-farm activities (21 per cent) and farm activities (19 per cent). The social empowerment of sample SHG members in terms of self-confidence, involvement in decision-making, better communication, etc. improved in a significant way. It was also found that members in the older groups of five years and above were more socio-economically benefited as compared to the members in newly formed groups.

One study of 291 SHGs promoted by government agencies in Andhra Pradesh **(APMAS, 2002)** found that the meetings and financial transactions of many of the groups were fundamentally 'driven' by the anticipation of subsidy, and many of the SHGs would not have qualified for loans at all under NABARD guidelines. As has already been mentioned, however, government sponsored SHGs in Andhra Pradesh are a special case; the small sample of such groups in our own study may be more typical of such groups in other parts of India.

**MYRADA (2002)** studied the impact of SHGs on the empowerment status of women members in southern India. The objective of the study was to establish whether and to what extent the membership in SHGs had an impact on the social status and empowerment of the women members of such groups. For this purpose, primary data was collected from the members of 12 SHGs from four states (Kerala, Tamil Nadu, Karnataka, Andhra Pradesh) with the help of four professionally managed NGOs, i.e. CHASS, DHAN, MYRADA and RASS. Each NGO interacted with two groups that were three years old and one group that was less than one year old. Thus, 190 SHG members were interviewed with the help of structured interview schedule. The results of the study showed that in the new groups 47 per cent of the members were earning, whereas in the old groups 66 per cent members were either the chief wage earners or other earning members of their families. Average share of earning SHG members in their family income was higher in old groups, i.e., 40 per cent as compared to 26 per cent in young SHGs. While testing the confidence level of respondents, members in old groups reported a positive influence on confidence level in dealing with other people and institutions. It was concluded that members of old groups were more confident, more aware regarding their health and hygiene, more technically skilled, financially more secure, more in control of their lives and in a stronger position vis-à-vis their family members as compared to young group members. Hence, it was concluded that if responses from the new groups were taken as benchmark, the process of empowerment seemed to have started in old groups.

**Harper (2002)** studied the differences, outreach and sustainability of the SHG banking system and Grameen banking system of providing microfinance. SHG bank linkage and Grameen banking systems dominated the microfinance markets in India and Bangladesh respectively. In SHG bank linkage system 10 to 20 members formed a group and this group became an autonomous financial organisation, received loans from the bank in group name and the group members carried all saving and lending transactions on their own behalf. Thus, SHG was effectively a micro bank. But in Grameen banking system microfinance participants organised themselves into groups of five members and each member maintained her individual saving and loan account with microfinance organisation and the main function of the group was to facilitate the financial intermediation process. It was also found that both systems were best suited to their prevailing environments.

SHG bank linkage system was more flexible, independence-creating and imparted freedom of saving and borrowing according to the member's requirements, so was suitable in the Indian context. But Grameen banking system was more rigid, autonomous, over disciplined and dependence creating system which was suitable in Bangladesh where people were relatively more homogeneous, very poor and had less experience of democracy. It was also found that SHGs were probably less likely to include poor people than Grameen Bank groups but neither system reached the poorest. It was also found that SHG members were free to manage the group financial affairs so they were more empowered but at the same time more vulnerable. Grameen groups were much better protected against internal and external threats. Their members were less vulnerable but also less empowered.

**Malhotra (2003)** described some basic and conceptual issues regarding women empowerment and had given a comprehensive framework of domains of women empowerment. She included two essential elements in women empowerment, i.e. process and agency. Women empowerment was a process of progression from one stage to other and the agency element defined that women themselves must be significant actors in the process of change that was being measured. In order to measure empowerment empirically she had given a framework of economic, socio-cultural, interpersonal, legal, political and psychological dimensions of women empowerment at household and community level.

**Parveen and Leonhäuser (2004)** in their paper investigated the nature and extent of empowerment of rural women, factors influencing it and further outlined a strategic framework, role of SHGs, education, training and gender awareness for enhancing empowerment. For the purpose of study, qualitative and quantitative methods were integrated and primary data was collected from 156 respondents from three villages of Mymensingh district of Bangladesh during January to April 2003 by applying stratified random sampling. For the purpose of measuring women empowerment, a cumulative empowerment index (CEI) was prepared by adding the scores of six empowerment indicators, namely, contribution to household income, access to resources, ownership of assets, participation in household decision-making, perception on gender awareness and coping capacity to household shocks. The results showed that the level of women empowerment was not very satisfactory at the household level. CEI showed that 11 per cent of the respondents fell under a very low empowerment category and just 5 per cent of them belonged to high empowerment level. Eighty-two per cent of women were concentrated in very low to moderate tail of empowerment distribution. A multiple regression technique was applied to explore the effects of seven key factors of women empowerment. The regression analysis concluded that education, training and exposure to information media had the potential to increase women's empowerment. Therefore, effective initiatives undertaken by the concerned government and non-government agencies in improving women's education, skill acquisition training and access to information could enhance women's empowerment in order to achieve gender equality and development at all levels in the rural society of Bangladesh.

**Gaonkar's (2004)** research paper aimed at evaluating the role of SHGs in the empowerment of women. Primary data was collected from the state of Goa, India. Out of total 500 SHGs functioning in Goa 100 groups were promoted by National Co-operative Union of India (NCUI). Twenty-five women SHGs promoted by NCUI from Bardez and Bicholim talukas were selected on the basis of random sampling. Comparison using before and after SHG technique was made. The study concluded that the microfinance programme had made a lasting impact on the lives of women particularly in rural areas of Goa. There was an increase in income, savings and consumption expenditures. With the increase in self-confidence, the social horizon of the members had widened. It was also found that with improvements in socio-economic opportunities for women and their ability to take collective action, there had been a significant decline in gender based problems such as domestic violence, dowry, polygamy etc. Interestingly, the members were motivating other women to form SHGs so that they can also reap programme benefits. SHGs had created better understanding between the members of different religious groups. This was a welcome change to have understanding and tolerance towards the members of other religions particularly in a country like India where there was a diversity of religions and castes.

**Naila kabeer (2005)** in a study apparently concludes that while access to financial services can and does make important contributions to the economic productivity and social well -being of poor women and their households, it does not "automatically" empower women – any more than do education, political quotas, access to waged work or any of the other interventions.

**Ranjula Bali Swain (2007)** Can Microfinance Empower Women? Self-Help Groups in India" concluded many strides have been made in the right direction and women are in the process of empowering themselves and NGOs that provide support in financial services and specialized training, have a greater ability to make a positive impact on women empowerment.

It has been observed by **M. Anjugam (2007)** that socially backward, landless and marginal farm house holds participate more in the self help group programme. Possession of livestock and consumer goods by the member households has been found to deter the joining of group.

**Gladis Mary John (2008)** found that membership in SHG inculcated a great confidence in the mind of majority of women to succeed in day to day life. Positive change was found in the attitude of relatives and friends towards the women in self help groups.

**Sangwan (2008)** empirically ascertained the determinants of financial inclusion and studied the relevance of Self Help Groups (SHGs) in achieving financial inclusion. For the purpose of the study, the cross-section data of 42 Regions from different states and UTs of India was used. The coverage under financial inclusion was assessed in terms of percentage of adults having credit and saving bank accounts. In order to find out the determinants of financial inclusion a multiple regression technique was applied. The empirical evidence of impact of bank branch density, level of income, literacy and SHG membership on financial inclusion was estimated with this technique. It was found that as on March 2006, the financial inclusion of adults above 19 years of age was 63 per cent in terms of saving accounts and 16 per cent in terms of credit accounts and about 37 per cent adults in India did not use financial services. The regression equations estimated with cross section data of States revealed that the branch density had positive and significant coefficient with the percentage of adults having saving as well as credit accounts. The coefficient of per capita income was also positive and significant. Literacy percentage had surprisingly negative relationship with both percentage of saving as well as credit accounts of adults. It may be partly because of lack of financial education among the educated ones. The results substantiated that the persons having low income and less geographical access to bank (e.g., agricultural laborers, marginal and small farmers, migrant labourers, tribal and women) were excluded from the financial inclusion. The regression equations were also estimated by including percentage of adult covered in SHGs, the variable had positive association with the level of financial inclusion especially in credit accounts. It suggested that SHGs could play significant role in achieving the financial inclusion especially for women and low-income families.

**Falgun Kaneria, (2012),** analysed that empowering women entrepreneurs is essential for achieving the goals of sustainable development and the bottlenecks hindering their growth must be eradicated to entitle full participation in the business. Apart from training programs, Newsletters, mentoring, trade fairs and exhibitions also can be a source for entrepreneurial development. As a result, the desired outcomes of the business are quickly achieved and more of remunerative business opportunities are found. Henceforth, promoting entrepreneurship among women is certainly a short-cut to rapid economic growth and development. Let us try to eliminate all forms of gender discrimination and thus allow 'women' to be an entrepreneur at par with men.

**Manjunatha S.(2013),** emphasized that in India the role of Self Help Groups in the rural development has attracted attention from all over the realm of social sciences. Hence, the study is placed to evaluate the SHGs important role in increasing rural development of Karnataka state. The major findings in the study justify the greater role played by the SHGs in increasing empowerment of women, by making them financially strong, as well as it helped them to save some amount of money and invest it in further development.

## CONCLUSION

The SHG's became a regular component of the Indian financial system since 1996. The SHG's are small, informal and homogenous groups. These groups have proved as cyclic agents of development in both the rural and urban areas. The SHG's after being formed started collecting a fixed amount of thrift from each member regularly. After accumulating a reasonable amount of resources, the group starts lending to its members for pretty consumption needs. If the bank is satisfied with the group in terms of (i) genuineness of demand for credit; (ii) credit handling capacity of the members; (iii) repayment behaviour within the groups; and (iv) the accounting system and maintenance of the records, it extends a term loan of smaller amount to the group. Thus, SHGs playing a vital role in the empowerment of rural women in India.

## REFERENCES


1. Anjugam.M and Ramasamy.C (2007)," Determinants of Women‟s participation in Self - Help Group led micro finance programme in TamilNadu" .Agricultural Economics Research Review, 2007, vol. 20, issue.2.
2. APMAS (Andhra Pradesh Mahila Abhivruddhi Society) (2002), SHG Movement in Adilabad, Cuddapah and Vizag Districts, APMAS, Hyderabad.
3. Falgun Kaneria, (2012), "Women Entrepreneurs in India", INDIAN JOURNAL OF APPLIED RESEARCH. Volume : 2 | Issue : 2 | November 2012 | ISSN - 2249-555X.
4. Gaonkar, Rekha R. (2004), "Role of Self-help Groups in Empowerment of Women", Paper Presented in ISTR Sixth International Conference, Toronto, Canada, 11-14 July.
5. GladisMary John(2008), "Women Empowerment Through Self Help Groups" . Southern Economist March 1 2008.
6. Gurumoorthy, T. R. (2000), "Self-Help Groups Empower Rural Women", Kurukshetra, Vol. 48, No. 5, pp. 31-37.
7. Harper, Malcolm (2002), "Self-help Groups and Grameen Bank Groups: What are the Differences?", in Thomas Fisher and M.S. Sriram (eds.), Beyond Micro-Credit: Putting Development Back into Micro-Finance,Vistaar, New Delhi.
8. Malhotra, Anju (2003),"Conceptualizing and Measuring Women's Empowerment as a Variable in International Development", Paper Presented in Workshop on Measuring Empowerment: Cross-Disciplinary Perspectives, World Bank, Washington, DC, 4-5 February.
9. Manimekalai, M.; and Rajeswari, G. (2001), "Nature and Performance of Informal Self Help Groups- A Case from Tamilnadu", Indian Journal of Agricultural Economics, Vol. 56, No. 3, pp. 453-54.
10. Manjunatha S.(2013), "The Role of Women Self – Help Groups in Rural Development of Karnataka State, India". International Research Journal of Social Sciences. Vol. 2(9), 23-25.
11. Mishra, J. P.; Verma, R. R.; and Singh, V. K. (2001), "Socio-economic Analysis of Rural Self-help Groups Schemes in Block Amaniganj, District Faizabad (Uttar Pradesh)", Indian Journal of Agricultural Economics, Vol. 56, No. 3, pp. 473-74.
12. MYRADA (2002), "Impact of Self Help Groups (Group Processes) on the Social/ Empowerment Status of Women Members in Southern India, Microcredit Innovations Department", National Bank for Agriculture and Rural Development, Mumbai.

13. MYRADA. (1990). "Characteristics that can describe a sangha as 'good' ". Rural Management Systems Series – Paper 15. Bangalore (also available at www.myrada.org/paper_rural_management.htm).
14. MYRADA. (2003)a. Putting institutions first – even in microfinance, 2nd ed. Bangalore.
15. MYRADA. (2003)b. Dharmapuri project report. 31 December. Bangalore.
16. MYRADA. (2005)a. "Self-help affinity groups (SAGs): their role in poverty reduction and financial sector development". Rural Management Systems Series – Paper 40. March. Bangalore (also available at www.myrada.org/paper_rural_management.htm).
17. MYRADA. (2005)b. "Sustainability of self-help affinity groups or SAGs as understood by MYRADA". Rural Management Systems Series – Paper 41. May. Bangalore (also available at www.myrada.org/paper_rural_management.htm).
18. NABARD. (1992). "Guidelines for the pilot project for linking banks with self help groups". Circular No. DPD/104 (NB.DPD.FS.4631.92-A/91-92), 26 February. Mumbai.
19. Naila kabeer (2005) "Is Micro Finance a‟ Magic Bullet‟ For Women's Empowerment? Analysis of Findings from South Asia " Economic and Political Weekly October 29, 2005.
20. Parveen, S. and Leonhäuser, I-U (2004), "Empowerment of Rural Women in Bangladesh: A Household Level Analysis" Paper Presented in Conference on Rural Poverty Reduction through Research for Development and Transformation, Deutscher Tropen tag, Berlin, 5-7 October.
21. Puhazhendhi, V.; and Badatya, K.C. (2002), "SHG-Bank Linkage Programme for Rural Poor in India - An Impact Assessment, Microcredit Innovations Department" .National Bank for Agriculture and Rural Development, Mumbai.
22. Ranjula Bali Swaina and Fan Yang Wallentin (September 2009) Does microfinance empower women Evidence from self-help groups in India, 'International Review of Applied Economics 'Vol. 23, No. 5, 541–556,http://pdfserve.informaworld.com/595379_758077589_913075296.pdf.
23. Rekha, R . Gaonkar., (2001), "Working and impact of Self help groups in Goa " , Indian Journal of Agricultural Economics, Vol.56, No.3, p .465.
24. Sangwan, S. S. (2008), "Financial Inclusion and Self Help Groups", Available at: http://www. nabard.org/databank/IARD%20Web/csidfiles/Financial%20Inclusion%20and%20SHGs.pdf [Accessed on 15.12.2008].
25. Singh, D. K. (2001), "Impact of Self Help Groups on the Economy of Marginalized Farmers of Kanpur Dehat District of Uttar Pradesh−A Case Study", Indian Journal of Agricultural Economics, Vol. 56, No. 3, pp. 463-64.

# CONSUMER PERCEPTION TOWARDS BRAND PREFERENCE OF MOBILE PHONE SERVICE PROVIDERS

*A. MUTHUKUMARAN*
*RESEARCH SCHOLAR & LECTURER*
*A.V.C. COLLEGE (AUTONOMOUS)*
*MANNAMPANDAL*

*DR. M. MATHIVANAN*
*ASSOCIATE PROFESSOR*
*A.V.C. COLLEGE (AUTONOMOUS)*
*MANNAMPANDAL*

## ABSTRACT

*Branding is powerful instrument of demand creation and demand retention. Consumers are aware of and prefer a particular brand when it is available for purpose. In the era of information explosion, mobile phones are one of the most popular and effective tool which are used to communicate one person to another. Indian Mobile Phone industry is one of the fastest growing industries in the world. Mobile phone service providers are the main drivers; whereas equipment manufacturers are witnessing growth. In this light, the present study deals with consumer perceptions towards brand preference of Mobile Phone service providers in Nagapattinam District. The present study has been conducted a total of 150 respondents were selected who include the individual consumers with the help of convenience random sampling technique. The study has brought out mobile phone users of various mobile Phone service providers such as Aircel, Airtel, BSNL, TATA Docomo, Vodafone, Reliance and few other players. The objectives of this study were to assess the level of brand awareness and factors underlying customer care, coverage, performance, Pricing, accessibility and to offer the best of services.*

## KEYWORDS

Brand preference, Consumer perception, Mobile service providers.

## INTRODUCTION

This study aims at analyzing the brand preference of mobile phone service providers in Nagapattinam District. In Indian environment, mobile phones are unavoidable one and most of the consumers should like to use mobile phones for the purpose of Communication, Education, Environment, Entertainment, etc. Mobile phone and mobile service industry have played a major role in all walks of life all over the world. This study has undertaken to identify the behavior pattern of consumers towards the brand preference of mobile network services.

## IMPORTANCE OF THE STUDY

Mobile phone industry market is the fastest developing sector as well as the most competitive markets in the present day of world business environment. In the present society have known the importance and access globally with the use of mobile phones, mobile phone services are becomes more common for all age groups without any discrimination. There is a wide variety of mobile phone services providers and mobile phone brands exist in the market. The decision where to buy or not depends in the mainly on the consumer motive. An attempt has been made by the researcher to know the brand preference of consumer in the society regarding periodical offers, call charges, network coverage, and monthly rent and value added service.

## STATEMENT OF THE PROBLEM

The problem has to be undertaken for this study towards the brand preference and behavior pattern of using the mobile phone services. For this purpose, preference status of consumers are to be analyzed on what basis of consumers' prefer their brands, which are the factors influencing them to buy such brand and also how buying motive is created are analyzed and concluded the extract buying behavior of the consumer.

## OBJECTIVES OF THE STUDY

The following objectives are framed for this study.

- To ascertain the reasons for preferring a particular brand of mobile phone service.
- To study the factors influencing to the choice of selection from various mobile phone service provider.
- To identity the most popular brand of mobile phone service providers in Nagapattinam District.
- To analyze and understand the level of satisfaction of mobile phone service users in Nagapattinam District.
- To sum up the findings and to offer suitable suggestions.

## HYPOTHESIS

The study is based on the following hypothesis framed:

1. There is no significant relationship between the age of the respondents and the impact of influenced by advertisement towards mobile service brand preference.
2. There is no significant relationship between occupational status of the respondents and the impact of influenced by advertisement towards mobile service brand preference.

## SCOPE OF THE STUDY

In order to know the details about consumer brand preference of mobile phone service providers in Nagapattinam District. This study makes an attempt to analyze the various factor influencing a consumer while purchasing and using particular mobile phone service i.e., knowledge of consumers about the various attributes like, call charges, periodical offers, monthly rental, network coverage and also know the reason for choosing particular brand of mobile phone service.

## RESEARCH METHODOLOGY

The methodology used in the study is explained below.

**DATE AND SOURCES OF DATA**

The present study has been formed with primary data and secondary data. The primary data has been collected though the issue of questionnaire to the respondents in Nagapattinam District. Some other information related to brand preference were collected from secondary sources like, books, journals, magazines, newspapers, internet sources, etc.

**SAMPLE SIZE AND DESIGN**

A total of 150 respondents from the Nagapattinam district were selected for the study. Convenience random sampling method has been adopted for collecting the response from the respondents. The selected sample respondents of the study are to be included the different demographical and geographical factors such as occupation, age, income, educational background and etc.

**RESEARCH DESIGN**

Research design constitutes the blue print of data collection, measures and analysis of data. In specific terms, a research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research prose with economy in procedure. Here in this study the researcher used Descriptive Research Design, which is concerned with describing the characteristic of a particular individual, or of a group.

**AREA OF THE STUDY**

The study area is limited to Nagapattinam District, Tamil Nadu. Nagapattinam is an Agricultural area. It is the fast developing district of Tamil Nadu and it is poised for spectacular growth in the near future.

**TOOLS USED FOR ANALYSIS AND INTERPRETATION**

Statistical tools such as chi-squire test, tables and simple percentage have been used for analysis and interpretation of the data.

## LIMITATATIONS OF THE STUDY

The study has limitations is execution which are listed below.

1. The study is limited to Nagapattinam District limit only.
2. The sample taken from the study comprises of 150 respondents.
3. The period of the study is restricted from March 2013 to August 2013 only.

## DATA ANALYSIS AND INTERPRETATION

**TABLE NO. 1: AGE GROUP**

| S. No. | AGE | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Less than 20 | 12 | 08 |
| 2 | 21-30 | 74 | 49 |
| 3 | 31-40 | 37 | 25 |
| 4 | 41-50 | 21 | 14 |
| 5 | More than 51 | 06 | 04 |
| | **Total** | **150** | **100** |

Source: Primary Data

The age group of the respondents is presented Table No.1, which shows that, out of 100 percent respondents, majority 49 percent respondents were of the age 21-30 years age group and the lowest been the above 51 years age group i.e., 4 percent. Some 25 percent respondents were age group between 31-40 years. 14 percent respondents are age group between 41-50 years. 8 percent respondents below 20 years old out of 100 percent.

**TABLE NO. 2: EDUCATIONAL QUALIFICATIONS**

| S. No. | EDUCATIONAL QUALIFICATIONS | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Illiterate | 06 | 04 |
| 2 | School level | 31 | 21 |
| 3 | Graduate | 53 | 35 |
| 4 | Post Graduate | 37 | 25 |
| 5 | Professional | 23 | 15 |
| | **Total** | **150** | **100** |

Source: Primary Data

Educational qualifications achieved by the sample respondents shows in Table No.2. Out of 150 respondents, 35 percent of the respondents hold the first degree. 25 percent respondents achieved Post Graduate degree. 21 percent respondents studied School level of education. 15 percent of them got professional degree. Remaining 4 percent of the respondents are illiterate in the study area.

**TABLE NO. 3: OCCUPATIONAL STATUS**

| S. No. | OCCUPATIONL STATUS | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Agriculturists | 17 | 11 |
| 2 | Business men | 29 | 19 |
| 3 | Employed | 36 | 24 |
| 4 | Self- employed | 26 | 17 |
| 5 | Professional | 42 | 28 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 3 shows the result of occupational status of the respondents. It shows that 28 percent of the respondents are professional. 24 percent of them are employed. 19 percent respondents are business men. 17 percent are self-employed. Remaining 11 percent of them are agriculturists.

**TABLE NO. 4: MONTHLY INCOME**

| S. No. | MONTHLY INCOME | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Less than Rs.5,000 | 21 | 14 |
| 2 | Rs.5,001 to Rs. 10,000 | 28 | 19 |
| 3 | Rs.10,001 to Rs.15,000 | 30 | 20 |
| 4 | Rs.15,001 to Rs. 20,000 | 33 | 22 |
| 5 | Above Rs. 20,001 | 38 | 25 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 4 shows that the monthly income of the sample respondents in the study area. It reveals that most of the consumer respondents i.e., 25 percent are got monthly income above Rs.20, 001. A very few respondents i.e., 14 percent of them got monthly income below Rs. 5,000. 22 percent have incomes between Rs. 15,001 to Rs.20, 000. 20 percent respondents have monthly income between Rs.10, 001 to Rs. 15,000.19 percent respondents are earned monthly income between Rs. 5,001 to Rs.10, 000.

**TABLE NO. 5: SOURCES OF BRAND AWARENESS**

| S. No. | SOURCES | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Advertisements | 114 | 76 |
| 2 | Dealers | 12 | 08 |
| 3 | Family members | 08 | 05 |
| 4 | Friends | 10 | 07 |
| 5 | Relatives | 06 | 04 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 5 shows that, sources of brand awareness to purchase the particular mobile phone service in the study area. Out of 100 percent respondents, majority 76 percent of them are information gathered from advertisements like, television, news paper, etc. 8 percent respondents get sources from the mobile phone service dealers. 5 percent of them get know information about the service from their family members. 7 percent respondents get sources from their friends and only 4 percent of them mobile service brand awareness from their relatives.

Chi-Square test has been applied to find out if there is any significant difference between age of the respondents and the impact of influenced by advertisements towards mobile phone service opted by them at 5% level of significance.

**TABLE NO. 6: AGE OF THE RESPONENTS AND THE INFLUENCING FACTOR ON MOBILE SERVICE BRAND SELECTION**

| S. No. | AGE | Influenced by Advertisement | Not Influenced by Advertisement | Total |
|---|---|---|---|---|
| 1 | Less than 20 | 06 | 06 | 12 |
| 2 | 21-30 | 58 | 16 | 74 |
| 3 | 31-40 | 30 | 07 | 37 |
| 4 | 41-50 | 16 | 05 | 21 |
| 5 | More than 51 | 04 | 02 | 06 |
| | **Total** | **114** | **36** | **150** |

Source: Primary Data

**Hypothesis:** There is no significant relationship between age of the respondents and the impact of influenced by advertisements towards mobile service brand preference.

Calculated value of Chi-Square test is 3.54. Table value of Chi-Square test at 5% level of significance for d.f is 9.49. Since, calculated value (3.54) is less than the table value. Therefore, the hypothesis is accepted. Thus, there is exists a relationship between the age of the respondents and the influenced of advertisement on mobile phone service brand selection.

Chi-Square test has been applied to find out if there is any significant difference between occupational status of the respondents and the impact of influenced by advertisements towards mobile phone service opted by them at 5% level of significance.

**TABLE NO. 7: OCCUPATIONAL STATUS AND THE INFLUENCING FACTOR ON MOBILE SERVICE BRAND SELECTION**

| S. No. | OCCUPATIONAL STATUS | Influenced by Advertisement | Not Influenced by Advertisement | Total |
|---|---|---|---|---|
| 1 | Agriculturists | 12 | 05 | 17 |
| 2 | Business men | 21 | 08 | 29 |
| 3 | Employed | 27 | 09 | 36 |
| 4 | Self- employed | 18 | 08 | 26 |
| 5 | Professional | 36 | 06 | 42 |
| | **Total** | **114** | **36** | **150** |

Source: Primary Data

**Hypothesis:** There is no significant relationship between occupational status of the respondents and the impact of influenced by advertisements towards mobile service brand preference.

The table value of Chi-Square test for 4 d. f at 5% level of significance is 9.49. The calculated value of Chi-Square is 3.10, which is less than the tabulated value. Hence the hypothesis may be accepted. Thus we conclude that, there is exists a relationship between occupational status and the influenced of advertisement on mobile phone service brand selection.

**TABLE NO. 8: COMPANY WISE MOBILE PHONE SERVICE OWNED BY THE RESPONDENTS**

| S. No. | NAME OF THE COMPANY | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Aircel | 27 | 18 |
| 2 | Air Tel | 31 | 21 |
| 3 | BSNL | 25 | 17 |
| 4 | Reliance | 09 | 06 |
| 5 | TATA Indicom | 06 | 04 |
| 6 | Uninor | 05 | 03 |
| 7 | Vodafone | 47 | 31 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 8 indicates that the company wise mobile phone service owned by the sample respondents in the study area. Out of 150 respondents, 31 percent of them have Vodafone service. 21 percent respondents are used to Airtel service. The third position got to Aircel service like 18 percent. 17 percent of them are having BSNL mobile service. 6 percent got Reliance.4 and 3 percent respondents are used to TATA Indicom and Uninor mobile phone services respectively.

**TABLE NO. 9: YEARS OF USING MOBILE PHONE SERVICES**

| S. No. | YEARS OF USING | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Less than 1 year | 33 | 22 |
| 2 | 1-3 years | 45 | 30 |
| 3 | 4-6 Years | 27 | 18 |
| 4 | 7-9 Years | 24 | 16 |
| 5 | Above 10 Years | 21 | 14 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 9 shows that the years of using mobile phone services by the sample respondents. Out of 150 respondents, majority 30 percent of them are used their mobile service 1-3 years. 22 percent respondents are using their mobile phone service. 18 percent respondents are used their mobile service 4-6 years. 16 percent of them used their mobile service 7-9 years. Remaining 14 percent of them used their mobile phone service above 10 years.

**TABLE NO. 10: CONSUMER PREFERENCE ON MOBILE PHONE SERVICE PROVIDERS ON THE BASIS OF PLAN**

| S. No. | MOBILE PHONE SERVICE PROVIDERS | No. of Respondents | | | | TOTAL | |
|---|---|---|---|---|---|---|---|
| | | Post-Paid | | Pre-Paid | | | |
| | | No. | % | No. | % | No. | % |
| 1 | Aircel | 05 | 03 | 22 | 15 | 27 | 18 |
| 2 | Air Tel | 04 | 02 | 27 | 19 | 31 | 21 |
| 3 | BSNL | 09 | 06 | 16 | 11 | 25 | 17 |
| 4 | Reliance | 01 | 01 | 08 | 05 | 09 | 06 |
| 5 | TATA Indicom | 01 | 01 | 05 | 03 | 06 | 04 |
| 6 | Uninor | 01 | 01 | 04 | 02 | 05 | 03 |
| 7 | Vodafone | 11 | 07 | 24 | 47 | 47 | 31 |
| | **Total** | **32** | **21** | **118** | **79** | **150** | **100** |

Source: Primary Data

Table 10 highlights that, consumer preference on mobile phone service providers on the basis of plan. Majority of 79 percent have pre-paid and remaining 21 percent respondents have post-paid plan. In pre-paid plan, 24 percent respondents used Vodafone service and 19 percent respondents used to Airtel service. In post-paid plan, 7 percent respondents used Vodafone service and 6 percent respondents used to BSNL mobile service among the sample respondents.

**TABLE NO. 11: MONTHLY MOBILE EXPENDITURE**

| S. No. | MONTHLY EXPENDITURE | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Less than Rs.350 | 45 | 30 |
| 2 | Rs.351 to Rs.700 | 38 | 25 |
| 3 | Rs.701 to Rs.1,000 | 30 | 20 |
| 4 | Rs.1,001 to 1,350 | 24 | 16 |
| 5 | Above Rs.1,351 | 13 | 09 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 11 shows that, monthly mobile expenditure spent by the sample respondents. Out of 150 respondents, majority 30 percent said that spent less than Rs.350 as their usage of mobile phone service. 25 percent of them spent their mobile charges between Rs. 351 to Rs.700. 20 percent said that pay the expenditure between Rs.701 to Rs.1, 000. Next 16 percent of them spent Rs.1, 001 to Rs.1, 350. Only 9 percent say that spent above Rs.1, 351 per month on mobile phone service.

**TABLE NO. 12: FACTORS MOTIVATE TO PURCHASE THE MOBILE PHONE SERVICES**

| S. No. | MOTIVATING FACTORS | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Call charges | 15 | 10 |
| 2 | Customer care services | 24 | 16 |
| 3 | Facilities/plan | 48 | 32 |
| 4 | Network coverage | 54 | 36 |
| 5 | Quality of service | 09 | 06 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 12 shows that factors motivate to purchase a particular mobile phone service. 36 percent respondents prefer network coverage as the most primary factor motivates to buy a particular brand of service. 32 percent respondents have motivating factor for purchase decision on facilities/plan. 16 percent of them who prefer customer care service as their deciding factor to buy a particular mobile phone service. 10 percent respondents who prefer for only call charges and remaining 6 percent of them have reported quality of service is the most important factor for choosing a particular brand.

**TABLE NO. 13: REASON BEHIND FOR SELECTING OR USING OF MOBILE PHONE SERVICE**

| S. No. | REASON BEHIND FOR SELECTING OR USING OF MOBILE PHONE SERVICE | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Free SMS | 26 | 17 |
| 2 | Roaming facilities | 18 | 12 |
| 3 | Add-on card | 22 | 15 |
| 4 | Access to recharge credit | 40 | 27 |
| 5 | Value-Added services | 44 | 29 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 13 reveals that reason behind for selecting a particular mobile phone brand service. Out of 100 percent respondents, majority of 29 percent respondents are selecting a particular brand for value-added services. Another 27 percent respondents selecting the particular mobile phone services are access to recharge card facilities. 17 percent respondents who are selecting for free SMS facilities. 15 percent respondents reason behind for using Add-on card services. Remaining 12 percent respondents select for roaming facilities.

**TABLE NO. 14: CONSUMER SATISFACTION LEVEL ON THE PERFORMANCE OF SERVICE PROVIDERS**

| S. No. | LEVEL OF SATISFACTION | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Highly satisfied | 32 | 21 |
| 2 | Satisfied | 86 | 58 |
| 3 | Neutral | 16 | 11 |
| 4 | Dissatisfied | 09 | 06 |
| 5 | Highly Dissatisfied | 07 | 05 |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 14 clearly shows that the level of satisfaction among the users of mobile phone service in the study area. It is seen from the analysis that, out of 150 sample respondents, 58 percent are satisfied about their mobile service. 21 percent of the respondents who are using their mobile service highly satisfied. 11 percent of them stated about their mobile service neutral. 6 percent respondents expressed their opinion about their mobile service dissatisfied. Only 5 percent of them stated highly dissatisfied about their mobile phone service.

**TABLE NO. 15: CONSUMERS' OVERALL EXPERIENCE OF GETTING, OWNING AND USING THE PARTICULAR MOBILE PHONE SERVICE PROVIDERS**

| S. No. | OVERALL EXPERIENCE | No. of Respondents | Percentage |
|---|---|---|---|
| 1 | Excellent | 41 | 27 |
| 2 | Good | 75 | 50 |
| 3 | Fair | 30 | 20 |
| 4 | Poor | 04 | 03 |
| 5 | Hopeless | - | - |
| | **Total** | **150** | **100** |

Source: Primary Data

Table 15 shows that consumers overall experience of getting, owning and using a particular mobile phone service providers. Majority 50 percent respondents say that owning and using mobile phone service experience are 'Good'. 27 percent of them feel that overall experiences of their mobile phone service are 'Excellent'. 20 percent respondents state that using their mobile service 'Fair'. Only 3 percent respondents treat their mobile phone service connection experience are 'Poor'. None of them state that overall experience are 'Hopeless'.

## FINDINGS

- Majority 49 percent of the respondents belong to the age group between 21-30 years.
- Out of 150 respondents, majority 35 percent respondents hold the first degree of educational qualification.
- Majority 28 percent respondents are professional as the major user of mobile service in the study area.
- Maximum 25 percent of respondents belong to income group above Rs.20, 001 as their monthly income.
- Nearly 76 percent respondents have reported that they have awareness about the mobile service through advertisement.
- Most of the respondents i.e., 31 percent prefer Vodafone among various mobile service brands.
- Out of 100 percent, 30 percent respondents are using their mobile service 1-3 years.
- Most of the consumers prefer pre-paid plan to be more economical as compared to post-paid plan.
- Majority of subscribers are paying monthly expenditure for their mobile service Rs.351 to Rs.700.
- Majority 36 percent of the respondents have reported that, the network coverage is the most important factor for choosing a particular mobile brand service.
- Majority 29 percent consumers considered Value-Added service features as a reason behind for selecting a mobile brand service.
- Among the total respondents, majority 58 percent consumers satisfied about their mobile service.
- Majority 50 percent respondents state that overall experience of getting, owning and using the particular mobile service are 'Good'.

## SUGGESTIONS

- Mobile phone service providers especially BSNL should launch their recharge coupons made easily available for all the shops.
- BSNL service providers should try to give more new connections made easily and simplified.
- Uninor, TATA Docomo service providers should be developed adequate network facilities to the rural area so as to enable to attract the more number of customers.
- Mobile phone service providers should introduce new type of Value-Added service offered to their existing as well as new customers.
- Most of the customer unaware of periodical offers of mobile phone service providers; aggressive advertisements should be launched to create more awareness of these offers.
- Mobile phone service providers should try to reduce or drop the tariff rate for SMS.
- All the mobile phone service providers should obtain feedback from the customers so as to enable improved their mobile service.
- All the mobile phone service providers should be introduced credit account to their customers. Therefore the use of these services should be promoted among the subscribers.

## CONCLUSION

In India, a number of mobile phone service providers companies competing to provide efficient and quality services to their customers. Government and private service operators are competing at close margin and are trying to provide multiple value-added services to people. Hence the mobile phone service operators should strive to provide cost effective quality equipments, affordable and competitive call tariffs for connectivity at various levels and customized services in order to satisfy and delight their consumers.

## REFERENCES


1. Balaji.B, "Services Marketing and Management", S.Chand& Company Ltd, New Delhi. (2009).
2. Neeran Gautam, Kokil Jain, "Consumer Behaviour- Text and Cases", Wisdom Publications, New Delhi. (2011).
3. Philip Kotler, "Marketing Management", Prentice Hall of India Private Limited, New Delhi. (1999).
4. Pillai R.S.N & Bagavathi.V, "Statistics", S.Chand & Company Ltd, New Delhi. (2001)
5. Sharma, Chouhan, Saini, "Consumer Behaviour & Market Research", RDB Publications, New Delhi. (2009).

# CORPORATE GOVERNANCE IN INDIA: EVOLUTION AND EMERGING ISSUES

*DR. BADIUDDIN AHMED*
*ASSOCIATE PROFESSOR*
*DEPARTMENT OF MANAGEMENT AND COMMERCE*
*MAULANA AZAD NATIONAL URDU UNIVERSITY*
*HYDERABAD*

*RAFIUDDIN*
*RESEARCH SCHOLAR*
*DEPARTMENT OF MANAGEMENT AND COMMERCE*
*MAULANA AZAD NATIONAL URDU UNIVERSITY*
*HYDERABAD*

*IRFANUDDIN*
*RESEARCH SCHOLAR*
*S. V. UNIVERSITY*
*TIRUPATHY*

## ABSTRACT
*Corporate Governance Evolution is a global phenomenon sweeping through the US, Europe, China, Korea, India, Latin America and many other places. These reforms have been accompanied by a surge in corporate governance scholarship focused on emerging markets, special in India, and show the evolution of corporate governance in India. This research suggests, although not uniformly, that "better" corporate law and governance tend to be correlated with better market development, more dispersed ownership structures, and higher firm profitability, amongst other things. These findings have sparked debate and thought on why these correlations exist and whether there are particular features of corporate law and governance that matter more than others to these economic measures. Indeed, recent research in developed markets has begun to focus on enforcement of corporate and securities laws as a critical feature in determining the health and growth of markets.*

## KEYWORDS
Modern Corporate Governance, Liberalization, Corporate Governance Initiatives, Reforms.

## INTRODUCTION
It is strange but true that early initiatives for better corporate governance in India came from the more enlightened listed companies and an industry association. This was quite different from the USA or Great Britain, where the drivers of corporate governance were shareholders' groups, activist funds and self-regulatory bodies within capital markets, or South-East and East Asia, where the impetus for better governance was the result of conditions imposed by the IMF and the World Bank in the wake of the financial collapse of 2008-2009.

The past few years have seen an extraordinary movement by Indian enterprises to sign up for codes of corporate governance; first voluntary, later compulsory. This is not the consequence of any scandal but the direct result of the recognition by a new breed of managers and entrepreneurs that good corporate governance is intimately linked to sound business and opens the road to sources of finance. There is still some way to go: bankruptcy and accounting procedures need improvement, the stock and bond markets need to perform better and pension funds should play a fuller role. But there are real grounds for optimism.

## NEED FOR CORPORATE GOVERNANCE
1. Liberalization and competition
2. The need for transparency
3. Corporate law
4. Barriers to investment
5. Tariffs, quotas and taxes
6. Development finance
7. State holdings in private sector companies
8. The emergence of a new generation managers and entrepreneurs
9. Market capitalisation and liquidity

## GOVERNANCE IN INDIA
India is a large country with considerable heterogeneity in its population and economic base. India has more than 20 official languages spoken by over 1 Billion people spread throughout roughly 30 states with significant rural and urban populations. The geographic and climatic conditions vary greatly throughout India as do the range of its goods and services.

Politically, India is the world's largest democracy with a variety of political parties and active elections. India possesses both a Central government and State governments. It is a Parliamentary democracy and is currently ruled by a coalition of over a dozen political parties with a resultant premium on consensus decision making. Legally, India possesses a common law legal system, but has a detailed written Constitution that permits the operation of parallel legal systems. These include the Federal (i.e., Central) laws, State laws, religious laws (e.g., for family and inheritance matters) and local, often village, level courts.

## CORPORATE GOVERNANCE IN INDIA
Although a legal and government system of considerable sophistication and complexity, it is plagued by an inefficient judiciary, weak infrastructure and frequent complaints of endemic corruption. For many years these factors appeared to contribute to India's rather paltry growth rate post-Independence. However, over the last two decades or so the Indian economy has been one of the faster growing economies. After the major economic liberalization that began in 1991, India's economic policy has become much more market oriented and the country has witnessed fabulous growth rates. For example, India has thousands of firms listed on over 20 domestic stock markets as well as an active private (not publicly traded) corporation sector.

India's economic success is now usually spoken of in the same breath with China's (and other hot emerging markets), yet it is India's economy that have grown so consistently and so much over the last decade.

One might conjecture that the corporate governance situation in India is different than in other places. Indeed, in the last decade India has engaged in an ambitious series of corporate governance reforms, which I discuss in this Part. As we shall see the saga of modern corporate governance in India is, in many respects, a promising start followed by a decline with much more recent attempts at redemption.

## THE EVOLUTION OF CORPORATE GOVERNANCE IN INDIA

### A. ORIGINS OF MODERN CORPORATE GOVERNANCE IN INDIA (1866 TO 1947)

India, unlike a number of emerging markets, has had functioning stock markets since 1875 where much of the activity was organized in the form of joint-stock limited liability companies. From 1866 onwards there were many pieces of legislation governing corporate governance, trust activity, banking activity, and securities regulation (Bagchi (1972), Rungta (1970)). Moreover, it appears that Indian Industry grew considerably during World War II because the Chinese and Japanese economies, which were in some sense competitors, were damaged by the war and by wartime activities on their territories. Thus, by the time of Independence in 1947, India appeared to have well functioning stock markets, an active manufacturing sector, a large corpus of corporate and securities laws, and a well developed banking establishment (Chakrabarti (2005), Goswami (2003)). Although there were certainly corporate governance abuses, the general state of corporate governance and the overall economy in India placed it in an enviable position amongst many post colonial countries. This position was, however, about to receive some serious setbacks.

### B. INDEPENDENCE TO LIBERALIZATION (1947 TO 1991)

Following Independence the Indian government put in place a number of policies that had the effect of weakening corporate governance in India. This started with a series of Industrial Policy Resolutions which entrusted the state with much greater responsibility for managing the economy (Mohan & Aggrawal (1990)). The changes wrought by these resolutions included a much expanded state owned sector. The government was to become the sole provider of many goods and services, which led to the nationalization of certain industries (in particular financial institutions) and the removal of private firms and competition from large sectors of the economy. This would have reduced the competitive pressure to be efficient. Moreover, Indian state owned enterprises (SOEs) were not simply being run to maximize profits, but for a variety of additional reasons as well (Goswami (2003)). In light of this, it is unsurprising that such firms would not focus their corporate governance on efficiency.

This was accompanied by a series of enactments that worked as entry barriers to certain markets and to investment. First, laws were passed that required industrial enterprises to obtain a number of licenses from various government agencies to conduct business or to expand capacity (commonly known as the "license raj") (Goswami (2003)). The requirement to obtain the government's approval provided opportunities for rent-seeking and corruption that likely led to a less competitive environment for many Indian businesses. Second, the government erected large trade barriers and tariffs, imposed limits on how much stock a foreign entity could own in an Indian enterprise, and required firms to purchase their goods from primarily indigenous producers (Mohan & Aggrawal (1990), Goswami (2003)). This insulated domestic firms from foreign competition and, when combined with the extensive licensing requirements, insulated domestic firms from much further domestic competition. The lack of competition would have benefited incumbents, but would also have hindered further growth in corporate governance by reducing the competitive pressure to be efficient.

This was compounded by how private sector firms were capitalized and the incentives of the various capital providers to monitor management. The primary source of capital for many Indian firms was debt capital. This was made available by the state through a variety of state owned and operated development finance institutions (DFIs) (World Bank Report (2005), Chakrabarti (2005), Goswami (2003), Bhasa & Jha (2007)). The employees of the DFIs were not assessed based on whether the firms they provided funding to made a profit, but rather on the total amount of loans that had been made. This, of course, created an incentive to maximize the amount of loans rather than providing loans to businesses with viable business plans. DFIs then had little incentive to monitor management. Indeed, the DFIs often favored management due to a variety of reasons including corruption and political gain.

Although the DFIs were often the primary credit providers, other creditors did exist and could have had some incentive to monitor management. This was, however, hampered by the glacial speed of India's bankruptcy process. There were inordinate delays in the process of restructuring and liquidating a firm (e.g., it could easily take 10 years to liquidate a firm) and this would have placed non-DFIs creditors in an unenviable situation (Anant & Goswami (1995), Goswami (1996)). Indeed, it was not very common for private creditors to provide credit to anyone but large and very well known firms or firms that had government guarantees. Thus, these creditors were unlikely to exercise real oversight over management.

Even if creditors could not or did not monitor management, perhaps shareholders could. Here once again there were problems. First, the primary providers of equity capital were the DFIs. Although most DFIs would invest primarily in the form of debt, they might also invest in the form of equity when their internal debt ratios would prohibit them from investing any more as creditors. Indeed, for many companies the DFIs had collectively well over 50% of the equity stock. However, the DFIs had, as before, little incentive to act as careful monitors of management and used to routinely appoint nominee directors to the boards of these corporations that would rubber stamp management decisions (World Bank Report (2005), Goswami (2003)).

If the DFIs did not exercise oversight, then what about other minority (non-management) shareholders? There were provisions in the Companies Laws for minority shareholders to raise oppression and mismanagement concerns at various adjudicative fora. However, they were unlikely to have their grievances redressed for a number of reasons (Goswami (2003)).

First, the Indian judicial system was full of delays and years could pass before such litigation would be adjudicated. Second, there appeared to be many irregularities in the share transfer and registration process which would have further delayed minority shareholders in bringing their cases. Third, the disclosure of ownership structure and related party transactions was very opaque in India making it even harder for minority shareholders to achieve redress. This was exacerbated by the very high tax rates for corporations and individuals, which led to a tremendous amount of tax evasion achieved by devising highly complicated cross-holding structures. This made ownership structure even more opaque to minority shareholders. Finally, even if someone tried to buy up shares in the corporation from the DFIs the government could block share transfers that might result in a change in the board that the government considered "prejudicial to the interest of the company or the public interest". Given that government (via the DFIs) tended to vote with management one can easily see how this would lead to entrenchment of management and little scope for effective oversight by other shareholders.

Of course, even if non-management shareholders and creditors exercise little oversight it may be that management and promoters had incentives aligned with maximizing wealth. Here too capital structure played an invidious role. Because the DFIs provided so much of the capital (both in debt and in equity) the promoters could maintain control by providing only 3% of a firm's capital (Chakrabarti (2005), Goswami (2003)). With so little invested in the firm the promoters and management had incentives that diverged quite widely from the rest of the shareholders. Indeed, the prospect for self-dealing and moral hazard would loom large in this environment. Such a system should have led to considerable looting by management and many failed companies. Indeed, it did, but the system was insulated from some negative financial and employment consequences due to the slow bankruptcy process and the fact that the state could (and did) takeover failing businesses and keep them afloat to maintain employment. The employment dislocation that would otherwise follow such policies did not immediately eventuate, but at the cost of increasing the effective debt burden for the state (Anant & Goswami (1995)).

Thus, by 1991 the Indian corporate scene had changed considerably from its pre-Independence situation. For SOEs the lack of competition and little profit incentive contributed to the inefficiency of the enterprise and of its atrophied corporate governance. For private firms corporate governance was ineffective for a number of reasons. First, the DFIs as large shareholders and creditors played little to no monitoring role given how their incentives were set up and the political background against which they were to act. Second, the non-DFI creditors could exercise only limited oversight given the very slow pace of bankruptcy proceedings in India. Third, minority shareholders (non-DFI shareholders) faced considerable obstacles in enforcing their rights. Fourth, promoters could start firms by putting up only the smallest sliver of their own capital. When this is combined with the ineffective oversight by other parties the potential for mismanagement and fraud becomes quite large. Moreover, these private firms faced little competitive pressure to improve their efficiency because of the "license raj" system, which limited domestic competition, and the high trade and other barriers limiting foreign competition. Finally, the employment dislocation that might have been caused by very inefficient management leading to failed firms was not felt in its entirety because the state could take over failing firms and keep their work force employed. This would have reduced the political cost of supporting inefficient management.

This is a recipe for dysfunctional corporate governance and that is precisely what India had. From the outside India had the laws and the legal system to enforce corporate governance but the operation of the system, inconsistent disclosure, and largely ineffective boards of directors led it to be a failing system of governance. Indeed, Indian firms looking for capital had to rely primarily on internal sources or on the capital provided by the DFIs (Bhattacharyya & Rao, 2005, World Bank Report, 2005).

**WINDS OF CHANGE – RECENT CORPORATE GOVERNANCE INITIATIVES**

There have been two major corporate governance initiative launched in India since the mid-1990s.

1. The first is by the Confederation of Indian Industry (CII) (This is India's largest industry and business association.)
2. The second is by the SEBI

**C. LIBERALIZATION AND CORPORATE GOVERNANCE REFORM (1991 TO PRESENT)**

The sheer weight and cost of the overall economic and regulatory system came crashing down on the Indian economy in 1991 when the Indian government, in response to a financial crisis, embarked upon a general program of liberalization. Liberalization was to take the form of selling off some of the SOEs and beginning to sell off or rationalize the state's interests in other firms. Further, the DFIs were now to be assessed on "bottom line" measures rather than the amount of loans sanctioned. Moreover, trade barriers were to be reduced, foreign investment permitted (and even encouraged) and the "license raj" to be eased thereby permitting for increased domestic and foreign competition (Goswami (2003), Krueger (2003)). Following this the government created the securities market regulator – the Securities & Exchange Board of India (SEBI) in 1992 – and slowly granted it increasing powers and the mandate to regulate the stock markets in India. This was also significant because SEBI could take on an adjudicatory role and thereby relieve some pressure on the court system and provide more timely resolution of disputes.

It is against this backdrop that corporate governance reform would develop in India. Although the mid-1990s saw the first incursions into reforming the stock markets and governance, the watershed event is generally perceived to be SEBI's promulgation of Clause 49 of the stock exchange listing agreement in 2000.

The first steps toward Clause 49 came in 1998 when the Confederation of Indian Industry (CII) – a large Industry association – proposed a voluntary code of corporate governance for Indian firms. This was followed in quick measure by SEBI forming the Kumar Mangalam Birla Committee (KMBC) to suggest changes in the listing agreement of the stock exchanges to address corporate governance concerns. The KMBC's draft set of recommendations came out on October 1, 1999 and became effective as Clause 49 of the listing agreement with the Exchanges on February 21, 2000 – a stunning 5 months later. Firms failing to meet the requirements of Clause 49 could be delisted. The details of Clause 49 are provided in Appendix 1, but a quick overview is provided below.

Clause 49 had a number of requirements and recommendations and it provided a phased in implementation schedule wherein certain firms (e.g., Group "A" firms or larger firms) were expected to comply earlier than mid sized firms which were expected to comply earlier than smaller firms. Clause 49's requirements included:

1. Minimum percentages of independent directors (50% or 33% depending on whether the Chairman was an executive director),
2. Tightening up the definition of "independence",
3. Mandating the number of board meetings per year,
4. Developing a code of conduct,
5. Imposing limits on the number of directorships a director could simultaneously hold,
6. Enhancing the power of the audit committee by requiring financial literacy, experience and independence of its members, and by expanding the scope of activities on which the audit committee had oversight,
7. Certifications by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of financials and overall responsibility for internal controls,
8. Enhanced disclosure obligations (on many things including accounting treatment and related party transactions), and
9. Enhanced requirements for holding companies when overseeing their subsidiaries.

These changes appear aimed at making boards and audit committees more independent, powerful and focused monitors of management. Moreover, the enhanced disclosure would aid institutional and foreign investors in monitoring management as well. Clause 49 was received with much fanfare and has been the subject of many conferences, events and debates on its reach, application and interpretation.

Following Clause 49 a number of further committees were formed which led to further changes in the listing requirements (e.g., Y.H. Malegam Committee, Narayana Murthy Committee, Naresh Chandra Committee). Some of these changes came into effect in 2004. Also, during 2004 the Indian government amended the Securities Contracts (Regulation) Act 1956 wherein section 23E now imposed larger financial penalties for violations of the listing agreement (up to Rs. 25 crore (roughly US$ 6,250,000) for a violation). This was a significant increase in penalties from the initial penalty of de-listing for violations of Clause 49.

By 2005 amendments were being proposed to the Statutory Companies Law based on the J. J. Irani Committee's (2005) recommendations. If adopted, the statutory law would permit greater customization and self regulation (e.g., requiring shareholder approvals for executive compensation). Moreover, there would be greater protections for smaller shareholders, especially in merger transactions. Finally, the process of enforcement is to be streamlined, the bankruptcy system upgraded, and the actual legal provisions rationalized and simplified (eliminating redundancies and so forth). The changes will apply to all firms in India (not just those listed on the exchanges as with Clause 49). The proposed changes are summarized in Appendix 1 and compared to the changes wrought by Clause 49. These changes are not inconsistent per se with Clause 49 given that Clause 49 only applies to a subset of firms (listed firms) subject to the Irani committee's recommendations.

Since 2005 there has not been much in the way of changes to either the listing agreement or the Statute, but in September 2007 SEBI initiated its first enforcement and investigation proceedings against firms for violations of Clause 49. It is noteworthy that the first enforcement actions were brought nearly seven years after the promulgation of Clause 49 and to date no penalties have been imposed. Finally, just recently the Indian Cabinet has approved the Irani Committee's recommendations and statutory law changes are thus visible in the near horizon.

There are many important and perhaps remarkable features of the Clause 49 reform process. The first is that the reform process was initiated and supported by private industry (i.e., the CII) rather than triggered by an Enron-like scandal (Goswami (2003)). This is somewhat unusual because governance reform tends to place constraints on what managers and controlling shareholders can do. Given that these people make up the power structure of Indian Industry it seems odd that they would support placing constraints on themselves.

However, in India, industry pushed for governance reform because access to capital was necessary to take advantage of the opportunities created by liberalization and to stay ahead (or at least with) the competition. Obtaining capital from domestic and foreign investors would have been difficult without some greater assurances (given the poor track record of the capital markets since Independence and the debilitated state of governance). Moreover, given the likely low level of interest (and perhaps available capital) from domestic investors, industry may have had to approach foreign investors for the bulk of their funding initially. The CII voluntary code in many respects appears designed to attract foreign investors to Indian firms as many of its provisions were based on "best practices" at the international level.

However, the voluntary code was not perceived to have generated a very high level of foreign investor interest. Enacting the CII code as law might be necessary to bolster the credibility of governance reform. Indeed, we see CII lobbying SEBI to enact some governance reform less than a year from the announcement of its voluntary code. Presumably, making governance part of the law would enhance its credibility and probably provide some enforcement for it. Thus, the corporate governance reform movement was motivated by a desire to raise capital from foreign investors to fund investment in new business opportunities or to enhance chances in current endeavors. With industry, the primary opposition to reforms normally, supporting them it is not surprising that the reforms came swiftly. Reform was also supported by the increasing presence of foreign investors, the Indian financial press being quite active, and the desire to access US capital markets (Goswami (2003)).

Another important feature of the Clause 49 reform process was the gradual escalation of sanction severity. Initially, the penalty for non-compliance was de-listing (2000) then some years later more severe financial penalties became available (2004) and then finally enforcement actions some years later (2007-08). This is perhaps not too surprising.

Starting with the less severe penalties (i.e., de-listing) may have dulled opposition to the reforms. Moreover, listing requirements are generally enforceable only through SEBI and the Exchanges which can utilize enforcement discretion thereby softening the impact of the changes. One might, of course, wonder what opposition was there to the reforms given CII's active encouragement of them? However, simply because CII supported these reforms does not mean that all of Indian Industry was in favour of them. For example, the faction(s) that had the critical say in CII may have favoured reforms, but there may have been some who were not as enthusiastic about them. In light of this, a strategy of first changing listing requirements looks very much like an attempt to "test the waters" in a relatively low cost way and then if the change "sticks" to proceed with statutory changes thereby providing firms with sufficient time to adapt before penalties became more significant. Such a strategy is less likely to encounter political opposition, provides time for incumbents to adapt, and may still provide enough assurances to encourage foreign investment in India.

This leads to another interesting part of the process – the weak sanctions and enforcement in India stand in contrast to many other countries that engage in law reform and start with strict enforcement to attract investors. One suspects these countries must do this because the motivation for the reforms is some large scale fraud (e.g., Enron) which may then necessitate visible enforcement actions to restore investor confidence. However, in India visible enforcement actions were probably not as necessary to attract investors because such scandals were not the immediate reason for promulgating the reforms. Indeed, industry support for the reforms may have even lessened the pressing need for enforcement to convey that changes in governance were credible.

## EVIDENCE ON RESPONSES TO THE REFORMS

Having described the Clause 49 reforms the next natural question becomes what effects have these reforms had? There are a handful of studies examining the impact of corporate governance reforms in India. The tenor of these studies is that the Clause 49 reforms were received positively by the market and were generally effective at helping to raise capital for Indian firms.

An early study by Bhattacharyya and Rao (2005) examines whether the adoption of Clause 49 predicts lower volatility and returns for large Indian firms. They find insignificant results for volatility and mixed results for returns.

Black & Khanna (2007) conduct an event study of the adoption of Clause 49. They rely on the phased implementation schedule, in which "large" firms were required to comply before "small" firms, and report positive returns to a treatment group of large firms relative to a control group of small firms, around the first important legislative announcement.

Balasubramanian, Black & Khanna (2008) conduct a detailed survey of Indian firms to assess whether better governance practices are correlated with better firm performance (e.g., Tobin's q). Their survey obtained responses from 370 firms (a 73% response rate) in 2006. Their findings are that better governed firms tend to have higher Tobin's q.

Dharmapala & Khanna (2008) examine whether the firms subject to Clause 49 performed better (as measured by Tobin's q) than unaffected firms after it became known that serious financial penalties might attach for violations of Clause 49 (which was in 2004). They find that the firms affected by Clause 49 had higher Tobin's q right after 2004. This suggests that the threat of serious financial penalties had a significant impact on firm value. Indeed, this paper provides compelling evidence of the reforms causing increases in firm value in India and that the enhanced sanctions/enforcement provisions in 2004 may have had a more significant impact than the substantive laws reforms enacted in 2000.

Of course, other measures might be used to assess overall governance practices in India. Minority shareholder expropriation is an important issue in India with a large number of controlled firms. Khanna, Kogan and Palepu (2006), study instances of minority shareholder expropriation by Indian firms and Bertrand, Mehta and Mullainathan (2002) provide evidence on tunnelling within Indian business groups. Dharmapala & Khanna (2008) examine whether the tunnelling risk within Indian business groups changed after the Clause 49 set of reforms. Their initial evidence indicates that tunnelling dropped to very low levels around the announcement of the substantive reforms (1999-2000) and has more or less stayed there since then. Of course, there are other methods of insider expropriation besides tunnelling within business groups, but those are not measured by the Dharmapala & Khanna (2008) study.

Thus, the Indian evidence suggests that Clause 49 has had positive effects on the Indian markets. That raises an important question – why? What features of Clause 49 have been important? Given that most of the Clause 49 reforms were already present in the CII voluntary code it would appear that it was not simply the actual provisions per se that were valuable, but the threat of enforcement (and perhaps legitimacy or signals) the law provided via Clause 49. If the provisions themselves were all that mattered then industry would have been able to raise the desired level of capital with the voluntary code. The presence of the same provisions in a law seemed to matter quite a lot, suggesting that enforcement was critical.

## CONCLUSION

Although corporate governance has been slow in making its mark in India, the next few years will see a flurry of activity. Recent corporate governance research is turning to examine which aspects of corporate governance matter most to growth. Although scholarly attention is now focused on enforcement, there is little examination of how the reforms and enforcement may matter in an *emerging market*. Such an examination is important because emerging markets usually have weaker enforcement, but many of them appear to benefit from governance reform.

India will soon move to full capital account convertibility. When that happens, an Indian investor will seriously consider whether to put his funds in an Indian company or to place it with a foreign mutual or pension fund. That kind of freedom will be the ultimate weapon in favour of good corporate governance. Thankfully for India, the companies that matter have already seen the writing on the wall. Thus it may not wrong to predict that, by the end of 2020, India might have the largest concentration of well-governed companies in South and South-east Asia.

## REFERENCES

1. Acemoglu, Darren & Simon Johnson (2006), "Unbundling Institutions", Working Paper.
2. Aggarwal, Reena, Leora Klapper, and Peter D. Wysocki (2003), "Portfolio Preferences of Foreign Institutional Investors," World Bank Working Paper.
3. Carlos and Victor Mendes (2004), "Corporate Governance Policy and Company Performance: The Review 290 – 301.
4. Goswami, Omkar (2003) "India: The Tide Rises Gradually" in Corporate Governance in Development (Charles P. Oman ed., OECD Development Centre), pp. 105–60.
5. Goswami, Omkar (2003) "India: The Tide Rises Gradually" in Corporate Governance in Development (Charles P. Oman ed., OECD Development Centre), pp. 105–60.
6. Khanna, Vikramaditya (2008), Does it Matter to Firm Value if Firms Comply or Explain their Non-Compliance with Indian Governance Rules?, working paper.
7. Khanna,Tarun and Krishna Palepu (2007), "The Evolution of Concentrated Ownership in India: Broad Patterns and a History of the Indian Software Industry," in Randall K. Morck, ed., A History of Corporate Governance around the world (National Bureau of Economic Research), pp. 283-324.

**WEBSITES**

8. http://ssrn.com/abstract=556208
9. http://ssrn.com/abstract=640842
10. http://ssrn.com/abstract=887947
11. http://www.law.yale.edu/documents/pdf/CBL/34_Yale.pdf

# STUDY OF FINANCIAL INCLUSION IN BANKING INDUSTRIES IN INDIA

*PAVAN KAPOOR*
*RESEARCH SCHOLAR, SHRI VENKATESHWARA UNIVERSITY, AMROHA; CHIEF EXECUTIVE OFFICER*
*HCBL BANK*
*LUCKNOW*

## ABSTRACT

*For developing nations the era is of inclusive growth and the key for inclusive growth is financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. A nation can grow economically and socially if its weaker section can turn out to be financial independent. The paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening the India's position and highlighting key factors necessary for financial inclusion. For analyzing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analyzing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes. Banking business has done wonders for the world economy. The simple looking method of accepting money deposits from savers and then lending the same money to borrowers, banking activity encourages the flow of money to productive use and investments. This in turn allows the economy to grow. The government of India started the cooperative movement of India in 1904. Then the government therefore decided to develop the cooperatives as the institutional agency to tackle the problem of rural indebtedness, which has become a curse for population. In such a situation cooperative banks operate as a balancing centre. At present there are several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system.*

## KEYWORDS

Economic growth, Financial Inclusion or Inclusive Financing, Financial Services, Financial Assistance.

## INTRODUCTION

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services."Depending on the stage of development, the degree of Financial Inclusion differs among countries. It's been surprising fact that India ranks second in the world in terms of financially excluded households after china. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. Thus, the term Financial Inclusion can be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. The first-ever Index of Financial Inclusion to find out the extent of reach of banking services among 100countries, India has been ranked 50. In order to increase this number the Reserve Bank of India had the Government of India take innovative steps. One of the reasons for opening new branches of Regional Rural Banks was to make sure that the banking service is accessible to the poor. With the directive from RBI, banks are now offering .No-Frill Accounts to low income groups. These accounts either have a low minimum or nil balance with some restriction in transactions. The individual bank has the authority to decide whether the account should have zero or minimum balance and they are now considering Financial Inclusion as a business opportunity in an overall environment that facilitates growth [10].

## FINANCIAL INCLUSION EQUATION

**NFA + BC = FI**
**Where, BC = Banks + OFIs + MFI + IT**
**NFA** = No Frills Saving Bank Account
**BC** = Banks + Other Financial Institutions + Micro Finance Institutions + Information Technology
**OFI** = Insurance Companies, Mutual Funds, Pension Companies

## INITIATION OF FINANCIAL INCLUSION CONCEPT IN INDIA

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank [4]. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure. The broad strategy for financial inclusion in India in recent years comprises the following elements [6]:

(i) Encouraging penetration into unbanked and backward areas and encouraging agents and intermediaries such as NGOs, business correspondents (BCs)
(ii) Using technology for furthering financial inclusion
(iii)Advising banks to open a basic banking 'no frills' account
(iv) Emphasis on financial literacy and credit counseling
(v) Creating synergies between the formal and informal segments.

## FORTHCOMING PLAN OF BANKS TO SUPPORT FINANCIAL INCLUSION IN INDIA

- **Initiation of no-frills account:** – These accounts provide basic facilities of deposit and withdrawal to accountholders makes banking affordable by cutting down on extra frills that are no use for the lower section of the society. These accounts are expected to provide a low-cost mode to access bank accounts [3].
- **Simplification of KYC norms:-**RBI also eased KYC (Know Your customer) norms for opening of such accounts. Account opening process has been simplified for people who intend to keep balances not exceeding Rs.50, 000 and whose total credit in all the accounts taken together is not expected to exceed Rs. 100,000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms.
- **Banking service reaches homes through business correspondents**: – The banking systems have started to adopt the business correspondent mechanism to facilitate banking services in those areas where banks are unable to open brick and mortar branches for cost considerations. Business Correspondents provide affordability and easy accessibility to this unbanked population.
- **EBT – Electronic Benefits Transfer:** – To plug the leakages that are present in transfer of payments through the various levels of bureaucracy, government has begun the procedure of transferring payment directly to accounts of the beneficiaries. This "human-less" transfer of payment is expected to provide better benefits and relief to the beneficiaries while reducing government's cost of transfer and monitoring.
- **Rural intermediaries**:-In January 2006, the RBI permitted banks to appoint the following organizations as business intermediaries for facilitating financial inclusion[6]:
  - Nongovernmental Organizations(NGOs/SHGs),
  - Microfinance Institutions(MFI),and
  - Other civil society organizations
- **Financial education:-**Financial literacy will go a long way in achieving financial inclusion. Accordingly, the RBI has initiated several financial education measures. For example, it publishes comic strips to explain the concept of savings.
- **Simplified branch authorization:-**With the objective of facilitating uniform branch growth, the RBI has permitted; banks can open branches in any centre – rural, semi-urban or urban – in the Northeast without applying for permission each time, again subject to reporting.
- **Easier credit:-**Banks have been advised to introduce a general purpose credit card facility, General Credit Cards (GCCs), to be precise, with a Rs. 25,000 limit in their rural and semi-urban branches. For customers, this translates to easy access to revolving credit sans the need to furnish security or statement of purpose.

## LITERATURE REVIEW

An empirical study of **Sendhilvelan .M and Karthikeyan .K (2006)** revealed to ensure financial inclusion of all segments of the population, in both rural and urban areas banks should give wide publicity to the facility of "no frills" account [3] .Further efforts must be made to move from the concept of anytime, anywhere banking. To anytime, anywhere and to everyone banking. **Usha Thorat (2007)** reported that banks are entering into agreements with India post for using post offices as agents for branchless banking. Setting up of financial literacy centre and credit counseling on a pilot basis, launching a national literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide standards for IT solutions, facilitating low cost remittance products are some of the initiatives currently underway for furthering financial inclusion [5].

The work of **Ghorude .K.N (2009)** indicated that attaining the objective of inclusive growth has to necessarily encompass the social, economic and political inclusion [1]. Developing micro entrepreneurship with organizational and community based support is a way of strengthening inclusive growth. **Muthiah Manoharan .P and Krishnaveni Muthiah (2010)** found limited access to affordable financial services such as savings, loans, remittance and insurance services to the vast majority of the population in the rural area and unorganized sector is believed to be a constraint to the growth impetus in these sectors[2]. The behavioral pattern shows that many people were not comfortable with formal financial services. The reasons were difficulty in understanding language, various documents and conditions that come with financial services etc.sustained growth of the nation and its continued prosperity depend critically on universal financial services covering all people. Further, empirical evidence shows that inclusive financial system significantly raises growth, alleviate poverty and expand economic opportunity**(Dr. Joji chandran,2008).**Financial inclusion means the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded **(Thorat, 2006).[5]** Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy **(Leeladhar, 2006).**

## NEED 0F FINANCIAL INCLUSION

There has been a many objectives related to the need for financial Inclusion such as:-

- **ECONOMIC OBJECTIVES**
  For the equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boom for the underdeveloped and developing nations.
- **MOBILIZATION OF SAVINGS**
  If the weaker sections are provided with the facility of banking services the savings can be mobilized which is normally piled up at their households can be effectively utilized for the capital formation and growth of the economy.
- **LARGER MARKET FOR THE FINANCIAL SYSTEM**
  To serve the requirements and need of the large section of society there is a urgent need for the larger market for the financial system which opens up the avenue for the new players in the financial sector and can lead to growth of banking sector also.
- **SOCIAL OBJECTIVES**
  Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances.
- **SUSTAINABLE LIVELIHOOD**
  Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion is turn out to be boom for the low income households.
- **POLITICAL OBJECTIVES**
  There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

## SCOPE OF THE STUDY

There are various types of banks which operate in our country to meet the financial requirements of different categories of people. On the basis of function, the banks can be classified into five Categories Viz. central bank, commercial bank, development bank, co-operative bank and Specialized bank. This study had focused on the role of banking sector in financial inclusion in India and especially the Central Bank i.e. Reserve Bank of India.

## OBJECTIVES OF THE STUDY

The main objectives of this study were:

- To study the measures taken by the banks for financial inclusion.
- To analyze the difficulties involved in the adoption of financial inclusion.
- To explore the need and significance of financial inclusion for economic and social development of society.
- To analyse the current status of financial inclusion in Indian economy.
- To study the access of rural people to bank branches and the number of ATM opened in those areas.
- To study the progress of State Cooperative Banks in financial inclusion plan.
- To suggest the appropriate measures to improve the efficiency of the Cooperative banks.

## RESEARCH METHODOLOGY

Research methodology is partly descriptive and partly exploratory. For this study Secondary data is used. The data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, and Report of NABARD etc.

## FINDINGS

### SURVEY REPORTS ON FINANCIAL INCLUSION

A financial inclusion survey was conducted by World Bank team in India between April-June, 2011, which included face to face interviews of 3,518 respondents. The sample excluded the north eastern states and remote islands representing approximately 10 per cent of the total adult population. The survey suggest in developing countries India lags behind in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions[9]. In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies as can be seen from the table 1. The survey also points to the slow growth of mobile money in India, where only 4 per cent of adults in the Global Findex sample report having used a mobile phone in the past 12 months to pay bills or sends or receive money. Keeping in view the goal of bringing banking services to identified 74,414 villages with population above 2,000 by March 2012, and thereafter progressively to all villages over a period of time, the Reserve Bank advised commercial banks that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 per cent of the total number of branches proposed to be opened during the year in unbanked rural centers.

**TABLE - 1: KEY STATISTICS ON FINANCIAL INCLUSION IN INDIA: A SURVEY**

(percent)

| Share with an account at a formal financial institution | | | | Adults saving in the past year | | Adults originating a new loan in the past year | | Adults with a credit card | Adults with an outstanding mortgage | Adults paying personally for health insurance | Adults using mobile money in the past year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | All Adults | Poorest income quintile | Women | Using a formal account | Using a Community based Method | From a formal financial institution | From family or friends | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| India | 35 | 21 | 26 | 12 | 3 | 8 | 20 | 2 | 2 | 7 | 4 |
| World | 50 | 38 | 47 | 22 | 5 | 9 | 23 | 15 | 7 | 17 | 7 |

*Source: Asli Demirguc - Kunt and Klapper, L. (2012); Measuring Financial Inclusion‟, Policy Research Working Paper, 6025, World Bank, April [9]*

### INTERPRETATION OF TABLE - 1

Thus, a lot has to be done to bridge the gap between the formal financial institutions and the rural people needs. To make them aware of the fact about the facilities available for their benefit and which can help India to turn out to a developed nation from a developing nation. As can be seen from the below table-2 that the financial inclusion plan has shown a tremendous growth in the past two years[9]. Banks are gaining momentum in areas like opening up of new banking outlets in rural areas, deploying new business correspondents (BC),opening of new frills accounts, granting more credit through KCC(Kisan Credit Card) and GCC (General Purpose Credit Card).

TABLE 2: PROGRESS OF SCB'S IN FINANCIAL PLAN (EXCLUDING RRB'S)

| Particulars | March 2010 | March 2011 | March 2012 | Variation March 2012 over March 2010 |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| No. of BCs/BC agents Deployed | 33,042 | 57,329 | 95,767 | 62,725 |
| No. of banking outlets in villages with population above 2,000 | 27,353 | 54,246 | 82,300 | 54,947 |
| No. of banking outlets in villages with population less than 2,000 | 26,905 | 45937 | 65234 | 38329 |
| Total no. of banking outlets in villages | 54258 | 100183 | 147534 | 93276 |
| a) Through branches | 21475 | 22662 | 24701 | 3226 |
| b) Through BCs | 32684 | 77138 | 120355 | 87671 |
| c) Through other modes | 99 | 383 | 2478 | 2379 |
| Urban locations covered through BCs No-Frill accounts | 433 | 3757 | 5875 | 5442 |
| Number (millions) | 50.3 | 75.4 | 105.5 | 55.2 |
| Amount (Rs. In billions) | 42.6 | 57.0 | 93.3 | 50.7 |
| Overdraft availed in No-Frill Accounts | | | | |
| Number (millions) | 0.1 | 0.5 | 1.5 | 1.4 |
| Amount (Rs. In billions) | 0.1 | 0.2 | 0.6 | 0.5 |
| Kisan Credit Card (KCC) | | | | |
| Number of accounts (millions) | 15.9 | 18.2 | 20.3 | 4.4 |
| Outstanding amount (Rs. In billions) | 940.1 | 1237.4 | 1651.5 | 711.4 |
| General Purpose Credit Card (GCC) | | | | |
| Number of Accounts (millions) | 0.9 | 1.0 | 1.3 | 0.4 |
| Outstanding amount (Rs. In millions) | 25.8 | 21.9 | 27.3 | 1.6 |
| ICT Based Accounts through BCs | | | | |
| Number of Accounts (millions) | 12.6 | 29.6 | 52.1 | 39.5 |
| Number of transactions during the year (millions) | 18.7 | 64.6 | 119.3 | 183.9 |

Source: Asli Demirguc - Kunt and Klapper, L. (2012);Measuring Financial Inclusion‟, Policy Research, Working Paper, 6025, World Bank, April [9]

**INTERPRETATION OF TABLE-2**

As can be seen from the above statistics of SCB's( Schedule co-operative Bank), the number of Business Correspondents have increased and the number of rural banking branches have increased from 27,353 in 2010 to 82,300 in 2012.The primary mode which has gained momentum for opening new saving account in rural banks is through Business Correspondent (BC‟s).We can see the account opened by business correspondents in 2010 is 32,684 which has increased to 1,20,355 in2012.Also the opening of new no-frill account is on the higher Side i.e. From 50.3 million account to 105.5 million account. The distribution of KCC (Kisan credit cards) and GCC (General purpose credit card) has also been on increasing side but still there is major Scope for reaping its benefits. Hence the survey states that though the government has initiated many steps and the steps are also moving in positive direction and the financial inclusion has shown an immense growth Which if channelize in proper manner can make the life of many rural villagers easy and steady.

## SUGGESTIONS

The banks should offer all forms in the regional language of the customers. The banks must create awareness among the people concerning the significance of banking services by advertisement and financial inclusion campaign. ATMs are one of the most cost effective ways of reaching the rural poor. Thus, new biometric ATMs have to be established to assist the customers who are unable to memorize PIN. The banks should constitute Grievance Redressal Machinery to redress the customer's discontent promptly. And also it should offer no frills account in order to turn unbankable into bankable. The banks should appoint a business correspondent to disseminate its service to the unreached area. Technology can play a major role in reducing the cost of availing financial services.
SHG should also be encouraged [7] .Thus, banks should adopt advanced technology to open up new avenues for service delivery.

## CONCLUSION

Financial inclusion becomes a major prerequisite of poverty alleviation. For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth. There is a long way to go for the financial inclusion to reach to the core poor according to K.C.Chakrabarty RBI Deputy Governor "Even today the fact remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders. Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt banking sector is playing a significant role and is working on the positive side. Reserve Bank of India has taken various measures for promoting financial inclusion and uplifting the standard of living of weaker sections of the society.

## LIMITATIONS

- The study is based on the data of past three or four years only.
- The data for study is mainly based on a Cooperative Bank so; the comparative study with other banks was not possible.
- The time period of the research was limited.

## REFERENCES


1. Ghorude, K.N. (2009). "Micro Finance for Financial Inclusion and Sustainable Rural Development", Southern Economist, Vol. 48, No.1, PP.47 –50.
2. Muthiah Manoharan and Krishnaveni Muthiah (2010). "Financial Inclusion in the Indian Rural Area Context –A Micro level Study" Research Highlights, Vol. 20, No.2, and PP.71- 74.
3. Sendhilvelan, M., and Karthikeyan, K., (2006) "No Frills Account: A Basic Drive for Financial Inclusion", Southern Economist, Vol. 45, PP.13 –14.
4. Dr Chakrabarty KC, DG, RBI. Keynote address on "Furthering Financial Inclusion through Financial Literacy and Credit Counselling".
5. Reserve Bank of India (2006a), "Financial Inclusion and Millennium Development Goals", Address by Usha Thorat, Deputy Governor of the Reserve Bank of India, January 16, available at http://www.rbi.org.in
6. Basu Priya (2006), "Improving Access to Finance for India's Rural Poor", The World Bank: Washington, D.C
7. Hema Bansal (2003), "SHG – Bank Linkage Program in India: An Overview", Journal of Microfinance, Vol.5, No.1
8. NABARD, (1997), Micro Finance Innovations and NABARD, NABARD Publication India
9. Asli Demirguc - Kunt and Klapper, L. (2012): ‚Measuring Financial Inclusion‟, Policy Research Working Paper, 6025, World Bank, April
10. Reserve Bank of India (2006b), "Economic Growth, Financial Deepening and Financial Inclusion", Speech by Rakesh Mohan, Deputy Governor of the Reserve Bank of India, November 20, available at ttp://www.rbi.org.in.

**WEBSITES**

11. www.rbi.org.in

12. www.iibf.org.in
13. www.google.com
14. www.inclusion.in
15. http://www.vsrdjournals.com
16. http://www.igidr.ac.in

# SCM PRACTICES AND ITS IMPACT ON TURNOVER, PROFITABILITY AND SUSTAINABILITY IN INDIAN BUSINESS ENVIRONMENT

*VIVEK PANDEY*
*RESEARCH SCHOLAR, POONA COLLEGE, PUNE; & CHIEF OPERATING OFFICER*
*AG TECHNOLOGIES PVT. LTD*
*MUMBAI*

## ABSTRACT
*It has been widely noted in many publications, both in academic subjects and popular references that SCM is important to deliver the products and services to end customers. SCM strives to get "the right things to the right places at the right times for maximum profits". Supply chain's efficiency and effectiveness impacts the performance of the organization due to various variants like: how to coordinate the production of goods and services, including which suppliers to buy materials from; how and where to store inventory; how to distribute products in the most cost effective, timely manner; and how and when to make payments. 9 Industries, 23 Sectors and 109 organizations across India have been covered under research of SCM practice and related processes maturity to study its impact on turnover, profitability and sustainability.*

## KEYWORDS
SCM practices, Indian business environment.

## INTRODUCTION
SCM has been interpreted by various researchers. Ganeshan and Harrison (1995) has defined SCM as a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to customers. Lee & Corey (1995) stated that SCM consists of the integration activities taking place among a network of facilities that procure raw material, transform them into intermediate goods and then final products, & deliver products to customers through a distribution system. Christopher (1998) defined the supply chain as the network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate customer. SCM is the " strategic and systematic coordination of the traditional business functions and the tactics across these business functions within a particular firm and across businesses within a supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole" (Mentzer et al. 2001).

The increasingly flattening world is constantly evolving and impacting the way companies do their businesses. The success of a company depends on developing innovative supply chain strategies that help the company to win, in turns and make money from information while driving continuous improvement. SCM practice enables world's leading organizations to re-align their supply chains to the flat world paradigm by providing functioning solutions for company needs in supply & demand planning and forecasting, sourcing & procurement, supply chain execution and enterprise asset management. It is now essential for business to manage the supply chain in order to improve customer service, achieve a balance between costs and services and thereby give the company a competitive advantage. SCM works to bring the supplier, the distributor and the customer into one cohesive process. The manufacturers, suppliers, transporters, warehouses, retailers and customers are involved in a dynamic but constant flow of information, products and funds.

## LITERATURE REVIEW
Traditionally manufacturers were the drivers of the supply chain - managing the pace at which products were manufactured and distributed. SCM has been a melting pot of various aspects, with influences from logistics and transportation, operations management and materials and distribution management, marketing, as well as purchasing and information technology (IT). Ideally, the all-encompassing philosophy of SCM embraces each of these functions to produce an overall supply chain strategy that ultimately enhances firm performance (Croom et al. 2000; Wisner and Tan 2000). Specialization within the supply chain began in the 1980s with the inception of transportation brokerages, warehouse management, and non-asset based carriers and has matured beyond transportation and logistics into aspects of supply planning, collaboration, execution and performance management.

Today, customers are calling the shots, and manufacturers are scrambling to meet customer demands for options/styles/ features, quick order fulfillment, and fast delivery. Manufacturing quality – a long-time competitive differentiator - is approaching parity across the board, so meeting customer's specific demands for product delivery has emerged as the next critical opportunity for competitive advantage. Companies that learn how to improve management of their supply chain will become the new success stories in the global market place. Between 1995 and 2010, the numbers of transnational companies have increased more than double. In addition to spreading geographically, supply chains now involve more companies. Maximum companies are expecting the number of collaborative relationships with suppliers and third parties to increase and an ever-broader range of activities is being outsourced (Corsten& Kumar, 2005). Supply chains must also compete with rapidly expanding and contracting product portfolios. Supply chains can't keep pace with cost volatility. Now companies rank cost containment as their number one responsibility to the business far ahead of enterprise growth and product/service innovation (Lee & Kwon, 2007).

Escalating fuel prices, scrambling companies to reevaluate distribution strategies, engage third-party logistics providers more extensively or even shared loads with competitors (Malek et al, 2005). New designs are outdated before companies can implement them. Leading supply chains focused on flexibility (Kristal et al, 2010). When it comes to managing costs, companies with top supply chains take a longer-term view. They are moving more quickly toward agile supply chains that allow rapid response to changing market conditions and variable cost structures that ramp up and down with revenues (Stavrulaki & Davis, 2010). Visibility and the collaboration required to get information and make decisions with it was not attracting much attention in terms of activities and programs (Attaran, 2007). Companies are focusing more on strategy alignment, continuous process improvement and cost reduction.

Each supply chain member performs a specific added value function in relation to the product/service as it progresses towards the final consumer. According to Mowat & Collins (2000), understanding and meeting consumer needs has principal importance in SCM as a way of optimizing value to customers and improving return to all stakeholders in the supply chain. According to Kuei et al. (2001), SCM practitioners must maintain and sustain a customer-driven culture. Others argued that the most basic purpose of SCM is conforming to customer requirements and one of the two most important aspects of SCM is that it focuses on customers at the end of the chain (Taylor, 1997). Throughout the 1990s, SCM continued to evolve, as outsourcing became a more approved practice. Since SCM is consumer-driven, it is imperative that requirements are met quickly and accurately with as minute waste and as few defects as possible. The essence of SCM was the co-ordination and integration of different processes throughout the supply chain both upstream and downstream.

From transportation and logistics management perspective, the focus of SCM was on reduction of inventories both within and across the organizations in the supply chain and improvement of service level (Alvarado &Kotzab, 2001). As global markets evolved, supply chain managers were faced with continuously changing market dynamics, new global markets and stressful competitive environments (Mehra& Inman, 2004). Dealing with traditional tradeoffs was no longer an option and firms were finding the need to optimize their supply chain strategies over a much broader base (Meredith & Roth, 1998). Because supply chains extended across several functions and many organizations, each has its own priorities and goals. Additional challenges were presented by the availability of electronic links for improving supply chain performance (Poulymenakou&Tsironis 2003), which made it much more difficult for organizations to observe other firms' actions and caused an increased focus on cost cutting and efficiency (Liker & Choi, 2004).Initiatives such as quality management offered the potential for dealing with these challenges (Mehra& Inman, 2004). Traditional SCM, where suppliers were selected based on price (Chen & Yang, 2002) may lead to results that deter an organization from competing in global markets.

## RESEARCH METHODOLOGY

The competition between Indian organizations is increasing rapidly. Organizations are now trying to improve their operational performance and achieve competitive advantage. SCM can play an important role in improving operational performance and achieving competitive advantage. Through SCM practices, companies can increase their revenue, minimize their system wide costs and also provide maximum value to their customers.

a) Hypothesis - "The capability of SCM Practices has correlation with Turnover in Crores, Profitability in % of Revenue and sustainability in years in Small, Medium and Large Enterprises." y = f(x) where y, dependent variable, represents sustainability in years, Turnover in INR and Profitability in % of Revenue; x, independent variable, represents capability of SCM Practices in terms of score

SCM process frameworks under the scope of research are as follows:

i. The organization makes collaborative forecast and replenishment agreements for their products and services. (Collaborative, Planning, Forecasting and Replenishment, SCM.01)
ii. The organization simulates and optimizes strategic, operational, and tactical planning scenarios and then converts these into feasible plans. (Supply Chain Simulation and Optimization, SCM.02)
iii. The organization exchanges and monitors order-based information with all concerned stakeholders and related parties. (Integrated Fulfillment, SCM.03)
iv. The organization converts planning outcome into production / service orders and then fulfill the production/ service orders. (Manufacturing and Service Execution, SCM.04)
v. The organization responds to predictable variability in a supply chain by managing supply (using capacity planning, inventory management, subcontracting etc.) and/or managing demand (using short-term price discounts and trade promotions etc.). (Monitor and Control Supply Chain Variation, SCM.05)

b) Participants – Target participants are Senior Management Professionals within the organization or Vice Presidents or General/ Group Managers or Heads or Senior Managers or Managers or equivalent based on the organization structure.
c) Sample Size - The research covered 9 major industries, 23 sectors and 109 companies - Technology, Basic Materials, Industrials, Consumer Goods, Healthcare, Consumer Services, Telecommunication, Utilities, Financial and Oil & Gas.
d) Method of Data Collection - The research data is collected using questionnaire method. Questionnaire is developed for capturing impact of SCM practice and managerial processes on Turnover, Profitability and Sustainability.
e) Techniques of Data Analysis

i. SCM practice analyses the impact in the form average and mode of rating for specified intervals. The average ($\bar{x}$) of rating is computed for each frequency intervals (1-10 Cr, 11-100 Cr, … ; 1-10 years, 11-20 years, … so on) as decided in the research methodology. It is computed as continuous data. The mode of rating is computed in discrete format, which represents the maximum occurred rating for impact on specific variable. Mode findings are used to interpret SCM practice capability maturity of individual interval of turnover, profitability and sustainability. The weightage average ($\bar{x}$ (w) is computed to analyses the sample mean of entire population. Weightage average findings are used to interpret SCM practice capability maturity across interval of turnover, profitability and sustainability. The standard deviation ($\sigma x$) is computed for average and mode intervals to understand the dispersion of data and confidence of prediction. Lower value of standard deviation of average and mode will be considered ad more accurate finding.
ii. The absolute count of impact rating (1, 2, 3, 4, 5) is measured. The maximum count rating point is considered as significant impact on specific variable (TO, PR, SUS). The count analysis reflects Skewness and Kurtosis of rating data. Skewness is demonstrated by higher percentage value of specific ratings and Kurtosis is analyzed by observing the spread of percentage value across rating value. The absolute count analysis finding is corroborated by mean and mode value. The accuracy is asserted by standard deviation. Lower standard deviation is considered as high confidence prediction.

**RESULT**

SCM Practices and Processes Maturity impacting Turnover (TO), Profitability (PR) and Sustainability (SUS) are analyzed. SCM process maturity is confined to Collaborative, Planning, Forecasting and Replenishment (SCM.01), Supply Chain Simulation and Optimization (SCM.02), Integrated Fulfillment (SCM.03), Manufacturing and Service Execution (SCM.04), Monitor and Control Supply Chain Variation (SCM.05).

**a) Impact of SCM Practice Capability on Turnover**

| Turnover (Cr) | Cos # | | Average ($\bar{x}$) | Mode |
|---|---|---|---|---|
| **1 – 10** | 4 | | 3.8 | 3.0 |
| **11 – 100** | 25 | | 3.5 | 3.0 |
| **101 – 1000** | 32 | | 3.5 | 4.0 |
| **1001 – 10000** | 31 | | 3.6 | 4.0 |
| **10001 +** | 17 | | 3.8 | 3.0 |
| **$\bar{x}(w)$** | | | **3.6** | **3.6** |
| **$\sigma_x$** | | | **0.1** | **0.5** |

**TABLE 1: TO-SCM CAPABILITY IMPACT (AVERAGE, MODE) ANALYSIS**

| Rating | Impact | ∑Count | % Score |
|---|---|---|---|
| **5** | Excellent | 21 | 19 |
| **4** | Very Good | 41 | 38 |
| **3** | Good | 36 | 33 |
| **2** | Fair | 5 | 5 |
| **1** | Limited | 6 | 5 |

**TABLE 2: TO-SCM CAPABILITY RATING COUNT & % SCORE**

Statistics in Table 1 & 2 conclude the following information:

- SCM practice capability has distinctly very good impact on turnover for organizations with 100-10000 + Cr turnover, but the organization with 11-100 Cr Turnover has Supply Chain Practice with only good impact on Turnover.
- Statistical analysis [Average: $\bar{x}$(w)= 3.6, $\sigma_{x=}$0.1 & Mode: $\bar{x}$(w)= 3.6, $\sigma_{x=}$0.5] demonstrate that SCM practice has very good impact on turnover.
- 57% Organizations reflect that SCM practice has very good to excellent impact [r (4, 109): count =41, population = 38%] and 33% with good impact [r (5, 109): count =36, population = 33%] on Turnover.
- Only 5% organizations have fair and other 5% have limited impact of SCM practice Capability on Turnover.
- Organizations reflect that SCM practice has very good impact [r (4, 109): count =41, population = 38%] and good impact [r (5, 109): count =36, population = 33%] on Turnover.

**b) Impact of SCM Practice Capability on Profitability**

| Profit (%) | Cos # | Average (x̅) | Mode |
|---|---|---|---|
| **0-(-10)** | 6 | 4.2 | 4.0 |
| **0-10** | 25 | 3.6 | 3.0 |
| **11-20** | 44 | 3.7 | 3.0 |
| **21-30** | 21 | 3.8 | 5.0 |
| **31-40+** | 13 | 4.1 | 4.0 |
| ***x̅(w)*** | | **3.8** | **3.6** |
| **$\sigma_x$** | | **0.2** | **0.8** |

**TABLE 3: PR-SCM CAPABILITY IMPACT (AVERAGE, MODE) ANALYSIS**

| Rating | Impact | ∑Count | % Score |
|---|---|---|---|
| **5** | Excellent | 31 | 28 |
| **4** | Very Good | 37 | 34 |
| **3** | Good | 30 | 28 |
| **2** | Fair | 6 | 6 |
| **1** | Limited | 5 | 4 |

**TABLE 4: PR-SCM CAPABILITY RATING COUNT & % SCORE**

Statistics in Table 3 & 4 conclude the following information:

- SCM Practice has distinctly very good impact [Average: x̅ (w) =3.8, σx =0.2 & Mode: x̅ (w) =3.6, σx =0.8] on profitability (-10-40+ %) in Indian business environment. Negative profitability contributors are Insurance, Telecom, E-learning organizations which are high investment, start-ups and early entrant which are high potential profit making organizations.
- Organizations with 0-20 % profitability state that SCM practice capability has only good impact on their profitability.
- Organizations with 20-30 % profitability state that SCM practice capability has excellent impact on their profitability and with 30-40 % profitability companies have very good impact on profitability.
- 62% Organizations reflect that SCM practice capability has very good [r (4, 109): count =37, population = 34%] to excellent [(5, 109): count =31, population = 28%] impact on profitability. 28% Organizations have good [r (3, 109): count =31, population = 28%] influence of SCM practice capability on profitability.
- Only 6% Organizations have SCM practice with fair impact and 4% organizations have limited impact on profitability.
- As per Table 40 PR-SCM Capability Rating Count & % Score, Organizations reflect that SCM practice capability has very good [r (4, 109): count =37, population = 34%] impact on profitability.

**c) Impact of SCM Practice Capability on Sustainability**

| SUS (Yrs.) | Cos # | Average (x̅) | Mode |
|---|---|---|---|
| **0-10** | 29 | 3.4 | 3.0 |
| **11-20** | 29 | 3.4 | 3.0 |
| **21-30** | 19 | 3.8 | 4.0 |
| **31-40** | 12 | 3.9 | 4.0 |
| **41-50+** | 20 | 3.9 | 4.0 |
| ***x̅ (w)*** | | 3.6 | 3.5 |
| **$\sigma_x$** | | 0.2 | 0.5 |

**TABLE 5: SUS-SCM CAPABILITY IMPACT (AVERAGE, MODE) ANALYSIS**

| Rating | Impact | ∑Count | % Score |
|---|---|---|---|
| **5** | Excellent | 26 | 24 |
| **4** | Very Good | 38 | 35 |
| **3** | Good | 30 | 28 |
| **2** | Fair | 10 | 9 |
| **1** | Limited | 5 | 4 |

**TABLE 6: SUS-SCM CAPABILITY RATING COUNT & % SCORE**

Statistics in Table 5 & 6 conclude the following information:

- Average [x̅(w) =3.6, $\sigma_x$ =0.2] has better predictability as compared to Mode [*x̅(w) =3.5, $\sigma_x$ =0.5]* as Average has much lower standard deviation.
- SCM practice has distinctly very good impact [Average: *x̅(w) =3.6, $\sigma_x$ =0.2* & Mode: *x̅(w) =3.5, $\sigma_x$ =0.5]* on sustainability (operational for 0- 50+ years) in Indian business environment.
- SCM practice capability for organizations, operational for 1-20 years, show good impact on sustainability. Organizations, operational for 21-50 + years, have very good impact on sustainability.
- 59% Organizations reflect that SCM practice capability has very good [r (4, 109): count =38, population = 35%] to excellent [r (5, 109): count =26, population = 24%] impact on sustainability. 28% organizations mention that SCM practice capability has good [r (3, 109): count =30, population = 28%] impact on sustainability.
- Only 9% of organizations have fair impact on SCM practice capability and 4% of the organizations have limited impact on sustainability.
- As per Table 44 SUS-SCM Capability Rating Count & % Score, Organizations reflect that SCM practice capability has very good [r (4, 109): count =38, population = 35] impact on sustainability.

**d) Impact of SCM's Processes Maturity on Turnover, Profitability and Sustainability**

| Statistics | Average | | | | | Mode | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **SCM.01** | **SCM.02** | **SCM.03** | **SCM.04** | **SCM.05** | **SCM.01** | **SCM.02** | **SCM.03** | **SCM.04** | **SCM.05** |
| ***x̅(w)*** | **3.6** | **3.7** | **3.6** | **3.7** | **3.6** | **3.7** | **4.3** | **3.5** | **3.2** | **3.7** |
| **$\sigma_x$** | **0.2** | **0.1** | **0.1** | **0.1** | **0.1** | **0.4** | **0.4** | **0.5** | **0.5** | **0.5** |

Table 7 TO-SCM Leading Managerial Processes (Average, Mode) Analysis

- Collaborative, Planning, Forecasting and Replenishment (SCM.01) – Organizations up to 10001 Cr indicate that Collaborative, Planning, Forecasting and Replenishment (CPFR) have very good process maturity. 44-65% of population supports the statement. Organization with 1001 – 10000 Cr turnover has only good CPFR process maturity. Statistical analysis [Average: x̅(w) =3.6, $\sigma_x$ =0.2 & Mode: x̅(w) =3.7, $\sigma_x$ =0.4] demonstrate that Indian organizations, having turnover (1-10001+ Cr), have Collaborative, Planning, Forecasting and Replenishment process with very good maturity.
- Supply Chain Simulation and Optimization (SCM.02) - Average [x̅(w)=3.7] statistics indicate that Supply Chain Execution Planning process has very good maturity with high predictability ($\sigma_x$ =0.1) & Mode statistics [x̅(w)=4.3] demonstrate that Supply Chain Execution Planning process has very good maturity with low predictability ($\sigma_x$ =0.4). Statistical analysis [Average: x̅(w)=3.7, $\sigma_x$ =0.1 & Mode: x̅(w)=4.3 , $\sigma_x$ =0.4] demonstrate that Indian organizations, having turnover (1-10001+ Cr), have Supply Chain Execution Planning process with very good maturity. This is supported by 55-75% of population.
- Integrated Fulfillment (SCM.03) - Average [x̅(w) =3.6] statistics indicate that Integrated Fulfillment process has very good maturity with high predictability ($\sigma_x$ =0.1) & Mode statistics [x̅(w)=3.5] demonstrate that Integrated Fulfillment process has very good maturity with low predictability ($\sigma_x$ =0.5). Statistical analysis [Average: x̅(w)=3.6, $\sigma_x$ =0.1 & Mode: x̅(w)=3.5, $\sigma_x$ =0.5] demonstrate that Indian organizations, having turnover (1-10001+ Cr), have Integrated Fulfillment process with very good maturity. This is supported by 44-68 % of population.

- Manufacturing & Service Execution (SCM.04) - Organizations up to 10001+ Cr indicate that Manufacturing & Service Execution process has very good maturity. Statistical analysis [Average: $\bar{x}(w)$ =3.7, $\sigma_x$ =0.1 & Mode: $\bar{x}(w)$ =3.2, $\sigma_x$ =0.5] demonstrate that Indian organizations, having turnover (1-10001+ Cr), have Manufacturing & Service Execution process with very good maturity. This is supported by 48-60 % of population.
- Monitor and Control Supply Chain Variation (SCM.05) - Average [$\bar{x}(w)$ =3.6] statistics indicate that Monitor and Control Supply Chain Variation process has good maturity with high predictability ($\sigma_x$ =0.1) & Mode statistics [$\bar{x}(w)$ =3.7] demonstrate that Monitor and Control Supply Chain Variation process has good maturity with low predictability ($\sigma_x$ =0.5). Statistical analysis [Average: $\bar{x}(w)$=3.6, $\sigma_x$ =0.1 & Mode: $\bar{x}(w)$=3.7 , $\sigma_x$ =0.5] demonstrate that Indian organizations, having turnover (1-10001+ Cr), have Monitor and Control Supply Chain Variation process with very good maturity. This is supported by 50-56% of population.

## DISCUSSION

**a) Impact of SCM Practice on Turnover, Profitability and Sustainability**

- SCM Practice impacts Very Goodon Turnover - 57% Organizations reflect that SCM practice has very good to excellent impact [r (4, 109): count =41, population = 38%] and 33% with good impact [r (5, 109): count =36, population = 33%] on Turnover. Only 5% organizations have fair and other 5% have limited impact of SCM Capability practice on Turnover. Statistical analysis [Average: $\bar{x}$ (w)= 3.6, σx = 0.1 & Mode: $\bar{x}$ (w)= 3.6, σx = 0.5] demonstrate that SCM practice has very good impact on turnover.
- SCM Practice impacts Very Good on Profitability - 62% Organizations reflect that SCM practice capability has very good [r (4, 109): count =37, population = 34%] to excellent [(5, 109): count =31, population = 28%] impact on profitability. 28% Organizations have good [r (3, 109): count =31, population = 28%] influence of SCM practice capability on turnover. Only 6% Organizations have SCM practice with fair impact and 4% organizations have limited impact on Turnover.SCM Practice has distinctly very good impact [Average: $\bar{x}$ (w) =3.8, σx =0.2 & Mode: $\bar{x}$ (w) =3.6, σx =0.8] on profitability (-10-40+ %) in Indian business environment.
- SCM Practice impacts Very Good on Sustainability. 59% Organizations reflect that SCM practice capability has very good [r (4, 109): count =38, population = 35%] to excellent [r (5, 109): count =26, population = 24%] impact on sustainability. 28% organizations mention that SCM practice capability has good [r (3, 109): count =30, population = 28%] impact on sustainability. Only 9% of organizations have fair impact on Strategic Planning practice capability and 4% of the organizations have limited impact on sustainability.Organizations reflect that SCM practice capability has very good [r (4, 109): count =38, population = 35] impact on sustainability.

**b) SCM Process Maturity across Turnover, Profitability and Sustainability**

- In Organizations with 1-10 Cr Turnover, SCM practice capability is driven by Collaborative, Planning, Forecasting and Replenishment, Supply Chain Simulation and Optimization*, Manufacturing and Service Execution*. These process maturities have very good impact on Turnover. Organizations with 11-100 & 1001-10000 Cr Turnover demonstrate that SCM practice capability is driven by Collaborative, Planning, Forecasting and Replenishment (CPFR), Supply Chain Simulation and Optimization, Integrated Fulfillment*,* Monitor and Control Supply Chain Variation. These SCM process maturities have very good impact on Turnover.
- The organization with negative profitability [0-(-10) %] has one very good SCM process maturity, Integrated Fulfillment. In Organization with 31-40+% profitability, process maturity of Collaborative, Planning, Forecasting and Replenishment (CPFR), Supply Chain Simulation and Optimization, Manufacturing and Service Execution, Monitor and Control Supply Chain Variation have very good impact on SCM practice capability.
- The organization with 0-10 year's sustainability is influenced by Supply Chain Simulation and Optimization with very good maturity. This is supported by more than 66 % of population. The organizations within 31-40 year's sustainability have Integrated Fulfillment*, Manufacturing and Service Execution with excellent process maturity;* Collaborative, Planning, Forecasting and Replenishment *(CPFR)*, Supply Chain Simulation and Optimization *and* Monitor and Control Supply Chain Variation with very good process maturity influencing SCM practice capability. More than 58% organizations confirm this finding.

## CONCLUSION

*Supply Chain Management* practice capability has very good impact on turnover, profitability & sustainability. This impact can be more superior by improving Collaborative Planning, Forecasting and Replenishment; Integrated Fulfillment & Manufacturing & Service Execution processes. Industry estimates put logistics and SCM spend in India at approximately 13% of the Gross Domestic Product (GDP). Global estimates for this vary and are around 13% of GDP in China and about 9% of GDP in the US. The transportation cost in India accounts for nearly 40% of the cost of production, with more than half the goods being moved by road. Trucking accounts for nearly 70% of transportation and accounts for 60% of all logistics cost. 67% of truck ownership is in the hands of small unorganized players. Road is followed by rail and finally coastal shipping. Rail has been steadily losing ground due to myopic government strategies and inherent inefficiencies. The freight movement of Indian railways has risen to 411354 net tonne-kilometers[1] and the total road length is 3315231 kilometers[2]. Though enormous maritime routes are available combination of poor government policies and lack of initiative from the private sector, water which is probably the cheapest mode of transport is barely used. Air as a mode is limited to a small percentage of courier shipments. Various SCM spend indicators such as in-bound transportation costs, inventory related costs and distribution expenses as percentage of net sales vary from industry to industry. However, as per *Centre for Monitoring Indian Economy (CMIE)*, they are coming down over a period of years. The aggregate of the same for nine major manufacturing industries for four years are shown in Table II. These industries spent nearly 17-18% of their net sales on various logistics activities, including distribution, warehousing, and inventory. Global averages are around 9-12%. So, there is ample scope to reduce spends on logistics. This in turn allows companies to protect operating margins during downturns and make above-normal profits during upturns.

## REFERENCES


1. Alvarado, U. Y., &Kotzab, H., (2001). Supply chain management: the integration of logistics in marketing. Industrial Marketing Management, 30(2), 183-198.
2. Attaran, M. (2007). RFID: an enabler of supply chain operations. Supply Chain Management: An International Journal, 12(4), 249–257.
3. Chen, C. C., & Yang, C. C. (2002). Cost-effectiveness based performance evaluation for suppliers and operations. Quality Management Journal, 9(4), 59–73.
4. Christopher M. (1998), Logistics & Supply Chain Management:Strategies for Reducing Costs and Improving Services, Pitman Publishing, and London.
5. Corsten, D., & Kumar, N. (2005). Do suppliers benefit from collaborative relationships with large retailers? an empirical investigation of efficient consumer response adoption. Journal of Marketing, 69, 80–94.
6. Croom, S., Romano, P., & Giannakis, M. (2000). Supply Chain Management: an analytical framework for critical literature review. European Journal of Purchasing & Supply Management, 6(1), 67-83.
7. Ganeshan, R, and Harrison Terry P., "An. Introduction to Supply Chain Management," Department of. Management Sciences and Information Systems, 1995
8. Kristal, M. M., Huang, X., & Roth, A. V. (2010). The effect of an ambidextrous supply chain strategy on combinative competitive capabilities & business performance. Journal of Operations Management, 28, 415–429.
9. Kuei, C. H., Madu, C. N., & Lin, C. (2001). The relationship between supply chain quality management practices and operational performance. International Journal of Quality & Reliability Management, 18(8/9), 864–872.


[1]Available at: http://www.indianrail.gov.in/
[2]Available at: http://www.nhai.org

10. Lee Hau L., and Corey Billington, "The Evolution of Supply-Chain-Management Models and Practice at Hewlett-Packard. Interfaces", 25 pp. 42-63: 5 September-October, 1995.
11. Lee, C. W., & Kwon, I. W. G. (2007). Relationship between supply chain performance and degree of linkage among supplier, internal integration, and customer. Supply Chain Management: An International Journal, 12(6), 444–452.
12. Liker, J. K., & Choi, T. Y. (2004). Building deep supplier relationships. Harvard Business Review, 82(12), 104–113.
13. Malek, L. A., Kullpattaranirun, T., &Nanthavanij, S. (2005), A framework for comparing outsourcing strategies in multi-layered supply chains. International Journal of Production Economics, 97, 318–328.
14. Mehra, S., & Inman, R. A. (2004). Purchasing management and business competitiveness in the coming decade. Production Planning & Control, 15(7), 710–718.
15. Mentzer J. T. , DeWitt V, Keebler K. S., Min S., Nix N. W.and Smith. C. D "Defining Supply Chain Management,"Journal of Business Logistics, (22: 2), 2001.
16. Meredith, J., & Roth, A. (1998). Operations management in the USA. International Journal of Operations & Production Management, 18(7), 668–683.
17. Mowat, A., & Collins, R. (2000). Consumer behaviour& fruit quality: supply chain management in an emerging industry. Supply Chain Management: An International Journal, 5(1), 45-54.
18. Poulymenakou, A. &Tsironis, L., (2003) Quality and electronic commerce: a partnership for growth. The TQM Magazine, 15(3): 137–151.
19. Stavrulaki, E., & Davis, M. (2010). Aligning products with supply chain processes & strategy. The International Journal of Logistics Management, 21 (1), 127-151.
20. Taylor, D. (1997). Global Cases in Logistics and Supply Chain Management. London: International Thompson Business Press.

# ENCOURAGING POSITIVE WORKPLACE BEHAVIOUR: ETHICS ON THE JOB

*GEETU SHARMA*
*ASST. PROFESSOR*
*SHREE ATAM VALLABH JAIN COLLEGE*
*LUDHIANA*

## ABSTRACT
*Have you ever experienced a situation at work in which a highly performing and highly skilled employee was accused of some inappropriate behaviour in the workplace? You probably watched, along with other employees, to see if the person being accused would be confronted if their behaviour was indeed determined to be unethical. Maybe you were disappointed because your organization overlooked the unethical behaviour due to the fact that the accused employee was such a "good" performer? Albert Einstein said, "A man's ethical behaviour should be based effectually on sympathy, education, social ties; no religious basis is necessary. Common Workplace Ethics ;Punctuality, Responsibility, Integrity, Loyalty, Teamwork, Positive attitude, Professionalism Most of us have experienced or witnessed some type of inappropriate behaviour in the workplace and have been involved or observed how our organization handled it. Many organizations do a good job of finding their moral grounding and deal with unethical behaviour when it is encountered. Other organizations may struggle even though they understand and value the importance of practicing good ethical behaviour in the workplace. Workplace ethics will help make the entire staff more satisfied with their jobs. Workplace ethics is the moral philosophy developed by a place of business that determines what is expected of employees in a particular setting. Unlike the difference in job descriptions, workplace ethics apply to all members of the organization and are used to determine what is the right, wrong and preferred way to behave at work. There are a number of reasons why developing a workplace code of ethics is important. It Sets The Rules, Equal Playing Field, Enhanced Reputation, and Values Drive Behaviour. When a business has a set of values that are shared and known by the entire staff, the environment will be conducive to values-driven. Knowing what is right and what is wrong, according to the workplace ethics, will naturally encourage behaviour that is consistent with the values. When an employee sees that he is continually being treated fair and in a way consistent with the ethics, it will encourage him to treat others fairly as well. It is a living example of the Golden Rule. The ethics code will also encourage members of the staff to react more positively to others, which will be passed on throughout the staff creating a contagious wave of positive actions. Work Ethics is invisible employee behaviour, noticeable by its absence. Ethics is something that is learned & chosen throughout one's life. It helps a lot in effective productivity as well as a great balance of responsibilities in your life on personal & professional front. Thus, Ethics are the difference between what you could do versus what is right to do.*

## KEYWORDS
workplace behaviour, job ethics.

## INTRODUCTION
The versatility of life sometimes put us in front of situations where we really stuck in a tug of war between good and not good. Imagine a situation where a customer asked for a product from you. After telling him the price, he said he couldn't afford it. You know he could get it cheaper from a competitor. Should you tell him about the competitor or let him go without getting what he needs? What will you do? What are the issues you will think before coming to a conclusion? What your conscious says, if you know that one of your colleague is going to invest heavy money unknowingly that he is going to laid off very soon under the terms of company plans.

**ETHICS**

Ethics are about making choices that may not always feel good or seem like they benefit you but are the 'right' choices to make. They are the choices that are examples of 'model citizen' and are the examples of 'golden rules' like; don't hurt, don't steal, don't be dishonest, don't lie. But if we take Ethics as a subjective philosophy then what will happen to these golden rules. Especially at the time of facing any ethical dilemma how one should decide - what is ethical and what's unethical? Organization provides rules, regulations, code of conduct, protocols which provide guidelines to work, it shows how to walk, but it does not show the correct path to walk on. Ethical dilemmas faced by managers are often more real to life and highly complex with no clear guidelines, whether in law or often in religion. Ethics is the part of philosophy that talks about good and evil but today rarely any business school would have left which does not provide lessons on Ethics Management. Some philosophers call ethics the "science of morality", morality is what someone thinks or feels is good or bad. However, other philosophers believe that ethics is subjective. This means that they think what is right for me is whatever I say is right. This means that ethics is just a person's own morality. These philosophers do not think that ethics is the same for all people.

**MORALITY**

Again, what morally correct is not always ethically also. Morals and the expression, "moral values" are generally associated with a personal view of values. Personal morals tend to reflect beliefs relating to drinking, gambling, etc. They can reflect the influence of religion, culture, family and friends. These concepts and beliefs about right and wrong are often generalized and codified by a culture or group, and thus serve to regulate the behaviour of its members. Conformity to such codification may also be called *morality*, and the group may depend on widespread conformity to such codes for its continued existence.

**LAW**

When we talk about Law at work place, we discuss the set of rules imposed by authority. In other words, law is a rule or body of rules of conduct inherent in organization and essential to or binding upon all the employees.

**ETHICS + MORALITY + LAW**

The systematic study of morality is a branch of philosophy called ethics. When Ethics seeks to address questions such as how one ought to behave in a specific situation (***"applied ethics"),*** how one can justify a moral position ***("normative ethics"),*** and how one should understand the fundamental nature of ethics or morality itself, including whether it has any objective justification ("***meta-ethics").***

Ethics is concerned with how a moral person *should* behave. Ethical values are beliefs concerning what is morally right and proper as opposed to what is simply correct or effective. An individual may personally believe that drinking is immoral. However, drinking is not, in and of itself, unethical. Game shows are a sophisticated way of gambling thus immoral but not unethical. Further, it is unethical to impose your personal moral values on another.

FIG. 1


Ethical values go above cultural, religious, or ethnic differences. Ethical values embrace a more universal worldview.

*Albert Einstein said,* ***"***A man's ethical behaviour should be based effectually on sympathy, education, social ties; no religious basis is necessary." Sometimes, we have to do things which are legally correct but not morally, or go ethically right but not morally. At workplace we have to keep a proper balance of Morality, Ethics and Law. The safest place is where your action covers all the three aspects (EML). From the organization's point of view you must not cross the boundaries of law i.e. perform within EL, EM, L or EML. Further, an employee may not always follow the law sometime he could listen to his ethics but one should always have the answer of breaking the law of Work life.

In the words of great *Abraham Lincoln* – "When I do good, I feel good; when I do bad, I feel bad. That's my religion."

## ENCOURAGING POSITIVE WORKPLACE BEHAVIOUR: ETHICS ON THE JOB

Have you ever experienced a situation at work in which a highly performing and highly skilled employee was accused of some inappropriate behaviour in the workplace? You probably watched, along with other employees, to see if the person being accused would be confronted if their behaviour was indeed determined to be unethical. Maybe you were disappointed because your organization overlooked the unethical behaviour due to the fact that the accused employee was such a "good" performer?

## COMMON WORKPLACE ETHICS

- Punctuality
- Responsibility
- Integrity
- Loyalty
- Teamwork
- Positive attitude
- Professionalism

Most of us have experienced or witnessed some type of inappropriate behaviour in the workplace and have been involved or observed how our organization handled it. Many organizations do a good job of finding their moral grounding and deal with unethical behaviour when it is encountered. Other organizations may struggle even though they understand and value the importance of practicing good ethical behaviour in the workplace.

## APPROPRIATE WORKPLACE BEHAVIOURS

- Being respectful of the space of other employees
- Keeping conversations professional
- Demonstrating professional courtesy in meetings
- Remaining poised in difficult situations
- Approaching each difficult situation with diplomacys
- Understanding that sometimes saying nothing is better than saying something
- Preventing gossips at workplace

## INAPPROPRIATE WORKPLACE BEHAVIOURS'

- Interrupting an ongoing conversation with a personal question
- Using a loud voice in a common area
- Using slang or other derogatory comments
- Disregarding the feelings of others
- Being part of a clique
- Creating animosity among fellow co-corkers
- Posting your feelings electronically for others to read
- The water cooler gossips
- Becoming more than colleagues at work

## REASONS FOR WORKPLACE ETHICS

Workplace ethics will help make the entire staff more satisfied with their jobs. Workplace ethics is the moral philosophy developed by a place of business that determines what is expected of employees in a particular setting. Unlike the difference in job descriptions, workplace ethics apply to all members of the organization and are used to determine what is the right, wrong and preferred way to behave at work. There are a number of reasons why developing a workplace code of ethics is important.

- **It Sets The Rules**

Workplace ethics set the rules of conduct for everyone at a particular business. One set of moral expectations at work applies to everyone from hourly employees to upper management. This set of rules provides detailed information on what is expected from everyone during the workday and it makes it clear when someone violates the ethical code and must be held responsible for their actions.

- **Equal Playing Field**

Workplace ethics helps to level the field when it comes to employee conduct. If everyone is clear on what kind of behaviour is considered acceptable and what is considered unacceptable, employees are able to point out when any member of the team has strayed from the moral obligation. The ethics policy adopted by a business also ensures that everyone is treated equally and with dignity, and it gives them a right to speak up when they feel that they have been treated in a way that is inconsistent with the workplace's code of ethics.

- **Enhanced Reputation**

Having a set of ethical standards that are obvious to everyone on the staff and easily recognized by outsiders will make the business' reputation more favourable with consumers or clients. When a breach of workplace ethics happens, clients will rest assured that the offender will be disciplined and that these types of occurrences will not be tolerated.

- **Values Drive Behaviour**

When a business has a set of values that are shared and known by the entire staff, the environment will be conducive to values-driven behaviour. Knowing what is right and what is wrong, according to the workplace ethics, will naturally encourage behaviour that is consistent with the values. When an employee sees that he is continually being treated fair and in a way consistent with the ethics, it will encourage him to treat others fairly as well. It is a living example of the Golden Rule. The ethics code will also encourage members of the staff to react more positively to others, which will be passed on throughout the staff creating a contagious wave of positive actions.

## HOW TO MANAGE ETHICS IN THE WORKPLACE

The usage of proper ethics in any workplace is vital to the success of the company. Unfortunately, companies fail and people sometimes even go to jail because of unethical decisions made at work. Follow these steps to manage ethics in the workplace.

**INSTRUCTIONS**

- Communicate the company's ethics policy clearly to the employees. Posting it around the office and distributing it to employees is great, but you should have regular meetings in which everyone spends some time discussing ethics. Ask people to talk about examples of different ethical decisions. Review the rules and the reasons for them. Make it clear that the company won't tolerate unethical conduct and outline the consequences for it.
- Make it easy for employees to seek guidance when they need help making a decision. Employees may not always be sure what the ethical solution is. Therefore, it's the company's responsibility to provide the resources that they need to make the right decision. Someone should be available at all times with whom employees can discuss these issues.
- Create an atmosphere in which employees can trust their supervisors and know they can report violators of the ethics policy. Supervisors should keep employees who report violators anonymous and not make them face penalty. However, employees shouldn't feel like it's their responsibility to report violations.
- Set an example. Supervisors cannot expect employees to respect them if they don't follow the rules that they set. Model decision-making that embraces the ethical values that the company embraces. Employees will respect their supervisors more and will likely follow their example.

## ETHICS MANAGEMENT WORKSHOPS

Many organizations are providing Ethics management workshops for their employees to refrain them from such situations. There are a number of benefits such workshop bring in like,

i. It removes undue stress which may result in the wrecked work relationship, low turnover, accidents etc.
ii. It cultivates strong teamwork and productivity.
iii. These programs are like insurance policy because even at the turbulent times a company can relay on its man force.
iv. It builds good image of a company in market which provides such programs.
v. Such programs give positive affect on Public relations.

## THE IMPORTANCE OF ETHICS IN THE WORKPLACE

I remember playing golf with my dad when I was young. He used to say to me, “Count every stroke, including your penalty strokes.” Since I hit the ball out of bounds a lot, it wasn’t easy giving myself the two-stroke penalty each time I hit the ball out of bounds. I certainly wasn’t going to break any of Arnold Palmer’s golf records. But, besides instilling in me the importance of keeping an honest golf score, my dad was teaching me another important life lesson about honesty.

By keeping an accurate score each time I played, I could tell how much I was improving each time I played. The accuracy of my golf score helped me get better at playing golf because I knew what part of my game I needed to focus on. Thanks to my dad’s wise golf advice, I have been able to apply that same life lesson to others areas of life, as well, including my work.

In an organization, workplace behaviour ethics should be a core value. Aside from doing the right thing, conducting ourselves ethically has great rewards and returns. Being ethical is essential to fixing problems and improving processes. It is needed to establish baseline measures and increase efficiencies. Most importantly, it is essential to having strong working relationships with people. On the other hand, covering up our unethical behaviour does the opposite of these important workplace practices and impedes on our ability to grow as leaders, as workers and as people.

**SELF-REFLECTION**

Let’s say that I believe that it is important to be an honest person. What do I do when I make an error at work? Do I admit it or do I cover my error and hope that no one finds out? I may rationalize, “If I tell my boss, she will be disappointed in me. I may not get that raise that is coming up next month. There is no harm in not telling her.”

We humans tend to weigh the benefits and consequences of our actions and we look for the path of least resistance, where we will suffer the fewest consequences. When we are deciding what to do with our error, we need to ask ourselves, “Do I really value honesty like I say I do? If I am willing to lie to cover up my error, what am I really valuing?” When we lie to cover up our error, we are doing so to protect ourselves from the consequences of our actions. So, what is the greater value to us, honesty or self-protection?

As leaders, the importance of being ethical must be emphasized even more. Leaders must always be cognizant of the fact that they are in a “fishbowl” and how they behave is clearly visible to others. Whatever they do will not only be seen by others, but may be duplicated as well. So how do we ensure that we not only say that honesty is important, but that we “walk the talk?” Here are some important things to consider to shore-up your ethics in the workplace so that good behaviour is practiced and encouraged.

## TIPS FOR MANAGING ETHICS IN THE WORKPLACE

- **Define your values.** If you haven’t done so already, define your values and include honesty as a core value. Take your leadership team off on a retreat or use your staff meetings, but make sure that you have clear and visible statements about what is important to your core business principles. Put them up on a poster so that they are visible to all employees. Post them on your website, put them in your policy manual and your employee handbook. And, add them to your performance review process so that you can hold people accountable to them.
- **If you post, you must practice** Posting values and then not actively demonstrating them can be very damaging to an organization’s culture. Hold everyone accountable especially your senior management team. Make sure that they are “walking the talk” of ethical behaviour. If they are doing anything that even could be perceived as questionable, confront it.
- **Integrate ethical workplace behaviour into performance criteria.** Don’t rate people as “high performers” if they do not practice ethical workplace behaviour. In still in your leaders that high performance means high integrity. They are not mutually exclusive. Don’t give big raises, promotions, etc. to

people who perform "well," but have questionable ethical behaviour. Don't let a highly skilled employee hold you "hostage." Don't let people get away with bending the rules of appropriate workplace behaviour just because you don't have a good backup plan for them if they quit and go to your competitor. Make sure you have a succession plan in place for anyone who has a skill that is critical to your success.

- **Watch out for the "slippery slope."** Have you ever used the term, "his behaviour really crossed the line?" Each workplace has a "line" that separates appropriate behaviour from the inappropriate. Organizations get into "hot water" when they define or ignore some unethical behaviour because it is considered to be a "small" issue or "no big deal." When they do this, they are moving their "line" farther down the slippery slope. Many companies who have been sued for large amounts of money due to ethical issues were allowing way too much unethical behaviour because their "line" kept sliding down the "slippery slope." Businesses must stand firm on their intolerance of any and all dishonesty and unethical behaviour.
- **Being above reproach.** Above reproach is the practice of not only staying above the "line," but staying way above it. Ethical organizations manage perception, as well as reality. They ensure that even those types of behaviour that might look like unethical behaviour are discouraged as well and drive this point with their leadership team.
- **Getting past self-protective behaviour.** Remember that ethical behaviour is not just about me knowing right from wrong, it is about my willingness to admit it when I have done something wrong and accepting the consequences for my actions. It is about valuing integrity even if it hurts. Good leaders not only practice ethical behaviour themselves, they help people get past looking out just for themselves and seeing the greater good of team and corporate objectives.

Ethical behaviour makes organizations succeed. A business that does not value integrity and does not "walk the talk" of being ethical will find themselves at the bottom of the slippery slope and wonder when and how they crossed the "line." This is why we need ethics in the workplace.

## CONCLUSION

Work Ethics is invisible employee behaviour, noticeable by its absence. Ethics is something that is learned & chosen throughout one's life. It helps a lot in effective productivity as well as a great balance of responsibilities in your life on personal & professional front. Thus, Ethics are the difference between what you could do versus what is right to do.

## REFERENCES

1. Aswathappa, "Human Resource Management"
2. Bohlander , Vohra, Snell, "Human Resource Management a South Asian Perspective"
3. Chhabra T.N, "Human Resource Management"
4. Denis, Griffin, "Human Resource Management An Introduction"
5. Onlineassociate.net
6. Prasad L M, "Human Resource Management"
7. Saiyadain, "Human Resource Management"
8. Varkkey Dessler, "Human Resource Management"

# A COMPARATIVE STUDY OF PROFITABILITY OF TWO COMPANIES – A CASE STUDY

*A. S. MANJULAKSHMI*
*ASST. PROFESSOR*
*DEPARTMENT OF COMMERCE*
*J D BIRLA INSTITUTE*
*KOLKATA*

**ABSTRACT**

*Profitability is one of the factors reflected in share price. Therefore, it is necessary to know how to analyze various facets of profitability. Every business should earn sufficient profits to survive and grow over a long period of time. The firm should manage all aspects of the business in such a way that revenues are maximized and costs are minimized for maximizing profit. Therefore it is essential to analyse the profitability of the firm to ensure to achieve the one the goals of the firm. Profitability measures the amount of equity required to generate the profit. Profitability analysis is the process of identifying the financial profit or loss of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Considering the significance and contribution of textile sector in national economy, initiative and efforts should be made to appraise the financial performance of these industries to attract investment and encourage wide spread development and growth in this sector. The present study was conducted to analyse the comparative profitability of the companies selected. It analysed that the profit earned by the firms are adequate and their rate of return to the shareholders are satisfactory. The study reveals that profitability of both the companies is satisfactory in some aspects and not satisfactory in certain aspects. Therefore the companies should put more efforts to strive for improved productivity and optimal utilisation of available resources. Profitability in long run contributes to sustained growth of the company.*

## KEYWORDS
Equity Multiplier, Profitability, Ratio and Turnover.

## INTRODUCTION
Every business should earn sufficient profits to survive and grow over a long period of time. Profit is considered to be the main driving force in business. Lord Keynes remarked that 'Profit is the engine that drives the business enterprise'. It is one of the dominant goals or objectives of the firm. In economics a business man has to ensure optimum utilisation of four factors of production such as land labour capital and organisation to maximise the profit. The firm should manage all aspects of the business in such a way that revenues are maximized and costs are minimized for maximizing profit. Therefore it is essential for a financial manager to analyse the profitability of the firm to ensure to achieve the one the goals of the firm.The Management is basically concerned about the ability of the firm to meet its short term as well as long term obligation to its creditors, to ensure a reasonable return to its owner and secure optimum utilization of the assets of the concern. Without profit business enterprise will not be able to maintain its existence.Profitability analysis is the process of identifying the financial profit or loss of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Profitability analysis is an important activity of evaluating financial soundness of the companies. The effective management and control of various components of short term funds has direct impact on profitability. Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise.

## REVIEW OF LITERATURE
Fieldsend, Longford and McLeay, (1987)explained how financial ratios can also give mixed signals about a company's financial health, and can vary significantly among companies or industries over a time. Other factors should also be considered such as a company's products, management, competitors, and vision for the future. Perttunen and Martikainen, (1990) explained some listing of ratios to be aware of in analyzing a Company's balance sheet and income statement. They expressed that these ratios fall into four categories — liquidity, profitability, asset management (efficiency), and debt management (leverage). Leslie Rogers, (1997) Ratios are a valuable analytical tool for financial analysis. They can indicate the standing of a particular company, within a particular industry. However, ratios alone can sometimes be misleading. Ahmed (2001) has suggested some indicators of financial sustainability like ratios, operating efficiency ratios and portfolio quality ratio. Most of the literature on financial sustainability deals with sustainability of MFIs, NGOs or immunization financing. According to Khan and Jain (2007) **"**The Return on Assets ratio is a central measure of the overall profitability and operational efficiency of an organization", it shows the interaction of profitability and activity ratios. It implies that the performance of an organization can be improved either by generating more sales volume per rupee of investment or by increasing the profit margin per rupee of sales. I.M.Pandey (2002**)** suggested that "RONA (return on net asset) or ROCE (return on capital employed) is the measure of an organization's operating performance. It indicates an organization's earning power. It is a product of the asset turnover gross profit margin and operating leverages. S.K. Khatik and Amit Kr.Nag (2013) in their study on analysis of profitability operational and financial efficiency of limited company concluded that huge amount of total asset are not properly utilised will reflect the profitability of the firm. D. Maheswara Reddy and Mohan (2013) analysed that if ROCE is far away from the industry average will show the ineffective utilisation of resources. DTR of the company reflects the efficient collection management. Singh and Pandey **(**2008) said that working capital management is the management of current assets and current liabilities. Maintaining high inventory levels reduces the cost of possible interruption in the production process or of loss of business due to the scarcity of products, reduces supply costs and protects against price fluctuations. Granting trade credit favours the firm's sales in various ways. Trade credit can act as an effective price cut and incentives to customers to acquire merchandise at times of low demands. Thus, greater the investment in current assets, lower is the risk, and profitability obtained. Similarly trade credit is a Spontaneous source of financing that reduces the amount required to finance the sums tied up in the inventory and account receivables. Profitability and liquidity comprises the salient and all too often conflicting goals of working capital management. The conflicts arise because the maximum of firm's returns could seriously threaten liquidity and on the other hand, the pursuit of liquidity has a tendency to dilute returns.

## IMPORTANCE OF THE STUDY
Profitability measures the amount of equity (or shareholders funds) required to generate the profit. It measures the amount of input required to produce the output. The measure of profitability of a company is the ROE. Profitability is also one of the factors reflected in share price. Therefore, investors should know how to analyze various facets of profitability; including how efficiently a company uses its resources and how much income it generates from operations. Calculating a company's profit margin is a great way to gain insight into these and other aspects of how well a company generates and retains money.

## STATEMENT OF PROBLEM
The textile industry holds significant status in the Indian Economy. Textile industry provides one of the most fundamental necessities of the people and holds importance. This industry is at present working near its productive capacity which needs to be increased with increasing demand and competition. Considering the significance and contribution of textile sector in national economy, initiative and efforts should be made to appraise the financial performance of these industries to attract investment and encourage wide spread development and growth in this sector. Therefore the sectors should be analysed to identify the problems and find solution for the same.

## ABOUT THE COMPANY

**ARVIND LTD**

Arvind Limited (Arvind Ltd) started in the year 1931 with the aim of manufacturing the high-end superfine fabrics. Arvind Ltd invested in very sophisticated technology. Arvind Ltd took its place amongst the foremost textile units in the country. In the mid 1980's the textile industry faced another major crisis. With the power loom churning out vast quantities of inexpensive fabric, many large composite mills lost their markets, and were on the verge of closure. Yet that period saw Arvind Ltd at its highest level of profitability. The national focus paved way for international focus and Arvind Ltd's markets shifted from domestic to global, a market that expected and accepted only quality goods.

**WELSPUN INDIA LTD**

Welspun India Limited (WIL) was incorporated on 17th January, 1985 as a Private Limited Company in the name and style of Welspun Winilon Silk Mills Pvt. Ltd. at Mumbai. The Main Object of the Company is to manufacture Polyester filament yarns and tartarised yarns. . In 1995, the name changed from Welspun Polyster to Welspun India Ltd. The aim of this company is to emerge as a global leader preferred by every home serve with passion to grow, with innovation and quality excellence in addition to their well formulated ethics.

## OBJECTIVES OF THE STUDY

The objectives of this study are to assess the financial performance of Arvind Ltd and Welspun India Ltd ltd from the angle of profitability. It also made an effort to compare the the profitability of Arvind Ltd and Welspun IndiaLtd for the selected period. Finally the objective is to identify the area of weakness and give some suggestions for the same of the selected companies in relation to profitability.

## HYPOTHESIS

$H_o$ (1) No significant difference between the sample units lies for Net Profit (NP) Margin during the study period.
$H_o$ (2) No significant difference between the sample units lies for Operating Profit (OP) Margin during the study period.
$H_o$ (3) No significant difference between the sample units lies for Assets Turnover Ratio during the study period.
$H_o$ (4) No significant difference between the sample units lies for Equity Multiplier during the study period.
$H_o$ (5) No significant difference between the sample units lies for Fixed Asset Turnover Ratio during the study period
$H_o$ (6) No significant difference between the sample units lies for Current assets Turnover Ratio during the study period.
$H_o$ (7) No significant difference between the sample units lies for Return on Total Assets during the study period
$H_o$ (8) No significant difference between the sample units lies for Return on Shareholders' Fund.

## RESEARCH METHODOLOGY

The study is concerned with comparative study of profitability of Arvind Ltd and Welspun India Ltd from textile industry listed in stock exchange. This study was based on the data obtained from the Annual reports of these companies for five financial years (2007-08 to 2011-12). The collected data was analyzed with the help of ratio analysis and ANOVA. Ratio analysis being a primary tool of financial analysis helps in assessing and evaluating financial health of the companies using various types of ratios. Ratio analysis thus provides an overall picture of financial position of the companies to the investors, regulators, stakeholders and analysts who are directly or indirectly interested in the performance evaluation of companies. Ratios help to summaries large quantities of financial data and to make qualitative judgment about the firm's financial performance. Ratios are quantitative or arithmetical expression of the relationship between two numbers. It is used as statistical yardstick to measure and compare the relationship between two variables. Prof. R.A Fisher was the first man to use the term 'variance' and he who developed a very elaborate theory concerning ANOVA .It is a procedure for testing the difference among different groups of data for homogeneity. ANOVA can investigate any number of factors which are hypothesized or said influence the dependent variable.

## LIMITATIONS OF THE STUDY

The study is limited to five years only.
The study is limited to two companies only.
The data for this study is taken from the published Annual reports only.
Research was based on secondary data and historical in nature.

## RESULTS AND DISCUSSION

**TABLE 1: SUMMARY OF RATIOS**

| Year | | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Mean | Sd | CAGR |
|---|---|---|---|---|---|---|---|---|---|
| NP Margin % | Arvind | 1.20 | -2.12 | 2.31 | 5.02 | 12.43 | 3.77 | 5.48 | 59.61% |
| | WIL | 2.12 | 2.30 | 6.31 | -5.01 | 4.52 | 2.05 | 4.31 | 16.30% |
| OP Margin % | Arvind | 13.11 | 13.26 | 14.26 | 16.33 | 18.23 | 15.04 | 2.20 | 6.82% |
| | WIL | 15.62 | 15.91 | 19.95 | 14.82 | 18.83 | 17.02 | 2.23 | 3.81% |
| AT Ratio(times) | Arvind | 1.64 | 1.66 | 1.66 | 1.59 | 1.32 | 1.58 | 0.14 | -4.25% |
| | WIL | 1.90 | 1.87 | 1.45 | 1.42 | 1.24 | 1.58 | 0.29 | -8.18% |
| Equity Multiplier(times) | Arvind | 17.03 | 17.47 | 16.14 | 16.74 | 18.16 | 17.11 | 0.76 | 0.98% |
| | WIL | 32.26 | 34.34 | 36.09 | 31.84 | 36.07 | 34.12 | 2.02 | 2.26% |
| FAT Ratio(times) | Arvind | 0.90 | 0.89 | 0.85 | 0.74 | 0.65 | 0.80 | 0.11 | -7.79% |
| | WIL | 1.10 | 1.11 | 0.83 | 0.77 | 0.60 | 0.88 | 0.22 | -11.42% |
| CAT Ratio (times) | Arvind | 0.41 | 0.45 | 0.44 | 0.64 | 0.47 | 0.48 | 0.09 | 2.77% |
| | WIL | 0.59 | 0.59 | 0.54 | 0.45 | 0.40 | 0.51 | 0.09 | -7.48% |
| Return on Assets % | Arvind | 0.73 | -1.28 | 1.39 | 3.16 | 9.39 | 2.68 | 4.07 | 66.67% |
| | WIL | 1.11 | 1.23 | 4.36 | -3.52 | 3.65 | 1.37 | 3.09 | 26.88% |
| Return on SF% | Arvind | 1.86 | -4.07 | 3.66 | 7.51 | 21.49 | 6.09 | 9.57 | 63.13% |
| | WIL | 4.70 | 5.52 | 18.61 | -15.07 | 12.72 | 5.30 | 12.72 | 22.03% |

Sources: Computed data from Annual Reports

**OPERATING PROFIT MARGIN: OPERATING PROFIT MARGIN/ NET SALES *100**

This ratio shows the margin left after meeting manufacturing costs. It measures the efficiency of production as well as pricing of the firm.

**GRAPH 1**

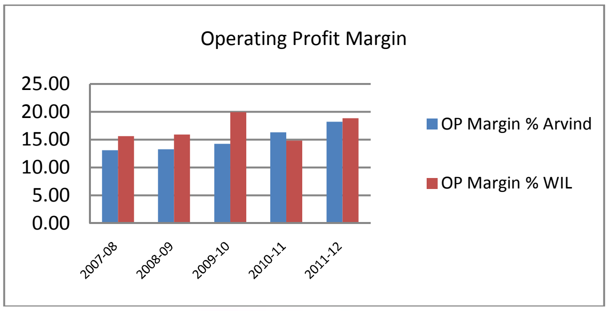



**TABLE 2: ONE WAY ANOVA FOR OPERATING PROFIT MARGIN**

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
| Between Groups | 9.85713 | 1 | 9.85713 | 2.008699 | 0.194147 | 5.317655 |
| Within Groups | 39.25777 | 8 | 4.907221 | | | |
| Total | 49.1149 | 9 | | | | |

Sources: Computed in MS Excel

According to graph 1 operating profit margin of Arvind Ltd is increasing throughout the study period while WIL is showing a minor fluctuating trend during the study period. The one way ANOVA result for the ratios between the companies shows the calculated value of F is 2.0087 is less than the F crit 5 .3176 which support our null hypothesis is indicated in table 2. The Compounded Annual Growth Rate (CAGR) for operating profit margin of both the companies is indicated in Table 1.

**NET PROFIT MARGIN: NET PROFIT / NET SALES *100**

This ratio shows the earnings left for shareholders (both equity and preference) as a percentage of net sales. It measures the overall efficiency of production, administration, selling financing, pricing and tax management.

**GRAPH 2**

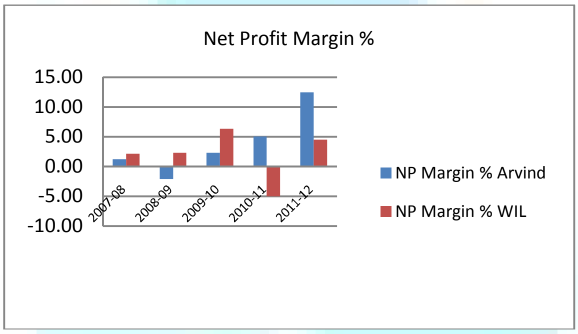



**TABLE 3: ONE WAY ANOVA FOR NET PROFIT MARGIN**

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
| Between Groups | 7.421044 | 1 | 7.421044 | 0.305876 | 0.595335 | 5.317655 |
| Within Groups | 194.093 | 8 | 24.26163 | | | |
| Total | 201.5141 | 9 | | | | |

Sources: Computed in MS Excel

Net profit margin of WIL is showing a negative result during 2010-11 even though the net profit margin is high in 2009-10 it indicates some major changes in overall efficiency of the company. However, the net profit margin of Arvind Ltd is also showing negative result during 2008-09 but later it shows increasing trend in the subsequent period of the study. It also shows a huge increase in 2011-12 which indicates the high overall efficiency of the firm as per the graph 2. The ANOVA table 3 indicates the result of ratio of net profit margin to sales that there is no significant difference between the companies. . The Compounded Annual Growth Rate (CAGR) for Net profit margin of both the companies is indicated in Table 1.

**TOTAL ASSETS TURNOVER RATIO: NET SALES/TOTAL ASSETS**

This ratio indicates the firm's ability to generate sales in relation to investment in fixed assets.

**GRAPH 3**

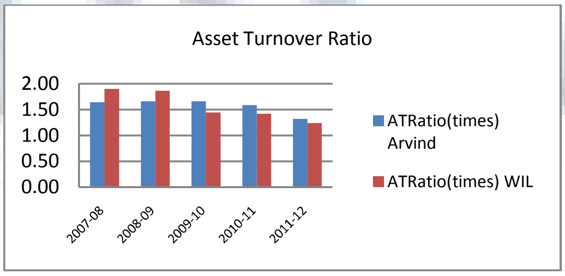



**TABLE 4: ONE WAY ANOVA FOR ASSET TURNOVER RATIO**

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
| Between Groups | 1.65E-08 | 1 | 1.65E-08 | 3.09E-07 | 0.99957 | 5.317655 |
| Within Groups | 0.425911 | 8 | 0.053239 | | | |
| Total | 0.425911 | 9 | | | | |

Sources: Computed in MS Excel

The graph 3 indicates the Asset turnover ratio of Arvind Ltd and WIL both are in decreasing trend during the study period. Since the calculated value of F as per table 3 is less than the table value the null hypothesis is accepted and hence it is concluded that there is no significant difference in the ATR of these selected companies during the study period as per table 4. The Compounded Annual Growth Rate (CAGR) for Asset turnover ratio of both the companies is indicated in Table 1.

**EQUITY MULTIPLIER: TOTAL ASSETS/ STOCKHOLDER'S EQUITY.**

It examines how a company uses its debt to finance its assets. It is also known as financial leverage ratio.

**GRAPH 4**

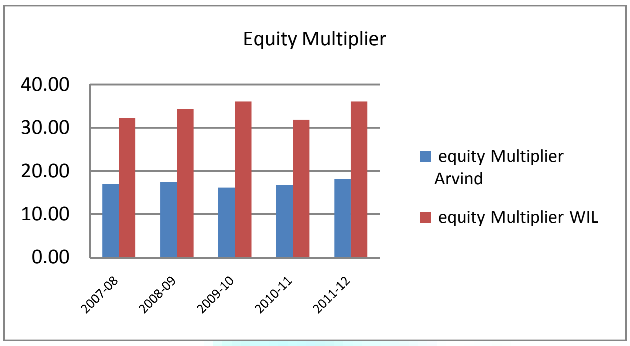



**TABLE 5: ONE WAY ANOVA FOR EQUITY MULTIPLIER**

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
| Between Groups | 723.3463 | 1 | 723.3463 | 309.5672 | 1.11E-07 | 5.317655 |
| Within Groups | 18.6931 | 8 | 2.336638 | | | |
| Total | 742.0394 | 9 | | | | |

Sources: Computed in MS Excel

According to graph 4 Equity Multiplier of both the companies are almost constant during the study period. The F test shows there is significant difference between the companies in regard to Equity multiplier during the study period as shown the table 5. The Compounded Annual Growth Rate (CAGR) for Equity Multiplier of both the companies is indicated in Table 1.

**FIXED ASSETS TURNOVER RATIO: NET SALES /NET FIXED ASSETS**

This ratio is important for the company's long term policy and is computed to determine the efficient utilisation of the fixed assets. It measures the relationship between Net Sales and Net Fixed Assets. This ratio indicates the number of times total assets are being turned over in a year. Higher ratio indicates the overtrading of total assets and low ratio indicates idle capacity.

**GRAPH 5**

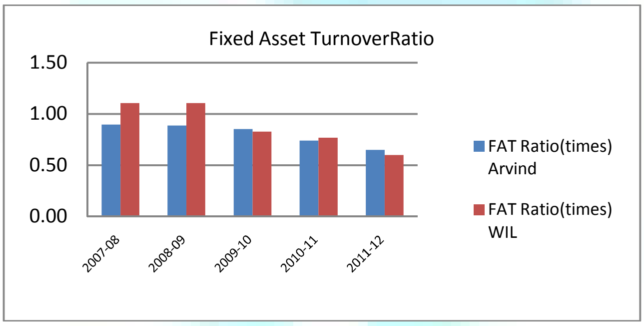



**TABLE 6: ONE WAY ANOVA FOR FIXED ASSET TURNOVER RATIO**

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
| Between Groups | 0.014698 | 1 | 0.014698 | 0.487576 | 0.504798 | 5.317655 |
| Within Groups | 0.241157 | 8 | 0.030145 | | | |
| Total | 0.255855 | 9 | | | | |

Sources: Computed in MS Excel

According to graph 5 the fixed asset turnover ratio of both the companies are moving in the same direction. The ANOVA table 6 shows that there is no significant difference between the companies in relation to fixed asset turnover ratio. The Compounded Annual Growth Rate (CAGR) for Fixed Asset turnover ratio of both the companies is indicated in Table 1.

**CURRENT ASSETS TURNOVER RATIO: NET SALES /CURRENT ASSETS**

This ratio is important for the company's short term policy and is computed to determine the efficient utilisation of the current assets. It measures the relationship between Net Sales and current Assets. This ratio indicates the number of times current assets are being turned over in a year.

**GRAPH 6**

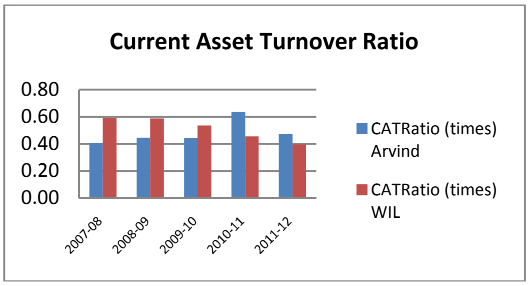


**TABLE 7: ONE WAY ANOVA FOR CURRENT ASSET TURNOVER RATIO**

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
| Between Groups | 0.00258 | 1 | 0.00258 | 0.336695 | 0.577717 | 5.317655 |
| Within Groups | 0.061305 | 8 | 0.007663 | | | |
| Total | 0.063885 | 9 | | | | |

Sources: Computed in MS Excel

It may be seen from the above graph 6 that the Current asset turnover ratio of the companies is not fluctuating very much during the study period. The ANOVA table 7 shows that the calculated F value of Current asset ratio of the companies are less compared to the table value , so it supports our null hypothesis in relation to current assets turnover ratio of the companies selected during the study period. The Compounded Annual Growth Rate (CAGR) for Current Asset turnover ratio of both the companies is indicated in Table 1.

**RETURN ON ASSET RATIO: NET PROFIT (AFTER TAX)/AVERAGE TOTAL ASSETS**

This ratio reveals the utilisation of the total assets to earn revenue by the firm. It establishes the relationship between net profit and assets of the company.

**GRAPH 7**

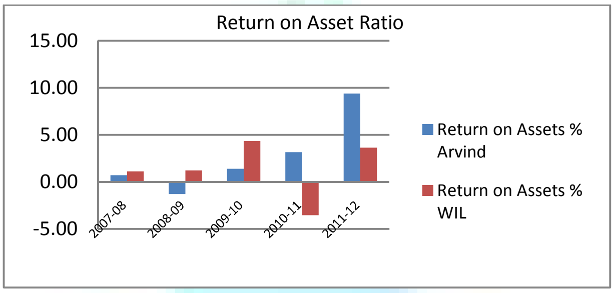



**TABLE 8: ONE WAY ANOVA FOR RETURN ON ASSET RATIO**

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
| Between Groups | 4.315569 | 1 | 4.315569 | 0.330411 | 0.581218 | 5.317655 |
| Within Groups | 104.4898 | 8 | 13.06122 | | | |
| Total | 108.8054 | 9 | | | | |

Sources: Computed in MS Excel

It may be seen from the above graph 7 that the return on asset ratio of Arvind Ltd is -1.28 in the year 2008-09 and WIL is -3.52 in the year 2010-11 indicates the assets are not properly utilised in generating the revenues of the companies. However the asset utilisation of Arvind Ltd is showing very high percentage of 9.39% in the year 2011-1, and WIL also showed positive result of of 3.65% in the year 2011-12 compared to the previous year. The ANOVA table 8 shows that the calculated F value of Return on asset ratio of the companies are less compared to the table value , so it supports our null hypothesis in relation to Return on assets ratio of the companies selected during the study period. The Compounded Annual Growth Rate (CAGR) for Return on asset ratio of both the companies is indicated in Table 1.

**RETURN ON SHAREHOLDER'S FUND: NET PROFIT (AFTER TAX)/SHAREHOLDERS FUND**

The shareholders, who bear all risks, participate in management and are entitled to all the profits remaining after outside claims, who are the real owners of the business. Therefore, the profitability of a firm, from the owner's point of view should be assessed in terms of the return to the shareholders. Higher the ratio shows efficient management and utilization of shareholder's fund.

**GRAPH 8**

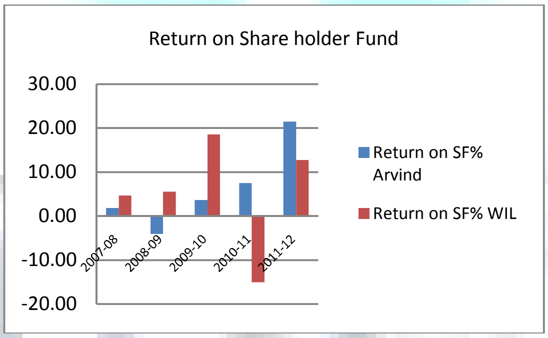



**TABLE 9: ONE WAY ANOVA FOR RETURN ON SHAREHOLDERS FUND**

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
| Between Groups | 1.582389 | 1 | 1.582389 | 0.012487 | 0.913778 | 5.317655 |
| Within Groups | 1013.78 | 8 | 126.7226 | | | |
| Total | 1015.363 | 9 | | | | |

Sources: Computed in MS Excel

It may be seen from the above graph 8 that the return on Shareholders fund of Arvind Ltd are 1.86%, -4.07%, 3.66%, 7.51% and 21.49% for the years 2007-08 to 2011-12 shows tremendous increase in return on shareholders fund during the study period. However, the return on shareholders' fund of WIL are 4.70%,5.52%,18.61%,-15.07% and 12.72% for the years 2007-08 to 2011-12 indicates fluctuating trend in return to shareholders' during the study period. The ANOVA table 9 shows that the calculated F value of return on shareholders' fund of the companies are less compared to the table value , so it supports our null hypothesis in relation to Return on assets ratio of the companies selected during the study period. The Compounded Annual Growth Rate (CAGR) for Return on shareholders' fund of both the companies is indicated in Table 1.

## FINDINGS

The Operating Profit Margin is very high compared to Net Profit Margin of both the companies, it appears that there is more fixed cost expenses as well as finance cost which reduces the Net operating Margin of the companies. Asset turnover ratio and fixed asset turnover ratio are greater as compared to return on asset ratio may be due to improper utilisation of assets of the companies. The equity multiplier examines how a company uses its debt to finance its assets. It is also known as financial leverage ratio. In our study the equity multiplier is high in WIL compared to Arvind Ltd. Return on Shareholders fund is high in case of Arvind Ltd in the year 2011-12 indicates the efficient management and utilisation of shareholders fund.

## RECOMMENDATION/SUGGESTIONS

The companies yielding are sufficient through sales to meet the obligations. Therefore the debt should not remain unpaid. The companies should try to minimize its cost of goods sold and convert debt capital into equity capital to give more return to the shareholders. The companies should endeavour to optimise the utilisation of the fixed assets instead of keeping them idle for long time.

## CONCLUSION

Profitability of the company is a matter of concern for every stakeholder. The operating efficiency of a firm and its ability to ensure adequate returns to its shareholders depends ultimately on the profits earned by it. The present study was conducted to analyse the comparative profitability of the companies selected. It analysed the profit earned by the firms are adequate and their rate of return to the shareholders are satisfactory. The study reveals that profitability of both the companies is satisfactory in some aspects and not satisfactory in certain aspects. Therefore the companies should put more efforts to strive for improved productivity and optimal utilisation of available resources. The effective management and control of various components of short term funds has direct impact on profitability. Profitability represents the ability to earn a good return on investment. Profitability in the long run contributes to sustained growth of the company.

## REFERENCES


**JOURNALS AND OTHER ARTICLES**

1. Altman. (1968) “Financial ratios discriminate analysis and prediction of corporate bankruptcy”, Journal of finance, sep. pp. 598-609.
2. Annual report of Arvind Ltd and Welspun India Ltd.
3. Azhagaiah. R & Gangadevi S., (2008) “Leverage and Financial Decision”, The Indian Journal of Commerce, Vol.61. No.1. January-March 2008, pp. 90-98.
4. Bardia S.C., (2004) “Liquidity Management: A Case Study of Steel Authority of India Ltd”, The Management Accountants, June, Vol-39, No.-6, pp. 463-495.
5. Beaver W. H., (1966) "Financial Ratios as Predictors of Failure empirical research in according selected studies”, Journal of Accounting Research, supplement, pp. 71-127.
6. Bhargav H. Pandya., (2012) “Financial analysis of Tata Steel Ltd –A Case Study” International Journal of research in Commerce & management, January, pp. 93-97.
7. Bhunia.A., (2010) “A trend analysis of liquidity management efficiency in selected private sector Indian steel industry”, International Journal of Research in Commerce and Management, Volume-1 issue 5 (Sep,)
8. Casey, C. J., & Bartczak N. J., (1984), "Cash Flow: It's not the bottom line," Harvard Business Review, July/August, pp. 61-66.
9. D Maheswara reddy and KVN Prasad.,(2012) “Evaluation of Performance of Regional Rural Banks- An application of CAMEL model” Researcher World Journal of Arts, Science and Commerce, Volume II, issue 4, October pp. 61-67.
10. Dr.D Maheswara Reddy and P.Mohan (2013) “The study of Financial Performance of IFFCO Limited- A comparative analysis with the fertilizer Industry”, The Management Accountant volume 48 July pp. 819-825.
11. Dr.S.K.Khatik and Amit Kr.Nag., (2013) “An analysis of Profitability Operational and Financial efficiency of Mangalore refinery and Petrochemicals Ltd”, The management Accountant volume 48 July pp 810-818.
12. Fieldsend, Longford and McLeay., (1987), “Sector and size effects in ratio analysis: indirect tests of ratio proportionality.” Accounting and Business Research. pp. 17/66, 133-140.
13. Higgins, Robert C., (1977), "How Much Growth Can a Firm Afford?" Financial Management, Autumn Vol. 6 Issue 3, pp 7-16.
14. J.R.Raiyani and Dr. R.B. Bhatasna., (2011) “A study on Financial Health of Textile Industry in India; A Z – Score Approach”. Indian Journal of Finance, Jan pp. 09- 16.
15. Joseph Jelsy and vetrivel., (2012) “Time driven Activity Base costing of spinning mills to improve Financial performance” Advances in Management Volume, issue 3, March pp. 40-45
16. Krishnaveni. M., (2008): “Performance appraisal of an Indian Chemical Industry after Liberalization,” Finance India, Indian Institute of Finance, Vol.XXII No.3, September pp. 971-980.
17. Kumar, A.V. and Venkatachalam, A., (1995), “Working Capital & Profitability–An Empirical Analysis” The Management Accountant. Oct, Vol. 30, No. 10, pp. 748-750.
18. KVN Prasad and D Maheswar reddy (2012) “Performance Evaluation of Public and Private sector Banks-A Multi-variate Analysis”, International Journal of financial Management, volume2, issue 1 January pp.55-62.
19. Leslie Rogers, 1997, “Go with the flow: Using Ratios to analyze cash flow data.” The National Public Accountant.
20. Nirali Pandit, Ms.RachanaTejani .,“Sustainable Growth Rate Of Textile And Apparel Segment Of The Indian Retail Sector”, Global Journal of Management and Business Research Volume XI Issue VI Version I, May 2011 pp. 40 - 43
21. Perttunen and Martikainen, 1990, “The functional form of earnings and stock prices: international evidence and implications for the E/P anomaly.” Journal of Business Finance and Accounting. pp. 21/3, 395-408
22. S.C.Mohanty., (2013) “An analysis of Liquidity Management in selected Public and private organizations in Mining sector in Orissa” The Management Accountant volume 48 July pp. 803-809.
23. Sreesha CH and Dr M.A. Joseph., (2011) “Financial performance of Banks in Banc assurance: A study with special reference to state bank of India” Indian Journal of Finance, Volume 5 issue 7, July pp. 10-17.

**BOOKS**

24. Ahmed, M. (2002), “Key to Achieving Sustainability” ASA’s Publication Dhaka, Bangladesh
25. Asish K Battacharyya., (2009) “Introduction to financial statement analysis”. Reed Elsevier India pvt Ltd.
26. Bernstein, L A and Wild J J., (2004) “Analysis of Financial Statements”, New Delhi, Tata McGraw Hill Publishing Co. Ltd., pp. 111-150.
27. Bhabatosh Banerjee., (2010) “Financial Policy and Management Accounting”, PHI learning private Ltd. New Delhi. pp 616-682.
28. Bhattacharya, H., (1997), “Total Management by Ratios”, Sage Publication India Pvt.Ltd. New Delhi.
29. Chandra P., (2006) “Financial Management. Theory and Practice”, Tata McGraw Hill Publishing Company Ltd.; New Delhi.
30. Fees, P.E., (1978) “The Working Capital Concept Accounting Theory: Text and Readings”, L.D Mac cullers & R.G. Schroeder (Ed.), John Wiley & Sons, pp-200-205.
31. George Foster., (2002) “Financial statement analysis” second edition, Dorling Kindersley (India) Pvt Ltd. Licensees of Pearson Education New Delhi. pp. 57-93.
32. Gokul Sinha., (2009) “Financial Statement Analysis” PHI Learning Private Limited New Delhi.
33. Gupta R.L. and Radhaswamy.M, (1995) “Financial Management Analysis”, 5th edition, Sultanchand and sons New Delhi.

34. Higgins, Robert C. Analysis for Financial Management 6th Edition. New York: McGraw Hill: 2001, pp. 115-140.
35. James C. Van Horne., (2002) "Financial Management & Policy."Pearson Education, Inc and Dorling Kindersley Publishing Inc. New Delhi.
36. Khan M.Y and Jain, P.K. (2005), "Financial Management-Text, Problems, and cases", New Delhi, Tata McGraw Hill Publishing Co. Ltd., pp. 7.1-7.66.
37. Kothari C.R.., (2004), "Research Methodology Methods and Techniques." New Age International Publisher, New Delhi
38. M.Sarngadharan S. Rajetha kumar (2011), "Financial analysis for Management decisions", PHI learning Private Limited. New Delhi. Pp 91-162.
39. Nand k Sharma. (2011) " Advance Financial Management", DND Publication Jaipur pp. 63-68.
40. Pandey, I. M. (2004), Financial Management, New Delhi, Vikash Publishing House Pvt.Ltd. PP. 517-540.
41. Prasanna Chandra Financial Management Theory and Practice. (2008) 7th Edition, Tata McGraw – Hill publishing company limited. New Delhi. pp. 67-104.

# A STUDY ON EMPLOYEE RETENTION STRATEGIES AT JAMMU & KASHMIR BANK LTD, AT MISSION ROAD, BANGALORE

*S. POORNIMA*
*ASST. PROFESSOR*
*P. G. CENTER*
*JSS COLLEGE FOR WOMEN [AUTONOMOUS]*
*SARASWATHIPURAM*

## ABSTRACT
*Retention of key employees is critical to the long-term health and success of any organization. It is a known fact that retaining your best employees ensures customer satisfaction, increased product sales, satisfied colleagues and reporting staff, effective succession planning and deeply imbedded organizational knowledge and learning. Successful organizations realize employee retention and talent management are integral to sustaining their leadership and growth in the marketplace. Becoming an employer of choice by retaining high-caliber employees in today's labor market should be the highest priority. Employee retention matters as organizational issues such as training time and investment; lost knowledge; insecure employees and a costly candidate search are involved. Hence failing to retain a key employee is a costly proposition for an organization. Various estimates suggest that losing a middle manager in most organizations costs up to five times of his salary.*

## KEYWORDS
employee retention strategies, J & K Bank.

## INTRODUCTION
The banking system remains, as always, the most dominant segment of the financial sector. Indian banks continue to serve the financial needs of the citizens of the country.

At the beginning of the 21st century the biggest banks in the industrial world have become complex financial organizations that offer a wide variety of services to international markets and control, controls billions of dollars in cash & assets. Supported by the latest technology, banks are working to identify new business niches, to develop customized services, to implement innovative strategies & to capture new market opportunities. With further globalization, consolidation, deregulation & diversification of the financial industry, the banking sector will become even more complex.

## STATEMENT OF THE PROBLEM
The banking industry functions in very different way from any other industry. More and more banking sectors with latest technology are coming up in the market and hence the competition is also increasing.

Due to the availability of so many banking sectors in the banking industries, a lot of employee attrition is seen when compared with non banking industries. A lot of job hopping is seen and 100% retention is not achievable.

Due to the attrition the hiring cost of the bank increases and not much retention strategies are implemented in all the banks in the banking industries.

## OBJECTIVES OF THE STUDY
- To find out the present strategies implemented to control employee retention.
- To know the top ten strategies which have been successful for retaining employees for the different posts in the bank.
- To conduct a study on job satisfaction and to check whether the employees are aware of the retention strategies implemented in their companies.
- To find out the general trends and the reason what motivate the employees to stay in a company and what could be the reason an employee would leave their current companies.
- To understand an employee's growth prospects.

## SCOPE OF THE STUDY
- This study is limited to finding out employee retention in the Jammu & Kashmir bank, mission road branch, Bangalore.
- Population is limited to the employees of Jammu & Kashmir bank in Bangalore city.
- This study does not include any other topic of Human Resources other than what is mentioned above.

## SOURCES OF DATA
The data was collected through two sources i.e. primary source and secondary source.

**PRIMARY SOURCE**

Original data of the project has been gathered by questionnaire method, observation method and interviewing method.

**Questionnaire method** consists of gathering data by interviewing limited number of people. The data, so collected is the primary source of data. It includes direct contact with the employees of the company and the questionnaires were filled by meeting the employees at their working place.

**Observation method** consists of observing and understanding the employees at their workplace.

**Interviewing method** consists of interviewing the employees personally.

**SECONDARY SOURCE**

Secondary source of data includes the data from previous records on the basis of information collected from various sources, both internal as well as external sources.

- Internal sources such as articles, journals, brochure of the company, etc.
- External sources such as text books, newspapers, magazines etc.
- Sources of internet and websites.

**SAMPLE DESIGN**

Population ----------Employees of J&K bank.
Sampling method -- - --Convenience sampling.
Sampling area------------- Bangalore city.
Sample size ----------------100 respondents.

**LIMITATIONS OF THE STUDY**
- The study was carried out with certain unavoidable limitations.

- Time constraint is one of the limitations in sampling size and the study was carried out within 6 weeks.
- Sample size: The employee's covered in this study were100. Although all efforts were made to make it a representative of the total population of the employees of J&K bank, it is a limitation comparing the employee potential of J&K bank employees in Bangalore city.

## DATA ANALYSIS AND INTERPRETATION

1. Do you feel your organization is concerned about your well being?

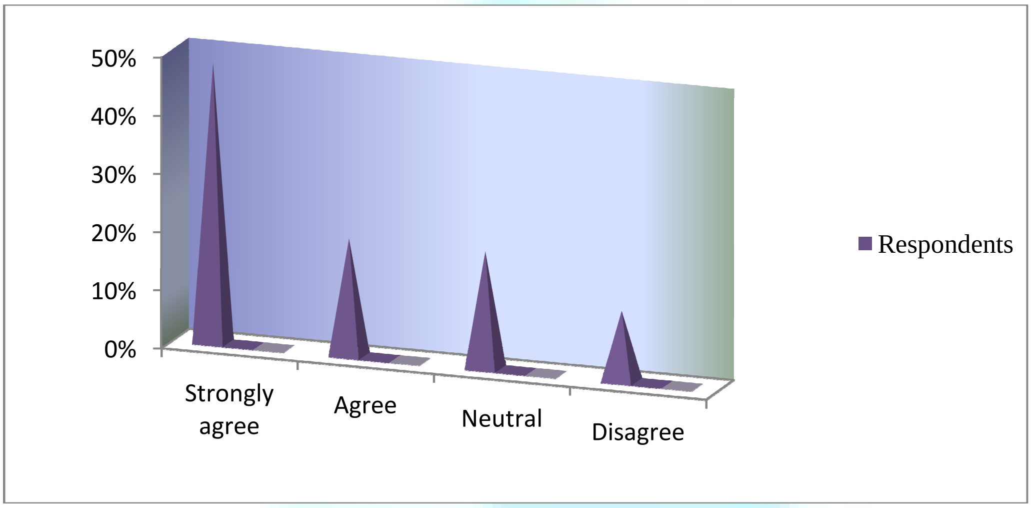
**TABLE 1**

| Particulars | Respondents | % |
|---|---|---|
| Strongly agree | 48 | 48 |
| Agree | 20 | 20 |
| Neutral | 20 | 20 |
| Disagree | 12 | 12 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 48% of employees strongly agree for their organization is concerned about their well being whereas, 20% of the employees rated it as agree & neutral respectively & 12% of them disagree.

**GRAPH 1**




**INTERPRETATION**

From the graph above, 48% of employees strongly agree for their organization is concerned about their well being whereas, 20% of the employees rated it as agree & neutral respectively & 12% of them disagree.

2. Are you satisfied with the nature of work you have been doing?

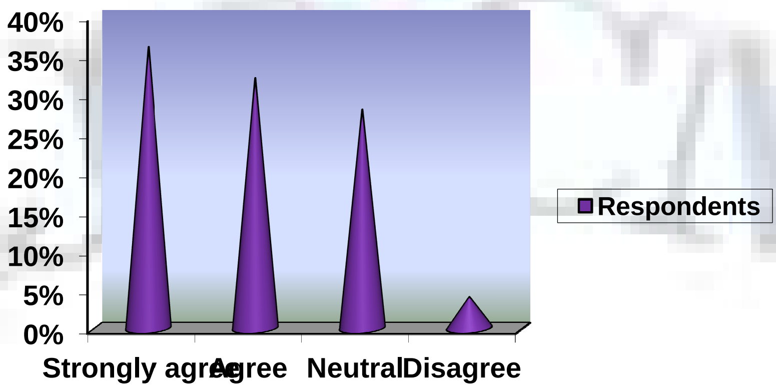
**TABLE 2**

| Particulars | Respondents | % |
|---|---|---|
| Strongly agree | 36 | 36 |
| Agree | 32 | 32 |
| Neutral | 28 | 28 |
| Disagree | 4 | 4 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 48% of employees agree for their work load as reasonable whereas, 32% of them strongly agree. 20% of the employees have been rated as neutral and none of them disagree.

**GRAPH 2**




**INTERPRETATION**

From the graph above, 48% of employees agree for their work load as reasonable whereas, 32% of them strongly agree. 20% of the employees have been rated as neutral and none of them disagree.

3. How satisfied are you with the salary you get?

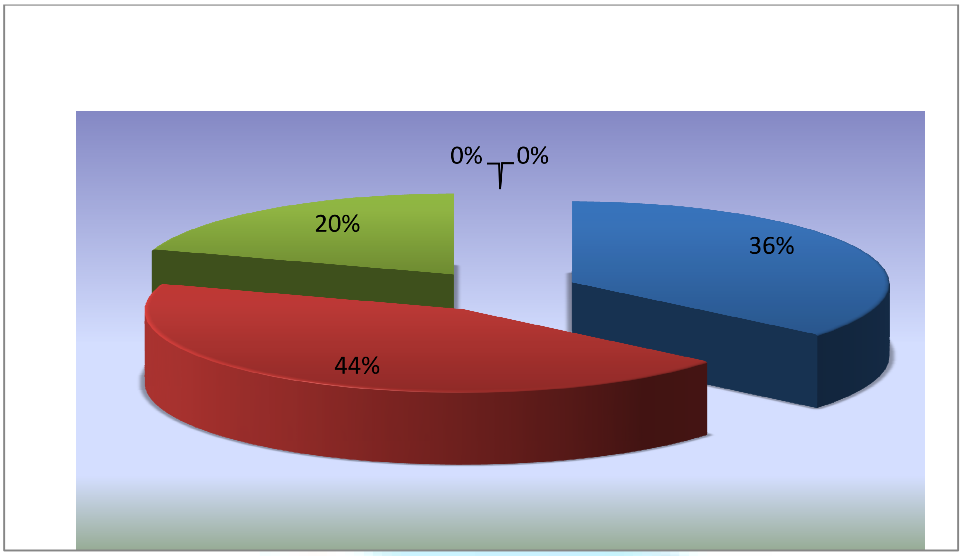
**TABLE 3**

| Particulars | Respondents | % |
|---|---|---|
| Very Satisfied | 36 | 36 |
| Satisfied | 44 | 44 |
| Not Satisfied | 20 | 20 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 36% of the employees are very satisfied with their salary whereas, 44% of them are satisfied. 20% of the employees have been rated as not satisfied.

**GRAPH 3**




**INTERPRETATION**

From the graph above, 36% of the employees are very satisfied with their salary whereas, 44% of them are satisfied. 20% of the employees have been rated as not satisfied.

4. How would you rate the supervisors?

**TABLE 4**

| Particulars | Respondents | % |
|---|---|---|
| Excellent | 32 | 32 |
| Good | 24 | 24 |
| Average | 28 | 28 |
| Poor | 16 | 16 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 32% of the employees rate as excellent, 24% of them rate it as good whereas, 28% & 16% of employees have been rated their supervisors as average & poor respectively.

**GRAPH: 4**


**INTERPRETATION**

From the graph above, 32% of the employees rate as excellent, 24% of them rate it as good whereas, 28% & 16% of employees have been rated their supervisors as average & poor respectively.

5. Does your company give enough recognition for the work done well?

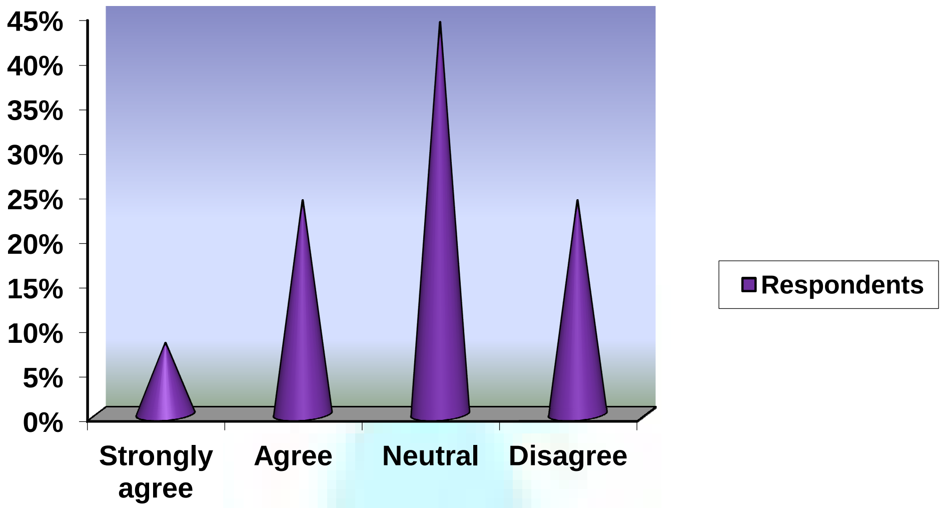
**TABLE 5**

| Particulars | Respondents | % |
|---|---|---|
| Strongly agree | 8 | 8 |
| Agree | 24 | 24 |
| Neutral | 44 | 44 |
| Disagree | 24 | 24 |
| **Total** | 75 | 100 |

**ANALYSIS**

From the table above, only 8% of the employees believe that their company gives enough recognition for their work whereas, 24% of them rate it as agree and disagree respectively. Only 8% of them rate it as neutral.

**GRAPH 5**




**INTERPRETATION**

From the graph above, only 8% of the employees believe that their company gives enough recognition for their work whereas, 24% of them rate it as agree and disagree respectively. Only 8% of them rate it as neutral.

6. How is your relationship with peers/colleagues?

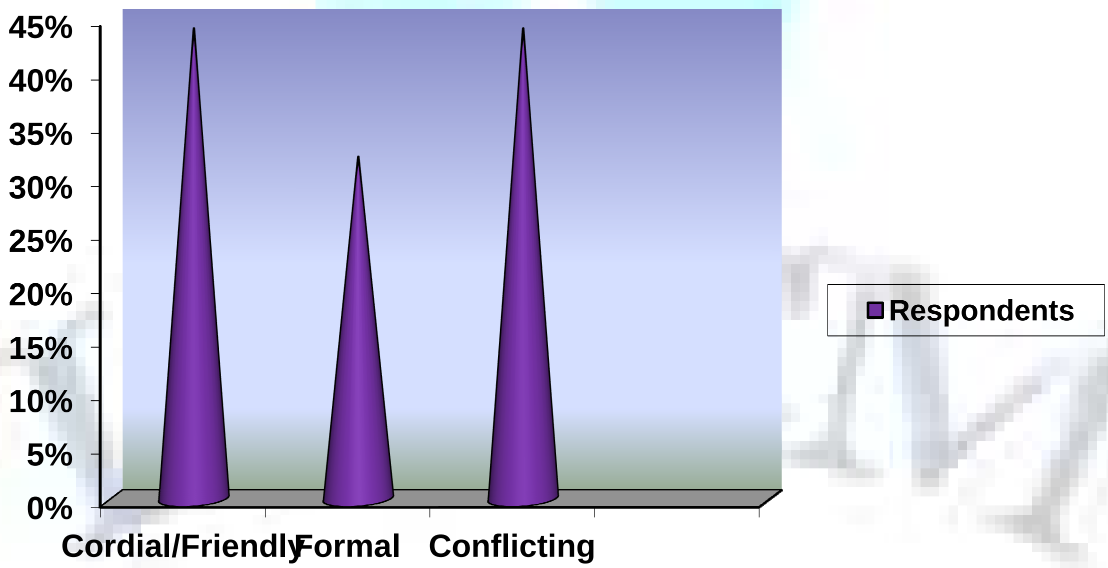
**TABLE 6**

| Particulars | Respondents | % |
|---|---|---|
| Cordial/Friendly | 44 | 44 |
| Formal | 32 | 32 |
| Conflicting | 24 | 24 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 44% of the employees rates as cordial/friendly whereas, 32% of them rate as formal relationship. 24% of them rate as conflicting relationship.

**GRAPH 6**




**INTERPRETATION**

From the graph above, 44% of the employees rates as cordial/friendly whereas, 32% of them rate as formal relationship. 24% of them rate as conflicting relationship.

7. How is your relationship with seniors?

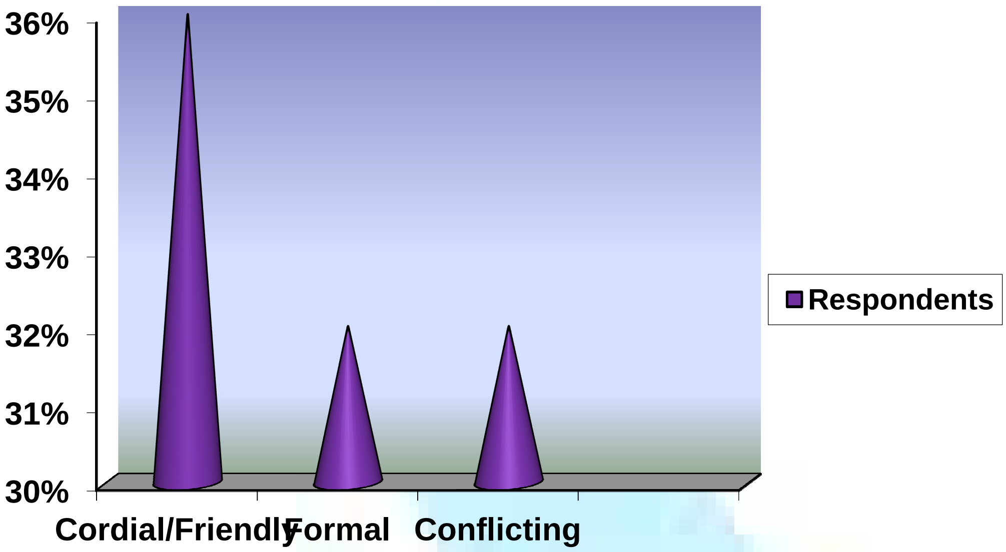
**TABLE 7**

| Particulars | Respondents | % |
|---|---|---|
| Cordial/Friendly | 36 | 36 |
| Formal | 32 | 32 |
| Conflicting | 32 | 32 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 36% of the employees rates as cordial/friendly whereas, 32% of them rate as formal & conflicting relationship with their seniors.

**GRAPH 7**




**INTERPRETATION**

From the graph above, 36% of the employees rates as cordial/friendly whereas, 32% of them rate as formal & conflicting relationship with their seniors.

8. How is your relationship with juniors?

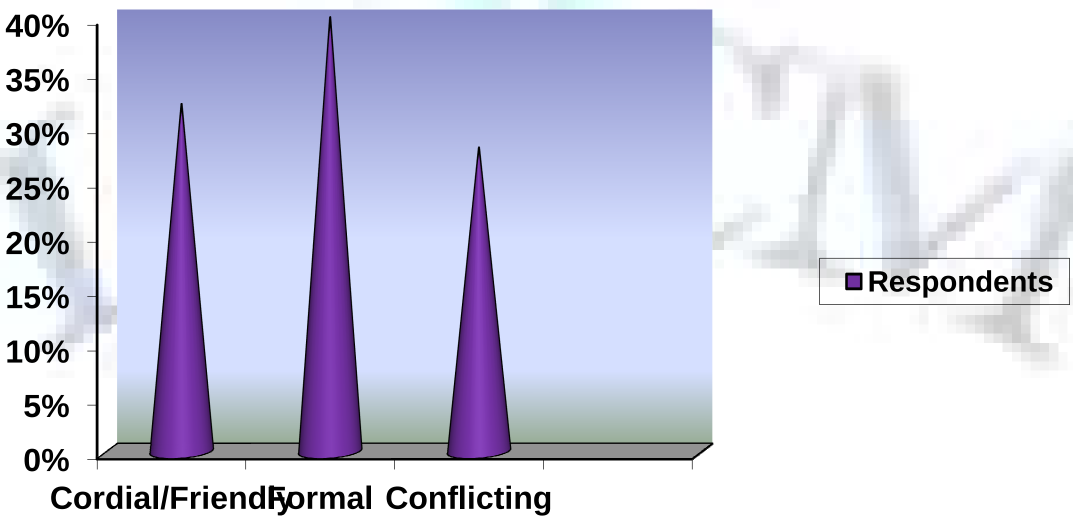
**TABLE 8**

| Particulars | Respondents | % |
|---|---|---|
| Cordial/Friendly | 32 | 32 |
| Formal | 40 | 40 |
| Conflicting | 28 | 28 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 32% of the employees rates as cordial/friendly whereas, 40% of them rate as formal & 28% rate it as conflicting relationship with their juniors.

**GRAPH 8**



**INTERPRETATION**

From the graph above, 32% of the employees rates as cordial/friendly whereas, 40% of them rate as formal & 28% rate it as conflicting relationship with their juniors.

9. Does the company policies and administration make you feel secure?

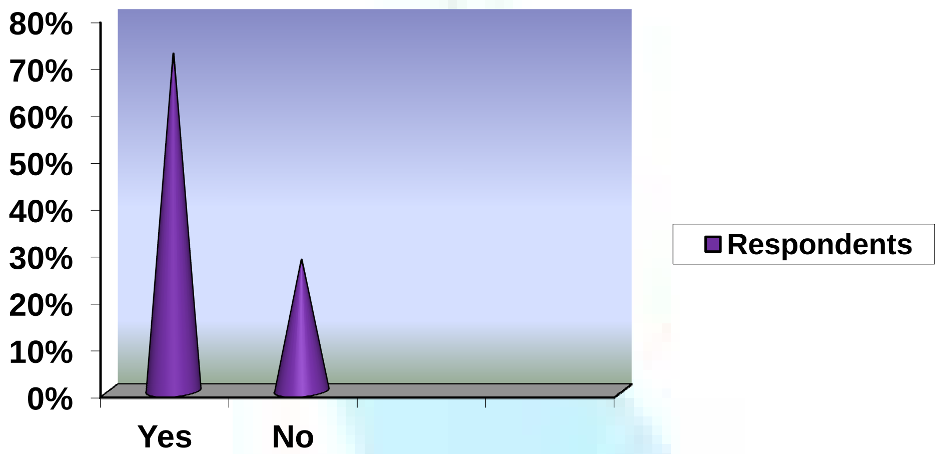
**TABLE 9**

| Particulars | Respondents | % |
|---|---|---|
| Yes | 72 | 72 |
| No | 28 | 28 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 72% of the employees feel secure and the remaining 28% of them does not feel about the company's policies and administration.

**GRAPH 9**




**INTERPRETATION**

From the graph above, 72% of the employees feel secure and the remaining 28% of them does not feel about the company's policies and administration.

10. Does your working conditions allow you to carry out your responsibilities effectively and efficiently?

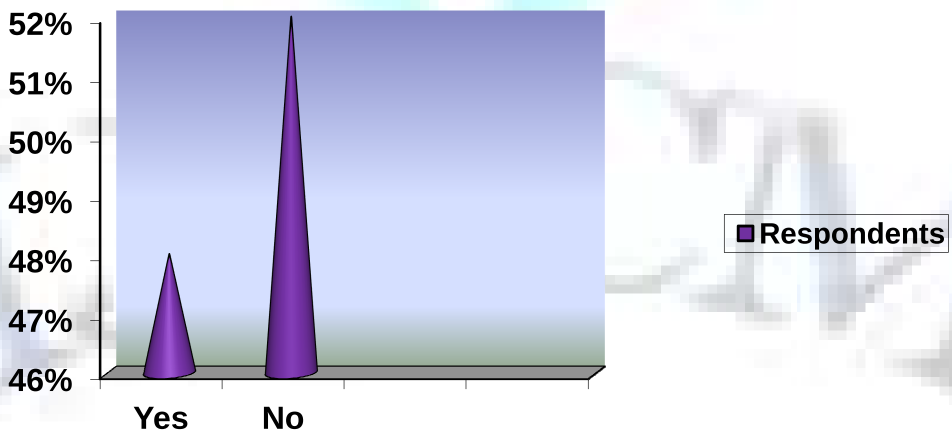
**TABLE 10**

| Particulars | Respondents | % |
|---|---|---|
| Yes | 48 | 48 |
| No | 52 | 52 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 48% of the employees feels that their working conditions allow them to carry out their responsibilities effectively and efficiently whereas, 52% of them feel that their working conditions does not allow them to carry out their responsibilities effectively and efficiently.

**GRAPH 10**




**INTERPRETATION**

From the graph above, 48% of the employees feels that their working conditions allow them to carry out their responsibilities effectively and efficiently whereas, 52% of them feel that their working conditions does not allow them to carry out their responsibilities effectively and efficiently.

11. Do you think monetary or non-monetary rewards should be given?

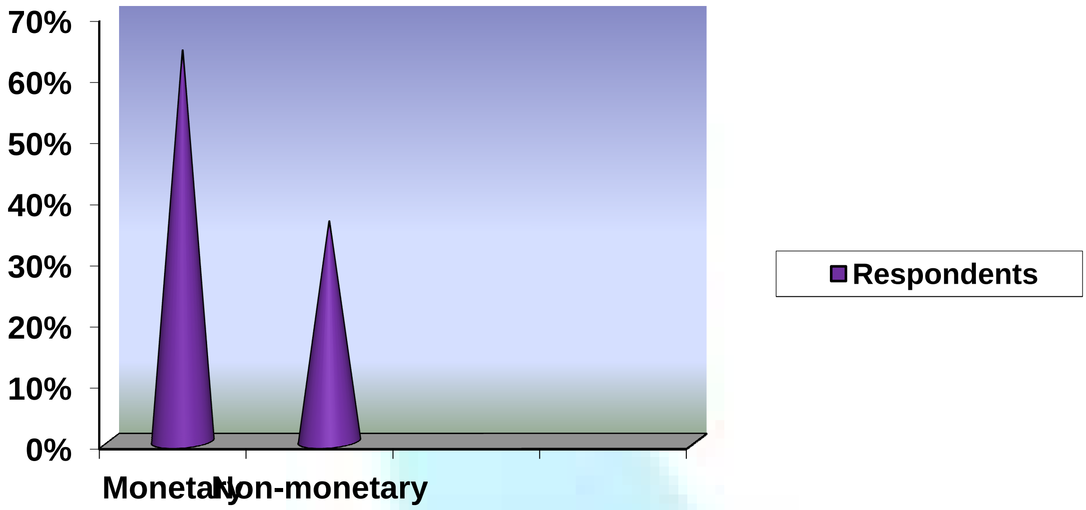
**TABLE 11**

| Particulars | Respondents | % |
|---|---|---|
| Monetary | 64 | 64 |
| Non-monetary | 36 | 36 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 64% of the employees think that monetary rewards should be given whereas 36% of them think that non-monetary rewards should be given.

**GRAPH 11**




**INTERPRETATION**

From the graph above, 64% of the employees think that monetary rewards should be given whereas 36% of them think that non-monetary rewards should be given.

12. How important is your feelings being appreciated by your coworkers and supervisors?

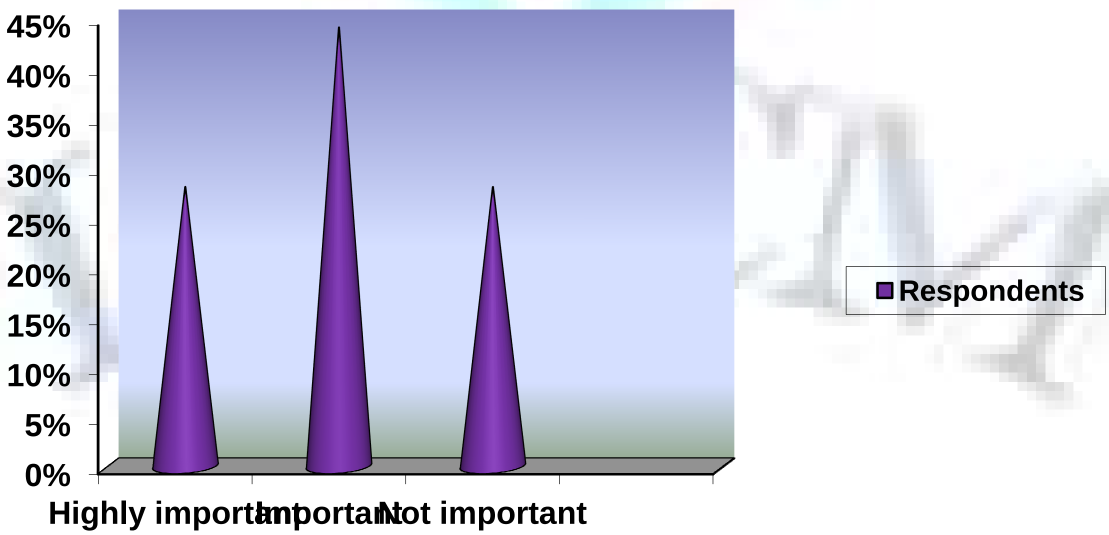
**TABLE 12**

| Particulars | Respondents | % |
|---|---|---|
| Highly important | 28 | 28 |
| Important | 44 | 44 |
| Not important | 28 | 28 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 28% of the employee's rates their feelings are appreciated by their co-workers as highly important & not important respectively whereas, 44% of them rates as important.

**GRAPH 12**




**INTERPRETATION**

From the graph above, 28% of the employees rates as highly important & not important respectively whereas, 44% of them rates as important.

13. Are you presently considering leaving your job for another?

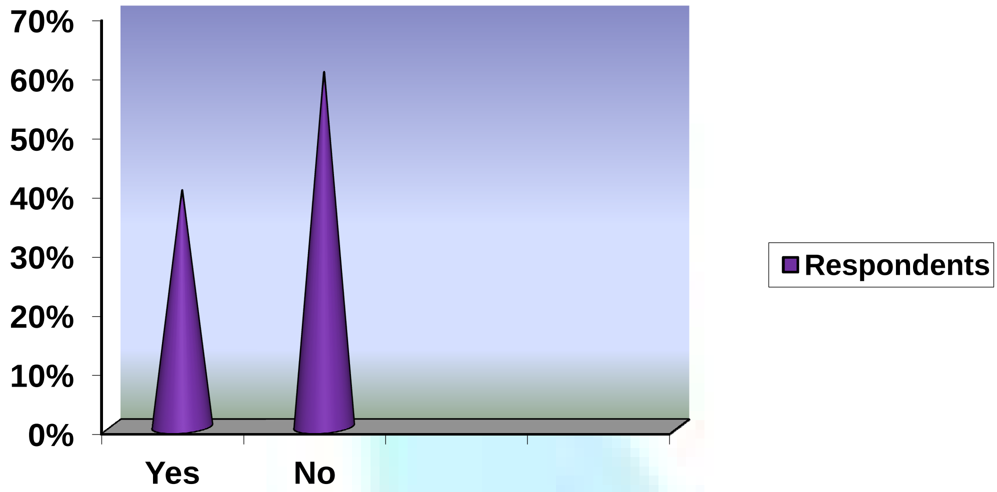
TABLE 13

| Particulars | Respondents | % |
|---|---|---|
| Yes | 40 | 40 |
| No | 60 | 60 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 40% of the employees are considering leaving their job for another whereas, 60% of them are not leaving their job.

GRAPH 13




**INTERPRETATION**

From the graph above, 40% of the employees are considering leaving their job for another whereas, 60% of them are not leaving their job.

14. Which of these retention strategies that your company has?

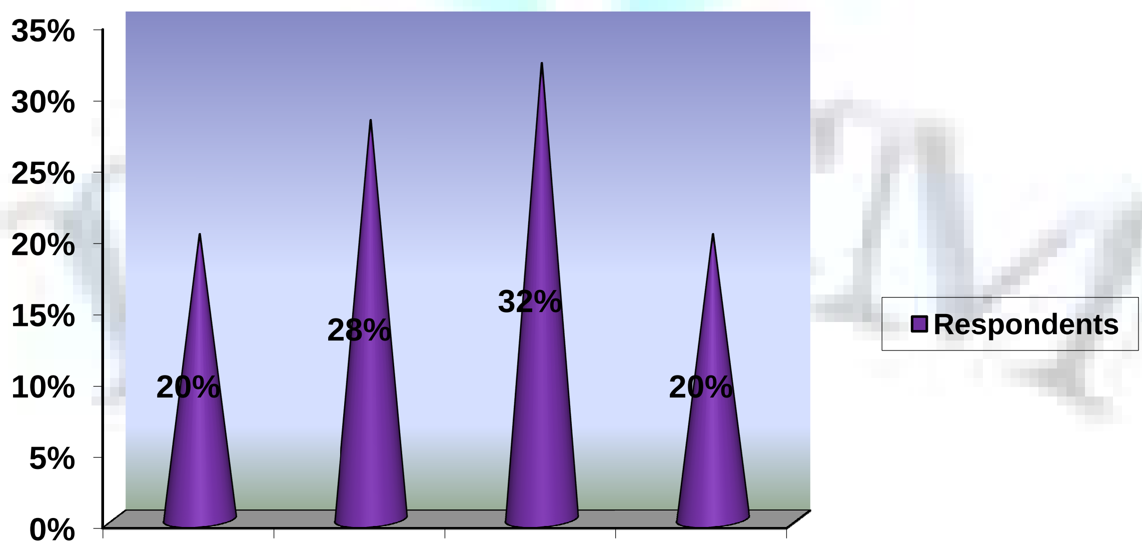
TABLE 14

| Particulars | Respondents | % |
|---|---|---|
| Monthly & Weekly Rewards& Recognition | 20 | 20 |
| Half Yearly Incentives | 28 | 28 |
| Quarterly Awards for Best Performance | 32 | 32 |
| Option to buy company shares (Employee Share Purchase Plans) | 20 | 20 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 20% of the employees think that monthly & weekly rewards & recognition & Option to buy company shares (Employee Share Purchase Plans) are their company's retention strategies respectively whereas, 28% of them think it as half yearly incentives. 32% of them think as quarterly awards for best performance are their company's retention strategies.

GRAPH 14



**INTERPRETATION**

From the graph above, 20% of the employees think that monthly & weekly rewards & recognition & Option to buy company shares (Employee Share Purchase Plans) are their company's retention strategies respectively whereas, 28% of them think it as half yearly incentives. 32% of them think as quarterly awards for best performance are their company's retention strategies.

15. Which of these retention strategies that has encouraged you to stay with the company?

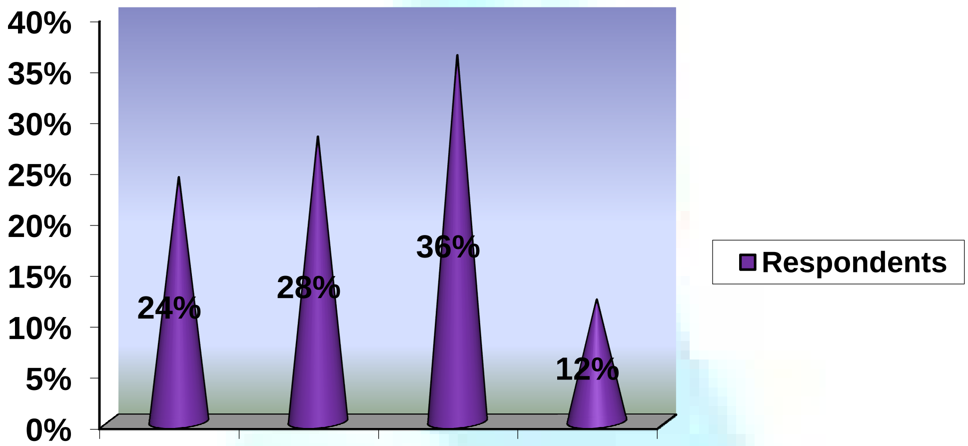
**TABLE 15**

| Particulars | Respondents | % |
|---|---|---|
| Monthly & Weekly Rewards& Recognition | 24 | 24 |
| Half Yearly Incentives | 28 | 28 |
| Quarterly Awards for Best Performance | 36 | 36 |
| Option to buy company shares (Employee Share Purchase Plans) | 12 | 12 |
| **Total** | 100 | 100 |

**ANALYSIS**

From the table above, 24% of the employees think that monthly & weekly rewards & recognition has encouraged them to stay with the company whereas, 28% of them think it as half yearly incentives. 36% of them think as quarterly awards for best performance & option to buy company shares (Employee Share Purchase Plans) encouraged them to stay with the company.

**GRAPH 15**




**INTERPRETATION**

From the graph above, 24% of the employees think that monthly & weekly rewards & recognition has encouraged them to stay with the company whereas, 28% of them think it as half yearly incentives. 36% of them think as quarterly awards for best performance & option to buy company shares (Employee Share Purchase Plans) encouraged them to stay with the company.

## SUMMARY OF FINDINGS AND CONCLUSION

**FINDINGS**

1. It is found that most of employees strongly agree for their organization is concerned about their well being & some of them disagree.
2. It is found that the work load as reasonable & to some extent it is boring.
3. It is found that most of the employees are not so much satisfied with their salary & wants the organization to increase it.
4. It is found there is cordial & friendly relationship among the employees there is formal relationship between top level management & the employees.
5. It is found that most of the employees feel secure the organization's policies and administration.
6. It is found that most of the employees should be retained through monetary benefits & rewards.
7. It is found that most of the employees' feelings are appreciated by their co-workers & rated as important.
8. It is found that most of the employees are considering leaving their job for as there is no growth opportunity.
9. It is found that most of the employees think that monthly & weekly rewards & recognition has encouraged them to stay with the organization.
10. It is found that the bonus & increment is not properly given to the employees who are performing well in the organization. It is found that the promotion is also not given to the deserving employees.
11. It is found that most of the employees think their organization does not understand their needs & is not bothered to fulfill it.
12. It is found that the employees are not involved in the decision making process in order to bring the feeling of belongingness towards the organization & to make the employees remain in the organization.

## CONCLUSION

From the study it was found that majority of the employees consider that monetary awards should be given in order to remain in the company. And the remaining of them thinks that their workload is not satisfactory as it is not upon their expectations.

From the study it was found that monthly & weekly rewards & recognition, half yearly incentives has encouraged the employees to stay with the company. Majority of the employees feels that their working conditions allow them to carry out their responsibilities effectively and efficiently.

## RECOMMENDATIONS AND SUGGESTIONS

1. Bonus and increments should be given to the employees and promotion should be given to the employees who are performing well in their job.
2. The organization should understand the needs of the employees and try to fulfill them.
3. The employees should be provided with the facilities like transportation facilities, recreational facilities, personality development programmes in order to remain in the organization.

4. The employees should be involved in the decision making process in order to bring the feeling of belongingness towards the company & to make the employees remain in the organization.
5. Option to buy company shares (Employee Share Purchase Plans), these types of strategies should be introduced in order to retain the employees in the organization.
6. The salary of the employees should be increased in order to retain them in the organization.

## REFERENCES

**TEXT BOOKS**

1. Ashwathappa-Business Research Methods, Himalaya Publishing House.
2. C.R. Kothari-Marketing Research, Tata McGraw Hill Publishing Ltd.
3. Dr. D. K. Bhattacharyya, Human Resource Development, Himalaya Publishing House.
4. G.C. Beri-Research Methods, Newage International Publication.
5. P. Subba Rao-Human Resource Management, Himalaya Publishing House.

**WEBSITE**

6. www.J&Kbank.net

# TYPE – A TRAIT FOR EFFECTIVE MANAGER

*ANASUYA SWAIN*
*ASST. PROFESSOR*
*COLLEGE OF ENGINEERING BHUBANESWAR*
*PATIA*

## ABSTRACT

*Today's era needs the effective managers who will enhance profitability and development of an organization. effectiveness of an organization depends upon the personality of particular person. Current study is done to find out how type- A personality affects the effectiveness of the mangers.*

## KEYWORDS

Effective manager, traits.

## INTRODUCTION

21st century demands effective managers for the survival and sustainability. Effective managers are defined in terms of quality of their performance, satisfaction and commitment of their employees. Globalize market needs managers effective in their field including flexibility, integrity and trust worthiness. Ideal managers has to score more on continuous learning , sociability lowest tempered and eager to please where as poor mangers scored highest on tempered ambition, lowest on continuous learning , sociability. Managerial effectiveness is very important for the survival and growth of the organization. Effectiveness depends upon the various types of personality. This paper will give emphasis only upon the type – A personality and its impact upon the managerial effectiveness

## THEORETICAL FOUNDATION AND PRIOR LITERATURE

Most theoretical models incorporate an individual's personality as a major influence on the ethical managerial decision making process. Type A is a life style or general orientation to life, characterized by a high degree of ambition. These individuals are constantly striving to attain material things or achievements in the shortest period of time. Type A individuals continually feel the need to prove themselves and often channel their ambitions into an area that is important to them at the moment , Society often glamorizes type -A individuals because of the corresponding success attributed to this behavior. Type –A people set increasingly more difficult goals, ambitions are pushed higher and higher always beyond their reach. These individuals believe they are struggling against others in a fight to the top, type- A personality type of individuals will compete even with themselves when there is no one else in the immediate environment to compete. The more difficult the jobs the harder type –A individuals work meet the challenges. These individuals have trouble leaving their tasks at the work have high priority in their value structure and they engage in overtime. They often gauge their success by the number of achievements to their credit. Speed is another dominant characteristic of type A individuals, who move quickly or may appear tense and energetic, They tend to be chronic hurries to wait in line becomes an intolerable task , A predominant feeling among these individuals is that they should use each moment to its fullest advantage and not waste any time . The primary characteristics of the type -A behavior pattern are chronic sense of urgency, free floating easily aroused hostility ambitiousness and immoderation, secondary behaviors implied by this description include impatience, competitiveness and aggressiveness, all of which appear to represent interaction among the primary behavior components. While cause and effect relationship between type- A behavior and coronary artery disease is controversial, some effects of type –A stress are definitely known , Stress causes an increase in blood pressure , if the stress is constant , the heart and arteries begin to show signs of damage (O'flyn comiskey ,1979, pp-1956-57.Nahavanndietal 91992) studied executives to test the link between a leader's type –A behavior pattern , the perception of environmental uncertainty and an organization 's strategy . Their results indicate a person's Type -A executives with type A characteristics perceived the environment s as more dynamic and were more likely to seek external diversification the executives with type B personalities. Thus Ethics and the type -A personality is hypnotized that individuals of lower intelligence are less type A oriented than individuals of higher intelligence , the need for control is the driving element in type A 's decision making and in their behavior (Strube and Werner 1985 ). Thus type- A executives, with their high need for control their high competitiveness, their challenge seeking and their focus on immediate actions and outcomes, are likely to select strategies that increase their control over the situation. Since Type -A individuals perceive the business environment as unstable and dynamic, there appears link between Type -A behavior and strategies choices, Friedman and Roseman (1974) is the behavior of a person that has an aggressive and untiring demand to succeed than their friends and families. It is the 'work before all' attitude and its subsequent behavior. Type-A behavior pattern leads to decreased motivation, lowered performance levels and mental and physical ailments ( Menon and Akhilesh) 1994 more recently (Turnipseed and Turnipseed ,1997) stated that type- A behavior has shown relationships with physical and emotional exhaustion , depression insomnia , drug alcohol abuse , job dissatisfaction and turnover . Some of the characteristics of type- A include time urgency , competitiveness and the ability to get more done in a short time than another employed manager , Another interesting findings by Friedman and Roseman (1974) is that people with type- A personality does not stand to see and sometimes , will compete with their supervisors ,employees and managers (Bradstatter and Elisz ,2001)

One of most serious problems with the Type A personality is that some individuals develop coronary heart disease (CHD), for instanc, (Bradstatter and Eliasz, 2001) reported that when Type – A behavior persons can do to achieve their goals , they might display signs of frustration, anger hostility and sometimes outright violence (Geen, 1990) stated that type- A behavior respondents concealed their anger , which would lead to CHD, nor all type-A behavior is negative though .many of the drives and competitiveness skills demonstrated by people with type- A are highly desired for the employees in the operational level what seems to happen is that some employees and mangers use stress management techniques to control the negative behaviors and harness their type-A behavior for success on the job (Mudract ,2004) In research exploring the characteristics of individuals classified as having Type- A behavior in the US has been linked to higher levels of stress in blue collar workers (Evans et al , 1987 )higher levels of occupational stress , job dissatisfaction and turnover (Ivancevich , matteson, 1984) low job performance (Jomal , 1985) and other negative health outcomes like CHD (Matteson and Ivancevich ,1982)

Kouichi etel (2000) explored the relationship between Type- A behavior and CH D indicators in a sample of 197 Japaneese males . Their research results suggested that Type – A behavior and job stress together might induce coronary heart problems.

## OBJECTIVE OF THE STUDY

- This work is done to find out the effectiveness employees.
- Does personality of the employee enhance effectiveness
- Type- A personality people are effective managers or not

## METHODOLOGY OF THE STUDY

This work is done by taking the secondary data and sources available in the journal, book and various internets. After collection of the data the data are analyzed and interpreted by the author and the conclusion is derived and suggestions are given.

## DATA ANALYSIS

It is difficult to define managerial effectiveness in concrete managerial effectiveness has been studied with 3 perspective .They are as-

1. Organizational level competency band perspectives
2. An individual level competency based perspectives
3. The traditional model emphasizes the ability to set and achieve goals

Effectiveness is best seen as something a manger produces from a situation by managing appropriately, producing the result or meeting the target in every sphere of the activities of organization. According to Garry Desslar competency may be the combination s of 3 areas they are as-

- Analytical competency
- International competency
- Emotional competency

Analytical competency –This is he ability to identify analyze and solve problems under conditions of insolate information and uncertainty.

Interpersonal competency-

The ability to influence supervise lead manipulate and control people at all levels. Emotional competency the capacity to be stimulated by emotional and interpersonal crisis rather than exhaustive or deliberated by them and the capacity to bear high levels of responsibility without becoming paralyzed.Dassler also emphasized upon the 5 factors responsible for the successful manager. They may be as –

- Job knowledge
- Motivation
- Relational skills
- Flexibility
- Adaptability
- Extra cultural openness

By taking factors and competency for the successful managers, the managerial needs certain traits like as-

- Creative
- Adaptability
- Charismatic
- Understanding
- Confident
- Mentally stable
- Great listener
- Wiliness to learn
- Tolerate stress

To fulfill the required quality and quantity for effectiveness the managers has to be engaged in managerial activities like as – decision making, planning, controlling exchanging routine information & processing paper work , motivating , discipline ,, managing conflict , staffing , socializing , interacting with others. Sometimes some managers are unable to do these types of activities among the disabled people for the successful managerial activities.

**TYPE –A AND EFFECTIVENESS**

Type – A people's characteristics ca not be ignored when the personality traits for the effective managers. In this case different characteristics of Type –A people and impact towards managerial effectiveness is to be taken into account. Those are as follows-

**TIME URGENCY AND IMPATIENCE**

Type – A people get frustrated while waiting in line, interrupt others often, walk or talk at a rapid pace and are always painfully aware of the time and how little of it they have to shape. These people are first workers and give emphasis quantity over quality. As a manger they demonstrate their competitiveness by working long hours. Poor decisions are made by these people due to rapid decisions and rarely creative because of their decisions and rarely creative because of their concern with quantity, speed and First decisions and emphasis on quantity blocks to develop the unique solutions to new problems.

**AGREEABLENESS**

Type – A personality traits are characterized by hostility, aggression, competence, striving for achievement, restlessness, extreme vigilance explosiveness speech, facial muscular tension, felling excessively responsible and high rate of breathing etc. This behavior is characterized as action emotion complex. Some of the characteristics of type – A people include time urgency, competitiveness and ability to get more done in a short time than another employee or manger. People with Type – A behavior sometimes cannot stand to lose and sometimes will complete to win games with young children and might also become very critical and impatient with their supervisors, employees and other managers. Thus people have the quality of impatience rudeness and being easily upset over small things or small having small fuse.

## SOCIAL ISOLATION

Friedman & Roseman (1974) indicated Type – A personality behavior is the behavior of a person that has an aggressive and untiring demand to succeed on the job. This means they place higher importance on this desire to succeed than their families and friends. It is the "work before all "attitude and its subsequent behavior. These behavior leads to decreased motivation, lowered performance mental and physical acknowledgements. This trait correlated with high level of depression, social monitoring, negative correlation, social desirability, community and individual performance and has little patience and very little tolerance for excuses and like things brief and like to be in control. These people spend more time on work and focus too little on relationships putting them at risk for social isolation and the increased stress that comes with it.

**PHYSICAL CHREMATISTICS**

Type – A behavior has been linked to higher levels of occupational stress , job dissatisfaction and turnover " These people have their facial tension , facial sweating , tongue clicking and teeth grinding and leads to the stress in job Additional stress make a manager over controller of the organization for the over dependent on the performance of the organization.

**ACHIEVEMENT ORIENTED**

"Type A often seems to be cyclone of activity and may move large volumes of work across their desks very quickly, there is definitely a downside to this pattern, both for the Type – A for their coworkers and organizations "Type – A people are more competitive and achievement oriented aggressively pursue goal attainment and are highly invested in responsibilities. They may deeply identify their roles in the organization, these people spend more time specifying the goal they have and the tasks that need to be done to get the job done. "Type – A do appear to have very short fuses – they often become angry and behave aggressively in situations that others may be inclined simple to ignore "I". Irritability of Type – A tends to annoy their coworkers. They are also more likely to loose their temper and to lash out at others. These people tend to become involved in more conflicts at work ".

## TRAITS IMPACT ON EFFICIENCY OF MANAGER

Time urgency and impatience blocks the path of managers towards the development of analytical competency of managers. The lack of patience makes them emotionally unstable and invite stressful situations. Aggressiveness of the manager paralyzed him and persuades not to be innovative, adoptable and charismatic. Agreeableness leads to the upset in small things decreases the confidence level of managers.

Social isolation makes a blockage towards the interpersonal competency. This quality makes the mangers not to understand others, by which it is not possible for the managers to influence, supervise and motivate others. The achievement oriented quality of the managers, are the situational where there is dissatisfactions conflict, misunderstanding, and mistrust over controllers is there,

## CONCLUSION

Survival and continuity in this globalized competitive era demands highly effective and efficient employees and managers highly efficient and efficiency and effective workers. Effective workers are the result of manager's ability to guide, control, motivate and understand by handling stressful situation, solving the problems and to take the high levels of responsibility without becoming paralyzed.

So to meet the today's need the thinking as a manager demands to change and managers have to practice how they can change and optimize themselves by optimizing their skills, knowledge ability and adopting job knowledge motivational employees, relational innovations skill and growing the analytical, interpersonal and emotional competency by which every organization can taste and feel the essence of sure success and sustain with challenging surroundings.

## REFERENCES


1. Bradstatter H. and Eliasz A (2001) , Persons , situations and Emotions : An ecological approach , oxford university press , New work
2. Calhon , r. P , 1959 , " Nicola Machiavelli and the twentieth century administrator , Academy of management ,2 ,205 -212
3. Christle , r and f. l Geis , 1970 , studies in Machiavellianism ( Academic press , new work )
4. Friedman Mand roseman r.H (1974) ,"Type –A behavior and your heat,knopf, Newwork
5. Geen r G (1990 ) Human Aggression , mapping social psychology series , open university press , Milton keyness
6. Germill , gr and W . J Heisler , 1972 , ' Machiavelli's as a factor in managerial job strain , job satisfaction and upward and upward mobility , academy of management journal 1 ( 15 ) 51 – 62.
7. Heisler, W. J and g. Gemmeli1977. Machiavellianism, job satisfaction, job strain and upward mobility, some cross organizational evidence psychological reports, 2 (41), 592 – 594.
8. Ivan cevich J M and mattesin M ( 1984 ) "A type a – B person work environment interaction model for examining occupational stressand consequences " human relations , Vol- 37 ,Pp 491 -513
9. Keltikangas –jorvinen L and Heinonean K (2003) , " childhood roots of Adulthood hostility :family factors as predictors of cognitive and affective Hostility " child and Development , vol-74 , No-6 pp- 1751-1768
10. Kouichi Y , lie Y , Kodama H , Sasazuki S , washio M , tanaka K , tokunagas , konos , Araai H , Koyanagis , Hiyamuta , k , Ideishi M , Arakawa, K. mohri m and takeshita A (2000) , " Job strain , type- A behavior pattern and the prevalence of coronary Heart disease in Jaspaneese working man " Journal of psychomatic research , vol -49 No.1 pp _77-83
11. Matteson M and Ivancerich J (1982 ) ,"type A and B behavior patterns and helath symptoms , examining individualsand organizational fit, Journal of organizational medicine , vol – 24 ,pp-585 -589
12. Maulennan R N and peebles JWE (1996) " survey of health problems and personality in air traffic controllers " International journal of Aviation psychology , vol-6 , pp-43-55
13. Menon N and Akhilesh K B (1994) " functionally dependant stress among mangers " journal of managerial psychology , Vol.9 , No. 3 , PP 13-22
14. Strobe , M. J C werener , 1985 , Relinquishment of control and type – a behavior pattern , journal of personality and social psychology , 48, 688-701.
15. The wall street journal: 1992, type – a mothers are more likely to e have children with their personality traits, 72, N-100.
16. Turnipsed D. S and Turnipseed D L (1997) "A bicultural analysis of the cost of aring :nursing burnout in the UA and philipines " Career Development international , Vol-2 , No- 4 pp 180-188

# IMPORTANCE OF MEASURING HR'S EFFECTIVENESS: A DRIVE TO HR METRICS

*P. AKTHAR*
*ASST. PROFESSOR*
*DEPARTMENT OF MANAGEMENT STUDIES*
*ANNAMACHARYA INSTITUTE OF TECHNOLOGY & SCIENCE*
*VENKATAPURAM*

**ABSTRACT**

*One of the most discussed topics in the HR industry today is Metrics and Measurement. From Professional organizations like the Society for Human Resource Management (SHRM) and the Human Capital Institute (HCI) to HR gurus and white papers from management consulting firms like Deloitte Consulting, the topic of metrics is covered extensively. Today's business is driven by knowledge, today's worker is a knowledge worker, today's major cost in many Service and Knowledge driven businesses is the HR cost, and therefore the top management is very keen to have its focus on measuring HR's effectiveness called 'HR Metrics'. This article makes an attempt to understand the importance of measurement of HR effectiveness and the intuitive approach to measure HR is explained with the help of an illustration for measuring the Selection function.*

## KEYWORDS
HR Metrics, Measurement, Selection.

## INTRODUCTION
In today's competitive world, it has become very important to measure the HRM activities from return on HR investment point of view. The practice which has been names as "HR metrics" is being adopted by the companies in the corporate world. These are being viewed as vital requirements to assess HR impact on the various business parameters. Every rupee spent on HR costs, for every rupee of revenue generated, is a critical HR Metric.

HR largely deals with intangibles, its activities are generally considered outside the purview of measurement. However, with changing times, the HR department is slowly realizing the importance of quantifying the qualitative HR practice. In order to be able to do this, it requires the common understanding of modification of measurement from preciseness to approximation so that things earlier considered immeasurable, could also be brought within the realm of *measurement*.

## DEFINITION OF MEASUREMRNT
Measurement is a set of observations that are expressed in numbers, which help to reduce uncertainty. When undertaking a metric, the first question the organization needs to answer is what problems in the organization are worth solving or what opportunities for enhancing organizational effectiveness exist? Organizations are drenched in opportunities for amplified effectiveness. Due to current improvements in computing and communications infrastructures, the effort and costs required to build up metrics for different opportunities may not differ radically. Thus, choosing to spend the time on projects with a greater potential return for the company makes good business sense. Given that most organizations' capabilities in HR metrics may not be well developed at this point, focusing on a limited number of potentially high-payback opportunities may be the best strategy associated with developing any new capability.

Once a problem and an opportunity are identified, the first step is to determine the organisational outcome that is linked with the problem. For instance, if the organization is fraught with getting orders shipped to its customers on time, an appropriate outcome metric will measure the extent to which the organization delivers its orders on time. If an organization is concerned with the amount of time positions remain vacant before a new employee is hired, a measure of the amount of time positions remain vacant or the total time required to fill positions may be the proper outcome measure.

Outcome measures capture the extent to which a problem exists and should provide an indication of the extent to which actions taken by the organization are successful. Organizations are also paying attention in factors that cause these outcomes, and will turn the attention to these shortly.

## NEED FOR MEASUREMENT
Management scholars have theories of how organizations work. Most organisational members have their own personal theories regarding how their companies work. These theories provide a framework for identifying potentially important information, focusing attention on environmental stimuli, and strengthening the capacity to identify the tactics that can be used to solve problems. A general problem in identifying outcomes is that choices for outcome measures are regularly based on personal theories about how things work in the organization, theories that may not reflect reality. For example, company employees often identify intermediate outcomes, such as implementation of flexible work hours or changes in supervisors, as outcomes of interest. Intermediate outcomes are those that are more immediate indicators of things that employees believe lead to more important outcomes, for example, changes in the two previous intermediate outcomes leading to an employee-friendly workplace. However, in some cases, the intermediate outcomes may not be the best ones on which to spotlight. This situation occurs when changes in decisions impact intermediate outcomes but do not have the expected impact on the ultimate or distal outcomes.

An important test of the appropriateness of outcome metrics is the "why" test. When one considers a potential outcome variable, it is useful to ask why the organization is interested in that particular outcome. If the answer is because it impacts some other variable that influences an important outcome, for example, profitability, then care must be taken to assure that changing the intermediate (or proximal) outcome also impacts the distal outcome. Organizational factors such as pay and working conditions that have influence through their effects on intermediate variables are reasonable targets for assessment, particularly if we understand the succeeding impact these factors have on ultimate, distal, and more important outcomes. Often, changing factors such as pay and working conditions will impact intermediate outcomes but may not produce any effect on the ultimate outcome of company profitability.

Employee turnover of valued employees, for example, is often identified as an important organizational outcome due to the costs associated with it. It is among the most regularly assessed and reported HR metrics in organizations. Most managers concur that excessive turnover is a noteworthy problem. High levels of turnover are troublesome to operations and can cause organizations to lose the critical proficiency and capabilities of employees that depart. The answer to "why" turnover is important is that it interrupts operations and leads to potential loss of knowledge and important skill sets. But, in many cases, it is not clear whether the departure of specific employees actually results in decreasing profits. In some cases, a departing employee is replaced by a stronger performer, which will increase profits. At a minimum, asking "why" helps emphasize the potential causal sequence through which these intermediate variable effects are anticipated to have their influence. These analyses can highlight which metrics are likely to be more critical and provide a framework for understanding how change in these metrics should be interpreted.

## A BRIEF HISTORY OF METRICS
Measuring work and workforce analysis is not new; it has a brief history:

- Measuring effectiveness of an organizations' employees can be traced back to the days of Scientific Management (Taylor, 1911)
- Methods of quantitative analysis and its use in decision making were developed during the build-up of both men and material occasioned by world war II (1940)
- Further advancement in measuring occurred during the post world war industrial expansion in the United States that continued during 1970's.

- Many of the most common HR Metrics in existence today were first considered and developed (Hawk, 1967)
- Kaplan and Norton's (1996) introduction of the ***balanced score card*** further refined managers' thinking about metrics. The balanced score card recognizes the limitations of organizations' heavy reliance on financial indicators of performance. Such measures focus on what has already happened rather than providing managers information about what will happen. Balanced Score Cards focus on developing leading indicators of performance from several important perspectives, including customer satisfaction, process effectiveness, and employee development, as well as financial performance.

Before actually establishing metrics, there is a need to understand the philosophy of such metrics in the overall context of the business and the organization. The following questions must be answered:

- What are the activities that are being subjected to the measurement system?
- What is the level of criticality for measurement systems in respect of those transactions?
- By tracking those activities and transactions, what business outcomes can be achieved?
- Is the business manager keen on that measurement? Is it a priority for the HRM or business manager?
- What is the history of such measurement? On how many occasions in the past, did the business manager need or use such data?

The above questions are illustrative and not comprehensive. The purpose of these questions is to make sure that the HRM keeps the measurement exercise relevant to the business and that it is actually meeting a 'felt need' of the business manager.

## BUILDING THE RIGHT MEASURES

This is the fact that if measurement, assessment and evaluation are to play a part in achieving sustainable organization performance, they should be impact-oriented, forward-looking and focused on the entire HR system, not just on individual HR practices.

**Figure 1** illustrates the cycle of developing and using HR metrics for maximum impact.

The main components are:

- Identifying where HR can make a strategic impact in the organization.
- Developing proper metrics suitable to these areas.
- Get data relating to relevant metrics?
- Drag out insight from the data.
- Take action to communicate metrics and related insights information to provide a robust basis for strategic change and improvement.

The importance of HR capability is also highlighted in Figure 1, as people need to have the required analytical and influencing skills to get the maximum impact from information and accomplish each stage of the cycle. For example, HR need to have a deep understanding of the market in which they operate and the capabilities or weaknesses of the organization to be able to generate insights from data collected, which will help to inform and develop current practice and ultimately help the organization growth.

There are four steps which together will help to identify practical ways forward to develop metrics for maximum impact. The order of these steps reflects the cycle in Figure 1. This cycle will not be a 'quick fix' but will help to think about the necessary stages involved in getting maximum impact from HR metrics, demonstrating HR's strategic impact within the organization.

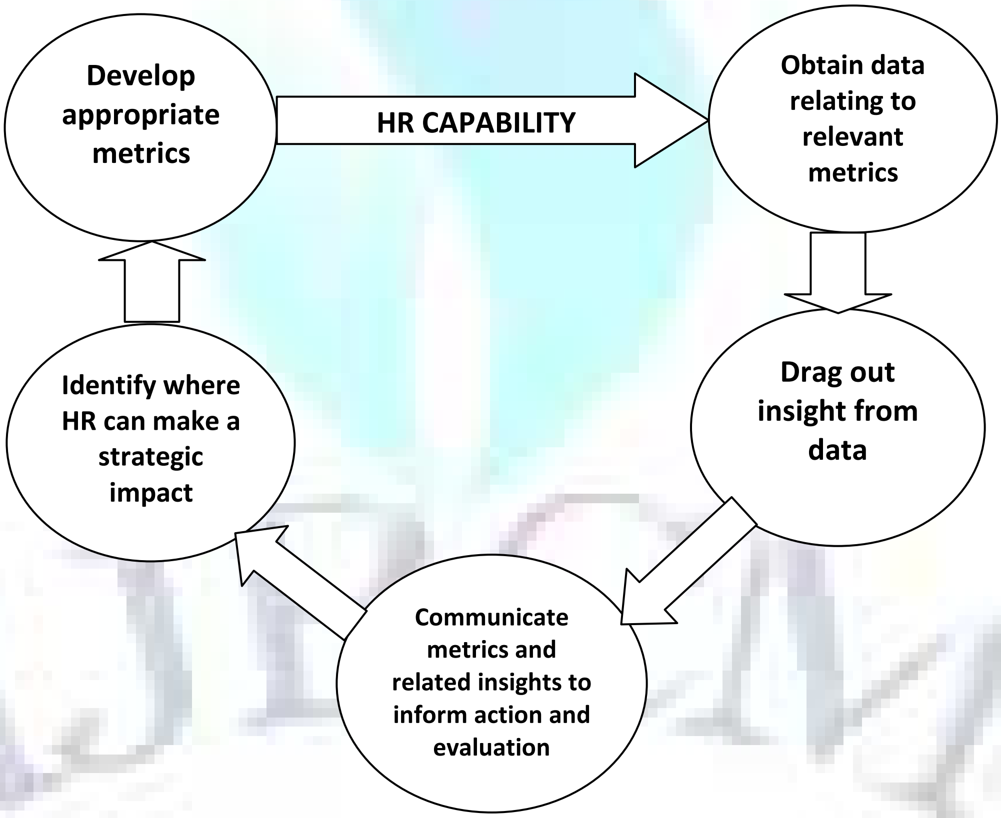



**Figure 1:** Use of HR Metrics for Maximum Impact

**STEP 1: IDENTIFYING WHERE HR CAN MAKE A STRATEGIC IMPACT**

This step focuses on determining the areas where HR can make a strategic impact in the organizational context. It enables to identify priority areas for measurement which are aligned with organizational goals and strategies and identify capability opportunities or problem areas from a business partner perspective.

**STEP 2: SELECTING APPROPRIATE METRICS FROM WHICH ORGANIZATIONAL INSIGHTS CAN BE DRAWN**

This step is the 'heart' of this cycle. Building on step 1, it gives a framework to help in developing appropriate metrics to assess the efficiency, effectiveness and strategic impact of the people management processes. It also provides the building blocks for step3.

**STEP 3: EFFECTIVELY COMMUNICATING INSIGHTS FROM METRICS FOR MAXIMUM IMPACT**

This step focuses on how you can most effectively communicate the insights drawn from metrics to inform action and hence enable HR to deliver maximum strategic impact.

**STEP 4: THE HR FUNCTION AND MEASUREMENT CAPABILITY**

This step focuses on capability development for the HR function, which spans all stages of the cycle, as illustrated in Figure 1. This step enables to identify a range of analytical and influencing skills that helps in further development of HR function to ensure they have the capability required for all aspects of measurement, assessment and evaluation highlighted in this tool. It encourages identifying current areas of strength as well as development priorities.

These steps provides an action plan facility to identify the key actions and also take forward these key actions to make a sustainable improvement to the development and use of metrics in the organization.

## AN INTUITIVE APPROACH TO MEASURE SELECTION

Before discuss the process of measuring the Selection function, it would be appropriate to discuss the term 'intuitive approach'. By intuitive approach, what is meant in this paper is that measuring HR functions is not something which is very difficult and requiring special skills. On the contrary, HR measurement issues can easily be understood and identified, if one understands the objective of the HR function. This is further outlined and detailed with the example of Selection function.

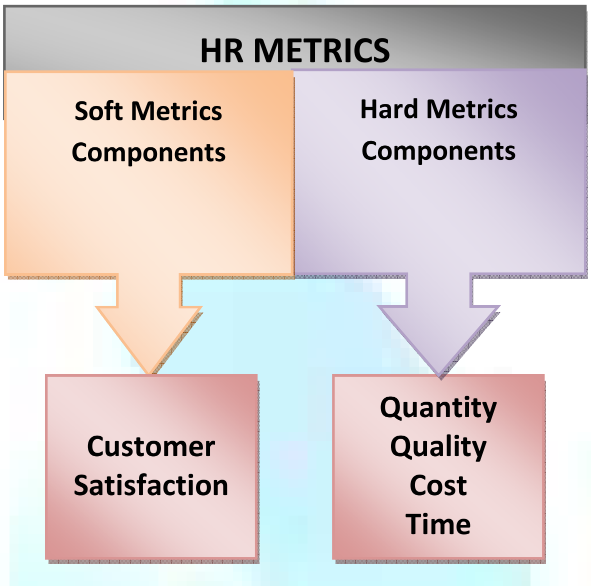



**Figure 2:** HR Metrics include Hard Metric & Soft Metric Components

To begin with, the measurement challenge for an HR function would be what to measure. This may not be difficult to identify. As stated above, if one is able to clearly outline the objectives of a particular HR function, further identifying what to measure, becomes relatively simple. For example, the objectives of a selection function could be To sort out those judged unqualified to meet the job and organizational requirements, To choose the most suitable candidate for a given job from prospective employees, To evaluate the effectiveness of the selection program periodically, To determine right salary and To ensure competitive advantage.

If one were to break down this objective in to individual components, the following parallels can be drawn:

- To sort out those unqualified to meet the job requirements = Quantity
- To choose the most suitable candidate = Quality
- To determine right salary = Cost
- To evaluate selection program periodically = Time
- To ensure competitive advantage = Customer Satisfaction

It can be seen from the above example that, most of the HR metrics would have these five components. Out of these five components, four are considered to be hard metrics (quantity, quality, cost and time) and customer satisfaction considered as a soft metric. This example also provides us with a idea of how objectives can easily be translated in to what to measure.

The second and the most difficult challenge for any HR function is how to measure. If what to measure is clearly identified and if it directly follows from the objective, identifying ways to measure may not be again as difficult as perceived to be. Taking the same example of the selection function, the following section will try and attempt to explain the ways in which it can be measured.

To begin with, the issue of *Quantity* is simple to measure with respect to selection. Quantity here means sorting out/eliminating those applicants who are judged unqualified to meet the job and organizational requirements. If this kind of evaluation is done, one can easily know where HR stands with respect to meeting the objective of matching the candidates profile with job requirements.

With respect to the issue of *Quality*, one can look at the quality of selection by comparing the performance assessment score of people in the same position, as compared to the new recruits. In other words, If the average performance scores of new personnel are greater than the average performance scores of the existing employees in the same position, it can easily be said that one can meet the objective of choosing most suitable and good candidate.

Coming to the third factor of the *Cost,* it is again something that can be easily measured. Cost of hire is something which is regularly computed by many organizations along with cost per hire. Cost of hire relates to the cost of hiring a person and essentially takes into account the cost to the Company, where as cost per hire looks at the total cost incurred on the recruitment function during a particular recruitment drive divided by the number of hires. If this kind of evaluation is done, then one can meet the objectives of reducing cost associated with selection process.

With respect to the issue of *Time*, here time means periodically evaluating the effectiveness of selection program. If this kind of an assessment is done periodically, one can easily know where HR stands with respect to meeting the objective of effective selection.

The four hard metrics discussed above can be easily computed, as many numbers are already available with the HR department and all that needs to be done is to maintain a proper record of it and compute these metrics regularly to see to what extent it is meeting its objectives.

The last metric of *Customer Satisfaction* is a soft metrics, as the data should be collected from the internal customers about whether selection ensures competitive advantage through innovation, low cost, new products and fast delivery to gain customer satisfaction. Competitive Advantage is a process where a company through its unique feature gain more market share than its competitor. In the other words, the company through its unique feature like innovation, low cost or fast delivery of products & services can gain customer satisfaction which leads to get more market share than its competitors. Here the HR department needs to design a data collection instrument that can, to a large extent, objectively capture the satisfaction.

The discussion and the identification of specific metrics in the previous section clearly show that developing such metrics for measuring the selection function is not at all complicated and, in most of the cases, the data is easily available. All that needs to be done is to compute metrics on a regular basis, so that the performance of the HR department can be compared over a period of time.

## CONCLUSION

In this business world of numbers & measurements, HRM, as a function, has started giving importance to measurements of HR transactions. This article highlights the increasing importance and need of measurement for HR. It tries to point out that, though the outcomes of the HR functions may not be measurable, it is generally considered to be intangible. However, by changing our understanding of measurement, there is a possibility of measuring many of the objects that were earlier considered to be immeasurable. It then goes on to take an example of the Selection function and explains how metrics can be easily developed for measuring this HR function.

## REFERENCES

1. Hawk, R, H (1967). The recruitment function. New York: *The American Management Association.*
2. Kaplan, R. S., & Norton, D. P. (1996). *The balanced score card: Translating strategy into action.* Boston: Harvard Business School Press.
3. Munsterberg, H. (1913). *Psychology and industrial efficiency.* Boston: Houghton Mifflin.
4. Taylor, F. (1911). *The principles of scientific management.* London: Harper Brothers.
5. Tracey M. and Weirsema, F. (1993). “Customer Intimacy and Other Value Discipline,” *Harvard Business Review, 71.*
6. *Vivekanand (2009). “An Intuitive Approach to Measuring HR”, HRM Review*
7. William A. Schiemann (2007). “HR Metrics: Myths, Best Practices, and Practical Tip,” *A Metrus Group White Paper.*

# IMPULSIVE BUYING BEHAVIOUR OF RURAL PEOPLE: WITH REFERENCE TO FMCG PRODUCTS

*J. JOSEPHINE LALITHA*
*ASST. PROFESSOR*
*PSG COLLEGE OF ARTS AND SCIENCE*
*COIMBATORE*

*DR. N. PANCHANATHAM*
*PROFESSOR & HEAD*
*DEPARTMENT OF BUSINESS ADMINISTRATION*
*ANNAMALAI UNIVERSITY*
*ANNAMALAI NAGAR*

## ABSTRACT
*Traditionally, the marketing framework regarding the consumer decision making process mainly focusses on needs recognition, searching for information, evaluation of alternatives, purchasing and post-purchasing evaluations. Impulse buying is considered as relevant in today's shopping scenario with the innovative sales promotions, creative messages and appropriate use of technologies in the retail stores (Schiffman, 2010). Impulse buying is seen as unplanned and unintended in-store behaviour. The study is descriptive in nature and a sample size of 50 respondents were chosen on the convenience sampling basis in arasur village.This paper aims to identify the impact of socio economic factors that affect the impulse purchasing behaviour of the consumers during the purchase of select categories of fmcg goods. Socio economic variables used in the study included gender, age, educational qualification, occupation, monthly income, marital status and nature of family. Mean test and regression test were performed to find the most preferred reason to go for impulse buying and it shows that nature of family influences the impulsive buying behaviour of the respondents.*

## KEYWORDS
impulsive buying behaviour, rural customer, FMCG products.

## INTRODUCTION
Impulsive buying is an important phenomenon for researches in consumer behaviour and retailing. Impulsive buying is the degree to which an individual is likely to make un intended, immediate and un reflective purchases and is the result of an exposure to a stimulus, decided on the spot.
It accounts for as much as 62% of supermarket sales and 80% of all sales in certain product categories.( Dr. Tauseef Ahmad)
Recent marketing and retail researchers have classified impulse behaviour as a very powerful and real time influence in the consumer buying behavior process (Bayley and Nancarrow, 1998; Hausman, 2000; Crawford and Melewar, 2003).
The study of consumer behaviours has lead to conclusions as to why consumers act as they do when it comes to shopping (Underhill, 2006)
The rural consumer is likely to exhibit different purchase behavior as compared to his urban counterpart. This is basically due to the unique characteristics of rural markets. Impulse buying may be influenced by internal states or traits experienced by consumers, or by environmental factors (Sharma, Rajesh)
A change in society is also shown in the decreasing amount of free time outside of work. Consumers spend less time planning before shopping but with the attitude of a life-style shopper and an increased income by which consumers are encouraged to buy more, impulse buying is a fact (Williams et al, 1972).
Impulse buying disrupts the normal decision making models in consumers' brains. The logical sequence of the consumers' actions is replaced with an irrational moment of self-gratification.
A study published in the June 2008 issue of the Journal of Consumer Research suggests that consumers are more susceptible to making impulsive purchases for one brand over another if they are distracted while shopping.
While shoppers with impulsive buying tendencies may view an impulse purchase as negative and successfully resist the temptation, at other times they are more likely to rationalize the negative feeling and makes the purchases any way. This indicates that, although impulsive shoppers may deliberate about the purchase on a cognitive level, at some point in the decision making process, the shoppers affective state overcomes their cognitive will power. ( Alizera)

**VALUE GROWTH IN 'IMPULSE' CATEGORY PRODUCTS BY CHANNEL**

| Value Growth (%) | Grocers | Gen Stores | >Chemists | Paan Plus | Food Stores | Modern Trade |
|---|---|---|---|---|---|---|
| Biscuits | 18 | 10 | 16 | 18 | 13 | 38 |
| Salty Snacks | 28 | 23 | 29 | 30. | 19 | 30 |
| Chocolates | 19 | 11 | 18 | 28 | 20 | 49 |
| Confectionery | 14 | 8 | 12 | 12 | 12 | 56 |

Source: The Nielsen Company. MAT Oct. 2010

Stern (1962) provides to the research by subdividing impulse purchase into four categories. They are based on the above mentioned definitions where the purchase is unplanned.

**PURE IMPULSIVE BUYING**
(defined as classic impulsive buying), is a purchase that breaks the normal planned shopping pattern. This category is strongly connected to emotions and the impulsiveness is very high. Low price is a common trigger to this category.

**SUGGESTION IMPULSIVE BUYING**

(Defined as a suggestion impulsive buying), because when seeing a new product for the first time; a need develops in the shopper that can only be satisfied by buying it. This purchase can turn out to be a rational or functional purchase decision but the purchase is not a planned one. That is why visualization in the store is the key factor for the purchase.

**REMINDER IMPULSIVE BUYING**

(Defined as reminder impulsive buying), is when a product suddenly reminds the consumer that they need it because they are out of it back home. There already exists an unconscious need for the product which implies that the consumer has previous knowledge about the product. It helps them remind them about a particular advertisement or information previously noticed by the consumer, which now makes the consumer take the opportunity of purchasing.

**PLANNED IMPULSIVE BUYING**

(defined as planned impulsive buying), because when entering a shop the consumer has in mind to buy something or some sort of good but the choice of what kind of product, brand, size or price etc. has not been determined. Instead special offers and other stimuli such as salespersons, influence the decisions inside the shop. The actual decision is made at the point of sale. This makes it different from planned purchase when a more specific kind of product is in mind e.g. a blouse instead of clothes.

The four type of consumer buying behavior are:

**ROUTINE RESPONSE/PROGRAMMED BEHAVIOR**

--buying low involvement frequently purchased low cost items; need very little search and decision effort; purchased almost automatically. Examples include soft drinks, snack foods, milk etc.

**LIMITED DECISION MAKING**

It means buying product occasionally. When you need to obtain information about unfamiliar brand in a familiar product category, perhaps. It requires a moderate amount of time for information gathering. Examples include clothes—know product class but not the brand.

**EXTENSIVE DECISION MAKING/COMPLEX HIGH INVOLVEMENT**

It refers to unfamiliar, expensive and/or infrequently bought products. High degree of economic/ performance/psychological risk. Examples include cars, homes, computers, education. Spend a lot of time seeking information and deciding. Information from the companies MM; friends and relatives, store personnel etc. Go through all six stages of the buying process.

**IMPULSE BUYING, NO CONSCIOUS PLANNING**

The purchase of the same product does not always elicit the same buying behavior. Product can shift from one category to the next. For example going out for dinner for one person may be extensive decision making (for someone that does not go out often at all), but limited decision making for someone else. The reason for the dinner, whether it is an anniversary celebration, or a meal with a couple of friends will also determine the extent of the decision making.

## REVIEW OF LITERATURE

This paper explores the process by which four store environment (music, light, employee, and layout) and two individual characteristics, shopping enjoyment tendency(SET) and impulse buying tendency(IBT) influence impulse buying behaviour through positive and negative affect, and urge to buy impulsively. The data was obtained from 733 respondents in a mall survey conducted in Chennai, South India. - In the structural model tested with AMOS, it was found that store environment drove impulse buying through positive affect and urge. Results also showed that the personality variables (SET and IBT) influenced impulsive buying through positive affect and urge. It was suggested that retail managers should invest in improving the store environment to increase the level of impulse buying in their stores. Specifically, they need to focus on enhancing friendliness of store employees, playing appropriate music, designing proper layouts and having well-lit stores to encourage impulse buying. (Geetha Mohan et al 2013)

This study was done to understand consumer impulse buying choice in different consumption situations through the identification of both external and individual determinants of impulse buying behaviour. A questionnaire was developed based on BPM ( behavioural perspective model) and a survey was done on 414 consumers in UK and Taiwan. The research shows that routine shopping situation and its utilitarian reinforcements triggers the highest rate of impulsive buying choices and individual cultural back ground were also found to predict different types of impulse buying patterns. (Wei Chan)

The study was to identify the main factors influencing impulse purchasing behaviour of the rural people. A sample of fifty rural people was selected randomly from 5 villages. The tools used were multiple regressions and it was found that 94% of the people have done impulse purchasing. Cloths and plastic items were the main items they had bought without a purchasing plan. Gender and income level show positive relationships and education level is negatively related with impulse buying. There are no direct relationships between impulse buying with civil states and age of the people. The study revealed that impulse buying has contributed significantly to rural poverty as the rural farmers were being weak financial managers. **(D. n. w.Gamage)**

In a study by Abratt and Goodey (1990), higher income is suggested as one of several factors that can account for the higher level of impulse buying. A study by Mogelonsky (1994) logically suggests that impulse buying is reserved for those consumers who can afford it. In this study we fail to reject the hypothesis that Impulsive buying tendencies are same between different income groups of adolescents. One of the possible reasons may be that adolescent's pocket money may not be truly reflective of the family income. The future research may therefore focus upon family income rather than pocket money.

The study is based on the primary data collected from Shopping malls, Handlooms and marts from the area of JODHPUR. It is found through factor analysis that since income of the individual is increasing and more people are moving towards western culture, the purchasing power of the people has gone up and the impulsive buying of the commodities is on a great increment due to the pricing strategies festival offers of the players. ( Dr. Tauseef Ahmad)

## NEED FOR THE STUDY

Customers make decision based on a large number of factors and although it is impossible to influence them all, successful marketers strike a balance between appealing to the emotional and rational sides to our personality. Human being is not completely practical, nor do they make decision based on their feelings. The amount of emotional desire varies according to the product, but rational decision varies according to circumstances. Rational decision making involves logical thought processes in making purchasing decisions, while emotional works upon the brain wave. People have both logical and emotional buying motives .Some recent survey shows that 20% of the decision to make a purchase is logical and 80% is emotional. (Byshi Panikar)

This study is an attempt to find out whether rural people exhibit impulse buying behaviour towards fmcg goods and what factors promotes them to go for impulse buying.

The categories taken for the study in fmcg includes house hold products, personal products and food & beverages.

## OBJECTIVES OF THE STUDY

- To know the level of influence of factors that motivates to make impulsive purchase towards fmcg goods .
- To identify the impact of socio economic variable on impulse buying behaviour.

## RESEARCH DESIGN

Area of the study: To fulfill the stipulated objective, study was under taken in Arasur village in sulur taluk of Coimbatore district. For the survey purpose, 50 households were selected based on convenience sampling interview schedule method was adopted to conducted the research. It also required focused group interview to elicit answer from the respondents.

**DATA COLLECTION**

To fulfill the objectives of the study, both primary and secondary data are collected. Primary data was collected from each house hold with the help of pre tested questionnaire. The secondary data was collected with the help of various books, journals and web sites.

Weighed arithmetic mean was used to identify the important feature that influences the purchase of fmcg goods. Regression model was performed to evaluate the influence of buying behaviour towards fmcg and nature of family.

Hypothesis which was tested by regression test in order to satisfy the relationship between the variable and brand selection is mentioned below.

Ho: Nature of family of rural consumer's setup directly influences their impulsive buying behaviour.

## FACTORS INFLUENCING IMPULSE BUYING

There are many factors which affect Consumers Impulse Buying Behaviour in FMCG market but only the following factors are considered for the present study.

- Price and discount
- Advertising and sales promotion
- Visual merchandising
- Emotional attachment
- Company
- Income
- Festival season

## DATA ANALYSIS

### DEMOGRAPHIC DETAILS

The following table indicates the socio economic profile of the respondents.

**TABLE 1: SOCIO ECONOMIC PROFILE OF THE RESPONDENTS**

| Variables | | No. of Respondents | Percentage |
|---|---|---|---|
| Gender | Male | 6 | 12.00 |
| | Female | 44 | 88.00 |
| | **Total** | **50** | **100** |
| Age | Below 25 years | 19 | 38.00 |
| | 26-30 years | 19 | 38.00 |
| | 36-40 years | 6 | 12.00 |
| | 41-45 years | 6 | 12.00 |
| | **Total** | **50** | **100** |
| Educational qualification | Illiterate | 13 | 26.00 |
| | Middle school | 19 | 38.00 |
| | Higher secondary | 12 | 24.00 |
| | Graduate | 6 | 12.00 |
| | **Total** | **50** | **100** |
| Occupation | Private employee | 37 | 74.0 |
| | Shop owner | 7 | 14.00 |
| | Others | 6 | 12.00 |
| | **Total** | **50** | **100** |
| Monthly income | Less than Rs. 5000 | 26 | 52.00 |
| | Rs. 5000-10000 | 24 | 48.00 |
| | **Total** | **50** | **100** |
| Marital status | Married | 37 | 74.00 |
| | Unmarried | 13 | 26.00 |
| | **Total** | **50** | **100** |
| Nature of family | Joint family | 31 | 62.00 |
| | Nuclear family | 19 | 38.00 |
| | **Total** | **50** | **100** |

Source: Primary Data

In this table, out of 50 respondents, 88 %( 44) of the respondents are female and 12 % (6) of the respondents are male.

Regarding the age category, 38 %( 19) of respondents are below 25 years of age and the same number of respondents belong to the age category between 26-30 years. The rest of 12% (6) belong to each of the category 36-40 years and 41-45 years of age.

Among all the respondents, 26% (13) respondents are illiterates, 38 % (19) of respondents had studied till middle school, 24 % (12) of the respondents have completed their higher secondary and 12 %( 6) of the respondents are graduates.

Regarding the occupation, 74% (37) of respondents work in private concerns, 14% (7) of respondents owns shop.

52% of respondents have their monthly income less than 5000, 48 % of respondents have their monthly income between Rs. 5000 and 10,000.

Among 50 respondents, 74% are married and 26 % are unmarried.

62% of the employees live in joint family and 38 % of respondents live in nuclear family.

The successive table narrates the buying behaviour towards FMCG. Various factors that influence the impulsive buying behaviour are taken for the discussion and the mean values were calculated. Based on it, ranks were assigned to the criteria.

**TABLE 2: PLACE OF PURCHASE**

| Variables | Local shops | Main bazaar | Shops of nearby villages | Shops of nearby towns |
|---|---|---|---|---|
| Household | 26(52.00) | 12(24.00) | 0(0.00) | 12(24.00) |
| Food and beverages | 32(64.00) | 6(12.00) | 0(0.00) | 12(24.00) |
| Personal care products | 26(52.00) | 12(24.00) | 0(0.00) | 12(24.00) |

Source: Primary Data

The variables given in the parenthesis represents the percentage value. The above table reveals that majority of the people purchase their products in the local shops. 52 % buy house hold and personal care products in local shops, 64 % buy food & beverages in local shops.

**TABLE 3: SOURCE OF INFLUENCE TOWARDS PURCHASE OF PRODUCT**

| Sl. No | Purchase of products | No. of respondents | Percentage |
|---|---|---|---|
| 1. | Self | 6 | 12.0 |
| 2. | Family | 6 | 12.0 |
| 3. | Friends and neighbors | 25 | 50.0 |
| 4. | Print media | 13 | 26.0 |
| | Total | 50 | 100 |

Source: Primary Data

Nearly 50% of the people say that they are influenced mostly by their friends and neighbours in purchasing FMCG products followed by print media (26%). 12 % of people's opinion is that they take the decision by own self and 12% of consumers are influenced by their family members.

**TABLE 4: FACTORS INFLUENCING IMPULSIVE BUYING BEHAVIOUR**

| Factors | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree | Total sum | Mean | Rank |
|---|---|---|---|---|---|---|---|---|
| Price and discount motivates my impulse behaviour. | 25(50.00) | 12(24.00) | 6(12.00) | 0(0.00) | 7(14.00) | 198 | 3.96 | 4 |
| Advertisement and sales promotion induces my impulse buying. | 18(36.00) | 25(50.00) | 0(0.00) | 0(0.00) | 7(14.00) | 197 | 3.94 | 5 |
| Visual merchandising induces my buying behaviour. | 25(50.00) | 19(38.00) | 6(12.00) | 0(0.00) | 0(0.00) | 219 | 4.38 | 1 |
| Emotional attachment with product motivates me to buy the product. | 31(62.00) | 6(12.00) | 6(12.00) | 7(14.00) | 0(0.00) | 211 | 4.22 | 2 |
| The person with whom you are going affects my buying Behaviour positively. | 18(36.00) | 12(24.00) | 7(14.00) | 6(12.00) | 7(14.00) | 178 | 3.56 | 6 |
| Requirement of product in festival season and special occasion prompts me to buy. | 31(62.00) | 12(24.00) | 0(0.00) | 0(0.00) | 7(14.00) | 210 | 4.20 | 3 |

Source: Primary Data

From the study we can find that, visual merchandising carries maximum mean value as 4.38 and was given rank 1 followed by the emotional attachment of the product with the mean value 4.22, assigned with rank 2, special occasion impulsive purchase has the mean value 4.20 which was assigned rank 3, price off and discounts with the mean value 3.96 was assigned rank 4, advertisement and sales promotion with the mean value 3.94 was assigned rank 5. Finally the criteria companionship has the mean value 3.56 was assigned the 6 th rank.

**REGRESSION TEST**

**Ho: Nature of family of rural consumers' setup directly influences their impulsive buying behaviour.**

The regression model was performed to evaluate the influences of buying behaviour towards FMCG and nature of family. The dependent variable was regular investment habit and the independent variable are : $X_1$- Price and discount motivates my impulse behaviour, $X_2$- Advertisement and sales promotion induces my impulse buying, $X_3$- Virtual merchandising induces my buying behaviour, $X_4$- Emotional attachment with product is a motivational , $X_5$- The person with whom you are going affects my buying behaviour and $X_6$- Requirement of product in festival season and special occasion prompts me to buy.

**TABLE 5: CO-EFFICIENT OF BUYING BEHAVIOUR TOWARDS FMCG AND NATURE OF FAMILY**

| Variables | Unstandardized Coefficients | | t-value | Sig | $R^2$ |
|---|---|---|---|---|---|
| | B | Std. Error | | | |
| **Constant** | 3.545 | .162 | 21.591 | .000 | .963 |
| Price and discount motivates my impulse behaviour | 0.658 | .035 | 18.563 | .000 | |
| Advertisement and sales promotion induces my impulse buying | 0.376 | .111 | -3.385 | .002 | |
| Virtual merchandising induces my buying behaviour | 0.923 | .135 | 9.079 | .000 | |
| Emotional attachment with product is a motivational one | 0.505 | .127 | 3.979 | .000 | |
| The person with whom you are going affects my buying behaviour | 0.628 | .108 | 5.838 | .000 | |
| Requirement of product in festival season and special occasion prompts me to buy | 0.455 | .122 | 2.088 | .043 | |

Level of Significance: 5 per cent

Regression fitted: $Y= 3.545+0.658X_1+0.376X_2+0.923X_3+0.505\ X_4+0.628X_5\ 0.455X_6$

**TABLE 6: RESULT OF ANOVA: BUYING BEHAVIOUR TOWARDS FMCG AND NATURE OF FAMILY**

| Source | Sum of Square | DF | Mean square | F | Sig |
|---|---|---|---|---|---|
| Regression | 11.023 | 6 | 1.837 | 104.393 | .000 |
| Residual | .757 | 43 | .018 | | |
| Total | 11.780 | 49 | - | | |

Level of Significance: 5 per cent

The multiple regression models indicate that explanatory variables have significant contribution to price and discount which motivates impulse behaviour, advertisement and sales promotion induces my impulse buying, visual merchandising induces my buying behaviour, emotional attachment with product is a motivational, the person with whom you are going affects my buying behaviour and requirement of product in festival season and special occasion prompts me to buy. The coefficient of determination $R^2$ value showed that these variables put together explained the variations of Y to the extent of 96.30 per cent.

It has been further observed that probability value (0.000) of F establishes significance relationship between the variables tested in the hypothesis. Thus it is concluded that the Nature of family of rural consumers' setup directly influences their impulsive buying behaviour. The measure of regression establishes 96.30 per cent of association between the variables tested.

## CONCLUSION

The study shows that the rural consumers are more concerned about the visual merchandising which they feel that it stimulates the impulsive buying behaviour. This coincides with the fact that buying impulses can be induced when a consumer encounters a relevant visual stimulus in the retail environment, or some promotional stimuli (Piron, 1991).People feel that emotional attachment with the product makes them prefer a product. These emotions may be specific to certain things for example, the features of the items, customer self-interest, consumer's gauge of evaluating items and the importance they give to their purchasing at a store which coincides with what Babin and Babin (2001) found that in stores consumer's purchasing intentions and spending can largely be influenced by emotions.

The study also reveals that the factors like price discounts, visual merchandising, emotional attachment with the products, sales promotion activities of the manufacturers, festival offers have a positive influence on the impulsive buying behaviour of the rural consumers. So it has become essential on the part of the manufacturers to give importance to these factors to improve sales in these areas.

## REFERENCES


1. Abratt, R.and Goodey, S.D., Unplanned Buying and In-Store Stimuli in Supermarkets, Managerialand Decision Economics, 11 (2), pp111-21, 1990.
2. Ahamed (2011) International review of management and business research vol. 2 issue.1 ISSN: 2306-9007 Bashir, Zeeshan, Sabbar, Hussain & Sarki (2013)
3. Alireza Karbasivar and Hasti Yarahmadi, Evaluating Effective Factors on Consumer Impulse Buying Behavior Asian Journal of Business Management Studies 2 (4): 174-181, 2011 ISSN 2222-1387
4. Bayley, G., and Nancarrow C., (1998), Impulse purchasing: A qualitative exploration of the phenomenon. Qualitative market research: An international journal, 1(2), pp 99-114.
5. Byshi panikar- a study of consumer behaviour on fmcg products Abhinav- International monthly refereed Journal of Research in Management & Technology special issue, Proceedings of national conference on trends in management, engineering & technology ISSN – 2320-0073
6. Crawford, G. and Melewar, T. C., (2003), The importance of impulse purchasing behaviour in the international airport environment. Journal of consumer behaviour, 3(1), pp 85–98.
7. D. N. W.Gamage, Y.M.Wickramasingh And G.M.Henegedara, Factors Influencing Impulse Buying Behaviour Of Rural People Hector Kobbekaduwa Agrarian, Research And Training Institute, Colombo 7, Sri Lanka
8. Dr. Tauseef Ahmed the impulsive buying behaviour of consumers for the fmcg products in Jodhpur. Australian Journal of Basic and Applied Sciences, 5(11): 1704-1710, 2011 ISSN 1991-8178 -1704
9. Geetha Mohan, bharadwaj sivakumaran, piyush sharma( 2013) Impact of store environment on impulse buying behaviour European Journal of Marketing, Vol. 47 Iss: 10
10. Hausman, A., (2000), A multi-method investigation of consumer motivation in impulse buying behavior. Journal of consumer marketing, 17(5), pp 403-419.
11. Ma, Wei,chen (2013) To Buy Or Not To Buy? A Behavioural Approach to Examine Consumer Impulse Buying Choice in Various Situations. Doctoral thesis, Durham University.Mogelonsky, M., Poorand Unschooled, but a Smart Shopper, Journal of American Demographics, 16 (7), pp1415, 1994.
12. Sharma, Rajesh , An investigation into impulse buying behavior among Indian urban adolescents. Consumer behavior journal) Abhigyan Publisher Issue: Jan-March, 2011 Source Volume: 28 Source Issue: 4 ISSN: 0970-2385
13. Stern H. (1962) The Significance of Impulse Buying Today, The Journal of Marketing, 26 (April), 59- 62
14. Underhill, P. (2006) Why we buy - the science of shopping, Forma Publishing Group
15. Williams, J. & Dardis, R. (1972) Shopping behaviour for soft goods and marketing strategies, Journal of retailing, 48 (Fall) 32-41

# AN INTRODUCTION TO EMPLOYEE ENGAGEMENT: SOLUTION FOR EFFECTIVE HRM WITH REFERENCE TO EMPLOYEE ENGAGEMENT MODEL

*B. KALAIYARASAN*
*ASST. PROFESSOR*
*DRBCCC HINDU COLLEGE*
*CHENNAI*

*DR. GAYATRI*
*PROFESSOR*
*ST.PETER`S COLLEGE OF ENGINEERING & TECHNOLOGY*
*CHENNAI*

## ABSTRACT
*Engagement an agreement to do something, an arrangement to employ workers, to reemploy them in the same job but not necessarily under the same conditions with the help of Effective human resource management for an element of risk management for an organization which, as a minimum, ensure legislative compliance, So HR provides all avenues for Employee Development .a management policy that aims to increase employee commitment by giving employees greater individual responsibility for the work they do and a greater share in decision making. Sarah cook (2009) elaborated that Employee Engagement is personified by the passion and energy employees have to give of their best to the organization to severe the customer. It is all about the willingness and ability of employees to give sustained discretionary effort to help their organization succeed. People need to feel engaged with the job they do, colleagues they work with and the company they work for, to give their best. An Employee`s Engagement levels depend not just on his work but also the work and attitude of his subordinates, peers and superiors as well as various processes and environment in the organization*

## KEYWORDS
Commitment, Employee Performance, Engagement, Organizational Growth.

## INTRODUCTION
Jo Sweetland(2012) developed that 4 reasons to develop the engagement in an organization which are 'Engaged' employees work harder, stay longer with their organization and deliver better customer service. The greater the proportion of your staff that makes it into the 'engaged' category, the higher your performance is likely to be on almost every count. Engagement is not an annual survey. Engagement is frequent, relevant and meaningful feedback and recognition. And the right tools will deliver exactly this. There are four key reasons to get engagement in an organization:

a) to raise productivity b) to improve customer service c) to reduce turnover and d) to engage every employee, regardless of age or experience level.

Lee Whittington .J et.al (2010) analyzed the need for an emphasis on engagement and the dramatic globalization of economic activity during the last 20 years has exacerbated the need to attract and keep high-performing employees. Given this new reality, people may be the only remaining source of competitive advantage. Organizations must create work environment that provide a sense of challenge and meaningfulness for employees. Self-managed teams and decentralized decision-making as the basic principles of organizational design.

## INCREASING EMPLOYEE ENGAGEMENT THROUGH HRM
MacLeod (2009) Human Resources department to increase employee engagement. This involved positively changing the organization's culture to enable the business to meet the needs of its employees whilst also maintaining the company's values. Human Resource Management is a process of valuing and developing people at work. It covers all aspects of developing employees, including three important steps:

| | |
|---|---|
| A | Recruitment and selection - attracting suitable new employees. |
| B | Performance - enabling employees to perform their roles to the best of their ability by keeping them informed and providing relevant training opportunities. |
| C | Development - developing an employees to build their careers with Harrods through identifying career progression opportunities |

Research into Human Resource Management indicates that the factors that really motivate employees are intrinsic ones which are based on meeting the personal needs of an individual. Human beings have a number of key psychological needs including:

| | |
|---|---|
| **A** | **The need to feel that you can do something well.** |
| **B** | **The need to be part of a group.** |
| **C** | **The need for respect and encouragement from others.** |

Victor Lipman (2013) described that employee engagement, of course, is not just the job of management. Employees themselves, and the attitudes and mind sets with which they choose to approach each day, are key elements in the engagement equation. To help and cultivate engagement towards the organization that training your engagement instincts by asking yourself "5 Daily Engagement Questions."

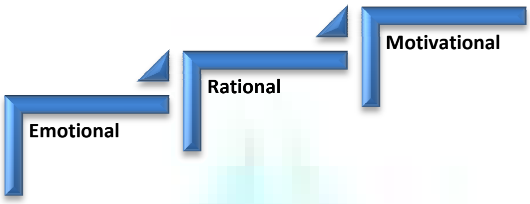
1. What did I do today to improve communication with my manage and peers?
2. What actions did I thank, and who recognized me?
3. Whom did I than, and who recognized me?
4. What I mindful today of our company's long-term goals?
5. Today, how engaged was I at work?

## IMPORTANCE OF EMPLOYEE ENGAGEMENT
Andrew Mercer (2000) described the importance of employee engagement that many of the old methods of management aren't working any more. If we are to succeed we need to ensure that we can leverage the maximum potential out of every member of our staff. In this sense so called higher extrinsic motivators, salary bonuses etc. on their own are no longer sufficient. As leaders, we need to find new and innovative ways to boost morale, retain talent and increase productivity, in order to gain a competitive advantage and an increase on the bottom line. Leaders need their team members to give more discretionary effort to

achieve critical objectives – they need to make things happen. The question is how? The solution to this conundrum is employee engagement. Employee engagement is the secret to business success to manage effectively and optimize staff performance.

A. Emotional Attachment – to the organization, their job and their work.
B.Rational Understanding – of organization's goals, values and how they contribute.
C.Motivational and Willingness – Invest discretionary effort to perform better

Truist.com (2013) discussed the importance of employee engagement that boosts the significance and degree of direct impact of your initiatives by raising the awareness of important issues among your own company. Your employees are your most valuable resource, so channel effort into showing them that you care about their well-being. For issues like heart disease and stroke, this means engaging employees at a personal level by providing them with direct access to information about warning signs and prevention, as well as resources to help them live healthier lives.




**EMPLOYEE ENGAGEMENT MODEL**


Debashish Sengupta (2011) described the best model for effective employee engagements in an organization are
1. IES Model
2. Blessing White`s Model
3. The Zinger Model
4. AMMA`s Four Quadrant
5. WIFI Model

**IES MODEL**

An IES Survey in 2003 identified 10 factors which lead to an employee feeing valued and involved or simply engaged. The characteristics of this model based on IES survive is that recognize factor at work, individual factors and work-life factors as contributors to engagement .the factor training, development and career pertains to both providing career development opportunities for personal development of an employee as well as effective management talent. Immediate management has overtones on the contribution of leadership process in engagement of employees. The leadership has the responsibility of providing clarity of company`s values, respectful treatment of employee and both exhibiting and maintaining company`s standards of ethical behavior.

Andrew Dutta (2006) criticized the IES Survey 2003 that ten important elements are influencing employee's perception regarding their organization and its leads to engagement towards the organization which includes:

| | | | |
|---|---|---|---|
| A | Training, Development and Career | B | Immediate Management |
| C | Performance and appraisal | D | Communication |
| E | Equal opportunities and fair treatment | F | Pay and benefits |
| G | Health and Safety | H | Co-operation |
| I | Family friendliness and | J | Job Satisfaction |

**BLESSING WHITE`S MODEL**

Blessing White`s employee engagement model represents an alignment of maximum job satisfaction with maximum job contribution. It aims at aligning employee`s values, goals and appreciation with those of the company for achieving sustainable improvements in employee engagements that will help the organization to achieve its strategic goals `. Blessing White define an engaged employee as` ``enthused`` and ``in gear ``, using their talents and discretionary effort to make a difference in their employer`s quest for sustainable business success`.

**THE ZINGER MODEL**

David Zinger (2009) proposed a Zinger Model` of employee engagement. Interestingly David Zinger attempts to balance organizational inputs, leadership inputs and individual (self) inputs in creating and fostering engagement, effort must come from organizations, leaders and employees.

**AMMA`S QUADRANT MODEL**

AMMA, the sole national employer association representing the employee relations and human resource management interests of Australia's onshore sector and associated industries proposed the Four Quadrant Model of employee Relations and organizational Effectiveness to assess the impact of employee engagement on workplace performance. Bargaining Quadrant, Partnership Quadrant, Bureaucracy Quadrant and Leadership Quadrant.

**WIFI MODEL OF EMPLOYEE ENGAGEMENT**

Kaila.H.L (2012) described the elements of WIFI model of employee engagement has four elements namely such as

- (i) **W**ell-being (ii) **I**nformation (iii) **F**airness and (iv) **I**nvolvement

*Well-being*---He \ she should be able to serve as a brand ambassador for his \ her organization. A strong sense of affiliation is seen of the employee towards his \ her organization.

*Information*---Making clear sense of directions. It also includes making information interactive and emphasizing vision of the company in engaging and involving manner.

*Fairness*---Managing talent by the employer helps to develop the feeding that the most talented people are taken care of.

*Involvement*---It includes giving enough opportunities interaction between Sr mangers and their Jr ones by which the Sr.mangers will act as role models and inspires juniors to go an extra mile.

## CONCLUSION

Employee Engagement is the level of commitment towards their organization and positive attitude to work as a team in an organization for the betterment of both employee and employer. Research into Human Resource Management indicates that the factors that really motivate employees are intrinsic ones which are based on meeting the personal needs of an individual. Human beings have a number of key psychological needs including: The need to feel that you can do something well, the need to be part of a group, the need for respect and encouragement from others. These needs are typically met from non-financial rewards, for example, by providing opportunities: For promotion, to make decisions, to contribute to a team, and to do a variety of tasks. All the needs fulfilled with effective utilization of engagement.

A satisfied employee is one who is happy with his/her company, role and co-workers etc. An engaged employee is one who gives additional discretionary effort; goes beyond their job description. Further, the most worthwhile engagement is seen in employees who happily want to give additional effort and know where to apply it. This combination of action and line of sight results in an engaged employee who willingly works harder to deliver against your company's strategic objectives in their own daily tasks.

## REFERENCES

1. Andrew Dutta (2006)., ``employee engagement: new corporate perspective``., HRM Review., April`2006. P-16.
2. Andrew Mercer (2000)., ``Importance of Employee Engagement``., www.footdown.com
3. David Zinger (2009)., ``13 Powerful Guidelines for Employee Engagement Programs``., Dec 1`2009., www.davidzinger.com
4. Debashish Sengupta(2011 ).,Employee Engagement.,biztantra.,1`stEdn.,NewDelhi.,p-12-17.
5. Jo Sweetland (2012).,`` 4 Reasons to Improve Employee Engagement``., Dec 11` 2012. www.uk.hrmanager.com
6. Kaila.H.L (2012)., Human Resource Development and Organizational Psychology., AITBS Publishers., 1`stEdn., Newdelhi.P-109-111
7. Lee Whittingtonet.al (2010).,``The engagement factor: building a high-commitment organization in a low-commitment world``., Journal of Business Strategy., Vol.31., No.5.,2010. PP 14-24.
8. MacLeod (2009)., ``Increasing employee engagement through HRM`` Engaging for Success., www.businesscasestudies.co.uk
9. Sarah Cook (2009)., the essential Guide to Employee Engagement., KOGAN PAGE., 1Edn., London.p-3.
10. Truist.com (2013)., `` The Importance of Employee Engagement for Causes That Matter `` May 6th, 2013. www.truist.com
11. Victor Lipman (2013)., ``why employee engagement is not just the job of Management``., www.forbes.com

# FDI IN INDIAN RETAIL: CHALLENGES

*DR. MANOJ KUMAR SHARMA*
*ASST. PROFESSOR*
*S.P.U. (P.G.) COLLEGE*
*FALNA*

**ABSTRACT**

*The industry is facing a severe shortage of talent, especially at the middle management level. Most Indian retail players are under serious pressure to make there supply chain more efficient in order to deliver the level of quality and service that consumer are demanding , Long intermediation chain would increase the cost by 15 per cent. Foreign direct investment (FDI) in the retail sector in India is restricted. In 2006, the government eased retail policy for the first time, allowing up to 51 per cent FDI through the single brand retail route. Since then, there has been a steady increase in FDI in the retail sector, and the cumulative FDI in single-brand retail stood at $195 million by the middle of 2010 (DIPP, 2010). The acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors.Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector.FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major challenges that it faces.*

**KEYWORDS**
FDI, Indian retail sector.

## INTRODUCTION

Among the various forms of foreign investment, foreign direct investment (FDI) flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depends on the performance of projects financed by the investors. In fact, FDI provides a win – win situation to both the host and the home countries. The „home" countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the „host" countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, in order to overcome the deficiencies of all kinds of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets-abroad - in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities. Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India.

With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space. Retail modernization in India depicts a similar story.

According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

## OBJECTIVE OF THE STUDY AND METHODOLOGY

The objective of our study is to analyze the current retail scenario in India, investigate the controversial views of the various stakeholders and evaluate the likely challenges and threats of FDI in both single and multi-brand retail in India. The whole paper is based on descriptive arguments, statistical data, case studies, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

## INDIAN RETAIL SECTOR: AN OVERVIEW AND CURRENT POSITION

**(a)** ***Meaning of retail*** It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. In 2004, The High Court of Delhi defined the term „retail" as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

**(b)*****Evolution of Indian Retail Industry*** It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were transformed Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc has brought a great revolution to the Indian retail market.

***(c)Distinction of Indian Retail*** The Indian trading sector, as it has developed over centuries, is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent retailers („vertical separation") and (b) directly from the producer („vertical integration"). In India, however, the above two modes of operation are not very common. Small and medium enterprises dominate the Indian retail scene.

**(d)** ***Division of Indian Retail Industry*** The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing. **(a) Organized Retailing -** refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. **(b) Unorganized Retailing** - refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

## TYPES OF RETAILING IN INDIA

**(a) Single Brand-** Single brand implies that foreign companies would be allowed to sell goods sold internationally under a „single brand", viz., Reebok, Nokia and Adidas. FDI in „Single brand" retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

**(b) Multi Brand-** FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous "kirana" store. The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

## OPPORTUNITIES AND THREATS OF FDI IN RETAIL IN INDIA

Market liberalization, a growing middle-class, and increasingly assertive consumers are sowing the seeds for a retail transformation that will bring more Indian and multinational players on the scene. India is tipped as the second largest retail market after China, and the total size of the Indian retail industry is expected to touch the $300 billion mark in the next five years from the current $200 billion. But the recent debate has centered on the issue of whether FDI in retail in India will be a "boon or a bane". Many studies and surveys were conducted to analyze the impact of FDI in retail sector in various segments of the economy. According to a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP, 2010), FDI in retail must result in backward linkages of production and manufacturing and spur domestic retailing as well as exports. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits. ***Key Perceived Opportunities*** The following may be regarded as major perceived benefits of allowing FDI in retail in India:

**1. Capital Infusion-** This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

**2. Boost Healthy Competition and check inflation-** Supporters of FDI argue that entry of the many multi-national corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

**3. Improvement in Supply Chain-** Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).

**4. Improvement in Customer Satisfaction-** Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.

**5. Improved technology and logistics**- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

**6. Benefits for the Farmers-** Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can benefit with the "farm-to fork" ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

**7. Creation of More And Better Employment Opportunities-** The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

## KEY POTENTIAL THREATS

Critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood. The major threats to the domestic retailers in India are specified below:

**1. Domination of Organized Retailers-** FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets (local "mom and pop" stores will be compelled to close down).

**2. Create Unemployment-** Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.

**3. Loss of Self Competitive Strength-** The Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.

**4. Indirectly Leads to Increase in Real Estate Cost**- It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

**5. Distortion of Culture**: Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

## CONCLUSION

A recent study by University of North Carolina economist Anusha Chari and T C A Madhav Raghavan (of ISI, New Delhi), March 2011, shows that the potential benefits of allowing large retailers into the country significantly outweigh the costs. These benefits largely accumulate through productivity gains. With respect to the impact of entry by big-box stores such as Wal-Mart on retail employment and earnings, evidence from the United States is mixed. Apart from prices, the report states that smaller farmers came under severe pressure from supermarkets due to the latter"s requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk.

Observed supermarket practices too may work against the interests of incumbent retailers, even organized ones. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops. The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises (DIPP Report, 2010). With a restriction of this sort, the opening up of the retail sector to FDI could therefore provide a boost to small-and medium enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. So it is very difficult to predict the future of Indian retail sector.

## REFERENCES


1. A.T. Kearney (2011): “Retail Global Expansion: A Portfolio of Opportunities-2011 Global Retail Development Index”, A.T. Kearney, 2011
2. Basker, Emek, 2005a. “Job Creation or Destruction? Labor Market Effects of Wal-Mart Expansion,”
3. Chari, Anusha. and T.C.A. Madhav Raghavan: “Foreign Direct Investment in India‟s Retail Bazaar: Opportunities and Challenges”, March 2011.
4. Confederation of Indian Industry (2012): “The Impact of FDI in Retail on SME Sector: A Survey Report”.
5. Harsh Mariwala, Retail FDI: A Win-Win Move, The Economic Times, Delhi 30-11-2011.
6. Joseph, M. and Nirupama Soundararajan (2009): “Retailing in India: A Critical Assessment”, Academic Foundation, New Delhi.
7. Kalhan, Anuradha and Martin Franz, (2009), “Regulation of Retail: Comparative Experience,”
8. Kalhan, Anuradha, (2007), “Impact of Malls on Small Shops and Hawkers,” Economic and Political
9. Labor Markets,” Journal of Urban Economics, Vol. 63, No. 2, pp. 405-430.
10. McKinsey & Company (2007): “The „Bird of Gold‟: The Rise of India‟s Consumer Market”, McKinsey Global Institute, 2007.
11. Mukherjee, A. and Nitisha Patel (2005): “FDI in Retail Sector: India”, Academic Foundation, New Delhi.
12. Sarma, E.A.S, 2005, “Need for Caution in Retail FDI,” Economic and Political Weekly, Vol.40, No.46, pp.4795-98.
13. Soundararaj, J (2012): “100% FDI in Single-Brand Retail Of India- A Boon or a Bane?” International Journal of Multidisciplinary Management Studies, May 2012; Vol.2 Issue 5.

# WORKING CAPITAL PERFORMANCE: A CASE STUDY ON DABUR INDIA LTD.

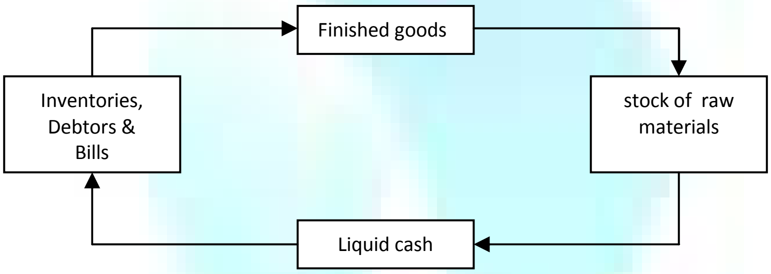
*NIRMAL CHAKRABORTY*
*ASST. PROFESSOR*
*MAHISHADAL RAJ COLLEGE*
*MAHISHADAL*

**ABSTRACT**

*Among all the problems of financial management, the problems of working capital management have probably been recognized as the most crucial one. It is because of the fact that working capital always helps a business concern to gain and strength. The objective of the study is to examine the working capital performance of Dabur India Ltd. during the period 2003-04 to 2010-11.Inventory turnover ratio, Working capital turnover ratio, and current asset turnover ratio and debtors turnover ratio shows satisfactory performance of the company but in terms of current ratio and the liquidity position of the company are not satisfactory. The Correlation Co-efficient between Liquidity and Profitability of the selected company is observed to be (–) 0.3. It is statistically significant at 5% level. Different financial ratios and statistical techniques are also applied for measuring the working capital efficiency.*

## KEYWORDS
Liquidity, Profitability, Ratio, Working Capital Management.

## INTRODUCTION
Working capital refers to the firm's investment in short term assets like accounts receivables, accounts payables, inventory and others including cash or cash equivalent and marketable securities. Therefore, working capital means the amount of capital which is required for day to day normal operation of an organization. It is used for running the main operating activities of the concern. for maintaining continuity in main operating activities , a firm has to invest a part of its capital in current assets. It has also to use another part of capital for paying of its current liabilities. It helps by creating income of the firm in an accounting period by means of a recurring rotation of the current assets and current liabilities.
For this reason it is also known as income generating capital. Someone uses it as circulating capital.
There are two concepts of working capital. They are balance sheet concept and operating cycle concept. According to the balance sheet concept working capital is meant by gross working capital (i.e. sum of current assets) and net working capital (I.e. the difference between total current assets and total current liabilities). Again net working capital may be positive working capital, negative working capital and zero working capital. On the other hand, operating cycle is a particular set of correlated activities that starts from the procurement of raw materials or trading goods and ends with realization of sales. The following diagram depicts the functioning of the working capital:




Two vital aspects involving working capital management of a firm are liquidity and profitability. The well accepted objective of working capital management is to maintain a good liquidity position by not surrendering to the profitability aspect. Therefore a conflict comes between the terms liquidity and profitability. Increasing liquidity are against high profitability and increasing profitability are help full for reducing liquidity. The following ratios are used to measure profitability also supports this relation.

**Profitability = profit/capital employed**
**= profit/ (fixed assets + working capital)**

If the profit and investment in fixed assets are remain unchanged and working capital is increased, profitability will come down and vice- versa.
It can also be analyzed from risk and return concept. Investment of capital in fixed assets and circulating current assets is more risky and more profitable. In such case liquidity suffers because of low investment in cash and cash equivalent assets. On the contrary, holding of more liquid assets by making a low investment in fixed and circulating current assets is less risky and less profitable. In this case, liquidity is not at all a problem. Therefore, drawing up a balance between liquidity and profitability depends a lot on the expertise of the managerial staff and it speaks of the efficiency of management in managing finance.

## DABOUR INDIA LIMITED- A PROFILE
Dabur india limited is the fourth largest first moving consumer goods (F M C G) company in India. It is established in 1884. It produces many products for cardio vascular system, digestive system, metabolic disorder, musculo-skeletal system, respiratory system, urinary system and so on.

## LITERATURE REVIEW
Grablowsky, B. J. (1976)[3] examined the mismanagement of accounts receivables by small business and found that there is a significant relationship between various success measures and the employment of formal working capital policies and procedures. Walker, E and Petty, W(1978)[10] examined the financial differences between large and small firms and found that managing cash flow cash conversion cycle is a critical component of overall financial management for all firms especially those who are capital controlled and more reliant on short term sources of finance. Smith K, V (1973)[8] examined the state of the art of working capital management and identified eight major theoretical approaches taken towards the management of the working capital. He stressed the need for the development of a viable model with the duel financial goals of profitability and liquidity, and argues that only such models will assist practicing financial managers in their day to day decision making. Refuse M. E. (1996)[7] refocused on urgent need on working capital management. He found that the idea of delaying payment to the creditors as a strategy of improving capital. Instead he proposed that the companies should strategize more on stock management based on lean supply chain techniques. Deloof, M (2003)[2] evaluated the effects of working capital management on profitability of Belgian firms. He analyzed that most firm had a large amount of cash invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on the profitability of those firms. Using correlation and regression test he found that a significant negative relationship between gross operating income and the no. of days account receivables, inventories and account payables of Belgian firms.

On the basis of this result he suggested that managers could create value for their shareholders by reducing the no of days account receivables and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that the less less profitable firms wait longer to pay their bills.

Lazaridis, I. Tryfonidis, D, (2006)[5] studied the relationship between working capital management and profitability of companies listed in the Athens stock exchange. The result from regression analysis showed that there was a statistical significance between profitability measured through gross operating profit and cash conversion cycle. From those results they claimed that the managers could create value for shareholders by handling correctly the cash conversion cycle and keeping each different component to an optimum level.

Aminu, Yusuf (2012) in his study ' A nexus between liquidity and profitability trade offs for working capital in Nizerias manufacturing sector' concluded that profitability / liquidity trade off has always been in conducive . the motive to strategy and practical existing circumstances, are always critical factors that must be considered in maintaining a balance liquidity and profitability.

## RESEARCH GAP
Although several studies have been studied in the area of working capital management, a few studies have been carried out in the pharmaceutical industry. More over no comprehensive indices were formed to examine the relationship between liquidity and profitability. Hence, the present study is an attempt to contribute to the existing literature.

## OBJECTIVES OF THE STUDY
The main objective of the study is to examine the working capital management of the selected companies.

To attain the main objective, the following objectives are sought to be achieved:

i) To examine the working capital performance of the selected company.

ii) To study the liquidity position of the selected company.

iii) To examine the relationship between liquidity and profitability of the selected company.

## HYPOTHESIS
i) Working capital performance of the selected company is Healthy.

ii) There is a significant negative relationship between liquidity and profitability

## METHODOLOGY
To carry out the present study, Dabur India limited has been selected purposively based on secondary data. It is one of the leading company in India.

**DATA SOURCE**

The data required for the study has been collected from the published annual reports of the selected company.

**STUDY PERIOD**

We have chosen the study period ranging from 2003-04 to 2010-11.

**TOOLS AND TECHNIQUES OF DATA ANALYSIS**

The data collected from the published annual reports of the selected company for the eight years period have been suitably arranged, classified and tabulated as per requirement for the study.

## WORKING CAPITAL PERFORMANCE OF THE SELECTED SAMPLE COMPANY
To analyze the working capital performance of the selected company, the technique of ratio analysis has been used. The ratios which are taken into consideration are as follows:

**TABLE 1: DIFFERENT RATIOS WHICH ARE TAKEN INTO CONSIDERATION TO ANALYZE THE WORKING CAPITAL PERFORMANCE OF THE SAMPLE COMPANY**

| Name of the ratios | Measures |
|---|---|
| Current ratio | Current asset/current liability |
| Quick ratio | (current asset- stock)/(current liability- bank over draft) |
| Absolute liquid ratio | (cash and bank balance+ marketable securities)/(current liabilities – bank over draft) |
| Inventory turnover ratio( in times) | (sale – gross profit)/ closing stock |
| Inventory turnover ( in days) | 365/inventory turnover( in times) |
| Debtors turnover ratio( in time) | Net sales/ closing debtors |
| Working capital turnover ratio | Net sales / working capital |
| Debtors turnover ratio ( in days) | 365/ debtors turn over in times |
| Current asset turnover ratio | Sales / current assets |

**ANALYSIS OF THE LIQUIDITY POSITION BY MOTAALS COMPREHENSIVE TEST**

In this test the following ratios are taken into consideration. Each of the ratios are expressed as percentage

I) Inventory / current asset

II) Debtors / current assets

III) Cash & bank / current assets.

For i) the lower the ratio the more favorable is the position and ranking has been done in that order. For ii), iii), & iv) the higher the ratio, the more favorable is the position and thus ranking has been done in that order. Ultimate ranking has been done on the principle that lower the points scored the more favorable are the position and vice- versa.

**RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY**

To analyze the relationship between liquidity and profitability, spearman's Rank correlation has been used. For this purpose spearman's rank correlation coefficient is computed as below.

R= cov(x,y)/sd(x).sd(y)

Where, cov(x,y)= covariance of x and y.

S.d(x)= standard deviation of x

s.d(y)=standard deviation of y

To test the significance of the relationship between liquidity and profitability, found out by way of correlation coefficient, t test has been applied.

The t statistic is given below

$t = \frac{R\sqrt{n-2}}{\sqrt{1-R^2}}$ Where R = Rank Correlation coefficient, n= No. of observations

In addition to the above simple statistical measured like mean S.D, coefficient of variation have been used in this study.

**ANALYSIS OF WORKING CAPITAL PERFORMANCE OF DABUR INDIA LTD.**

Selected ratios of Working Capital in Dabur India Ltd, during 2003-04 to 2010-11

**TABLE 2: DISTRIBUTION OF DIFFERENT RATIOS OF DABUR INDIA LTD. DURING, 2003 TO 2010-11**

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | mean | Standard deviation | Coefficient of variation (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| C. Ratio | 1.15 | 1.02 | 1.08 | 1.41 | 1.05 | 1.18 | 1.2 | 1.27 | 1.17 | 0.12761549 | 10.90 |
| Quick Ratio | 0.64 | 0.51 | 0.59 | 0.85 | 0.5 | 0.86 | 0.87 | 0.96 | 0.7225 | 0.18218907 | 25.21 |
| Absolute Liquid Ratio | 0.09 | 0.04 | 0.19 | 0.17 | 0.21 | 0.43 | 0.37 | 0.38 | 0.235 | 0.14302847 | 60.86 |
| Inventory Turn Over Ratio (times) | 5.28 | 5.91 | 6.84 | 6.36 | 9.71 | 8.84 | 5.95 | 11 | 7.48625 | 2.08814297 | 27.89 |
| Inventory Turn Over Ratio (days) | 69 | 62 | 53 | 57 | 38 | 41 | 61 | 33 | 51.75 | 12.947697 | |
| Debtors Turn Over Ratio (times) | 17.16 | 18.64 | 23.42 | 14.64 | 23.96 | 25.07 | 26.07 | 20.24 | 21.15 | 4.10661835 | 19.41 |
| Debtors Turn Over Ratio (days) | 22 | 20 | 16 | 25 | 15 | 15 | 14 | 18 | 18.125 | 3.90741054 | 21.55 |
| Net working capital turn over(time) | 2.68 | 1.77 | 5.02 | 1.1 | 5.70 | 1.94 | 1.83 | 1.04 | 2.63 | 1.65 | 62.64 |
| Current assets turn over | 3.63 | 3.47 | 3.73 | 3.25 | 3.09 | 2.98 | 3.08 | 2.21 | 3.18 | 0.47704447 | 15 |

The Current Ratios of the company in several years are ranging from 1.02 to 1.41 with a mean 1.17 and standard deviation .127. It is observed that neither of the years the company's current ratio at standard norms 2 : 1. The coefficient of variation is 10.90%. The quick ration in several years are found to be below 1 : 1 being the standard. The mean of quick ratio is not conformity with the standard. If we analyze the absolute liquidity position of the company it is observed that neither of the years is at or above the standard (.5 : 1) under the study period. However the company's inventory turnover ratios, debtor's turnover ratios and net working capital turn over ratios are much healthy under the study period. The trend of all the ratios is shown in a graph chart here.

**FIGURE -1**

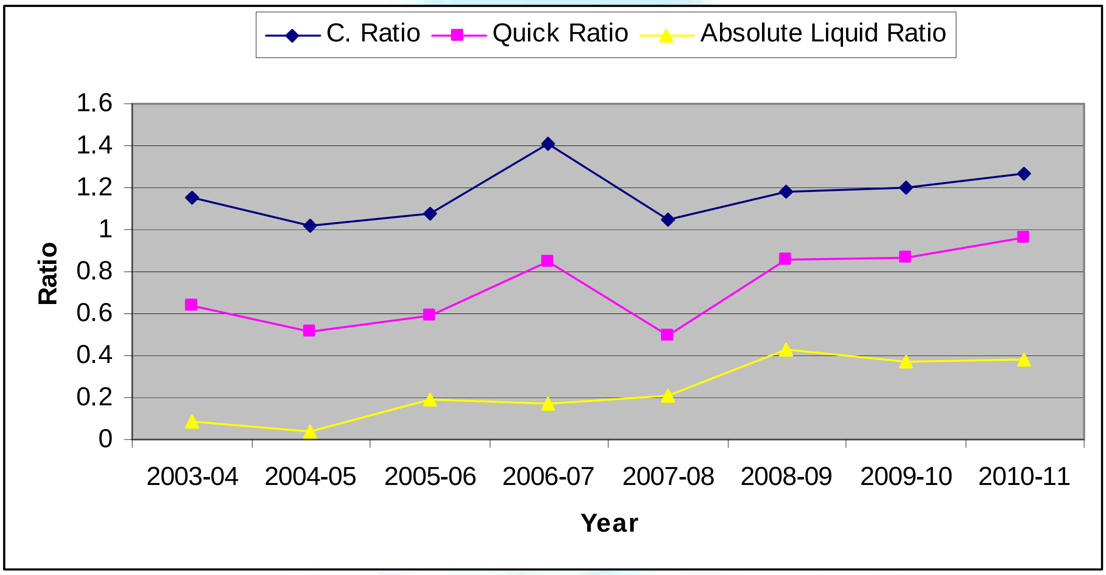



**FIGURE -2**

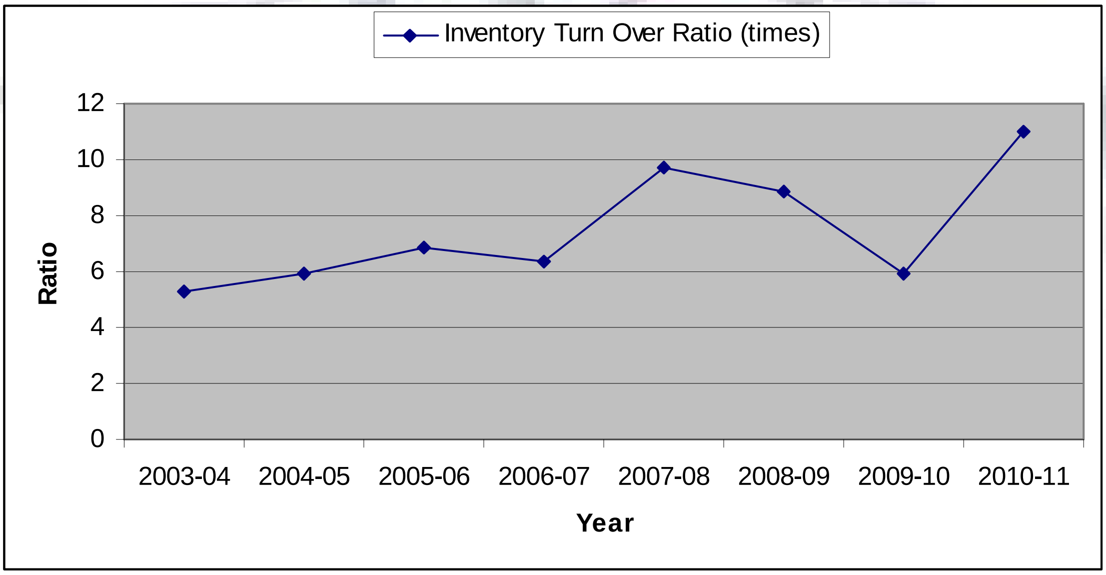


FIGURE -3

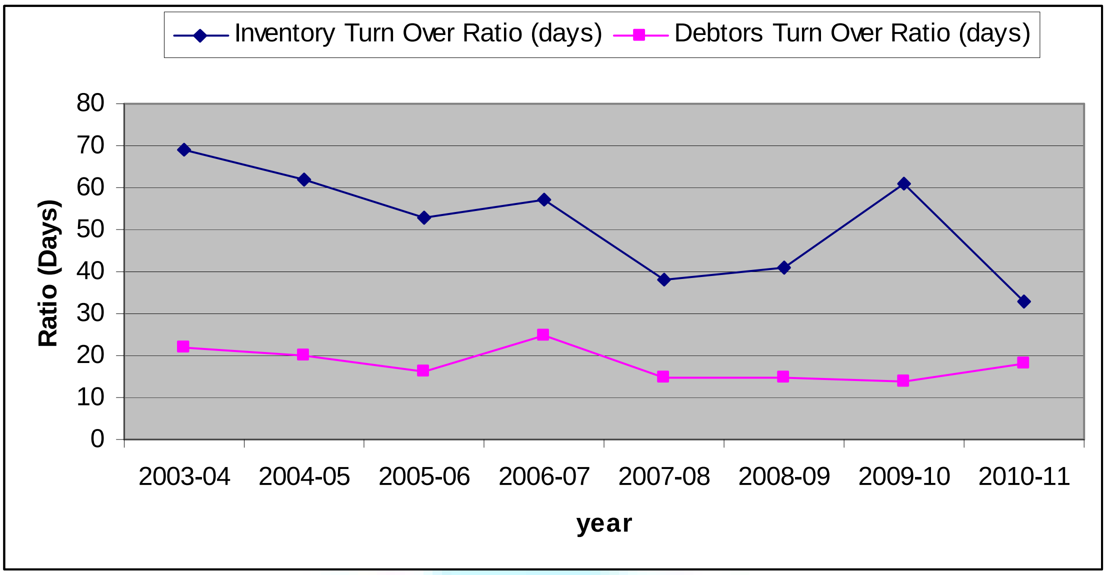



FIGURE - 4

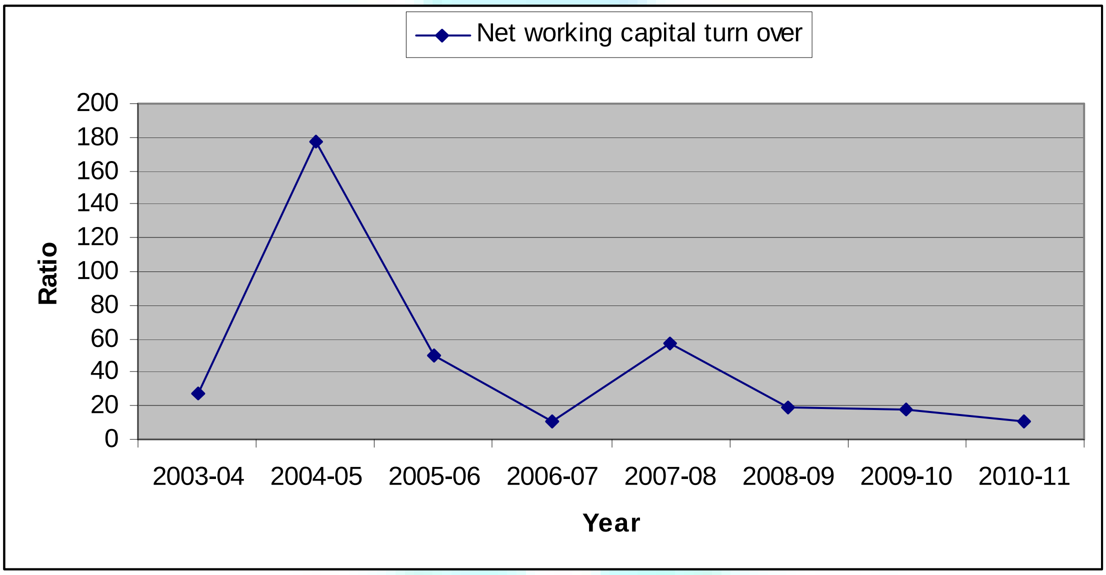
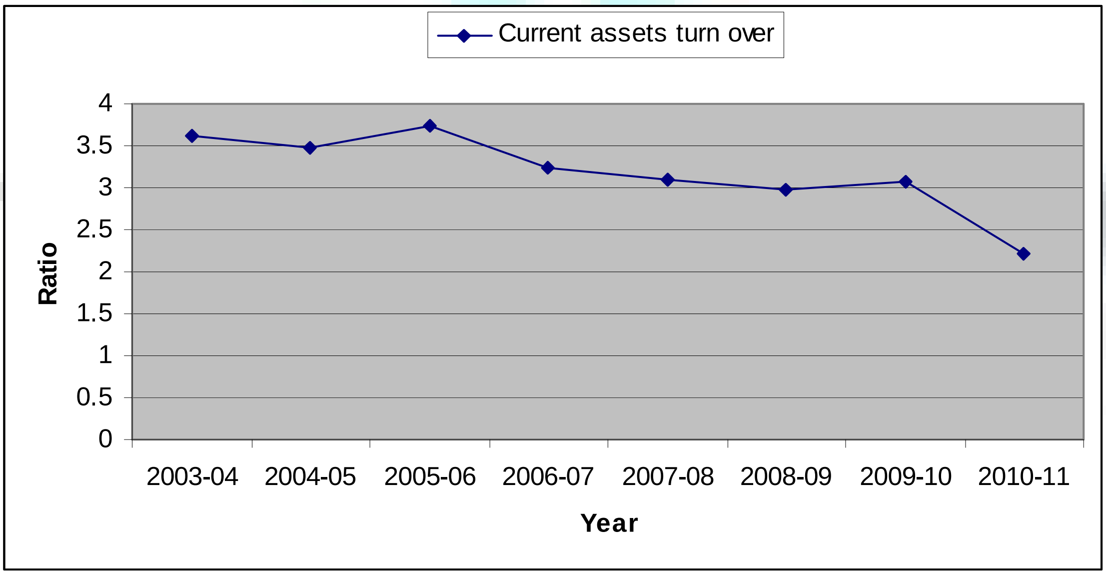



FIGURE - 5



**LIQUIDITY RANKING ANALYSIS BY MOTAALS TEST**

Liquidity refers to the firm's ability to pay its current debts. The liquidity position of a firm is largely affected by the composition of working capital. Therefore, to determine the liquidity position of the company is much important. In my study the liquidity position is tested by a comprehensive test, known as Motaals test which is shown below:

**TABLE 3: DISTRIBUTION OF RESULTS OF MOTAALS TEST**

| Year | Inventory to Current Asset (%) | Debtors to Current Asset (%) | Cash & Bank to Current Asset (%) | Loans & Adv. & Other Current Asset to Current Asset (%) | Liquidity Rank | | | | Total Rank | Ultimate Rank |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | | |
| 2004 | 44.97 | 20.93 | 5.95 | 28.15 | 6 | 1 | 7 | 7 | 21 | 6 |
| 2005 | 49.84 | 18.62 | 3.62 | 27.92 | 8 | 2 | 8 | 8 | 26 | 8 |
| 2006 | 45.15 | 15.77 | 10.85 | 28.23 | 7 | 4 | 6 | 6 | 23 | 7 |
| 2007 | 39.70 | 15.38 | 12.68 | 32.24 | 5 | 6 | 4 | 4 | 19 | 5 |
| 2008 | 36.38 | 18.17 | 12.34 | 33.09 | 4 | 3 | 5 | 3 | 15 | 3 |
| 2009 | 35.12 | 15.08 | 19.29 | 30.51 | 2 | 8 | 1 | 5 | 16 | 4 |
| 2010 | 32.51 | 14.21 | 17.86 | 35.42 | 1 | 7 | 2 | 1 | 11 | 1 |
| 2011 | 35.54 | 15.62 | 14.85 | 33.99 | 3 | 5 | 3 | 2 | 13 | 2 |

From the above table, it is observed that the company's liquidity position in 2010 is the best followed by 2011,2008 and so on under the study period.

**RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY**

For estimating relationship between Liquidity and Profitability, the two main ratios namely current ratio (current asset to current liability) is taken for measuring liquidity and return on capital employed is taken for profitability analysis. The above two ratios are computed from the figures taken from annual reports of the company under the study period and thereby to obtain the relationship between these two, Karl Pearson Correlation Co-efficient has been calculated.

The Correlation Co-efficient between Liquidity and Profitability of the selected company is observed to be (–).30. It is statistically significant at 5% level (2 tailed), since the calculated value of t (.77) is not greater than the table value of t (2.37). Thus it clears that the company has not maintained post optimal liquidity, thereby creating negative impact on profitability during the study period. This leads to acceptance of the second hypothesis of the study.

## FINDINGS AND CONCLUSIONS

1. Current ration of the company is always below the standard norm 2: 1 under the study period. Therefore, performance of the company in terms of current ratio is not satisfactory.
2. The performance of the Quick ratio is also not satisfactory except in 2010-11 as the ratio remain below 1: 1 during the study period.
3. Absolute Liquid ratio is also below the standard norm 0.5: 1 during the study period except 2008-09. Therefore, the ratio cannot satisfy the company's liquidity position.
4. Inventory turnover ratio and debtors turnover ratio shows satisfactory performance during the study period.
5. Liquidity position of the firm is not satisfactory during all the years of the study period.
6. The Karl Pearson Correlation Co-efficient between liquidity and profitability of the company is observed to be negative but it is much below (–) 1. This indicates that the company has not maintained sufficient liquidity level during the study period.
7. Working capital turnover ratio and current asset turnover ratio shows a satisfactory position of the firm during the study period.
8. The Correlation Co-efficient between Liquidity and Profitability of the selected company is observed to be (–).30 it is statistically significant at 5% level.

It may conclude that the working capital management of Dabur India Ltd. is not satisfactory during all the years under the study period.

## LIMITATION OF THE STUDY

1. The study has been conducted over a limited period of eight years only.
2. The study is mainly based on secondary data.
3. The study is limited to a single company only.
4. The study is based on consolidated financial statement, which may lead to some errors and assumptions.
5. For finding the relation between liquidity and profitability only current ratio and PAT margin has been consider which is one of the major limitation of the study.
6. Gross profit has been deducted from the sales for computing cost of goods sold which is used for determining inventory turnover ratio

The present study is limited to a single company and based on many assumptions. Hence further research may be conducted to reflect the overall view of Working Capital Management of the company like Dabur India Ltd.

## REFERENCES


1. Banerjee, B. (1999). Financial Policy & Management Accounting, 6th Edition, the World Press Private Ltd, Kolkata.
2. Deloof, M (2003). "Does Working Capital Management affect Profitability of Belgian firms?" Journal of Business Finance and Accounting, Vol 30, No. 3 & 4 PP 573-587.
3. Grablowsky, B.J. (1976). "Mismanagement of Accounts Receivables by small business". Journal of small business, 14 PP 23-28.
4. Khan, M.Y and Jain, P.K. (2004). "Financial Management", 2nd Edition, Tata McGraw Hill.
5. Lazaridis, I. Tryfonidis, D (2006). "Relationship between Working Capital Management and Profitability of Companies listed in the Athens Stock Exchange". Journal of financial management and analysis 19(1) PP 26-35.
6. Raheman Abdul, Nasir, Mohammad (2007). "Working Capital Management and Profitability – Case Study of Pakistani Firms". International review of Business Research Papers, Vol 3 No. 1 PP 279-300.
7. Refuse, M.E. (1996). "Working Capital Management – an urgent need to refocus". Management Decision Journal, 32(2).
8. Smith K.V. (1973). "State of the art of Working Capital Management", Autumn, PP 50-55
9. Website of Dabur India Ltd (www.daburindia.com).
10. Wlaker, E and Petty W, (1978), "Financial difference between large and small firms". Financial Management, Winter PP 61-68.

# A STUDY ON PERFORMANCE EVALUATION OF PUBLIC & PRIVATE SECTOR MUTUAL FUNDS IN INDIA

*DR. BHUPENDRA SINGH HADA*
*ASST. PROFESSOR*
*SCHOOL OF BUSINESS AND MANAGEMENT*
*JAIPUR NATIONAL UNIVERSITY*
*JAIPUR*

## ABSTRACT

*Mutual fund provides a readymade option to households for portfolio diversification as well as relative risk aversion through collecting and investing their savings in different risk-return profile instruments. Its performance depends on the performance of underlying portfolio. If one or more schemes perform badly in the portfolio, that can effect or hurt the investment decisions of investors and may get them out from the scenario of wealth creation process. For saving investors' money from such a hazard, it becomes necessary to evaluate the performance of mutual fund portfolio so that investors can take/judge their investment decisions rationally. This evaluation would help in checking the prime idea of "putting all eggs in different baskets" behind mutual funds and guessing that how far this idea is doing well for investors. Therefore, our study has attempted to evaluate the comparative performance of public and private sector mutual fund schemes t he Indian Mutual fund Industry has witnessed a structural transformation during the past few years. Therefore it becomes important to examine the performance of the mutual fund in the changed environment. This paper has evaluated the performance of Indian Mutual fund scheme from 1st April.2007 to 31 March 2012.To examine the funds sensitivity to the market fluctuations in terms of beta. To appraise investment performance of mutual funds with risk adjustment the theoretical parameters as suggested by Sharpe, Treynor and Jensen. To rank the funds according to Sharpes, Treynors and Jensons performance measure.*

## KEYWORDS

risk and return, Sharpes, Treynors and Jensons ratio, NAV.

## 1. INTRODUCTION

Mutual Funds over the years have gained immensely in their popularity. Apart from the many advantages that investing in mutual funds provide like diversification, professional management, the ease of investment process has proved to be a major enabling factor. However, with the introduction of innovative products, the world of mutual funds nowadays has a lot to offer to its investors. With the introduction of diverse options, investors needs to choose a mutual fund that meets his risk acceptance and his risk capacity levels and has similar investment objectives as the investor.

With the plethora of schemes available in the Indian markets, an investors needs to evaluate and consider various factors before making an investment decision. Since not everyone has the time or inclination to invest and do the analysis himself, the job is best left to a professional. Since Indian economy is no more a closed market, and has started integrating with the world markets, external factors which are complex in nature affect us too. Factors such as an increase in short-term US interest rates, the hike in crude prices, or any major happening in Asian market have a deep impact on the Indian stock market. Although it is not possible for an individual investor to understand Indian companies and investing in such an environment, the process can become fairly time consuming. Mutual funds (whose fund managers are paid to understand these issues and whose Asset Management Company invests in research) provide an option of investing without getting lost in the complexities.

Most importantly, mutual funds provide risk diversification: diversification of a portfolio is amongst the primary tenets of portfolio structuring, and a necessary one to reduce the level of risk assumed by the portfolio holder. Most of us are not necessarily well qualified to apply the theories of portfolio structuring to our holdings and hence would be better off leaving that to a professional. Mutual funds represent one such option. Lastly, Evaluate past performance, look for stability and although past performance is no guarantee of future performance, it is a useful way to assess how well or badly a fund has performed in comparison to its stated objectives and peer group. A good way to do this would be to identify the five best performing funds (within your selected investment objectives) over various periods, say 3 months, 6 months, one year, two years and three years.

Shortlist funds that appear in the top 5 in each of these time horizons as they would have thus demonstrated their ability to be not only good but also, consistent performers. An investor can choose the fund on various criteria according to his investment objective, to name a few:

- Thorough analysis of fund performance of schemes over the last few years managed by the fund house and its consistent return in the volatile market.
- The fund house should be professional, with efficient management and administration.
- The corpus the fund is holding in its scheme over the period of time.
- Proper adequacies of disclosures have to see and also make a note of any hidden charges carried by them.
- The price at which you can enter/exit (i.e. entry load / exit load) the scheme and its impact on overall return

## 2. LITERATURE REVIEW

Barua and Verma (1991) provided empirical evidence of equity mutual fund performance in India. They studied the investment performance of India's first 7year close-end equity mutual fund, Master share. They found that the fund performed satisfactory for large investor in terms of rate of return. Ippolito (1992) expressed that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds. Sarkar and Majumdar (1995) evaluated financial performance of five closeended growth funds for the period February 1991 to August 1993, concluded that the performance was below average in terms of alpha values (all negative and statistically not significant) and funds possessed high risk.

Jaydev (1996) evaluated performance of two schemes during the period, June 1992 to March 1994 in terms of returns / benchmark comparison, diversification, selectivity and market timing skills. He concluded that the schemes failed to perform better than the market portfolio (ET's ordinary share price index). Gupta and Sehgal (1997) evaluated mutual fund performance over a four year period, 1992-96. The sample consisted of 80 mutual fund schemes. They concluded that mutual fund industry performed well during the period of study. The performance was evaluated in terms of benchmark comparison, performance from one period to the next and their risk-return characteristics.

Mishra (2001) evaluated performance over a period, April 1992 to December 1996. The sample size was 24 public sector sponsored mutual funds. The performance was evaluated in terms of rate of return, Treynor, Sharpe and Jensen measures of performance. The study concluded dismal performance of PSU mutual funds in India, in general, during the period, 1992-96.

Zakri Y.Bello (2005) matched a sample of socially responsible stock mutual funds matched to randomly selected conventional funds of similar net assets to investigate differences in characteristics of assets held, degree of portfolio diversification and variable effects of diversification on investment performance. The study found that socially responsible funds do not differ significantly from conventional funds in terms of any of these attributes. Moreover, the effect of diversification on investment performance is not different between the two groups. Both groups underperformed the Domini 400 Social Index and S & P 500 during the study period.

Mayank V. Bhatt and Chetan C. Patel (2008) studied the performance comparison of different mutual funds schemes in India through Sharpe index model and concluded that mutual funds are the most popular and safe parameter for an investor to invest.

Kavita Chavali and Shefali Jain (2009) evaluated the performance of equity linked savings schemes and concluded that the fund chosen by the investor should match the risk appetite of the investor. Narayan Rao and M. Ravindran evaluated performance of Indian mutual funds in a bear market through relative performance index, risk-return analysis, Treynor ratio, Sharpe ratio, Jensen measure, and Fama's measure. The results of performance measures suggested that most of mutual fund schemes in the sample of 58 were able to satisfy investor's expectations by giving excess returns over expected returns based on both premium for systematic risk and total risk.
Mutual Fund as an investment vehicle is capturing the attention of various segments of the society, like academicians, industrialists, financial intermediaries, investors and regulators.

## 3. RESEARCH OBJECTIVES/RESEARCH QUESTIONS/HYPOTHESES
The major objectives of the study are:-
1. To evaluate Mutual Fund Schemes in respect of their risk & return.
2. Analyzing the performance of mutual fund schemes with their benchmark
3. Finding the Volatility of mutual fund schemes by using beta.
4. Provide information about pros and cons of investing in Mutual Funds.

## 4. RESEARCH METHODOLOGY
**Data Sources**: Mutual funds which have been operating for greater than five years and performing during the period of study (i.e. 2007 –2012) were selected for the present research. There were 340 such mutual funds belonging to categories - Money market category funds, Debt Category Funds, Equity category funds and balanced category funds, etc. The reasons for studying the performance of mutual fund for a period of five years (2007- 2012) are:
• A large number of mutual funds have been affected during 2007 - 2012.
• The mutual fund industry in India registered notable growth & fluctuations during 2007 – 2012 Period.
• The Indian stock market has fluctuated exceptionally well during 2007 – 2012.
It gives brief ideas related to Mutual Fund investment like
• Comparison of different mutual funds & their schemes
• By using what kind of tool customer can safely invest his money
• Information on the risks & returns involved in mutual funds
• Giving the right information to the investor about the safe investments in mutual fund's schemes.
• Analysis of the performance of mutual fund schemes with their Benchmark
• Provide information about pros and cons of investing in Mutual Funds
• Safety of the investment to the customer.

**TYPE OF RESEARCH**
Type of research is Descriptive research**,** which is Quantitative in nature**.**
The whole study can be termed as critical study of risk & return of investment in mutual funds. It is purely a quantitative study of available secondary data**.**

**SAMPLE SIZE**
Sample size of the study was as below:
Method of sampling is convenience sampling. Four mutual funds and their schemes are selected.
The present study is a sample study. Samples were selected from top & representative mutual funds offered by domestic and foreign AMC's operating in India. Samples drawn for the study includes six funds & their schemes from AMCs, operating in India.

**SAMPLE PROFILE**
Mutual Funds' Schemes of
1. 1 UTI mutual fund
2. 2 SBI mutual funds
3. 3 ICICI mutual funds
4. 4 HDFC mutual funds

**PERFORMANCE MEASURES**
**THE TREYNOR MEASURE**
Developed by Jack Treynor, this performance measure evaluates funds on the basis of Treynor's Index. This Index is a ratio of return generated by the fund over and above risk free rate of return (generally taken to be the return on securities backed by the government, as there is no credit risk associated), during a given period and systematic risk associated with it (beta). Symbolically, it can be represented as:
**Treynor's Index (Ti) = (Ri - Rf)/Bi.**
Where, Ri represents return on fund, Rf is risk free rate of return and Bi is beta of the fund.
All risk-averse investors would like to maximize this value. While a high and positive Treynor's Index shows a superior risk adjusted performance of a fund, a low and negative Treynor's Index is an indication of unfavorable performance**.**

**THE SHARPE MEASURE**
In this model, performance of a fund is evaluated on the basis of Sharpe Ratio, which is a ratio of returns generated by the fund over and above risk free rate of return and the total risk associated with it. According to Sharpe, it is the total risk of the fund that the investors are concerned about. So, the model evaluates funds on the basis of reward per unit of total risk. Symbolically, it can be written as:
**Sharpe Index (Si) = (Ri - Rf)/Si**
Where, Si is standard deviation of the fund. While a high and positive Sharpe Ratio shows a superior risk adjusted performance of a fund, a low and negative Sharpe Ratio is an indication of unfavorable performance

**JENSON MODEL**
Jenson's model proposes another risk adjusted performance measure. This measure was developed by Michael Jenson and is sometimes referred to as the Differential Return Method. This measure involves evaluation of the returns that the fund has generated. The surplus between the two returns is called Alpha, which measures the performance of a fund compared with the actual returns over the period. Required return of a fund at a given level of risk (Bi) can be calculated as:
**Ri = Rf + Bi (Rm - Rf)**
Where, Rm is average market return during the given period. After calculating it, alpha can be obtained by subtracting returns of the fund.
Higher alpha represents superior performance of the fund and vice versa. Limitation of this model is that it considers only systematic risk not the entire risk associated with the fund and an ordinary investor cannot mitigate unsystematic risk, as his knowledge of market is primitive.

**BETA**
Market risk is commonly measured by the Beta co-efficient. Beta reflects the sensitivity of the fund's return to fluctuations in the Market Index. The formula for calculating Beta may be stated as;
**Beta value= (σi /σm) X pim**
Where —σi is the standard deviation of the fund, —σm is the standard deviation of the Market, and —pim is the correlation coefficient of the portfolio with market.

**STANDARD DEVIATION**

Standard deviation is a measure if dispersion in return. A high value of standard deviation means high risk.

## HYPOTHESES OF THE STUDY

(1.) There is no significant difference between the returns of different mutual fund schemes of respective mutual fund categories.

(2.) There is no significant difference between the returns of mutual funds of different mutual funds categories. The broader hypothesis for the study would be as under.

**Ho:** There would be no significant difference in performance of various selected six Mutual Fund in various sectors.

**H1:** There would be significant difference in performance of various selected six Mutual Fund in various sectors.

Above Hypothesis would be expected to review with following sub – parameters which are as under.

a) Level of Risk
b) Level of Return
c) Values of Book Value Ratio and Price Earnings Ratio.
d) Assets under Management
e) Diversification of Assets
f) Net Assets Value.

## 5. ANALYSIS AND INTERPRETATION

**STUDY OF RETURNS OF GROWTH SCHEMES**

| Scheme Name | 1month % | 3month % | 6month % | 1year % | 3 year % | 5 years % | Since Inception | Category | Struct ure |
|---|---|---|---|---|---|---|---|---|---|
| HDFC Growth Fund - Growth | -4.24 | -7.56 | -16.41 | -20.86 | 20.76 | 8.68 | 19.28 | Equity | Open Ended |
| ICICI Prudential Eq. & Deri. Fund – IO - IP - Growth | 0.56 | 1.48 | 3.00 | 7.54 | 6.11 | 7.44 | 7.52 | Equity | Open Ended |
| UTI Equity Fund - Growth | 0.51 | -3.96 | -11.14 | -11.30 | 24.46 | 8.20 | 9.09 | Equity | Open Ended |
| SBI Magnum Equity Fund - Growth | 1.05 | -3.79 | -11.54 | -10.56 | 25.29 | 6.67 | 10.52 | Equity | Open Ended |

**STUDY OF RETURNS OF DIVIDEND SCHEMES**

| Scheme Name | 1month % | 3month % | 6month % | 1year % | 3 year % | 5 years % | Since Inception | Category | Structure |
|---|---|---|---|---|---|---|---|---|---|
| HDFC Growth Fund - Dividend | -4.24 | -7.56 | -16.41 | -20.80 | 20.81 | 8.72 | 15.20 | Equity | Open Ended |
| ICICI Prudential Eq. & Deri. Fund – IO - IP - Dividend | 0.59 | 1.52 | 3.08 | 7.60 | 6.23 | 7.47 | 6.87 | Equity | Open Ended |
| UTI Equity Fund - Dividend | 0.51 | -3.95 | -11.13 | -11.30 | 24.43 | 8.03 | 8.94 | Equity | Open Ended |
| SBI Magnum Equity Fund - Dividend | 1.05 | -3.78 | -11.55 | -11.55 | 25.48 | 6.76 | 10.60 | Equity | Open Ended |

**STUDY OF RETURNS OF BALANCED SCHEMES**

| Scheme Name | 1month % | 3month % | 6month % | 1year % | 3 year % | 5 years % | Since Inception | Category | Structure |
|---|---|---|---|---|---|---|---|---|---|
| HDFC Balance d Fund - Dividend | 0.10 | -5.10 | -9.42 | -3.47 | 27.56 | 10.15 | 12.08 | Equity & Debt | Open Ended |
| ICICI Prudential Balanced - Dividend | -0.13 | -2.62 | -7.72 | -3.15 | 20.01 | 4.60 | 9.52 | Equity & Debt | Open Ended |
| UTI Balanced Fund - Dividend | 0.73 | -4.65 | -11.67 | -12.47 | 18.33 | 4.75 | 9.39 | Equity & Debt | Open Ended |
| SBI Magnum Balanced Fund - Dividend | 1.13 | -3.71 | -12.41 | -14.97 | 16.09 | 4.02 | 12.96 | Equity & Debt | Open Ended |
| HDFC Balanced Fund - Growth | 0.10 | -5.10 | -9.42 | -3.48 | 27.56 | 10.12 | 15.76 | Equity & Debt | Open Ended |
| ICICI Prudential Balanced - Growth | -0.18 | -2.60 | -7.74 | -3.22 | 20.01 | 4.59 | 12.96 | Equity & Debt | Open Ended |
| UTI Balanced Fund - Growth | 0.70 | -4.64 | -11.64 | -12.47 | 18.55 | 4.90 | 12.85 | Equity & Debt | Open Ended |
| SBI Magnum Balanced Fund - Growth | 1.13 | -3.70 | -12.40 | -14.96 | 16.19 | 4.05 | 13.72 | Equity & Debt | Open Ended |

**STUDY OF RETURNS OF LIQUID SCHEMES**

| Scheme Name | 1month % | 3month % | 6month % | 1year % | 3 year % | 5 years % | Since Inception | Category | Structure |
|---|---|---|---|---|---|---|---|---|---|
| HDFC Liquid Fund – Daily Div | 0.62 | 1.79 | 3.57 | 6.97 | 5.01 | 5.66 | 5.16 | Short Term Debt | Open Ended |
| ICICI Prudential Liquid Plan – Daily Div | 0.57 | 1.66 | 3.28 | 6.40 | 4.52 | 5.28 | 3.96 | Short Term Debt | Open Ended |
| UTI Liquid Fund – Cash Plan - Daily Div | 0.65 | 1.88 | 3.74 | 7.24 | 5.11 | 5.72 | 4.54 | Short Term Debt | Open Ended |
| SBI Premier Liquid Fund – IP - Daily Div | 0.62 | 1.80 | 3.57 | 6.99 | 5.00 | 5.51 | 4.41 | Short Term Debt | Open Ended |
| HDFC Liquid Fund – Growth | 0.78 | 2.28 | 4.54 | 8.90 | 6.43 | 7.24 | 6.71 | Short Term Debt | Open Ended |
| ICICI Prudential Liquid Plan – Growth | 0.72 | 2.11 | 4.19 | 8.21 | 5.82 | 6.79 | 7.02 | Short Term Debt | Open Ended |
| UTI Liquid Fund – Cash Plan - Growth | 0.74 | 2.16 | 4.31 | 8.41 | 6.09 | 6.89 | 6.28 | Short Term Debt | Open Ended |
| SBI Premier Liquid Fund – IP - Growth | 0.79 | 2.29 | 4.56 | 8.97 | 6.41 | 7.06 | 6.49 | Short Term Debt | Open Ended |

**STUDY OF RETURNS OF INCOME SCHEMES**

| Scheme Name | 1month % | 3month % | 6month % | 1year % | 3 year % | 5 years % | Since Inception | Category | Structure |
|---|---|---|---|---|---|---|---|---|---|
| HDFC Income Fund - Dividend | 1.86 | 1.83 | 3.48 | 5.76 | 3.99 | 6.70 | 5.53 | Debts | Open Ended |
| ICICI Prudential Income Fund-Dividend | 2.06 | 2.88 | 4.59 | 6.51 | 3.02 | 7.97 | 5.88 | Debts | Open Ended |
| UTI Bond Fund - Dividend | 1.24 | 2.74 | 5.53 | 10.26 | 2.87 | 7.95 | 7.34 | Debts | Open Ended |
| SBI Magnum Income Fund - Dividend | 1.63 | 2.82 | 4.61 | 8.15 | 3.22 | 3.94 | 4.73 | Debts | Open Ended |
| HDFC Income Fund - Growth | 2.04 | 2.01 | 3.86 | 6.34 | 4.62 | 7.43 | 7.99 | Debts | Open Ended |
| ICICI Prudental Income Fund - Growth | 2.06 | 2.87 | 4.83 | 7.00 | 3.74 | 8.78 | 9.23 | Debts | Open Ended |
| UTI Bond Fund - Growth | 1.59 | 3.10 | 6.16 | 11.21 | 3.63 | 7.37 | 8.56 | Debts | Open Ended |
| SBI Magnum Income Fund - Growth | 1.63 | 2.82 | 4.83 | 8.62 | 3.64 | 4.94 | 7.23 | Debts | Open Ended |

**CALCULATIONS AND STUDIES OF DIFFERENT MEASURES OF RISK**

**S.D., Beta, Sharpe & Treynor of Equity & Growth Schemes as on 31st March, 2012**

| Scheme Name | S.D. | Beta | Sharpe | Treynor |
|---|---|---|---|---|
| HDFC Growth Fund - Growth | 3.46 | 0.80 | 0.06 | 0.28 |
| ICICI Prudential Eq. & Deri. Fund – IO - IP - Growth | 0.25 | 0.74 | 0.07 | 0.02 |
| UTI Equity Fund – Growth | 3.08 | 0.73 | 0.08 | 0.33 |
| SBI Magnum Equity Fund - Growth | 3.76 | 0.88 | 0.06 | 0.24 |

**S.D., Beta, Sharpe & Treynor of Growth dividend Schemes as on 31st March, 2012. :-**

| Scheme Name | S.D. | Beta | Sharpe | Treynor |
|---|---|---|---|---|
| HDFC Growth Fund - Dividend | 3.47 | 0.80 | 0.06 | 0.28 |
| ICICI Prudential Eq. & Deri. Fund – IO - IP - Dividend | 0.30 | 0.39 | 0.06 | 0.05 |
| UTI Equity Fund – Dividend | 3.08 | 0.73 | 0.08 | 0.33 |
| SBI Magnum Equity Fund - Dividend | 3.75 | 0.88 | 0.06 | 0.25 |

**S.D., Beta, Sharpe & Treynor of Balanced Schemes as on 31st March, 2012.-**

| Scheme Name | S.D. | Beta | Sharpe | Treynor |
|---|---|---|---|---|
| HDFC Balanced Fund - Dividend | 2.52 | 0.88 | 0.11 | 0.32 |
| ICICI Prudential Balanced-Dividend | 2.57 | 0.90 | 0.07 | 0.21 |
| UTI Balanced Fund - Dividend | 2.72 | 0.98 | 0.06 | 0.17 |
| SBI Magnum Balanced Fund - Dividend | 2.97 | 1.08 | 0.04 | 0.10 |
| HDFC Balanced Fund – Growth | 2.52 | 0.88 | 0.11 | 0.32 |
| ICICI Prudential Balanced - Growth | 2.56 | 0.90 | 0.07 | 0.21 |
| UTI Balanced Fund - Growth | 2.72 | 0.98 | 0.06 | 0.17 |
| SBI Magnum Balanced Fund - Growth | 2.97 | 1.08 | 0.04 | 0.10 |

**S.D., Beta, Sharpe & Treynor of Liquid Schemes of Selected Mutual Funds as on 31st March, 2012.**

| Scheme Name | S.D. | Beta | Sharpe | Treynor |
|---|---|---|---|---|
| HDFC Liquid Fund – Daily Div | 0.03 | 0.43 | -0.43 | -0.03 |
| ICICI Prudential Liquid Plan -Daily Div | 0.03 | 0.45 | -0.70 | -0.04 |
| UTI Liquid Fund – Cash Plan -Daily Div | 0.03 | 0.50 | -0.32 | -0.02 |
| SBI Premier Liquid Fund – IP - Daily Div | 0.03 | 0.44 | -0.45 | -0.03 |
| HDFC Liquid Fund – Growth | 0.04 | 0.55 | 0.39 | 0.03 |
| ICICI Prudential Liquid Plan –Growth | 0.04 | 0.59 | 0.12 | 0.01 |
| UTI Liquid Fund – Cash Plan -Growth | 0.04 | 0.58 | 0.24 | 0.01 |
| SBI Premier Liquid Fund – IP –Growth | 0.04 | 0.57 | 0.34 | 0.02 |

**S.D., Beta, Sharpe & Treynor of Income Schemes of Selected Mutual Funds as on 31st March, 2012.**

| Scheme Name | S.D. | Beta | Sharpe | Treynor |
|---|---|---|---|---|
| HDFC Income Fund - Dividend | 0.77 | 1.96 | 0.07 | 0.03 |
| ICICI Prudential Income Fund - Dividend | 0.91 | 2.28 | 0.07 | 0.03 |
| UTI Bond Fund – Dividend | 0.82 | 1.78 | 0.05 | 0.02 |
| SBI Magnum Income Fund - Dividend | 0.62 | 1.44 | 0.01 | 0.01 |
| HDFC Income Fund – Growth | 0.77 | 1.97 | 0.09 | 0.03 |
| ICICI Prudential Income Fund - Growth | 0.91 | 2.28 | 0.08 | 0.03 |
| UTI Bond Fund – Growth | 0.82 | 1.79 | 0.07 | 0.03 |
| SBI Magnum Income Fund - Growth | 0.62 | 1.43 | 0.02 | 0.01 |

## 6. RECOMMENDATION/SUGGESTION/FINDINGS

**RESEARCH FINDINGS**

This research work has find out the following facts and figures about the risk and returns of selected Mutual Funds Schemes as on 31st December, 2011.

- ICICI Pru. Equity & Deri. Fund.Grth gives the best return, i.e. ICICI Pru. Equity & Deri. Fund.Grth is the best option on the short-term basis. Hence, on the basis of recent returns, UTI Equity-G and HDFC Growth-G are the best options and on the basis of far previous year returns, HDFC Growth-G is the best options. Therefore on overall basis HDFC Growth-G is the best option.
- ICICI Pru. Equity & Deri. Fund.D gives the best return, i.e. ICICI Pru. Equity & Deri. Fund.D is the best option on the short-term basis. On the basis of recent returns, UTI Equity-D and HDFC Growth-D are the best options and on the basis of far previous year returns, HDFC Growth-D is the best options. Therefore on overall basis HDFC Growth-D is the best option.

- Returns are positive for 1 month of, SBI Mag. Bal. Fund D&G and UTI Bal. Fund D&G including HDFC Bal. Fund-D&G. All other give negative return for short-term up to 1 year. That is on the basis of 1 month return SBI Mag. Bal. Fund D&G is the best option. Options with negative returns are not selected. On the basis of long-term returns, HDFC Bal. Fund-D&G are the best options and on the basis of returns since inception, HDFC Bal. Fund-G is the best option. Therefore on overall basis HDFC Bal. Fund-G is the best option.
- The top four selected liquid schemes are SBI Pre. Liq. Fund-IP.G, HDFC Liq. Fund-G, UTI Liq. Fund.CP-G and ICICI Pru. Liq. Plan-G in their descending order for short-term up to 1 year, i.e. best one is SBI Pre. Liq. Fund-IP.Gon the basis of short-term, i.e. up to 1 year. On the basis of 3 yrs., 5 yrs. and return since inception, maximum return is secured by the HDFC Liq. Fund-G, SBI Pre. Liq. Fund-IP.G, UTI Liq. Fund.CP-G and ICICI Pru. Liq. Plan-G in their descending order for 3 yrs., 5 yrs. returns and ICICI Pru. Liq. Plan-G, HDFC Liq. Fund-G, SBI Pre. Liq. Fund-IP.G and UTI Liq. Fund.CP-G for return since inception. Therefore,ICICI Pru. Liq. Plan-G is the best one on overall basis long-term and short-term both.
- On the basis of all the short-term period up to 1 year, we see that UTI has performed well on the basis of 3 months, 6 months and 1 year. But in the last 1 month ICICI and HDFC have performed well comparative to others in their descending order. Hence, best option is UTI Bond Fund-G on short-term basis. ICICI Pru. Income Fund-G is the best one on the basis long-term. But HDFC Income Fund-D&G have secured more returns for 5 years period comparative to others .
- UTI Equity Fund-D, and HDFC Equity Fund-D have created their good NAV value through their overall long term better performance in descending order and all these top two have beaten the average performance of similar category funds.
- HDFC Equity Fund-G have created their good NAV value due to their better long term performance in their descending order and both the funds have beaten the average performance of similar category funds.
- On the basis of Standard Deviation., SBI Mag. Equity Fund.G,, HDFC Growth-G, UTI Equity Fund-G and ICICI Pru. Eq. & Deri. Fund-G is most risky in their descending order. ICICI Pru. Eq. & Deri. Fund-G is least risky on all risk bases. On the basis of Beta the pattern is almost similar to the previous one. As per Sharpe and Treynor, returns are good enough or compensate the risk taken by investors by investing in these. The best options, in their descending order, are UTI Equity Fund-G and HDFC Growth-G.
- On the basis of Standard Deviation., SBI Mag. Equity Fund.D, HDFC Growth-D, UTI Equity Fund-D and ICICI Pru. Eq. & Deri. Fund-D is most risky in their descending order. ICICI Pru. Eq. & Deri. Fund-D is least risky on all risk bases. On the basis of Beta the pattern is almost similar to the previous one. As per Sharpe and Treynor, returns are good enough or compensate the risk taken by investors by investing in these. The best options, in their descending order, are UTI Equity Fund-D and HDFC Growth-D.
- On the basis of Standard Deviation. SBI Mag. Balance Fund. D&G, UTI Balance Fund-D&G, ICICI Pru. Balance Fund-D, ICICI Pru. Balance Fund-G, HDFC Balance Fund-D&G and are most risky in their descending order. FT India Balance Fund-D&G are least risky on all risk bases. On the basis of Beta the pattern is almost similar to the previous one. As per Sharpe and Treynor, returns are good enough or compensate the risk taken by investors by investing in these. The best options, in their descending order, are HDFC Balance Fund-D&G and ICICI Pru. Balance Fund-D&G. Therefore, on overall basis HDFC Balance Fund-D&G are the best options.
- On the basis of Standard Deviation. SBI Pre. Liq. Fund-IP.Dly D, HDFC Liq. Fund-Dly D, UTI Liq. Fund.CP-Dly D, ICICI Pru. Liq. Plan-Dly D and are least risky with same risk. Schemes with dividend option are least risky on all risk bases. On the basis of Beta the pattern is little bit different. The pattern is ICICI Pru. Liq. Plan-G, SBI Pre. Liq. Fund-IP.Dly D and HDFC Liq. Fund- Dly D in their descending order of risk. HDFC Liq. Fund-Dly D is the least risky. Sharpe and Treynor are positive only for HDFC Liq. Fund-G, SBI Pre. Liq. Fund-IP.G, UTI Liq. Fund.CP-G and ICICI Pru. Liq. Plan-G. That shows that the returns are good enough or compensate the risk taken by investors by investing only for/in HDFC Liq. Fund-G, SBI Pre. Liq. Fund-IP.G, UTI Liq. Fund. CP-G and ICICI Pru. Liq. Plan-G and returns / compensations are in the above mentioned descending order. Therefore the best one is HDFC Liq. Fund-G and the worst one is ICICI Pru. Liq. Plan-Dly D .
- On the basis of Standard Deviation., ICICI Pru. Income Fund297 D&G, UTI Bond Fund-D&G, HDFC Income Fund-D&G, SBI Mag. Income Fund. D&G and are most risky in their descending order. On the basis of Beta. The pattern is almost similar to the previous one. As per Sharpe and Treynor, returns are somewhat enough or compensate the risk taken by investors by investing in these. The best options, in their descending order, are HDFC Income Fund-G and ICICI Pru. Income Fund-G. Therefore, on overall basis HDFC Income Fund-G is the best options.

## 7. LIMITATION OF THE STUDY

**This report gives an insight about mutual funds and mutual fund Schemes but with few limitations as follows:**

The big question is how to judge a mutual fund before investing? It is important for an investor to consider a fund's performance over several years.

The report only analyses mutual fund schemes of only some funds. There are around 44 AMCs offering wide range of schemes but to analyze all of them is a tedious task.

Information is mainly collected regarding top and representative mutual funds.

Different fund managers adopt different strategies to improve performance. While one fund manager may have invested in speculative stocks over a period, another one who have invested in speculative stocks may have struck gold in that year to outperform the former by a long way.

Lack of proper knowledge and awareness about advantages and disadvantages associated with various schemes among the investor.

- The time period for the project was limited and information provided is limited to the extent of internet and journals.
- The sample size is limited to only six mutual funds.
- The study is limited to mutual fund schemes in respect of their risk, return and liquidity.
- The analysis is mainly based on share price and unit price information.
- To get an insight in the process of portfolio allocation and deployment of funds by fund manager is difficult.
- The project is unable to analysis each and every scheme of mutual funds to create the ideal portfolio.
- The portfolio of mutual fund investments can change according to the market conditions.

## 8. CONCLUSIONS

This research work has find out the following facts and figures about the risk and returns of selected Mutual Funds Schemes as on 31st March, 2012. On these risk and returns we conclude that.

The major market of Mutual Fund is in Income schemes, Growth schemes and Liquid schemes, out of which Growth market is mostly leaded by HDFC, UTI on the basis of, mainly, returns up to 5 years. No doubt that in Growth SBI performed well, out of which one is private Indian MF and other is Bank sponsored MF. ICICI is also performing well on a continuous basis with a positive return over all the periods.

The situation is same in both, dividend & growth options of Equity & Growth schemes of selected Mutual Funds.

In Balanced schemes, HDFC, ICICI Prudential and then UTI & SBI are also performing well. On overall basis HDFC is the best option.

In Liquid & Money Market schemes, the situation are little bit different with the leading Mutual Funds HDFC, SBI, UTI and ICICI are performing well in their descending order.

Therefore,ICICI is the best one on overall basis long-term and short-term both.

In Income & Bond schemes, leading players ICICI, UTI and HDFC are performing well in their descending order. SBI has also performed well with other on the same criteria, i.e. on the basis of returns.

With Dividend option, UTI Equity Fund-D and HDFC Equity Fund-D are best on the basis of NAV creation through their overall long term better performance in descending order.

With Growth option, HDFC Equity Fund-G isS best on the basis of NAV creation through their overall long term better performance in descending order.

Risk is highest with SBI, HDFC & UTI in their descending order in Equity & Growth segment with both the options. ICICI is least risky on all risk bases. On the basis of risk adjusted return best options, in their descending order, are UTI and HDFC in Equity & Growth segment with both the options. Therefore, UTI and HDFC are also the best options on, both, the risk & return bases.
SBI, UTI, ICICI and HDFC are most risky in their descending order in the balance segment. On the basis of risk adjusted return best options, in their descending order, are HDFC and ICICI. Therefore, on overall basis HDFC is the best option.
In Liquid & Money Market segment, schemes with dividend option are least risky on all risk bases. In which HDFC is the least risky then SBI comes in risk. On the basis of risk adjusted return best options, in their descending order, are HDFC, SBI, UTI and ICICI with Growth option. Therefore, the best one is HDFC liq. fund-G and the worst one is ICICI liq. plan-daily div.
ICICI, UTI and HDFC are most risky in their descending order in Income & Bond segment. On the basis of risk adjusted return best options, in their descending order, are HDFC and ICICI with Growth options. Therefore, on overall basis HDFC-G is the best options.
But in the present scenario market is not performing well. That's why MFs schemes are not performing well except liquid and income schemes in the short run.
So, in nutshell, we can say that HDFC and SBI are beneficial for investment in Liquid & Money Market schemes in all aspects. HDFC is best for Income &Bond schemes. UTI & HDFC are best for Equity & Growth schemes and HDFC& ICICI are best for Balanced scheme.
These are best in different schemes because these are best approximately in each and every aspect of these schemes. Hence, we can say that the…
(1) Mutual Funds are growing in number and gaining popularity among small investors with an exception of last 1 month to 1 year, especially in the case of Equity & Growth schemes and balanced scheme.
(2) Preferences of investors are different towards different type of schemes as well as organization. Acceptability of Mutual Funds has changed the pattern of investments.
(3) Mutual Funds generally in the long run outperform the market.
Returns provided by the Mutual Funds are generally better in long run than the returns provided by the other similar investment. Movement in market prices of schemes is positively related to the movements in NAV.
(4) The return and risk-adjusted return on Mutual Funds are satisfactory in long run except during the recession.

## REFERENCES

1. Agrawal M.R.: Financial Management-Garima Publications, Jaipur, 2008.
2. Avadhani V.A.: Marketing of Financial Services-Himalaya Publishing House, New Delhi, 2006.
3. Bahtt R.S.: UTI and Mutual Funds – A Study —, UTI ICM, Navi Mumbai.
4. Bansal, Lalit: Mutual Funds- Management and Working „, Deep and Deep Publication, New Delhi.
5. Bhat Sudhindra: Financial Management-Excel Books, New Delhi, 2008.
6. Bhole L.M. : 1999 Unit Trust of India and Mutual Funds Financial Institutions and Marktes, Tata McGraw Hills Publishing Limited ,New Delhi, P.217.
7. Chandra Prasana: Financial Management-TATA McGraw Hill Publishing Co. Ltd, New Delhi, 2008.
8. Fischer & Jordan: Security Analysis and Portfolio Management- PHI Learning Pvt. Ltd, New Delhi, 2009.
9. Khan M.Y. & Jain P.K.: Financial Management-TATA McGraw Hill Publishing Co. Ltd, New Delhi, 2008.
10. Khandelwal, Gupta Agrawal & Ahmad: Quantitative Techniques for Management- Ajmera Book Company, Jaipur, 2008.
11. Kothari C.R.: Research Methodology-New Age International (P) Ltd. Publisher, New Delhi, 2005.
12. Pandey I. M.: Financial Management-Vikas Publishing House Pvt. Ltd, Noida, 2008.

# HUMAN RESOURCE ACCOUNTING: REDEFINING HUMAN CAPITAL INVESTMENT IN CORPORATE SECTOR

*MONIKA KHEMANI*
*ASST. PROFESSOR*
*DEPARTMENT OF COMMERCE*
*SHYAM LAL COLLEGE*
*DELHI UNIVERSITY*
*NEW DELHI*

## ABSTRACT
*Management of Human Resources (HR) in any organization is very much important from accounting point of view. Valuation of HR, recording the valuation in accounts and fair disclosure of such information in financial statements are the demand of the stakeholders in the context of enhancing managerial performance and employees' productivity. In the field of managerial decision making, the human resource data as part of management information system helps in making meaningful choices between various types of human investments and investments in other assets. By measuring the value of human resources at different points of time, Human Resource Accounting (HRA) can reveal whether the management is building up human resources or depleting them. Human resource accounting (HRA) has been defined by the American Accounting Association (1973) as 'the process of identifying and measuring data about human resources and communicating this information to interested parties'. The information generated through HRA can help the management in formulating policies and programmes for the development of human resources. HRA as a managerial tool can be used for effective management of human resources. The target of this research article is to study present vision on the significance of HRA. This study will also be helpful for understanding the Lev and Schwartz method of valuation of human assets.*

## JEL CODE
M 41

## KEYWORDS
American Accounting Association, Human Resources, Human Resource Accounting and Lev and Schwartz method.

## INTRODUCTION
Human Resources (HR) are the energies, skills, talents and knowledge of people which are, or which potentially can be applied to the production of goods or rendering useful services. HRA is not a new issue in economics and other disciplines. The basic objective underlying human resource accounting is to facilitate the effective and efficient management of human resources. HRA is the process of identifying and measuring data about human resources and communicating this information to interested parties. It is widely recognized that human resources are no lesser important than other productive resources.

HR factor is very crucial, important and sensitive factor of production. It is a widely accepted fact that success of any organization, to a great extent, depends upon the quality, caliber and character of the people working in it. An organization having immense physical resources with latest technology may suffer financial crises as it does not have right people to manage and to conduct its affairs. Thus, in spite of technological developments, the importance of human resources to ensure the organization's success has no way abridged. Yet accounting has concentrated on the physical and financial resources of an entity, without bringing this vital ingredient of social system into its fold forgetting that the performance of the enterprise itself is the product of human activity and the failure of most of the organizations is due to the poor performance of its people. Realizing the importance of human resources, the accountants and economists all over the world became conscious and this has led to the development and implementation of Human Resource Accounting along with financial statements.

Flamholtz (1971) defined HRA as "the measurement and reporting of the cost and value of people in organizational resources".

Rao (1983) reported that human asset accounting is one of the latest concepts adopted by Indian companies of recent times. Most of the enterprises, which follow human asset accounting, spare a separate section in their annual reports for detail accounts of their human resources. Human resources reporting in India usually include a profile of human assets, the compensation pattern, training and development, human asset productivity, human asset value and the total wealth of the organization.

Loqman, M. (1987) stated that HRA in recent years has been receiving attention for two major reasons. Firstly, developments in modern organization theory have made it clear that there is a genuine need for reliable and complete information which can be used in improving and evaluating the management of human resources. Secondly, the traditional framework of accounting is in the process of being expanded to include a much broader set of measurements than was thought possible in the past.

According to Newman (1999), HRA refers to the measurement of the abilities of all employees of a company, at every level – management, supervisory and ordinary employees – to produce value from their knowledge and the capabilities of their minds. HRA is seen as the wealth of the employees' knowledge and intellectual capabilities added to the organization thereby making it to earn profit and to succeed.

Bhat (2000) provides a definition of "Human Resources Accounting" as depicting the human resources potential in money terms while casting the organization's financial statements. He notes that with global trade and foreign exchange transactions becoming more complex with innovations in derivatives, more uniformity in accounting practices and transparency will emerge. The authors suggests that accounting and financial management issues will soon be integrated in accounting statements facilitating more meaningful use of accounts, as opposed to history and bookkeeping.

## REVIEW OF LITERATURE
Elias (1972) conducted the first published research concerning the effect of human resource outlay data on stock investment decisions. For this, he selected two hypothetical companies ABC and XYZ operating in the same industry. Two different sets of financial statements were prepared and supplied to the Chartered Financial Analysts, certified Public Accountants and accounting students asking them to choose the company for their investment based on the analysis of the given financial statements. The choice decision of the respondents varied when the HRA information along with the traditional information was supplied. This shows the importance of providing HRA data in addition to conventional data.

Rao (1983) developed a system of human resource accounting, and illustrated its application in a transport equipment manufacturing concern. He has designed the system, based on the input/output control mechanism. The output variables of the system are described to be the indicators of human resource investment subsystem. To identify the human resource investments, all the human resource costs, whose benefits are expected to effect in future periods, are treated as investments. Then the annual human resource investments are adjusted to the tune of changes due to intake or separation or natural deterioration. The intake of people results, in addition of human resource investments, while separation, necessitates writing off of human resource investments. The human resource deterioration is measured and adjusted with the help of amortization rates in each year under study.

Malik (1990) in his doctoral thesis examined the impact of HRA information on decision making. The study has two dimensions part one is the impact of HRA information on investor's decision while part two includes the research connected with the usefulness of such information for managerial decision making. Therefore, this research confines itself to the study of relationship between the provision of HRA of information and the decision behaviour of the internal (i.e., management) and external users of accounting information (i.e., investors). Major conclusion for this study is that the decisions are affected by the inclusion of HRA information in the financial statements of the companies.

Akhtaruddin, M. (1996) studied that Public sector enterprises in Bangladesh occupy a commanding position in the economy. But in spite of their major contribution in the economy in terms of value added and employment, their overall performance has remained unsatisfactory. The performance of an enterprise depends, to a great extent, on the qualified, trained and experienced human resources. But these key assets are neglected and are given less importance for their development. Development and maintenance of human resources require reliable information and it is HRA which would serve the purpose. The study made an opinion survey regarding the applicability of HRA in public enterprises. Majority of the respondents favoured the introduction of HRA in our public enterprises.

A study by Subbarao & Zehgal (1997) gave a macro level perspective to HRA disclosure in financial statements by analyzing the differences across countries in the disclosure of human resources information disclosure in annual reports across six countries. The authors found differences in disclosures of HR information across countries and provided accounting and financial professional insights on the HR information areas they need to focus on in their country.

Olsson (2001) examined the annual reports of the 18 largest Swedish companies, selected on the basis of market capitalisation in the Swedish stock market. She developed a list of five elements to ascertain the level of Human Capital Reporting: education and development; equality; recruitment; selection of employees; and comments by Chief Executive Officers about personnel. The study found that, in 1998, none of the 18 companies reported more than 7% on human capital information (as a proportion of total information) in their annual reports. Furthermore, the information that was reported was found to be highly deficient in either the quality or the extent of the disclosure.

Flamholtz, Bullen & Hua (2003) utilized the HRA measure of expected realizable value, and found that employees' participation in a management development program increased the value of the individuals to the firm. In addition, the authors noted that the HRA measures provided upper level management with an alternative accounting system to measure the cost and value of people to an organization. Thus HRA represented both a paradigm and way of viewing HR decisions, and the set of measures for quantifying the effects of human resource management strategies upon the cost and value of people as organizational resources.

Patra, Khatik and Kolhe (2003) studied a profit making heavy engineering public sector company which used the Lev & Schwartz (1971) model to evaluate HRA measures. The authors examined the correlation between the total human resources and personnel expenses for their fitness and impact on production. They found that HRA valuation was important for decision making in order to achieve the organization's objectives and improve output.

Culpepper (2005) conducted case study in India, and examined the effect of disclosure of human assets on three companies viz. BHEL, INFOSYS, and SATYAM. The author evaluated the correlation between disclosure of the value of human assets and firm value from 1998 to 2004. BHEL Analysis indicates that as more money is invested in the human asset, the value of the organizations' stock appears to be worth more to the investors. INFOSYS analysis indicates that an increase in human asset value results in a decrease the firm value. SATYAM analysis shows that the correlation of human assets value to firm value is negative. This analysis indicates that the more money invested in Human Assets the lower the value of the firm's stock in SATYAM.

Tang (2005) focused on a measurement of human resource cost in developing a heuristic frame addressing the link between human resource replacement cost and decision making, in a Human Resource Replacement Cost (HRRC) system. The system measures direct and indirect costs of human resources, which is then applied to a company within the metro industry in China. The author includes a suggested measure of learning cost, cost of lost productivity, and cost of job vacancy and discusses the usefulness of the HRRC model in decision making in such areas as employee turnover, separation indemnity, duration of labour contracts, and personnel budgets in monetary terms. The author notes that an increased focus on HRA and improved information technology has led to a saying "what you cannot measure, you cannot manage." He notes that the system of accounting for replacement cost in people is an attempt to improve the quality of information available for facilitating effective human resource management, providing information necessary for a cost benefit analysis and decision making in areas such as employee turnover, separation indemnity, duration of labour contract and personnel budgets in monetary terms.

Hansen (2007) notes that two thirds of the 250 largest companies in the world now issue sustainability reports along with their financial reports in order to capture the full value of the organization. Global standards for sustainability reporting require the disclosure of workforce data that reflect the potential for future performance and profitability. Sustainability reporting has been formalized under guidelines by the Global Reporting Initiative, an international network of business, labour investors and accountants.

Moore (2007) suggests that the value of human capital should be more fully considered when making decisions about the acquisition and disposal of people and notes that the accounting practices currently employed by companies can have an undue influence in driving the strategic decisions of these companies. Moore notes that there are parallels between the process of acquiring an employee (a human capital asset) and that of acquiring a fixed capital asset. However while most companies acknowledge the contributions of its employees, they do not think of the acquisition or disposal of human capital assets in the same way or with the same thoughtful planning or strategic thinking as they do fixed capital assets.

Dalvadi (2010) examined Human Resource Accounting practices in 4 selected companies in India for five year commencing from 2003-04 to 2007-08.The author gave some suggestions to sample companies and government to improve Human Resource Accounting practices within Indian accounting system.

## OBJECTIVES OF THE STUDY

The following objectives are formulated for the present study:

1. To appraise the effectiveness of valuation and reporting of human resources on the information contents of financial statements.
2. To review the conceptual framework of HRA adding utility to the investors and other stakeholders.
3. To conceptualize the Lev and Schwartz method of valuation of human assets.
4. To make financial statements more transparent and creditworthy by adequately disclosing HR related costs
5. To providing appropriate recommendations to create an effective model for measuring Human Resources Value.

## HUMAN RESOURCE ACCOUNTING INTRODUCTION IN INDIA

HRA is a recent phenomenon in India. Leading public sector units like BHEL, NTPC, MMTC, SAIL etc. have started reporting 'Human Resources' in their Annual Reports as additional information from late seventies or early eighties. The Indian companies basically adopted the model of human resource valuation advocated by Lev and Schwartz (1971). This is because the Indian companies focused their attention on the present value of employee earnings as a measure of their human capital. BHEL applies Lev and Schwartz model with the following assumptions:

i) Present pattern of employee compensation including direct and indirect benefits;
ii) Normal career growth as per the present policies, with vacancies filled from the levels immediately below;
iii) Weightage for changes in efficiency due to age, experience and skills;
iv) Application of a discount factor of 12% per annum on the future earnings to arrive at the present value.(ICAI)

## HUMAN RESOURCE ACCOUNTING INTRODUCTION IN INDIA

| S. NO | NAME OF THE ORGANISATION | YEAR | MODEL |
|---|---|---|---|
| 1 | BHEL | 1973-74 | Lev and Schwartz Model |
| 2 | ONGC | 1981-82 | Lev and Schwartz Model |
| 3 | MMTC | 1982-83 | Lev and Schwartz Model |
| 4 | SAIL | 1983-84 | Lev and Schwartz Model with refinements as suggested by Eric G. |
| 5 | NTPC | 1984-85 | Lev and Schwartz Model |
| 6 | INFOSYS | 1995-96 | Lev and Schwartz Model |

*Source*: A Report on HRA from http://www.indiamba.com

## LEV AND SCHWARTZ MODEL OF HUMAN RESOURCE VALUATION

Lev and Schwartz model has been the most widely used for its ease of use and convenience. The Lev and Schwartz Model states that the human resource of a company is the summation of value of all the Net Present Value (NPV) of expenditure on employees. The human capital embodied in a person of age 'r' is the present value of his earning from employment. Under this model, the following steps are adopted to determine human resource value:

(i) Classification of the entire labour force into certain homogeneous groups like skilled, unskilled, and semi-skilled and in accordance with different classes and age.

(ii) Construction of average earning stream for each group.

(iii) Discounting the average earnings at a predetermined rate in order to get present value of human resources of each group.

(iv) Aggregation of the present value of different groups which represent the capitalized future earnings of the concern as a whole.

Vr = I (t)/(I + r)t-r

Where, Vr = the value of an individual r years old;

1(t) = the individuals annual earnings up to retirement;

t = retirement age;

r = discount rate specific to the cost of capital to the company.

The Lev and Schwartz Model suffers from the following limitations:

1. This model ascertained the earnings on the basis of skills but ignores the concepts of productivity of employees. Skills can not be in directly proportional to earnings unless the skills are properly utilized for productivity.

2. This model ignores the productivity of promotion of employees except retirement or death.

3. Expenses of 'training and development' incurred by the company are not considered.

**ILLUSTRATION**

From the following information in respect of ABC Ltd., calculate the total value of human capital by following **Lev and Schwartz model**:

**Distribution of employees of ABC Ltd.**

| Age | Unskilled | | Semi-skilled | | Skilled | |
|---|---|---|---|---|---|---|
| | No. | Average Annual Earnings (Rs.) | No. | Average Annual Earnings(Rs.) | No. | Average Annual Earnings(Rs.) |
| 25-34 | 50 | 2000 | 40 | 3000 | 20 | 4000 |
| 35-44 | 10 | 3000 | 10 | 5000 | 10 | 6000 |
| 45-49 | 5 | 4000 | 8 | 6000 | 5 | 7000 |

Apply 12% discount factor

**SOLUTION**

The present value of earnings of each category of employees is ascertained as below:

**(A) Unskilled employees**

| AGE GROUP 25-34.ASSUME THAT ALL EMPLOYEES ARE JUST 25 YEARS OLD | |
|---|---|
| | **Present Value(Rs.)** |
| Rs 2,000 p.a. for next 10 years | 11,300 |
| Rs 3,000 p.a. for years 11 to 20 | 5,457 |
| Rs. 4000 p.a. for years 21 to 25 | 1,496 |
| | **18,253** |

| Age group 35-44.Assume that all employees are just 35 years old: | |
|---|---|
| | **Present Value(Rs.)** |
| Rs 3,000 p.a. for next 10 years | 16,950 |
| Rs. 4,000 p.a. for years 11 to 15 | 4,644 |
| | **21,594** |

| Age group 45-49.Assume that all employees are just 45 years old: | |
|---|---|
| | **Present Value(Rs.)** |
| Rs. 4,000 p.a. for next 5 years | 14,420 |
| | **14,420** |

**(B) Semi-Skilled employees**

| Age group 35-44.Assume that all employees are just 35 years old: | |
|---|---|
| | **Present Value (Rs.)** |
| Rs 5,000 p.a. for next 10 years | 28,250 |
| Rs. 6,000 p.a. for years 11 to 15 | 6,966 |
| | **35,216** |

| Age group 25-34.Assume that all employees are just 25 years old | |
|---|---|
| | **Present Value(Rs.)** |
| Rs 3,000 p.a. for next 10 years | 16,950 |
| Rs 5,000 p.a. for years 11 to 20 | 9,095 |
| Rs. 6,000 p.a. for years 21 to 25 | 2,244 |
| | **28,289** |

| Age group 45-49.Assume that all employees are just 45 years old: | |
|---|---|
| | **Present Value(Rs.)** |
| Rs. 6,000 p.a. for next 5 years | 21,630 |
| | **21,630** |

**(C) Skilled employees**

| Age group 25-34.Assume that all employees are just 25 years old: | |
|---|---|
| | **Present Value (Rs.)** |
| Rs 4,000 p.a. for next 10 years | 22,600 |
| Rs 6,000 p.a. for years 11 to 20 | 10,914 |
| Rs. 7,000 p.a. for years 21 to 25 | 2,618 |
| | **36,132** |

| Age group 35-44.Assume that all employees are just 35 years old: | |
|---|---|
| | **Present Value (Rs.)** |
| Rs 6,000 p.a. for next 10 years | 33,900 |
| Rs. 7,000 p.a. for years 11 to 15 | 8,127 |
| | **42,027** |

| Age group 45-49.Assume that all employees are just 45 years old: | |
|---|---|
| | **Present Value (Rs.)** |
| Rs. 7,000 p.a. for next 5 years | 25,235 |
| | **25,235** |

| | **Total Value of Human Capital** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Age** | **Unskilled** | | **Semi-Skilled** | | **Skilled** | | **Total** | |
| | No. | Average Annual Earnings (Rs.) | No. | Average Annual Earnings (Rs.) | No. | Average Annual Earnings (Rs.) | No. | Average Annual Earnings (Rs.) |
| 25-34 | 50 | 9,12,650 | 40 | 11,31,560 | 20 | 7,22,640 | 110 | 27,66,850 |
| 35-44 | 10 | 2,15,940 | 10 | 3,52,160 | 10 | 4,20,270 | 30 | 9,88,370 |
| 45-49 | 5 | 72,100 | 8 | 1,73,040 | 5 | 1,26,175 | 18 | 3,71,315 |
| | **65** | **12,00,690** | **58** | **16,56,760** | **35** | **12,69,085** | **158** | **41,26,535** |

In the hypothetical illustration given above we have adopted the model of human resource valuation advocated by Lev and Schwartz. This is because the Indian Companies have focused their attention on the present value of employee's earnings as a measure of their human capital. Measuring and Reporting the value of human assets in financial statements would prevent management from liquidating human resources or overbooking profitable investments in human resources in a period of profit squeeze.

## RECOMMENDATIONS FOR FUTURE RESEARCH

The present research paper focuses on the theoretical framework behind Human Resource Accounting and its related valuation technique. The author recommends for future research on the following lines:

1. To study the impact of adequately measured and disclosed Human Resource Cost in the financials of companies in terms of improved EPS and related market capitalization.
2. Introducing mandatory Accounting Standard on Human Resource Accounting.
3. To corroborate the impact of Human Resource Accounting on employees morale and productivity of select listed Companies.
4. Evaluating various Human Resource Accounting techniques to meet the expectation of employees and external agencies.

## REFERENCES


1. Akhtaruddin, M. (1996). "Human Resource Accounting a Survey on Its Applicability in the Public Sector Enterprises of Bangladesh", Rajshahi University Studies Part-C, 4, 53-62.
2. American Accounting Association Committee of Accounting for Human Resources (1973), Report of the Committee on Human Resource Accounting, The Accounting review Supplement to vol. XLVIII
3. Bhat,V.P. (2000). India: Towards transparency and uniformity. Businessline, January 13 Chennai, 1.
4. Culpepper Sr, A.J. (2006). The effect of disclosure of human assets on publicly traded companies in India (Pepperdine University), 103
5. Dalvadi, Yagnesh M. (2010). 'Human Resource Accounting practices in selected companies in India', International Journal of Research in Commerce & Management, 1 (02), 12.
6. Elias, N. (1972). The Effects of Human Asset Statement on Investment Decision: An Empirical Research in Accounting. Journal of Accounting Research (Supplement Empirical Research in Accounting Selected Studies), 10, 215-233.
7. Flamholtz, E.G. (1971). A model for human resource valuation: A stochastic process with service rewards. The Accounting Review(April), 253-67.
8. Flamholtz, E.G., Bullen, M.L. & Hua, W. (2003) 'Measuring the ROI of management development: An application of the stochastic rewards valuation model', Journal of Human Resource Costing and Accounting, 7 (1-2), 21-40.
9. Hansen, F. (2007). A home for HR metrics. Workforce Management 86 (2), 10-11.
10. Institute of Chartered Accountants of India. Financial Reporting.www.icai.org
11. Lev, B., & Schwartz, A. (1971). On the Use of the Economic Concept of Human Capital in Financial Statements. Accounting Review, 103-112.
12. Loqman, M. (1987). "Human Resource Accounting (HRA)", The Cost and Management, XV (1), January-February, 5-11.
13. Malik, Ravinder Kumar (1990).Human Resource Accounting and Decision Behavior: An Empirical Study, University of Delhi.
14. Moore, R. (2007). Measuring how 'human capital' appreciates in value over time. Plant Engineering 61 (4), 29.
15. Newman, B. H. (1999). Accounting Recognition of Human Capital Assets. New York: Pace University Press.
16. Olsson, B. (2001). 'Annual reporting practices: Information about human resources in corporate annual reports in major Swedish companies'. Journal of Human Resource Costing and Accounting, spring, 6(1), 39-52.
17. Patra R., Khatik, S.K., & Kolhe, M. (2003). Human resource accounting policies and practices: A case study of Bharat Heavy Electricals Limited, Bhopal, India. International Journal of Human Resources Development and Management, 3 (4), 285.
18. Rao, D.P. (1983). Human Resource Accounting (Ph D Thesis).Andhra University, Vishakhapatnam.
19. Subbarao, A.V., & Zehgal, D. (1997). Human resources information and disclosure in annual reports: An international comparison. Journal of Human Resource Costing and Accounting, 2 (2), 53-73.
20. Tang, T. (2005). Human Resource Replacement Cost Measures and Usefulness. Cost engineering, 47(8), 70.

# THE RELATIONSHIP BETWEEN PATERNALISTIC LEADERSHIP AND ORGANIZATIONAL CITIZENSHIP BEHAVIOR–THE MEDIATING EFFECT OF ETHICAL CLIMATE

*MENG-YU CHENG*
*ASST. PROFESSOR*
*DEPARTMENT OF BUSINESS ADMINISTRATION*
*FENG CHIA UUIVERSITY*
*TAIWAN*

*LEI WANG*
*LECTURER*
*SCHOOL OF BUSINESS ADMINISTRATION*
*DONGBEI UNIVERSITY OF FINANCE & ECONOMICS*
*CHINA*

*SRI-DWIJAYANTI LESMANA*
*ALUMNI*
*DEPARTMENT OF BUSINESS ADMINISTRATION*
*FENG CHIA UUIVERSITY*
*TAIWAN*

## ABSTRACT
*Paternalistic leadership is considered as an archetypal leadership style in the ethnic Chinese community. This form of leadership has been extensively verified as significantly affecting subordinate effectiveness. Yet, the "black box" effect under paternalistic leadership has hardly been unveiled. A number of studies in western society proved that the behavior of paternalistic leadership has played an important influence on the ethical climate perception of the employees. In this paper, we attempt to use organizational citizenship behavior as subordinate effectiveness to explore the relationship between paternalistic behavior and organizational citizenship behavior in the first place, and to assess the mediating role of the ethical climate between paternalistic leadership and organizational citizenship behavior. This paper covers a empirical study on the manufacturing sector in central Taiwan with 490 dyad samples. The findings indicated that paternalistic leadership significantly affected the organizational citizenship behavior of the subordinates and the ethnical climate perception. In turn, the ethnical climate also significantly influenced organizational citizenship behavior. The mediating effect of ethnical climate on paternalistic leadership and organizational citizenship behavior was partly significant. In the conclusion of this paper, a discussion on the limitations of this paper and the direction for studies in the future was presented. Additionally, samples from Taiwan were used in this study of paternalistic leadership in order to find out the important meaning that the internal mechanism had on the effect of paternalistic leadership.*

## KEYWORDS
Organizational Citizenship Behavior , Organizational Ethical Climates, Paternalistic Leadership.

## INTRODUCTION
Leadership plays a critical role in the course of socialization of an organization, as different leadership styles tended to affect the attitudes and behavioral patterns of employees, which in turn determined the attainment of goals and organizational performance (Wu, 2008). Leadership is indeed common in organizations everywhere and also indispensable in the operation of the organizations (Wren, 1995). As such, the theory of leadership has long been a hot topic in the domain of organizational behavior (Cheng, 1990; Westwood, 1997). Yet, the findings of many studies helped to prove that regions of different cultures entailed different essences of leadership. The leadership style that is effective in one culture may not be equally effective in another (Hostede,1980; Hofstede & Bond,1988). If we try to fit the leadership style that has developed in the western world into the ethnic Chinese community, it will be a strange fit with a weird phenomenon. In so doing, the original style of leadership exhibited in the ethnic Chinese community will be tainted with possible distortion of material facts (Smith & Bond, 1993).

Paternalistic leadership was, and remains, an observable phenomenon common to corporate organizations of ethnic Chinese, among other theories of leadership, and features the heritage of Chinese culture. Paternalistic leadership was a form of one-man rule characterized by strict discipline and authority, fatherly benevolence, and moral integrity (Farh & Cheng, 2000), and contains three essential elements, namely, authoritarian leadership, benevolent leadership, and moral leadership. As compared with the leadership styles of the west, paternalistic leadership approximates the practices in the enterprises of ethnic Chinese. For this reason, this paper is an attempt to explore the relationship between paternalistic leadership and leadership effectiveness.

In an environment where rapid change is the order of the day, the attainment of organizational goals and achievement of growth can no longer just rely on the in-role behavior of employees. The participation of employees beyond their existing role and the spirit of innovation were necessary (Katz, 1964). In other words, this was the so-called extra-role behavior or organizational citizenship behavior. Organizational citizenship behavior referred to the voluntary acts of employees in assisting colleagues beyond the accomplishment of assigned duties, and in protecting organizational resources, which in turn enhanced the performance and effectiveness of organizational functions (Bateman & Organ, 1983; Smith, Organ, & Near, 1983). At that juncture, would the merging of authoritarian, benevolent and moral styles in the exhibition of paternalistic leadership motivate or suppress employees in demonstrating organizational citizenship behavior? Perhaps, this is the very issue that must be addressed in the first place.

There have been a number of unethical practices in the corporate world in the last few years, including the Enron scandal and the eventual global financial crisis triggered by the sub-prime mortgage loans of the USA, the blending of melamine in milk of the China, the presence of DEHP in beverages of the Taiwan. These events compelled further study on corporate ethics, among which, the concept of ethical climate has attracted most of the attention and has therefore been more studied. Ethical climate referred to a stable state of psychological inclination and cognition inherent to the ethical policy and decision shared by all employees (Schneider, 1975), and was the consciousness of employees towards dilemma, and solutions to the dilemma. This was a vital element based on which decisions of ethical behavior of the organization and the members of the organization will be made (Victor & Cullen, 1987). The findings of certain studies indicated that leadership had significantly affected the ethical climate of the organization (Dickson, Smith, Grojean, & Ehrhart, 2001), as the leader had carved out the ethical climate and consciousness of employees of the organization at the time the leader conveyed and demonstrated moral value to the employees.

The studies on the relationship between paternalistic leadership and ethical climate were negligible and only the works of Erben & Güneşer (2008) and Ötken & Cenkci (2012) covered this topic, but the focus of their studies was not within the bounderies of ethnic Chinese. As such, this paper is an attempt to explore the relationship between paternalistic leadership and ethical climate with samples from Taiwan with a view to understanding the influence of paternalistic leadership style in different ethical climates, and the influence of different ethical climates on the organizational citizenship behavior of employees. Furthermore, the mediating effect of ethical climate between paternalistic leadership and organizational citizenship behavior will also be explored. This paper serves as an even better input in understanding the internal mechanism of paternalistic leadership.

## REVIEW OF LITERATURE

### PATERNALISTIC LEADERSHIP

The rapid development of the ethnic Chinese in Southeast Asia and the Chinese economy have attracted much attention from scholars and experts in the study of the management philosophy and practices of the corporate organizations among ethnic Chinese (Redding , 1990; Whitley, 1992). Studies on the corporate organizations of ethnic Chinese indicated that ethnic Chinese corporate leaders exhibited a unique style of leadership that may be called “Paternalistic Leadership”. The concept of paternalistic leadership was proposed on the basis of a series of studies. Farh & Cheng (2000) proposed that paternalistic leadership contained three fundamental elements on the basis of the findings of the studies of Silin (1976), Redding (1990), Cheng (1995) and Westwood (1997). These style elements were: benevolent style, authoritarian style, and moral style. Simply put, paternalistic leadership may be defined as the manifestation of strict discipline and powerful authority, paternalistic benevolence and care, and moral integrity in leadership in an environment of ruling people. Farh & Cheng (2000) described three categories of paternalistic leadership style and the response of the subordinates on the basis of interaction between the leader and the subordinates. The findings indicated that moral leadership tended to correlate with the respect and identification of the subordinates. Benevolent leadership tended to correlate with the gratitude and repayment of the subordinates. Authoritarian leadership tended to correlate with the compliance and dependence of the subordinates. Cheng, Chou, Huang, Farh & Peng (2003) further developed a paternalistic measurement on the basis of the triad model of paternalistic leadership. This measurement covered three elements: benevolent leadership (individualized care, understanding and forgiving), authoritarian leadership (powerfully subduing, authority and control, intentional hiding, rigorousness, and doctrine), and moral leadership (integrity and fulfillment of obligations, never taking advantage of the others, and selflessness paragon).

According to Farh & Cheng (2000), benevolent leadership had its origin from Confucian culture. The roles between two persons were built up on their interactions. In the Confucian philosophy of the five human relations, people in a senior position (king, father, elder brother, husband and, friend) must treat those in the junior positions (subject, son, younger brother, wife and, friend) with benevolence, love, harmony, and righteousness. In reciprocity, those in junior positions must be compliance, exhibit filial piety, and respect those in senior positions. Hsu (1997) suggested that ethnic Chinese corporate leaders tended to play the role of “father” while the subordinates tended to play the role of “sons”, as the corporate organizations have undergone pan-familism evolution. The leaders of ethnic Chinese organizations usually exhibit the following traits in their benevolent leadership: (1) Granting favors; (2) Long-term relationship; (3) Forgiveness, meaning that the leaders tended to protect and forgive their subordinates when they made mistakes and avoided public condemnation or disclosure while the subordinates tended to exhibit a gratitude and repayment behavior (Cheng, Chou, Wu, Huang, & Farh, 2006). Also, ethnic Chinese leaders must behave in high moral standards and make themselves exemplars for the subordinates in order to win the respect and modeling from the subordinates. This kind of moral leadership also has its origin in Confucianism with an emphasis on the basic requirements of a leader manifested in proper behavior to prove his impartial morality (Farh & Cheng, 2000) while the subordinates tended to respect identification behavior.

In addition, the leaders emphasized that their authority was absolute and cannot be challenged. As such, they tended to exercise strict control and demand for subordination from their subordinates to its entirety. This form of authoritarian leadership behavior can be traced from the 3,000 years of monarchy rule and the Legalism of thought (*Fa Jia*) from/in China whereby paternalistic authority and power was emphasized. This reflected the traditional culture of familism and compliance to authority that persisted in the ethnic Chinese community (Cheng, Chou & Farh, 2000). Ethnic Chinese corporate leaders tended to exhibit a paternalistic leadership style that resulted in a high powered distance between the leaders and the subordinates (Redding, 1990; Westwood, 1997). In sum, studies in the past (Cheng, 1995; Farh & Cheng, 2000; Wu, Hsu & Cheng, 2002; Wu, Chou & Cheng, 2008) indicated that there were four major components of authoritarian leadership: authority and control, downgrade the ability of the subordinates, impression management and indoctrination. Under authoritarian leadership, the subordinates tended to exhibit compliance, dependence and timidity (Cheng, 1995).

### ORGANIZATIONAL CITIZENSHIP BEHAVIOR

The concept of organizational citizenship behavior started with Barnard (1938) in proposing the function of managers, whilst depicting the voluntary cooperation of the members of an organization. The “voluntary cooperation” exceeded the contractual obligations and was indeed the voluntary act of the individuals whereby the individuals were willing to be subordinated to a formal authority. This behavioral pattern helped to enhance organizational efficiency. As such, we could say that the concept of “voluntary cooperation” spelled out by Barnard was the embryonic form of organizational citizenship behavior. Katz (1964) suggested that if the organization was to upgrade the work performance of employees, maintain effective operation of the organization, employees must participate and stay in the organization and shall be self-motivated to achieve the organizational goal. In addition, they must perform in excess of the boundary of the role and innovation. In other words, employees must accomplish their assigned duties and be motivated to perform in favor of the organization for realizing the organizational goal, which was considered an extra-role behavior. Based on the concept of Katz (1964), Bateman＆Organ (1983) defined voluntary action and extra-role behavior of employees as organizational citizenship behavior. This behavior covered: (1) helping colleagues falling behind the progress schedule; (2) no complaining on receiving an urgent assignment; (3) present positive opinions for the benefit of the department; (4) keeping the work environment clean. The findings from massive studies indicated that organizational citizenship behavior played a critical role to organizational performance in the long run (Tepper & Taylor, 2003; Farh, Cheng, Chou, & Chu, 2004; Bergeron, 2007). As such, organizational citizenship behavior was adopted for assessing the leadership performance of the supervisors.

### THE EFFECT OF PATERNALISTIC LEADERSHIP ON ORGANIZATIONAL CITIZENSHIP BEHAVIOR

Cheng (1995) and Farh & Cheng (2000) pointed out in their studies that benevolent leadership included understanding, individualized care, and forgiveness while the subordinates tended to respond in gratitude and repayment. Benevolent leadership of the supervisors not only manifested in their concern and care of the subordinates in the workplace, but also their private lives and families. The gratified employees never forgot what the supervisors did and tended to respond with gratitude and loyalty. Employees with this kind of gratitude and loyalty mindset tended to be self-motivated. As such, benevolent leadership helped to reinforce organizational citizenship behavior of employees. Accordingly, we can infer in this paper that:

**H1a: The stronger the intensity of benevolent leadership of the leaders, the stronger the intensity of organizational citizenship behavior:**

Moral leadership includes impartiality and setting an example for others. This behavioral pattern can help win the respect of employees who take the leader as their model. Accordingly, employees will not care much about their own interest but exhibit a higher level of loyalty and trust to their supervisors (Cheng,1995; Farh & Cheng, 2000). As such, employees will voluntarily exhibit organizational citizenship behavior under the moral leadership of the leader. Accordingly, we may infer that:

**H1b: The stronger the intensity of moral leadership of the leaders, the stronger the intensity of organizational citizenship behavior:**

Authoritarian leadership exhibited the patterns of authority and control, downgrades the ability of employees, impression management, indoctrination, emphasis on strict control of employees, no empowerment, and a demand for unconditional subordination of employees. Such behavioral patterns tended to make employees feel that the superiors question their ability or do not trust their loyalty. Such behavioral patterns tended to trigger the anger of employees (Wu, Hsu & Cheng, 2002). Accordingly, employees were less satisfied with their supervisors or with their own work (Lewis, 2000), and the intensity of organizational citizenship behavior will be weakened. We may infer that:

**H1c: The stronger the intensity of authoritarian leadership of the leaders, the weaker the intensity of organizational citizenship behavior:**

**ETHICAL CLIMATE**

Ethical climate was a facet of organizational climate, which was also an integral part of organizational culture. The topic of organizational climate has drawn the attention of scholars and experts since the 1950s. In the last two decades, the gravity of the studies on organizational climate started to shift to a particular type of climate that was internal to the organization. Examples were the service climate and innovation climate of the organization. Ethical climate was taken as a form of "norm-control system" of an organization (Victor & Cullen, 1988; Schneider & Recichers, 1993). This control system not only affected the moral behaviors of employees (Wimbush and Shepard, 1994) but also the personal value on the code of ethics. Sometimes, ethical climate was taken as the feature of "regimentation" of the members of the organization (Landekich, 1989). As such, the effect of ethical climate on the members of the organizational was critical.

Victor & Cullen (1987) attempted to develop a measurement for ethical climate. They shared the point of view proposed by Schneider (1975) and used ethical criteria and locus of analysis as the dimensions for the chart, and developed the Ethical Climate Questionnaire (ECQ). What were ethical criteria? Kohlberg (1981) suggested that individuals tended to apply different moral criteria at different stages of moral development. These criteria were egoism, benevolence, and principle. Egoism referred to the personal quest for the maximization of interest. In a situation where personal interest and group interest conflicted, the individual tended to prefer personal interest over group interest. Benevolence referred to the quest for the maximization of group interest. In a situation where personal interest and group interest was conflicting, the individual tended to prefer group interest over personal interest. Principled refered to the individuals or the organization that acted in compliance with the norm of the organization or the laws of the state. In a situation where personal emotion was contradictory to legal rules, norm and legal rules prevailed.

What is locus of analysis? Leaders tended to take into consideration reference groups when making a decision concerning an ethical situation. The size of these reference groups may vary from an individual to the whole social system. As such, locus of analysis helped the leaders to differentiate the types of ethical climates. Based on the Cosmopolitan-Local concept proposed by Gouldner (1957), Victor & Cullen (1987) classified reference groups into three categories by including individuals. **Individual** referred to decision-making on the basis of personal perspective. **Local** referred to decision-making on the basis of the ethical criterion internal to the organization. **Cosmopolitan** referred to decision-making on the basis of the ethical criteria external to all individuals and the organizations.

Victor & Cullen (1998) conducted an empirical study on 872 employees of four companies in different industries and of different sizes. They extracted five types of ethical climates from theoretical concern and empirical findings. As shown in Table 1, they are the dimensions of caring, law and code, rule, instrumental, and independence. The dimension of caring refers to the emphasis of the organization in the interaction between the organization and the individuals, including the concern over the interest of employees by the organization and vice versa. The dimension of law and code refers to the emphasis of the organization in compliance with applicable legal rules and professional code of conduct and employees also duly observed legal rules. The dimension of rule refers to an emphasis of employees in compliance with the internal code of the company and the policy of the company. The dimension of instrumental refers to the quest for maximization of the personal interest of employees with the exclusion of the interest of the others as the priority. Only when the interest of employees influenced the overall interest of the organization will it be deemed defiance against the norm of the company. The dimension of independence refers to the organization granting a certain degree of autonomy and decision latitude to employees and the respect of personal judgment and moral concept of employees.

**TABLE 1: THE MAPPING OF THEORETICAL DIMENSIONS AND EMPIRICAL DIMENSIONS OF ETHICAL CLIMATES**

| Theoretical Dimensions | Empirical Dimensions | Remarks |
|---|---|---|
| Individual/ benevolence Local/ benevolence | Caring | |
| Cosmopolitan/principle Cosmopolitan/ benevolence | Law & Code | In this paper, we combined these two dimensions as compliance ethical climate |
| Local/principle | Rule | |
| Individual/egoism Local/egoism | Instrumental | |
| Individual/principle | Independence | |

Source: Victor& Cullen (1988)

Currently, ethical climate has been taken as an overall dimension in some studies (Erben & Güneşer, 2008; Mulki, Jaramilo, & Locander, 2009). However, Martin & Cullen (2006) discovered in their Meta-analysis that ethical climate had a positive and negative effect on the result of the organization. As such, it would be irrelevant with reality if we take ethical climate as an overall dimension consistent in the same organization. Furthermore, Victor & Cullen (1988) also suggested that there may be a prevailing ethical climate in an organization, but it would be impossible that there was only one type of ethical climate that existed in an organization. The aforementioned five types of ethical climates varied significantly and cannot be combined in the analysis. For instance, the analysis of ethical climate in this paper is different from the past. Here, only two types of ethical climates proposed by Victor & Cullen (1988), which were law and code, and rule, merge into compliance ethical climate. The remaining three types of ethical climates varied significantly and were left intact. In sum, there are four types of ethical climates explored in this paper, namely, caring, independence, instrumental, and compliance.

**THE EFFECT OF PATERNALISTIC LEADERSHIP ON ETHICAL CLIMATE**

The findings of many studies indicated that leadership behavior was a critical factor that affected the ethical climate of the organization (Dickson, Smith, Grojean, & Ehrhart, 2001). Leaders tended to convey moral value to employees in the course of exhibiting their leadership behavioral patterns. This affected the ethical climate of the organization and also reinforced the work performance of employees in the organization. Leaders should assess different types of ethical climates at different stages of development, and translate them as the tools for internal management in order to mold the kind of ethical climates desired by the managers.

The essence of moral leadership and benevolent leadership entails the full respect and caring of each subordinate and setting an example for all the others. As mentioned, moral leadership tended to inspire the respect and identification of employees while benevolent leadership helped to earn the gratitude and repayment from employees. The ethical climate of caring in an organization also implied the orientation of benevolence and the concern for the caring and friendliness between the organization and employees in their interactions, including the caring of employee benefits by the company (Victor & Cullen, 1988). The leaders exist as symbols of the organization to a large extent. Therefore, under the benevolent and moral leadership of the supervisors, the ethical climate of caring in the organization will be reinforced. According to the studies of Victor & Cullen (1988), the ethical climate of compliance was based on principle and benevolence as the guideline of operation. The ethical climate of independence was based on individual and principle as the guideline of operation. The findings of the studies by Cheng et al., (2003) also indicated that moral and benevolent leadership allowed employees to act in accordance with their personal moral standards and valued the ability of employees in making a correct judgment. As such, the ethical climates of caring, compliance and independence will be developed under benevolent and moral leadership of the supervisors. Accordingly, we may infer as follows:

**H2a: The more the leaders are inclined towards benevolent and moral leadership, the higher the intensity of ethical climates of caring, compliance and independence in the organization**

Furthermore, benevolent leadership is a perpetual phenomenon, which manifests in forgiveness and protection, not only in the workplace but also in the private lives of employees. Moral leadership must be manifested in high moral standards or personal integrity, particularly in the form of impartiality and selflessness (no abusive use of power, conspiring for personal interest or stealing the benefit of others), and setting an example for employees in order to win their respect and taking the leader as a model of learning (Cheng et al., 2003). As such, benevolent and moral leadership never encourages the development of instrumental ethical climate, which entails the maximization of personal interest. We may infer:

**H2b: The more the leaders are inclined towards benevolent and moral leadership, the lower the intensity of the ethical climate of instrumental in the organization**

By contrast, authoritarian leadership was manifested in the form of forceful subduing and authority and control, and downgrades the others. As such, there will be only top-down communications between supervisors and employees, no empowerment, control over information without disclosure, and intense monitoring over employees. In an organization with an ethical climate of independence, employees were allowed to act in accordance with their own moral standards, the ability of making judgment of employees was highly valued. In addition, the company granted a certain level of autonomy and decision latitude to employees. Authoritarian leadership made employees feel a lack of freedom, being kept under surveillance, exploited, or being repressed and condemned. As such, they tended to feel helpless, humiliated, or psychologically hurt (Cheng, 1995; Wu et al., 2002; Farh et al., 2004). Accordingly, no ethical climate of independence can be developed under authoritarian leadership. Also, benevolent and caring is the gravity of management in developing ethical climate of caring thereby the company cares about all employees while authoritarian leadership will only make employees be publicly condemned or scolded ruthlessly for the poor performance in the workplace. This behavior is an insult and disrespect to employees, and will eventually develop anger among employees. Per se, an organization of this kind cannot develop the ethical climate of caring. Likewise, authoritarian leadership nurtures an atmosphere of rule by people, which deprives the organization from the development of a compliant ethical climate. Therefore, we may infer:

**H2c: The more the leaders are inclined towards authoritarian leadership, the lower the intensity of the ethical climates of independence, caring, and compliance in the organization**

Cheng (1991) suggested that under authoritarian leadership, good performance of employees was their professed duties. Even though employees performed very well, the leader may just give them a private financial reward but no public citation. In contrast, those who performed badly were condemned in public. In addition, the leader tends to emphasize the importance of work performance and hopes employees will work much harder to avoid the same mistake. Under the ethical climate of instrumental, self-interest will be the orientation in any aspect of the operation with emphasis on private interest as the top priority. Therefore, authorization leadership tends to reinforce the ethical climate of instrumental. As such, we may infer:

**H2d: The more the leaders are inclined towards authoritarian leadership, the higher the intensity of the ethical climate of instrumental in the organization**

### THE EFFECT OF ETHICAL CLIMATE ON ORGANIZATIONAL CITIZENSHIP BEHAVIOR

Every organization features different types of ethical climates. If the ethical climate of an organization was benign, employees were willing to sacrifice more for the organization. They may even voluntarily perform additional work in order to buttress the operation of the organization. At this point, employees tended to exhibit stronger organizational citizenship behavior (Katz & Kahn, 1966). Trevino (1986) further pointed out in his research that ethical climate affected job satisfaction of employees. The empirical findings of Leung (2008) also indicated that the organizational citizenship behavior exhibited by employees in Hong Kong correlated with the ethical climates of caring, law and compliance positively at significant level, and correlated positively with the ethical climate of independence insignificantly, but correlated negatively with ethical climate of instrumental at significant level.

When caring and benevolence were the prevailing ethical climate of an organization, the leaders tended to respect employees for their contribution to the organization thereby winning the concern of employees for the organization. At this point, employees tended to give up their own personal interests and were more willing to work, cooperate, and sacrifice. Employees in an organization featured with the ethical climate of caring tended to unconditionally sacrifice for the organization (Leung, 2008). The findings from the studies of Peterson (2002) indicated that the ethical climate of caring tended to prevent biased behavior of employees, and enhanced the social support among employees. More importantly, the organization made employees feel warm and cared for. It was because of this type of emotional exchange that derived social emotional support, which in turn sustained emotional feelings among employees and enhanced the performance of organizational citizenship behavior. As such, we may infer:

**H3a: The more prevalent the ethical climate of caring of the organization, the more pervasive organizational citizenship behavior**

When the leader must comply with applicable laws and a professional code of conduct in performance, the ethical climate of compliance will be prevalent in the organization. If the ethical climate of compliance affects the organization, employees will follow applicable laws and a professional code of conduct, which will bring about a positive input to the operation of the organization. Accordingly, employees will voluntarily assist others to solve their problems. As this point, organizational citizenship behavior will be developed (Koys, 2011). When employees follow the code of the company in operation, they will exhibit a positive behavior in the workplace, which was another form of organizational citizenship behavior (Katz & Kahn, 1966). In sum, in an environment where employees were responsive and fully performed their duties, they will even contribute more to the organization. As such, we may infer:

**H3b: The more prevalent the ethical climate of compliance of the organization, the more pervasive organizational citizenship behavior**

The leader of an organization under an independent ethical climate tended to grant a certain level of autonomy and decision latitude to employees, and respect their personal judgment. This kind of organization allowed the leader and employees to develop trust between each other, reinforce the identification of employees within the organization, and manifested in organizational citizenship behavior as repayment (Robinson & Marrison, 1995). In addition, employees exhibited a higher level of loyalty within the organization and the supervisors. For example, such, an organization under the ethical climate of independence allowed employees to be more willing to sacrifice in order to achieve the organizational goal. We may infer:

**H3c: The more prevalent the ethical climate of independence of the organization, the more pervasive organizational citizenship behavior**

Employees in an organization with an instrumental ethical climate tended to seek personal interest in performance. In such an organization, employees will be selfish and will not support group interests (Graham, 1991). Puffer (1987) discovered that if employees felt keen competition among their colleagues, they were less inclined towards organizational citizenship behavior. As such, we see that instrumental ethical climate cannot flourish organizational citizenship behavior. We may infer:

**H3d: The more prevalent the ethical climate of instrumental of the organization, the less pervasive organizational citizenship behavior**

### THE MEDIATING EFFECT OF ETHICAL CLIMATE BETWEEN PATERNALISTIC LEADERSHIP AND ORGANIZATIONAL CITIZENSHIP BEHAVIOR

The aforementioned hypotheses suggested that paternalistic leadership was associated with ethical climate and organizational citizenship behavior. In the analysis of paternalistic leadership and the responses of employees, we see that paternalistic leadership tended to win the identification, modeling, gratitude, repayment, subordination, and respect from employees, which in turn reinforced organizational citizenship behavior (Hsu, Hu, Ling, Cheng & Chou, 2004). From the perspective of social identity, employees tended to identify with the leader if benevolent and moral leadership was pursued. Accordingly, trust will also be developed, which made employees more willing to sacrifice for the supervisors or the organization, including cooperation, loyalty, interest of all, or performance (Brickson, 2000). Under benevolent and moral leadership, the organization will be shaped with a caring, independence, and compliance ethical climates. Organization of this kind imparted high climates and employees were willing to exhibit organizational citizenship behavior as repayment (Leung, 2008). As such, ethical climate may yield a mediating effect in the course of affecting organizational citizenship behavior of employees under paternalistic leadership. Benevolent and moral leadership may develop caring, independence and compliance ethical climates, which will reinforce organizational citizenship behavior among employees. Authoritarian leadership may develop an instrumental ethical climate in the organization, which will hamper organizational citizenship behavior among employees. Therefore, we may infer as follows:

**H4: Ethical climate yields mediating effect between paternalistic leadership and organizational citizenship behavior.**

## RESEARCH METHODOLOGY

### RESEARCH SAMPLE AND DATA COLLECTION

The focus of this paper is to explore the effect of leadership on organizational citizenship behavior and the ethical climate of the organization in the manufacturing industries in central Taiwan. We adopted the dyadic questionnaire method to collect the data. In the data collection, we requested senior executives or human resources personnel for assistance. We then called the interviewees for their consent and then made an appointment for the tests. Before proceeding, we explained to the supervisors and subordinates participating in the test the purpose, detail, and the requirements for the test The questionnaire was then released, and the respondents answered the questions immediately and then handed in their responses. We sent out 738 questionnaires of which 123 were distributed among supervisors and 615 were distributed among subordinates. The response rate of the supervisors was 100%. We collected only 594 questionnaires from subordinates with 21 unanswered. The response rate was 96.65%. We then filtered off the questionnaire with either too many questions unanswered or not properly answered. The result was 490 valid respondents from employees or at 82.49% of valid response rate. The majority of respondents in the test were males, which accounted for 88% of the total, followed by females, which accounted for 12%. In the aspect of age distribution, respondents aged

26-30 accounted for 32.7%; followed by the group of respondents aged 31-35, which accounted for 26.9%, and the group aged 20-25, which accounted for 20%. In the aspect of education level, the majority of the respondents were university graduates, which accounted for 59% of the total. It was followed by graduates from vocational schools, which accounted for 34.9% of the total. In the aspect of years of service with the organizations, the majority of them have an average of 1-5 years of service with the company, which accounted for 61.2%, followed by 5-10 years of service, which accounted for 19.5%.

**MEASUREMENT AND VARIABLES**

The dyadic questionnaire was used in this study. The questionnaire designed for supervisors covered the information on the organizational citizenship behavior of subordinates and the background of supervisors. The questionnaire designed for subordinates covered information on the evaluation of paternalistic leadership of supervisors, the perception of ethical climate of the organization, and the background of subordinates. We adopted the measurement developed by Cheng et al., (2003) where six questions for benevolent leadership, seven questions for moral leadership, and six questions for authoritarian leadership were given. A total of 19 questions were asked. The measurement of Victor & Cullen (1988) was used in the measurement of ethical climate. We combined the ethical climate of rule and of law and code into the ethical climate of compliance and kept the remainder intact. There were four dimensions covering 14 questions. We adopted the measurement developed by Williams & Anderson (1991) on organizational citizenship behavior on the OCB-I and OCB-O covering 13 questions. The 5-point Likert Scale was adopted for scoring.

**CONFIRMATORY FACTOR ANALYSIS**

The data adopted confirmatory factor analysis and test for the goodness of fit of the model, which is shown in Table 2.

After the confirmatory factor analysis of paternalistic leadership, we removed two questions of the lowest loading. Only 17 questions were left behind in the test. The composite reliability of benevolent leadership was .87 with average variance extraction (AVE) at .58. The composite reliability of moral leadership was .91 with AVE at .61. The composite reliability of authoritarian leadership was .77 with AVE at .40. After the confirmatory factor analysis of ethical climate, we removed two questions of the lowest loading. Only 12 questions were left behind in the test. The composite reliability of caring ethical climate was .66 with AVE at .40. The composite reliability of independence ethical climate was .69 with AVE at .54. The composite reliability of compliance ethical climate was .80 with AVE at .50. The composite reliability of instrumental ethical climate was .57 with AVE at .31. After the confirmatory factor analysis of organizational citizenship behavior, the questions with the lowest loading were removed. Only nine questions were left behind in the test. The composite reliability was.89 with AVE at 0.47. The overall goodness of fit of this study was: $\chi2$ =1425.35; P =.00; DF = 637; $\chi2$/DF = 2.24; GFI = .90; AGFI = .86; CFI = .90; RMSEA = .05. This result indicated that the overall dimension of this study had strong reliability, validity, and goodness of fit (Fornell & Larcker, 1981).

**TABLE 2: CONFIRMATORY FACTORY ANALYSIS, RELIABILITY, VALIDITY, AND CONTENTS OF THE RESEARCH CONSTRUCT**

| Dimension | | Question | Factor loading | Composite reliability | Average variance extracted | Fit index |
|---|---|---|---|---|---|---|
| Paternalistic Leadership | Authoritarian Leadership | My supervisor asks me to obey his/her instructions completely. | .74$^{***}$ | .77 | .40 | $\chi^2$=623.38, P=.000)<br>DF=278<br>$\chi^{2/}$/DF=2.24<br>GFI= .88<br>AGFI= .85<br>CFI=.94<br>TLI= .93<br>RMSEA=.06 |
| | | My supervisor always has the last say in the meeting. | .69$^{***}$ | | | |
| | | I feel pressured when working with my supervisor. | .61$^{***}$ | | | |
| | | My supervisor scolds us when we can't accomplish our tasks. | .57$^{***}$ | | | |
| | | We have to follow his/her rules to get things done. If not, he/she punishes us severely. | .54$^{***}$ | | | |
| | Benevolent Leadership | Beyond work relations, my supervisor expresses concern about my daily life. | .82$^{***}$ | .87 | 58 | |
| | | My supervisor ordinarily shows a kind concern for my comfort. | .79$^{***}$ | | | |
| | | My supervisor encourages me when I encounter arduous problems. | .75$^{***}$ | | | |
| | | My supervisor will help me when I'm in an emergency. | .73$^{***}$ | | | |
| | | My supervisor takes good care of my family members as well. | .71$^{***}$ | | | |
| | Moral Leadership | My supervisor sets an example. | .86$^{***}$ | .91 | .61 | |
| | | My supervisor is a good example of my personal conduct at work. | .82$^{***}$ | | | |
| | | My supervisor never avenges a personal wrong in the name of public interest when he/she is offended. | .80$^{***}$ | | | |
| | | My supervisor is unselfish toward us. | .79$^{***}$ | | | |
| | | My supervisor doesn't take the credit for my achievements and contributions for himself/herself. | .78$^{***}$ | | | |
| | | My supervisor does not take advantage of me for personal gain. | .73$^{***}$ | | | |
| | | My supervisor does not use guanxi (personal relationships) or back-door practices to obtain illicit personal gains. | .65$^{***}$ | | | |
| Ethical Climates | Caring | In this company, people look out for each other's good. | .72$^{***}$ | .66 | .40 | |
| | | Our major concern is always what is best for the other person. | .66$^{***}$ | | | |
| | | The most important concern is the good of all the people in the company as a whole. | .50$^{***}$ | | | |
| | Independence | In this company, people are expected to follow their own personal and moral beliefs. | .90$^{***}$ | .69 | .54 | |
| | | In this company, people are guided by their own personal ethics. | .52$^{***}$ | | | |
| | Compliance | In this company, the first consideration is whether a decision violates any law. | .83$^{***}$ | .80 | .50 | |
| | | In this company, people are expected to strictly follow legal or professional standards. | .69$^{***}$ | | | |
| | | In this company, the law or ethical code of their profession is the major consideration. | .65$^{***}$ | | | |
| | | People in this company strictly obey the company policies. | .63$^{***}$ | | | |
| | Instrumental | There is no room for one's own personal morals or ethics in this company. | .63$^{***}$ | .57 | .31 | |
| | | In this company, people protect their own interests above all else. | .52$^{***}$ | | | |
| | | People are expected to do anything to further the company's interests, regardless of the consequences. | .51$^{***}$ | | | |
| OCB | | He/She assists supervisors with his/her work (when not asked). | .76$^{***}$ | .89 | .47 | |
| | | He/She gives advance notice when unable to come to work. | .73$^{***}$ | | | |
| | | He/She adheres to informal rules devised to maintain order. | .73$^{***}$ | | | |
| | | He/She helps others who have heavy work loads. | .71$^{***}$ | | | |
| | | He/She goes out of way to help new employees. | .69$^{***}$ | | | |
| | | He/She helps others who have been absent. | .66$^{***}$ | | | |
| | | He/She takes a personal interest in other employees. | .64$^{***}$ | | | |
| | | He/She passes along information to co-workers. | .63$^{***}$ | | | |
| | | His/her attendance at work is above the norm. | 58$^{***}$ | | | |

## RESEARCH FINDINGS

### CORRELATION ANALYSIS

We have conducted correlation analysis on related variables in this study, as shown in Table 3. We should pay attention to years of service, age, and organizational citizenship behavior, which were positively correlated at the significant level of (r = .24, p < .01; r = .17, p < .01), meaning that the older the age of employees, and the longer the years of service, the stronger the organizational citizenship behavior. In the area of paternalistic leadership, benevolent leadership correlated positively with moral leadership at the significant level of (r = .68, p < .001). Authoritarian leadership correlated negatively with benevolent leadership and moral leadership at the significant level of (r = −.13, p < .01; r = −.15, p < .01). These indicated that if the intensity of authoritarian leadership was strong, employees could not feel the existence of benevolent and moral leadership behavior. The relations among these three types of leadership were congruent with the studies on paternalistic leadership in the past (Farh & Cheng, 2000).

At the same time, benevolent leadership and moral leadership correlated positively with caring, independence, and compliance at the significant level of (r = .39, p < .01, r = .16, p < .01, r = .26, p < .01; r = .39, p < .01, r = .14, p < .01, r = .31, p < .01). These indicated that the higher the intensity of benevolent leadership and moral leadership, the more likely the ethical climates of caring, independence and compliance could be developed in the organization. Authoritarian leadership correlated positively with instrumental ethical climate at the significant level of (r = .17, p < .01), meaning that the authoritarian leadership style exhibited by the supervisors tended to develop instrumental ethical climate. The benevolent leadership and moral leadership correlated positively with organizational citizenship behavior at the significant level of (r = .22, p < .01; r = .18, p < .01), meaning that the exhibition of benevolent and moral leadership styles of the supervisors helped to reinforce organizational citizenship behavior of employees. In contrast, the authoritarian leadership style of the supervisors correlated negatively with organizational citizenship behavior at the significant level of (r = −.20, p < .01), meaning that the exhibition of authoritarian leadership style of the supervisors tended to hamper organizational citizenship behavior of employees.

In addition, the ethical climates of caring, independence, and compliance correlated positively with organizational citizenship behavior at the significant level of (r = .14, p < .01; r = .09, p < .05; r = .19, p < .01), meaning that the ethical climates of caring, independence, and compliance in an organization tended to flourish organizational citizenship behavior of employees. Instrumental ethical climate correlated negatively with organizational citizenship behavior at the significant of level (r = −.11, p< .05), meaning that instrument ethical climate in an organization is unfavorable for the development of organizational citizenship behavior.

**TABLE 3: CORRELATION ANALYSES**

| Variable | Mean | S.D. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Control Variable** | | | | | | | | | | | | | |
| 1. Gender [a] | 1.12 | .32 | | | | | | | | | | | |
| 2. Age [b] | 2.60 | 1.29 | .17** | | | | | | | | | | |
| 3. Education [c] | 2.61 | .57 | .12** | −.14** | | | | | | | | | |
| 4.Tenure [d] | 1.62 | .93 | .05 | .74** | −.20** | | | | | | | | |
| **Independent Variable** | | | | | | | | | | | | | |
| 5. Benevolent Leadership | 3.04 | .74 | .04 | .12** | −.07 | .13** | | | | | | | |
| 6. Authoritarian Leadership | 2.99 | .67 | .08 | −.08 | .02 | −.08 | −.13** | | | | | | |
| 7. Moral Leadership | 3.28 | .78 | .06 | .08 | −.01 | .07 | .68*** | −.15** | | | | | |
| **Mediator Variable** | | | | | | | | | | | | | |
| 8.Caring | 3.35 | .64 | .04 | .13** | −.04 | .11* | .39** | −.12** | .39** | | | | |
| 9.Independence | 3.27 | .66 | .08 | −.11* | .02 | −.08 | .16** | −.10* | .14** | .24** | | | |
| 10. Instrumental | 3.01 | .73 | .06 | −.01 | .05 | −.10* | −.09* | .17** | −.17** | −.15** | .26** | | |
| 11.Compliance | 3.64 | .64 | .05 | .20** | −.10* | .20** | .26** | −.03 | .31** | .59*** | .22** | −.12** | |
| **Dependent Variable** | | | | | | | | | | | | | |
| 12.OCB | 3.79 | .50 | .02 | .17** | −.02 | .24** | .22** | −.20** | .18** | .14** | .09* | −.11* | .19** |

N=490, * p < .05, ** p < .01, *** p < .001; two−sided test

a:1=Male ; 2=Female;

b: 1=20−25 years, 2=26−30 years, 3=31−35 years, 4=36−40 years, 5=41−45 years, 6=46−50 years, 7=51−55 or above.

c:1= Vocational school, 2= Community college, 3= University, 4= Graduate school and above ;

d:1=1−5 years, 2=6−10 years, 3=11−15 years, 4=16−20 years, 5=21 years or above.

## REGRESSION ANALYSIS

As shown in Table 4, regression analysis has been conducted on paternalistic leadership, ethical climate, and organizational citizenship behavior for exploring their relation. In concrete terms, M1, M2, and M3 led us to know that benevolent leadership, authoritarian leadership, and moral leadership affected organizational citizenship behavior significantly ($\beta$ = .19, p< .000; $\beta$ = −.18, p < .000; $\beta$ = .17, p < .000). This indicated that the benevolent leadership and moral leadership of the leaders tended to positively affect organizational citizenship behavior of employees while authoritarian leadership of the leaders tended to negatively affect the organizational citizenship behavior of employees. As such, Hypothesis 1 is supported.

We see from M4, M5, and M6 that benevolent leadership, authoritarian leadership, and moral leadership affected the ethical climate of caring significantly ($\beta$ = .38, p < .000; $\beta$ = −.11, p < .000; $\beta$ = .38, p < .000). This indicated that benevolent leadership and moral leadership affected the ethical climate of caring positively while authoritarian leadership affected the ethical climate of caring negatively. From M7, M8, and M9, we see that benevolent leadership, authoritarian leadership, and moral leadership affected the ethical climate of instrumental significantly ($\beta$ = −.09, p < .05; $\beta$ = .16, p < .000; $\beta$ = −.17, p < .000). This indicated that benevolent leadership, moral leadership affected the ethical climate of instrumental negatively while authoritarian leadership affected the ethical climate of instrumental positively. From M10, M11, and M12, we see that paternalistic leadership in the forms of benevolent leadership, authoritarian leadership, and moral leadership affected the ethical climate of independence significantly ($\beta$ = .18, p < .000; $\beta$ = −.09, p < .05; $\beta$ = .15, p < .000), meaning that benevolent leadership, moral leadership affected the ethical climate of independence positively while authoritarian leadership affected the ethical climate of independence negatively. From M13 and M15, we see that benevolent leadership and moral leadership affected the ethical climate of compliance significantly ($\beta$ = .24, p < .000; $\beta$ = .30, p < .000), meaning that benevolent and moral leadership affected the ethical climate of compliance positively. Except the effect of authoritarian leadership on the ethical climate of compliance, which was insignificant, all hypotheses under hypothesis 2 were supported. From M16, M17, M18, and M19, we see that the ethical climates of caring, independence, instrumental, and compliance affected organizational citizenship behavior significantly ($\beta$ = .12, p < .01; $\beta$ = .11, p < .05; $\beta$ = −.10, p < .05; $\beta$ = .16, p < .001), and the ethical climates of caring, independence and compliance affected organizational citizenship behavior positively at significant levels. The instrumental ethical climate affected organizational citizenship behavior negatively at significant levels. As such, Hypothesis 3 was supported.

Finally, we see from M20 ~ M31 and the comparison of M1, M2, and M3, that there was only partial mediating effect between compliance ethical climate and benevolent and moral leadership and organizational citizenship behavior, and the mediating effect on other variables was insignificant.

**TABLE 4: SUMMARY OF REGRESSION ANALYSIS**

| Variable | OCB | | | Caring | | | Instrumental | | | Independence | | | Compliance | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | M1 | M2 | M3 | M4 | M5 | M6 | M7 | M8 | M9 | M10 | M11 | M12 | M13 | M14 | M15 |
| **Control Variable** | | | | | | | | | | | | | | | |
| Gender | .05 | .04 | .02 | .01 | .03 | .01 | .08 | .06 | .08 | .10$^{*}$ | .10$^{*}$ | .10$^{*}$ | .03 | .02 | .02 |
| Age | −.03 | −.04 | −.04 | .09 | .10 | .09 | −.08 | −.07 | −.07 | −.17$^{**}$ | −.15$^{**}$ | −.16$^{**}$ | .09 | −.02 | .09 |
| Tenure | .25$^{***}$ | .26$^{***}$ | .26$^{***}$ | .01 | .02 | .01 | −.03 | −.03 | −.03 | .02 | .03 | .03 | .08 | .10 | .09 |
| Education | .04 | .02 | .03 | −.02 | −.02 | −.02 | −.01 | −.01 | −.01 | .01 | −.00 | −.00 | −.06 | −.07 | −.07 |
| **Mediator Variable** | | | | | | | | | | | | | | | |
| ETHIC_ Caring | | | | | | | | | | | | | | | |
| ETHIC_ Independence | | | | | | | | | | | | | | | |
| ETHIC_ Instrumental | | | | | | | | | | | | | | | |
| ETHIC_ Compliance | | | | | | | | | | | | | | | |
| **Independent Variable** | | | | | | | | | | | | | | | |
| Benevolent Leadership | .19$^{***}$ | | | .38$^{***}$ | | | −.09$^{*}$ | | | .18$^{***}$ | | | .24$^{***}$ | | |
| Authoritarian Leadership | | −.18$^{***}$ | | | −.11$^{**}$ | | | .16$^{***}$ | | | −.09$^{*}$ | | | −.02 | |
| Moral Leadership | | | .17$^{***}$ | | | .38$^{***}$ | | | −.17$^{***}$ | | | .15$^{***}$ | | | .30$^{***}$ |
| $R^2$ | .11 | .12 | .11 | .16 | .04 | .15 | .02 | .04 | .04 | .05 | .03 | .05 | .12 | .05 | .15 |
| F | 10.25 | 10.15 | 9.23 | 18.72 | 3.50 | 18.22 | 2.25 | 4.02 | 4.53 | 5.33 | 2.93 | 4.46 | 11.23 | 5.04 | 15.34 |
| DF | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 | 5/484 |

N=490, $^{*}$ $p < .05$, $^{**}$ $p < .01$, $^{***}$ $p < .001$

| Variable | OCB | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | M16 | M17 | M18 | M19 | M20 | M21 | M22 | M23 | M24 | M25 | M26 | M27 | M28 | M29 | M30 | M31 |
| **Control Variable** | | | | | | | | | | | | | | | | |
| Gender | .02 | .01 | .03 | .02 | .02 | ..39 | .02 | .01 | .03 | .01 | .02 | .05 | .02 | .01 | .04 | .01 |
| Age | −.04 | −.01 | −.04 | −.045 | −.05 | −.02 | −.04 | −.03 | −.03 | −.03 | −.05 | −.05 | −.04 | −.05 | −.06 | −.05 |
| Tenure | .26$^{***}$ | .27$^{***}$ | .26$^{***}$ | .25$^{***}$ | .25$^{***}$ | .25$^{***}$ | .26$^{***}$ | .25$^{***}$ | .26$^{***}$ | .26$^{***}$ | .25$^{***}$ | .25$^{***}$ | .26$^{***}$ | .24$^{***}$ | .25$^{***}$ | .25$^{***}$ |
| Education | .03 | .03 | .02 | .04 | .03 | −.02 | .03 | .03 | .02 | .03 | .03 | .02 | .02 | .04 | .03 | .03 |
| **Mediator Variable** | | | | | | | | | | | | | | | | |
| ETHIC_ Caring | .12$^{**}$ | | | | .08$^{*}$ | .10$^{*}$ | .08$^{*}$ | | | | | | | | | |
| ETHIC_ Independence | | .11$^{*}$ | | | | | | .08$^{*}$ | .13$^{**}$ | .08$^{*}$ | | | | | | |
| ETHIC_ Instrumental | | | −.10$^{*}$ | | | | | | | | −.08$^{*}$ | −.09$^{*}$ | −.08$^{*}$ | | | |
| ETHIC_ Compliance | | | | .16$^{***}$ | | | | | | | | | | .12$^{*}$ | .15$^{**}$ | .11$^{*}$ |
| **Independent Variable** | | | | | | | | | | | | | | | | |
| Benevolent Leadership | | | | | .17$^{***}$ | | | .18$^{***}$ | | | .18$^{***}$ | | | .16$^{***}$ | | |
| Authoritarian Leadership | | | | | | −.18$^{***}$ | . | | −.20$^{***}$ | | | −.18$^{***}$ | | | −.19$^{***}$ | |
| Moral Leadership | | | | | | | .14$^{**}$ | | | .15$^{***}$ | | | .15$^{***}$ | | | .13$^{**}$ |
| $R^2$ | .09 | .08 | .09 | .09 | .09 | .10 | .10 | .10 | .10 | .09 | .10 | .09 | .10 | .10 | .11 | .09 |
| F | 7.81 | 7.46 | 7.17 | 8.75 | 9.18 | 9.43 | 8.05 | 9.07 | 9.96 | 8.34 | 9.12 | 8.86 | 8.10 | 9.70 | 10.64 | 8.77 |
| DF | 5/484 | 5/484 | 5/484 | 5/484 | 6/483 | 6/483 | 6/483 | 6/483 | 6/483 | 6/483 | 6/483 | 6/483 | 6/483 | 6/483 | 6/483 | 6/483 |

N=490, $^{*}$ $p < .05$, $^{**}$ $p < .01$, $^{***}$ $p < .001$

## CONCLUSIONS & DISCUSSION

In this paper, the subjects of the research were employees of manufacturing industries in central Taiwan and the possible relationship between paternalistic leadership, ethical climate, and organizational citizenship behavior were being explored. The findings guided us to the following conclusion:

First, paternalistic leadership affected organizational citizenship behavior significantly. Benevolent and moral leadership affected organizational citizenship behavior positively. These indicated that the understanding, individualized care, forgiveness and caring under benevolent leadership helped to reinforce organizational citizenship behavior. The impartiality and fairness, establishing an example under moral leadership, helped to reinforce the organizational citizenship behavior of employees. In contrast, authoritarian leadership affected organizational citizenship behavior negatively, meaning that the authority and control under authoritarian leadership tended to hamper organizational citizenship behavior of employees. The findings were congruent with those of previous studies on paternalistic leadership (Chang, He & Gu, 2009; Cheng, Lin, Cheng, Chou, Jen & Farh, 2010), which further reinforced the unique explanation of the effect of paternalistic leadership on the performance of employees.

Second, benevolent and moral leadership affected the ethical climates of caring, independence and compliance positively, which insinuated the pursuit of benevolent leadership manifested in the caring of employees or moral leadership manifested by setting itself as an example for employees who will help to flourish the ethical climate of caring, independence, and compliance in the organization. By contrast, benevolent and moral leadership affected instrumental ethical climate negatively, meaning that the benevolent and moral leadership styles could downplay the development of the instrumental ethical climate of the employees.

Third, authoritarian leadership affected the ethical climate of caring and independence negatively but affected instrumental ethical climate positively, meaning that authoritarian leadership style of supervisors will help to develop instrumental ethical climate of employees.

Fourth, ethical climate significantly affected organizational citizenship behavior. If the climate for interaction between the organization and employees was caring and the organization shows its respect for employees and their contribution, their personal judgment, the morale in the organization will stimulate the trust and identification of employees within the organization, and will be manifested in the exhibition of organizational citizenship behavior as repayment. However, if the organization was under the instrumental ethical climate, employees tended to value their own interest only and the exhibition of organizational citizenship behavior was marginal.

Fifth, ethical climate performed a partial mediating effect between paternalistic leadership and organizational citizenship behavior. A point worth mentioning, was that the ethical climate measurement was based on the Victor & Cullen (1988), which was more relevant with the ethical concept in the western world. The rule of law has a strong value in western culture and has been the primary concern in the political and legal system of the countries in the western world. However, the ethnic Chinese community was characteristic in the countries where the rule of people has been the norm. This was echoed with the traditional Chinese norm that the country should be ruled by high moral standards passed on by the ancient sages for the education of people. Confucianism valued the rule of good people, as public affairs were placed in their hands. The rule of law was indispensable. Yet, the ruler should "set an example for his people or the people will not obey his orders". The mediating effect was partially significant, with perhaps the application of this measurement to the ethnic Chinese environment becoming biased.

## PRACTICAL IMPLICATIONS

From the perspective of management, creating a positive ethical climate in the organization for reinforcing organizational citizenship behavior was one of the vital goals of the leader. From this paper, we see that paternalistic leadership tended to affect the organizational citizenship behavior of employees and the ethical climate of the organization. The findings of the research reminded us that the leaders should stir the ethical climates of caring, independence and compliance and avoid the development of instrument ethical climate.

Different styles of leadership affected the organizational citizenship behavior differently. Further to the motivation of the employees, the most important aspect was the leadership behavior of the supervisors. This leadership behavior must allow for a sense of respect among employees, which will help to trigger organizational citizenship behavior. As such, leaders must adjust or control their emotions at any time, and practice humanized management to the expectation of employees, so that they will sacrifice unconditionally for the organization.

The findings of this study also indicated that ethical climate affected organizational citizenship behavior the most. Human resources management function should be responsible for the development of a positive ethical climate and launch relevant corporate reforms, introduce the proper kind of ethical climate, and allow for top-down consistency in understanding, so that potential morale of the organization could be triggered and organizational citizenship behavior could be reinforced. Leaders should create an ethical climate of caring, including the voluntary care of employees in the workplace and their benefits by the supervisors with the provision of a good welfare system (reasonable salaries, continuing education), and a positive workplace environment. These can help to make employees feel the caring attitude of the company, which in turn will drive them to work harder to achieve the company's goals whilst reinforcing organizational citizenship behavior of their employees. Leaders should also create an ethical climate of compliance thereby establishing a conforming or suitable policy, rules or operation criteria, and require employees to understand related professional codes. The supervisors should also observe the rules and regulations to set an example for their staff. At the same time, leaders should also create an ethical climate of independence, including the granting of a certain level of autonomy and decision latitude for employees, respect the personal judgment of employees, so that they can identify with the company and reinforce organizational citizenship behavior. Yet, leaders should avoid instrument ethical climate, and not make employees feel that the company has encouraged them to seek maximization of personal interest through depriving the interest of others as the first priority. As such, the development of a positive ethical climate in an organization will be an important topic and challenge to the leaders.

## LIMITATIONS

First, this paper just focused on the study of the manufacturing industries in central Taiwan through a questionnaire survey. If the research could be extended to other regions or other industries, or organizations of a different nature, the result may possibly be different. This is an issue that must be worth further exploration in the future.

Second, the political system, economic system, society type, and the directions and degree of overall "modernization" of the regions populated by ethnic Chinese are not the same. As such, different patterns of behaviors and mode of lives in Mainland China, Taiwan, Hong Kong, Macau, Southeast Asia, and other regions of the world, will be exhibited among ethnic Chinese (Yang, 2004). In different ethnic Chinese communities, paternalistic leadership many be manifested in different forms within different gravities.

## SCOPE FOR FURTHER RESEARCH

In the future, studies may be focused on ethnic Chinese communities in different regions by comparison of the intensities of the effect of paternalistic leadership on organizational citizenship behavior and ethical climate of the organization. By then, the findings on the association among the three variables will be more abundant. The exploration of authoritarian leadership in this paper tended to be inclined towards the negative sides of authority and control. In the future, studies may cover the positive aspects of fame and trust, which makes the study on authoritarian leadership more detailed. The dyadic method has been adopted in this paper. The data on organizational citizenship behavior of employees were provided by the supervisors, which may be biased and resulted in deviation from actual organizational citizenship behavior of employees and the perceived organizational citizenship behavior of employees by supervisors. In the future, assessments by supervisors and their colleagues should be covered in the studies. The focus of this paper was the exploration of the relationship between paternalistic leadership, organizational ethical climate, and the organizational citizenship behaviors of employees. In the future, we will include the variables of job satisfaction, tendency to turnover, and organizational commitments to the studies to help better understanding of the effect of paternalistic leadership and ethical climates on the attitudes and behaviors of employees.

## REFERENCES


1. Barnard, C. (1938), " The Functions of the Executive." Cambridge.
2. Bateman, T. S. and Organ, D. W. (1983), "Job Satisfaction and the Good Soldier: The Relationship between Affect and Employee," *Citizenship, Academy of Management Journal*, Vol. 26, pp. 587- 595.
3. Bergeron, D. M. (2007), "The potential paradox of organizational citizenship behavior : Good citizens at what cost?" *Academy of Management Review,* Vol.35, No.4, pp. 1078−1095.
4. Brickson, S. (2000), "The Impact of Identity Orientation on Individual and Organizational Outcomes in Demographically Diverse Settings," *Academy of Management Review*, Vol. 25, No. 1, pp. 82−101
5. Cheng, B. S. (1995), "Paternalistic authority and leadership: A case study of a Taiwanese CEO," *Bulletin of the Institute of Ethnology Academia Sinica*, Vol.79, No.1, pp. 119–173 .
6. Cheng, B. S., Chou, L. F. and Farh, J.L. (2000), "A Triad Model of Paternalistic Leadership: Constructs and Measurement," *Indigenous Psychological Research in Chinese Societies*, Vol.14, pp.3-6.
7. Cheng, B. S., Chou, L. F., Huang, M. P., Farh, J.L. and Peng S. Q. (2003), "A Triad Model of Paternalistic Leadership: Evidence from Business Organizations in Mainland China" *Indigenous Psychological Research in Chinese Societies*, Vol. 20, pp. 209-250.
8. Cheng, B. S., Chou, L. F., Wu, T. Y., Huang, M. P. and Farh, J. L. (2004) "Paternalistic Leadership and Subordinate Responses: Establishing a Leadership Model in Chinese Organizations," *Asian Journal of Social Psychology*, Vol. 7, No. 1, pp.89−117.

9. Cheng, B. S., Lin T. T., Cheng H. Y. and Chou, L. F. (2010), "Paternalistic Leadership and Employee Effectiveness: A Multiple-Level-of-Analysis Perspective," *Chinese Journal of Psychology* , Vol. 52, NO.1, pp,1-23.
10. Deshpande, S. P. (2000), "Ethical climate and the link between success and ethical behavior: An empirical investigation of a non–profit organization,Journal of Business Ethics," Vol.15, No.3, pp.315– 320.
11. Dickson, M. W., Smith, D. B., Grojean, M. W. and Ehrhart, M. (2001), "An Organizational Climate Regarding Ethics: The Outcome of Leader Values and the Practices that Reflect Them," *Leadership Quarterly* , Vol. 12, No. 2, pp.197–217.
12. Erben,G. S. and Güneşer, A. B. (2008), "The relationship between paternalistic leadership and organizational commitment: Investigating the role of climate regarding ethics," *Journal of Business Ethics,* Vol. 82, pp. 955–968.
13. Farh, J. L. and Cheng, B. S. (2000), A Cultural Analysis of Paternalistic Leadership in Chinese Organizations. Edited by J. T. Li, Tsui, A. S., & Elizabeth Weldon, *Management and organizations in the Chinese Context,* pp 94–127.
14. Farh, J. L., Cheng, B. S., Chou, L. F. and Chu, X. P (2004) Authority and Benevolence: Employees' Responses to Paternalistic Leadership in China, Edited by A. S. Tsui, Y. Bian, & L. Cheng, *China's domestic private firms: multidisciplinary perspectives on management and performance*.
15. Farh, J. L., Earley, P. C. and Lin, S. C. (1997), "Impetus for action : A cultural analysis of justice and organizational citizenship behavior in Chinese society," *Administrative Science Quarterly* , Vol. 42, pp.421– 444.
16. Gouldner, A. W. (1957), "Cosmopolitans and Locals: Toward an Analysis of Latent Social Roles," *Administrative Science Quarterly*, Vol. 2, pp. 281–306.
17. Graham, J. M. (1991), "An essay on organization citizenship behavior," *Employee responsibilities and rights Journal*, Vol.4, No.4, pp. 249– 270.
18. Hofstede, G. H. and Bond, M, H. (1988), "The Confucius Connection: From Cultural Roots to Economic Growth," *Organizational Dynamics*, Vol. 16, NO. 4, pp. 4–21.
19. Hofstede, Geert. H. (1980), "*Culture's Consequences: International Differences in Work–related Values*." Beverly Hill, CA: Sage.
20. Hsu, C.T., Hu, H.H., Ling, H.C., Cheng, B.C. and Chou, L. F. (2004), "The Relationships between Paternalistic Leadership and Organizational Citizenship Behaviors: The Mediating Effects of Leader-Member Relationship Quality," *Chiao Da Management Review,* Vol. 24, NO.2, pp119-149.
21. Hsu, S.C. (1997), "Familism, Professionalism & Entrepreneurship-in the Perspective of Chinese Business Firms," *Management Review*, Vol. 16, No.1, pp1-9.
22. Katz, D. (1964), "The Motivational Basis of Organizational Behavior," *Behavior Seience*, Vol. 9, NO. 2, pp.131–146.
23. Katz, D. and Kahn, R. L. (1966). "The social psychology of organizations." New York: Wiley.
24. Kohlberg, L. (1981), "*The Philosophy of Moral Development*," New York: Harper & Row.
25. Koys, D. J. (2001), "The Effects of Employee Satisfaction, Organizational Citizenship Behavior, and Turnover on Organizational Effectiveness: A Unit–level, Longitudinal Study," *Personnel Psychology*, Vol. 54, NO. 1, pp. 104-114.
26. Landekich, S. (1989), "Corporate Code of Conduct: An Examination and Implementation Guide" New Jersey: National Association Accountants.
27. Leung, A. S. M. (2008), "Matching Ethical Work Climate to in–Role and Extra–Role Behaviors in a Collectivist Work Setting," *Journal of Business Ethics*, Vol.79, No.1–2, pp.43–55.
28. Lewis, K. M. (2000), "When Leaders Display Emotion: How Followers Respond to Negative Emotional Expression of Male and Female leaders,Journal of Organization Behavior , Vol.21, pp.221–234.
29. Martin, K. D. and Cullen, J. B. (2006), "Continuities and Extensions of Ethical Climate Theory: A Meta–analytic Review," *Journal of Business Ethics*, Vol. 69, pp. 175–194.
30. Mulki, J. P., Jaramillo, J. F. and Locander, W. B. (2009), "Critical Role Of Leadership on Ethical Climate and Salesperson Behaviors," *Journal of Business Ethics*, Vol. 86, pp.125–141.
31. Ötken A. B. and Cenkci, T. (2012), "The Impact of Paternalistic Leadership on Ethical Climate: The Moderating Role of Trust in Leader," *Journal of Business Ethics*, Vol. 108, pp. 525–536.
32. Peterson,D. K. (2002), "The Relationship between Unethical Behavior and the Dimensions of the Ethical Climate Questionnaire," *Journal of Business Ethics.* Vol. 41, NO. 4, pp. 313-326.
33. Puffer, S. M. (1967), "Prosocial Behavior, Noncompliant Behavior,And Work Performance among Commission Sales People," *Journal of applied Psyhology,* Vol.72, No.4, pp.615–621
34. Redding, S. G. (1990), "*The spirit of Chinese capitalism*" Berlin: Walter de Gruyter.
35. Robinson, S. L., Morrison, E. W. (1995), "Psychological Contracts and OCB : The Effect of Unfulfilled Obligations on Civic Virtue Behavior," *Journal of Organizational Behavior,* Vol.16, pp. 289–298.
36. Schneider, B. (1975), "Organizational climate: An essay," Personnel Psychology, Vol.28, No.1, pp. 252– 267.
37. Schneider, B. and Reichers, A. E. (1983), "On the Etiology of Climates," *Personnel Psychology*, Vol.36, pp. 19–39.
38. Silin, R. F. (1976), "Leadership and Values," Cambridge, MA: Harvard University Press.
39. Smith, C.A., Organ, D.W. & Near. J.P., "Organizational Citizenship Behavior: Its Nature and Antecedent," Journal of Applied Psychology, Vol.68,pp.653– 663.
40. Smith,P. B. and Bond, M. H. (1993), "*Social Psychology across Cultures: Analysis and Perspectives*" Needham, MA: Allyn & Bacon.
41. Tepper, B. J. and Taylor, E. C. (2003), "Relationships among Supervisors' and Subordinates' Procedural Justice Perceptions and Organizational Citizenship Behaviors," *Academy of Management Journal*, Vol. 46, No. 1, pp. 97–105.
42. Trevino, L. K. (1986), "Ethical Decision Making in Organizations: A Person– Situation Interactionist Model," *Academy of Management*, Vol. 11, No. 3, pp. 601–618.
43. Victor, B. and Cullen, J. B. (1987), "A Theory and Measure of Ethical Climate in Organizations," *Research in Corporate Social Performance and Policy*, Vol. 9, pp. 51–71.
44. Victor, B. and Cullen, J. B. (1988), "The Organizational Bases of Ethical Work Climates," *Administrative Science Quarterly*, Vol. 33, pp. 101–125
45. Westwood, R. I. (1997), "Harmony and Patriarchy: The Cultural Basis for Paternalistic Headship among the Overseas," *Chinese,Organization Studies,* Vol. 18, pp. 445–480.
46. Whitley, R. (1992), "*Business Systems in East Asia: Firms, Markets and Societies*" London: Sage.
47. Williams, L. J. and Anderson, S. E. (1991), "Job Satisfaction and Organizational Commitment as Predictor of Organizational Citizenship Behavior and in–role Behavior," *Journal of Management*, Vol.17, pp. 601–617.
48. Wimbush,J. C. and Shepard, J. M. (1994), "Toward an Understanding of Ethical Climate : Its Relationship to Ethical Behavior and Supervisory Influence," Journal of Business Ethic, Vol.13, pp. 637–647.
49. Wren, T. J. (1995), "The Leaders' Companion: Insight on Leadership through the Ages" New York: Free Press
50. Wu T. Y., Hsu, W. L. and Cheng, B. S. (2002), "Expressing or Suppressing Anger: Subordinates' Anger Responses to Supervisors' Authoritarian Behaviors in a Taiwan Enterprise," Indigenous *Psychological Research in Chinese Societies,* Vol. 18, pp. 3-47.
51. Wu, T. Y. (2008), "The Mediating Process of Trust and the Moderating Effect of Emotional Intelligence on a Chinese Supervisor's Authoritarianism Leadership and a Subordinate's Job Satisfaction and Organizational Commitment," *Indigenous Psychological Research in Chinese Societies*, Vol. 30, pp. 3-63.
52. Wu, T. Y., Chou, L. F. and Cheng, B. S. (2008), "Exploring the Antecedents of Authoritarianism Leadership in Chinese Enterprises: The Predictive Effects of Supervisors' Obedience-to-Authority Orientation and their Perception of their Subordinates' Compliance and Fear," *Indigenous Psychological Research in Chinese Societies*, Vol. 30, pp. 65-115.
53. Yang, K. S. (2004), "A Theoretical and Empirical Analysis of the Chinese Self from the Perspective of Social and Individual Orientation," *Indigenous Psychological Research in Chinese Societies,* Vol. 22, pp. 11-80.
54. Zhang, X. A., Hui, H. and Fang, G. (2009), "The Effects of Paternalistic Leading on Team's Achievements: the Mediating Role of Approaches to the Management of Team's Conflicts," *Management World*, Vol.3 pp. 121–133.

# AIRLINE INDUSTRIAL UNREST AND STRATEGIC MANAGEMENT PRACTICES

*AHMED ABDIKARIM HASSAN*
*RESEARCH SCHOLAR*
*JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY*
*MOMBASA COUNTY*

*KARIM OMIDO*
*SR. LECTURER*
*TAITA TAVETA UNIVERSITY COLLEGE*
*KENYA*

## ABSTRACT
*The airline industry exists in an intensely competitive market. In recent years, there has been an industry-wide shakedown in form of strikes, which is bound to have far-reaching effects on the industry's trend towards expanding domestic and international services. In the past, the airline industry was at least partly government owned. This is still true in many countries, but Kenya airways is privately owned airline with royal Dutch airline KLM having the biggest share holding. The strategies it puts in place has to a large extent a bearing on operations and how management and staff work together. In Kenya the air travel market, both domestic and international, has been experiencing great competition in recent years due to both the civil aviation regulation and the increasing of customer awareness of service quality. Under the circumstance, airlines not only attempt to establish more convenient routes, but also introduce more promotional incentives, frequent flyer membership program and so on. Airlines hope to consolidate the market share and enhance profitability. However, strikes are bound to affect market share as well as influence margins. The purpose of this study therefore was to find out about airline industrial unrest and strategic management practices with specific reference to Kenya Airways.*

## KEYWORDS
Kenya airways, FBRSF, ICAO, KLM.

## 1.0 INTRODUCTION
### 1.1 BACKGROUND OF THE STUDY
The development of the powered aircraft in 1903 was to revolutionize intercity transportation. For the first time, the possibility arose for passengers and freight to be transported by air instead of over land or sea, making previously impossible trips not only possible, but practical and even attractive (Kiingwa, 2011). However, it was not until after the Second World War, more than 40 years later, that long distance intercity travel would cease to be dominated by rail. It took technological innovations during and after the Second World War, most notably the development of the jet engine, for aircraft to become sufficiently cost effective for aviation to compete with rail (Schumacher, 2009). This technological engine brought about complexity to management of its manufacturer because staff demanded for more benefits in line with the sales increase.

Customer demands and expectations are however, altering today's world, in the airline industry. Many of the airline companies have lost track of the true needs and wants of their passengers and are sticking to the outdated views of what airline services are all about (Gustafsson et al, 2012). Employee needs too have escalated upwards hence their making demands on management to fulfill their work related desires. Failure to balance between employee needs and customer demands has brought into question the strategies put forth by management.

Many airline managers think of passenger needs from their own perspective so their immediate focus is on cost reductions in driving to more efficient operations, keeping customers at a least priority in their strategic planning programs. But the customer should not be ignored (Boland, Morison, and O'Neil, 2010). The airline business must aim at fulfilling the individual customer needs or even reaching beyond these (Gustafsson et al 2012). However, at what cost to the employees. Airline performance at the national level has been dragged downwards as a result of employee strikes. What beckons in this research was to find out how these strikes influence strategic management practices consequently affecting the airline.

## 2.0 REVIEW OF LITERATURE
This review summarizes information from the available literature in the same field of study. The specific areas covered here are theoretical review, empirical review and research gaps.
### 2.1 THEORETICAL REVIEW
Following deregulation in 1978 American Airways started a major route expansion policy in 1979. Its last Boeing 707 was retired in 1981 which reflected its zeal to expand to opening hubs. Consequently, it started developing its hubs round about the same time in the eighties (Geof, 2010). The African Airlines industry followed suit so as not to be left behind. It begun gearing up for a new wave of consolidation as operators sought ways to sail the financial storm suffered by most Airlines then. Coming up with strategies seemed the best solution but they were rather haphazard. The Nairobi-based African Airlines Association (Afraa, 2008), noted that through mergers, airlines would be able to expand into new markets, save costs and avoid competition from outside the continent. In light of this view, Ahmed (2012) affirms that "consolidation strategy is important for airlines to continue offering attractive services, reap economies of scale and to compete against the influx of mega global carriers," (Pierre, 2009). This must take due cognisance of pricing policy.

The observed chaotic airfare pricing is rooted in the unique nature of monopolistic competition with few barriers to entry and some amount of brand loyalty through frequent flyer programs. O'Connor (2011) concluded that the total costs are almost entirely fixed costs. The two principal variable costs are jet fuel and labour costs of the crew with the variable costs for passenger amenities being less than $50 per ticket. Demsey and Goetz (2012) stated that the production costs of a flight are similar no matter how many seats are sold, or in other words, marginal costs are very low. Empty seats represent lost revenue since the cost to provide the seat has already been paid. Hence when management are pressed for staff demands, it ought to relook at its Mission and Vision to see whether they anchor to both staff and passenger demands notwithstanding labour laws prevalent.
### 2.2 EMPIRICAL REVIEW
Okemo (2009) says that an oligopoly is a slightly more interesting situation, where there are a number of major players, who act strategically in the market, based on the anticipation and reality of how the other major players behave. Strikes by one player could influence the management strategy of other players. David (2010) denotes that this is often shown in airline situations, for example, where one airline will announce employee salary increase, then other airlines will choose to copy or not, then the first airline might then cancel their employee anticipated salary rise if they don't think enough the implications could trickle downwards.

Braham (2009) says that initially the government adopted a regulatory approach to airlines. It willingly allowed - indeed, it mandated - that the airlines should be somewhere between oligopolies and monopolies, restricting the ability of airlines to compete against each other and limiting the ability of managers of new airlines to enter the market. This created a complacent and stable situation where airlines were treated in a manner similar to utilities and hence could strategize in anticipation of the same.

### 2.3 CRITIQUE OF THE EXISTING LITERATURE
As can be realized in the foregoing material on theoretical literature, Dr. Hansman, (2012) asserted the pressure on management leading to employee strikes but however he did not reavel how this is so as propounded by Jayesh's (2008) ideology on infrastructural reasons possibly influencing managerial pressure. As pertains the empirical literature Orlando, (2012) attributed lack of evidence in stratagem direction by management. This view was added stone by Oyuke (2008) whose prediction of growth failed to meet expectations as was predicted by managerial strategies. This void lead to the fueling of why it was necessary to conduct research on airline industrial unrest and strategic management practices.

## 3.0 IMPORTANCE OF THE STUDY
The findings of this study are bound to assist a number of stakeholders. It will assist academicians and researchers. The findings of this research will also assist managers clarify strategic issues thus averting strikes. The strikes that would otherwise likely cause humongous expenses to airlines. The findings of this study will in addition open pathways for dialogue between management and staff representative to resolve misunderstandings and thereby reduce simmering tensions between them. The study will show importance of transparency in formulation of strategies to sort out staff issues by management.

## 4.0 STATEMENT OF THE PROBLEM
After the second world war, an airline company was a symbol of modernism (Charles, 2011). To modernize, the existence of a national carrier was important investment for a country's image, hence Kenya also followed the same route after independence (Ngugi, 2009). Kenya had its national carrier the Kenya Airways which was important for economic & social-development of trade. But having a carrier was not enough. Minding staff welfare was hence what prompted the need for research.

The consumers in the market also had a little or no option since the only option was to travel by road (George, 2010). However, over time, Kenya Airways had to contend with competing with other national careers. Given that the tourism sector was flourishing, there were more passengers in number and hence their demands as customers increased and so too the demand of workers. Thus competition, passenger and employee needs had to this day called for a relook into the managerial strategies to be employed for the firm to continue operating at a profit. Failure to do this exposed the company to strikes and lock-outs hence the need that prompted this research.

However, for many of these airlines, management appear not to have gotten their act in order quite yet judging from the frequency of employee strikes and tussles involving retrenchments and layoffs. Increasing competitors from international and local airlines further compound managerial task. This is bound to affect market share of the airline sector. The purpose of this study therefore was to find out about airline industrial unrest and strategic management practices with specific reference to Kenya Airways.

## 5.0 OBJECTIVES OF THE STUDY
### 5.1 GENERAL OBJECTIVE
The broad objective of this study was to find out about airline industrial unrest and strategic management practices.

### 5.2 SPECIFIC OBJECTIVES
The specific objectives of this study were:

i. To establish the effects of airline industrial unrest on competition strategies in airline routes
ii. To determine the extent to which strikes have affected strategic operations
iii. To find out how the airline operations have been affected by management choice of routes.
iv. To find out how the airline managerial strategies counter act to the threat of strikes.

## 6.0 RESEARCH METHODOLOGY
### 6.1 INTRODUCTION
This highlights the methodology used in this research. It covers the research design, study population, data collection methods and procedures; data analysis methods; and research ethical issues.

### 6.2 RESEARCH DESIGN
Research design for this study was a descriptive survey. Mugenda (2009) states that a descriptive survey is one in which an attempt is made to collect data from members of a population in order to determine the current status of that population and report events as they are. A descriptive survey report is therefore a study which requires the collection of quantifiable information.

### 6.3 TARGET POPULATION
The study targeted a population 40 respondents given that it is convenient based. The respondents emerged from top management at Kenya airways. In addition, agents of Kenya airways were incorporated in the study. Frequent passengers of Kenya airways were also covered in the study. The top management comprised of the Regional Sales Manager, the Reservations Manager and Customer Relations Manager. Five agents of Kenya Airways picked randomly were also selected. Employees were also be picked at random.

**TABLE 6.8: TARGET POPULATION**

| | POPULATION | PERCENTAGE |
|---|---|---|
| Top management | 3 | 7 |
| Travel agents | 15 | 38 |
| Employees | 22 | 55 |
| **TOTAL** | 40 | 100 |

*Source: Human Resources Department (2013)*

### 6.4 CENSUS STUDY
The population being small in number was integrated wholly by the researcher in a census mode of research. A census research is one that incorporates the entire number of target population respondents (Johnstone, 2010). The purpose was to reflect industry portrayal characteristics as well as not to dilute the study findings hence the reason the entire target population was encompassed in the research.

### 6.5 DATA COLLECTION
Data collection is the process of packaging the information gathered, putting them in order and structuring its main components in a way that the findings can be easily and effectively communicated (Cooper and Schindler 2013). Data was collected using questionnaires. The procedure entailed the researcher personally administering the questionnaires to the respondents. Once administered, they were collected and analyzed. The presentation took form of tables and graphs.

## 7.0 RESULTS AND DISCUSSION
### 7.1 RESPONSE RATE
The researcher distributed a total of 40 questionnaires to the target population and a total of 36 completed questionnaires were returned by the respondents This represents a response rate of 90 percent. A diagrammatic representation is enumerated in the table and figure below.

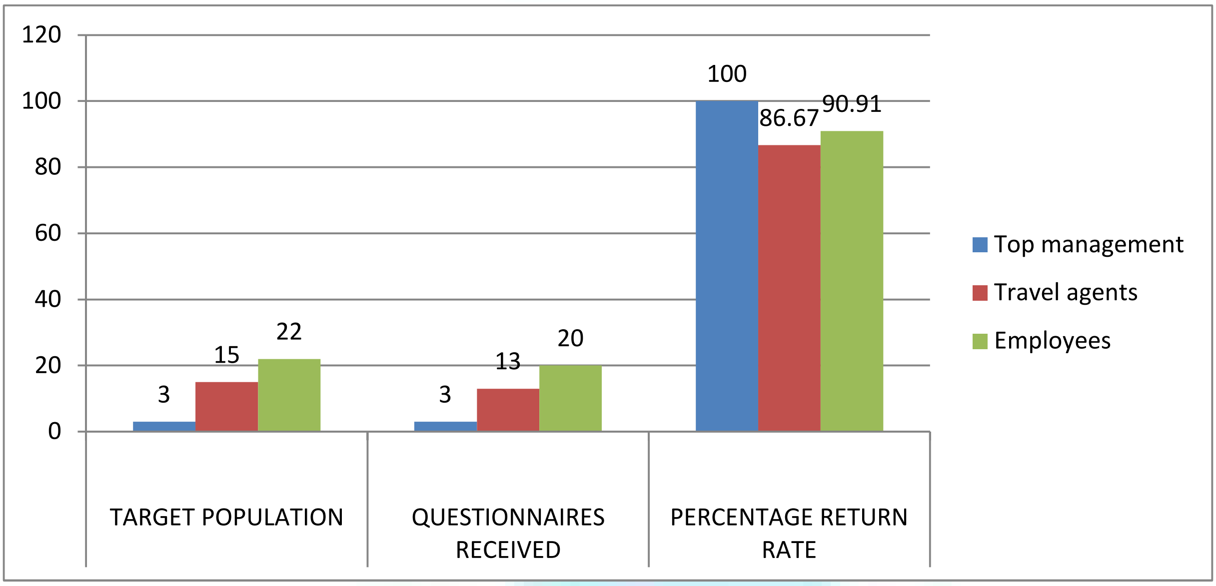
Response rate=Number of Questionnaires returned X100
No of Questionnaires distributed

TABLE 7.1: POPULATION RESPONSE

| RESPONDENTS | TARGET POPULATION | QUESTIONNAIRES RECEIVED | PERCENTAGE RETURN RATE |
|---|---|---|---|
| Top management | 3 | 3 | 100 |
| Travel agents | 15 | 13 | 86.67 |
| Employees | 22 | 20 | 90.91 |
| **TOTAL** | 40 | 36 | 90 |

Source: Researcher (2013)

FIGURE 7.1: SHOWING THE BREAKDOWN OF POPULATION RESPONSE




Source: Researcher (2013)

### 7.2 EXTRANEOUS ISSUES AFFECTING STRATEGIES OF KENYA AIRWAYS IN LOCAL ROUTES

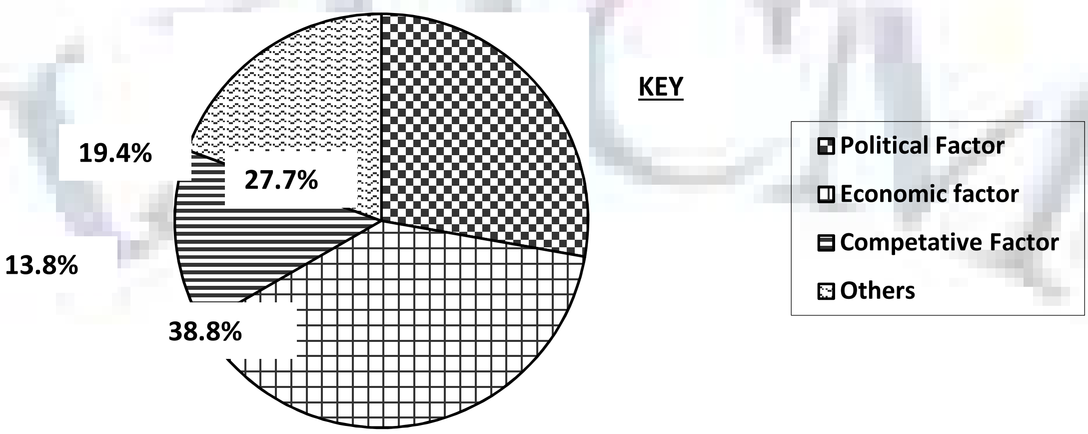
Respondents were asked to opine on extraneous issues affecting strategies of Kenya Airways in local routes that could form potential reasons that lead to industrial unrest. This is because these factors are the direct result of strategic management decisions perceived to lead towards organizational effectiveness. However as airlines compete, the inevitability of staff being put under pressure becomes high on account of the extraneous factors. This increases chances industrial strikes. As a consequence, staff were asked to shed light on this area. Table 7.2 illustrates this.

TABLE 7.2: EXTRANEOUS ISSUES AFFECTING STRATEGIES OF KENYA AIRWAYS IN LOCAL ROUTES

| Factors | Responses | % responses |
|---|---|---|
| Political factors | 10 | 27.7% |
| Economic factors | 14 | 38.8% |
| Competitive factors | 5 | 13.8% |
| Other factors (technology and infrastructure) | 7 | 19.4% |
| **Total** | **36** | **100%** |

Source: Researcher (2013)

FIGURE 7.2: EXTRANEOUS FACTORS AFFECTING STRATEGIES OF KENYA AIRLINES IN LOCAL ROUTES




Source: Respondents (2013)

Table 7.3 complements preceding information by revealing the effects of extraneous intervention towards risks associated with industrial unrest that is faced by management of Kenya Airlines. As shown therein, political factors led to reduced local travel therefore translating to passengers travelling less. When passengers travel less, insecurity of tenure sores. This leads to industrial unrest. Its no wonder respondents scored a mean of 2.003 and a standard deviation of 0.43 thereby showing least inconsistency in the responses. Twenty five percent respondents agreed.

**TABLE 7.3: SHOWING EFFECTS OF STRATEGIC ISSUES EXPERIENCED BY KENYA AIRWAYS**

| Strategic Issue | Effects | Mean | Standard Deviation | Responses | % responses |
|---|---|---|---|---|---|
| Political factors | - Reduced local travel<br>- Job insecurity | 2.003 | 0.43 | 9 | 25% |
| Economic factors | - Increased use of other transport modes<br>- Reduced bonuses | 2.441 | 0.33 | 13 | 36.1% |
| Competitive factors | - Increased competition by small carriers<br>- Lack of loyalty<br>- Deteriorated quality | 1.901 | 0.72 | 7 | 19.4% |
| Infrastructure factors | - Carriers shifting to more safe and cost effective router<br>-Retrenchments and Layoffs | 2.390 | 0.44 | 7 | 19.4% |
| Total | | | | 36 | 100% |

Source: Researcher (2013)

Insofar as economic factors were concerned, managerial strategies led to passengers using alternative competitive carriers while others opted to travel by personal means or bus. This resulted in reduced loyalty towards Kenya Airways which meant reduced profits and thus reduced bonuses among staff. It is these reduced bonuses that prompted industrial strikes and lockouts. A mean score of 2.441 and standard deviation of 0.33 were reflective of this.

When it came to competitive factors, respondents noted small passenger carriers eating into the market niche of Kenya Airlines. Responses however were highly skewed with a standard deviation of 0.72 and a mean score of 1.901 . This translated to loyalty of the airline being lost and thus led to quality degradation further leading to customer flight to competitive airlines. Industrial unrest therefore cropped up when the future seemed gloomy as a result.

Insofar as infrastructure is concerned, Kenya Airways has taken to the forefront in ensuring safety and cost effectiveness in order to enhance profits. But to reduce costs, staff numbers have been reduced too with only essential staff being maintained to increase margins much to the chagrin of staff. This has been a major contributor to industrial strikes. A mean score of 2.390 and a standard deviation of 0.44 is reflective of this.

Respondents were asked to establish the extent of improvement of managerial strategies in reduction of industrial unrest. The findings are contained in Table 7.4 enumerated below.

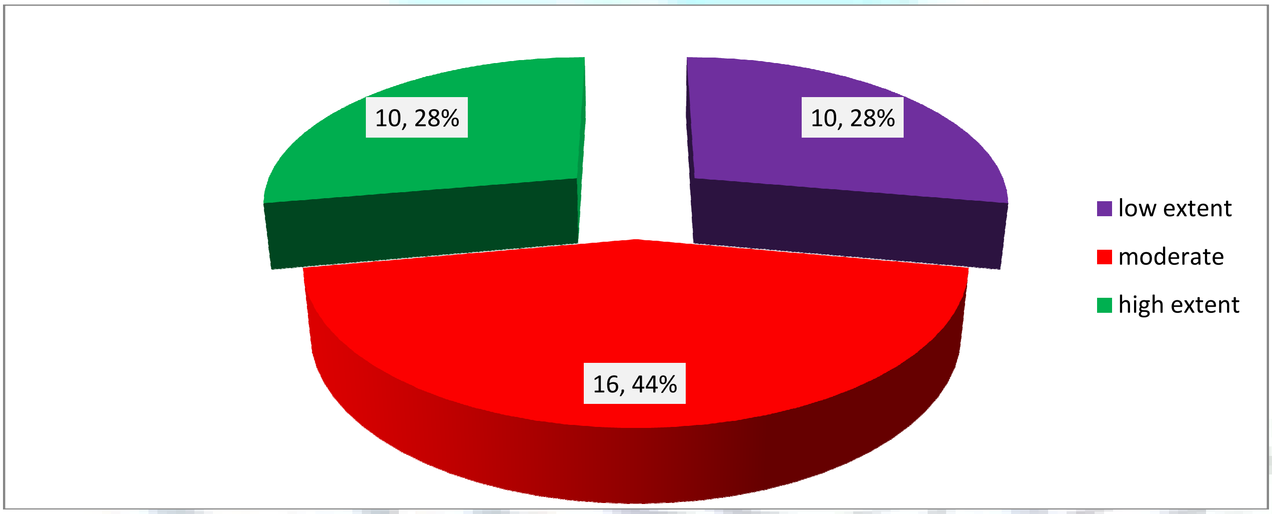
**TABLE 7.4: EXTENT OF IMPROVEMENT IN REDUCING UNREST**

| To what extent do you feel industrial unrest has reduced at Kenya Airways? | Frequency | Percentage | Mean | Standard deviation | Skewness |
|---|---|---|---|---|---|
| Low extent | 10 | 28 | 2.0000 | 0.75593 | 0.000 |
| Moderate | 16 | 44 | | | |
| High extent | 10 | 28 | | | |
| Total | 36 | 100 | | | |

Source: Research data (2013)

From Table 7.4, it is seen that 10, (28%) of the respondents noted improvements to a low extent, 16, (44%) of the respondents witnessed moderate improvement while 10, (28%) of the respondents noted improvements to a high extent. As per the illustration from Figure 4.5, it can be seen that a good number of respondents have seen moderate improvement emanating from managerial strategies in reducing industrial unrest. It can thus be said the strategies are working judging from a mean score of 2.00 and a standard deviation of 0.75593.

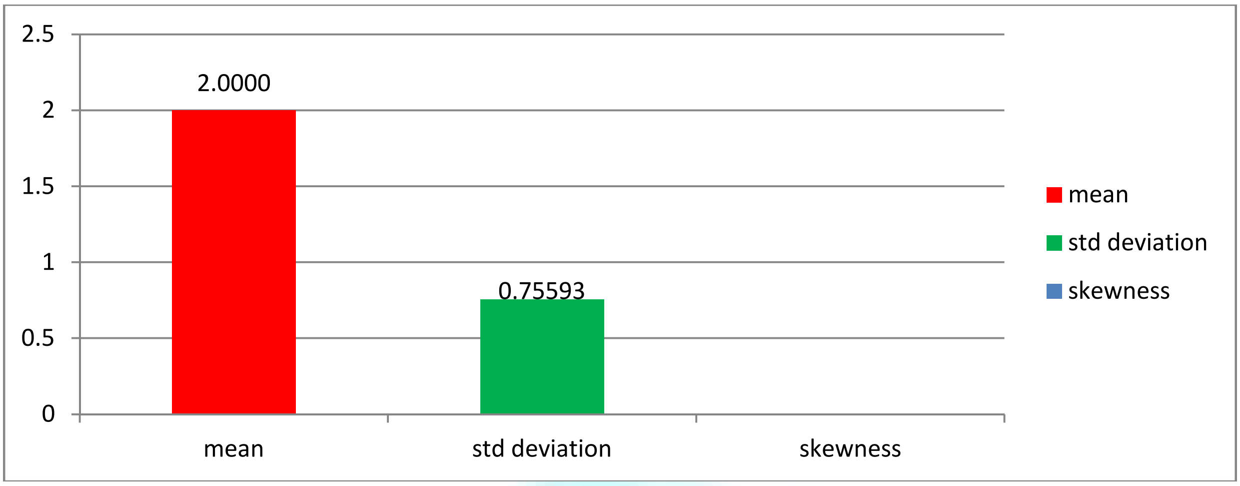
**FIGURE 7.3: EXTENT OF IMPROVEMENT IN REDUCING UNREST**




Source: Researcher (2013)

The data is seen to be fairly distributed since it has a Skewness of zero as shown in Figure 7.3 above. Inferential statistics have been highlighted also below.

FIGURE 7.4 SHOWING INFERENTIAL STATISTICS ON REDUCED INDUSTRIAL UNREST




Source: Researcher (2013)

## 8.0 FINDINGS

### 8.1 SUMMARY

When asked on the extent to which strikes have affected strategic operations, respondents said that the airline operations insofar as infrastructure, staff and network, needed to introspect itself. In this regard, the respondents proposed an increase in frequency of local routes, improvement in infrastructure, and continuous training of staff.

The respondents also suggested that the airline should take into consideration flying into the new routes involving Ukunda, Lamu, Massai Mara and Eldoret with ukunda getting the highest number of respondents, followed by Lamu, Massai Mara and Eldoret. It was felt that this would enhance profits for Kenya Airlines, its agents and engage employees in work to the extent that they would have no time to contemplate industrial unrest for fear of job insecurity in the face of competition, retrenchments and layoffs.

## 9.0 RECOMMENDATIONS

Kenya airways is the leading regional carrier to Africa and Kenya national flag carrier with Nairobi `s Jomo Kenyatta International Airport as its hub. It provides passenger and cargo service linking international and domestic destinations. Management need to formulate strategies in line with these strengths attributed. But the entry of small carriers is a major challenge and therefore the airline should come up with strategies to satisfy their employees by looking into their welfare.

Given this potentially turbulent environment the patterns of change coming the underlying force driving these changers and above all the ability to align its strategies to respond to a changing business and aero- political environment. Kenya airways should therefore exploit change if it wants to achieve its vision which is to become a world class network.

## 10.0 CONCLUSION

From the research it is evident that the main factors affecting industrial unrest involved strategies encompassing political factors, social factors, competitive and infrastructural factors. Political factors accounted for the highest percentage followed by social factors, competitive factors and infrastructural factors in that order. Managerial strategies to counter to the threat of strikes was proposed to touch upon pricing and technology.

## 11.0 LIMITATIONS

The following limitations were faced during the study.

1. Carrying out a study is an expensive feat in relation to financial obligations. The numerous visits to offices to carry out research, typing and binding; all required money. The data received also needed a storage device and computer for processing. The researcher overcame this burden by seeking private sponsorship funds.
2. Some of the respondents feared to give all information because of the potential of their being victimized. The researcher overcame this by using good public relations techniques to convince the respondents so that they could give the information required.

## 12.0 SCOPE FOR FURTHER RESEARCH

The research being a survey was restricted to selected offices of Kenya Airways in Nairobi and Mombasa. It entailed 40 respondents. It targeted top management, travel agents and employees. The top management comprised of the Regional Sales Manager, the Reservations Manager and Customer Relations Manager. Five Kenya Airways agents picked randomly were selected. Employees were also be picked at random.

## REFERENCES

1. Alex G. (2010) **"The Growth of African Airlines"**, Longhorn Publishers, Pp 566-568
2. Bernardin J. (2009), **"Strategic Management"**, 2nd Edition, Tata McGraw-Hill, New Delhi. Pages 356-358
3. Clark A. (2002) **"Airline Industry Nightmares"**, 3rd Edition, Prentice Hall Publishers, New York, Pages 502-510
4. Dharrison, H. (2012) **"Industrial Strikes and Protocol Overthrow"**, Prentice Hall Publishers, New Jersey, Pp 35-46.
5. Kiingwa J. (2012) **"Management of Strategies"**, Jomo Kenyatta Publishers, Nairobi, P.35
6. Kilion O. (2011) **"Competition in Aviation Industry"**, Kogan-Page, London, Pp. 58-70
7. Mohan C. (2010) **"Strategic Management and Implementation"**, Sultan Chand and Sons, Mumbai, P 67
8. Nagi (2010) **"Airlines in the 21st Century"**, Longhorn Publishers, Nairobi, 2009, Pp. 266-268
9. Naikuni T. (2011) **"Realising Airline Goals"**, Jomo Kenyatta Publishers, Nairobi, Pp. 57-62
10. Ngugi J. (2008) **"Airline Competition and Income"**, Jomo Kenyatta University, Nairobi, P.79
11. Njeru K. (2008) **"Strikes and Lockouts"**, Tata McGraw-Hill, New Delhi, P. 27
12. Oyuke J. (2012) **"Airlines and Staff"**, Jaico Publishing house, Mumbai. Pages 351-364
13. Prahalad K. and Hamel G. (2012) **"Core Competence of Corporations",** op. cit. **"Strategic Managers**", Johnsone and Johnsone, Harvard Business Review Journal, Ed.III, 601, July, P.34.
14. Richter P. (2009) "**Political Instability and Industrial Unrest"**, Trade Journal, IInd Ed. 201 Pp 45

15. Schumacher K. (2009). **"Airline Volatility and Airport Revenues"**, Journal for Managers, July, P. 13, Toronto, .
16. Sinket J. (2010) **"Raising Giant and Falling Dwarf: *Strategies to Industrial Strike*"**, Sultan Chand and Sons, Allahabad, Pp. 117-131
17. Stella B. (2011) **"Coup detat and Africa Tourism: a study of Kenya"**, May, 2012, Pp. 3: 329-608
18. Torrington D., Hall L., and Taylor S., (1998), "**Strategic Human Resources Management".** 6th Edition, Prentice Hall, New Delhi. Pages 448-450, 455, and 457.

## APPENDICES

### APPENDIX I: QUESTIONNAIRE

**INSTRUCTIONS**

1. Fill in all your answers to all questions in the spaces provided.
2. Do not indicate your name on the questionnaire
3. It is absolutely important that all the sections have a response.

**PLEASE ANSWER THE FOLLOWING QUESTIONS**

1. Gender M ( ) F ( )
2. For how long have you worked for the organization?
a) Less than a year [ ]
b) 2-5 years [ ]
c) 5 and above [ ]
3. Employee type:
Managing Director
General Manager
Production Manager
Chief Human Resource Officer
Finance Manager
Marketing Manager
Other specify……………………………………………
4. What factors have affected the competitiveness in the traditional airline local routes?
a) Political factors
b) Economic factors
c) Competitive factors
Others ……………………………………………………
5. Explain how the factors stated above affect the competitive of airline in the local industry? ...........
6. To what extent do you think these factors have affected the operations of the airline in the traditional local routes? ……
7. What do you think the airline should do to improve on its competitiveness? ………………………………………………………………………………………………
8. Do you think Kenya airways need to introduce new routes to improve its competiveness in the domestic network?
a. )Yes
b. )No
9. If yes which of the following routes /destinations do you propose?

| Proposed routes | Tick the proposed route |
|---|---|
| Ukunda | |
| Lamu | |
| Massai Mara | |
| Eldoret | |
| | |

10. What challenges are faced by the airlines in their daily operations in the traditional domestic routes?...........
a) Pricing issues
b) Seasonality in demand
c) Airport infrastructure
d) Stakeholders support
Others ……………………………………………………………………………
11. Have you ever experienced industrial unrest?
Yes No
b. If 'yes' how many? ………………………………………………………………………………
12. What were the reasons for industrial unrest? ……………………………………………………………………………………
13. State the nature of strategy competitors have adopted to counter KQ strategy. ……………………………………………………………………………
14. In your opinion, have strikes affected KQ operations?
Yes No
b. If 'yes' how have these operations been affected? ……………………………………………………………………………
15. Do management meet the following?
i. Agents ii. Employees iii. Govt. iv. Competitors v. Amongst themselves vi. Any other?...
b. What is the frequency of these meetings?
i. Annually ii. Bi-annually iii. Weekly iv. Daily v. When the need arises vi. Any other?..........
c. In your opinion, do they yield results?
Yes No
Please give your reasons ………………………………………………………………………………

THANK YOU

# INTEREST RATE DEREGULATION AND DEMAND FOR MONEY IN NIGERIA (2000-2011)

*ODITA ANTHONY OGOMEGBUNAM*
*LUCTURER*
*DEPARTMENT OF ACCOUNTING, BANKING & FINANCE*
*FACULTY OF MANAGEMENT SCIENCES*
*DELTA STATE UNIVERSITY*
*ASABA*

## ABSTRACT

*The study examined the interest rate deregulation and demand for money in Nigeria (2000-2011). The objective of the study is to enable the researcher to ascertain the functional relationship between demand for money and interest rate in Nigeria. Also, the significant impact of interest rate on the level of money stock in Nigeria. Relevant literatures were reviewed as well as some conceptual and empirical discourse on interest rate and money demand. The ex-post-facto research design was adopted and computerized regression analysis was employed as the statistical tools. The findings from the study showed that the functional relationship between demand for money and interest rate is not statically significant. Also, interest rate has no significant impact on the level of money stock in Nigeria. Based on the findings, the study recommend amongst others that government through the monetary authority should implement policies that would enhance interest rate and demand for money at least to the preferred sectors which will in turn boost the financial system of the Nigerian economy.*

## KEYWORDS

Deregulation, Interest rate, Money Demand, Money stock.

## INTRODUCTION

The rate of interest is viewed as the reward for parting with liquidity for a specified period. According to Anyanwu (1993) it is the inverse proportion between a sum of money exchange for a debt for a stated period of time. The behavior of interest rates, to a large extent, determines the investment activities and hence economic growth of a country.

Prior to the deregulation of interest rates in Nigeria, the financial sector operated under financial regulations and interest rate were said to be repressed. According to Shaw (1973), financial repression arises mostly where a country imposes ceiling on deposit and lending nominal interest rates at a low level relative to inflation. The resulting low or negative interest rates discourage savings mobilization and channeling of mobilized savings through the financial system. This has negative impact on the quantity and quality of investment and hence economic growth in view of the empirical link between savings, investment and economic growth.

The basic function of interest rates in an economy are summarized here under three broad perspectives.

First, interest rate as a return on financial assets serve as an incentive to savers, making them defer present consumption to a future date. The relevant interest rates are deposit rates corrected for pure inflation. In this connection, interest rates affect the availability of savings and also influence the allocation of current savings among financial assets depending on the maturity period of the financial assets and the associated rate of interest.

Secondly, interest rate being a component of cost of capital affects the demand for and allocation of loanable funds. In this sense, "it helps allocate scarce resource. The applicable rate of interest here is the bank lending rates which affects the cost of capital and influence the investor's willingness to invest in real asset. In this way, the level of interest rate could influence growth in financial instruments, output, income and employment.

Thirdly, the domestic interest rates in conjunction with the rate of return on foreign financial assets, expected change in exchange rate and expected change in inflation rate determine the allocation for accumulated savings among domestic and foreign financial assets, and goods are hedge against inflation.

According to Jhingan (2003), if interest rate is high, investment is at low level and when interest rate fall investment will rise. There is therefore a need to promote an interest rate regime that will ensure increased investment and consequently enhanced economic growth at low financial cost. Jhingan (2005) defined interest rates as the rental payment for the use of credit by borrowers and return for parting with liquidity by lenders.

In line with the adoption of the market-based technique of monetary management, interest rates policy remained flexible and responsive to changes in market conditions. However, as an instrument of monetary policy the Central Bank of Nigeria (CBN) (2000) indirectly influenced the level and direction of change in interest rate movement through its intervention rate on various money market assets especially the Minimum Rediscount Rate (MRR) as well as the stop rate of weekly tender for treasury bills. The MRR as the nominal anchor of CBN's interest rate policy continued to be used proactively in line with prevailing economic conditions while the rate of treasury bills is made market related and competitive with comparable money market instruments CBN (2006).

According to investor's Glossary (2010) deregulation is an act by which the government regulation of a particular industry (banking sector) is reduced or eliminated in order to create and foster a more efficient market place. However, the main purpose of deregulation most at times is to weaken the government influence and forge greater competition. Technically speaking, deregulation aims at exploring the market forces in order to determine the lending and deposit rate respectively in an economy.

The relationship between interest rates deregulation and economic growth in Nigeria has been analyzed in many empirical studies. Obamuyi (2009) used a single equation model to investigated this relationship. This approach was also employed by Adofu et al (2010) and Aziakpono et al (2007) when they separately investigated the impact of interest rates deregulation on agricultural productivity in Nigeria.

Demand for money denotes the amount of money in coins, currency and deposits that wealth holders in the non-bank private sector of the economy would hold at any given time. People can demand food items such as garri, yam and bread for direct consumption but money is demanded to be held for specific purpose(s). Therefore, people demand money because of the things money can buy and for convenience. Scholars identify three major motives for holding money balances - transactions, precautionary and speculative purposes. However, an extension of credit is a source of demand for money.

The aim of this research work is to examine the effect of interest rate on demand for money in Nigeria and its contribution to the economy.

## REVIEW OF LITERATURE

### MEANING OF INTEREST RATE

Jhingan (2003) defined interest rates as the rental payment for the use of credit by borrowers and return for parting with liquidity by lenders. Like other prices, interest rates perform a rationing function by allocating limited supply of credit among the many competing demands. Interest rate may also be seen as the price of credit which might be subject to distortions due to inflation.

According to Wikipedia, (2005) an interest rate is the rate at which interest is paid by a borrower for the use of money that they borrow from a lender. It can also be seen as a rate which is charged or paid for the use of money and it is usually expressed as an annual undertaking. It could also be regarded as the "annual interest payment on a loan, expressed as a percentage of the loan". In sum, interest rate is the price which equates the desire to hold wealth in the form of cash with the available quantity of cash, i.e. the price of credit.

Interest rate could be real or nominal depending on the definition of money adopted. The nominal rate of interest is the market rate of interest while the real rate of interest, is the rate of interest that is actually paid. The real rate of interest, on the other hand is the nominal rate (market rate minus the expected rate of inflation). A constant real rate interest requires that the money rate increase by the same amount as any increase that occurs in the inflation rate.

**STRUCTURE OF INTEREST RATE**

There are various rates of interest in the financial system. These are generally classified into two categories, deposit and lending rates. Deposit rates are on savings and time deposit of different maturities. Examples of such rates include savings deposit and fixed deposit rates. Lending rates are interest rates charged on loans to customers and they vary according to perceived risks, the duration of loans, the cost of loanable funds, and lending margins, etc.

Other rates of interest in the financial system include the treasury bill rate, the inter-bank and minimum rediscount rate. The treasury bill rate is the discount offered by the government to savers who purchase treasury bills issued to cover its short-term borrowing needs. Similarly, the inter-bank market is where banks borrow from and lend to one another in order to adjust their liquidity position. The minimum rediscount rate refers to the amount that is charged by a central bank for lending to banks in the performance of its function as lender of last-resort. The concept, term structure of interest rates, refers to a situation where the term of maturity is assumed to be the major factor affecting the rate of interest in the instance, short-term securities attract lower rates interest than the long-term ones, a phenomenon, referred to as the inverse yield curve. This situation may arise when there is acute shortage of fund in the financial system or when the rate of inflation is rising.

**MANAGEMENT OF INTEREST RATES SINCE 2000**

Meaning of interest rate management: Interest rate management refers to the totality of steps and process designed and used by the monetary authorities (the CBN) to determine, sustain or support the level of interest rate in an economy in ways that engender the achievement of the stated macroeconomic goals of price and exchange rate stability, rapid and sustainable employment, and generating growth.

**INTEREST RATE MANAGEMENT TECHNIQUES**

**(a)** Administrative fiat:

- Government employed the use of administration fiat. Nigeria practiced this in pre-SAP era.
- The regulatory authorities relied exclusively on the use of direct controls to regulate the economy.
- The apex bank fixed interest and other banking charges.
- Monetary aggregates were fixed by a combination of both direct and indirect measures. The regulatory authorities set the maximum rate by which credit could be expanded. Allocation to the different sectors was also fixed by the monetary body, credit expansion was strictly controlled by the monetary authorities and allocation of credit was prescribed to favour the preferred economic sectors.

**(b)** Free Market Determination

This involves the deregulation of interest rate and abolition of sectoral allocation. Nigeria is currently practicing it. The regulators only set the rules and allow the operators to play according to their dictates within the rules. Another important element of this technique is the licensing of more banks so as to increase the depth and intensity of competition in the industry yet another important element of deregulation is that the pricing of deposit and credit is left for the banks and their customers. Borrowers will not pay an interest higher than the MPC-Marginal productivity of capital. Depositors demand an interest rate high enough to compensate them for postponing their consumption and cover risks of value associated with inflation.

The management of interest rates since 2000; In the year 2000, the bank maintained flexible interest rate policy stance during the year which was anchored on proactive adjustment of the minimum rediscount rate (MRR). Consequently, the MRR as the nominal anchor, or the bank's interest rate policy, was reviewed downward from 18 to 17 percent in April and further to 11 and 14 percent in August and November in 2006 respectively.

The current interest rate management techniques in Nigeria; Regular Open Market operation. Allowing the naira to depreciate, CBN saving certificates was introduced in the face of perceived liquidity overhang in the economy to mop up excess liquidity from the system. This Have tenors of 180 and 360 days. The minimum amount required to invest in the instrument is N250,000.00, which is lower than the requirement for some banking products that do not attract interest rate that compare favourably with the offering from the apex bank. Currently the rate on funds for 360 days stands as 21.5% up from 20%. The products come regularly to the market and have been attracting a sizeable portion of investors' funds.

**INTEREST RATE POLICY IN NIGERIA (2000-20011)**

Prior to this period, the level and structure of interest rate were administratively determined by the central bank of Nigeria. The bank based on policy decision fixed both deposit and lending rates. At this period, the major reason for administering interest rate were the desire to obtain the social optimum in resource allocation, orderly growth of the financial market, combat inflation and lessen the burden of internal debt servicing on the government.

During this period, Central Bank of Nigeria (CBN) on its part increased its lending rate from 11 to 15% in situations where they feel that naira is undervalued. Sequel to the above, the commercial banks increased its lending rate to between 17 to 22% as noted by Adofu et al (2010). Although this rates was later increased following the new policy of the CBN in March 2009 to between 22 to 24% at the maximum including other charges as opined by Williams (2009).

In line with the above, Williams (2009) further buttressed that, the mandatory interest rate policy will result to a near shut down in lending rate volume to any bank with major credit concerns, because the new policy ensures that only the highest quality borrower have access to new bank credits within the year.

The benchmark interest rate in Nigeria was last reported at 12.00 percent. Historically, from 2007 until 2012, Nigeria interest rate averaged 8.6 percent reaching an all time high interest rate of 12.0 percent in October of 2011 and a record low interest rate of 6.0 percent in July 2009. In Nigeria, interest rate decisions are taken by the Central Bank of Nigeria. The official interest rate is the Monetary Policy Rate (MPR).

Central Bank of Nigeria interest rate at 12 percent and monetary measures: Once again at the beginning of fourth quarter, the country's Federal Reserve Bank; the Central Bank of Nigeria (CBN) raises the monetary policy rate (interest rate) to a new high of 12 percent from previously 9.25 percent. The reason given by the Governor of Central Bank, Mr. Lamido Sanusi for the hike was to strengthen the relatively weak Nigeria's currency, naira. Although naira is weakened but it is not necessarily in a dire straight, neither is it totally collapsing to require such a drastic hiking of the interest rate to 12 percent.

**DEMANDS FOR MONEY**

The concept of "money demand" has over the years attracted the interest of great economists. Unlike the demand for money, it is not restricted to one market but also involves other markets (money market, capital market, commodity market and foreign market), hence it has a direct bearing on monetary policy and so relevant to the study of macro-economics. The focus on the demand for money is attributed to the fact that monetary policy will only be effective if the demand for money function is stable.

Money, generally refers to coins or paper notes and in a technical perspective includes, a person's wealth including their property. In economics, the liquidity approach to the definition of money sees money in two ways: firstly its narrow sense as the sum of deposit, and currency. Since the demand for money is the desire to hold cash, money demand is the sum of deposit demand ($P^d$) and currency demand ($C^{urd}$), $M^d = D^d + C^{urd}$, hence factors as affecting deposits demand, plus any factors affecting currency demand. Secondly, the liquidity of assets classified under $M_3$, is becoming almost impossible to include any components of $M_3$, hence moneyness, according to them, is a matter of degree.

Conceptually, money is an asset with particular set of characteristics, most notably its liquidity (Carpenter and Langer, 2007). Like other asset demand for money is part of a portfolio allocation decision, in which an agent's wealth is distributed among competing assets based on each asset's relative benefits (Tobin, 1969).

The demand for money is also known as liquidity preference, the demand for money deals with the desire to hold money rather than forms of wealth (i.e. financial assets).

Keynes, in his theory, distinguished three motives for holding money: the transaction motive (to meet day to day need); the speculative motive (in anticipation of a fall in the price of assets); and the precautionary motive (to meet unexpected future outlays). The total demand for money in the Keynesian model, is the sum of the transaction, speculative and precautionary motive for holding money, this is developed by the interest rate and the level of national income.

## FACTORS WHICH INFLUENCE THE DEMAND FOR MONEY IN NIGERIA

The demand for money is not at all constant. It depends on the opportunity cost of holding money (which is the rate of interest) and the market, also other relative prices may also affect the money holdings. Inflation, for instance, increase in market interest rates, thus raise the opportunity cost of holding money.

Unlike in Nigeria, the real value of the money stock shrinks because people choose to hold less of their wealth in this form. If inflation is brought to a halt, however, the opportunity cost of holding money will drop, and real balance will rise.

Inflation has a particularly strong effect on the demand for money because currency pays no interest return. As the opposite of inflation, deflation raise the return on money that is held by giving each nominal unit greater command over goods and assets. Consumer spending will thus decrease as people hold onto their money in expectation of lower price in the future. Other phenomenal affecting the amount of money that people willingly hold include the level of savings (wealth), expected change in exchange rate, the level of consumers spending (during period of higher consumer spending, such as the month before Christmas) increase in the real value of these measures will be followed by increase in the amount of real balance.

## NEED/IMPORTANCE OF THE STUDY

The study of interest rate deregulation and demand for money in Nigeria will be of significance to the Nigeria economy in the following ways

1. The findings of this study are expected to shed more light on the functional relationship between interest rate and demand for money in Nigeria.
2. Consequently, this study will be useful to government and monetary authority in their quest to improve financial system in the Nigeria economy.

## STATEMENT OF THE PROBLEM

The interest rate deregulation and demand for money has a great impact on the Nigerian economy, though there are some problems associated with it, such as the prevailing of various interest rates in the economy. There are the interest rate on savings, prime lending rate, treasury bill rate, the inter-bank and minimum rediscount rate.. All these tend to create diversity in the exiting structure of interest rate in the economy.

The study will therefore investigate, given this apparent diversities exerting on the structure of interest rate in the economy, how the harmonizing influence of deregulation on the structure of interest rate impact on the demand for money in Nigeria.

## OBJECTIVES

The following objectives have bee drawn up for the purpose of this study:

- To examine the pattern of interest rates in Nigeria and its deregulation.
- To gain an insight into the effectiveness of interest rate deregulation on the Nigerian economy.
- To ascertain the relationship between interest rate and demand for money in Nigeria.
- To determine the correlation, if any, between interest rate and the demand for money in Nigeria.
- To investigate if interest rate has any significant impact on the level of money stock in Nigeria.

## HYPOTHESES

For the purpose of this study, the following hypotheses are given for our empirical validity.

$H_{01}$: The functional relationship between money demand and interest rate is not statistically significant.

$H_{02}$: Interest rate has no significant impact on the level of money stock in Nigeria.

## RESEARCH METHODOLOGY

### DATA SOURCE AND MEASUREMENT OF VARIABLES

Time series data were obtained from the statistical bulletin of the Central Bank of Nigeria and the World Bank. As published aggregate national and international data, they are normally widely used and more complete at less cost than being generated by the researcher with limited accesses to data. To actualize the purpose of the study, the study utilized the following variables – Money Stock (MS), interest rate (IR), Narrow Money ($M_1$) and Broad Money ($M_2$).

The Money Stock is measured as the total level of money available with the monetary authority and it represents the dependent variable in this study. It is the aggregate of currency in circulation plus demand deposit as it is used in this work. Narrow money ($M_1$), Broad Money ($M_2$) and Interest Rate (IR) are independent variable of our model. Narrow Money ($M_1$), is measured by the currency in the hands of the public and demand deposit at commercial bank. Broad Money ($M_2$), is one measure of the money supply that includes $M_1$, plus savings and small time deposits, overnight deposit at commercial banks, and non-institutional money market accounts. Interest rate is measured by the prevailing interest rate in the economy and it's reflective of the extent of regulation in Nigeria economy.

### MODEL SPECIFICATION

This research work seeks to investigate the effect of interest rate on demand for money and level of money stock in Nigeria. Accordingly the variables included in this study are specified in the model below:

MS = $F$ ($M_1$, $M_2$ and IR)……………………….(1)

Where:

MS = Money Stock

$M_1$ = Narrow Money

$M_2$ = Broad Money

IR = Interest Rate

Equation (1) can be represented in functional notation as below;

MS = $\alpha_0 + \alpha_1 M_1 + \alpha_2 M_2 + \alpha_3 IR + U_i$ ………………….(2)

In our equation (2) MS, $M_1$, $M_2$ and IR are defined in equation (1) above.

$\alpha_0$ = Intercept

$\alpha_1$, $\alpha_2$ and $\alpha_3$ are coefficients of the independent variables to be estimated.

$U_i$ = random variables

## DATA PRESENTATION AND ANALYSIS

This study focus on interest rate deregulation and demand for money in Nigeria, for this, data on specified variables were collected from the Central Bank of Nigeria (CBN) statistical publication and the World Bank. The collected data are presented in table below: Table 1, 2 and 3.

**TABLE 1: SUMMARY TABLE; MONEY STOCK**

| Years | Currency in Circulation | Demand Deposit | Total |
|---|---|---|---|
| 2000 | 224742.0167 | 278405209.5 | 278427951.5 |
| 2001 | 284314.0306 | 470940.8667 | 755254.8973 |
| 2002 | 30061418.79 | 568055.2333 | 30629474.02 |
| 2003 | 448814.7917 | 68757404.63 | 69206219.42 |
| 2004 | 471491.7417 | 839246.0583 | 1310737.8 |
| 2005 | 906835.725 | 871487.8675 | 1778323.593 |
| 2006 | 56839.975 | 14348905.43 | 14405745.41 |
| 2007 | 1569425.261 | 1642573.5 | 3211998.761 |
| 2008 | 1618334.583 | 3485945.284 | 5104279.867 |
| 2009 | 970341.7 | 3753178.721 | 4723520.21 |
| 2010 | 1121076.813 | 7352000.464 | 8473077.277 |
| 2011 | 1288567.888 | 1140457.968 | 2429025.856 |

Source: Central Bank of Nigeria (CBN) Money and Credit Statistical Data (2000-2011).

Table 1: above showed the record of money stock from (2000-2011), it is a composite of currency in circulation and demand deposit. From the table, the stock of money for year 2000 is 278427951.5 and it decreased to 2429025.856 in year 2011 representing percentage decrease of 11326% within the specified period of analysis.

**TABLE 2: SUMMARY TABLE; DEMAND FOR MONEY**

| Years | Narrow Money ($M_1$) | Broad Money ($M_2$) |
|---|---|---|
| 2000 | 513029.2583 | 1616663.025 |
| 2001 | 1295206.342 | 1269321.608 |
| 2002 | 810486.8417 | 1485432.308 |
| 2003 | 1004380.7 | 1952921.192 |
| 2004 | 1230775.733 | 2022589.4 |
| 2005 | 1488883.118 | 2637912.733 |
| 2006 | 1890132.408 | 3522976.258 |
| 2007 | 241294.769 | 4713618.218 |
| 2008 | 4202244.346 | 8008223.293 |
| 2009 | 4558032.878 | 16503841.47 |
| 2010 | 5091631.738 | 11026352.44 |
| 2011 | 5771581.49 | 12172490.28 |

Source: Central Bank of Nigeria (CBN) Money and Credit Statistical Data (2000-2011).

Table 2: above showed the record of demand for money from (2000-2011), it is a composite of Narrow Money ($M_1$) and Broad Money ($M_2$). The table revealed that Narrow Money ($M_1$) for year 2000 is 513029.2583 and it increase to 5771581.49 in year 2011 representing a percentage increase of 91% within the specified period of analysis. On the other hand Broad Money ($M_2$) has increased astronomically from 1616663.025 to 12172490.28 representing a percentage increase of 87% within the specified period of analysis.

**TABLE 3: INTEREST RATE OF NIGERIA (2000 - 2011)**

| Years | Interest Rate |
|---|---|
| 2000 | 9.6 |
| 2001 | 8.2 |
| 2002 | 8.1 |
| 2003 | 6.5 |
| 2004 | 5.5 |
| 2005 | 7.4 |
| 2006 | 7.2 |
| 2007 | 6.7 |
| 2008 | 3.5 |
| 2009 | 5.1 |
| 2010 | 11.1 |
| 2011 | 12.00 |

Source: World Bank.

Table 3: above showed the record of interest rate in Nigerian economy from (2000-2011). The table revealed that interest rate for year 2000 is 9.6 and it increase to 12.00 in year 2011 representing a percentage increase of 20% within specified period of the analysis.

## RESULTS & DISCUSSION

The data collected for this study relating to the hypothesized variables were subjected to correlation and regression analyses whose results are given in tables below:

**TABLE 4: CORRELATION**

| | Money Stock | Interest Rate | Demand for Money | Broad Money |
|---|---|---|---|---|
| Money pearson Correlation | 1 | .236 | -.357 | -.314 |
| Stock Sig.(2-tailed) | | .460 | .254 | .321 |
| N | 12 | 12 | 12 | 12 |
| Interest pearson Correlation | .236 | 1 | .236 | .086 |
| Rate Sig.(2-tailed) | .460 | | .460 | .790 |
| N | 12 | 12 | 12 | 12 |
| Demand pearson Correlation | -.357 | .236 | 1 | .885 |
| For money aSig.(2-tailed) | .254 | .460 | | .000 |
| N | 12 | 12 | 12 | 12 |
| Broad pearson Correlation | -.314 | .086 | .885 | 1 |
| Money Sig.(2-tailed) | .321 | .790 | .000 | |
| N | 12 | 12 | 12 | 12 |

** correlation is significant at the 0.01 level (2-tailed)

Source: SPSS Version 17

Table 4: above contained the result of the correlation analysis and this showed the degree and extent of correlation among the variables for this study.
The result revealed that there is porous correlation between the dependent variable and independent variables.
Money Stock and Interest Rate correlation value is 0.236, for Money Stock and M1, the correlation value is -0.357 and for Money Stock and Broad Money the correlation value is -0.314. These relationship are not significant as evidenced by the indicator at the bottom of the table. However, the table revealed that only one relationship is significant at 99% confidence level, that of $M_1$ and $M_2$. The implication of this poor performance could only reflect in the state of the Nigeria economy the 2000s decade.

**TABLE 5: MODEL SUMMARY**

| Model | R | R –square | Adjusted R- square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .496[a] | .246 | -.037 | 8.05598E7 | 1.681 |

Source: SPSS Version 17

- Predictors: (constant), Interest Rate, Broad Money, Demand for Money.
- Dependent variable: Money Stock.

Table 5. contains the output of the regression analysis and the result revealed that our model is not well fitted as evidence by the value of R- square of 0.25. This shows that only 25% of the variation in money stock could be jointly explain by the independent variables which invariably means that the majority of the variation in the level of money stock in the country is attributable to other factors order than $M_1$, $M_2$ and Interest Rate.

**TABLE 6: COEFFICIENTS**

| Model | Unstandardized Coefficients B | Std.Error | Standardized Coefficient Beta | T | Sig. |
|---|---|---|---|---|---|
| 1 (constant) | -1.399E7 | 8.246E7 | | -.170 | .870 |
| Demand for | -25.571 | 28.094 | -.638 | -.910 | .389 |
| money | 3.381 | 10.554 | .219 | .320 | .757 |
| Broad Money | 1.189E7 | 1.061E7 | .368 | 1.121 | .295 |
| Interest Rate | | | | | |

- Dependent variable: Money Stock.

Source: SPSS Version 17

The above table shows the parameter estimate of the independent variables of our study. The result revealed that narrow money is negatively related to money stock contrary to apriori expectation which posit a positive correlation, the coefficient estimate for Narrow Money ($M_1$) is – 0.638. For Broad Money ($M_2$), and Interest Rate (IR), their parameter estimate were consistent with the study apriori expectations, they were positively related to the independent variable with values 0.219 and 0.368 respectively. However, the result revealed that none of the independent variables was statistically significant as evidenced by their 't' value for $M_1$ is -0.910, $M_2$ is 0.320 and Interest rate is 1.121.

## FINDINGS

In this study an attempt has been made to examine the interest rate deregulation and demand for money in Nigeria. In the analysis of the regression result, it was found that there was no significant relationship between interest rate and demand for money in Nigeria. It was also found that interest rate has no significant impact on the level of money stock in Nigeria. All the independent variables used for the empirical analysis i.e. (Narrow Money (M1), Broad Money (M2) and Interest Rate (IR) were very weak in the model. However, the result revealed that our model were not well fitted in the study as evidenced by the value of R -square 0.25.
Over and above, the overall model was very weak in explaining the functional relationship between interest rate and demand for money in Nigeria and the significant impact of interest rate deregulation on the level of money stock in Nigeria.

## RECOMMENDATIONS/SUGGESTIONS

Following from the above findings, it is ideal for the government to encourage total deregulation of interest rate in order to avoid financial disintermediation which may lead to low investment and growth. The government have to be sensitive to the behavior of interest rates and demand for money in the country.
Over and above all, the government through the monetary authority should implement policies that would enhance interest rate and demand for money at least to the preferred sectors which will in turn boost the financial system of the Nigeria economy. The study also recommends the need for more comprehensive monetary policy to reduce the natural hazard factors militating against interest rate and demand for money in Nigeria. This will help reduce the risks and uncertainties associated with interest rate in a volatile economy such as ours in Nigeria.
Also, the followings measures must be taken to ensure a more stable money demand function for effective monetary policy.
i) First, there should be controlled increase in money supply in the economy to ensure a stable financial system. In doing this, deficit financing should be reduced especially if it is to be financed through the banking sector.
ii) Secondly, monetary authorities should influence interest rate in order to attain a stable demand for money in the Nigeria economy.
iii) Thirdly, a financial system like the Nigeria financial system that is relatively weak and under developed, can be made responsive by liberalizing the interest rate.
iv) Finally, government should abolish or abrogate all forms of control in the financial system and allow interest rate to be determined by the forces of demand and supply in order to make the financial sector more competitive to ensure financial deepening in Nigeria economy.

## CONCLUSIONS

Conclusively, the goal of this study has been to examine the interest rate deregulation and demand for money in Nigeria, taking the advantage of time series data from (2000-2011). The data collected for this study relating to the hypothesized variables were subjected to correlation and regression analysis.
The available evidence provided by the study depicts that the functional relationship between interest rate and demand for money in Nigeria is not statically significant. Also, interest rate has no significant impact on the level of money stock in Nigeria. This means that interest rate is not effective in influencing demand for money in Nigeria, and as such interest rate deregulation had no clear direct impact on the level of money stock in Nigeria.

## LIMITATIONS

In the course of this work, the limitation/constraints encountered are :
- Data limitations: There was constraint in terms of data availability up to the year 2012 which thus restraint our analysis to 2011
- Time constraint: The deadline for submission of manuscript was another major challenge which forestall our patience for release of projected current data from the appropriate authority.
- Statistical and logistical constraints. There was also the challenge of choice of an effective statistical tool of analysis that will help capture an in-depth effect of interest rate on money demand.

## SCOPE FOR FURTHER RESEARCH

Given that the present study is limited in period scope of 2000 to 2011, there will the need for future research work to expand the period of study and analysis to beyound 2011 , if possibly to 2013 in order to capture recent developments in the economy.

## REFERENCES


1. Adofu, I., M. Abula and S.I Audu, (2010). Assessment of the Effects of Interest Rate Deregulation in Enhancing Agricultural Productivity in Nigeria. Curr. Res. J. Econ. Theory, 2(2): 82-86.
2. Anyanwu J.C; (1993). "Monetary Economics Theory, Policy and Institutions". Hyprid Publishers Ltd, Onitsha, Pp.100-112, 112-128, 264-266.
3. Aziakpono, M.J., S. Kleimeier and H. Sande (2007). "Banking Market Integration in the SADC Countries: Evidence from Interest Rate Analyses". Maastricht Economic Research School on Technology and Organization (METEOR) Working Paper RM 07/047. University of Maastrictht.
4. Carpenter, S.B. and J. Langer, (2007). "Money Demand and Equity Markets" Board of Governors of the Federal Reserve System and Cornerstone Research, October.
5. CBN, (2000). Central Bank of Nigeria Annual Report and Statement of Account for the Year Ended 31st December. Retrieved from: http://www.central bank.org, (Accessed on: 23 November, 2010).
6. CBN, (2006). Monetary Credit, Foreign Trade and Exchange Policy Guidelines for 2000 Fiscal Year, Monetary Policy Circular Publication. No.34. retrieved from: http://www.cbntreasury.gov.ng, (Accessed on: March 3).
7. Central Bank of Nigeria: Money and Credit Statistical Data (2000-2011).
8. Investor Glosary (2010), Investopedia, Retrieved from: www.investopedia.com/../demand.asp.
9. Jhingan, (2003). "Macro economic Theory Vrinda Publiscation (p)ltd, Dehi.
10. Jhingan, M.L., (2005). Macro Economic Theory. 3rd Edition, Konark Publishers, Dehi.
11. Obamuyi T.M, (2009). An Investigation of The Relationship between Interest Rates and Economic Growth in Nigeria, (1970-2006) Journal of Economic and Internation Finance Vol.1(4), Pp. 093-098.
12. Shaw, E, (1973). Financial Deepening in Economic Development. New: Oxford University Press.
13. Tobin, J., (1969). "A General Equilibrium Approach to Monetary Theory", Journal of Money Credit and Banking. February, Vol.1, Pp. 15-29.
14. Wikipedia on Answers. Com, (2005). Definition of Term. Retrieved from: http//www.wikipedia.com, (Accessed on: November 24, 2010).
15. Williams, E., (2009). The Return of Interest Rate Caps. Business World Publication, May 17.
16. World Band Data (2000-2011). World Bank.
17. World Bank, (1993). World Bank Policy. Res. Bull, 4(3), May – July.

# REDINGTON IMMUNIZATION THEORY APPROACH TO HEDGING INTEREST RATE RISK IN INSURANCE COMPANIES IN NIGERIA

*AFOLABI, TAOFEEK SOLA*
*LECTURER*
*DEPARTMENT OF FINANCIAL STUDIES*
*REDEEMER'S UNIVERSITY*
*MOWE*

## ABSTRACT

*Unstable interest rates due to unstable government policies, inflations or actions of the apex bank has contributed to the inability of insurance companies in Nigeria to meet their obligations, in forms of benefits, claims or assurances as at when due, as accounted for by THE low development in the sector. By adopting Tzeng, Wang and Soo's linear programming model[1], developed from Redington's classical immunization strategy and using data from the balance sheet of insurance companies in Nigeria, this research work shows how an insurance company's assets can be immune against interest rate risk. It further reveals that the multiplier-effects of the solution to this problem on the insurance sector and the Nigerian economy at large cannot be over-emphasized.*

## JEL CODE

G22

## KEYWORDS

convexity, duration, immunization, linear-programming, stochastic.

## INTRODUCTION

The origin of Insurance companies in Nigeria can be traced back to 1921, when the first insurance company, the Royal Exchange Assurance (a British company) began operations. Twenty-eight years thereafter, three other companies were registered and by independence in 1960, the "Reports on Insurance companies' operations in Nigeria" published by the Federal Office of statistics, put the number at fifty nine. Since then, the number of insurance companies operating in Nigeria has increased considerably (Ogunshola, 1980). With this growth, one would expect the insurance sector of the Nigerian economy to have developed in terms of operations and awareness. This has not been the case, and one of such factors that has inhibited this growth is the inability of insurers to meet their obligations as at when due, due to fluctuation in interest rates. Although there are other risk factors, such as credit risk, liquidity risk, business risk, operational risk, market risk and others, that can affect asset management, interest rate risk has proven to be a major factor (Doffou, 2005).

Unstable interest rate is one major problem that must be addressed in the management of assets and liabilities of an insurance company. Assets are needed to fund liabilities and if the management of the assets does not occur relative to, or in the added dimension of the liabilities, changes in interest rate may pose a threat to the solvency of the insurer and its ability to meet its obligations. With the company unable to expand or meet its obligations, its viability becomes endangered, hence the need for the management of an insurance company's' assets and liabilities (ALM). Some of the strategies involved in ALM are options, scenario models, econometric models, mean-variance optimization model and immunization (Doffou, 2005). A very important tool among these is immunization. This concept was first examined by an English Actuary for a life insurance company, named Frank Mitchell Redington (Redington, 1952). He described immunization as the process of equating the mean term of the assets to the mean term of the liabilities. This is popularly known as classical immunization and the notion has been widely used by many insurance companies in USA, United Kingdom, and worldwide (Guo, 1996). Redington's theory of immunization was generalized in the 1970's and 1980's by several authors to handle more complicated situations (Fisher and Weil, 1971; Shiu, 1987). Further area of development was in the stochastic models for interest rates (Wilkie, 1987). However, insurance companies in Nigeria are still in the dark as far as this Redington theory of immunization is concerned. Thus, a development in this area, will ultimately lead to further development in our insurance sector, so that Nigerian insurance companies can compete globally.

Several government policies meant to support and develop the insurance sector have been inactive and this has led to lack of economic growth and development. The insurance sector of any nation is a driving force for her economic stability as it not only provides funds or liquidity to financial institutions, but also provides risk management, employment opportunities and a guide for some government policies. Therefore, there is every need for insurance companies in Nigeria to grow and develop, through proper management of their assets, while fulfilling their obligations. A useful means of achieving this objective is for insurance companies in the country to immunize their assets against fluctuation in interest rate.

Redington (1959) suggested that an immune portfolio of investment can be achieved by setting the mean term (duration) of the assets equal to the mean term (duration) of the liabilities. This article portrays the relevance of this theory to asset and liability management in insurance companies in Nigeria. The impact of a rise or a fall in the interest rate on an investment portfolio is observed, thus justifying the usefulness of Redington's theory. Redington also suggested setting the rate at which the duration of the assets changes with respect to changes in interest rate (convexity) greater than that of the liabilities. This article shows the importance of this concept by revealing that whether the interest rate rises or falls, the value of the assets are always greater the value of the liabilities, once the convexity of the assets is set higher than that of the liabilities.

This article further reveals that a solution to the problem of interest rate fluctuation in insurance companies in Nigeria will aid the growth and development of the insurance sector and the economy as a whole. With prompt payment of genuine claims by insurers, Nigerians patronage will increase because of renewed and improved confidence.

Having set the broad objectives of the study, the remainder of this article is organized as follows: In the section "Trend in Immunization Theory", i examine current literatures and issues on immunization. In the next section "The Model", a linear programming model was developed using Tzeng, Wang and Soo (2000) linear programming model from Redington's immunization theory. Then the further section illustrates the applicability of the model on the balance sheet of some insurance companies in Nigeria. The last section concludes the study and offers recommendations for further study.

## REVIEW OF LITERATURE

It was not until the early 1950's, that Frank Mitchell Redington (Redington, 1952) identified the two conditions for immunizing a portfolio (also called the "Redington conditions") which has been widely used and applied to managing bond portfolios in the insurance and banking industries. According to Ivanov and Hecht (2006), many savings and loans banks and other financial institutions in the US became financially stressed during the late 1980's for failing to adhere to these simple Redington conditions. These Redington conditions are as follows: The first derivative of the assets with respect to the interest rate should be equal to the first derivative of the liabilities with respect to the interest rate. Also, the second derivative of the assets with respect to the interest rate should be greater than the second derivative of the liabilities with respect to the interest rate, so that the net present value of the cash-flow remains positive within any interval of change in interest rate (Redington, 1952). A portfolio is thus shielded or "immunized" from fluctuation in interest rate, if both Redington conditions are met. This notion of equating the mean term of assets with the mean term of liabilities has been used since then, by a number of insurance companies worldwide especially the variance minimization approach (Markowitz, 1959).

Since the early 1970's, the Redington's theory of immunization has been extended to handle more complicated situations. Fisher and Weil relaxed Redington's assumption of flat yield curves and tested their model empirically (Fisher and Weil, 1971). According to the standard Fisher equation, the return on a risk-free investment includes the real rate of interest and the expected short term rate of inflation. Forgler examines the effect of both of these risks on the investor's wealth (cash-flow) evaluated at any horizon point prior to maturity (Forgler, 1984). A further extension of the Fisher-Weil immunization theorem to more general case was done by Shiu (1987), where the interest rate shocks are functions of time.

Within the framework of a stochastic model for interest rates, the concept of immunization was first examined by Vasicek (1977) and thereafter by Boyle (1978) and Wilkie (1987). Vasicek basic assumptions are that the spot rate follows a continuous Markov process, the price of a pure discount bond at a particular time which matures at a future time is determined by the assessment of the time segment between the particular time and the future time and that the market is efficient and investors act rationally. The first assumption implies that the spot interest rate can be written in the form of a stochastic differential equation, involving instantaneous drift and variance. The second assumption implies that the bond price is a function of a time segment called the spot interest rate. Since the spot interest rate is a stochastic variable, Ito's lemma can be used to differentiate the price (Mckean, 1969). Vasicek further completed his development, by invoking the third assumption to prevent riskless arbitrage by reasoning similar to that used to derive the Black Scholes Option pricing formula.

Reitano (1991) and Ho (1992) provide the Key-Rate (multivariate) immunization, where the term structure is partitioned in maturity segments. Though Redington recognized that classical immunization theory fails when shifts in the term structure of interest rates are not parallel, Fisher and Weil were seminal in situating the problem in a term structure framework.

The development of techniques to address non-parallel yield curve shifts led to the recognition of a connection between immunization strategy specification and the type of assumed shocks (Boyle,1978). Sophisticated risk measures, such as M-squared model, were developed to select the best duration matching portfolio from the set of potential portfolios. Fong and Vasicek (Fong and Vasicek, 1984) developed this M-squared model in order to minimize the immunization risk due to non-parallel (slope) shifts in the term structure of interest rates. They show in particular that by setting the duration of a bond portfolio equal to its planning horizon and by minimizing a quadratic cash-flow dispersion measure, the immunization risk due to adverse term structure shifts can be reduced.

More recently, new immunization risk measures were proposed by several authors. For example, Nawalkha and Chambers (1997) and Nawalkha, Soto and Zhang (2003) derive a multiple factor extension to the M-squared model, called the M-vector model. Being derived using a specific assumption about the stochastic process generating the term structure, these theoretically attractive models encountered difficulties in practice. For instance, Bierwag et al. (1993) shows that the minimum M-squared portfolios fail to hedge as effectively as portfolios including a bond maturing on the horizon date. This line of empirical research led to the recognition of results such as the 'duration puzzle' (Ingersoll, 1983; Bierwag et al., 1993; Soto, 2001) where portfolios containing a maturity-matching bond have smaller deviations from the promised target return than duration matched portfolios not containing a maturity-matching bond.

Shiu (1990) observes that classical immunization, following Redington (Redington, 1957) requires the satisfaction of both duration and convexity conditions. That is, duration matching is required to be accompanied with higher portfolio convexity. The convexity requirement ensures that for an instantaneous change in yields, the market price of assets will outperform the market price of liabilities. Poitras (2005) pointed out that surplus immunization involves explicit recognition of the balance sheet relationship between assets, liabilities and surplus, where the total assets held by a fund equals the sum of the fund's liabilities and the accumulated surplus. To derive the classical immunization conditions, Redington (1957) uses a zero surplus fund, where the present value of assets and liabilities are equal, at a particular time. The classical zero surplus immunization results require setting the duration of assets equal to the duration of liabilities (Poitras, 2005). This only applies for a zero surplus portfolio, where according to Poitras, immunization with a non-zero surplus requires the duration of the assets to be equal to the duration of liabilities multiplied by the ratio of the market value of assets to the market value of liabilities.

## RESEARCH METHODOLOGY

According to Tzeng, Wang and Soo (2000), Redington immunization strategy can be modelled into a linear program whose solution can implement the optimal immunization objective of any insurance company. This is also applicable to insurance companies in Nigeria. Let $A_t$ and $L_t$ denotes the cash inflows and cash outflows of an insurance company at period t. Furthermore, let $V^t$ represent the discounting factor of the asset and liability, such that

$V^t = 1/(1 + i)^t$

Therefore, following Redington's theory, the asset and the liability of the insurance firm can be written as,

$A = \Sigma V^t A_t$ (present value of cash inflows)

$L = \Sigma V^t L_t$ (present value of cash outflows)

These equations are general model for measuring the value of an insurance company's assets and liabilities. As earlier stated, the surplus S(t) of any insurance company is the difference between its assets and liabilities. Therefore,

$S(t) = \Sigma V^t A_t - \Sigma V^t L_t$ ..................................... (1)

Equation (1) provides a way for the insurance company to discount its cash inflows and outflows at each period of t and further measure the value of the firm. The issue now is what immunization problem may concern the managers if the surplus of the insurance company is valued by equation (1). According to Redington, the firm's surplus is immunized against changes in interest rates, if $dS/di = 0$.

Differentiating equation (1) with respect to interest rate i gives

$dS/di = \Sigma tV^t A_t - \Sigma tV^t L_t = 0$ ................... (2)

The duration of assets DA and the duration of liabilities DL can be defined as

$D_A = -(\Sigma tV^t A_t / (\Sigma V^t A_t)$

and

$D_L = -(\Sigma tV^t L_t) / (\Sigma V^t L_t)$

Substituting $D_A$ and $D_L$ into equation (2) and re-arranging terms gives

$D_A = (L/A) D_L$ ................................................... (3)

Equation (3) suggests that the firm's surplus is immunized against interest rate fluctuation if the duration of the firm's assets is set equal to the debt ratio times the duration of the firm's liabilities (Tzeng, Wang and Soo, 2000).

Further differentiation of equation (2) gives

$d^2S/di^2 = \Sigma t^2 V^t A_t - \Sigma t^2 V^t L_t$ .............................. (4)

Redington states that if second derivative of the surplus is positive, that is

$d^2S/di^2 > 0$

then the surplus of the firm increases whether the interest rate increases or decreases. Therefore, if the change in the interest rate is not small, maximizing $d^2S/di^2$ is the best strategy for immunization, when $dS/di = 0$ (Tzeng, Wang and Soo, 2000).

Since the objective of any profit-oriented insurance company in Nigeria is maximizing its profit, while discharging its responsibilities (Ogunshola, 1980), then its optimal immunization strategy can be stated as maximizing the convexity of its surplus(S) = A – L, subject to dS/di = 0. That is,

Max $d^2S/di^2$

Subject to $S = A - L$

And $dS/di = 0$ ............................................ (5)

With the minimum solvency margin for an insurance company given as N2 billion (for a life insurance company) and N3 billion (for a non-life insurance company) in Nigeria, we further have the constraints

S(t)>= N2,000,000,000 (life insurance)

$S(t) >= N3,000,000,000$ (non-life insurance), $t = 1,2,3…$
and the non-negativity constraint, $A_t >= 0$……………………………. (6)
Thus, substituting equations (1), (3), and (4) into equation (5) together with (6), we obtain a linear programming problem, similar to that of Tzeng, Wang and Soo (2000) for the case of an insurance company in Nigeria.
Max $d^2S/di^2 = \Sigma t^2V^tA_t – \Sigma t^2V^tL_t$
Subject to, $S(t) = \Sigma V^tA_t – \Sigma V^tL_t$
$D_A = (L/A) D_L$
$S(t) >= N2,000,000,000$ (life insurance)
$S(t) >= N3,000,000,000$ (non-life insurance), $t = 1,2,3…$
$A_t >= 0$……………………………. (7)
In equation (7), $A_t$ is the investment decision of the insurance company for asset-liability management at each period t. It should be noted however, that when the surplus S(t) and both the liability $L_t$ and the rate of interest i are given as parameters, equations (1), (3), and (4) are all linear functions with respect to $A_t$. Therefore, linear programming can solve equation (7).

## RESULTS & DISCUSSION
The insurance companies selected for the purpose of this study are International Energy Insurance Plc, Crusader Insurance Plc, NEM Insurance Plc, Niger Insurance Plc, Goldlink Insurance Plc, UNIC Insurance Plc and Equity Assurance Plc. There is no particular reason for this selection as the model is applicable to all insurance companies in Nigeria. The summary pages of their various balance sheets detailing the Assets and Liabilities as at 2007 were extracted from their various annual reports and Accounts for the financial year, 2007 as shown in table 1, in the appendix. Also included is the surplus, which is the difference between the Assets and Liabilities.
It is assumed that the liabilities of the insurance companies are to be paid out in three years. Tables 2(A)-(G) in the appendix shows the liability payment schedule for the insurance companies. Although it is sometimes difficult to predict an insurance company's liability schedule under real insurance practices, recent research findings of "Effective duration of insurance liabilities by Babbel, Merril, and Planning (1997) and Briys and Varenne (1997) can help to make accurate predictions. However, this area is beyond the scope of this study.
Assuming the current interest rate of 20%, the insurance company's immunization strategy can be modelled by means of equation (7) as;
Max $d^2S/di^2 = \Sigma t^2V^tA_t – \Sigma t^2V^tL_t$
Subject to, $S(t) = \Sigma V^tA_t – \Sigma V^tL_t$
$D_A = (L/A) D_L$
$S(t) >= N5,000,000,000$ (general insurance), $t = 0,1,2,3…$
$S(t) >= N2,000,000,000$ (Life insurance)
$S(t) >= N3,000,000,000$ (Non-life insurance)
$A_t >= 0$
In this study it is assumed that the change in interest rate is non-stochastic for simplicity of demonstration. Usually, the manager of the insurance company may notice the existence of the stochastic structure of interest rate in the long run, but may only be concerned with the non-stochastic change in interest rate in the short run. Therefore, for the purpose of this analysis, we shall consider interest rate changes in the short run for periods t = 0,1,2, and 3.
From the liability schedules, the model can further be expressed as an optimization problem for each of the insurance companies. Thus, we have

**INTERNATIONAL ENERGY INUSRANCE: (TABLE 2A)**
Max $z = 0A_0 + 0.83A_1 + 2.78A_2 + 5.21A_3 – 3,648,470,000.00$
Subject to
$S(t)=A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 –1,042,420,000.00>= 5,000,000,000.00$
$A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 >= 6,042,420,000.00$ ….. (1)
And
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 – 1,563,630,000.00 = 0$
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 = 1,563,630,000.00$ ….. (2)
$A_0, A_1, A_2, A_3 >= 0$ ………………. (3)

**CRUSADER INSURANCE: (TABLE 2B)**
Max $z = 0A_0 + 0.83A_1 + 2.78A_2 + 5.21A_3 – 16,247,332,500.00$
Subject to
$S(t)=A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 –4,642,095,000.00>= 5,000,000,000.00$
$A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 >= 9,642,095,000.00$ ….. (1)
And
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 – 6,963,142,500.00 = 0$
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 = 6,963,142,500.00$ ….. (2)
$A_0, A_1, A_2, A_3 >= 0$ ………………. (3)

**NEM INSURANCE: (TABLE 2C)**
Max $z = 0A_0 + 0.83A_1 + 2.78A_2 + 5.21A_3 – 4,224,594,500.00$
Subject to
$S(t)=A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 –1,207,027,000.00>= 5,000,000,000.00$
$A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 >= 6,207,027,000.00$ ….. (1)
And
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 – 1,810,540,500.00 = 0$
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 = 1,810,540,000.00$ ….. (2)
$A_0, A_1, A_2, A_3 >= 0$ ………………. (3)

**NIGER INSURANCE: (TABLE 2D)**
Max $z = 0A_0 + 0.83A_1 + 2.78A_2 + 5.21A_3 – 25,402,695,500.00$
Subject to
$S(t)=A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 –7,257,913,000.00>= 5,000,000,000.00$
$A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 >= 12,257,913,000.00$ ….. (1)
And
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 – 10,886,869,500.00 = 0$
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 = 10,886,869,500.00$ ….. (2)
$A_0, A_1, A_2, A_3 >= 0$ ………………. (3)

**GOLDLINK INSURANCE: (TABLE 2E)**
Max $z = 0A_0 + 0.83A_1 + 2.78A_2 + 5.21A_3 – 3,251,048,500.00$
Subject to

$S(t) = A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 - 928{,}871{,}000.00 >= 5{,}000{,}000{,}000.00$
$A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 >= 5{,}928{,}871{,}000.00$ ..... (1)
And
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 - 1{,}393{,}306{,}500.00 = 0$
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 = 1{,}393{,}306{,}500.00$ ..... (2)
$A_0, A_1, A_2, A_3 >= 0$ .................. (3)

**UNIC INSURANCE: (TABLE 2F)**
Max $z = 0A_0 + 0.83A_1 + 2.78A_2 + 5.21A_3 - 6{,}648{,}876{,}500.00$
Subject to
$S(t) = A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 - 1{,}899{,}679{,}000.00 >= 5{,}000{,}000{,}000.00$
$A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 >= 6{,}899{,}679{,}000.00$ ..... (1)
And
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 - 2{,}849{,}518{,}500.00 = 0$
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 = 2{,}849{,}518{,}500.00$ ..... (2)
$A_0, A_1, A_2, A_3 >= 0$ .................. (3)

**EQUITY ASSURANCE: (TABLE 2G)**
Max $z = 0A_0 + 0.83A_1 + 2.78A_2 + 5.21A_3 - 3{,}366{,}261{,}094.00$
Subject to
$S(t) = A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 - 961{,}788{,}884.00 >= 2{,}000{,}000{,}000.00$
$A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 >= 2{,}961{,}788{,}884.00$ ..... (1)
And
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 - 1{,}442{,}683{,}326.00 = 0$
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 = 1{,}442{,}683{,}326.00$ ..... (2)
$A_0, A_1, A_2, A_3 >= 0$ .................. (3)

As stated in the earlier section, linear programming can solve the above optimization problems. Although there are different approaches at solving linear programming problems, the simplex tableau will be useful in this case. To use the simplex tableau, the models must be written in standard form, by introducing slack and artificial variables. The optimization problem, in the case of International Energy Insurance (IEI) can therefore be re-written as shown below.
Max $z = 0A_0 + 0.83A_1 + 2.78A_2 + 5.21A_3 + 0X_4 + 0X_5 + 0X_6 + 0X_7 + 0X_8 - MX_9 - MX_{10} - MX_{11} - MX_{12} - MX_{13} - MX_{14} - 3{,}648{,}470{,}000.00$
Subject to,
$A_0 + 0.83A_1 + 0.69A_2 + 0.58A_3 - X_4 + X_9 = 6{,}042{,}420{,}000.00$ ..... (1)
$0A_0 + 0.83A_1 + 1.39A_2 + 1.74A_3 + X_{10} = 1{,}563{,}630{,}000.00$ ..... (2)
$A_0 - X_5 + X_{11} = 0$ ..... (3)
$A_1 - X_6 + X_{12} = 0$ ..... (4)
$A_2 - X_7 + X_{13} = 0$ ..... (5)
$A_3 - X_8 + X_{14} = 0$ ..... (6)
Where z is the objective function of the linear program; $A_0$, $A_1$, $A_2$ and $A_3$ are the assets of the insurance company at period t = 0, 1, 2, and 3 respectively; $X_4$, $X_5$, $X_6$, $X_7$ and $X_8$ are the slack variables; $X_9$, $X_{10}$, $X_{11}$, $X_{12}$, $X_{13}$ and $X_{14}$ are the artificial variables while M is any large number that must be added to the artificial variables in the objective function.
Applying similar method for the other insurance companies and using the simplex tableau with the aid of Microsoft Excel software package, we have the following optimal asset allocations.

| Company | $A_1$ | $A_2$ |
|---|---|---|
| IEI | N5,746,604,714.00 | N1,124,913,676.00 |
| CRUSADER | N12,042,852,775.00 | N2,889,511,197.00 |
| NEM | N8,177,251,476.00 | N4,742,038,901.00 |
| NIGER | N14,986,523,601.00 | N1,478,803,952.00 |
| GOLDLINK | N7,864,232,870.00 | N4,892,048,070.00 |
| UNIC | N8,956,716,823.00 | N4,368,492,578.00 |
| EQUITY | N3,809,911,260.00 | N1,638,503,303.00 |

The results above are the values of the assets required by each insurance company at each particular period, to immunize its liabilities for the same period. This means that each asset manager in each of the insurance company must invest the current asset in such a way that the returns from such asset will yield the corresponding value needed to immune the company's liability for each period. For example, an asset manager at IEI, willing to generate assets that would help pay-up the liabilities as shown in the schedule in Table 2A, much invest the company's current asset in way that would yield an asset-returns of N5,746,604,714.00 at the end of period t=1 and N1,124,913,676.00 at the end of period t=2. If this can be achieved by the asset manager, then the company's surplus would be immune against changes in interest rate within that horizon. Similar explanation goes for the asset managers in the other insurance companies.
The Asset Allocations above provides immunization for the surplus of the insurance companies, in case of changes in interest rate. To demonstrate this, we shall assume there is a shift in interest rate from 20% to 22%, 25%, 17% or 15%. This is demonstrated in tables 3 for IEI insurance plc. The various impacts on the surplus of this company further reveals that the Optimal Assets Allocation provided by the solutions to the optimization model, still immunize the surplus of the insurance company. This is applicable to the other six insurance companies.

## RECOMMENDATIONS/SUGGESTIONS/CONCLUSIONS

Asset and Liability Management is one of the major task any insurance company in Nigeria must perform in order to enhance performances, especially in the area of prompt payment of genuine claims. Inability by some insurance companies to meet up with obligations as at when due may not be far-fetched from the wrong choice of investment of Assets by Assets Managers. One of such factor responsible for this bane is fluctuation in interest rates. Immunization strategy is one of the tools that can be used to tackle fluctuation in interest rates. This study thus revealed that the classical immunization strategy suggested by Redington can be used to combat interest rate problems as experienced by insurance companies in Nigeria.
Although there has been several developments after Redington's work on immunization strategy, the awareness is still very poor amongst insurance companies in Nigeria, as accounted for by the level of development and awareness in that sector of the country. This study therefore sets the wheel toward an effective development in immunization strategies needed for assets and liabilities management in the insurance sector of the country. This paper has thrown light on the relevance of Redington's Immunization theory to interest rates problems in, especially in the area of Asset and Liability Management in Nigerian Insurance companies and it has further shown that linear programming can implement the insurance company's optimal immunization strategy.
The result from the data analysis has also revealed that Asset Managers in insurance companies can invest their assets in such a way that the surplus of the company is immune whether interest rate rises or falls. Whatever the effect of government policies or other economic factors on the interest rates, the fund's manager can be rest assured that the company will be able to meet up with its obligations, when the models developed in this study are properly used.
Furthermore, with prompt payment of genuine claims by insurers, Nigerians' patronage will increase because of renewed and improved confidence, thereby impacting positively on the growth of the nations' economy. The multiplicity effect of this solution is very large. For instance, with the development of the

insurance sector, more and more insurance companies will spring up, thereby leading to a reduction in unemployment rate in the country. In addition to this, the general standard of living of an average Nigerian will increased, because not only will he be encouraged to insure himself against unexpected risks or hazards but he will as well be willing to insure other properties, with the assurance that the insurance company will come to his aid, if there is any eventuality. With this, one can expect to maintain a standard of living, no matter what happens since the insurance companies would always absorb the risks.

## SCOPE FOR FURTHER RESEARCH
Changes in interest rates were assumed to be non-stochastic for the purpose of this study. As a future extension of this study, it is suggested that the stochastic behaviour of interest rates should be observed. In addition, a more general term structure model related to different interest-rate-dependent portfolio situations can be considered. The data analysis only tested the model in a short horizon, because of the non-stochastic nature of interest rate that was used, although the fund manager may notice stochastic nature in a longer horizon. It is therefore suggested that further work shed more light into this.

## NOTE
1. Tzeng, Wang and Soo (2000) developed a linear programming model, for immunization strategy against interest rate risk, using Redington's (1959) classical immunization theory.

## REFERENCES

1. Babbel, D. F., C.B. Merril, and W. Planning (1997) – "Default Risk and the Effective Duration of Bonds", *Financial Analysts Journal*, 53:35-44
2. Bierwag, G. O., I. Fooladi, and G. S. Roberts (1993) – "Designing an Immunized portfolio: Is M-squared the key?", *Journal of Banking and Finance*, 17:1147-1170
3. Boyle, D. (1978) – "Immunization under stochastic models of the term structure", *Journal of the Institute of Actuaries*, 108:177-87
4. Briys, E., and F. Varenne (1997) – "On the Risk of Life Insurance Liabilities: Debunking some common Pitfalls", *Journal of Risk and Insurance*, 64:673-694
5. Doffou, A. (2005) – "New Perspective in Asset-Liability Management for Insurers", *Journal of Business and Behavioural Science*, Vol. 12, No 2, Spring 2005
6. Fisher, L., and R. Weil (1971) – "Coping with the Risk of Interest Rate Fluctuations: Returns to Bondholders from Naive and Optimal strategies", *Journal of Business*, 44:408-31
7. Fong, H. C., and O. A. Vasicek (1984) – "A Risk-minimizing strategy for portfolio immunization", *Journal of Finance*, 39:1541-1546
8. Forgler, H. R. (1984) – "Bond Portfolio Immunization, Inflation and the Fisher Equation", Journal of Risk and Finance, 51:244-264
9. Guo, L. (1996) – "Pricing catastrophe Future options with Jump-Diffusion processes", Working paper, The Ohio State University.
10. Ho, T. (1992) – "Key Rate Duration Measures of Interest Rate Risk", *Journal of Fixed Income* (September): 29-44
11. Ingersoll, J. (1983) – "Is Immunization feasible? Evidence from the CRSP Data" in G. Kaufman, G. Bierwag and A. Toevs (eds), Innovations in Bond Portfolio Management, Greenwich, CT: JAI Press, p.163-82
12. Larry Y. Tzeng, Jennifer L. Wang, June H. Soo (2000) – "Surplus Management Under a Stochastic Process", Journal of Risk and Insurance, p. 451 - 462
13. Markowitz, H. M. (1959) – "Portfolio Selection: Efficient Diversification of Investment", Cowles Foundation Monograph 16, Yale University Press, New Haven, Connecticut
14. Mckean, H. P. (1969) – "Stochastic Integrals", Academic press, New York
15. Nawalkha , S., G. Soto and J. Zhang (2003) – "Generalized M-vector models for hedging interest rate risk", *Journal of Banking and Finance*, 27:1581-64
16. Nawalkha, S. and Chambers (1997) – "An Improved Immunization Strategy", The M-Absolute, in C.N., op.cit.
17. Ogunshola, A. O. (1980) – "Insurance and Pension practice in Nigeria: Reflection of a Nigerian Actuary", Ibadan, Nigeria: Board publications
18. Poitras, G. (2005) – "Security Analysis and Investment strategy", Oxford, UK: Blackwell publishing
19. Rebonato, R. (1998) – "Interest Rate Option Models", 2nd edition Wiley L.
20. Redington, F. M. (1952) – "Review of the principle of Life Office Valuation", *Journal of the Institute of Actuaries*: 286-40
21. Reitano, R. (1991) – "Multivariate Immunization theory", Transactions of the Society of Actuaries: XLIII
22. Shiu, E. (1987) – "On the Fisher-Weil Immunization theory", *Insurance: Mathematics and Economics*, 6:259-66
23. Shiu, E. (1990) – "On Redington's theory of Immunization", *Insurance: Mathematics and Economics*, 9:171-5
24. Soto, G. (2001) – "Immunization derived from a Polynomial Duration Vector in the Spanish Bond Market", *Journal of Banking and Finance*, 25:1037-57
25. Tzeng, L. Y., J. L. Wang and J. H. Soo (2000) – "Surplus Management under a Stochastic Process", *Journal of Risk and Insurance*, Vol. 67, No 3, September 2000:451-462
26. Vasicek, O. (1977) – "An Equilibrium Characterization of the Term Structure", *Journal of Financial Economics*, 5:177-88
27. Wilkie, A. D. (1987) – "Stochastic Investment Models: Theory and Applications", *Insurance: Mathematics and Economics*, 6:65-83


## APPENDIX

**TABLE 1: ASSET AND LIABILITIES OF SEVEN NIGERIAN INSURANCE COMPANIES**

| S/N | Insurance Company | ASSETS | LIABILITIES | SURPLUS |
|---|---|---|---|---|
| 1 | IEI Inusrance plc | 12,545,069,000.00 | 1,041,420,000.00 | 11,503,649,000.00 |
| 2 | Crusader Insurance Plc | 13,015,675,000.00 | 4,642,095,000.00 | 8,373,580,000.00 |
| 3 | NEM Insurance Plc | 5,158,799,000.00 | 1,207,027,000.00 | 3,951,772,000.00 |
| 4 | Niger Insurance Plc | 13,641,479,000.00 | 7,257,913,000.00 | 6,383,566,000.00 |
| 5 | Goldlink Insurance Plc | 7,605,529,000.00 | 928,871,000.00 | 6,676,658,000.00 |
| 6 | UNIC Insurance Plc | 6,025,505,000.00 | 1,899,679,000.00 | 4,125,826,000.00 |
| 7 | Equity Assurance plc | 6,218,190,834.00 | 961,788,884.00 | 5,256,401,950.00 |

**TABLE 2 (A): LIABILITY PAYMENT SCHEDULE FOR IEI INSURANCE PLC**

| t | Initial Balance | Payment | Accumulated liability |
|---|---|---|---|
| 0 | - | 260,605,000.00 | 1,042,420,000.00 |
| 1 | 781,815,000.00 | 312,726,000.00 | 938,178,000.00 |
| 2 | 625,452,000.00 | 375,271,200.00 | 750,542,400.00 |
| 3 | 375,271,200.00 | 450,325,440.00 | 450,325,440.00 |

**PAYMENT SCHEDULE FOR CRUSADER INSURANCE PLC**

| t | Initial Balance | Payment | Accumulated liability |
|---|---|---|---|
| 0 | - | 1,160,523,750.00 | 4,642,095,000.00 |
| 1 | 3,481,571,250.00 | 1,392,628,500.00 | 4,177,885,500.00 |
| 2 | 2,785,257,000.00 | 1,671,154,200.00 | 3,342,308,400.00 |
| 3 | 1,671,154,200.00 | 2,005,385,040.00 | 2,005,385,040.00 |

TABLE 2 (C): LIABILITY PAYMENT SCHEDULE FOR NEM INSURANCE PLC

| t | Initial Balance | Payment | Accumulated liability |
|---|---|---|---|
| 0 | - | 301,756,750.00 | 1,207,027,000.00 |
| 1 | 905,270,250.00 | 362,108,100.00 | 1,086,324,300.00 |
| 2 | 724,216,200.00 | 434,529,720.00 | 869,059,440.00 |
| 3 | 434,529,720.00 | 521,435,664.00 | 521,435,664.00 |

TABLE 2 (D): LIABILITY PAYMENT SCHEDULE FOR NIGER INSURANCE PLC

| t | Initial Balance | Payment | Accumulated liability |
|---|---|---|---|
| 0 | - | 1,814,478,250.00 | 7,257,913,000.00 |
| 1 | 5,443,434,750.00 | 2,177,373,900.00 | 6,532,121,700.00 |
| 2 | 4,354,747,800.00 | 2,612,848,680.00 | 5,225,697,360.00 |
| 3 | 2,612,848,680.00 | 3,135,418,416.00 | 3,135,418,416.00 |

TABLE 2 (E): LIABILITY PAYMENT SCHEDULE FOR GOLDLINK INSURANCE PLC

| t | Initial Balance | Payment | Accumulated liability |
|---|---|---|---|
| 0 | - | 232,217,750.00 | 928,871,000.00 |
| 1 | 696,653,250.00 | 278,661,300.00 | 835,983,900.00 |
| 2 | 557,322,600.00 | 334,393,560.00 | 668,787,120.00 |
| 3 | 334,393,560.00 | 401,272,272.00 | 401,272,272.00 |

TABLE 2 (F): LIABILITY PAYMENT SCHEDULE FOR UNIC INSURANCE PLC

| t | Initial Balance | Payment | Accumulated liability |
|---|---|---|---|
| 0 | - | 474,919,750.00 | 1,899,679,000.00 |
| 1 | 1,424,759,250.00 | 569,903,700.00 | 1,709,711,100.00 |
| 2 | 1,139,807,400.00 | 683,884,440.00 | 1,367,768,880.00 |
| 3 | 683,884,440.00 | 820,661,328.00 | 820,661,328.00 |

TABLE 2 (G): LIABILITY PAYMENT SCHEDULE FOR EQUITY ASSURANCE PLC

| t | Initial Balance | Payment | Accumulated liability |
|---|---|---|---|
| 0 | - | 240,447,221.00 | 961,788,884.00 |
| 1 | 721,341,663.00 | 288,536,665.20 | 865,609,995.60 |
| 2 | 577,073,330.40 | 346,243,998.24 | 692,487,996.48 |
| 3 | 346,243,998.24 | 415,492,797.89 | 415,492,797.89 |

TABLE 3 (A): EFFECTS OF INTEREST RATE SHIFT ON THE SURPLUS OF IEI INSURANCE PLC

| t | Initial Balance | Payment | Accumulated liability | At | Lt | Surplus |
|---|---|---|---|---|---|---|
| | | interest rate = 0.20 | | | | |
| 0 | - | 260,605,000.00 | 1,042,420,000.00 | - | 260,605,000.00 | 11,243,044,000.00 |
| 1 | 781,815,000.00 | 312,726,000.00 | 938,178,000.00 | 5,746,604,714.00 | 312,726,000.00 | 16,676,922,714.00 |
| 2 | 625,452,000.00 | 375,271,200.00 | 750,542,400.00 | 1,124,913,676.00 | 375,271,200.00 | 17,426,565,190.00 |
| 3 | 375,271,200.00 | 450,325,440.00 | 450,325,440.00 | - | 450,325,440.00 | 16,976,239,750.00 |
| | | interest rate = 0.22 | | | | |
| 0 | - | 260,605,000.00 | 1,042,420,000.00 | - | 260,605,000.00 | 11,243,044,000.00 |
| 1 | 781,815,000.00 | 317,938,100.00 | 953,814,300.00 | 5,746,604,714.00 | 317,938,100.00 | 16,671,710,614.00 |
| 2 | 635,876,200.00 | 387,884,482.00 | 775,768,964.00 | 1,124,913,676.00 | 387,884,482.00 | 17,408,739,808.00 |
| 3 | 387,884,482.00 | 473,219,068.04 | 473,219,068.04 | - | 473,219,068.04 | 16,935,520,739.96 |
| | | interest rate = 0.25 | | | | |
| 0 | - | 260,605,000.00 | 1,042,420,000.00 | - | 260,605,000.00 | 11,243,044,000.00 |
| 1 | 781,815,000.00 | 325,756,250.00 | 977,268,750.00 | 5,746,604,714.00 | 325,756,250.00 | 16,663,892,464.00 |
| 2 | 651,512,500.00 | 407,195,312.50 | 814,390,625.00 | 1,124,913,676.00 | 407,195,312.50 | 17,381,610,827.50 |
| 3 | 407,195,312.50 | 508,994,140.63 | 508,994,140.63 | - | 508,994,140.63 | 16,872,616,686.88 |
| | | interest rate = 0.17 | | | | |
| 0 | - | 260,605,000.00 | 1,042,420,000.00 | - | 260,605,000.00 | 11,243,044,000.00 |
| 1 | 781,815,000.00 | 304,907,850.00 | 914,723,550.00 | 5,746,604,714.00 | 304,907,850.00 | 16,684,740,864.00 |
| 2 | 609,815,700.00 | 356,742,184.50 | 713,484,369.00 | 1,124,913,676.00 | 356,742,184.50 | 17,452,912,355.50 |
| 3 | 356,742,184.50 | 417,388,355.87 | 417,388,355.87 | - | 417,388,355.87 | 17,035,523,999.64 |
| | | interest rate = 0.15 | | | | |
| | | | | | | |
| 0 | - | 260,605,000.00 | 1,042,420,000.00 | - | 260,605,000.00 | 11,243,044,000.00 |
| 1 | 781,815,000.00 | 299,695,750.00 | 899,087,250.00 | 5,746,604,714.00 | 299,695,750.00 | 16,689,952,964.00 |
| 2 | 599,391,500.00 | 344,650,112.50 | 689,300,225.00 | 1,124,913,676.00 | 344,650,112.50 | 17,470,216,527.50 |
| 3 | 344,650,112.50 | 396,347,629.38 | 396,347,629.38 | - | 396,347,629.38 | 17,073,868,898.13 |

# MICRO, SMALL AND MEDIUM ENTERPRISES IN WEST BENGAL: AN EVALUATION

*SOUMYA GANGULY*
*FACULTY*
*BARRACKPORE RASTRAGURU SURENDRANATH COLLEGE*
*BARRACKPORE*

**ABSTRACT**

*This article deals with the importance of the Micro, Small and Medium Enterprises (MSMEs) in West Bengal which have an important role to play in the Indian economy also due to its greater resource, capacity for employment generation, technological innovation, promoting inter sectoral linkages, raising exports and developing entrepreneurial skills. In addition, there are many economic and sociological factors that make a strong case for advocating a big push to this sector in the present phase of economic growth in West Bengal. Keeping in view the importance of this sector, Government of West Bengal with the help of Government of India introduce certain schemes to develop this sector but still now there are so many problems faced by this type of enterprises like lack of capital adequacy, lack of access to global market, high cost of credit, problems of storage, designing, packaging and product display, inadequate infrastructure facilities etc. To eradicate these core problems faced by the enterprises, the policy makers and the entrepreneurs itself must join their hands and also they can provide us well developed and polished economy.*

## KEYWORDS
Economic development, India, Industrial sector, MSME (micro, small and medium enterprises), West Bengal.

## 1. INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) constitute an important sector of the Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurship base. 'Micro', 'Small' and 'Medium' enterprises have been comprehensively defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The Act provides the first-ever legal framework for recognition of the concept of "enterprise". Under the Act, enterprises have been categorized broadly into those engaged in manufacturing and providing/rendering services. Both the categories have been further classified into micro, small and medium enterprises based on their investment in plant or in equipment (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services).

**TABLE 1: CRITERIA FOR DEFINING ENTERPRISES**

| Type of Enterprises | Micro | Small | Medium |
|---|---|---|---|
| Manufacturing Enterprises: Investment in Plant and Machinery | Upto Rs. 25 lakhs | Rs. 25 lakhs to Rs. 5 crores | Rs. 5 crores to Rs. 10 crores |
| Service Enterprises: Investment in Equipment | Upto Rs. 10 lakhs | Rs. 10 lakhs to Rs. 2 crores | Rs. 2 crores to Rs. 5 crores |

In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. MSMEs in India account for more than 80% of the total number of industrial enterprises and produce over 8000 value-added products. It is estimated that in terms of value, the sector accounts for 45% of the manufacturing output and 40% of the total export of the country and employs over 6 crores people.

The Directorate of Micro & Small Scale Enterprises under the Department of Micro & Small Scale Enterprises & Textiles, Govt. of West Bengal, has been playing a vital role in growth of micro and small enterprises and generation of employment. As per the annual report 2012-13 of Govt. of India, Department of MSMEs West Bengal generated 3.60 lakhs employment from 0.43 lakhs Registered units, whereas there are approximately 34.21 lakhs unregistered units are there and from this unregistered units number of employment generated was. 82.18 lakhs. State Government of West Bengal is taking every initiative to rejuvenate, giving topmost priority and thrust for facilitating and coordinating the growth and development of this sector. In the process active support is ensured to the entrepreneurs and all the stake holders for more employment generation and welfare of the artisans through the various development programmes and schemes.

West Bengal is located at the Eastern region of India and is bounded on the north by the Himalayan range and on the south by Bay of Bengal. To the north-west, west and south-west lie Nepal and States of Bihar and Orissa. West-Bengal offers definite advantage in marketing of industrial & consumer items as the traditional domestic markets in Eastern India, the north east and the land locked countries of Nepal, Bhutan and Sikkim are easily accessible from the State. The State stands as a gate-way to the much coveted market in south-east Asia and Far-east. There is an integrated international airport at Kolkata (NSCBI), a domestic airport at Bagdogra and two river ports at Kolkata and Haldia. A third port at Kulpi in South 24-Parganas is in active consideration of the authority. West Bengal is divided into 19 districts and each district is governed by a district collector or a district magistrate, appointed by the Indian Administrative Service or the West Bengal Civil Services.

West Bengal has the advantage of natural and mineral resources itself and nearby states. It has also skilled workforces and educated human resources. Further, rural sector of West Bengal is very much known for its traditional heritage in crafts. A wide range of handicrafts are produced in the State where the artisans and articrafts have got recognition all over the country since days immemorial.

Traditionally metal and engineering industries have a strong base in the State. The first defense production centre known as Cossipore Gun and Shell factory was set up in Kolkata in early nineteenth century. The State has skilled and educated man power which is still considered as one of the best human resources centre in the world. All the resources available in the State have helped the growth of other industries like Mining, Jute, Tea, Silk, Gems and Jewellery etc. and recently the IT industries. Service sector has provided opportunities of employment with rejuvenation of IT and service sector growth.

West Bengal is rich in handicrafts. Handicrafts are traditionally the heritage items of the state. There are as many as 5, 50,000 craftsmen engaged for producing wide range of handicrafts item while staying in their home. Every district features in this respect. The State Govt. has been implementing different schemes for development of handicraft industries in the state.

In the field of export promotion the State has set up a West Bengal State Exports Promotion Board, an agency under the control of Department of Cottage & Small Scale Industries, Govt. of West Bengal. The said Board is taking steps to develop a good data base system which will help entrepreneurs to collect export intelligence. Govt. of West Bengal take an initiative to organized District Level Fair 2012-13 for marketing of product produced by MSMEs.

## 2. REVIEW OF LITERATURE

For the purpose of the research work different books, journals, research papers and articles related with this topic are studied by the researcher.

**Rajib Lahiri** (2012) studied different Problems and Prospects of Micro, Small and Medium Enterprises (MSMEs) in India and his expression about the MSMEs in India was it face a tough situation due to extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure, anti dumping policy, challenges on product standardization, total quality management etc. Though Globalization has increased competitiveness in Indian MSMEs to certain extent, still Indian MSMEs are not adequately prepared to compete with the global players. There has been a definite change in attitude of the Govt. from protection to promotion of the MSMEs. The Govt. has taken several policy initiatives but needs to ensure proper co-ordination and implementation of such schemes.

**Keshab Das and Jaya Prakash Pradhan** (March 2009) expressed their views about the Indian SMEs that have been under undue duress due to a variety of imperfections in the policy attention towards them; the particularly unfortunate ones have been those discriminated against, 14 hopefully, more by default than by design, due to a certain non-metro location as well as for having been engaged in producing goods not suitable for the global market. Whereas financially well protected Indian SMEs are likely to be more competitive and efficient, a greater recognition of the potential of domestic market and provision of business-facilitating infrastructure holds the key for success of SMEs across board.

**Bhavani T.A. (2010)** highlights the issue of quality employment generation by the SSIs and negates the short term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term but very low in quality. Technological upgradation would enable the small firms to create quality employment improving remuneration, duration and skill. This structural shift may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run.

It was observed in the research paper of **Sarbajit Paul** (January, 2013), it is very much important that linkages are encouraged and strengthened between MSMEs, R&D institutions, as well as Universities and the Government Institutions supporting the development of MSMEs sector. MSMEs can also benefit from the wealth of technological and commercial information available in patent and trademark databases to learn about recent technological breakthroughs, identify future partners, and find out about the innovative activities of competitors.

## 3. OBJECTIVES OF THE STUDY

In light of the importance of this MSME sector at the present scenario, this study is carried out to identify the present positions, growth, future prospects and challenges faced by MSMEs in West Bengal.

## 4. RESEARCH METHODOLOGY

Secondary data were collected from different source like Final Report of 4th All India Census of MSMEs, published annual report of MSMEs, journals, magazines, internet database, research papers, related books and thesis etc.

## 5. IMPORTANT FUNCTIONS PERFORMED BY MSME-DI, KOLKATA

Micro, Small and Medium Enterprises - Development Institute (MSME-DI), Kolkata, formerly - Small Industries Service Institute (SISI), Kolkata is a field Institute of Office of Development Commissioner MSME, under Ministry of MSME, Government of India. MSME - Development Institute, Kolkata provides assistance for the promotion and Development of Micro, Small and Medium Scale Industries in the state of West Bengal and Union Territory of Andaman & Nicobar Islands. At present, there are three Branch Institutes at Siliguri, Suri & Durgapur covering 19 districts in West Bengal and one Branch Institute at Port Blair covering two districts in Andaman & Nicobar Islands. The important functions played by MSME-DI, Kolkata are as follows:

1. Under Human Resource Development, a total of 6,540 candidates were rendered training through various programmes, such as EDP, ESDP, MDP, BSDP, SDP, CAD & CAM, Computer training etc. organised by the Institute. This apart, 12,988 candidates were motivated through IMCs conducted at various places covering urban and rural areas of the State as well as A & N Islands. Further, 22 candidates were imparted training on the process of manufacture of Bio-Fertilizer under the programme of ESDP (Bio-Technology).
2. As regards rendering consultancy services in the areas of project selection & preparation, quality control & upgradation, cost minimization, marketing, etc. to prospective and existing entrepreneurs are concerned, a total of 6204 visitors were attended by the Institute during the year.
3. Under **ISO** reimbursement scheme, as many as 134 cases were processed & approved and an amount of Rs. 44, 99,854/- was disbursed.
4. Under marketing assistance, 575 cases were processed for NSIC registration and 1 National Level Vendor Development Programme (NLVDP) and 7 State Level Vendor Development Programme (SLVDP) were organized in association with State-based Large Houses/PSUs/MSME Associations/Chamber of Commerce, etc.
5. Under **National Manufacturing Competitiveness Programme (NMCP)** covering all the components, the Institute assisted all the stakeholders concerned to organize Trade Fairs (MATU), Awareness Programme on Bar-coding & IPRs, etc.
6. Under **MSE-Cluster Development Programme**, the work with regard to construction of CFC for Rerolling Mills Cluster at Howrah has commenced with the grants of both Central & State Govt.

## 6. REGISTERED MSME IN WEST BENGAL

The following is the table of registered Micro, Small and Medium Enterprises of West Bengal as per the relevant districts:

**TABLE 2: NUMBER OF REGISTERED MSMEs IN WEST BENGAL**

| Sl. No. | District | Registered Units (upto 31.03.2012) # | Registered Units (1.4.2011 - 31.03.2012) @ |
|---|---|---|---|
| 1 | Bankura | 1687 | 419 |
| 2 | Birbhum | 2021 | 310 |
| 3 | Burdwan | 3910 | 57 |
| 4 | Cooch Behar | 1269 | 370 |
| 5 | Daksin Dinajpur | 703 | 63 |
| 6 | Darjeeling | 1502 | 77 |
| 7 | Hoogly | 3287 | 514 |
| 8 | Howrah | 9489 | 1429 |
| 9 | Jalpaiguri | 3273 | 1126 |
| 10 | Kolkata | 12601 | 1527 |
| 11 | Malda | 2226 | 169 |
| 12 | Murshidabad | 2926 | 147 |
| 13 | Nadia | 1866 | 714 |
| 14 | Paschim Medinipur | 2666 | 1078 |
| 15 | Purba Medinipur | 3073 | 7 |
| 16 | Purulia | 1221 | 352 |
| 17 | North 24 Parganas | 9060 | 1755 |
| 18 | South 24 Parganas | 5068 | 1050 |
| 19 | Uttar Dinajpur | 1005 | 130 |

Source: # MSME Development Institute Kolkata; @ Directorate of MSME, Government of West Bengal

From the above table it is clear that, Kolkata district is in first position of total Registered MSMEs in West Bengal and after that Howrah district is in second position and North 24 Parganas district is in third position. But as per data received from the Directorate of MSMEs, Govt. of West Bengal, from 01.04.2011 to 31.03.2012 (i.e. in the Financial Year 2011-12) North 24 Parganas district is in the first position in terms of new registered units.

## 7. DEVELOPMENT PROGRAMME OF MSME DEPT. GOVERNMENT OF WEST BENGAL

The Directorate of Micro & Small Scale Enterprises tries to develop the enterprises by harnessing the existing resources and new fast growing infrastructure facilities in the state. EDP training programmes are in vogue for existing and new prospective entrepreneurs for development of their managerial as well as

technical skill. Awareness / motivational programmes are convened in the polytechnics and engineering colleges to overcome the shyness in entrepreneurship due to the job seeking attitude of educated youths.
Various activities & schemes implemented are: Entrepreneurs Memorandum- (previously SSI registration), Prime Minister's Employment Generation Programme - (Previous programme of PMRY, Margin Money Scheme integrated), Bengal State and Industries Policies (BSAI), Ancillarisation, Incentive Scheme etc.
Other activities covered: Entrepreneurship Development Programme (EDP), SSI/MSME Census, Quality Marking Scheme, Cluster Development, and Technology Development Programme /ISO scheme, Organisation of Fairs & Exhibitions for promotion of SSI and Handicraft, Pollution Control Matters, Export Promotion etc.
Handicrafts of West Bengal with a glorious tradition over the centuries and having rich heritage are the creations of master craftsmen working in villages, towns and semi urban areas. It has wide varieties ranging from household utility items, to gift items and interior decoration. Few schemes available for Handicrafts are:

- Promotional training programme on different crafts.
- Design development workshops.
- District & State Level Handicrafts competition.
- Cash prizes for Artisans.
- Sponsoring Artisans for National for expos, fairs & competitions.
- Helping the artisans to sell their products.
- Organising State Handicrafts Expo at Kolkata Maidan and at Siliguri.
- Providing TA/DA to the poor handicraft artisans.
- Setting up of common facility Centres.
- Development Handicrafts Clusters and Heritage Crafts.
- Participation at International Fairs for Export Promotion.

## 8. ASSISTANCE TO ENTREPRENEURS BY THE DIRECTORATE OF MSME

Directorate of MSME provides the following assistance to the entrepreneurs:

- Technical support for preparation of Project Report.
- Information on sources of machinery and equipments.
- Priority in Power supply / Telephone connection.
- Assistance of getting Land / shed in Industrial Estates.
- Promotion of New Industrial Estates / Growth centers.
- Approval of Project Reports of Noble / Special types.
- Promotion of Electronic Industries.
- Training through Entrepreneurship Development Programmed.
- Financial Assistance through Bank / WBFC.
- Financial Assistance under Self Employment Schemes.
- Assistance under Equipment Leasing Scheme and Hire Purchase of Machinery Scheme of the NSIC Ltd.
- Marketing linkage with Central Govt. / State Govt. organisations / Undertakings.
- Marketing Assistance through WBSIDC / NSIC Ltd./ CEO.
- Ancillary Industry tie-up with Govt. undertakings.
- Marketing Information.
- Marketing Assistance through Participation in Exhibitions, Trade Fairs / Buyers-Sellers Meet etc.
- Marketing Assistance of Handicrafts artisans through participation in Handicrafts Expo / Exhibition both inside and outside the State.
- Linkage with organisation like WBHDC / WB State Handicrafts Coop. Society Ltd. / Development Commissioner (Handicrafts).
- Attending problems related to SSI Registration / Bank Loan / Marketing of Products etc.
- Linkage with Research Institute like CMERI / CGCRI / NML / CFTRI / JTRL/ IJIRA etc. for Technology Upgradation and Innovation.
- Financial Assistance for Modernisation through WBFC / SIDBI / Scheduled Bank.
- Skill Development Training with the help of organisation like RTC etc.
- Management qualities improvement through Training, Workshop, Seminars.
- Export Assistance.
- In plant study of SSI units.
- Standardisation of products, implementation of ISO-9000 quality system and certification.
- Sick unit Revitalisation.
- National Level Awards for innovative products / outstanding growth / exports etc.
- Promotion of products towards exploitation of Non-conventional Energy Sources.
- Assistance under Coir Development Schemes.
- Registration of Industrial Cooperative and extending Financial assistance to them.
- Pollution Control measures and Assistance for obtaining pollution clearances.
- Assistance under Schemes promoted by W.B. Minority Dev. Finance Corporation / KVI Board / other Govt. Dept.
- Design and Production Development for Handicrafts.
- Awards to Handicrafts artisans.
- Development of Lac Industries.
- Awards to SSI units for Export.
- Implementation of Households Electrical appliance (Quality Control) Order 1981.
- Assistance under West Bengal Incentive Scheme, 2007.
- Information / Assistance towards setting up of Downstream Petrochemical Units under SSI Sector.
- Old age Pension to Handicrafts Artisans.
- MMTRTC Training.
- Micro & Small Enterprises Cluster Development Programme
- Setting up of Urban Haat for providing marketing assistance to Handicraft artisans.
- Handicrafts Museum at EZCC, Salt Lake.
- Participation in Foreign Trade Fairs.
- Conducting Market studies for handicrafts in foreign countries.

## 9. THE WEST BENGAL INCENTIVE SCHEME 2007

Government of West Bengal has announced a new Incentive Scheme for the promotion of micro and small scale enterprises in State. The Scheme may be called The West Bengal Incentive Scheme 2007 for micro and small scale enterprises (in short WBIS 2007 for MSEs).
Unless specifically mentioned against the respective items of incentives sanctioned under the WBIS 2007 for MSEs, it comes into effect on and from the 1st Day of April, 2007 in the whole of West Bengal and shall remain in force for a period of five years ending on 31st March 2012.

For the purpose of determination of types and quantum of incentive available under this scheme for the approved projects, according to their locations, the State shall be classified into the following groups:-

Group -A Area: Kolkata Municipal corporation (KMDA Area)

Group -B Area: North 24 Parganas (excluding the area under the jurisdiction of Kolkata Municipal Corporation and the Sundarban area), South 24 Parganas (excluding the area under the jurisdiction of Kolkata Municipal Corporation and the Sundarban area), Howrah, Hooghly, Burdwan, Nadia and Purba Medinipur districts.

Group -C Area: Murshidabad, Birbhum, Malda, Jalpaiguri and Darjeeling districts.

Group -D Area : Purulia, Bankura, Paschim Medinipur, Uttar Dinajpur, Dakshin Dinajpur, Cooch Behar and Sundarban Areas of South and North 24 Parganas districts.

No incentive will be granted to any unit/ enterprise set up in the area under Group A except to the extent provided in this Scheme.

1. An eligible micro unit/enterprise in the manufacturing sector, located in Group-B area and set up on or after 1st April 2007 will be entitled to State Capital Investment subsidy @ 25% of the Fixed Capital Investment.
2. An eligible micro unit/enterprise in the manufacturing sector, located in Group-C area and set up on or after 1st April 2007 will be entitled to State Capital Investment subsidy @ 30% of the Fixed Capital Investment.
3. An eligible micro unit/enterprise in the manufacturing sector, located in Group-D area and set up on or after 1st April 2007 will be entitled to State Capital Investment subsidy @ 35% of the Fixed Capital Investment.
4. An eligible small scale unit/enterprise in the manufacturing sector located in Group-B area and set up on or after 1st April 2007 will be entitled to State Capital Investment subsidy @ 15% of the Fixed Capital Investment.
5. An eligible small scale unit/enterprise in the manufacturing sector, located in Group-C area and set up on or after 1st April 2007 will be entitled to State Capital Investment subsidy @ 17% of the Fixed Capital Investment.
6. An eligible small scale unit/enterprise in the manufacturing sector, located in Group-D area and set up on or after 1st April 2007 will be entitled to State Capital Investment subsidy @ 20% of the Fixed Capital Investment.

## 10. PROSPECTS OF MSMEs IN WEST BENGAL

MSMEs have been recognised as engines of economic growth worldwide. In West Bengal, MSMEs manufacture products ranging from handloom sarees, carpets, mosquito nets, soaps, pickles, papads, steel furniture, wooden furniture, jute bags, jute yarns, small toys, teddy bears etc. Not only do MSMEs generate the highest employment per capita investment, they also go a long way in checking rural urban migration by providing villagers and people living in isolated areas with a sustainable source of employment. The main arguments in favour of MSMEs are the following:

1. **High Employment Potential:** As development in a country as well as of a state takes place, the share of agriculture in providing employment and in GDP decreases. Micro, Small and Medium scale provide maximum employment next only to the agricultural sector. MSMEs offer promising opportunities to educated unemployed in the urban areas to become self-employed gainfully. Apart from contributing to national income, MSMEs are instruments of inclusive growth, touching the lives of the most vulnerable, the most marginalized, viz. woman, Muslims, Schedule Casts and Schedule Tribes. For many families, it is the only source of livelihood and for others it supplements family income. In a report on 24th July, 2012 apex industry body Assocham said that "West Bengal has emerged as a front-runner state to facilitate growth in the SMEs sector". According to this apex body, "Utilizing the margin subsidy money worth Rs 52.49 crores, the state of West Bengal assisted about 5,290 SME units across the state."

Different segments of the MSMEs sector are dominated by different groups. Women are mostly found in the sector of food processing enterprises, manufacturing enterprises and weaving. Women and small children roll *bidis*, make *agarbattis*, do *zari* and sequin work for meager wages. Muslims in large number are found in the weaving sector and in powerlooms. Many women or housewives involved in Handicrafts sector also. So MSMEs provide a large number of employment opportunities to different group of persons according to their society and needs.

2. **Relatively Low Capital Investment:** It is well known to all that India is a capital scarce country. In our state, also per capital income is very low and for scarcity of capital many of them are not interested to take an initiative to make huge investments. But MSMEs sector provide the chance to the entrepreneur to start their business with relatively low capital investment.
3. **Regional Balanced Development:** Balanced development of all the regions of the country is an accepted objective of India's Five Years Plans. Many districts in West Bengal particularly tribal and hilly areas have remained industrially underdeveloped pr undeveloped as compared to other areas of this state due to some factors. It may not be feasible to set up modern large scale industries to these areas and for that reason these areas can be developed through different forms of MSMEs so that a balanced situation can be observed through out of the state.
4. **Export Potential:** MSMEs dominate in exports of sports goods, readymade garments, woollen garments, plastic products, processed foods and lather products. It is interesting to note that handicrafts have emerged as a leading revenue-earning item in India's export. There is tremendous potential to expand the quantum of exports from traditional MSMEs because they are handcrafted and hence eco-friendly and exclusive. Further, while MSMEs are unable to take advantage of economies of scale, they are ideal for meeting small order quantities, a bonus to in industries like ready-made garments, home furnishing etc. In the field of export promotion the State has set up West Bengal State Exports Promotion Board, an agency under the control of Department of Cottage & Small Scale Industries, Govt. of West Bengal. To boost marketing of the produces in the sector, steps were also being taken to showcase these items in different airports and malls in the country and abroad.

During 2011-12 (UPTO 15th February, 2012) under Prime Minister's Employment Generation Programme (PMEGP) following is the state wise details of units assisted, margin money utilised and estimated employment generation:

TABLE 3: STATE WISE DETAILS OF UNITS ASSISTED, MARGIN MONEY UTILISED AND ESTIMATED EMPLOYMENT GENERATION

| Sl. No. | State/UT | Number of units assisted | Margin Money subsidy utilized (Rs. In lakhs) | Estimated Employment Opportunities (No. of persons) |
|---|---|---|---|---|
| 1. | Chandigarh | 13 | 10.42 | 41 |
| 2 | Delhi | 105 | 147.00 | 1190 |
| 3 | Haryana | 666 | 1258.72 | 6786 |
| 4 | Himachal Pradesh | 514 | 757.99 | 2617 |
| 5 | J & K | 1109 | 1478.71 | 9890 |
| 6 | Punjab | 640 | 1360.59 | 5938 |
| 7 | Rajasthan | 1497 | 2588.80 | 14590 |
| 8 | A & N Islands | 131 | 66.80 | 357 |
| 9 | Bihar | 2442 | 5061.71 | 15423 |
| 10 | Jharkhand | 942 | 1511.91 | 6448 |
| 11 | Odisha | 2101 | 3901.91 | 21010 |
| 12 | West Bengal | 5290 | 5249.36 | 43562 |
| 13 | Andhra Pradesh. | 1459 | 4895.52 | 33115 |
| 14 | Karnataka | 1347 | 2722.40 | 15442 |
| 15 | Kerala | 1243 | 2247.94 | 12430 |
| 16 | Lakshadweep | 0 | 0 | 0 |
| 17 | Puducherry | 43 | 44.60 | 234 |
| 18 | Tamil Nadu | 1827 | 4466.73 | 27138 |
| 19 | Goa | 72 | 149.32 | 1245 |
| 20 | Gujarat | 1494 | 5215.84 | 8058 |
| 21 | Maharashtra | 1533 | 2300.72 | 9276 |
| 22 | Chattisgarh | 1199 | 2583.12 | 6163 |
| 23 | Madhya Pradesh | 1707 | 4173.34 | 14032 |
| 24 | Uttarakhand | 692 | 850.50 | 3738 |
| 25 | Uttar Pradesh | 3205 | 10758.81 | 30880 |
| 26 | Arunachal Pradesh | 370 | 441.63 | 3500 |
| 27 | Assam | 2234 | 2349.17 | 17944 |
| 28 | Manipur | 275 | 481.28 | 1766 |
| 29 | Meghalaya | 460 | 828.93 | 1820 |
| 30 | Mizoram | 189 | 349.01 | 1890 |
| 31 | Nagaland | 390 | 823.92 | 4215 |
| 32 | Tripura | 397 | 769.97 | 4548 |
| 33 | Sikkim | 21 | 32.97 | 73 |
| Total | | 35607 | 69879.64 | 325359 |

Source: Annual Report 2011-12, Ministry of Micro, Small and Medium Enterprises, Government of India

From the table 3 it is clear that, West Bengal has the maximum (13.39%) employment opportunities generated under Prime Minister's Employment Generation Programme (PMEGP) and that can be very bright area for development purpose.

## 11. KEY CHALLENGES FACED BY MSMEs IN WEST BENGAL

Besides there are so many opportunities of MSMEs in West Bengal, MSMEs faced some problems also to operate their business and these problems are highlighted below:

- Lack of availability of adequate and timely credit
- High cost of credit
- Collateral requirements
- Limited access to equity capital
- Procurement of raw material at a competitive cost
- Problems of storage, designing, packaging and product display
- Lack of access to global markets
- Inadequate infrastructure facilities, including power, water, roads, etc
- Low technology levels and lack of access to modern technology in some cases
- Lack of skilled manpower for manufacturing, services, marketing, etc
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws.
- Lack of awareness programs about different schemes available for entrepreneurs.

## 12. CONCLUSION

In West Bengal, MSMEs has achieved steady growth over the last couple of years. Some of the industries under MSMEs are making rapid progress like manufacturing, food processing, textile and garments, small engineering business, and service sectors. Under the rapidly changing economic scenario the MSMEs have both the opportunities and challenges. There are several factors such as requirement of small amount of capital, flexible decisions making process, small area of land etc. influenced MSMEs sector to develop and compete with other large industries. The support given by the national and the state governments through different schemes and support to the MSMEs sector is not adequate enough to solve their problems as these facilities are not attainable by the entrepreneurs. However for improvement of this sector and to utilise its full potential, it is essential that the entrepreneurs along with the support of government take necessary steps for further development. It is quite obvious that, encouraging this sector is very much essential for the economic development of the nation.

The MSMEs (basically micro and small enterprises) in West Bengal face very tough situation due to utmost competition in national and international level from large industries due to lack of infrastructure, lower volume of capital, lack of product standardization, lack of access to modern technology etc. Another one most important problem of MSMEs in West Bengal is the number of unregistered MSMEs in West Bengal is much higher than the registered units. Though the effect of Globalization has increased competitiveness in Indian as well as West Bengals MSMEs to certain extent, still these MSMEs are not properly ready to compete in the foreign market. The Govt. has taken up several policy initiatives for improvement of the MSMEs but it needs proper co-ordination among the different levels and implementation of such schemes in specific proper way so that the benefits of the schemes can be availed by each group of persons who are engaged with the MSMEs. The entrepreneurs are not aware of the facilities or schemes which are provided by the Govt. to improve their positions. If MSMEs continue to play its crucial role in our economy, it will surely eradicate the twin problems of unemployment and poverty from our economy.

## 13. LIMITATION OF THE STUDY
The study has got some limitations which are summarized as follows:-
- The research work does not consider detailed analysis. It would have been better if all the districts were covered individually for this study.
- It is a self financed research work and in some places the area of research work has been restricted due to lack of financial assistance.
- The time of study is very limited.

## 14. SCOPE FOR FURTHER STUDY
There are huge scopes of further study in this topic. The entire district could have been covered and the primary data collection would have been satisfactory through the use of structured questionnaires for detail analysis. Other areas of MSMEs may also be covered like the financing of MSMEs in West Bengal, sickness of MSMEs in West Bengal, role of Banks for development of MSMEs, study on Cluster Development Programme etc.

## REFERENCES
1. Annual report of Ministry of Micro, Small and Medium Enterprise-[MSME] of India, (2010-11), Development Commissioner (MSME), Government of India. http://msme.gov.in/MSME Annual-Report-2010-11-English.pdf.
2. Annual report of Ministry of Micro, Small and Medium Enterprise-[MSME] of India, (2011-12), Development Commissioner (MSME), Government of India. http://msme.gov.in/MSME-Annual-Report-2011-12-English.pdf.
3. Annual report of Ministry of Micro, Small and Medium Enterprise-[MSME] of India, (2012-13), Development Commissioner (MSME), Government of India http://www.dcmsme.gov.in/ANNUAL REPORT- MSME-2012-13P.pdf.
4. Bhavani, T.A., "Dynamic Business Environments: What These Mean for Indian Small Enterprises" in "Micro and Small Enterprises in India: Era of Reforms: Keshab Das (Ed)" 2011, pp. 27-45.
5. Dasgupta, M. (August 2011), Assistance to Small Engineering Enterprises of Howrah, a district of West Bengal - A Case Study, Journal of Business and Economic Issues Vol. 3 No. 1.
6. Final Report of 4th All India Census of MSMEs.
7. Ghatak, S. (2009), Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal, http://www.legalpundits.com/Content_folder /SMEArti150610.pdf.
8. Lahiri, R. (September 2012), Financing Micro, Small And Medium Enterprises (MSMES) In India During Post Liberalization Period: A Study On Traditional And Unconventional Approaches Of Financing, Indian Streams Research Journal, Vol.2, Issue 8.
9. Nayyar, D. (1998), Economic Development and Political Democracy: Interaction of Economics and Politics in Independent India, Economic and Political Weekly, Vol. 33, No. 49.
10. Paul, S. (2013), Intellectual Property Right for Micro, Small and Medium Enterprises: A Study of Small Industry in the District of Howrah, West Bengal, Indian Streams Research Journal, Vol II Issue XII.
11. Pooja. (2009), Micro, Small and Medium Enterprises (MSMEs) in the Indian Economy, New Delhi, New Century Publications.
12. Saluja, D. (June, 2012), Role of MSME's in Economic Development of India, Journal of Economics, Commerce and Research, Vol.2, Issue 1.
13. Subramanyam, P, and Reddy, B, R. (2012), Micro, Small and Medium Enterprises in India – An Overview, VSRD International Journal of Business and Management Research, Vol. 2, No. 11.
14. Upadhyay, P, & Dan, P, K. (2009), ERP in Indian SME's: A Post Implementation Study of the Underlying Critical Success Factors, International Journal of Management Innovation System, Vol. 1, No. 2.
15. Venkatesh, S, and Muthiah, K. (2012), SMEs in India: Importance and Contribution, Asian Journal of Management Research, Volume 2, Issue 2.
16. Vijayarani, K, R. (2011), Small-scale Industries in India Problems and Policy Initiatives, New Delhi, New Century Publications.

**WEBSITES**

17. http://www.mssewb.org/htm/home.html (last accessed on March 26, 2013)
18. http://www.msmetoolroomkolkata.com/ (last accessed on April 20, 2013)
19. http://msme.gov.in/ (last accessed on April 20, 2013)
20. http://www.msme-tc-nr.gov.in/ (last accessed on April 20, 2013)
21. http://www.msmedikolkata.gov.in/ (last accessed on May 12, 2013)
22. http://www.nimsme.org/ (last accessed on May 12, 2013)
23. http://dcmsme.gov.in/ (last accessed on May 22, 2013)

# ETHICS IN MARKETING IN REAL ESTATE INDUSTRY IN PUNE FOR CUSTOMER SATISFACTION

*MEERA SINGH*
*LECTURER*
*G. H. RAISONI INSTITUTE OF ENGINEERING & TECHNOLOGY*
*PUNE*

## ABSTRACT

*Marketing is one of the most important functions of an organization. The customers form their opinion about the products and the company based on the marketing efforts. An organization's good, average reputation affects all stake holders for example, employees, customers, dealers, traders, suppliers and the government. Hence marketing play a crucial role. My article focuses that how marketing is easy if the product and brand image has high popularity due to ethical practices like quality, price. The problem arises due to lack in some of these attributes or unethical practices. The ethics in marketing means the advertisements, hoardings should highlight the product, quality, value and other attributes. They must avoid criticizing competitors. Not only this but also highlighting the brand ambassadors and seminude girls rather than focusing on the attributes of a product is also unethical.*

## KEYWORDS

Customer satisfaction, Customer Loyalty, Business Strategies, Marketing, Ethics.

## INTRODUCTION

Marketing is a connection between corporate and outside world. The legal and moral responsibility of ethics and values is more dependent upon the marketing department in an organization. Marketing is directed to profit maximization by increase in the market share. It explains about the product and the value for money which a customer gets. Amongst the products that require marketing efforts, there is intense competition in advertisements. Marketing has become a field of reliable and corruptible practices. There is a delusive concept in real estate industry of Pune as well that more profits and maximization of market share is possible by adopting unethical methods. These methods may be used in product or in marketing strategies. However through this study focuses that to sustain in market an organization should adopt ethical and honest means.

## REVIEW OF LITERATURE

Ethics in marketing means that the organization should be truthful to the customers by providing them safe, reliable products, services; also they should share honest information. Fair treatment should be given to the customers (Chonko, L. B., 1995).

The organization should follow the law by following fair, standards and procedures. Not only this but also they should promote safety and health amongst the customers. The organizations should act ethically in business transactions (Bloom, P. N., & Gundlach, G. T. (Eds), 2001).

For the benefit of the community and society they should support and promote health and development of society. The product should be eco-friendly so as to protect the environment. The organization should be honest towards the suppliers in all kind of transactions (Kotler, Philip, and Armstrong, Gary., 1999).

Corporate have responsibilities towards the customers. This is more evident during warranty period. Corporate explain various facilities, services and advantages and warranty for their products through their catalogues, advertisements, and explanations. Such claims would become consumer rights once they buy the mentioned product (Russell, J. Thomas, and Lane, W. Ronald., 1999). Some of the standard consumer rights are ,(a) Right to safety: Consumer needs to be protected from harm or injury to their body and environment during and after use, (b) Right to choose: The consumers should be free to choose any alternate product as per their choice, (c) Right to know: The consumer has right to know the truthful details of the product to be able to select the product of his preference, (d) Right to be heard: The dealer or manufacturer must hear the complaints about any inconvenience or injustice taken place due to the business transaction with them and (e) Right to compensation: Asking compensation or free replacements is the right of the consumer in case of harm done due to defective product. (American Marketing Association., 1998).

Products sold should be as per the demo sample shown and approved. Manufacturer and dealers must abide by their sales agreements. In Indian conditions it has been observed that the warranty conditions or period is not diligently honored on some excuse or the other. The professional pride and quality consciousness is not adequate. Majority of the businessmen try to ward off their responsibilities after sales (De George, R. T., 1993).

Generally the term 'Marketing Strategy' is used from the point of view of (i) market share, (ii) competition in marketing and (iii) promotional activities. Market share can be increased by adopting ethical values in addition to usual promotional advertisements, exhibitions etc. The corporate has value based responsibilities towards their customers in society for example, the company must inform the customer about the product, contents, quality, safety matters, usage purpose etc., to be truthful in service to society (Beauchamp, T. L., & Bowie, N. E., 2001).

There should be clarity in nomenclature of product to avoid confusion with similar names. There should be no misrepresentation to copy any brand, color effect or symbol of popular brands. The dealer of trader should not lead the buyer to buy only specific product. There should be choice and freedom to buy what they like (Brenkert, G. G., 1999). There should not be internal or external injury in usage of the product. It is not possible to cover all the strategies for all products. Certain products have certain specialties and accordingly strategies can be formed. Hence products are categorized as engineering, electrical, electronics, pharmaceutical, medical, bio-sciences etc. Different products will have different ways of putting labels, cautions, date of manufacture, date of expiry (if required) and procedure of usage etc. Giving such clarifications is part of marketing strategy and requirements. Following these aspects truthfully and not hiding any information or avoiding misrepresentation is part of ethics in marketing.

Portrayal of women in advertising is one of the recent topics. It is strange that even for promotion of products like cars, planes, refrigerators, washing machines; motor bikes, sports goods etc., girls . Even in real estate industry a woman in scanty clothes sitting near a swimming is shown in banners. In fact they are shown in attractive poses in scanty clothes rather than laying emphasis on the quality and drinking water supply in an apartment. There is no relation of portraying a woman to the product. However the advertisers seem to carry a feeling that people will notice the advertisement mainly due to attractive girl shown with the product.

There are innumerable situations in India where film heroines (present, past, retired) and even dancers and supporting actresses are called to inaugurate various new offices, premises, festivals and their coming is announced in a big way. This shows the misuse of women even where it is not essential (Bloom, P. N., & Gundlach, G. T. (Eds), 2001).

If a product is really unique, special or innovative it has to attract customers or visitors in exhibitions due to its product attributes. In normal business practice its attributes should be displayed and talked about rather than showing a beautiful girl along with the product (Boylan, M., 2001). Nowadays, it has become so common to use and misuse women in various advertisement that people have become immune even to think of is adverse effects in society. Critical evaluation is done very rarely and only after some complaints from public by the authorities (Boatright, J. R., 2000).The question is why the advertiser does not display them in decent, dignified and well-dressed way.

## NEED/IMPORTANCE OF THE STUDY

- It helps to understand the role of "Ethics in Marketing" in the development of an organization.
- It increases the value proposition of a product which makes the customer satisfied.

- It helps to improve employee's morale.
- It helps to build brand image due to customer satisfaction.
- It increases customer loyalty. Thus it increases market share.

## OBJECTIVES

The major objective of the paper is to examine

- To understand the meaning of Ethics in Marketing in Real Estate Industry in Pune.
- To discuss the advantages of "Ethics in Marketing in Real Estate Industry in Pune".
- To discuss the unethical practices in marketing in Real Estate Industry in Pune.
- To know the subject-matter of "Ethics in Marketing in Real Estate Industry in Pune for Customer Satisfaction".

## RESEARCH METHODOLOGY

**COLLECTION OF DATA**

**PRIMARY DATA**

The questionnaire method was used to collect the information from 60 customers from different flat and shop owners of residential and commercial complexes in Pune. A structured questionnaire was administered to 60 customers in Pune. The data from male and female respondents from different localities were collected. There was a personal interaction with the respondents to collect some important information.

**DATA INTERPRETATION BY CUSTOMER SURVEY**

**TABLE 1: CUSTOMERS VIEW ABOUT THE CONSTRUCTION COMPANIES**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Excellent | 06 | 10 |
| 2 | Average | 14 | 23.33 |
| 3 | Good | 40 | 66.67 |
| 4 | Poor | 0 | 00 |
| | **Total** | **60** | |

According to the data observation it has found that most of the customers have a good feeling about the construction company. Even some of the customers feel excellent for the construction companies. But when we analyze the percentage of customers who feel average about the construction companies, we can say that they are moving towards dissatisfaction.

**TABLE 2: CUSTOMERS HAVE BOUGHT A SECOND HOME IN SAME THE CONSTRUCTION - COMPANY**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 50 | 83.33 |
| 2 | No | 10 | 16.67 |
| | **Total** | **60** | |

As per the data analysis maximum customers have bought second home from the same construction company. Hence customer loyalty can be attained due to ethical practices in real estate industry.

**TABLE 3: QUALITY OF RESIDENTIAL OR COMMERCIAL COMPLEXES AS PER CUSTOMERS**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Excellent | 02 | 3.33 |
| 2 | Good | 46 | 76.67 |
| 3 | Average | 12 | 20 |
| 4 | Poor | 0 | 00 |
| | **Total** | **60** | |

As we can see in the above chart approx. majority customers have found good construction quality, the reason for that I have found is more emphasis on quality product management in real estate industry.

**TABLE 4: THE RATIO BETWEEN THE CARPET AREA AND SALEABLE AREA**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Proportionate | 44 | 73.33 |
| 2 | Less | 16 | 26.67 |
| | Total | 60 | |

According to the views of maximum customers it is clear that there is low ratio between carpet area and saleable area.

**TABLE 5: RECEIVED THE PROMISED AMENITIES**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 19 | 31.66 |
| 2 | No | 41 | 68.34 |
| | Total | 60 | |

From the data analysis we can interpret that half of the customers are dissatisfied because they have not received the promised amenities.

**TABLE 6: THE CUSTOMERS FEEL THAT THEY ARE OVERCHARGED DUE TO QUALITY PRODUCT**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 24 | 40 |
| 2 | No | 36 | 60 |
| | Total | 60 | |

As per the data collected customers are not that much overcharged but whoever has felt that they are overcharged is because of high maintenance charges.

**TABLE 7: CUSTOMERS ARE SATISFIED WITH THE VALUE PROPOSITION**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 32 | 53.33 |
| 2 | No | 28 | 46.66 |
| | Total | 60 | |

From the interpreted data most of the customers are satisfied with the value proposition as they feel that they have got what they wanted from the developers. But 46.66% of the customers are not satisfied because of the brand of the company their expectations were very high.

**TABLE 8: CUSTOMERS ARE FAMILIAR WITH CUSTOMER CARE POLICIES OF THE CONSTRUCTION COMPANY**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 54 | 90 |
| 2 | No | 06 | 10 |
| | Total | 60 | |

It is good to see from the data analysis that most of the customers are familiar with customer care policies of the company except only 10% of the customers are not familiar with it because of their ignorance.

**TABLE 9: CUSTOMERS ARE SATISFIED WITH THE FACILITIES**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 34 | 56.66 |
| 2 | No | 26 | 43.33 |
| | Total | 60 | |

It is clear from the above chart that only 56% customers are satisfied with the facilities and remaining 43% customers are not satisfied because they compared the facilities with other state's builders and secondly they were expecting more.

**TABLE 10: THE BUILDERS HAD ASKED THE CUSTOMERS TO PAY IN CASH**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 14 | 23.33 |
| 2 | No | 46 | 76.67 |
| | Total | 60 | |

It has been found from the collected data that 23.33% of the customers were asked to pay in cash by the builders. However rest i.e. 76.67% claimed that they were asked to pay through cheque.

**TABLE 11: THE BUILDER HANDED OVER THE FLAT IN THE PROMISED STIPULATED TIME PERIOD TO THE CUSTOMERS**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 11 | 18.33 |
| 2 | No | 49 | 81.67 |
| | Total | 60 | |

It has been found from the collected data that 18.33% customers have been handed over the flat in the promised stipulated time period. However 81.67% customers have not been handed over the flat in the promised stipulated time period.

**TABLE 12: THE MAJOR UNETHICAL PRACTICES IN REAL ESTATE INDUSTRIES**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Without statutory compliances | 08 | 13.33 |
| 2 | The ratio between the carpet area and saleable area low | 10 | 16.66 |
| 3 | Promised amenities not provided | 06 | 10 |
| 4 | Asking payment in cash | 12 | 20 |
| 5 | Delay in handing over | 24 | 40 |
| | Total | 60 | |

According to data findings, the major unethical practices in real estate industries are without statutory compliances, the ratio between the carpet area and saleable area low, promised amenities not provided, asking payment in cash and delay in handing over. Delay in handing over is a major unethical marketing practice in real estate industry.

**TABLE 13: THE BUILDERS HAVE GIVEN INFORMATION TO THE CUSTOMERS ABOUT THE STATUTORY COMPLIANCES**

| Sr.No. | Particulars | No.of Customers | Percentage |
|---|---|---|---|
| 1 | Yes | 16 | 26.66 |
| 2 | No | 44 | 73.33 |
| | Total | 60 | |

After interpreting above data, we can say that mostly the marketing department of real estate industry have not given the information to the customers about the statutory compliances (majorly i.e. 73.33%) and 26.66% have given the information.

## FINDINGS

1. According to the data observation it has been found that most of the customers have a good feeling about some construction companies because they follow ethical practices throughout the lifecycle of a real estate product.
2. It has been observed that few customers are moving towards dissatisfaction due to unethical practices of the builders.
3. As per the data analysis maximum customers are have bought second home from the same construction company. Thus there is customer loyalty in real estate industry of Pune due to few ethical practices of marketing department.
4. As we can see in the above chart approx. according to the views of maximum customers it is clear that they have find the quality of residential or commercial complexes. From the data analysis we can interpret that half of the customers are satisfied with current quality of construction. As promised

marketing department had promised them about the construction quality, the customers have received the same standard quality flat. The reasons for the dissatisfaction of remaining customers are few defects.
5. From the interpreted data most of the customers are satisfied with the value proposition as they feel that they have got what they wanted from the developers. But 46.66% of the customers are not satisfied because of the brand of the company their expectations were very high.
6. It is good to see from the data analysis that most of the customers are familiar with customer care policies of the company except only 10% of the customers are not familiar with it because of their ignorance.
7. According to data findings, the major unethical practices in real estate industries are without statutory compliances, the ratio between
8. the carpet area and saleable area low, promised amenities not provided, asking payment in cash and delay in handing over. Delay in handing over is a major unethical marketing practice in real estate industry of Pune.

## RECOMMENDATIONS/SUGGESTIONS
1. The builders should develop a thorough knowledge of the needs and expectations as the customers are promised by marketing department.
2. The builders must improve processes that define, produce and support their products. Job satisfaction is influenced by many employment factors.
3. Marketing is easy if the product and brand image has high popularity due to ethical practices. Thus the ethical practices bring conjuring effects to acquire high market share.
4. Builder can gain control over processes by working with employees and managers to identify and eliminate process problems.
5. The major unethical practices in real estate industries are without statutory compliances. Hence the builders should not launch a project till all the statutory compliances are not completed.
6. The ratio between the carpet area and saleable area low, promised amenities not provided, asking payment in cash and delay in handing over are the most commonly unethical practices used in real estate industry. Hence the construction company can easily achieve pinnacle by curbing all these issues.
7. Delay in handing over is a major unethical marketing practice in real estate industry and this can be easily controlled by the builders by launching the project after all the statutory compliances.

## LIMITATIONS OF THE STUDY
1. The personal biases of the respondents might have entered in to their response.
2. Time allotted for survey was less.
3. Some of the respondent did not respond to the question which may affect the analysis.
4. Generally the respondents were busy in their work and were not interested in responding rightly.
5. Respondents were reluctant to disclose complete and correct information.
6. Because of a small period of time only a small sample had to be considered which doesn't actually reflect an accurate entire picture.

## SCOPE FOR FURTHER RESEARCH
1. The employees of marketing department of real estate industry can be surveyed to obtain information about major problems behind not meeting the statutory compliances.
2. The study of gap analysis between the commitment of marketing department and execution of construction department.
3. The study of quality management in real estate industry of Pune.
4. The betterment of ethical practices in real estate industry of Pune can be analysed.

## CONCLUSION
There could be many situation of legal matter in consumer forum which may lead to poor sales also the goodwill of the organization is badly affected. Managing products and services very effectively and successfully is essential for a business. Profit is linked to price and sales volume, which is actually linked to satisfied customers. Satisfied customers can be created by telling the truth about the quality, quantity, content and use and harm related aspects. Thus it is very important for the construction companies to maintain the ethics by implementing exactly all the points stated by their marketing department in performance. Merely expression without action actually is an unethical marketing practice. However if the stated points of marketing department are implemented by the construction teams then it tends to build the customer loyalty.

## REFERENCES
1. American Marketing Association. (1998). American Marketing Association Code of Ethics. New York: Author.
2. Beauchamp, T. L., & Bowie, N. E. (2001). Ethical theory and business. Upper Saddle River, NJ:Prentice Hall, Inc.
3. Bloom, P. N., & Gundlach, G. T. (Eds). (2001). Handbook of marketing and society. Thousand Oaks, CA: Sage Publications.
4. Boatright, J. R. (2000). Ethics and the conduct of business. Upper Saddle River, NJ: Prentice Hall, Inc.
5. Boylan, M. (2001). Business ethics. Upper Saddle River, NJ: Prentice Hall Inc.
6. Brenkert, G. G. (1999). Marketing ethics. In Fredrick, R. E. (Ed). A companion to business ethics (pp. 178-193). Malden, MA: Blackwell Publishers Ltd.
7. Chonko, L. B. (1995). Ethical decision making in marketing. Thousand Oaks, CA: Sage Publications.
8. De George, R. T. (1993). Competing with integrity in international business. New York, NY: Oxford University Press.
9. Kotler, Philip, and Armstrong, Gary. (1999). Principles of Marketing, 8th ed. New York: Prentice-Hall.
10. Russell, J. Thomas, and Lane, W. Ronald. (1999). Kleppner's Advertising Procedure, 14th ed. New York: Prentice Hall.

# THE EFFECTS OF STRATEGIC MARKETING ON SAVING AND CREDIT CO-OPERATIVES PERFORMANCE: A SURVEY OF SELECTED SAVING AND CREDIT CO-OPERATIVES IN MOMBASA COUNTY

*ELISHA MKOFIRHA ADE*
*RESEARCH SCHOLAR*
*JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY*
*MOMBASA COUNTY*

*KARIM OMIDO*
*SR. LECTURER*
*TAITA TAVETA UNIVERSITY COLLEGE*
*KENYA*

## ABSTRACT
*Many organizations today are faced with competition and only those that are able to improve their operations and focus on proper strategies will survive. The main objective of this study was to investigate the effects of strategic marketing on Sacco's in Mombasa County. The study used descriptive research design. The analysis involved a sample of 123 (100 percent) respondents that was involved in the process of data collection. The response rate was 94 (76.4 %) respondents who filled and returned the questionnaire. The data was obtained using self administered questionnaires and analyzed using Statistical Package for Social Sciences. Descriptive statistics was used to analyze data using mean, frequencies, standard deviation and percentage and the findings presented using tables and charts. The research findings shows that competitive strategies are based on understanding customer needs and Sacco's use market penetration strategy to increase its market share. The findings on innovation oriented strategies shows that Sacco's are more innovative than their competitors in developing new ways of achieving their targets and objectives. Entrenchment of marketing information systems and adoption, utilization of ICT and online marketing were the widely used innovation oriented strategies. The respondents level of agreement on the Competitive advantage strategies used by SACCOs shows that Sacco's view employees as their source of competitive advantage and they ensure that they don't lose them to competitors. Sacco's use service and product differentiation as a competitive advantage strategy. The findings from the research will be of importance to the Sacco industry especially in Mombasa County, key policy makers and academicians.*

## KEYWORDS
Strategic marketing, Savings and Credit Cooperative Societies.

## 1.0 INTRODUCTION
### 1.1 BACKGROUND OF THE STUDY
Marketing is considered as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return (Kotler 2009). A strategy on the other hand is a firm's game plan for competition and survival in a turbulent environment (Kotler & Armstrong, 2007). According to Porter (1985) a marketing strategy is a process that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve sustainable competitive advantage .Thus, a strategy indicates the opportunities to pursue, specific target markets to address and the types of competitive advantages that are to be developed and exploited by a firm's management (Dibb, Simkin, Pride & Ferell 2006).

A marketing strategy is therefore a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a target market niche. It should be centered on the key concept of customer satisfaction (Richard et. al, 2003). Dibb et.al (2006) assert that marketing strategies serve as the fundamental underpinnings of marketing plans designed to fill market needs and reach marketing objectives and often integrate an organization's marketing goals, policies and tactics into a cohesive whole.

According to Aaker (2008) and Richard et. al (2005), strategies required take two forms namely grand and generic strategies. Grand strategies also referred to as business strategies; represent specific actions proposed to be employed on products/services in respective target markets. For the generic set, a business may choose one or more competitive strategies as the basis for its strategic objectives. Generic strategies on the other hand constitute routes to competitive advantage by providing the approach for applying the grand strategies in a manner that conforms to the expectations of the firm's mission statement (Porter, 1985).

#### 1.1.1 SACCO'S IN KENYA
SACCOs are firms that offer credit facilities to consumers. Richard et. al (2003) notes that marketing strategies in these cooperatives need to be focused on energies and resources on a course of action which lead to increased sales and dominance of a target market niche while it is centered on the concept of customer satisfaction. According to Sababu (2007), A credit Union or a Savings and Credit Cooperative society (SACCO) is a co-operative financial institution that is owned and controlled by its members and operated for the purpose of promoting thrift, providing credit at reasonable rates as well as providing other financial services to its members. Many credit co-operatives exist to further community development or sustainable international development on a local level.

In many African countries they are called savings and credit co-operative organizations (SACCOs) to emphasize savings before credit. In Kenya SACCOs are administered under a new Act and managed by the Sacco Societies Regulatory Authority (SASRA).Their economic importance in overall national development is recognized in national policy documents like Economic Recovery Strategy (ERS) and Strategy for revitalization of Agriculture.

## 2.0 REVIEW OF LITERATURE
This review looks at literature written by various authorities in related aspects of the subject matter. It covers theoretical review, empirical literature and presents the conceptual framework.

### 2.1 THEORETICAL REVIEW
Proctor (2000) points out that understanding competition is central to form marketing plans and strategy, customer is always right, they say. This leads to a challenge of always finding out what the customer actually wants. However, one should also take into account how competitors act and how to communicate and coordinate the information flow between business functions. Dibb, Simkin, Pride & Ferell (2010) contend that marketing consists of individual and organizational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion and pricing of goods, services and ideas.

Doyle (2007) points that marketers undertake to plan for specific products or service brands for designated market segments using an appropriate set of marketing mix variables by documenting the planning process through a marketing plan. Thus the marketing concept is that managerial orientation which recognizes that success primarily depends upon satisfying changing customer wants and developing products and services which match these better than those of its competitors.

### 2.2 EMPIRICAL REVIEW

Chepkiyeng (2008) carried out a study on factors considered by commercial banks in terms of strategies in place. She pointed out that commercial banks like other financial institutions that offer similar services are faced with many challenges such as liberalization. She further found out that most of these organizations manipulate a number of strategic marketing variables in order to respond to competitive intensity. She sought to find out whether banks had implemented significant changes in their strategies. Though lessons may be learnt from her study, banking sector is different from SACCOs in that the latter are limited by limitations on voting rights, transferability of shares and inability to sell shares to the public in order to secure additional funds.

According to the rationale of the cooperative marketing strategy (2009-2013), short-term surveys carried out revealed that many cooperatives lack direction on how to effectively market members' produce and services. In the past they relied on marketing boards and monopolistic marketing arrangements facilitated by the cooperative societies act CAP 490 of 1969. This over emphasizes on the cooperatives dealing with products such as coffee, tea and milk hence a gap exists regarding the SACCOs marketing strategies that need to be filled.

### 2.3 CRITIQUE OF THE EXISTING LITERATURE

As can be noted from the literature review, Dibb et. Al., (2010) pointed to individual and organizational contribution to marketing activities. However, they failed to shed light on societal cooperatives. Proctor (2000) on the other hand recommended on the need to understand competition; a feat that is erratic given the fluidness of external environment.

Insofar as the empirical literature was concerned, Chepkiyeng (2008) looked at strategic marketing in commercial banks but alluded cooperative societies altogether. These gaps created a void that necessitated the need for this study to establish the effects of strategic marketing on saving and credit co-operatives performance in Mombasa County.

## 3.0 IMPORTANCE OF THE STUDY

The study will contribute to the existing knowledge on marketing strategies and their relationship on performance of SACCOs. This will enable the management of these SACCOs to put in place marketing strategies that will see the firms gain a competitive edge over their competitors. It will benefit the Ministry of Co-operative Development and Marketing in the formulation of future policies aimed at enhancing performance of SACCOs as well as implementation of strategy in order to achieve vision 2030.

It will be helpful to the management of SACCOs in Mombasa County. It will guide them to adopt appropriate marketing strategies that will ensure both customer satisfaction and retention. The study will also form a base for students and other researchers to develop their studies.

## 4.0 STATEMENT OF THE PROBLEM

The need for strategic marketing practices in all types of organizations arises as organizations grow and competition intensifies. This case becomes true of the SACCO sector in Kenya. However, this notwithstanding, in most parts of the world SACCOs lack such coherent strategies and where they exist, they are not integrated into the overall business strategy (Aaker, 2008).

Here in Kenya, current SACCO markets are saturated with similar products, decreased economies of scale and high competition. Lack of appropriate marketing strategies, skills and knowledge in marketing has further complicated the situation leaving many societies struggling to grow market share. Moreover these co-operatives like any other commercial businesses require adequate finances but are limited by limitations on voting rights, transferability of shares, returns paid on invested capital and inability to sell additional shares to the public to secure additional funds (GOK, 2008).

Developing new products and services to enable SACCOs to prosper is a challenge (Ansoff 1997). In order to prosper and thrive, the management of these SACCOs needs to use marketing strategies on a course of action which can lead to increased sales and dominance of targeted market niches. The erstwhile situation in most of these SACCOs was characterized by haphazard marketing strategies, lack of coherence, short-termism and lack of focus (Ministry of cooperative development and marketing, Cooperative Marketing Strategy, 2009-2013). There was no concerted effort for initiating and sustaining a strategic marketing culture and empowerment for the same. Reports and empirical research had until now not highlighted the set of strategies in use and how they have influenced the performance of the SACCOs. It is on this ground that the researchers investigated the effects of strategic marketing on Savings and Credit Co-operatives (SACCOs) in Mombasa County.

## 5.0 OBJECTIVES OF THE STUDY

### 5.1 GENERAL OBJECTIVE

The broad objective of this study was to give guidance to SACCOs managers on which marketing-related issues they should concentrate on in order to maximize their SACCO long-term financial performance.

### 5.2 SPECIFIC OBJECTIVES

The specific objectives of this study were:

1) To identify the marketing orientation strategies applied by SACCOs in Mombasa County.
2) To evaluate the innovation oriented strategies used by SACCOs in Mombasa County.
3) To find out the Competitive Advantage strategies used by SACCOs in Mombasa County.

## 6.0 RESEARCH METHODOLOGY

### 6.1 INTRODUCTION

The research methodology adopted was guided by the study objectives. The methodology used is provided in sub-sections that describe the research design, target population, sampling, research instruments, data collection, and data analysis techniques.

### 6.2 RESEARCH DESIGN

This study adopted descriptive research design. It is in agreement with the views of (Kothari, 2009) who contend that descriptive research studies are designed to obtain pertinent and precise information concerning the current status of phenomena and whenever possible to draw valid conclusions from the facts discovered.

### 6.3 TARGET POPULATION

The study being survey based limited itself to active SACCO's in Mombasa County. The population encompassed the following:-

**TABLE 6.9: TARGET POPULATION**

| | Target Population | Percentage |
|---|---|---|
| Chief Executive Officers | 19 | 20 |
| Marketing Managers | 10 | 11 |
| Loans and Credit Officers | 50 | 53 |
| Employees | 15 | 16 |
| **TOTAL** | **94** | **100** |

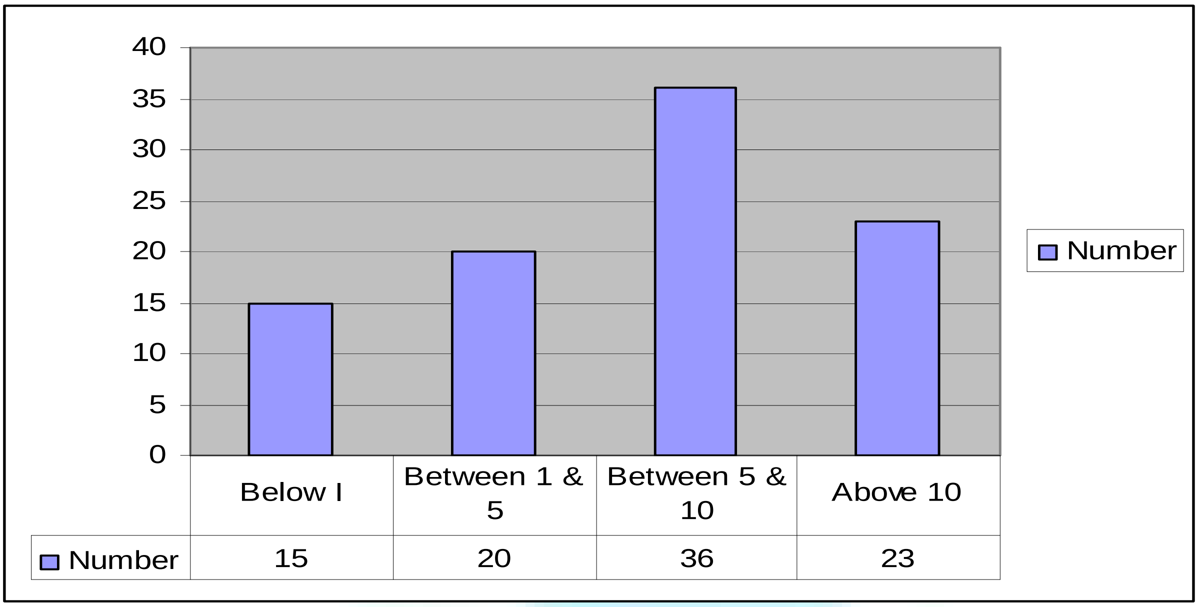
Source: Ministry of Cooperative Societies (2013)

### 6.4 CENSUS STUDY

The researchers conducted a census study. A census study according to Mugenda and Mugenda (2012) entails taking the entire gamut of respondents targeted for study. Therefore all 94 respondents were selected for study.

### 6.5 DATA COLLECTION
The study used both primary and secondary data. The collection of primary data was through structured questionnaires as Sherri (2010) notes that questionnaires enable the person administering them to explain the purpose of the study and give meaning of the items that may not be clear. The questionnaires were handed over to the respondents in participating Sacco's by the researchers and collected after five days.

## 7.0 RESULTS AND DISCUSSION
### 7.1 RESPONSE RATE
All 94 questionnaires distributed by the researchers were duly filled by the respondents and collected from them. This shows hundred percent success in response rate.
### 7.2 GENERAL DEMOGRAPHICS
**TABLE 7.1: NUMBER OF YEARS THE SACCO HAS BEEN IN OPERATION**




As shown 15 Saccos had been in operation for less than 1 year, 20 between 1 & 5 years, 36 between 5 and 10 year and 23 above 10 years. This therefore indicates that majority of the Sacco had served more than five year hence there view were current and factual.

**TABLE 7.2: SOCIETY MEMBERSHIP**

| Frequency | Membership | Percent |
|---|---|---|
| Under 100 | 54 | 57.4 |
| under 10,000 | 15 | 17.9 |
| Under 20,000 | 5 | 6.0 |
| Under 30,000 | 5 | 6.0 |
| Under 50,000 | 15 | 17.9 |
| Total | 94 | 100.0 |

The Sacco membership population was categorized into 5 stratified groups, under 1000, under 10,000, under 20,000 under 30,000 and under 50,000. As depicted in table 7.2 most Sacco's had society membership below 100 representing 57.4 %, 17.9% with membership below 10,000.

**TABLE 7.3: SHARE CAPITAL OF THE SOCIETY**

| Capital | | Frequency | Percent |
|---|---|---|---|
| Valid | Below 500000 | 5 | 6.0 |
| | 500000-999999 | 15 | 17.9 |
| | Above 5M | 74 | 76.2 |
| | Total | 94 | 100.0 |

Table 7.3 shows the results obtained from the survey on the share capital of the SACCO. Out of 94 respondents 74 (78.72%) had share capital above 5Million, 15 (15.9%) between 500.000 and 999,999 and 5 (5%) below 500,000.

**TABLE 7.4: RESPONDENT'S DESIGNATION IN THE SACCO**

| Designation | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Chief executive Officer/Chairman | 19 | 20.2 | 22.6 | 22.6 |
| | Marketing manager | 10 | 10.6 | 11.9 | 34.5 |
| | Loans/Credit officer | 50 | 53.1 | 17.9 | 52.4 |
| | Others | 15 | 15.9 | 47.6 | 100.0 |
| | Total | 94 | 100.0 | 100.0 | |

Table 7.4 below shows the results obtained from the survey on the respondent designation. The analysis shows that out of 94 respondents 50 (53.1%) were Loans officer, followed closely by 19 (20.2%) chief executive officers. This therefore indicates the largest percent of the respondents that filled the questionnaires had sufficient information on how the Sacco operates hence there view were current and factual.

### 7.3 MARKET ORIENTATION

**TABLE 7.5: MARKET ORIENTATION**

| Parameters | N | Mean | Std. Deviation |
|---|---|---|---|
| Our commitment to serving customer needs is closely monitored | 94 | 3.6064 | 1.10928 |
| Sales people share information about competitors | 94 | 3.9787 | .71810 |
| Our objectives and strategies are driven by the creation of customer satisfaction | 94 | 4.0532 | .83431 |
| We achieve rapid response to competitive actions | 94 | 3.9894 | .83595 |
| Top management regularly visits important customers | 94 | 3.3404 | .59664 |
| Competitive strategies are based on understanding customer needs | 94 | 4.4043 | .49338 |
| Competitive strategies are based on understanding customer needs | 94 | 3.9681 | .61263 |
| Business strategies are driven by increasing value for customers | 94 | 3.9468 | 1.06121 |
| Customer satisfaction is systematically and frequently assessed | 94 | 3.8830 | .85328 |
| Close attention is given to after sales service | 94 | 3.4894 | .95877 |
| Top management regularly discuss competitors' strengths and weaknesses | 94 | 4.0426 | .91481 |
| Our managers understand how employees can contribute to value for customers | 94 | 4.1489 | .91531 |
| Customers are targeted when we have an opportunity for competitive advantage | 94 | 3.5851 | .76776 |
| Valid N (listwise) | 94 | 3.8797 | |

From table 7.5 the results obtained from the survey on the respondents level of rating on marketing orientation strategies applied by SACCOs show that the average mean response was 3.87 which implies a level of agreement given the scale range from 5 to 1, 5 being to a great extent while 1 being not at all level of agreement.

Means for each questions ranged from 4.4 to 3.3 .Table 4.6 indicates that Top management regularly visits important customers was ranked lowest with a mean of 3.3 while Competitive strategies are based on understanding customer needs was ranked the highest with a mean of 4.4

**TABLE 7.6: INNOVATION ORIENTED STRATEGY**

| Innovation oriented parameters | N | Mean | Std. Deviation |
|---|---|---|---|
| We are more innovative than our competitors in deciding what methods to use in achieving our targets and objectives | 94 | 3.6064 | 1.10928 |
| We are more innovative than our competitors in initiating new procedures or systems | 94 | 3.9787 | .71810 |
| We are more innovative than our competitors in developing new ways of achieving our targets and objectives | 94 | 4.0532 | .83431 |
| We are more innovative than our competitors in initiating changes in the job contents and work methods of our staff | 94 | 3.9894 | .83595 |
| Valid N (listwise) | 94 | 3.9069 | |

The respondents were requested to rate the options for the innovation oriented strategies used by SACCOs in Mombasa County using the 5-point Likert scale. The questionnaire comprised 5 options which the respondents were required to rate. The options for marketing orientation strategies were captioned as represented in table 7.6

The results obtained from the survey on the respondents level of agreement on the innovation oriented strategies used by SACCOs in Mombasa County show that the average mean response was 3.90 which implies a level of moderate agreement given the scale range from 5 to 1, 5 being to a very great extent while 1 being not at all level of agreement.

Means for each questions ranged from 3.6 to 4.0 . which indicates that Saccos' are more innovative than their competitors in deciding what methods to use in achieving their targets and objectives was ranked lowest with a mean of 3.6 while, Sacco being more innovative than their competitors in developing new ways of achieving their targets and objectives was ranked the highest with a mean of 4.0.

**TABLE 7.7: ICT INNOVATION STRATEGIES**

| | N | Mean | Std. Deviation |
|---|---|---|---|
| Adoption and utilization of ICT | 94 | 2.5106 | .50257 |
| Entrenching marketing information systems | 94 | 2.7447 | .43838 |
| E-commerce, | 94 | 2.2553 | .43838 |
| Online marketing, | 94 | 2.5000 | .50268 |
| Develop ICT guidelines and standards for SACCO | 94 | 2.5000 | .50268 |
| Providing user access to the central data base | 94 | 1.5106 | .50257 |
| Valid N (listwise) | 94 | 2.3369 | |

From table 7.7 the results obtained from the survey on the respondents level of agreement on ICT innovation oriented strategies used by SACCOs in Mombasa District show that the average mean response was 2.3 which implies ICT innovation strategies are significantly used given the scale range from 3 to 1, 3 being very significant while 1 being not significant at all

Means for each questions ranged from 2.5 to 1.5 .Table 7.7 indicates that, Entrenchment of marketing information systems and adoption and utilization of ICT was ranked highest with a mean of 2.7 and 2.5 respectively, while Providing user access to the central data base was ranked lowest with a mean of 1.5.

**TABLE 7.8: COMPETITIVE ADVANTAGE**

| Parameters | N | Mean | Std. Deviation |
|---|---|---|---|
| Our products and services are highly valued by our customers creating a barrier against competitor products and services | 94 | 3.6064 | 1.10928 |
| There would be significant costs for customers if they switched from our Products and services to those of competitors | 94 | 3.9787 | .71810 |
| Our competitive advantage is difficult for competitors to copy because it uses resources only we have access to | 94 | 4.1532 | .83431 |
| It took time to build our competitive advantage and competitors would find it time-consuming to follow a similar route | 94 | 3.9894 | .83595 |
| Competitors find it difficult to see how we created our competitive advantage in the first place | 94 | 3.8723 | .91855 |
| Competitors could copy our competitive advantage but it would be uneconomic for them to do so | 94 | 3.6064 | 1.10928 |
| We protect our advantage legally through copyrights and patents | 94 | 3.9787 | .71810 |
| Our employees are the source of our competitive advantage and we ensure we won't lose them to competitors | 94 | 4.1532 | .83431 |
| Competitors would find it difficult to acquire the managerial capabilities needed to create a similar competitive advantage | 94 | 3.9894 | .83595 |
| Valid N (listwise) | 94 | 3.9253 | |

From table 7.8 the results obtained from the survey on the respondents level of agreement on the Competitive Advantage strategies used by SACCOs in Mombasa District show that the average mean response was 3.925 which implies a level of moderate agreement given the scale range from 5 to 1, 5 being to a very great extent while 1 being not at all level of agreement.

Means for each questions ranged from 3.6 to 4.0 .Table 7.8 indicates that products and services being highly valued by customers creating a barrier against competitor products and services was ranked lowest with a mean of 3.6 while, Sacco competitive advantage being difficult for competitors to copy because of using resources only Sacco's have access to and employees are the source of Sacco competitive advantage and ensuring that they don't lose them to competitors was ranked the highest with a mean of 4.1.

## 8.0 FINDINGS

### 8.1 SUMMARY

The first part of the objective was to evaluate the marketing orientation strategies. Majority of the respondents agreed that, the objectives and strategies are driven by the creation of customer satisfaction and competitive strategies are based on understanding customer needs. There was a high level of acceptance that Market penetration strategy was used to increase market share. Market development strategies were widely used to develop new markets. There was a high level of response that diversification strategies were widely used to create joint ventures.

The second part of the objective was to identify the innovation oriented strategies used by SACCOs. The highest level of rating was that Saccos are more innovative than competitors in developing new ways of achieving their targets and objectives, Saccos are more innovative than their competitors in initiating changes in the job contents and work methods of their staff and being more innovative than competitors in initiating new procedures or systems.

The last part of the objective was to identify the Competitive Advantage strategies used by SACCO's. The analysis draws to the conclusion that Competitive strategies being based on understanding customer needs, managers understanding how employees can contribute to value for customers, objectives and strategies being driven by the creation of customer satisfaction, and top management regularly discussing competitors' strengths and weaknesses enhances the Sacco performance most.

## 9.0 RECOMMENDATIONS

- Sacco managers should focus on attention being given to after sales service
- Attention should be given on understanding customer needs as a way of attaining Competitive advantage.
- Sacco should be more innovative than their competitors in deciding what methods to use in achieving targets and objectives as an innovation oriented strategy.

## 10.0 CONCLUSION

Competitive strategies should be based on understanding customer needs and Sacco managers should understand how employees can contribute to value their customers.

## 11.0 LIMITATIONS

The following limitations were faced during the study.

1. While the number of respondents was adequate, generalizability is limited to only respondents in active Sacco's within Mombasa County.
2. The study excluded other stakeholders in different parts of the country.

## 12.0 SCOPE FOR FURTHER RESEARCH

Preferably, new studies should be conducted in non-financial industry to see if the results can be extended for them.

## REFERENCES


1. Aakar, D. (2008). , *Strategic Market Management* (5th Ed). John Wiley and Sons
2. Aakar, D., & Damien Mc. A (2009) . *Strategic Marketing Management: Global Perspectives*, (1st Ed). John Willey & sons Limited, England
3. Barney, J. (1991) Firm Resources and Sustained Competitive Advantage. *Journal ofManagement*. 17(1): 99-120.
4. Barney, J. (1991) Firm Resources and Sustained Competitive Advantage. *Journal of Management*. 17(1): 99-120.
5. Carpenter, G. & Nakamoto, K. (1989) Consumer Preference Formation and Pioneering Advantage. *Journal of Marketing Research*. 26(10): 285-298.
6. Cole, D. (2004). *The Complete Guide to Book Marketing*, Allworth Press, Revised Edition.
7. Cole, G.A. (1997), *Strategic Management Theory* and Practice, Continuum, 2nd Edition
8. Day, G.S. (1994) The capabilities of market-driven organizations. *Journal of Marketing*. 58(4): 37-52.
9. Dibb et. al, (2006). *Marketing Planning*, 1st Edition: Delman Thompson Learning.
10. Doyle, P. (2006). *How To Plan and Execute Strategy. 1st Edition: Mc Graw-Hill*
11. Drucker, P. (1966) *The effective executive*. Harper & Row.
12. Fahy, J. & Smithee, A. (1999) Strategic Marketing and the Resource Based View ofvthe Firm. *Academy of Marketing Science Review*. (10): 1-18.
13. Fahy, J., Hooley, G.J., Cox, A.J., Beracs, J., Fonfara, K. and Snoj. B.(2000) The development and impact of marketing capabilities in Central Europe. *Journal of International*
14. Mugenda O.M.& Mugenda A.G. (2003), *Research Methods: Quantitative And Qualitative Approaches*, Nairobi, Acts Press
15. Narver, J.C. and Slater, S.F. (1990) The Effect of a Market Orientation on Business Profitability. *Journal of Marketing*. 54(4): 20-35.
16. Noble, C.H., Sinha, R.K. and Kumar, A. (2002) Market Orientation and Alternative Strategic Orientations: A Longitudinal Assessment of
17. Orando, A. J. & Kombo, D. K. (2002). *Research Methods.* Nairobi: Kenyatta University, Institute of open learning.
18. Performance Implications. *Journal of Marketing*. 66(4): 25-39.
19. Porter, M. (1980) *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. The Free Press.
20. Porter, M. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*. The Free Press.


## APPENDIX

**APPENDIX I: QUESTIONNAIRE**

**SECTION A: SACCO BIO DATA**

**1.** The Number of Years the SACCO has been in operation

a) Below one year ( )
b) Between one year and Five Years ( )
c) Between Five years and Ten years ( )
d) Above Ten Years ( )

**2.** Number of employees-

a) Between 1-50 ( )
b) Between 51- 100 ( )
c) Above 100 ( )

**3.** Society membership is:-

1) Under 1000 ( )
2) Under 10000 ( )
3) Under 20000 ( )

4) Under 30000 ( )
5) Above 50000 ( )

**4.** The share capital of the SACCO is
a) Below 500,000 ( ) b) 500,000 -999,999 ( ) c) 1 m-1.5m ( ) d) 2m-5m ( )
e) Above 5 million ( )

**5.** The outstanding loan with members is:
Below 100,000 ( ) 100,000-499,999 ( ) 500,000-999,999 ( )
Above 1Million ( ) none ( )

**6.** What is your designation in the SACCO?
- Chief executive Officer/chairman ( )
- Marketing manger ( )
- Loans/credit manager/officer ( )
- Others (Specify) ……………………………

**SECTION B: MARKET ORIENTATION STRATEGIES APPLIED BY THE SACCOS (TICK AS APPROPRIATE)**

7. Here are a number of statements about marketing and sales issues. How well do you think each statement relates to your SACCO? *Please write in the number from the scale below that best represents your opinion*.

| | **Parameters** | To a great Extent [5] | To a moderate Extent [4] | To a small Extent [3] | Very small Extent [2] | Not at all [1] |
|---|---|---|---|---|---|---|
| i. | Our commitment to serving customer needs is closely monitored | | | | | |
| ii. | Sales people share information about competitors | | | | | |
| iii. | Our objectives and strategies are driven by the creation of customer satisfaction | | | | | |
| iv. | We achieve rapid response to competitive actions | | | | | |
| v. | Top management regularly visits important customers | | | | | |
| vi. | Competitive strategies are based on understanding customer needs | | | | | |
| vii. | Competitive strategies are based on understanding customer needs | | | | | |
| viii. | Business strategies are driven by increasing value for customers | | | | | |
| ix. | Customer satisfaction is systematically and frequently assessed | | | | | |
| x. | Close attention is given to after sales service | | | | | |
| xi. | Top management regularly discuss competitors' strengths and weaknesses | | | | | |
| xii. | Our managers understand how employees can contribute to value for customers | | | | | |
| xiii. | Customers are targeted when we have an opportunity for competitive advantage | | | | | |

8. How do you rate the following marketing-related decisions parameters for achieving the co operative strategic objectives

**THANK YOU**

# BUYING BEHAVIOUR - AN ISLAMIC PERSPECTIVE: AN ANALYSIS OF AN IDEAL MUSLIM BUYING BEHAVIOUR

*TAHIR AHMAD WANI*
*RESEARCH SCHOLAR*
*JAMIA MILLIA ISLAMIA*
*NEW DELHI*

## ABSTRACT
*Consumer behaviour, since its inception as an academic term has always been associated with words like perceptions, habits, fashions, traditions, customs, cultures, resources or religious beliefs. Almost everyone including the so-called modern economists wish to delete the word "religious beliefs" from the dictionary of Economics, as the supporters of Positive Economics hold the view that the subject should be free from any ethical and morality postulates. However, Consumer Behaviour or Buying Behaviour is such a process which cannot be studied till we consider all the related facts, perceptions or beliefs that have a say in the whole process. This paper aims to unearth what Islam as a religion teaches about the buying behaviour. In other words, what should be the buying behaviour of a Muslim who believes in Oneness of God (Allah) and the day of Resurrection? The main aim of this paper is to uncover some important teachings from Quran and Sunnah (Teachings of the Prophet MuhammadPBUH) regarding the buying behaviour.*

## KEYWORDS
Buying Behaviour, Black Box Model, Quran, Islam, Holy Prophet, Sadaqaat, Khayraat.

## INTRODUCTION
Economics, as defined by Britannica (2013), is the social science that seeks to analyse and describe the production, distribution, and consumption of wealth. On one side production and distribution and the challenges they pose have formed the substance of this subject for a very long time, In fact little attention was given to the consumption part. Today we realize that this part is the most complicated one among the three, for when we try to study consumption part we find our heads staring into a "Black Box," of which we know nothing despite knowing everything. As defined by Hoyer et al (2008), consumer behaviour reflects the totality of consumer's decisions with respect to the acquisition, consumption and dispositions of goods, services, activities and ideas by (human) decision making units (over time). Khan (2007) indicates that consumer behaviour can essentially be defined as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. Both these definitions view buying behaviour as a set of processes one after another. According to the "Black Box" Model (perhaps Black Box model is contribution of Kurt Lewin, who happened to be a psychologist) of consumer behaviour, the whole behaviour of a consumer is dependent on two things: the external factors and secondly the internal processes (Black Box).

**TABLE 1: THE BLACK BOX MODEL**

| External FACTORS | | BUYER'S BLACK BOX | | BUYER'S RESPONSE |
|---|---|---|---|---|
| **Marketing Stimuli** | **Environmental Stimuli** | **Buyer Characteristics** | **Decision Process** | |
| Product<br>Price<br>Place<br>Promotion | Economic<br>Technical<br>Political<br>Cultural<br>Social | Attitudes<br>Motivation<br>Perceptions<br>Personality<br>Lifestyle | Problem recognition<br>Information search<br>Alternative evaluation<br>Purchase decision<br>Post-purchase behavior | Product choice<br>Brand choice<br>Dealer choice<br>Purchase timing<br>Purchase amount<br>No buy |

*Black box model of consumer buying behaviour,*

*Source: Keegan et al. (1992, p. 193)*

Taking all what we have discussed so far we can sumup that buying behaviour is nothing but a decision-making process (processes are dependent on external and buyer characteristics) and physical activity involved in acquiring, evaluating, using and disposing of goods and services. Now coming to Islam, the holy bookQuran says "Indeed, the religion in the sight of Allah is Islam." Islam means Submission to Almighty's (Allah's) will. From the teachings of Prophet Muhammad, it is clear that Islam doesn't simply mean to submit one's will to God by saying it.Rather it should reflect in one's actions and behaviour as well. Islam is not a set of rituals like many other religions of the world; rather it is a complete code of life. This is the main reason why Islam is the only religion in the world to have its own financial, legal or political system. Abu Musanarrated,
"Some people asked Allah's Apostle, "Whose Islam is the best? i.e. (Who is a very good Muslim)? He replied, "One who avoids harming the Muslims with his tongue and hands."(Bukhari: Book 1: Volume 2: Hadith 10).
This hadith implies that human character/behaviour is comprised of two things i.e. thinking and doing and a good Muslim is one who has both in accordance with the will of the God (Allah). Verse no 208 of the Chapter 2 of Quran asks the same from Muslims, *"O you who believe, enter Islam completely"*. The Mufassireen (Scholars of Quran) have argued that Allah here commands Muslims to be a believer by both their actions/doings as well as from their heart/beliefs. They shall accept and follow the teachings of Islam bodily as well as spiritually. Thus Islam asks for a Muslim to change his physical as well as mental behaviour as per the will of the God. It means that a Muslims takes Islam into consideration in all walks of his life, be it social, legal, financial or any other. A Muslim takes into account the teachings of Islam when dealing into daily matters. So we can find that Islam and its teachings have a direct bearing on the behaviour of a Muslim. Behaviour is the range of actions and mannerisms made by an organism and Islam has provided its teachings both for actions as well as for mannerisms to a Muslim. Consequently the behaviour comes into action when a Muslim is indulged in a buying process. He tries to link the teachings of Islam with his buying problems and tries to buy the things in accordance to the teachings provided.
So we will try to analyse what Islam teaches about buying things or in other way acquiring, evaluating, using and disposing of goods and services and how the behaviour of an ideal Muslim consumer differs from other non-Muslims.

## REVIEW OF LITERATURE
To gain an insight of how the concept of Buying Behaviour has actually evolved, one has to go back to the theory of utility by Jeremy Bentham. He introduced the construct of 'theory of utility' in his book *Introduction to the Principles of Morals and Legislation*, published in1789. In it, he formulated the principle of utility, which approves of an action in so far as that action has an overall tendency to promote the greatest amount of happiness. He identified happiness with pleasure and the absence of pain. In his paper "Utility theory from Jeremy Bentham to Daniel Kahneman", Daniel Read (2004) quotes Robert Sugden on meaning of utility. He says, "A standard model of motivation is that in which a person has a desire Y, and if he believes that by doing act X, he can achieve Y, then (assuming there is no barrier to doing X or some stronger desire than Y) he will choose X." The normative problem of rationality concerns what choices and

desires people should have. The most well-established approach to this problem is Rational Choice theory, which prescribes the most effective way to achieve the given desires. Thus according to Utilitarianism principles as practised or introduced by Bentham, utility encircled around happiness which to him was pleasure or absence of pain. Chapra (1992), has heavily criticised the Bentham theory as he writes, “The pursuit by every individual of his pleasure would lead to the "greatest happiness of the greatest number" because, it was assumed, there was a perfect harmony between public and private interests. The individual could, according to Bentham, pursue his own self-interest and any talk of "rights of men" was' 'plain nonsense" in the Benthamite logic. Chapra (1992) further attacks the theory while he writes “Utilitarianism reinforced by materialism, provided the logical rationale for single-minded pursuit of wealth and bodily pleasures. It projected consumption as the highest purpose of economic life. The supreme source of Benthamite‘happiness’, the ultimate justification of all human effort and toil. It identified the maximizing of earnings and want satisfaction with supreme virtue. Everything done by the individual toward this end was justified- it would serve his self-interest and ultimately the interest of all. This philosophy has contributed in a major way to moral decline.”cnotes about Utilitarianism when he says, “In Western thought, the concept of utility is developed as ‘good morality’ related to personal interest as perceived by the individual himself. The ‘good’ does not have universal meaning, but becomes relative to what the individual thinks in achieving his interest even if it is morally harmful or unhealthy. Rational behaviour is then defined as the maximization of the individual interest.”

Now coming to consumer behaviour,it is defined by Blackwell *et al* (2001) as the activities people undertake when obtaining, consuming and disposing of products and services. Bennett defined consumer behaviour as the dynamic interaction of affect and cognition, behaviour and environmental events by which human beings conduct the exchange aspects of their lives.Khan(2007) has defined buying behaviour as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services.

## ISLAMIC PERSPECTIVE

Review of the literature reveals that the points that need to be viewed from Islamic perspective are utility and it’s meaning in Islam. Islam offers unique insights on how Muslims need to acquire, evaluate, use and dispose of things or services. *In Quran, Allah says:*

*“The example of those who spend their wealth in the way of Allah is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [His reward] for whom He wills. And Allah is all-Encompassing and Knowing. Those who spend their wealth in the way of Allah and then do not follow up what they have spent with reminders [of it] or [other] injury will have their reward with their Lord, and there will be no fear concerning them, nor will they grieve”.* (2:261-262)

Maulana Mufti Mohammad Shafi (1974) has written in the commentary of these verses that had these been followed in toto, the problem of an ideal economic order that the whole world is grappling with will have been resolved by now. According to him, these and following verses touch two important aspects of the Islamic economic order:

1. It teaches how to spend that which is extra to your needs to help poor and the needy known as *Sadaqah* and *Khayraat.*
2. It declares that giving of *riba* (interest) as *haram* (unlawful).

He further elaborates these verses by pointing the fact that the Quran has pointed out to spending in the way of Allah at several places but with different words like *infaq* (spending), *it’am* (feeding), *sadaqah* (charity) or *ita’al zakat* (paying the obligatory zakat properly). A careful look at these Quranic words and the way they have been used shows that the words- *infaq*, *it’am* and *sadaqah*-are general and as such incorporate all sorts of charitable spending that aims to seek the good pleasure of Allah.

Thus, it indicates that Islamic perspective of utility is more of a general or public welfare than that the individualistic one held by Bentham’s Utilitarian view as was pointed out by Abdel-Rehman Yousari Ahmed (2002). Maulana Mufti Mohammad Shafi is of the view that Islam not only tells a Muslim to spend his money on welfare but also gives guidelines about how to earn it (*halal* sources) and where to spend it [on *halal* (lawful) things and giving charity only to *Mustahik*- **(**Rightful recipients of zakah/sadaqaat)]. Islam teaches that one should not give charity to those who don’t need it, so care shall be taken that it reaches those who actually deserve it. Now coming to Bentham’s definitions of Utility as happiness (pleasure or absence of pain), let us try to analyse what Islam says about happiness or pleasure of Muslims. In Quran Allah says:

*“That the hearts of those who believe not in the Hereafter may incline thereto, and that they may take pleasure therein, and that they may earn what they are earning”.*(6:113)

At another place, Quran states:

*“Beautified for people is the love of that which they desire- of women and sons, heaped-up sums of gold and silver, fine branded horses, and cattle and tilled land. That is the enjoyment of worldly life, but Allah has with Him the best return”.*(3:14)

Both these verses give a clear indication that worldly pleasures are not only pleasures or the ends for which a Muslim strives. Rather Islam views happiness/pleasure as good deeds that a Muslim does while submitting his will to Allah and in believing that he would get a better reward hereafter.Quran says:

*“And of mankind is he who would sell himself, seeking the Pleasure of Allah. And Allah is full of Kindness to (His) slaves”.*(2:207)

*[They will be told], “Eat and drink in satisfaction for what you put forth in the days past.”*(69:24)

Thus Islamic perspective of utility as happiness or pleasure (or absence of pain) means doing good acts according to the commands of their Lord and reaping the results hereafter with entry into heaven (pleasure) and exemption from hell (absence of pain). That is why Allah follows the verse 3:14 by declaring:

*Say, “Shall I inform you of [something] better than that? For those who fear Allah will be gardens in the presence of their Lord beneath which rivers flow, wherein they abide eternally, and purified spouses and approval from Allah. And Allah is seeing of [His] servants.”*(3:15)

Moving forward, we will analyse what Islam teaches a person about acquiring the goods or services. The first and foremost of these teachings is that Muslims are allowed to buy only *Halal* (lawful) goods or services. The second is that a Muslim is supposed to adopt a moderate attitude in the acquisition and utilisation of resources. Islam withholds Muslims from *bukhl* (niggardliness) as well as from *israf* (extravagance).Quran states:

*“And those, who, when they spend, are neither extravagant nor niggardly, but hold a medium (way) between those (extremes).”*(25:67)

*“And let not those who [greedily] withhold what Allah has given them of His bounty ever think that it is better for them. Rather, it is worse for them. Their necks will be encircled by what they withheld on the Day of Resurrection. And to Allah belongs the heritage of the heavens and the earth. And Allah, with what you do, is [fully] acquainted.”*(3:180)

Again, Quran says of misers as: *Surely, Allah loves not those who are conceited, vainglorious; those who are miserly and encourage miserliness among people. They conceal what Allah has given them from His bounty. We have prepared for the rejecters of faith a humiliating punishment.* (4:36-37)

The Prophet mentioned, “When Allah created the Garden of Eden, He created in it what no eye has seen, what no ear has heard, and when no heart has imagined. Then he said to it, ‘Speak!’ It said, ‘The believers will succeed [in attaining me].’ He said, ‘I swear by my might, amiser will not experience nearness to Me in you.” (Al-Tabarani, al-Kabir, 11,439)

Similarly *israf* (extravagance) is prohibited in Islam as Quran says:

*“Eat and drink but do not waste”.* (7: 31)

In this verse, Allah has used the term *israf*to indicate over spending on the things permissible in Islam. Yet there is another term used in Quran who spent or over spend on things not permissible in Islam, what is known as *tabzee*r. Quran says:

*“Those who are extravagant are the brothers of Shaitan (devil).”*(17: 27)

It makes a clear distinction about a Muslim consumer that Islam allows him/her to acquire those resources that are necessary for his survival and growth but also prohibit him from spending extra on things that are either not necessary or not permitted in Islam. Thus,Islam asks a Muslim to save his hard-earned money but on the other hand also asks him to donate a share of it for the general welfare of people. As Quran says:

*They ask you, [O Muhammad], what they should spend. Say, “Whatever you spend of good is [to be] for parents and relatives and orphans and the needy and the traveller. And whatever you do of good- indeed, Allah is Knowing of it.”*(2:215)

Going ahead with the definition let us try to examine what Islam teaches Muslims about how to evaluate, use and dispose of goods and services. Evaluation starts with whether the goods or services intended to purchase or purchased are *halal* (lawful) or *haram* (unlawful). Islam asks a Muslim to evaluate or use things not for individualistic cause rather taking the approach towards the whole humanity.

It is narrated on the authority of Anas that the Prophet observed, "By Him in whose Hand is my life, no, bondsman (truly) believes till he likes for his neighbour", or he (the Prophet) said, "for his brother, whatever he likes for himself". (Sahih Muslim-The Book of Faith: 73).

Abdullah B. AmrB. al-As is reported to have said,"Verily a person asked the Messenger of Allah who amongst the Muslims was better. Upon this (the Prophet) remarked,"From whose hand and tongue the Muslims are safe"."(Sahih Muslim-The Book of Faith: 64).

So it gives a clear implication that a Muslim who believes in Allah and the teachings of Prophet is guided by Islam to both evaluate and use the goods and services for the betterment of humanity. It does not stop one from buying a car, a house or a TV, but on the other hand it stops a Muslim to either buy or use goods or services by which he/she can cause trouble to others. Say for example, Islam does not stop a Muslim from spending on good food (*walima*) etc. on weddings but it refrains one from exaggerating and asks a Muslim to spend less if his/her neighbours are not as wealthy as him/her. Thus Islam wants to bring a feeling of uniformity and equality.

Abu Huraira reported Allah's Messenger as saying, "Don't nurse grudge and don't bid him out for raising the price and don't nurse aversion or enmity and don't enter into a transaction when the others have entered into that transaction and be as fellow-brothers and servants of Allah. A Muslim is the brother of a Muslim. He neither oppresses him nor humiliates him nor looks down upon him. The piety is here, (and while saying so) he pointed towards his chest thrice. It is a serious evil for a Muslim that he should look down upon his brother Muslim. All things of a Muslim are inviolable for his brother in faith: his blood, his wealth and his honour."(Sahih Muslim-The Book of Virtues: 6219).

Finally coming back to the "Black Box" model, it is imperative that in the Black Box lie attitudes, motivation, perceptions, and personality &lifestyle of a consumer. Islam as a religion asks a Muslim to change his whole lifestyle and behaviour like Allah demands. Quran states:

*O you who believe! Enter perfectly in Islam (by obeying all the rules and regulations of the Islamic religion) and follow not the footsteps of Shaitan (devil). Verily! He is to you a plain enemy."* (2:208)

Here Allah asks of his followers to accept Islam as their religion by their heart and tongue, with their appearance and behaviour. Islam asks of a Muslim to lead a simple lifestyle. His attitude and perceptions are guided by Quran and the teachings of Prophet. If on one hand Islam asks Muslims to pay *Zakat*, *Sadaqaat and Khayraat* out of their earnings, keeping aloof from *riba*thereby in a way depleting the physical wealth on the other hand it stimulates a Muslim to invest his money in good businesses to earn more. Islam provides a complete business system that if operated will yield prosperous results to the whole humanity.[3]

Thus summarising the whole discussion into a table we infer;

| Buying Behaviour | Islamic Perspective | Modern Economic Perspective |
|---|---|---|
| Concept of Goods | God given, Useful, Clean, Wholesome, beneficial consumable materials whose utilization brings about material, moral and spiritual betterment for consumer[1] | Anything that has a utility |
| Time Horizon of Utility | Here and hereafter | Life span of a human (max) |
| Guiding Principles | Islamic Shari'ah (Jurisprudence) | A consumer is free to choose |
| Focus | Individual and Social Welfare | Individual |
| Purchase Decisions | Value Based | Can be value based or not |
| Spending Habits | Moderate (Nor niggardly neither overspending) | Random |
| Use of Goods/Services | In accordance Islamic Shari'ah (Jurisprudence) (shall not be a reason to harm/annoy others) | Free to use any way the consumer likes |
| Orientation | Future oriented as focus is on savings, investments and distribution on wealth. | Focus on present situation about consumption of goods/services. |
| Motivation | Seeking happiness from Allah by way of spending as per defined Islamic rules. It shoots from disposable income wherein one fulfils the necessary requirements first (income- Religious spending i.e*zakat*, food , shelter etc) | Happiness for self and could be driven by defective habitual lifestyle. And generally the point of spending starts from discretionary income(i.e. for unnecessary spending's) |

## CONCLUSION

It can be summarised that Islam wants a Muslim consumer to buy things based on the value of things. In a way Islam encourages value-based buying behaviour. It demands from a Muslim to stop indulging in buying of goods or services that are either *haram* (unlawful) or by which there would be trouble for others. Muslims are supposed to live a simple life and not to overspend on things they don't need, thus encouraging a sense of savings for future. As Quran has also indicated the same in the following verses:

*[Joseph] said, "You will plant for seven years consecutively; and what you harvest leave in its spikes, except a little from which you will eat. Then will come after that seven difficult [years] which will consume what you saved for them, except a little from which you will store. Then will come after that a year in which the people will be given rain and in which they will press [olives and grapes]."* (12:47-49)

The same can be argued from the following incident which is related to esteemed Companion, Sa`d b. AbiWaqqas, who wanted to make out a will giving away in charity everything that he owned. He went to the Prophet and said to him: "O Messenger of Allah! I have a lot of wealth and only my daughter to inherit it from me. Should I bequeath all of my wealth in charity?" The Prophet told him that he should not do so. Then Sa`d suggested bequeathing two-thirds of his wealth to charity. When the Prophet again refused, Sa`d then suggested half of his wealth.At this point the Prophet replied,"One-third, and that is still too much. It is better for you to leave your heirs wealthy, rather than leaving them dependent and begging from others." [Sunan al-Tirmidhî (2042), SunanAbîDâwûd (2480)].

Thus it can be stated that Islam asks Muslims to be more rational and candid in theirapproach to buy. A good Muslim should not only keep his individual goals or needs into his mind, but also think of general social welfare. Rather than spending on unnecessary goods and services, Islam encourages saving for the future and giving a part of the saved money to the needy and poor. Thus Islam recommends that a Muslim consumer should not waste his money on any costly and should buy things on their value rather than other aspects like brand name or its perceived value.

## REFERENCES


1. Ahmad, Abdel-RehmanYousari (2002). 'Methodological Approach to Islamic Economics: its Philosophy, Theoretical Construction and Applicability' in Habeeb Ahmed (Ed.), Theoretical Foundations of Islamic Economics, Jeddah, Islamic Development Bank.
2. Blackwell, Roger D., Paul W. Miniardand James F. Engel (2001). Consumer Behavior, Chula Vista, South-Western College.


[3]The concept of Goods in Islam has been discussed in detail by Monzer Kahf in his paper titled *The Demand Side of Consumer Behaviour-Islamic Perspective*, p. 17. He has deduced the above definition from the meaning of two words which are mentioned in Quran with reference to goods i.e. *tayyibat* (the things, clean and pure) and *rizq* (Godly sustenance).

3. Economics (2013), Retrieved from http://www.britannica.com/EBchecked/topic/178548/economics
4. Hoyer, Wayne D., Deborah J. MacInnis and RikPieters (2008). Consumer Behaviour, Chula Vista, South-Western College, 5th Edition.
5. Keegan, W. J., Moriarty, S. E., & Duncan, T. R. (1992). Marketing. EnglewoodCliffs, New Jersey: Prentice-Hall.
6. M. Khan (2007), Consumer Behaviour and Advertising Management, New Delhi, New Age International.
7. M. Umer Chapra (1992), Islam and the Economic Challenge, Hemdon, The International Institute of Islamic Thought.
8. Read, Daniel (2004), "Utility Theory from Jeremy Bentham to Daniel Kahneman", London, Department of Operational Research, London School of Economics.

# REQUEST FOR FEEDBACK

**Dear Readers**

At the very outset, International Journal of Research in Commerce and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you tosupply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail i.e. **infoijrcm@gmail.com** for further improvements in the interest of research.

If youhave any queries please feel free to contact us on our E-mail infoijrcm@gmail.com.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

**Academically yours**

Sd/-

**Co-ordinator**

# ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

## Our Other Journals